MANUAL OF REGULATIONS FOR BANKS

December 2018

FOREWORD

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

The MORB methodically and logically organizes the Bangko Sentral rules and policy issuances that implement the broader provisions of Republic Act No. 8791, also known as the General Banking Law of 2000, as well as other pertinent banking laws.

Principally, the MORB fosters adherence to the banking standards that are ultimately aimed at strengthening the stability of the Philippine financial system.

While the MORB provides the rules governing the operations of banks in the country, it also serves as a useful reference for any individual, institution or agency with an active interest in the banking system.

As the Bangko Sentral pursues its strategic financial sector reforms that are aligned with international standards and best practices, it is essential that the regulatory issuances implementing such reforms are reflected in the MORB in a prompt manner. Thus, a digital MORB is adopted with a more systematic content flow, format, and features to enhance user experience.

This edition covers rules and regulations issued as of end-December 2018.

BENJAMIN E. DIOKNO
Governor

PREFACE
Manual of Regulations for Banks

The Manual of Regulations for Banks (MORB) serves as the principal source of banking regulations issued by the Monetary Board of the Bangko Sentral. The 31 December 2018 MORB edition contains the latest updates and amendments on banking regulations. It also covers adoption of international standards and best practices, as well as amendments to existing policies.

The Monetary Board, in its Resolution No. 1203 dated 07 December 1994, directed the creation of a multi-departmental Ad Hoc Review Committee with representatives from the then Supervision and Examination Sector (SES), renamed as the Financial Supervision Sector (FSS)[1], and the Office of the General Counsel and Legal Services (OGCLS). The Committee was officially constituted under Office Order No. 2 series of 1995, with the latest reconstitution under Office Order No. 0373 dated 05 February 2018. The Committee has the following functions:

1. Update the MORB and the Manual of Regulations for Non-Bank Financial Institutions (collectively referred herein as the "Manuals") on a continuing basis;
2. Issue clearance to proposed Circulars;
3. Effect corrections/revisions to the Manuals to ensure consistency and good order; and
4. Oversee the posting of the Manuals in the BSP Website.

[1] Effective 02 May 2018 under Office Order No. 1061 dated 11 April 2018.

Cognizant of the value of digital technology to enhance efficiency, the MOR Committee embarked on a project to digitize the Manuals to improve usability as well as the timeliness of incorporating regulatory updates to the Manuals. Towards this end, the Task Force on the Creation of the New Manual of Regulations for Banks and Non-Bank Financial Institutions (Task Force) was constituted under Office Order No. 0374 dated 05 February 2018, to perform the following functions:

1. Review the existing design and format of the Manuals and propose necessary enhancements therein;
2. Propose deletion of obsolete or redundant provisions of the Manuals, as well as provisions with expired effectivity dates; and
3. Lead in the development of digital Manuals in coordination with the relevant departments/units of the Bangko Sentral.

The MOR Committee is composed of:

Adviser	-	**Ms. Chuchi G. Fonacier** Deputy Governor Financial Supervision Sector
Chairperson	-	**Mr. Jose Recon S. Tano**[1] Director Examination Department (ED) III
	-	**Ms. Veronica B. Bayangos**[2] Director Office of Supervisory Policy Development (OSPD)
Vice Chairperson	-	**Atty. Asma A. Panda** Deputy Director OGCLS

[1] Chairperson effective until 30 June 2018; Member effective 01 July 2018 onwards.
[2] Member effective 01 January 2018 to 30 June 2018; Chairperson effective 01 July 2018 onwards.

Members:

Atty. Vanessa P. Tabernero-Bunag
Legal Officer IV
OGCLS

Ms. Betty Christine C. Bunyi
Director
ED II

Atty. Florabelle M. Santos-Madrid
Officer-in-Charge
CPCD II

Ms. Celedina P. Garbosa
Manager
CPCD II

Mr. Louie Mel R. Intia
Acting Manager
CPCD III

Ms. Jona K. Mercado
Acting Manager
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Ms. Concepcion A. Garcia
Acting Deputy Director
Micro, Small and Medium Enterprise Finance Specialist Group

Mr. Ronaldo B. Ramos
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Mr. Pol Joseph G. Panao
Manager
Integrated Supervision Department (ISD) I

Ms. Hazel C. Pajutagana
Acting Deputy Director
ISD II

Ms. Rhodora M. Brazil-De Vera
Deputy Director
OSPD

Ms. Amelia B. Damian
Bank Officer V
OSPD

Ms. Iris M. Evaristo
Manager
Central Point of Contact Department (CPCD) I

Ms. Carolyn S. Geroy
Bank Officer V
OSPD

The Task Force is composed of:

Advisers	-	**Atty. Juan De Zuñiga, Jr.** Monetary Board Member
		Ms. Chuchi G. Fonacier Deputy Governor Financial Supervision Sector
		Atty. Elmore O. Capule Assistant Governor and General Counsel OGCLS
Management Sponsor	-	**Ms. Lyn I. Javier** Managing Director Supervisory Policy Sub-Sector
Chairperson	-	**Mr. Jose Recon S. Tano** Director ED III
Vice Chairperson	-	**Atty. Asma A. Panda** Deputy Director OGCLS

Members:

Atty. Paul R. Vehemente Deputy Director ED III	**Ms. Amelia B. Damian** Bank Officer V OSPD
Atty. Marie Tanya Z. Recalde Bank Officer V OSPD	**Ms. Joelyn P. Cuchapin** Bank Officer V OSPD
Atty. Orlando C. Negradas Manager CPCD III	**Mr. Romelito V. Pasol** Manager ED I
Ms. Zoe A. Ferrer Bank Officer IV CPCD II	**Ms. Kristine Joy C. Custodio** Bank Officer IV Capital Markets Specialist Group
Ms. Vanessa Anne N. Beltran Manager ISD I	**Atty. Alvie Marie L. Sojor-Mañaul** Bank Officer V ISD I
Atty. Vanessa P. Tabernero-Bunag Legal Officer IV OGCLS	**Atty. Alain Bert G. Regis** Legal Officer I OGCLS

The Committee Secretariat is headed by Ms. Ma. Cecilia U. Contreras, Supervision and Examination Specialist II, and is assisted by Ms. Lara E. Loyola, Administrative Services Officer II, OSPD, and two other personnel.

The Bangko Sentral ng Pilipinas

USER'S GUIDE

The Manual of Regulations for Banks (the "Manual") is divided into eleven (11) parts covering the following topics:

Part	Topic
I	Organization, Management and Administration
II	Deposits, Borrowings and Other Liabilities
III	Loans, Investments and Special Credits
IV	Trust, Other Fiduciary Business and Investment Management Activities
V	Manual of Regulations on Foreign Exchange Transactions *(Please Refer To Separate Manual On Foreign Exchange Transactions)*
VI	Treasury and Money Market Operations
VII	Electronic Banking Services and Operations
VIII	Regulations on Payment Systems
IX	Anti-Money Laundering Regulations
X	Financial Consumer Protection
XI	Other Banking Regulations

Each Part is further divided into Sections. For provisions that pertain only to a specific type of bank, a suffix is added to the Section number corresponding to a type of bank, as follows:

Suffix	Type of Bank
A	Universal and commercial banks (U/KBs)
B	Thrift banks (TBs)
C	Rural banks and cooperative banks (RBs/Coop Banks)

In case the provisions are applicable to two (2) types of banks, the applicable letters will be separated by a "/" symbol. The last two digits refer to the Section number, while the first digit/s refers to the Part number of the Manual.

The following examples illustrate the format arrangement per Section:

Example No. 1: Section 101

1 0 1

Section number – "*Classification, Powers and Scope of Authorities of Banks"*

Part number – "*PART ONE – ORGANIZATION, MANAGEMENT AND ADMINISTRATION*"

Example No. 2: Section 101-B

1 01 - B

Applicable to TBs only

Section number – *"Authority of Thrift Banks to Issue Foreign Letters of Credit and Pay/Accept/Negotiate Import/Export Drafts/Bills of Exchange "*

Part number – "*PART ONE – ORGANIZATION, MANAGEMENT AND ADMINISTRATION*"

MANUAL OF REGULATIONS FOR BANKS

TABLE OF CONTENTS

POWERS OF THE BANGKO SENTRAL

Section	**001**	Examination by the Bangko Sentral
Section	**002**	Supervisory Enforcement Policy
Section	**003**	Prompt Corrective Actions Framework

PART ONE – ORGANIZATION, MANAGEMENT AND ADMINISTRATION

A. CLASSIFICATIONS, POWERS AND OPERATIONS OF BANKS

Section	**101**	Classification, Powers and Scope of Authorities of Banks
Section	**101-B**	Authority of Thrift Banks to Issue Foreign Letters of Credit and Pay/Accept/Negotiate Import/Export Drafts/Bills of Exchange
Section	**102**	Basic Guidelines in Establishing Domestic Banks
Section	**103**	Liberalized Entry and Scope of Operations of Foreign Banks
Section	**104**	Mergers and Acquisitions
Section	**105**	Establishment/Relocation/Voluntary Closure/Sale of Branches/ Branch-Lite Units
Section	**106**	Establishment of Sub-Branches of Foreign Bank Branches
Section	**107**	Mobile Foreign Exchange Booths
Section	**108**	Banking Days and Hours
Section	**109**	Bank Premises and Other Fixed Assets

B. SPECIAL AUTHORITIES

Section	**111**	Licensing
Section	**112**	Management Contracts and Outsourcing
Section	**113**	Cross-selling
Section	**113-B**	Marketing, Sale and Servicing of Microinsurance Products by Thrift Banks
Section	**113-C**	Marketing, Sale and Servicing of Microinsurance Products by Rural and Cooperative Banks
Section	**114**	Prohibition on the Sale of Foreign-Based Mutual Funds by Banks

C. CAPITALIZATION AND RISK-BASED CAPITAL

Section	**121**	Minimum Required Capital
Section	**122**	Shares of Stock of Banks
Section	**122-A**	Shares of Stock of Universal/Commercial Banks

Section	**122-B**	Shares of Stock of Thrift Banks
Section	**122-C**	Shares of Stock of Rural Banks and Cooperative Banks
Section	**123**	Deposit for Stock Subscription
Section	**124**	Dividends
Section	**124-C**	Limitations/Amount Available for Dividends Declared by Rural Banks and Cooperative Banks
Section	**125**	Basel III Risk Based Capital
Section	**126**	Capital Instruments Eligible as Risk-Based Capital
Section	**127**	Risk-Based Capital Adequacy Framework for Stand-Alone Thrift Banks, Rural Banks and Cooperative Banks
Section	**128**	Domestic Systemically Important Banks (DSIBs)
Section	**129**	Basel III Leverage Ratio Framework
Section	**130**	Internal Capital Adequacy Assessment Process and Supervisory Review Process
		D. CORPORATE GOVERNANCE
Section	**131**	Policy Statement and Definition of Terms
Section	**132**	Board of Directors
Section	**133**	Board-level committees
Section	**134**	Officers
Section	**135**	Remuneration and Other Incentives
Section	**136**	Related Party Transactions
Section	**137**	Confirmation of the Election/Appointment of Directors/Officers; Bio-data of Directors and Officers; Interlocking Directorships and/or Officerships; Rules of Procedures on Administrative Cases involving Directors and Officers of BSFIs
Section	**138**	Disqualification and Watchlisting of Directors and Officers
		E. RISK MANAGEMENT
Section	**141**	Supervision by Risk
Section	**142**	Risk Governance Framework
Section	**143**	Credit Risk Management
Section	**144**	Market Risk Management
Section	**145**	Liquidity Risk Management
Section	**146**	Operational Risk Management
Section	**147**	Bank Protection
Section	**148**	Information Technology Risk Management
Section	**149**	Business Continuity Management

Section 150 Social Media Risk Management

Section 151 Guidelines on the Conduct of Stress Testing Exercises

F. COMPLIANCE, INTERNAL CONTROL, AND AUDIT

Section 161 Compliance Framework

Section 162 Internal Control Framework

Section 163 Internal Audit Function

Section 164 Selection, Appointment, Reporting Requirements and Delisting of External Auditors and/or Auditing Firm; Sanctions; Effectivity

G. REPORTING GOVERNANCE

Section 171 Reporting Governance Framework

Section 172 Financial Records

Section 173 Reports

Section 174 Audited Financial Statements

Section 175 Public Disclosures

H. UNSAFE OR UNSOUND BANKING

Section 181 Conducting Business in an Unsafe or Unsound Banking

I. LIQUIDATION AND RECEIVERSHIP

Section 191 Voluntary Liquidation

Section 192 Insolvency or Receivership of Banks

PART TWO – DEPOSITS, BORROWINGS AND OTHER LIABILITIES

A. DEMAND DEPOSITS

Section 201 Authority to Accept or Create Demand Deposits

Section 202 Returned Checks

Section 203 Temporary Overdrawings; Drawings Against Uncollected Deposits

Section 204 Demand Deposits of Bank Officers and Employees

B. SAVING DEPOSITS

Section 211 Saving Deposit Transactions

Section 212 Peso Savings Deposit Accounts of Embassy Officials

Section 213 Basic Deposit Account

C. TIME DEPOSITS

Section 216 Term of Time Deposits

Section 217 Certificates of Time Deposit

Section 218 Special Time Deposits

D. NEGOTIABLE ORDER OF WITHDRAWAL ACCOUNTS

Section 221 Authority to Accept Negotiable Order of Withdrawal Accounts

Section 222 Minimum Features of Negotiable Order of Withdrawal Accounts

Section 223 Rules on Servicing Negotiable Order of Withdrawal Accounts

E. GOVERNMENT DEPOSIT

Section 231 Acceptance of Government Deposits

F. DEPOSIT SUBSTITUTE OPERATIONS (QUASI-BANKING FUNCTIONS)

Section 241 Scope of Quasi-Banking Functions

Section 242 Deposit Substitute Instruments

Section 243 Minimum Trading Lot and Minimum Term of Deposit Substitute

Section 244 Money Market Placements of Rural Banks

Section 245 Without Recourse Transactions

Section 246 Issuance of Bonds and Commercial Papers

G. RESERVE AGAINST DEPOSIT AND DEPOSIT SUBTITUTES LIABILITIES

Section 251 Accounts Subject To Reserves; Amounts Required

Section 252 Composition of Reserves

Section 253 Exemptions from Reserve Requirements

Section 254 Computation of Reserve Position

Section 255 Reserve Deficiencies; Sanctions

Section 256 Report on Compliance

H. INTEREST AND FEES

Section 261 Interest on Deposits/Deposit Substitutes

Section 262 Disclosure of Effective Rates of Interest

Section 263 Fees on Retail Bank Products/Services

I. DEPOSIT OPERATIONS

Section 271 Booking of Deposits and Withdrawals

Section 272 Unclaimed Balances

Section 273 Rental Deposits of Lessees

Section 274 Servicing Deposits Outside Bank Premises

Section 275 Cash Pick-up/Cash Delivery Services; Cash Agents

Section 276 Miscellaneous Rules on Deposits

J. BORROWINGS FROM THE BANGKO SENTRAL

Section 281 Rediscounting Line

Section 282 Rediscounting Availments

Section 283 Repurchase Agreements with the Bangko Sentral

Section 284 Bangko Sentral Liquidity Window

Section 285 Emergency Loans or Advances to Banking Institutions

Section 286 Facility to Committed Credit Line Issuers

Section 287-B/C Countryside Financial Institutions Enhancement Program for Thrift Banks, Rural and Cooperative Banks

Section 288 Recording and Reporting of Borrowings

Section 289 Rediscounting Window

Section 290 Enhanced Intraday Liquidity Facility

K. OTHER BORROWINGS OF BANKS

Section 291 Borrowings from the Government

Section 292 Borrowings from Trust Departments or Investment Houses

Section 293-B Mortgage/CHM Certificates of Thrift Banks

Section 294-C Borrowings of Rural Banks/Cooperative Banks

L. OTHER LIABILITIES

Section 295 Collection of Customs Duties/Taxes/Levies and Other Revenues, and Acceptance, Encashment or Negotiation of Checks Drawn in Favor of Commissioner

Section 296 Collection Agents of the Social Security System

Section 297 Collection Agents of PhilHealth

Section 298 Disclosure of Remittance Charges and Other Relevant Information

Section 299 Segregation of Customer Funds and Securities Received by Banks in the Performance of their Securities Brokering Functions

PART THREE – LOANS, INVESTMENTS AND SPECIAL CREDITS

A. GENERAL PROVISIONS ON LENDING OPERATIONS

Section 301 Grant of Loans and Other Credit Accommodations

Section 302 Amortization on Loans and Other Credit Accommodations

Section 303 Secured Loans and Other Credit Accommodations

Section 304 Past Due Accounts and Non-Performing Loans

Section 305 Interest and Other Charges

Section 306 "Truth in Lending Act" Disclosure Requirement

B. TYPES OF LOANS AND CREDITS

Section 311 Salary-Based General-Purpose Consumption Loans

Section 312 Credit Card Operations

Section	**313**	Agricultural Loans
Section	**314**	Microfinance Loans
Section	**315**	Interbank Loans
Section	**316**	Bank Loans to Government
Section	**317**	Other Loans and Rediscounting to Thrift/Rural/Cooperative Banks
Section	**318**	Standby Letters of Credit
Section	**319**	Committed Credit Line for Commercial Paper Issues
		C. MANDATORY/SPECIALIZED CREDITS
Section	**331**	Agriculture and Agrarian Reform Credit
Section	**332**	Mandatory Allocation of Credit Resources to Micro, Small and Medium Enterprises
Section	**333**	Loans to Barangay Micro Business Enterprises
		D. LOANS AND OTHER CREDIT ACCOMMODATIONS TO DIRECTORS, OFFICERS, STOCKHOLDERS AND THEIR RELATED INTERESTS/ SUBSIDIARIES/AFFILIATES
Section	**341**	Policy Statement
Section	**342**	Transactions, Covered and Not Covered
Section	**343**	Direct or Indirect Borrowings
Section	**344**	Individual Ceilings
Section	**345**	Aggregate Ceiling
Section	**346**	Procedural and Reportorial Requirements
Section	**347**	Waiver of Secrecy of Deposit
Section	**348**	Supervisory Enforcement Actions
Section	**349**	Applicability to Branches and Subsidiaries of Foreign Banks
Section	**350**	Applicability to Government Borrowings in Government-Owned or -Controlled Banks
		E. CREDIT CONCENTRATION AND PRUDENTIAL LIMITS
Section	**361**	Large Exposures and Credit Risk Concentrations
Section	**362**	Credit Exposure Limits to a Single Borrower
Section	**363-A**	Limits on Real Estate Exposures and Other Real Estate Property of UBs/KBs
Section	**363-B**	Limits on Real Estate Exposures and Other Real Estate Property of TBs
Section	**364**	Expanded Report on Real Estate Exposure of Banks
		F. EQUITY INVESTMENTS
Section	**371**	Scope of Authority
Section	**372**	Financial Allied Undertakings

Section 373 Limits on Investment in the Equities of Financial Allied Undertakings

Section 374 Investments in Venture Capital Corporations

Section 375 Non-Financial Allied Undertakings

Section 376-A Investments in Non-Allied or Non-Related Undertakings

Section 377 Investments in Subsidiaries and Affiliates Abroad

Section 378 Prudential Limits and Restrictions on Equity Investments

Section 379 Sanctions

G. SUNDRY PROVISIONS

Section 381 Purchase of Receivables and Other Obligations

Section 382 Acquired Assets in Settlement of Loans

Section 383 Loans-to-Deposits Ratio

Section 384 Credit Policies of Government-Owned Corporations

Section 385 Regulatory Relief for Banks Under Rehabilitation Program Approved by the Bangko Sentral

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

A. STATEMENT OF PRINCIPLES AND SCOPE

Section 401 Statement of Principles

Section 402 Scope of Regulations

Section 403 Definitions

B. TRUST AND OTHER FIDUCIARY BUSINESS

Section 411 Authority to Perform Trust and Other Fiduciary Business

Section 411-B/C Grant of Authority to Engage in Limited Trust Business to Thrift Banks/Rural Banks

Section 412 Organization and Management

Section 413 Trust and Other Fiduciary Business

Section 414 Unit Investment Trust Funds

Section 415 Investment Management Activities

Section 416 Foreign Currency Deposit Unit/Expanded Foreign Currency Deposit Unit Trust Accounts; Other Fiduciary or Investment Management Accounts

Section 417 Security for the Faithful Performance of Trust and Other Fiduciary Business

Section 418 Reserves Against Trust and Other Fiduciary Accounts (TOFA) - Others

Section 419 Required Retained Earnings Reserve

Section 420 Unsafe or Unsound Manner

C. INVESTMENT MANAGEMENT ACTIVITIES

Section 421 Authority to Perform Investment Management

Section 422 Organization and Management

Section 423 Conduct of Investment Management Activities

Section 424 Security for the Faithful Performance of Investment Management Activities

Section 425 Required Retained Earnings Reserved

Section 426 Unsound Manner

D. GENERAL PROVISIONS

Section 431 Securities Custodianship and Securities Registry Operations

Section 432 Custody of Assets

Section 433 Fees and Commissions

Section 434 Taxes

Section 435 Books, Records and Reports Required

Section 436 Audits

Section 437 Authority Resulting from Merger or Consolidation

Section 438 Non-Trust, Non-Fiduciary and/or Non-Investment Management Activities

Section 439 Receivership

Section 440 Surrender of Trust or Investment Management License

E. GENERAL PROVISION ON SANCTIONS

Section 499 Sanctions

PART FIVE – MANUAL OF REGULATIONS ON FOREIGN EXCHANGE TRANSACTIONS

(Please refer to separate Manual on Foreign Exchange Transactions)

PART SIX – TREASURY AND MONEY MARKET OPERATIONS

A. MONETARY OPERATIONS OF THE BANGKO SENTRAL

Section 601 Monetary Operations

Section 602 The Japanese Yen/Philippine Peso (JPY/PHP) Swap Facility under the Cross-Border Liquidity Arrangement (CBLA) between the Bangko Sentral and the Bank of Japan (BOJ)

B. TREASURY OPERATIONS OF BANKS

Section 611 Treasury Operations

Section 612 Sales and Marketing Guidelines for Financial Products

Section 613 Derivatives Activities

C. FINANCIAL INSTRUMENTS

Section 621 Global Peso Notes

Section 622 Forward and Swap Transactions

Section 623-A Guidelines on the Investments of Universal Banks and Commercial Banks in Credit-Linked Notes (CLNs), Structured Products and Securities Overlying Securitization Structures

Section 624-A Credit-linked Notes and Similar Credit Derivative Products

Section 625-A Bank's Exposures to Structured Products

Section 626-A Expanded Foreign Currency Deposit Units Investments in Foreign Currency Denominated Structured Products

Section 627-A Investments in Securities Overlying Securitization Structures

Section 628 Asset-Backed Securities

Section 629 The Currency Rate Risk Protection Program (CRPP) Facility

PART SEVEN – ELECTRONIC BANKING SERVICES AND OPERATIONS

Section 701 Electronic Banking Services

Section 702 Issuance and Operations of Electronic Money

PART EIGHT – REGULATIONS ON PAYMENT SYSTEMS

Section 801 Automated Teller Machines

Section 802 Check Clearing Operations

Section 803 National Retail Payment System

Section 804 Settlement of Instant Retail Payments

PART NINE – ANTI-MONEY LAUNDERING (AMLA) AND COMBATTING THE FINANCING OF TERRORISM REGULATIONS

Section 901 Bangko Sentral Authority to Check Compliance with the AMLA, as amended

Section 902 Policy Statement

Section 903 Scope of Regulations

Section 904 Definition of Terms

Section 905 Basic Principles and Policies to Combat Money Laundering

A. RISK MANAGEMENT

Section 911 Risk Management

B. PREVENTIVE MEASURES

Section 921 Customer Due Diligence

Section 922 Covered and Suspicious Transaction Reporting

Section 923 Additional Preventive Measures for Specific Customers and Activities

Section 924 Record Keeping

C. TRAINING PROGRAM

Section 931 AML Training Program

D. ENFORCEMENT ACTIONS

Section 941 Sanctions and Penalties

Section 942 Separability Clause

PART TEN – BSP REGULATIONS ON FINANCIAL CONSUMER PROTECTION

Section 1001 Consumer Protection Oversight Function

Section 1002 Consumer Protection Standards

Section 1003 Enforcement Actions

PART ELEVEN – OTHER BANKING REGULATIONS

A. BANKING FEES/CHARGES

Section 1101 Assessment Fees on Banks

Section 1102 Collection of Fines and Other Charges from Banks

Section 1103 Service Fee for Transactions with the Bangko Sentral

B. PHILIPPINE & FOREIGN CURRENCY NOTES & COINS

Section 1111 Philippine and Foreign Currency Notes and Coins

Section 1112 Adoption of Clean Note and Coin Policy

C. PERSONAL EQUITY AND RETIREMENT ACCOUNT (PERA)

Section 1121 Personal Equity and Retirement Account (PERA) Market Participants and PERA Investment Products

D. CREDIT RATING AGENCIES

Section 1131 Recognition and Derecognition of Domestic Credit Rating Agencies for Bank Supervisory Purposes

Section 1132 Internationally Accepted Credit Rating Agencies

E. PRODUCT OFFERING OF PARENT OF FOREIGN BANK BRANCHES

Section 1141-A Offering in the Philippines of Products by Parent Bank and Branches Abroad of the Parent Bank

F. FRAMEWORK ON THE GRANT OF REGULATORY RELIEF TO BANKS

Section 1151 Regulatory Relief Policy

POWERS OF THE BANGKO SENTRAL

001 EXAMINATION BY THE BANGKO SENTRAL

The term *"examination*" shall refer to an investigation of an institution under the supervisory authority of the Bangko Sentral to determine whether the institution is operating on a safe and sound basis, inquire into its solvency and liquidity, and assess the effectiveness of its compliance function to ascertain that it is conducting business in accordance with laws and regulations.

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

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

a. *Scope of examination*. Consistent with a risk-based approach to supervision, the scope of examination may include, but need not be limited to, the following:

   (1) Appraisal of the overall quality of corporate governance;
   (2) Assessment of the risk management system, which shall include the evaluation of the effectiveness of management oversight and self-assessment functions (e.g., internal audit, risk management and compliance); adequacy of policies, procedures, and limits; effectiveness of risk measurement, monitoring and management information system; and robustness of internal controls;
   (3) Review of the institution's operations and overall risk profile;
   (4) Evaluation of financial performance, capital adequacy, asset quality, and liquidity; and
   (5) Any other activity relevant to the above.

b. *Conduct of examination.* The conduct of examination shall include, but need not be limited to, the interview of any bank's directors, officers and personnel; and the verification, review and evaluation of documents and records, including making copies of the records, taking possession thereof and keeping them under the custody of the Bangko Sentral after giving proper receipts thereof.

   For this purpose, *"records"* shall refer to information, whether in its original form or otherwise, including documents, signatures, seals, texts, images, sounds, speeches, or data compiled, recorded or stored, as the case may be: (1) in written form on any material; (2) on film, negative, tape or other medium so as to be capable of being reproduced; or (3) by means of any recording device or process, computer or other electronic device or process; and regardless of whether these information are stored and kept by the Bangko Sentral supervised Financial Institution (BSFI) or another entity duly authorized by the BSFI (e.g., technology service provider). Records shall also include audio, photographic, and video evidence of events, acts, or transactions of the BSFI, including all records of communication, oral (e.g., voice recordings) or written (e.g., letters) of officers and employees of the BSFI: *Provided,* That the recording was made in connection with the performance of the official functions of the concerned officers or employees and coursed through BSFI-issued computers, telephones, mobile phones, and similar devices.

(Circular No. 957 dated 17 April 2017, 894 dated 07 December 2015 and Circular No. 862 dated 17 December 2014)

Refusal to permit examination. Any act or omission that impedes, delays or obstructs the duly authorized Bangko Sentral examiner from conducting an examination of a BSFI, including the act of refusing to accept or honor the letter of authority to examine presented by the examiner of the Bangko Sentral, shall be considered as a refusal to permit examination.

The refusal of the BSFI to permit examination shall be reported by the Bangko Sentral examiner to the Head of the appropriate supervision department of the Bangko Sentral, who shall forthwith make a written demand upon the BSFI concerned for such examination. If the BSFI continues to refuse the said examination without any satisfactory explanation thereof, a report on such refusal shall be submitted by the Bangko Sentral examiner concerned to the said Department Head.

Sanctions. A bank that wilfully refuses to permit examination shall pay a fine of P30,000 per day from the day of the refusal and for as long as such refusal lasts, without prejudice to the sanctions under Section 34 of R.A. No. 7653.

The fine shall be imposed starting on the day following the receipt by the concerned Head of supervision department of the report from the Bangko Sentral examiner that the bank continues to refuse to permit examination notwithstanding the written demand made by the Department Head.

Aside from the fine mentioned above, the bank and/or its concerned directors and/or officers may be subject to non-monetary sanctions provided under Section 37 of R.A. No. 7653 (The New Central Bank Act) and Sec. 002.

(Circular No. 957 dated 17 April 2017)

002 SUPERVISORY ENFORCEMENT POLICY

The Policy sets forth guidance on the Bangko Sentral's supervision-by-risk framework. It also puts together in a holistic manner all the enforcement tools available to the Bangko Sentral as contained in various laws and rules and regulations[1] and communicates the deployment thereof in a consistent manner by the Bangko Sentral in the course of performing its supervisory function. It further sets out the guiding principles and objectives behind the deployment of such enforcement actions.

Nothing in this Section shall be construed as superseding enforcement actions previously imposed against Bangko Sentral-supervised FIs (BSFI) pursuant to existing laws, Bangko Sentral rules and regulations.

a. Statement of policy and rationale

The Bangko Sentral is issuing this Supervisory Enforcement Policy to provide guidance on its supervision-by-risk framework. The Bangko Sentral recognizes that risk-taking is integral to a financial institution's business. The existence of risk is not necessarily a reason for concern so long as Management exhibits the ability to effectively manage that level of risk and operates the financial institution (FI) in a safe and sound manner. Thus, when risk is not properly managed,the Bangko Sentral may deploy a wide range of enforcement actions provided under existing laws, Bangko Sentral rules and regulations, taking into consideration the nature and extent of the supervisory issues and concerns and the level of cooperation provided by Management.

The Bangko Sentral adopts a holistic approach to supervision with the objective of guiding FIs under its supervision to mitigate risk and achieve the desired changes.

Bangko Sentral's risk-based supervision, of which enforcement action is a key part, focuses on the safety and soundness of operations of the FIs. This policy sets forth the expectations of the Bangko Sentral when it deploys enforcement action and the consequences when expected actions are not performed within prescribed timelines.

Thus, this over-arching policy is needed - (1) as a collation of various enforcement actions already present in various laws, rules and regulations; (2) for better guidance of the FIs and the bank supervisors; and (3) as a means to broadcast to the banking/financial industry the consequences of failure to address the Bangko Sentral requirements and supervisory expectations.

b. Objectives of the enforcement policy

The Bangko Sentral's Supervisory Enforcement Policy aims to achieve the following two (2) key objectives:

(1) Achieving the desired change. Effect a change in the overall condition and governance of Bangko Sentral-supervised FIs consistent with the expectations set under relevant laws and regulations; and
(2) Mitigating risk. Mitigate risks to the FIs and other stakeholders in order to maintain the stability of the financial system.

c. General principles

The Bangko Sentral, in the deployment of enforcement actions, is guided by the following general principles:

[1] Section 4 of R.A. No. 8791 (General Banking Law of 2000) defines the scope of Bangko Sentral's supervisory powers, which may be grouped into three categories: (i) issuance of rules; (ii) examination and investigation; and (iii) enforcement of Prompt Corrective Action (PCA)

(1) Root cause diagnosis. The enforcement action addresses the underlying cause of the supervisory issues and concerns.

(2) Consistently matching the severity of enforcement action to the supervisory issue. The deployment of appropriate enforcement action is commensurate with the severity of the supervisory issues and concerns. The severity of the supervisory issues and concerns is assessed in terms of *prevalence*[2] and *persistence.*

(3) Successive or simultaneous deployment of enforcement actions. Enforcement actions may be deployed successively or simultaneously taking into account the nature and seriousness of the difficulties encountered by the FIs and the ability and willingness of the FI's Management to address the supervisory issues and concerns.

(4) Monitorability and follow-through. The Bangko Sentral monitors the FI's progress/compliance with the expected actions to address the supervisory issues, concerns and problems.

(5) Escalation of enforcement actions. Enforcement actions may be escalated if the desired change is not achieved and the root causes of the FI's issues, concerns and problems are not addressed by the FI within prescribed timelines.

d. Categories of enforcement actions

The three (3) main categories of enforcement action are: (1) corrective actions, (2) sanctions and (3) other supervisory actions. These enforcement actions may be imposed singly or in combination with others.

(1) Corrective actions

Corrective actions are enforcement actions intended to require the FI to address the underlying cause of supervisory issues, concerns and problems. These include the following:

(a) Bangko Sentral directives

Directives are basically orders and instructions communicated by the appropriate supervising department in Bangko Sentral requiring the FI to undertake a specific positive action or refrain from performing a particular activity within a prescribed timeline.

(b) Letter of Commitment (LOC)

The LOC is an enforcement action where the FI's Board of Directors (Board) is required, upon approval and/or confirmation by the MB, to make a written commitment to undertake a specific positive action or refrain from performing a particular activity with a given time period.

The LOC is generally used to arrest emerging supervisory concerns before these develop into serious weaknesses or problems, or to address remaining supervisory issues and concerns.

(2) Sanctions

Sanctions that may be imposed on an FI and/or its directors and officers, as provided under existing laws, Bangko Sentral rules and regulations, are subject to the prior approval and/or confirmation by the MB. Such sanctions include the following:

(a) FIs
  (i) Restrictions on activities and privileges
  (ii) Suspension of authorities, privileges and other activities
  (iii) Divestment and/or unwinding
  (iv) Monetary sanction - penalties/fines against the FI

(b) Directors and officers
  (i) Reprimand
  (ii) Restriction on compensation and benefits
  (iii) Divestment

[2] Prevalence pertains to the pervasiveness of the supervisory issues, concerns and problems in relation to their impact on the FI's solvency, asset quality, operating performance and liquidity, among others.

(iv) Suspension
(v) Disqualification
(vi) Removal
(vii) Monetary penalties/fines

The foregoing sanctions to individuals are without prejudice to the filing of separate civil or criminal actions against them, when appropriate.

(3) Other supervisory actions subject to prior MB approval, the Bangko Sentral, when warranted, may deploy other supervisory actions such as:

(a) Initiation into the PCA Framework;
(b) Issuance of a cease and desist order (CDO) against the FI as well as against its directors and officers;
(c) Conservatorship; and
(d) Placement under receivership.

e. Due Process

An integral part of the deployment of enforcement actions is the observance of due process in all cases.

The FI and/or its directors and officers are afforded fair and reasonable opportunity to explain their side and to submit evidences in support thereof, which are given due consideration in determining the appropriate enforcement action(s) to be imposed.

(Circular Nos. 903 dated 29 February 2016, Circular No. 875 dated 15 April 2015 and 894 dated 07 December 2015)

003 PROMPT CORRECTIVE ACTION FRAMEWORK

Prompt Corrective Action Framework. A bank may be subject to PCA whenever any or all of the following conditions obtain:

(1) When either of the Total Risk-Based CAR, Tier 1 risk-based ratio, or leverage ratio (total capital/total assets) falls below ten percent (10%), six percent (6%) and five percent (5%), respectively, or such other minimum levels that may be prescribed for the said ratios under relevant regulations, and/or the combined capital account falls below the minimum capital requirement prescribed under Sec. 121;

(2) CAMELS composite rating is less than three *"3"* or a Management component rating of less than three *"3"*; and

(3) A serious supervisory concern has been identified that places a bank at more-than-normal risk of failure in the opinion of the head 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/regulations or continuing failure to comply with Monetary Board directives; and

(c) Significant reporting errors that materially misrepresent the bank's financial condition.

The framework for the enforcement of PCA on BSFI supervision is in *Appendix 68.*

PART ONE

ORGANIZATION, MANAGEMENT AND ADMINISTRATION

A. CLASSIFICATIONS, POWERS AND OPERATIONS OF BANKS

101 CLASSIFICATIONS, POWERS AND SCOPE OF AUTHORITIES OF BANKS

The following are the classifications, powers and scope of authorities of banks, as well as the prerequisites for the grant of banking authorities.

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

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

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

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

(a) the powers of an investment house (IH) as provided under existing laws;
(b) the power to invest in non-allied enterprises;
(c) the power to own up to one hundred percent (100%) of the equity in a TB, an RB, a financial allied enterprise, or a non-financial allied enterprise; and
(d) in case of publicly-listed UBs, the power to own up to 100% of the voting stock of only one (1) other UB or KB.

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

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

It may also exercise or perform any or all of the following:

(a) invest in the equities of allied enterprises as provided in Sections 31 and 32 of R.A. No. 8791;
(b) purchase, hold and convey real estate as specified under Sections 51 and 52 of R.A. No. 8791;
(c) receive in custody funds, documents and valuable objects;
(d) act as financial agent and buy and sell, by order of and for the account of their customers, shares, evidences of indebtedness and all types of securities;
(e) make collections and payments for the account of others and perform such other services for their customers as are not incompatible with banking business;
(f) upon prior approval of the Monetary Board, act as managing agent, adviser, consultant or administrator of investment management/ advisory/consultancy accounts;
(g) rent out safety deposit boxes; and
(h) engage in quasi-banking functions.

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

(a) grant loans, whether secured or unsecured;
(b) invest in readily marketable bonds and other debt securities, commercial papers and accounts receivable,

drafts, bills of exchange, acceptances or notes arising out of commercial transactions;
(c) issue domestic letters of credit;
(d) extend credit facilities to private and government employees;
(e) extend credit against the security of jewelry, precious stones and articles of similar nature, subject to such rules and regulations as the Monetary Board may prescribe;
(f) accept savings and time deposits;
(g) rediscount paper with the Land Bank of the Philippines (LBP), Development Bank of the Philippines (DBP), and other government-owned or -controlled corporations;
(h) accept foreign currency deposits as provided under R.A. No. 6426, as amended;
(i) act as correspondent for other financial institutions (FIs);
(j) purchase, hold and convey real estate as specified under Sections 51 and 52 of R.A. No. 8791;
(k) offer other banking services as provided in Section 53 of R.A. No. 8791; and
(l) buy and sell foreign exchange.

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

(m) open current or checking accounts;
(n) engage in trust, quasi-banking functions and money market operations;
(o) act as collection agent for government entities, including but not limited to, the Bureau of Internal Revenue (BIR), Social Security System (SSS) and the Bureau of Customs (BOC);
(p) act as official depository of national agencies and of municipal, city or provincial funds in the municipality, city or province where the TB is located;
(q) issue mortgage and chattel mortgage certificates, buy and sell them for its own account or for the account of others, or accept and receive them in payment or as amortization of its loan;
(r) invest in the equity of allied undertakings;
(s) issue foreign letters of credit; and
(t) pay/accept/negotiate import/export draft/bills of exchange.

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

(a) extend loans and advances primarily for the purpose of meeting the normal credit needs of farmers, fishermen or farm families as well as cooperatives, merchants, private and public employees;
(b) accept savings and time deposits;
(c) act as correspondent of other FIs;
(d) rediscount paper with the LBP, DBP or any other bank, including its branches and agencies. Said banks shall specify the nature of paper deemed acceptable for rediscount, as well as the rediscount rate to be charged by any of these banks;
(e) act as collection agent;
(f) acquire readily marketable bonds and other debt securities;
(g) offer other banking services as provided in Section 53 of R.A. No. 8791; and
(h) buy and sell foreign exchange.

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

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

(5) *Coop Banks*. A Coop Bank shall primarily provide financial, banking and credit services to cooperatives and their members, although it may provide the same services to non-members or the general public.

In addition to the powers granted to Coop Banks under existing laws, any Coop Bank may perform any or all of the banking services offered by rural banks under Items *"4.a"* to *"4.h"* above. A Coop Bank may likewise perform any or all of the banking services offered by rural banks under Items *"4.(i)"* to *"4.(n)"* as well as any or all of the banking services offered by other types of banks, subject to prior approval of the Bangko Sentral.

(6) *IBs*. In addition to the general powers incident to corporations and those provided in other laws, as well as in *Appendix 40*, insofar as they are not inconsistent or incompatible with the provisions of R.A. No. 6848, an IB may perform any or all of the following services:

(a) open savings accounts for safekeeping or custody with no participation in profit and losses unless authorized by the account holders to be invested;

(b) accept investment account placements and invest the same for a term with the IB's funds in Islamically permissible transactions on participation basis;

(c) accept foreign currency deposits from banks, companies, organizations and individuals, including foreign governments;

(d) buy and sell foreign exchange;

(e) act as correspondent of banks and institutions to handle remittances or any fund transfers;

(f) accept drafts and issue letters of credit or letters of guarantee, negotiate notes and bills of exchange and other evidence of indebtedness under the universally accepted Islamic financial instruments;

(g) act as collection agent insofar as the payment orders, bills of exchange or other commercial documents are exclusive of *riba* or interest prohibitions;

(h) provide financing with or without collateral by way of leasing, sale and leaseback, or cost plus profit sales arrangement;

(i) handle storage operations for goods or commodity financing secured by warehouse receipts presented to the bank;

(j) issue shares for the account of institutions and companies assisted by the bank in meeting subscription calls or augmenting their capital and/or fund requirements as may be allowed by law;

(k) undertake various investments in all transactions allowed by the *Islamic Shari'a* in such a way that shall not permit the *haram* (forbidden), nor forbid the *halal* (permissible);

(l) act as an official government depository, or its branches, subdivisions and instrumentalities and of government-owned or -controlled corporations, particularly those doing business in the Autonomous Region;

(m) issue investment participation certificates, *muquaradah* (non-interest-bearing bonds), debentures, collaterals and/or the renewal and refinancing of the same, with the approval of the Monetary Board, to be used by the IB in its financing operations for projects that will promote the economic development primarily of the Autonomous Region;

(n) carry out financing and joint investment operations by way of *mudarabah* purchasing for others on a cost-plus financing arrangement, and invest funds directly in various projects or through the use of funds whose owners desire to invest jointly with other resources available to the IB on a joint *mudarabah* basis; and

(o) invest in equities of the following allied undertakings:

(i) Warehousing companies;
(ii) Leasing companies;
(iii) Storage companies;
(iv) Companies engaged in the management of mutual funds but not in the mutual funds themselves; and
(v) Such other similar activities as the Monetary Board has declared or may declare as appropriate from time to time, subject to existing limitations imposed by law.

(Circular Nos. 960 dated 04 May 2017 and 865 dated 22 December 2014)

101-B AUTHORITY OF THRIFT BANKS TO ISSUE FOREIGN LETTERS OF CREDIT AND PAY/ACCEPT/NEGOTIATE IMPORT/EXPORT DRAFTS/BILLS OF EXCHANGE

With prior Monetary Board approval, TBs may be authorized to issue foreign letters of credit (LCs) and pay/accept/negotiate import/export drafts/bills of exchange, subject to compliance with the following conditions (at the time of application unless otherwise indicated):

a. Minimum capital requirement of P1.0 billion;

b. Ten percent (10%) risk-based capital adequacy ratio (CAR);

c. CAMELS composite rating not lower than "3", with Management component score not lower than "3" in the latest examination of the bank;

d. Risk management system appropriate to its operations, characterized by clear delineation of responsibility for risk management, adequate risk measurement system, appropriately structured risk limits, effective internal control

system and complete, timely and efficient risk reporting system;

e. Articles of incorporation which shall include among its powers or purposes, the issuance of foreign LCs and payment/acceptance/negotiation of import/export drafts/bills of exchange (which may be submitted any time prior to engaging in said activities);

f. Correspondent banking relationship or arrangement with reputable foreign banks (which should be in place prior to engaging in said activities);

g. Appointment of the officer with actual experience of at least two (2) years as in-charge or at least as assistant in-charge of import and export financing operations in a UB/KB who will be in-charge of the said operations (prior to engaging in said activities);

h. Appointment of bank personnel with actual experience and/or specific training in import and export financing operations who will handle the said operations (prior to engaging in said activities);

i. No net weekly regular and liquidity reserve deficiencies during the twelve (12) week period immediately preceding the date of application;

j. No deficiency in asset and liquid asset cover for FCDU liabilities for three (3) months immediately preceding the date of application;

k. No deficiency in liquidity floor requirement for government funds held during the twelve (12)- week period immediately preceding the date of application;

l. No float items outstanding for more than sixty (60) calendar days in the "Due From/To Head Office/Branches/Offices" and "Due from Bangko Sentral" accounts exceeding one percent (1%) of the total resources as of end of month preceding the date of application;

m. No unbooked allowance for credit losses;

n. Compliant with ceilings on loans, other credit accommodations and guarantees to directors, officers, stockholders, and their related interests (DOSRI) for the quarter immediately preceding the date of application;

o. Compliant with the single borrower's limit (SBL);

p. Compliant with the limit on real estate and improvements, including bank equipment;

q. No uncorrected findings of unsafe or unsound banking;

r. Generally compliant with banking laws, rules and regulations, orders or instructions of the Monetary Board and/or Bangko Sentral Management; and

s. No past due obligations with the Bangko Sentral or with any FI.

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

102 BASIC GUIDELINES IN ESTABLISHING DOMESTIC BANKS

A new banking organization must have suitable/fit shareholders, adequate financial strength, a legal structure in line with its operational structure, a management with sufficient expertise and integrity to operate the bank in a sound and prudent manner.

In establishing a new banking organization, the documentary requirements to be submitted to the Bangko Sentral are listed in *Appendix 33*.

The revised rules and regulations governing the organization, membership, establishment, administration, activities, supervision and regulation of cooperative banks are found in *Appendix 34*.

Prerequisites for the grant of a universal banking authority

a. *Compliance with guidelines*. A domestic bank seeking authority to operate as a UB shall submit an application to the appropriate supervising department of the Bangko Sentral. The applicant shall comply with

the guidelines for the issuance of a UB authority and shall submit all the documentary requirements enumerated in *Appendix 1.*

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

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

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

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

c. *Listing of bank shares in the stock exchange.* Domestic banks granted a UB license, existing or new, must list their shares in the PSE within three (3) years: *Provided*, That in the case of new UBs, the three (3) year period shall be reckoned from the date the license to operate as a UB was granted. In the case of existing UBs which have not listed their shares in the exchange, the three (3) year period lapsed on 27 December 1998.

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

Establishment of new domestic banks. There shall be a moratorium on the establishment of new domestic banks, except as follows: (i) grant of new universal/commercial banking license in connection with the upgrading of an existing thrift bank under Phase 1, and (ii) establishment of new banks in cities or municipalities where there are no existing banking offices, both of which shall comply with the required minimum capitalization under Sec. 121 and other qualification requirements prescribed under existing regulations.

The moratorium on the establishment of new domestic banks shall be fully lifted and locational restrictions shall be fully liberalized under Phase 2 starting 01 January 2018.

Establishment of microfinance-oriented banks. A *microfinance-oriented bank* is a bank that provides financial services and caters primarily to the credit needs of the basic or disadvantaged sectors such as farmers, peasants, artisanal fisherfolk, workers in the formal sector and migrant workers, workers in the informal sectors, indigenous peoples and cultural communities, women, differently-abled persons, senior citizens, victims of calamities and disasters, youth and students, children, urban poor and low income households for their microenterprises and small businesses so as to enable them to raise their income levels and improve their living standards. Microfinance loans are granted on the basis of the borrower's cash flow and are typically unsecured.

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

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

(1) That the microfinance-oriented bank to be established shall either be a TB or an RB;
(2) That the capital of the microfinance-oriented banks to be established should be owned by private persons, multilateral entities or a combination thereof;
(3) That the minimum paid-in capital of microfinance-oriented banks shall be the applicable capitalization requirement under Sec. 121;
(4) That the organizers must have the capacity to engage in microfinancing, which may be indicated by the following:

(a) At least twenty percent (20%) of the paid-in capital of the proposed bank must be owned by persons or entities with track record in microfinancing.
(b) Majority of the members of the board of directors have experience in microfinancing with at least one (1) member having actual banking experience.
(c) The proposed bank must have as a minimum, an adequate loan tracking system that allows daily monitoring of loan releases, collection and arrearages, and any restructuring and refinancing.

(5) In addition to the requirements for the establishment of banks in *Appendix 33*, the application for authority to establish a microfinance-oriented bank must be accompanied by the following documents:

(a) A vision and mission statement with clear expression of the commitment to reach low-income clients
(b) A written manual of operations, which shall include the administrative and credit program systems and procedures.

The Manual must be consistent with the core principles, characteristics and features of microfinance indicated in Sec. 314.

(6) At least fifty percent (50%) of the bank's gross loan portfolio shall at all times consist of microfinance loans as defined in Sec. 314.

b. The requirement that the president, chief operating officer or general manager of a TB or RB must have at least two (2) year experience in banking and/or finance may be substituted with microfinance experience in cases of officers of a microfinance organization applying for authority to establish, or convert into a TB or RB: *Provided,* That the officer concerned is a college graduate.

c. Subject to the standard branching requirements under Sec. 105 and minimum capital requirements under Sec. 121, microfinance-oriented banks may apply for establishment of a branch after one (1) year of profitable operations.

d. Existing non-bank microfinance organizations applying for authority to establish, or convert into a microfinance-oriented TB or RB may also be allowed to convert their existing branches/offices into branches of the bank proposed to be established by simultaneously applying for authority for the purpose.

However, the standard requirements for the establishment of branches and the minimum capitalization requirement, have to be complied with. Moreover, there must be a proof that the area is not fully served by any existing RB.

Conditions for the grant of authority to convert into a lower category.

a. That the bank must have complied with the minimum capital requirement and other laws/regulations applicable to the lower bank category into which it is converting. For this purpose, the term *"capital"* shall be as defined under Sec. 121;

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

(1) *Monetary penalties*

From UB to KB	P30,000/day
From KB to TB	P15,000/day
From TB to RB	
Within Metro Manila	P5,000/day
Outside Metro Manila	P500/day

(2) *Non-monetary penalties*

(a) Suspension of branching privileges;
(b) Suspension of declaration of cash dividends;
(c) Restriction on lending to affiliates;
(d) Denial of access to Bangko Sentral rediscounting facilities;
(e) Suspension of authority to accept or handle government deposits;
(f) Suspension of authority to engage in derivatives activities (for a UB converting into a KB); and
(g) Suspension of authority to invest in allied undertakings.

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

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

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

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

Conversion of microfinance-oriented thrift banks/rural banks

a. Microfinance-oriented TBs and RBs are allowed to convert to regular TBs and RBs: *Provided,* That they have complied with all the requirements for a regular TB/RB license and subject to the submission of the following:

(1) Certification signed by the president or officer of equivalent rank stating that the allocation of at least fifty percent (50%) of the gross loan portfolio to microfinance is no longer feasible due to changes in market condition. The certification shall be supported by:

(a) a market study citing, among others, changes in demographic, social, and economic factors; and
(b) strategic plan and business strategy contemplating the conversion to a regular bank; and

(2) Certified true copy of the resolution of the bank's stockholders and board of directors authorizing the conversion of the microfinance-oriented bank into a regular bank. The bank must also change its business name to reflect its reclassification to a regular bank.

b. Microfinance-oriented branches may convert into regular branches subject to the submission of the following:

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

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

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

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

Application and license fees for new domestic banks. Applications for new domestic banking licenses, except for applications to establish a bank with head office located in cities or municipalities where there are no existing banking offices as well as to merge and acquire a distressed bank, shall be subject to both application and license fees below:

Bank Category	Application Fee	License Fee
	(in Million Pesos)	
Universal Banks	0.500	25.000
Commercial Banks	0.400	20.000
Thrift Banks		
-Head Office in National Capital Region (NCR)	0.100	5.000
-Head Office in All Other Areas Outside NCR	0.040	2.000
Rural and Cooperative Banks		
-Head Office in NCR	0.010	0.500
-Head Office in All Other Areas Outside NCR (All Cities up to 3rd class municipalities)	0.004	0.200
-Head Office in All Other Areas Outside NCR (4th class to 6th class municipalities)	0.002	0.100

The application fee shall be non-refundable and shall be paid upon filing of the written application to establish a bank. The license fee, net of the application fee, shall be paid after the Monetary Board has approved said application.

The aforementioned fees shall also apply to existing domestic and foreign banks[1] that are upgrading to the next higher bank category.

[1] This excludes foreign banks established after the effectivity of R.A. No. 10641 (An Act Allowing the Full Entry of Foreign Banks in the Philippines, Amending the Purpose of R.A. No. 7721).

***Certificate of authority to register*[1].** The SEC shall not register the articles of incorporation and by-laws of any bank, or any amendment thereto, unless accompanied by a certificate of authority issued by the Bangko Sentral, under its seal. The certificate shall not be issued unless the Monetary Board is satisfied from the evidence submitted that:

a. All requirements of existing laws and regulations to engage in the business for which the applicant is proposed to be incorporated have been complied with;
b. The public interest and economic conditions, both general and local, justify the authorization; and
c. The amount of capital, the financing, organization, direction and administration, as well as the integrity and responsibility of the organizers and administrators reasonably assure the safety of deposits and the public interest.

Business name[2]

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

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

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

Subject to prior approval of the Bangko Sentral, a TB, RB or Coop Bank may apply to be exempted from the general requirements under Items *"b"* and *"c"* above: *Provided,* That the applicant TB, RB or Coop Bank shows compliance with the following conditions:

(1) The new business name of the bank must reasonably describe the business activities that the bank is engaged in.

(2) The business name should not mislead, misrepresent or give a false impression to the public with respect to the banking category of a bank, the location/s and clientele it serves, as well as the products and services that the applicant bank is authorized to offer to the public.

(3) The applicant bank shall not use a business name that is identical, deceptive or confusingly similar with existing corporate names, in accordance with existing applicable laws, rules and regulations governing the use of corporate names pursuant to the provisions of the Corporation Code of the Philippines.

(4) The applicant bank must meet the minimum capitalization requirements applicable at the time of filing of its application to change its business name.

(5) The applicant bank must not have any major supervisory concern/s that threaten its solvency or liquidity, as determined by the appropriate supervising department/s of the Bangko Sentral.

(6) Other conditions which the Bangko Sentral may deem necessary or as may be warranted by the attendant circumstances in order to protect the public interest.

The application of a TB, RB or Coop Bank for exemption from the general requirements on the use of name under Items *"b"* and *"c"* above shall be supported by the following:

(1) Application letter signed by the president or officer of equivalent rank indicating the justification for the request;
(2) Notarized secretary's certificate on the resolution of the bank's board of directors authorizing the request for exemption;
(3) Certification signed by the president or the officer of equivalent rank that the bank has complied with all the conditions for the said application; and
(4) Such other documents as may be required by the Bangko Sentral.

Bank advertisements. The following rules and regulations shall govern bank advertisements.

a. No bank shall publish, issue or distribute in any form, any advertisement that shall degrade, deprecate or otherwise prejudice other banking and financial institutions.

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

[1] See SEC Circular No. 3 dated 16 February 2006.
[2] See SEC Circular Nos. 5 dated 17 July 2008 and 14 October 2000, and DTI Administrative Order No. 1008 effective 10 October 2010.

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

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

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

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

g. Responsibility for compliance with the above rules and regulations rests with the bank officers and/or directors who caused the approval or placement of such advertisement.

(Circular Nos. 932 dated 16 December 2016, 929 dated 28 October 2016, 902 dated 15 February 2016 and 872 dated 13 March 2015)

103 LIBERALIZED ENTRY AND SCOPE OF OPERATIONS OF FOREIGN BANKS

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

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

a. By acquiring, purchasing or owning up to 100% of the voting stock of an existing domestic bank (including banks under receivership or liquidation, provided no final court liquidation order has been issued);
b. By investing in up to 100% of the voting stock of a new banking subsidiary incorporated under the laws of the Philippines; or
c. By establishing a branch and sub-branches with full banking authority.

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

Qualification requirements. A foreign bank seeking to operate in the Philippines through any of the modes of entry provided under Items *"a"* to *"c"* under this Section on Modes of entry of foreign banks must, in addition to satisfying the criteria prescribed under this Section on Guidelines for selection, be –

a. Widely-owned and publicly-listed in the country of origin, unless the foreign bank applicant is owned and controlled by the government of its country of origin; and
b. Established, reputable and financially sound.

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

Guidelines for selection. The following factors shall be considered in selecting the foreign banks which will be allowed to enter the Philippine banking system through R.A. No. 7721, as amended by R.A. No. 10641:

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

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

(1) With substantial financial assistance to, and loans and investments, past and present, in the Philippines; and
(2) With which the Philippines has significant volume of trade especially to those with which the country has substantial net exports.

c. *Relationship between the applicant bank and the Philippines.* Consideration shall be given to the capability of the foreign bank to promote trade with, and to bring foreign investments into, the Philippines. Long standing financial and commercial relationship with, and assistance extended to, the Philippines, shall likewise be taken into account.

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

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

f. *Willingness to fully share banking technology.*

Capital requirements of foreign banks.

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

b. *For foreign bank branches*

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

(2) For purposes of compliance with minimum capital regulations, the term *"capital of a foreign bank branch"* shall refer to the sum of: (a) permanently assigned capital, (b) undivided profits, and (c) accumulated net earnings, which is composed of unremitted profits not yet cleared by the Bangko Sentral for outward remittance and losses in operations, net of applicable capital adjustments enumerated in Sec. 121.

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

(4) Any *Net due from* head office, branches and subsidiaries outside the Philippines, excluding accumulated net earnings, shall be deducted from capital.

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

Transitory provision*.*

a. *Minimum capital of foreign banks.*

Minimum capital of foreign banks established in the Philippines prior to R.A. No. 10641 shall comply with the applicable minimum capital level requirement as prescribed under Sec. 121. Existing foreign banks that do not meet the minimum capital requirements shall submit an acceptable capital build-up program as required under Sec. 121.

b. *SBL*

(1) Loans and credit commitments of foreign bank branches as of 07 August 2014 may be maintained, but once repaid or expired, shall no longer be increased in excess of the ceiling allowed under the succeeding paragraph.
(2) Existing foreign bank branches shall be given until 31 December 2019 to use twice the level of capital as defined in this Section as net worth, as reference point for purposes of determining the appropriate SBL.

Risk-based capital for foreign bank branch

a. Foreign bank branches shall comply with the same risk-based capital adequacy ratios applicable to domestic banks of the same category.
b. In computing the risk-based capital adequacy ratios, Common Equity Tier 1 (CET1) capital shall include permanently assigned capital, undivided profits, accumulated net earnings and other capital components.
c. Any *Net due from* head office, branches and subsidiaries outside the Philippines, excluding accumulated net earnings shall be deducted from CET1 capital.
d. The guidelines for computing the risk- based capital adequacy ratios are provided in *Appendix 67.*

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

Scope of authority for locally incorporated subsidiaries of foreign banks as well as branches with full banking authority. Subsidiaries and branches of foreign banks established under this Section on Modes of entry of foreign banks shall be allowed to perform the same functions and enjoy the same privileges of, and be subject to the same limitations imposed upon, a Philippine bank of the same category.

Privileges shall include the eligibility to operate under a universal banking authority subject to compliance with existing rules and regulations and the guidelines enumerated in *Appendix 3.*

Control of the resources of the banking system. The Monetary Board shall adopt such measures as may be necessary to ensure that at all times the control of sixty percent (60%) of the resources or assets of the entire banking system is held by domestic banks, which are majority-owned by Filipinos. Said measures may include –

a. Suspension of entry of additional foreign bank subsidiaries and branches; and
b. Suspension of license upgrade or conversion to subsidiary of existing foreign bank branches.

Other measures may also be considered: *Provided*, That such measures so adopted shall be consistent with R.A. No. 7721, as amended by R.A. No. 10641, and shall consider vested rights and the non-impairment of contracts.

Change from one mode of entry to another. Foreign banks which are operating in the Philippines may apply for conversion of their mode of entry.

The bank shall comply with all applicable requirements and submit an acceptable transition plan which shall address how the foreign bank shall implement the change in mode of entry.

Equal treatment. Any right, privilege or incentive granted to foreign banks or their subsidiaries or affiliates under R.A. No. 7721, as amended by R.A. No. 10641 shall be equally enjoyed by, and extended under the same conditions, to domestic banks.

(Circular Nos. 1027 dated 28 December 2018, 858 dated 21 November 2014)

104 MERGERS AND ACQUISITIONS

The merger or consolidation of banks and other financial intermediary(ies) to meet minimum capital requirements shall be allowed subject to the following regulations.

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

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

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

Requirement of Bangko Sentral approval. Mergers and consolidations including the terms and conditions thereof shall comply with the provisions of applicable law and are subject to approval by the Bangko Sentral.

The guidelines and procedures in the application for merger/consolidation as shown in *Appendix 90* shall be observed by banks.

Rules on exchange of shares. As a general rule, the ratio of exchange of shares between or among the participants in a bank merger or consolidation shall be based on mutual agreement of the parties concerned.

Merger or consolidation incentives. In pursuance of the policy to promote mergers and consolidations among banks and other financial intermediaries, as well as purchases or acquisitions of majority or all of the outstanding shares of stock of a bank/quasi-bank, as a means to develop larger and stronger FIs, constituent/participating entities may avail themselves of incentives or reliefs, subject to prior approval of the Monetary Board.

Consolidation Program for Rural Banks (CPRB). The CPRB aims to strengthen the rural banking industry, in recognition of the major role that RBs play in financial inclusion. It intends to promote mergers and consolidations among RBs to bring about a less fragmented banking system by enabling them to improve financial strength, enhance viability, strengthen management and governance and expand market reach, among others.

The CPRB shall be available for a period of two (2) years from the signing of the Memorandum of Agreement among the Bangko Sentral, the PDIC and the LBP. The eligibility of the merging or consolidating RBs to qualify under the CPRB as well as the incentives thereunder shall be governed by the CPRB Framework and its implementing guidelines as provided under *Appendix 118* and *Appendix 119*, respectively.

For proponent banks that wish to avail of the equity investment facility from the LBP under the program, their eligibility shall be subject to the guidelines on the LBP equity investment facility in *Annex A of Appendix 119*.

(Circular Nos. 917 dated 08 July 2016, 903 dated 29 February 2016, M-2015-043 dated 11 December 2015, CL-2015-067 dated 05 November 2015, Circular No. 890 dated 02 November 2015, CL-2015-050 dated 18 August 2015, CL-2015-029 dated 06 May 2015, M-2015-008 dated 28 January 2015, M-2014-003 dated 27 January 2014)

105 ESTABLISHMENT/RELOCATION/VOLUNTARY CLOSURE/SALE OF BRANCHES/BRANCH-LITE UNITS

The Bangko Sentral aims to promote greater access to efficient and competitive banking services through the adoption of proportionate regulatory framework that provides banks with flexibility to execute their strategies and enables them to innovate in line with their business model. This is premised on the expectation that banks have effective governance and risk management systems as well as adequate capital to support the implementation of their strategies.

Toward this end, the following guidelines shall govern the establishment, relocation, voluntary closure and sale of local branches/branch-lite units of domestic banks, including locally incorporated subsidiaries of foreign banks. The establishment of branches of foreign banks in the Philippines, on the other hand, shall continue to be governed by the provisions of Sec. 103 on liberalized entry and scope of operations of foreign banks and Sec. 106 on establishment of sub-branches of foreign bank branches.

For purposes of this Section, the following definitions shall apply:

A *branch* shall refer to any permanent office or place of business in the Philippines other than the head office where a bank may perform activities and provide products and services that are within the scope of its authority and relevant licenses. In this respect, a complete set of books and records shall be maintained in each branch.

A *branch-lite unit* shall refer to any permanent office or place of business of a bank, other than its head office or a branch. A branch-lite unit performs limited banking activities and records its transactions in the books of the head office or the branch to which it is annexed.

Allowable activities of a branch-lite unit. A branch-lite unit may perform activities and provide any of the products and services that a branch may perform or provide except those suited only to sophisticated clients with aggressive risk tolerance[1]*: Provided,* That:

a. The board of directors shall approve the defined range of activities and services that shall be carried out in a branch-lite unit consistent with the bank's business model in providing financial services to a specifically defined market or sector;

b. The board of directors shall ensure that the branch-lite unit has adequate personnel, internal control measures, physical facilities, security arrangements and information systems commensurate with the extent of banking activities undertaken and services offered by the branch-lite unit;

c. Management shall ensure that branch-lite units are considered in the bank's capital adequacy assessment and planning exercises considering the potentially high operational risk exposures of said units;

d. Management shall ensure the timely accounting and reporting of activities and transactions of the branch-lite unit to the head office/branch to which it is annexed; and

e. The bank's risk management system, compliance and internal audit programs shall cover the branch-lite unit.

***Pre-requisites for the grant of authority to establish a branch/branch-lite* unit.** Banks may establish a branch or a branch-lite unit subject to the prudential criteria provided in Sec. 111. Any approved but unopened branch/es at the time of application shall be taken into account in determining compliance with the minimum capitalization requirement. No bank operating in the Philippines shall establish a branch or a branch-lite unit or transact business outside the premises of its duly authorized principal office or head office without prior approval of the Bangko Sentral.

***Application for authority to establish a branch/branch-lite* unit.** Banks seeking to establish a branch or branch-lite unit shall submit the following documents to the appropriate supervising department of the Bangko Sentral:

a. Application letter signed by the chief executive officer or officer of equivalent rank which shall indicate the number of branch/es or branch-lite units to be established and their proposed location/s. In this respect, application for the establishment of branch-lite units shall include the range of activities that will be performed and services that will be offered by the branch-lite unit to a specifically defined market or sector;

b. Secretary's Certificate which indicates the approval of the bank's board of directors of the establishment of branch/es or branch-lite units; and

c. Certification/Undertaking signed by the chief executive officer or officer of equivalent rank that the bank is compliant or will comply, as the case maybe, with the pre-requisites for the grant of authority to establish branch/es or branch-lite units under this Section.

Location of branches/branch-lite units. As a general rule, banks shall be allowed to establish branch/es or branch-lite units anywhere in the Philippines, including in cities previously considered as restricted areas[2]: *Provided,* That, if

[1] As described under Sec. 612 (*Client suitability guidelines*)

[2] Refer to the cities of Makati, Mandaluyong, Manila, Paranaque, Pasay, Pasig, Quezon, and San Juan. The branching restriction in these areas was fully lifted effective on 1 July 2014.

TBs/RBs will establish branches in cities/municipalities of a higher classification than their head office, the applicable minimum required capital under Sec. 121 shall be increased to that of the city/municipality of the higher classification, regardless of where the head office is located.

In addition, the following guidelines shall apply to Coop Banks:

a. The Coop Bank of the province may set up branches/branch-lite units anywhere within the province subject to compliance with the applicable branching rules and regulations as provided in Sec. 105.
b. Coop Banks from other provinces may set up branches/branch-lite units in cities or municipalities of another province where there are no other Coop Bank head office/branch/branch-lite units.

Processing and special licensing fees.

a. *Processing fee.*

The bank shall be immediately charged with the total processing fee computed for all branches/branch-lite units approved, in accordance with the following:

Banking Unit and Bank Category	Processing Fee Per Branch/Branch-lite Unit	
	Metro Manila, cities of Cebu and Davao, All Other Cities, 1st to 2nd Class Municipalities	3rd to 6th Class Municipalities
a. Branch		
(1) UBs/KBs/Affiliated TBs	P200,000	P100,000
(2) Non-affiliated TBs	100,000	50,000
(3) RBs/Coop Banks	25,000	12,500
b. Branch-lite unit	10,000	5,000

Provided, That branches/branch-lite units to be established in unbanked cities and municipalities shall be exempted from the processing fee.

b. *Special licensing fee.*

For applications to establish branches/branch-lite units in cities previously considered as restricted areas as defined under this Section on Location of branches/branch-lite units, the applicant bank shall upon acceptance of said applications pay a special licensing fee per branch/branch-lite unit depending on the bank's category, as follows:

Bank Category	Licensing Fee per Branch	Proposed Licensing Fee per Branch-lite Unit
UB/KB	P20 million	P5 million
TB	15 million	3 million
RB/Coop Bank	1.5 million	300 thousand

Opening of branches/branch-lite units. Approved branches/branch-lite units shall be opened, as follows:

Approved branches/branch-lite units shall be opened, within one (1) year from the date of approval thereof, subject to extension on a case by case basis: *Provided*, That the entire period from date of approval of the establishment of the branch/branch-lite unit up to the requested extension shall not exceed three (3) years[1].

The opening of approved branches/branch-lite units may, however, be suspended or revoked by the appropriate supervising department of the Bangko Sentral upon approval of the Deputy Governor, should any of the following conditions be found to exist:

a. The bank's capital as required under Sec. 121 is no longer sufficient to support the remaining unopened branches;
b. The bank or any of its subsidiary bank is initiated under PCA or is under condition/s subject to PCA or if already under PCA, continuously fails to comply with the Memorandum of Understanding (MOU)/PCA plan;
c. The bank has major supervisory concerns outstanding on safety and soundness.

Failure to open the approved branches/branch-lite units within the period provided shall result in the forfeiture of the bank's right to open such branches/branch-lite units and of all fees paid to the Bangko Sentral in relation to such application.

[1] Branch applications that have been approved prior to 7 January 2017 shall be allowed to open the corresponding branches within three (3) years from date of approval.

Approved but not yet opened branches/branch-lite units may be relocated upon prior approval by the Deputy Governor of the appropriate sector of the Bangko Sentral subject to the presentation of justification and valid reason for the relocation, and resubmission of the information/documents enumerated under this Section on application for authority to establish a branch/branch-lite unit: *Provided,* That branches/branch-lite units located outside the cities previously considered as restricted areas as defined under this Section on Location of branches/branch-lite units which will be relocated therein shall be subject to the special licensing fee under this Section on Processing and special licensing fees upon approval of the relocation: *Provided, further,* That the opening of the relocated branch/branch-lite unit shall be made within the prescribed period mentioned above from date of approval of its establishment.

As an incentive to merger/consolidation of banks or purchase/acquisition of majority or all of the outstanding shares of stock of a distressed bank for the purpose of rehabilitating the same, opening or relocation of approved but not yet opened branches/branch-lite units may be allowed within two (2) years from date of merger/consolidation or purchase/acquisition of majority or all of the outstanding shares of stock of a distressed bank for the purpose of rehabilitating the same.

Requirements for opening a branch/branch-lite unit. Not later than five (5) banking days from the date of opening, the bank, through its chief compliance officer and the head of the branch banking operations, shall:

a. Notify in writing the appropriate supervising department of the Bangko Sentral of the actual date of opening of the branch/branch-lite unit;
b. Submit a certification on compliance with the following, as applicable:

    (1) Adequacy of personnel, internal control measures, physical facilities, information systems and security arrangements, including the installation of security devices and accessibility to persons with disability as required under Sec. 147 (*Minimum security measures*) and 109 (*Batas Pambansa Blg. 344 – An Act to Enhance the Mobility of Disabled Persons by Requiring Certain Buildings, Institutions, Establishments, and Public Utilities to Install Facilities and Other Devices*), respectively;

    (2) Posting in conspicuous places in the premises of the branch/branch-lite unit of the required notices, schedules and other relevant information pertaining to lending and deposit operations activities;

    (3) Availability of efficient means of accounting and reporting as well as communication facilities (to be specified) between the head office, branches, and branch-lite units; and

    (4) The requirements enumerated under this Section on Pre-requisites for the grant of authority to establish a branch/branch-lite unit as of the time of actual opening.

    A bank that fails to comply with any of the requirements under this Section on the pre-requisites for the grant of authority to establish a branch/branch-lite unit as of the date of the intended opening of the branch/branch-lite unit shall refrain from opening the branch/branch-lite unit on such date until it has complied with all the requirements under this Section on Pre-requisites for the grant of authority to establish a branch/branch-lite unit: *Provided,* That the provisions under this Section on Opening of branches/branch-lite units on the date of opening of branch/branch-lite unit shall be observed; and

c. In the case of microfinance-oriented branch, certify that the branch has:

    (1) a manual of operations on microfinancing duly approved by the bank's board of directors;

    (2) an adequate loan tracking system that allows daily monitoring of loan releases, collections and arrearages, and any restructuring and refinancing arrangements;

    (3) is managed by a person with adequate experience in microfinancing activities; and

    (4) at least seventy percent (70%) of deposits lent out to qualified microfinance, including Barangay Micro Business Enterprises (BMBE) borrowers, and the microfinance/BMBE loans of said branch shall at all times be at least fifty percent (50%) of its gross loan portfolio.

Relocation of branches/branch-lite units. Relocation of existing branches/branch-lite units, whether to be opened at the new site on the next banking day or within one (1) year from the date of closure of the branch/branch-lite unit, shall be allowed in accordance with the following procedures:

a. Notice of relocation of branch/branch-lite unit signed by the president of the bank or officer of equivalent rank, together with a certified true copy of the resolution of the bank's board of directors authorizing said relocation, and an undertaking that the bank shall comply with the notification requirement under Item *"b"* below, shall be submitted by the bank to the appropriate supervising department of the Bangko Sentral. The notice shall include information as to

the new relocation site, the timetable for said relocation, date and manner of payment of special licensing fee under this Section on Processing and special licensing fees, as may be applicable, and the branch/branch-lite unit that will handle the transactions of the branch/branch-lite unit to be relocated, as may be applicable.

b. If no reply is received by the bank from the Bangko Sentral within thirty (30) calendar days from date of receipt by the Bangko Sentral of the said notification, notice of relocation shall be sent by the bank to the depositors' and other creditors' last known addresses by registered mail service of the Philippine Postal Corporation (Philpost) or delivery service of other mail couriers or electronic mail, and posters shall also be displayed in conspicuous places in the premises of the branch/branch-lite unit to be relocated at least forty-five (45) calendar days prior to the closure of the branch/branch-lite unit to be relocated. Information as to the new relocation site, the date of the opening at the new site, and the address of the branch/branch-lite unit that will handle the transactions of the branch/branch-lite unit to be relocated, as may be applicable, shall be indicated in the said notice/posters. Proofs of receipt of notice by the depositors and the creditors shall be kept on file and made available upon request of the Bangko Sentral;

c. Within five (5) banking days from the date of closure of the branch/branch-lite unit to be relocated, a notice of such closure signed by the Chief Compliance Officer (CCO) and the head of the branches department with the rank of a vice president or equivalent rank or by a higher ranking officer, together with a certification that the notification requirement in Item *"b"* above has been complied with and, for branches/branch-lite units that will be opened at the new site beyond the next banking day, an undertaking that the branch/branch-lite unit shall be opened at the new site within one (1) year from the date of such closure shall be submitted to the appropriate supervising department of the Bangko Sentral;

d. Within five (5) banking days from the date of opening of the relocated branch/branch-lite unit, a notice of such opening, together with a certification signed by the CCO and the head of the branches department with the rank of a vice president or its equivalent rank or by a higher ranking officer that the bank has complied with Items *"b"* and *"c"* under this Section on Requirements for opening a branch/branch-lite unit shall be submitted to the appropriate supervising department of the Bangko Sentral. Information as to the site of the branch/branch-lite unit that was closed and the date of such closure, as well as the site of the branch/branch-lite unit that was opened and the date of such opening shall be indicated in the said notice;

e. Branches/branch-lite units may be relocated anywhere: *Provided,* That branches/branch-lite units located outside the cities previously considered as restricted areas as defined under this Section on Location of branches/branch-lite units which will be relocated therein shall be subject to the special licensing fee under this Section on Processing and special licensing fees; and

f. Relocation of branch/branch-lite unit beyond one (1) year from the date of closure shall be deemed as permanent closure and surrender of license of the branch/branch-lite unit at the old site, and the opening of a branch/branch-lite unit at the new site shall be deemed as an establishment of a new branch/branch-lite unit subject to the provisions of this Section on Pre-requisites for the grant of authority to establish a branch/branch-lite unit.

***Temporary closure, permanent closure and surrender of branch/branch-lite unit license, and sale/acquisition of branches/branch-lite units*.**

a. *Temporary closure of existing branches/branch-lite units*.

Temporary closure of existing branches/branch-lite units for the purpose of undertaking renovations/major repairs of office premises/facilities and for other valid reasons may be allowed: *Provided*, That the branch/branch-lite unit shall be reopened within a period of one (1) year from the date of temporary closure in accordance with the following procedures:

(1) Notice of temporary closure signed by the president of the bank or officer of equivalent rank, together with a certified true copy of the resolution of the bank's board of directors authorizing said temporary closure and stating the justifications/reasons therefor; and an undertaking that the bank shall comply with the notification requirement under Item *"2"* below, shall be submitted to the appropriate supervising department of the Bangko Sentral. The notice shall include information as to the timetable for the said temporary closure and the branch/branch-lite unit that will handle the transactions of the branch/branch-lite unit to be temporarily closed;

(2) If no reply is received by the bank from the Bangko Sentral within thirty (30) calendar days from the date of receipt by the Bangko Sentral of the said notification, notice of temporary closure shall be sent by the bank to the depositors' and other creditors' last known addresses by registered mail service of the PhilPost or delivery service of other mail couriers or electronic mail, and posters shall also be displayed in conspicuous places in the premises of the branch/branch-lite unit at least forty-five(45) calendar days prior to the temporary closure. Information as to the date of the reopening and the address of the branch/branch-lite unit that will handle the transactions of the branch/ branch-lite unit to be temporarily closed shall be

indicated in the said notice/posters. Proofs of receipts of notice by the depositors and other creditors shall be kept on file and made available upon request of the Bangko Sentral;

(3) Within five (5) banking days from the date of temporary closure of the branch/branch-lite unit, a notice of such closure, signed by the CCO and the head of the branches department with the rank of a vice president or equivalent rank or by a higher ranking officer, together with a certification that the notification requirement in Item "(2)" above has been complied with and an undertaking that the branch/branch-lite unit shall be reopened within one (1) year from the date of such closure shall be submitted to the appropriate supervising department of the Bangko Sentral; and

(4) Within five (5) banking days from the date of reopening of the branch/branch-lite unit, a notice of such reopening together with a certification signed by the CCO and the head of the branch banking operations with the rank of vice president or its equivalent or by a higher ranking officer that the bank has complied with Items *"b"* and *"c"* under this Section on the requirements for opening a branch/branch-lite unit shall be submitted to the appropriate supervising department of the Bangko Sentral .

Temporary closure of branches/branch-lite unit beyond one (1) year shall be deemed as permanent closure and surrender of license of the branch/branch-lite unit, and re-opening thereof shall be deemed as an establishment of a new branch/branch-lite unit, subject to the provisions under this Section on Pre-requisites for the grant of authority to establish a branch/branch-lite unit.

b. *Permanent closure and surrender of branch/branch-lite unit license*.

Permanent closure and surrender of branch/branch-lite unit license may be effected only with prior approval of the Monetary Board in accordance with the following procedures:

(1) Request for Monetary Board approval to the closure of the branch/branch-lite unit signed by the president of the bank or officer of equivalent rank, together with a certified true copy of the resolution of the bank's board of directors authorizing said closure and stating the justifications/reasons therefor, shall be submitted by the bank to the appropriate supervising department of the Bangko Sentral;

(2) Upon receipt of the notice of Monetary Board approval but at least forty-five (45) calendar days prior to the closure, notice of closure shall be sent by the bank to the depositors' and other creditors' last known addresses by registered mail service of the PhilPost or delivery service of other mail couriers or electronic mail, and posters shall also be displayed in conspicuous places in the premises of the branch/branch-lite unit to be closed. Proofs of receipt of notice by the depositors and other creditors shall be kept on file and made available upon request of the Bangko Sentral;

(3) Within five (5) banking days from the date of closure of the branch/branch-lite unit, a notice of such closure signed by the CCO and the head of the branches department with the rank of a vice president or equivalent rank, or by a higher ranking officer, together with a certification that the notification requirement in Item "*2*" above has been complied with, shall be submitted to the appropriate supervising department of the Bangko Sentral;

c. *Sale/acquisition of branches/branch-lite unit.*

Sale/acquisition of existing/operating branches/branch-lite units may be allowed with prior approval of the Monetary Board in accordance with the following procedures:

(1) Prior written consent of the PDIC in the transfer of assets and assumption of liabilities as provided under Section 21 of the PDIC Charter (R.A. No. 3591), as amended by R.A. No. 9302 shall be obtained by both the selling bank and the acquiring bank;

(2) Request for Monetary Board approval to close the branch/branch-lite unit to be sold signed by the president of the bank or officer of equivalent rank, together with a certified true copy of the resolution of the bank's board of directors authorizing the sale shall be submitted by the selling bank to the appropriate supervising department of the Bangko Sentral;

(3) Upon receipt of the notice of Monetary Board approval but at least forty-five (45) calendar days prior to the closure, notice of closure shall be sent to the depositors' and other creditors' last known addresses by registered mail service of the PhilPost or delivery service of other mail courier or electronic mail, and posters shall also be displayed in conspicuous places in the premises of the branch/branch-lite unit to be sold. Proofs of receipt of notice by the depositors and other creditors shall be kept on file and made available upon request of the Bangko Sentral;

(4) Within five (5) banking days from the date of closure of the branch/branch-lite unit, a notice of such closure signed by the CCO and the head of the branches department with the rank of a vice president or equivalent rank or by a higher ranking officer, together with a certification that the notification requirement under Item *"3"* above has been complied with, shall be submitted to the appropriate supervising department of the Bangko Sentral;

(5) Request for Monetary Board approval to acquire the branch/branch-lite unit signed by the president of the bank or officer of equivalent rank, together with a certified true copy of the resolution of the bank's board of directors authorizing the acquisition shall be submitted by the acquiring bank to the appropriate supervising department of the Bangko Sentral. The acquiring bank shall likewise comply with the pre-requisites on the grant of authority to establish a branch/branch-lite unit under this Section and the ceiling on total investments of a bank in real estate and improvements thereon, including bank equipment under Sec. 109.

A bank may purchase/acquire branches/branch-lite units anywhere, including in Metro Manila subject to compliance with the applicable minimum capital requirement under Sec. 121.

(6) The acquiring bank shall pay a licensing fee per branch/branch-lite unit acquired, as follows:

Type of Acquiring Bank	Location of Branch/Branch-lite unit to be Acquired	
	Within Metro Manila	Outside Metro Manila
UBs and KBs	P 1.0 million	P 0.5 million
TBs	P 0.5 million	P 0.25 million

and

(7) Within five (5) banking days from the date of opening of the acquired branch/branch-lite unit, a notice of such opening, together with a certification signed by the CCO and the head of branch banking operations with the rank of a vice president or its equivalent or by a higher ranking officer that the bank has complied with Items *"b"* and *"c"* under this Section on the requirements for opening a branch/branch-lite unit shall be submitted by the acquiring bank to the appropriate supervising department of the Bangko Sentral.

Relocation/Transfer of branch/branch-lite unit licenses of closed banks. Buyers of closed banks shall be allowed to relocate/transfer acquired branch/branch-lite unit subject to the conditions stated under Items "*d*" and "*e*" of the first paragraph of Sec. 105 on relocation of branches/branch-lite units.

Supervisory Enforcement. The Bangko Sentral reserves the right to deploy any of its supervisory tools to promote adherence to the requirements set forth in the foregoing rules and bring about timely corrective actions and compliance with the Bangko Sentral directives.

For this purpose, the Bangko Sentral may among others, limit the banking activities and services offered by a branch/branch-lite unit or revoke the franchise and close any branch/branch-lite unit. If any part of the certification submitted by the bank as required in this Section is found to be false, the Bangko Sentral may also, among others, suspend the privilege to establish and/or open approved branches/branch-lite units and/or relocate branches/branch-lite units and impose sanctions on the certifying officers concerned.

Tellering booths. The following rules shall govern the establishment of tellering booths in BIR offices:

a. As a general policy, the establishment of tellering booths in BIR offices are not authorized. However, in cases where tellering booths in offices are needed as determined by the BIR, banks shall secure prior Monetary Board approval;

b. A bank's application shall be accompanied by a letter from the BIR Commissioner or Deputy Commissioner or other officer specifically authorized by the Commissioner to sign such letter, stating that the BIR has agreed to allow the applicant bank to establish a tellering booth in the specified BIR office;

c. The applicant bank has complied with the standard prequalification requirements prescribed in *Appendix 5*; and

d. Tax collections received shall be subject to rules on government deposits.

Relocation of head offices. Relocation of a bank's head office shall require prior approval of the Monetary Board in accordance with the following procedures:

a. Request for Monetary Board approval of the relocation of the bank's head office signed by the president of the bank or officer of equivalent rank shall be submitted to the appropriate supervising department of the Bangko Sentral together with the following documentary requirements:

(1) A certified true copy of the resolution of the bank's board of directors authorizing the proposed relocation/transfer of the head office, and stating the justification/reasons therefor;
(2) A certified true copy of stockholders' resolution authorizing the amendment of the articles of incorporation of the bank;
(3) Description of the building and/or place of relocation, manner of occupancy, i.e., whether lease or purchase, estimate of the total costs to be incurred in connection with the transfer, and the proposed timetable for such relocation; and
(4) Plan for the disposition of the original site.

b. Upon receipt of the notice of Monetary Board approval but at least three (3) months prior to the relocation, notice of relocation shall be sent to depositors and other creditors by registered mail or POD service of the Philpost or other mail couriers, and poster shall be displayed in conspicuous places in the premises of the head office to be relocated: *Provided*, That said notification period may be reduced to forty-five (45) calendar days under any of the following circumstances:

(1) As an incentive to merger or consolidation of banks;
(2) As an incentive to the purchase or acquisition of majority or all of the outstanding shares of stock of a distressed bank for the purpose of rehabilitating the same; or
(3) The proposed relocation site is within the same municipality/city of the head office to be relocated.

c. Within five (5) banking days from the date of relocation, a notice of relocation, together with a certification signed by the president of the bank or officer of equivalent rank that the notification requirement under Item *"b"* above and the installation of the required security devices under Item *"b"* of Sec. 147 on minimum security measures have been complied with, shall be submitted to the appropriate supervising department of the Bangko Sentral.

A bank's head office may be relocated anywhere it is allowed to establish branches as provided under this Section on on location of branches/branch-lite units: *Provided*, That head offices located outside the cities previously considered as restricted areas as defined under this Section on Location of branches/branch-lite units which will be relocated therein shall be subject to the special licensing fee under this Section on Processing and special licensing fees upon approval of the relocation.

The executive offices of the bank shall not be separated from the head office, i.e., these shall be located where the bank's head office is located.

Relocation of any other department/unit of the bank not performing front-office operation, i.e., not dealing with the banking public, shall not require prior Monetary Board approval: *Provided, however*, That within five (5) banking days from date of relocation, a notice of relocation signed by a vice president or officer of equivalent rank or by a higher ranking officer, together with a certified true copy of the resolution of the bank's board of directors authorizing the relocation, shall be submitted to the appropriate supervising department of the Bangko Sentral.

Sanctions. If any part of the certification submitted by the bank as required in this Section is found to be false, the sanctions under Sec. 105 (*Supervisory enforcement*) shall be imposed.

Establishment of offices abroad. The following rules shall govern the establishment by domestic banks of branches and other offices abroad.

For purposes of this Section, the term *offices* shall include branches, agencies, representative offices, remittance centers, remittance desk offices and other offices.

Application for authority to establish an office abroad. An application for authority to establish an office abroad shall be signed by the president of the bank and shall be accompanied by the following information/documents:

a. Certified true copy of the resolution of the bank's board of directors authorizing the establishment of that office indicating its proposed site;

b. Economic justification for such establishment, indicating among other things, the services to be offered, the minimum outlay such as capital requirement of the host country, outlay for furniture, fixture and equipment, rental and other expenses;

c. Organizational set up of the proposed office showing the proposed positions and the names, qualifications and experience of the proposed manager and other officers;

d. Certification signed by the president or the executive vice president that the bank has complied with the standard pre-qualification requirements for the grant of banking authorities enumerated in *Appendix 5*; and

e. Certification from the host country that the duly authorized personnel/ examiners of the Bangko Sentral will be authorized to examine the proposed office.

Requirements for establishing an office abroad. In addition to the standard prequalification requirements of *Appendix 5*, the applicant bank shall comply with the following:

a. The citizenship requirements, ownership ceilings and other limitations on voting stockholdings in banks under existing law and regulations;
b. Experience and expertise in international banking operations as shown by:

   (1) Its international banking operations for at least three (3) years prior to the date of application;
   (2) Substantial income derived from international banking operations; and
   (3) Established correspondent relationship with reputable banks.

Conditions attached to the approved application. An approved application to establish a banking office abroad shall be subject to the following conditions:

a. Without prejudice to the qualification requirements in the country where the office is to be established, the proposed officer(s), at the time of appointment must be at least:

   (1) Twenty-five (25) years of age;
   (2) A college graduate, preferably with training and experience abroad;
   (3) With three (3) year experience in international banking operations; and
   (4) Must not possess any of the disqualification of an officer as provided for under existing regulations;

b. The applicant bank shall comply with the licensing requirements of the host country and the necessary license to operate shall be secured from the appropriate government agency of the host country;
c. The outward investment representing initial capital outlay and other outlays shall be subject to existing regulations;
d. The proposed office shall submit periodic reports on its financial condition and profitability and such other reports that may be required by the Bangko Sentral;
e. An office not authorized to perform banking business (e.g., representative and liaison offices) shall not carry any of the business of a bank as contemplated within the context of the Philippine banking system; and
f. The applicant shall defray the necessary cost and expenses to be incurred by the appropriate supervising department of the Bangko Sentral.

Date of opening. The opening of any office abroad shall be subject to the provisions under this Section on Opening of branches/branch-lite units.

Requirements for opening an office abroad. After a bank's application to establish a branch has been approved, it may open the same subject to the following conditions:

a. Submission by the applicant bank of a written notice at least thirty (30) days prior to the intended date of opening, accompanied by the following:

   (1) Proof or evidence of outward remittance needed to meet the capital requirements prescribed by the host country;
   (2) List of principal and junior officers of the proposed branch/es and their respective designations and salaries; and
   (3) Personal information sheet (Bio-data) for each of the officers to enable the Bangko Sentral to evaluate their qualifications as officers; and

b. A certification signed by the bank's president or executive vice president that the standard pre-qualification requirements enumerated in *Appendix 5* have been complied with up to the date of the aforementioned written notice.

   A bank that fails to continuously comply with the requirements shall be given an extension of time to open such office after it has shown compliance for another test period of the same duration required of each requirement: *Provided*, That the provisions under this Section on Opening of branches/branch-lite units shall be observed if the branch cannot open within six (6) months from the date of approval thereof: *Provided*, *further*, That before such branch opens for business, the bank shall submit to the Bangko Sentral the requirements under this Section on Requirements for opening an office abroad together with a certification stating that the bank has complied with the standard pre- qualification requirements in *Appendix 5* up to the date of the written notice within the period prescribed therein.

Sanctions. If any part of the certification submitted by the bank as required in this Section is found to be false, the sanctions under this Section on Supervisory enforcement shall be imposed.

Establishment of a foreign subsidiary by a bank subsidiary. The establishment of a foreign subsidiary by a bank subsidiary are subject to the guidelines in Sec. 377 (*Investment of a bank subsidiary in a foreign subsidiary*).

(Circular Nos. 987 dated 28 December 2017, 932 dated 16 December 2016, 930 dated 18 November 2016 and 847 dated 28 August 2014)

106 ESTABLISHMENT OF SUB-BRANCHES OF FOREIGN BANK BRANCHES

Authority to establish sub-branches of foreign banks may be granted subject to Monetary Board approval. The following guidelines shall govern the establishment of sub-branches of foreign banks in the Philippines pursuant to R.A. No. 7721, as amended by R.A. No. 10641.

Application for authority to establish sub-branches. An application for authority to establish sub-branches shall be signed by the country manager or the highest ranking officer in the Philippines of the applicant foreign bank, and shall be accompanied by the following information/documents:

a. Certified true copy of the resolution of the foreign bank's board of directors authorizing the foreign bank's country manager or highest ranking officer in the Philippines to apply for authority to establish sub-branch/es and represent the bank in connection therewith; and

b. Proposed business plan for the sub- branch/es.

Requirements for establishment of sub-branches of foreign bank branches. In addition to the pre-requisites for the grant of authority to establish a branch/branch-lite unit under Sec. 105, the applicant foreign bank branch in the Philippines shall be subject to the processing fee provided in Sec. 105 (*Processing and special licensing fees*): *Provided,* That sub-branch applications in the cities previously considered as restricted areas as defined under Sec. 105 (*Location of branches/branch-lite units*) shall also be subject to the special licensing fee under Sec. 105 (*Processing and special licensing fees*), as applicable.

Date of opening. The opening of approved sub-branches shall be subject to the provisions of Sec. 105 (*Opening of branches/branch-lite units*).

Requirements for opening a sub-branch of foreign bank branches. Not later than five (5) banking days from the date of opening of a sub- branch, the foreign bank branch, through its country manager or the highest ranking officer in the Philippines shall submit the following documents:

a. Written notice to the appropriate supervising department of the Bangko Sentral of the actual date of opening of the sub-branch;
b. Proof or evidence of inward remittance needed to meet the additional capital requirements under Sec. 121 (Minimum capitalization), as applicable; and
c. Certification on compliance with Item *"b"* of Sec. 105 on the requirements for opening a branch/branch-lite unit.

Limitations on establishment of sub-branches of foreign bank branches. A foreign bank authorized to establish branches in the Philippines pursuant to the provisions of R.A. No. 7721, as amended by R.A. No. 10641, may open up to five (5) sub-branches as may be approved by the Monetary Board. A foreign bank shall also be allowed to establish branch-lite unit subject to the provisions of Sec. 105. In this regard, a branch-lite unit shall be considered as a sub-branch for purposes of complying with the numerical limit set forth under R.A. No. 7721, as amended by R.A. No. 10641.

Supervisory Enforcement. The Bangko Sentral reserves the right to deploy any of its supervisory tools to promote adherence to the requirements set forth in Sec. 106. Non-compliance therein shall subject the foreign bank to supervisory enforcement action, including those mentioned under Sec. 105 (*Supervisory enforcement*).

(Circular Nos. 987 dated 28 December 2017, 932 dated 16 December 2016, 847 dated 28 August 2014)

107 MOBILE FOREIGN EXCHANGE BOOTHS

The operation of mobile foreign currency booths shall be governed by this Section.

Mobile foreign exchange booths. Without prior authority from the Bangko Sentral, banks may operate mobile foreign currency booths, subject to the following guidelines:

a. The bank shall advise the Bangko Sentral of the number of mobile foreign currency booths it will operate, the date it will start operations, the areas of operation and the branch where the foreign exchange acquisition will be turned over and booked;
b. The services of the mobile foreign currency booths shall be solely for changing foreign exchange currency into peso notes and coins, and not pesos to other foreign currency;
c. The mobile foreign currency booths shall not accept deposit or perform other banking functions other than purchase of foreign currencies;
d. The internal control system of the proposed mobile foreign currency booths shall be submitted to the appropriate supervising department of the Bangko Sentral, as well as other security measures adopted therein; and
e. The mobile foreign currency booths shall be covered by insurance to protect adequately the bank against losses of whatever nature arising from its operations.

108 BANKING DAYS AND HOURS

Banks and/or their branches or branch-lite units, doing business in the Philippines, shall observe for the conduct of their business a regular banking week of five (5) days, except when such days are non-working holidays, including local holidays, declared by Presidential Proclamations. The regular banking week should fall on Mondays to Fridays unless otherwise authorized by the Bangko Sentral in the interest of the banking public. On these days, said institution shall transact business for at least six (6) hours each day.

Subject to compliance with other relevant laws, banks, and/or their branches or branch-lite units, may opt to observe a banking week in excess of the five (5) days after reporting to the Bangko Sentral the additional days during which such banks or their branches or offices shall transact business for at least three (3) hours each day.

Banks and/or their branches or branch-lite units are allowed to close on certain days in celebration of important historical and/ or religious events in the locality where these banks operate, even in the absence of a Presidential Proclamation approving the local holiday: *Provided*, That said closure has the prior approval of the bankers association in the locality or region and in the case of bank branches, their respective head offices: *Provided, further*, That said closure will only be allowed in the municipality or city where the festivities are centered: *Provided, finally*, That banks and/or their branches or branch-lite units shall submit, either individually or through their head offices, to the appropriate supervising department of the Bangko Sentral, a prior notice of their intended closure on account of a specific local festivity not covered by a Presidential Proclamation at least two (2) working days before the intended date of closure.

The required notice under the previous paragraph shall be supported by a certification jointly signed by the president of the bank or officer of equivalent position and the head of the branches department, if any, that:

a. On the date of the temporary closure, the bank and/or their branches or branch-lite units which are microfinance-oriented/micro-banking office will maintain a skeletal force to handle "out-of-town" clearing items in line with the provisions of Sec. 802;

b. The notice of the bank's closure and the reason thereof shall be posted conspicuously in the bank's premises; and

c. For branches of banks, the closure has the prior approval of their respective head offices.

The copy of the resolution of the local bankers association and in the case of bank branches, their respective head offices, approving said closure shall be filed in the premises of the banking unit concerned, which resolution shall be made available during on-site examination or when required by the Bangko Sentral for submission for off- site verification.

In cases of closure of the bank and/or their branches/branch-lite units due to approved local holidays covered by a Presidential Proclamation, no notice of temporary closure to the Bangko Sentral shall be required.

Banking hours beyond the minimum; banking services during holidays. Banks may, at their discretion, remain open beyond the minimum six (6) hours and for as long as they find it necessary, even before 8:00 AM or after 8:00 PM, subject to the submission of prior written notice required under this Section on report of, and changes in, banking days and hours, and compliance with the provisions of this Section on posting of schedule of banking days and hours, and Sec. 147 on minimum security measures.

Banks and/or their branch/es and/or branch-lite units may opt to remain open during any or all of their regular banking days that were covered by holidays for the purpose of servicing deposits and withdrawals: *Provided,* That a bank opting to open its head office and/or branch/es and/or branch-lite units, shall submit to the appropriate supervising department of the Bangko Sentral at least two (2) working days before the intended date of opening of the bank's head office and/or branches and/or branch-lite units, a notice signed by its president or officer of equivalent rank, of its intention to open during the holidays, together with a copy of the board resolution approving the same: *Provided, further,* That the notice shall specify which office (head office and/or branch/es and/or branch-lite units) will open on what dates and their schedule of banking hours.

Subject to submission of a notice signed by the bank president or officer of equivalent rank, authorized agent banks of the BIR (BIR-AABs), and/or its branch/es and/or branch-lite units, are allowed to open for two (2) Saturdays prior to April 15 of every year, and daily from April 1 to income tax payment deadline, to extend banking hours from 3:00 PM to 5:00 PM to receive internal revenue tax payments. The notice, which shall specify which office (head office and/or branch/es and/or branch-lite units) will open or extend banking hours on what dates, shall be submitted to the appropriate supervising department of the Bangko Sentral on or before the last banking day of March of every year.

Report of, and changes in, banking days and hours. The banking days and hours selected for each of the offices of banks shall be reported in writing to the appropriate supervising department of the Bangko Sentral. Banks may change the banking days and hours previously reported to the Bangko Sentral by giving prior written notice: *Provided,* That changes in banking days or hours shall not be made oftener than once every thirty (30) days, except during emergencies. *Emergency* shall mean (a) condition of an area or locality proclaimed by the President of the Philippines as in a state of emergency; or

(b) an event or occasion or a combination of circumstances equivalent to a public calamity resulting from fire, flood, or like disaster, or through some unusual occurrence or pressing necessity not reasonably subject to anticipation calling for immediate action or remedy.

The prior written notice to the Bangko Sentral on changes in banking days and hours shall be given through the fastest means of communication, at least seven (7) banking days before the intended effectivity of the change in banking hours or days. In case a bank, due to an emergency, has to open outside, or close during, the banking hours or days reported to the Bangko Sentral, a written report submitted within twenty- four (24) hours from opening or closing, as the case may be, will suffice. The report shall state the specific nature of the emergency and the period the bank opened or closed or shall open or close by reason of emergency.

Posting of schedule of banking days and hours. The schedule of banking days and hours reported to the Bangko Sentral shall be posted conspicuously at all times in the bank's premises.

(Circular Nos. 987 dated 28 December 2017, 930 dated 18 November 2016, 917 dated 08 July 2016, 835 dated 05 June 2014)

109 BANK PREMISES AND OTHER FIXED ASSETS

The following rules shall govern the premises and other fixed assets of banks.

Appreciation or increase in book value. Bank premises, furniture, fixtures and equipment shall be accounted for using the cost model under PAS 16 "Property, Plant and Equipment."[1]

Outstanding appraisal increment as of 13 October 2005 arising from mergers and consolidation and other cases approved by the Monetary Board, shall be deemed part of the cost of the assets. However, appraisal increment previously allowed to be booked shall be reversed.

Accordingly, the booking of appreciation or increase in the book value of bank premises and other fixed assets in cases where the market value of the property has greatly increased since the original purchase is no longer allowed.

Ceiling on total investments. The total investment of a bank in real estate and improvements thereon, including bank equipment, shall not exceed fifty percent (50%) of the bank's net worth. In determining compliance with such ceiling, the following rules shall apply:

a. The investment shall include all real estate and equipment necessary for the bank's immediate use in the transaction of its business, such as:

   (1) *Bank Premises - Land and Buildings, Buildings under Construction, Leasehold Rights and Improvements and Furniture, Fixtures and Equipment* (as defined in the Manual of Accounts for All Banks), owned and used by the bank in the conduct of its business, including staff houses, recreational facilities and landscaping costs, net of accumulated depreciation: *Provided*, *however,* That appraisal increment on bank premises shall not be included in the total investment in real estate and improvements for purposes of these guidelines; and

   (2) Real properties, equipment or other chattels purchased by the bank in its name for the benefit of its officers and employees, net of depreciation and in the case of land or other non-depreciable property, net of payments already made to the bank by the officers and employees for whose benefits the property was bought, where such property has not yet been fully paid and ownership has not yet been transferred to them.

b. The following shall be included in the computation of a bank's total investment in bank premises:

   (1) (a) The cost of real estate leased in whole or in part by the bank from a corporation, other than a corporation primarily engaged in real estate in which the bank has equity, equivalent to the amount obtained by applying the percentage of the equity of the bank in the lessor to the cost of that portion of the property being leased, or

   (b) the amount of equity in the lessor, whichever is lower, plus the amount obtained by applying the percentage of the equity of the bank in the lessor to any outstanding loans of the lessor with the bank, the proceeds of which were used to purchase, construct or develop the real estate used for the bank's purposes.

   (2) The lower of –

      (a) the cost of real estate leased in whole or in part by the bank from a corporation in which any or a group of stockholders owning ten percent (10%) or more of the voting stock of the bank, directors and/or officers of the bank, hold or own more than fifteen percent (15%) of the subscribed capital stock of the lessor, equivalent to the amount obtained by applying the percentage of the equity of said stockholders/directors/officers in the lessor to the cost of that portion of the property being leased by the bank, or

[1] With additional special regulatory relief in areas affected by Tropical Depression "Yolanda" as provided under *Appendix 93*.

(b) the amount obtained by applying the percentage of the equity of the stockholders/ directors/officers in the lessor to any outstanding loans of the corporation with the bank, the proceeds of which were used to purchase, construct or develop the real estate used for the bank's purposes.

The equity investment of a bank in a corporation engaged primarily in real estate shall be included in the computation of the bank's total investment in real estate, unless otherwise provided by the Monetary Board.

Reclassification of real and other properties acquired (ROPA) to bank premises, furniture, fixture and equipment; Sanctions. Banks may reclassify ROPA to bank premises, furniture, fixture and equipment, subject to the following conditions:

a. Prior written approval of the majority of the members of the board of directors has been obtained for such reclassification. The approval shall be manifested in a resolution passed by the board of directors during a meeting and shall contain the following information:

(1) Date ROPA was acquired;
(2) Description of ROPA property;
(3) Outstanding balance of ROPA at the time of reclassification;
(4) Specific purpose for reclassifying said property to bank premises, furniture, fixture and equipment; and
(5) Justification and plan for expansion, in the case of real and other property earmarked for future use.

Said resolution shall also be made available for inspection by Bangko Sentral examiners, together with the supporting records and documents involving the ROPA account; and

b. Only such acquired asset, or a portion thereof, that will be (i) immediately used, or (ii) ready and available for use within a two (2)-year period from date of reclassification (in case of ROPA earmarked for future use) may be reclassified to bank premises, furniture, fixture and equipment;

c. ROPA reclassified to bank premises, furniture, fixture and equipment shall be recorded at its net carrying amount where the amounts booked as cost, accumulated depreciation and allowances for losses for bank premises, furniture, fixture and equipment shall correspond to the balance of these accounts under ROPA at the time of reclassification. As such, the reclassification shall not give rise to any gains/(losses) being recognized in the bank books; and

d. Said reclassification shall not cause the bank to exceed the prescribed ceiling on investment in real estate and improvements thereon, including bank equipment, provided under this Section on Ceiling on total investments.

Within five (5) banking days from date of reclassification, the bank shall submit the Certification on Compliance with Regulations on the Reclassification of ROPA to Bank Premises, Furniture, Fixture and Equipment (*Appendix 99*) signed by the president of the bank or officer of equivalent rank, to the appropriate supervising department of the Bangko Sentral. Said certification shall be accompanied by the certified true copy of the resolution of the bank's board of directors authorizing the reclassification.

Sanctions. The following sanctions shall be imposed for violations noted:

1. On the bank

a. Monetary fines

A bank which fails to comply with the provisions of this Subsection shall be subject to the appropriate monetary penalties under Sec. 1102 (*Guidelines on the imposition of monetary penalties*).

(1) *For non-submission of the required certification*

A bank which fails to submit the required Certification on Compliance with Regulations on the ROPA to Bank Premises, Furniture, Fixture and Equipment or the certified true copy of the resolution of the board of directors authorizing said reclassification within the prescribed deadline shall be subject to the appropriate monetary penalties under Sec. 1102 (*Guidelines on the imposition of monetary penalties*) which shall be reckoned on a daily basis from the day following the due date of submission until the required certification on compliance or the certified true copy of the resolution of the board of directors is filed with the Bangko Sentral.

(2) *For false/misleading statements*

A bank which has been found to have willfully made a false or misleading statement in the required Certification on Compliance with Rules and Regulations on the ROPA to Bank Premises, Furniture, Fixture and Equipment or in the certified true copy of the resolution of the bank board of directors shall be subject to the

appropriate monetary penalties under Sec. 1102 (*Guidelines on the imposition of monetary penalties*) for the willful making of a false or misleading statement which shall be reckoned on a daily basis from the day following the due date of the said certification until such time that an amended or corrected certification on compliance or certified true copy of the resolution of the board of directors has been submitted to the Bangko Sentral.

2. On the concerned directors/officers of the bank.

   a. For willful non-compliance Directors/officers of the bank who willfully fail/refuse to comply with the provisions of this Subsection shall be subject to the appropriate monetary penalties under Sec. 1102 (*Guidelines on the imposition of monetary penalties*).

   b. For false/misleading statements Directors/officers of the bank which have been found to have willfully falsely certified or willfully submitted misleading statements in the required Certification on Compliance with the Regulation on the Reclassification of ROPA to Bank Premises, Furniture, Fixture and Equipment or in the certified true copy of the resolution of the bank's board of directors shall be subject to the to the appropriate monetary penalties under Sec. 1102 (*Guidelines on the imposition of monetary penalties*), which shall be reckoned on a daily basis from the day following the due date of the said certification until such time that an amended or corrected certification on compliance or certified true copy of the resolution of the board of directors has been submitted to the Bangko Sentral.

   The imposition of the above sanctions is without prejudice to the filing of appropriate criminal charges against culpable persons as provided under Section 35 of R.A. No. 7653 for the willful making of a false/misleading statement.

Batas Pambansa Blg. 344 - An Act to Enhance the Mobility of Disabled Persons by Requiring Certain Buildings, Institutions, Establishments and Public Utilities to Install Facilities and Other Devices. In order to promote the realization of the rights of disabled persons to participate fully in the social life and the development of the societies in which they live and the enjoyment of the opportunities available to other citizens, no license or permit for the construction, repair or renovation of public and private buildings for public use, educational institutions, airports, sports and recreation centers and complexes, shopping centers or establishments, public parking places, workplaces, public utilities, shall be granted or issued unless the owner or operator thereof shall install and incorporate in such building, establishment or public utility, such architectural facilities or structural features as shall reasonably enhance the mobility of disabled persons such as sidewalks, ramps, railings and the like. If feasible, all such existing buildings, institutions, establishments, or public utilities may be renovated or altered to enable the disabled persons to have access to them.

Republic Act No. 9994 – An Act Granting Additional Benefits and Privileges to Senior Citizens, Further Amending Republic Act No. 7432 of 1992 as Amended by Republic Act No. 9257 of 2003. To be able to give full support to the improvement of the total well-being of the elderly and their full participation in society, and to motivate and encourage them to contribute to nation building, senior citizens shall be provided with express lanes in all banking establishments, including all their branches and other offices. If the provision of express lanes is logistically impossible in any particular branch or office of any bank, said branch or office shall ensure that senior citizens are accorded priority service. The provision of express lanes and/or priority service shall be made known to the general public through a clearly written notice prominently displayed in the transaction counters of all banks and/or offices.

(Circular Nos. 988 dated 20 December 2017)

B. SPECIAL AUTHORITIES

111 LICENSING

Policy statement and objectives. Consistent with the mandate of the Bangko Sentral to promote a safe and sound banking system, the licensing process on permissible activities of banks is enhanced to align the process with international standards and best practices such as the "Core Principles for Effective Supervision" issued by the Basel Committee on Banking Supervision. The Bangko Sentral will not restrict the scope of risk-taking activities of banks consequent of the licenses and/or authorities granted: *Provided*, That these licenses and/or authorities are in line with their business model and strategic direction: *Provided, further*, That these banks demonstrate the capacity to implement these strategies and the ability to manage risks.

The enhanced policy guidelines set forth the expectations and criteria of the Bangko Sentral with respect to granting of licenses and authorities as well as its right to reject applications if the criteria set forth are not met by the applicant bank ("applicants") or if the information provided is not adequate. The Bangko Sentral also reserves the right to withdraw or revoke the license and/or authority or enforce appropriate actions when an institution no longer meets the criteria or standards required to be met for the exercise of the license and/or authority.

These criteria are intended to incorporate the licensing process into Bangko Sentral's enforcement regime that is anchored on good governance, sound risk management system and effective control systems. Further, these criteria aim to

provide more consistency on how the risk-focused supervision function is applied to the licensing process. This enhanced licensing policy aims to ensure that licenses and authorities are granted only to applicants that comply with the standards set.

It is also the thrust of these enhanced policy guidelines on granting licenses/authorities to establish Bangko Sentral's accountability and promote transparency on the licensing process which are consistent with its commitment to deliver prompt and efficient service.

Scope. Applications for licenses and/or authorities shall be categorized as follows:

a. Type "A" - applications for licenses and/or authorities where compliance with the defined prudential requirements/criteria on licensing as described in this Section is a pre-condition for applicants to be considered eligible;

b. Type "B" - applications for licenses and/or authorities processed regardless of risk profile; and

c. Type "C" - activities which no longer require submission of applications and processing but shall be subject to submission of reports/certification/ notification within stated deadlines. However, compliance with pre-qualification requirements is subject to post verification and any false information and/or misrepresentation may be a basis for the imposition of appropriate enforcement actions described in this Section. The Bangko Sentral shall use this information to continuously tailor its supervisory strategy for the supervised entities and to maintain and continuously update its institutional database.

Prudential criteria. The prudential criteria set forth in this Section shall be used in determining the eligibility of applicants to the licenses and/or authorities granted by the Bangko Sentral. Accordingly, the following minimum conditions must be met:

a. Applicant domestic banks must have a CAMELS composite rating of at least "3" and a "Management" rating of not lower than "3", branches of foreign banks must have a ROCA rating of at least "3", and BSFIs must have a RAS rating of at least "Acceptable". Whenever applicable, ratings equivalent to cited minimum rating grade requirements under appropriate rating systems (i.e., IT Rating Systems, Trust Rating Systems, among others) shall apply for certain licenses and/or authorities;

b. Applicants have no major supervisory concerns in governance, risk management systems, and internal controls and compliance system, and characterize/ demonstrate the following:

(1) Governance

Applicants must display a culture of good corporate governance appropriate to its size, risk profile and complexity of operations. Board of directors and management, in their respective roles, provide an appropriate level and quality of oversight and support to all of the institution's activities. Sound management practices are observed and demonstrated through (a) active oversight and satisfactory performance by the board of directors and senior management, (b) appropriate policies, processes, and controls relative to the institution's size, complexity and risk profile, (c) maintenance of an independent and effective internal audit and compliance program as well as a sound internal control environment, and (d) effective risk monitoring and management information systems.

Applicants should not be found engaging in an activity which may be considered as conducting business in an unsafe or unsound manner. In cases where weaknesses, violations of law, policy and/or regulation exists, other than those considered unsafe or unsound banking, these should not be material to the safety and soundness of the institution, can be reasonably managed, and are being adequately addressed.

Quality of corporate governance shall be assessed based on the principles and framework set forth in the Guidelines in Assessing the Quality of Corporate Governance in banks.

(2) Risk management system and internal controls

Applicants shall have a comprehensive risk management system approved by its board of directors (or equivalent management committee in the case of foreign bank branches) to identify, measure, evaluate, report and control or mitigate all material risks on a timely basis and to assess the adequacy of their capital in relation to their risk profile and market and macroeconomic conditions and whose sophistication are commensurate to the risks being monitored and controlled. The risk management system must be characterized by a clear delineation of responsibility for risk management, adequate risk measurement systems, appropriate risk limits structure, effective internal controls and complete, timely and efficient risk reporting systems.

Likewise, applicants shall have an effective and adequate system of internal controls for the conduct of their business taking into account their risk profile. These controls deal with organizational structure, accounting policies and processes, checks and balances, safeguarding of assets and investments and appropriate and effective internal audit and compliance functions. Standards and principles as well as the

Bangko Sentral's expectations governing internal controls and audit under existing regulations shall apply in assessing the quality and effectiveness of the internal control systems of an applicant; and

(3) Compliance system

Applicants shall have a compliance system, appropriate to its size, risk profile and complexity of operations, designed to specifically identify and mitigate business risks[1] which may erode the franchise value of the institution. Compliance policies and procedures embodied in a Compliance Policy Manual should be sound and effectively implemented. Likewise, compliance monitoring and testing as well as review process should be robust to ensure bank conducts its business/ operations in accordance with banking laws, rules and regulation and other laws relevant to banking such as securities laws and regulations. Banks should not have been found significantly non-compliant with prudential requirements such as SBL, DOSRI limits, capital adequacy ratio requirements, among others.

Standards and principles set forth in the Compliance Rating System framework shall apply in assessing the quality of bank's compliance system; and

c. Applicants have complied with directives and/or are not subject of specific directives and/or enforcement actions by the Bangko Sentral.

Applicants shall have corrected any findings of unsafe or unsound banking and have addressed any outstanding explicit directives from the Bangko Sentral and/or other relevant regulatory bodies, prohibiting the conduct of activities related to the licenses and/or authorities being applied, as of the date of application. Applicants with specific prohibitions to conduct certain activities shall not be eligible to apply for that particular license and/or authority.

No application shall be accepted until such time that enforcement actions are formally lifted by the Bangko Sentral and/or other relevant regulatory bodies after applicants have demonstrated to the Bangko Sentral that safety and soundness concerns are satisfactorily addressed and/or until such time applicants become eligible.

Applications of banks under rehabilitation and/or enhanced supervision status[2] shall be dealt with in accordance with the eligibility test described in Section II.1(a) of *Appendix 124*.

Banks granted with licenses/authorities shall continuously comply with the abovementioned standards and requirements even after the license/authority has been granted; otherwise, any deviation or non-compliance may be a basis for the imposition of appropriate enforcement actions described in this Section.

The specific guidelines and procedures on the Bangko Sentral's licensing framework are shown in *Appendix 124.*

Enforcement actions. In line with the thrust of the Bangko Sentral to incorporate the licensing process into its enforcement regime, the Bangko Sentral reserves the right to deploy, as may be warranted, an adequate range of supervisory tools to ensure that grantees of licenses/ authorities are and remain qualified to possess the same, bring about timely corrective actions and compliance with Bangko Sentral directives, and provide safety to depositors, creditors, other stakeholders as well as the public in general.

Enforcement actions that may be imposed include, but are not limited to:

a. Corrective action

Corrective actions are measures intended to primarily require banks with approved licenses/authorities to rectify any deviations from the standards, principles and conditions expected for the exercise of the license and/or authority. Corrective actions may include, but are not limited to, issuance of directives and warnings.

b. Sanctions

The Monetary Board may impose any of the sanctions enumerated hereunder or a combination thereof.

(1) Non-monetary

(a) *Suspension of activities.* The conduct of activities related to the licenses/authorities granted may be suspended if the Bangko Sentral determines that the concerned bank no longer meets the criteria or standards set; or

[1] As defined under Sec. 161 (*Compliance function*) business risk refers to conditions which may be detrimental to the institution's business model and its ability to generate returns from operations, which in turn erodes its franchise value. Business risk includes reputational, compliance, market conduct and legal risks.

[2] Rehabilitation includes banks under the Prompt Corrective Action (PCA), Rehabilitation Program, Letter of Commitment and any other similar cases where banks are expected to comply specific terms and conditions to restore eligibility (safety and sound) status.

(b) *Revocation of licenses/authorities.* The license/authority granted may be revoked in cases where violation, non-compliance with criteria/standards and/or false information are noted which affects the safety and soundness of banks' operations; and/or

(c) *Administrative sanctions.* The responsible directors/officers who approve transactions and/or decisions that resulted in violations of laws, rules and regulations, orders, and directives issued by the Monetary Board or the Governor may be subject to reprimand, temporary suspension, and/or disqualification of directors/officers.

The Monetary Board is not precluded to impose non-monetary sanctions other than those identified from Items *"(a)"* to *"(c)"*; and/or

(2) Monetary

Monetary penalties may be imposed for any acts, omissions or transactions that are outside the permissible activities of the licenses/authorities granted or are in violation of laws, Bangko Sentral rules and regulations, orders and directives issued by the Bangko Sentral.

(Circular No. 947 dated 15 February 2017)

112 MANAGEMENT CONTRACTS AND OUTSOURCING

Management Contracts.

a. Management contracts of banks with management firms shall be limited to consultancy and advisory services;

b. Only a natural person may be elected or appointed as an officer of a bank, without prejudice to such person being a nominee of a management corporation: *Provided*, That the responsibility and/or accountability of anyone elected or appointed to an officer position shall be personal in nature and cannot be delegated to a corporation; and

c. Any bank that enters into contracts contrary to this policy shall be denied the credit facilities of the Bangko Sentral.

***Outsourcing*.** A bank may outsource to third parties or to related companies in the group, in accordance with existing Bangko Sentral regulations, certain services or activities to have access to certain areas of expertise or to address resource constraints: *Provided*, That it has in place appropriate processes, procedures, and information system that can adequately identify, monitor, and mitigate operational risks arising from the outsourced activities: *Provided*, *further*, That the bank's board of directors and senior management shall remain responsible for ensuring that outsourced activities are conducted in a safe and sound manner and in compliance with applicable laws, rules and regulations.

Definition*. Outsourcing* shall refer to any contractual arrangement between a bank and a qualified service provider for the latter to perform designated activities on a continuing basis on behalf of the bank.

Prohibition against outsourcing of inherent banking functions. No bank shall outsource inherent banking functions such as:

a. Taking of deposits from the public;
b. Granting of loans and extension of other credit exposures;
c. Managing of risk exposures; and
d. General management.

Authority to outsource. Only those banks with a CAMELS composite rating of at least "3" and a Management rating of not lower than "3" shall be allowed to outsource designated activities without prior Bangko Sentral approval. Otherwise, the bank must secure prior approval from the appropriate supervising department of the Bangko Sentral whose evaluation will be based on the bank's ability to manage risks attendant to outsourcing.

Governance and managing of outsourcing risks. Key risk areas related to outsourcing such as strategic; reputational/legal; operational, compliance, country and concentration risks should be evaluated before entering into and while managing outsourcing contracts. In this regard, banks shall:

a. Perform risk assessment of a business activity and evaluate the implications of performing the activity in-house or having the activity outsourced.

The following factors shall be considered in the assessment:

(1) Level of importance to the bank of the activity to be outsourced and potential impact on bank's operations, financial condition, reputation, and ability to achieve its objectives, strategies and plans, should the service provider fail to perform the services;

(2) Outsourcing costs in proportion to total operating expenses and compared with costs of developing own infrastructure and expertise;

(3) Aggregate exposure to a particular service provider, in cases when the bank outsources various functions to the same service provider;

(4) Ability to maintain appropriate controls and meet regulatory requirements, in cases of operational constraints of the service provider; and

(5) Exposure to risk of confidentiality, integrity and availability of customer and bank data.

In cases when the risk management system is deemed inadequate for purposes of managing outsourcing-related risks, the Bangko Sentral may direct the bank to terminate, modify, make alternative arrangements or re-integrate the outsourced activity into its operations, as may be necessary.

b. Establish policies and criteria to select the "best" service provider for the outsourced activities and to get said services at reasonable price. The following factors should be considered in evaluating potential service providers:

(1) Reputation, ownership structure (to identify potential conflict of interest), technical expertise, and operational capability;

(2) Financial performance and condition (e.g., ongoing viability, outstanding commitments, capital/funding strength, liquidity and operating results; and reliance on subcontractors) of the service provider and its closely-related affiliates;

(3) Operations and internal control environment (e.g., internal controls, facilities management, training, security of system, privacy protection, maintenance and retention of records, business resumption and contingency plans, systems development and maintenance, and employee background checks);

(4) Fees and charges (e.g., outsourcing cost should be lower than developing the necessary infrastructure and expertise, comparable with market rates, and reasonable vis-à-vis scope and complexity of services);

(5) Actual performance vis-à-vis service level agreement;

(6) Performance of the service provider (past and present engagements) including the reasons/causes of disengagements, if any; and

(7) Compliance with provisions of service agreements, performance standards and adherence to applicable laws, regulations, and supervisory expectations.

In cases when the clients are prejudiced due to errors, omissions, and frauds by the service provider, the bank shall be liable in providing the appropriate remedies or remuneration as may be allowed under existing laws or regulations, without prejudice to the bank's right of recourse to the service provider.

c. Establish, maintain, and regularly test business continuity and contingency plans for situations wherein the service provider cannot deliver the required services. The contingency plan must indicate whether another service provider will be tapped or the service/activity will be brought back in-house. This should in turn consider the costs, time, and resources that would be involved.

Contingency arrangements in respect of daily operational and systems problems should be covered in the service provider's own contingency plan. The contingency plan must be reviewed regularly to ensure that it remains relevant and ready for implementation.

d. Ensure that it has adequate resources to manage and monitor outsourcing relationships on a continuing basis. Banks are expected to develop acceptable performance metrics to assess outsourcing contracts. They shall also maintain records of all outsourcing activities which should be updated and reviewed regularly.

e. Ensure that personnel with oversight and management responsibilities for service providers have the appropriate level of expertise and stature to manage the outsourcing arrangement. The oversight process, including the level and frequency of management reporting, should be risk- focused. Banks should design and implement risk mitigation plans for higher risk service providers. These may include certain requirements or processes such as additional reporting by the service provider or heightened monitoring. Further, more frequent and stringent monitoring is necessary for service providers that exhibit performance, financial, compliance, or control concerns.

Documentations. The bank should maintain necessary documentation to show that outsourcing arrangements are properly reviewed and the appropriate due diligence has been undertaken prior to implementation. The bank shall keep in its file the documents shown in *Appendix 103* and the same shall be made available to authorized representatives of the Bangko Sentral for inspection.

Intra-group outsourcing. The guidelines and requirements of outsourcing to third-party service providers shall be observed when outsourcing within a business group including its head office, another branch or related company. When the bank is the service provider, the bank may only render services it performs in the ordinary course of its banking business: *Provided*, That (i) the service is rendered to subsidiaries, affiliates and companies related to it by at least five percent (5%) common ownership; or (ii) the service is rendered to its own depositors on account of the bank being a depository. The bank, acting as a service provider within its group, shall uphold the following:

a. Confidentiality of deposits and investments in government bonds as defined under R.A. No. 1405, as amended;
b. Prohibition on cross-selling except as allowed under applicable regulations.

Offshore outsourcing. Offshore outsourcing exists when the service provider is located outside the country. The intra-group outsourcing under this Section likewise applies in cases of offshore outsourcing. In addition, offshore outsourcing of bank's domestic operations is permitted only when the service provider operates in jurisdictions which uphold confidentiality. When the service provider is located in other countries, the bank should take into account and closely monitor, on continuing basis, government policies and other conditions in countries where the service provider is based during risk assessment process. The bank shall also develop appropriate contingency and exit strategies.

The Bangko Sentral examiners shall be given access to the service provider and those relating to the outsourced domestic operations of the bank. Such access may be fulfilled by on-site examination through coordination with host authorities, if necessary. The domestic branch of foreign bank shall be principally liable in cases where the clients are prejudiced due to errors, omissions and frauds of the service provider located offshore.

The Bangko Sentral may require the bank to terminate, modify, make alternative outsourcing arrangement or re-integrate the outsourced activity into the bank, as may be necessary, if confidentiality of customer information, effective customer redress mechanisms or the ability of the Bangko Sentral to carry out its supervision functions cannot be assured.

Transitory provision. All outsourcing agreements must be aligned with the provisions under this Section. Existing outsourcing agreements which are not in accordance with this Section will not be unwound. However, it must comply with the requirements provided herein upon renewal of the agreements.

Supervisory enforcement actions. Consistent with Sec. 002, the Bangko Sentral may deploy enforcement actions to promote adherence with the requirements set forth in this Section and its Subsections and bring about timely corrective actions. The Bangko Sentral may issue directives to improve the management of outsourcing arrangements, or impose sanctions to limit the level of or suspend any business activity that has adverse effects on the safety or soundness of the BSFI, among others. Sanctions may likewise be imposed on a BSFI and/or its directors, officers and/or employees.

(Circular Nos. 940 dated 20 January 2017, 930 dated 18 November 2016 and 899 dated 18 January 2016)

113 CROSS-SELLING

The Bangko Sentral recognizes that bank premises may serve as the point for the presentation and distribution of a range of financial products. However, this distribution mechanism can give an understanding that these financial products are created by the bank and thus could lead to an impression that the bank ultimately bears the responsibility for their performance. The Bangko Sentral, therefore, provides an enabling environment for cross-selling activities which defines the responsibilities of banks for managing the attendant risks and upholding consumer protection.

Definition. The following terms as used in this Section are governed by the following definition-

a. *Cross-selling* means the presentation and/or sale of a financial product, other than bank's own financial product, to a bank client inside bank premises through written or verbal communications.

b. *Financial conglomerate* refers to a group of interrelated entities providing significant services in at least two (2) different financial sectors (banking, securities and insurance). A banking group is subsumed within the context of a financial conglomerate. A financial product provider must have been disclosed and reported as part of the group structure pursuant to Item *"d(8)" of* Sec. 132 (*Specific duties and responsibilities of the board of directors*).

c. *Financial product* of an allied undertaking under Section 20 of the General Banking Law refers to financial products created by a financial product provider belonging to the same financial conglomerate.

d. *Financial product* provider means a financial entity which creates the financial product. The financial product provider should be regulated or supervised by either the Bangko Sentral, the Securities and Exchange Commission (SEC) or the Insurance Commission (IC).

e. *Bank premises* refer to the physical area occupied by the bank's head office, branches and other offices.

f. *Investment risk* refers to the potential loss of the principal amount (either full or partial) invested by the investor.

It also refers to the possibility of not achieving targeted rate of returns for a given investment transaction.

Financial products. Unless otherwise provided, financial products should be created by a financial product provider belonging to the same financial conglomerate. Moreover, such financial products should have been duly approved by the respective regulator, as provided under its rules, before these can be presented and/or sold inside bank premises.

Simple retailed financial products which do not create exposure to investment risks may be cross-sold inside bank premises. These include:

a. Retail lending or loan products such as credit cards, home mortgage loans, personal loans, auto loans and other related retail loan products;
b. Other retail financial products such as cash cards, debit cards and other related products; and
c. Other similar financial products as may be authorized by the Monetary Board.

Simple insurance products such as traditional life (whole life, term, endowment), non-life (marine, fire, casualty, suretyship), and other similar protection- type insurance products, except variable insurance contracts, as governed by the Insurance Code are considered as simple retail financial products. These may be cross-sold inside bank premises regardless of whether the financial product provider belongs to the same financial conglomerate or not.

Collective investment schemes (CIS) of financial product providers belonging to the same financial conglomerate may be cross- sold inside bank premises. These refer to:

a. Mutual funds registered with the SEC;
b. UITFs as authorized by the Bangko Sentral;
c. Variable unit-linked life insurance policy (VULs) as governed by the Insurance Code or under the relevant rules and regulations as may be issued by the IC.

Governance. The board of directors of the bank (or its equivalent in the case of foreign bank branches) shall oversee the implementation of its policies relating to cross-selling arrangements.

The bank shall exercise due care and diligence in carrying out cross-selling activities. This process shall extend to both the financial products and financial product providers. The bank shall put in place a formal written policy to assess the nature of the financial product and its suitability for target customer segments. This written policy should, at the very least, enable the bank to reach an objective assessment of the suitability of the financial product to be cross-sold.

The bank shall recognize the customers' right to product choice, to refuse bundled or tiered financial products or services under cross-selling arrangements, and to substitute equivalent financial products by reputable competitors.

The bank shall ensure that a mechanism is in place to address any complaints that may arise from cross-selling transactions. This mechanism shall form part of the agreement between the bank and the financial product provider.

The bank shall periodically review all of its cross-selling arrangements. In particular, the bank shall take into account operational and reputational risks that may arise in the arrangement. The results of the continuing review shall be reported to the board of directors of the bank. The bank shall likewise maintain a register of its cross- selling arrangements particularly on the list of financial products and financial product providers.

To avoid any impression that the fulfillment of promises of the CIS products cross-sold within bank premises are guaranteed by the bank, the following shall be observed, at all times:

a. Unless specifically trained and qualified for the purpose, the role of bank employees in cross-selling CIS shall be limited to the referral of bank clients to the representatives of financial product providers. Clients should give prior consent before any such referral.

b. There shall be clear distinction between representatives of financial product providers who sell CIS and bank employees. Bank employees authorized to market and/ or sell CIS shall be clearly identified.

c. The presentation and/or sale of CIS shall be conducted in an area distinct from areas where own bank products are sold.

Minimum documentary requirements. The bank should maintain necessary documentation to support that cross-selling arrangements are properly reviewed and appropriate due diligence has been undertaken.

This shall, at a minimum, include the following:

a. Approval of the board of directors of both the bank and the financial product provider to use the former's bank premises for the presentation and sale of the latter's financial products;
b. Audited financial statements of the financial product provider for the last three (3) years;

c. Detailed description of the financial product and proof of regulatory approval, if any;
d. Registration and/or accreditation of the financial product provider from the respective regulator;
e. Contract between the bank and the financial product provider;
f. Sample of contracts between the financial product provider and its clients;
g. Promotional materials; and
h. Training profile and necessary license, if required, of representatives who will be handling the cross-selling activity.

These documents shall be made available when requested by Bangko Sentral examiners.

Fair and balanced view of the product. Advertising materials and contracts must give a fair and balanced view of the product. These materials may be considered fair and balanced when they are clear and easily understood; highlight the purpose and risks of the financial product; and do not omit any material information if such omission would cause the materials to be misleading.

Promotional materials. The bank shall ensure that the identity of the financial product provider is prominently displayed in the relevant marketing and advertising materials. The relationship of the bank with the financial product provider may be reflected in the promotional materials as long as it does not create an impression that it is the product of the bank whose premises are used.

The promotional materials should explicitly state that the product is not a deposit. The information contained in any document used in the presentation and sale of financial products inside bank premises must contain, at a minimum, the words: *"financial product/s of (financial product provider) is/are not insured by the Philippine Deposit Insurance Corporation and is/are not guaranteed by the (name of bank)"*, as the case may be. This shall be printed in capital letters, black letters against light background/white letters against dark background with the following print size:

Size of Promotional Material	Print Size
Legal/letter size	12
15" x 20"	24
19" x 25"	36

Contracts. The following paragraph shall be printed at the end of the contract in the print size as the rest of the contract, or font size 12 whichever is bigger, in capital letters and in bold font:

> *"This contract is between (name of client) and (name of financial product provider). All transactions arising out of or related to this contract shall be binding only between these two (2) contracting parties. It is understood that this transaction is neither insured by the Philippine Deposit Insurance Corporation (PDIC) nor guaranteed by the (name of bank)."*

Cross-selling of collective investment schemes and its suitability to customers. In the cross-selling of CIS, enhanced consumer protection standards are necessary since bank clients who invest in these products are exposed to investment risk. At the onset, banks must ensure that CIS as financial products are compliant with relevant prudential regulations issued by the respective government bodies and agencies governing their issuance before entering into any cross-selling arrangements. With respect to consumer protection features, a cross-selling bank must ensure that financial product providers observe the following minimum practices:

a. *Product Highlight Sheet (PHS).* Potential clients must be provided with a PHS. This succinct document summarizes the key information of the financial product which will be material to the proper understanding by the client of the product, its features and risks. The PHS should at least be a separate document but may form part of the prospectus or contract.

   Among the key questions that must be covered in the PHS are:

   (1) What are you investing in and who are you investing with?
   (2) What are the key risks of this investment?
   (3) What are the fees and charges for this investment?
   (4) How often are valuation available?
   (5) How can you exit from this investment and what are the risks and costs in doing so?
   (6) How do you contact us?
   (7) What other important information should you know before you invest?

b. *Client Suitability Assessment (CSA).* A CSA of each client shall be undertaken prior to the acquisition of an investment product by the client. The CSA should determine the client's understanding of, tolerance for and capacity in managing various risks.

c. *Investment Policy Statement (IPS).* As a complement to a CSA, an IPS must have been generated for a bank client. The IPS formalizes the investment philosophy of the client as well as any investment directive of the client with respect to the handling of his investible funds.

d. *Disclosure of conflict of interest.* Financial product providers should disclose any material information which can give rise to an actual or potential conflict of interest to the client. Financial product providers should take all reasonable steps to ensure fair dealings with client.

e. *Standard disclosure statement*. All promotional materials, product highlights sheet and contracts of collective investment schemes should contain a standard disclosure statement which reads as:

"This is not a deposit product. Earnings are not assured and principal amount invested is exposed to risk of loss. This product cannot be sold to you unless its benefits and risks have been thoroughly explained. If you do not fully understand this product, do not purchase or invest in it."

This disclosure statement shall be placed in the front cover of any material used within bank premises for cross-selling purposes. This is in addition to the minimum information provided under this Section on Fair and balanced view of the product. The text should be in bold with a minimum font size of twelve (12).

The cross-selling bank shall maintain adequate documentation, available for inspection by the Bangko Sentral examiners, to evidence that above requisites are properly undertaken.

Financial product providers. The bank shall exercise due care and diligence in selecting financial product providers. The bank shall consider the integrity, operational capability, financial capacity and track record of the financial product provider. In particular, the bank shall ensure that the financial product provider has in place a mechanism to resolve all queries, problems and other concerns arising from cross-selling activities.

It is the responsibility of the financial product provider to assess its representatives in terms of sufficient knowledge of the financial product, adequate training and necessary license, when required.

The Bangko Sentral should be satisfied that the bank and the financial product provider belong to the same financial conglomerate, as applicable, before cross- selling arrangements may be allowed.

When the financial product provider is under the supervision of the Bangko Sentral, the financial product provider must have a CAMELS composite rating of at least "3" or its equivalent.

Authority to cross-sell. Banks with CAMELS composite rating of at least "3" or its equivalent and without major supervisory concerns may be given authority to engage in cross-selling activities.

The bank shall secure the approval of the Monetary Board before it can engage in cross-selling activities.

The application letter to engage in cross- selling activities shall be signed by the president, or the country officer in the case of foreign bank branches, and shall be submitted to the appropriate supervising department of the Bangko Sentral. For the initial financial products for cross-selling, the application letter shall also contain an explanation of the relationship of the bank with the financial product provider in the context of the financial conglomerate, as applicable. It shall also contain brief description of the financial products and justification of the cross-selling arrangements.
In addition, the bank shall submit the following:

a. Notarized Secretary's Certificate on the approval of the board of directors of the cross-selling of financial products;
b. Notarized Certification, signed by the bank's president or the country officer in the case of foreign bank branches and compliance officer, of the bank's compliance with pertinent banking laws, rules and regulations on cross-selling.

Once approved, the bank may continuously undertake cross-selling activities unless otherwise ordered by the Monetary Board.

The bank may subsequently apply for additional financial products for cross-selling. The application shall be supported by a notarized certification as indicated in Item *"b"* above. Approval of the same is delegated to the appropriate Subsector Head of the Bangko Sentral with responsibility for the bank, except for the CIS-type financial products, the approval of which is delegated to the Deputy Governor of the appropriate Sector of the Bangko Sentral: *Provided*, That all such approvals under delegated authority are subject to confirmation by the Monetary Board prior to effectivity.

For any product approval, the Bangko Sentral reserves the right to validate on the bank's representation of compliance with cross-selling rules and regulations as circumstances may warrant.

The Monetary Board may suspend any or all cross-selling activities whenever a bank no longer meets the original conditions of the approval and/or by virtue of any subsequent issuances by the Bangko Sentral governing the conduct of cross-selling activities. The bank may re-submit an application to enter into cross-selling arrangements only when the CAMELS composite rating or its equivalent is at least "3" in the latest report of examination or any noted major supervisory concerns have been satisfactorily addressed as determined by the appropriate supervising department of the Bangko Sentral.

Complaints handling. The bank shall be jointly responsible with the financial product provider in the resolution of any complaint arising from cross-selling transactions. For this purpose, the bank shall establish an effective redress mechanism which shall specifically include processes and procedures for handling any complaint arising from cross-selling transactions.

Sanctions. Violations of the provisions of this Section shall constitute grounds for the imposition on the bank and/ or its directors/officers of any or a combination of the following:

a. Monetary penalty - Any amount as may be authorized by the Monetary Board not to exceed P30,000 a day for each violation from the time the violation was committed until it is corrected; and
b. Non-monetary sanction - Any sanctions that the Monetary Board may deem appropriate and allowed by law considering the gravity of the offense.

(Circular Nos. 969 dated 22 August 2017, 890 dated 02 November 2015, 844 dated 11 August 2014)

113-B MARKETING, SALE AND SERVICING OF MICROINSURANCE PRODUCTS BY THRIFT BANKS[1]

In order to better serve microfinance clients pursuant to the financial inclusion thrust of National Strategy and Regulatory Framework for Microinsurance, a TB, including its authorized branch/es, branch-lite unit/s, can present, market and sell microinsurance products as defined under the Insurance Commission's Memorandum Circular (IMC) No. 1-2010[2]: *Provided*, That the microinsurance product is duly approved by the Insurance Commission.

The presentation, marketing and sale of microinsurance products by TBs has been determined to be a necessary and complementary component of the primary business of TBs considering the relationship of the latter with their microfinance clients. For this purpose, the Monetary Board has defined that for TBs, microinsurance products as defined under IMC Nos. 9-2006[3] and 1-2010[2] shall serve as a "financial product of an allied undertaking" under Section 20 of the General Banking Law.

A TB can also service (i.e., collect premiums and pay claims) microinsurance products as collection and payment agents pursuant to Section 53.3 of the General Banking Law.

A TB which intends to avail of the option to market or sell microinsurance products shall ensure that microinsurance products presented and marketed are clearly distinguishable from bank products. Towards this end, all organic documents, informational and promotional materials used in the presentation and sale of these products shall prominently display both the name of the issuing insurance provider and a clause stating that the insurance product/s of (name of issuing insurance provider) is/ are not insured by the PDIC and is/are not guaranteed by the (name of bank)". The bank shall also ensure compliance with pertinent laws and rules on the sale of microinsurance products set by the Insurance Commission. As part of product due diligence, the bank should check whether the microinsurance product-issuing insurance provider has a functioning customer care and claims- handling mechanism to handle consumer protection issues.

A bank, prior to selling and/or marketing microinsurance products, shall submit the following documents to the Bangko Sentral as bases for the latter's evaluation:

a. Copy of the approval of the bank's board of directors on the presentation, sale and servicing (i.e., collect premiums and pay claims) of microinsurance products;
b. Copy of duly executed written agreement between the bank and the insurance provider on the presentation, sale and servicing by the bank of the financial products of the latter, including the terms of compensation for the services;
c. Copy of the letter of approval from the Insurance Commission covering each of the microinsurance product to be marketed or sold by the bank;
d. Copy of the corresponding Certificate of Authority from the Insurance Commission of the insurance provider/s issuing the microinsurance products to be marketed or sold; and
e. Bank's license from the Insurance Commission as a microinsurance agent or broker, as may be applicable[4].
f. Certification from the bank president that he/she ascertained and will ensure continuing compliance with the following:

    (1) The product is authorized for cross selling under existing Bangko Sentral rules and regulations;

    (2) The microinsurance product is approved by the Insurance Commission and issued by an entity duly licensed and held in good standing by the Insurance Commission;

    (3) The bank conducted product due diligence to be suitable to its customers;

[1] Insurance Commission (IC) issued Circular Letter (CL) No. 2015-54 dated 16 October 2015 requiring the adoption and implementation of the Enhanced Microinsurance Regulatory Framework
[2] Dated 29 January 2010
[3] Dated 25 October 2006
[4] To act as a microinsurance agent of an authorized insurance provider, a bank needs to acquire the appropriate license from the IC. The requirements for such application consist of: (i) attendance in prescribed microinsurance training course and passing the qualifying examination at the end of the course; and (ii) amending a bank's articles of incorporation (AOI). In view of the latter requirement, applicant banks shall amend their AOI by including a secondary purpose of acting as a microinsurance agent, and shall submit simultaneously the amended AOI to the appropriate Bangko Sentral office and the IC. (See IC Memo Circular No. 6-2011 dated 15 February 2011)

(4) The organic, informational and promotional materials for the microinsurance products comply with Bangko Sentral requirements; and

(5) The bank personnel concerned has undertaken the necessary training and passed the qualifying examination for the presentation and sale of microinsurance products, in compliance with the requirements set forth by the Insurance Commission on marketing personnel for insurance products.

g. A letter of undertaking from the bank president that he/she will ensure the retention of the following:

(1) Copies of the latest Certificate of Authority from the Insurance Commission covering all insurance companies whose microinsurance products are being marketed or sold by the bank;

(2) Copies of the letters of approval from the Insurance Commission covering all the microinsurance products to be marketed or sold;

(3) Bank's license from the Insurance Commission as a microinsurance agent or broker or in lieu of a bank's license as a microinsurance agent or broker, copies of the license from the Insurance Commission covering all its marketing personnel for microinsurance products; and

h. Such other information that may be required by the Bangko Sentral.

(Circular No. 917 dated 08 July 2017, M-2015-041 dated 27 November 2015 and Circular No. 890 dated 02 November 2015)

113-C MARKETING, SALE AND SERVICING OF MICROINSURANCE PRODUCTS BY RURAL AND COOPERATIVE BANKS[1]

The marketing, sale and servicing of microinsurance products by RBs and Coop Banks shall comply with the guidelines in Sec. 113-B.

(Circular No. 917 dated 08 July 2017 and M-2015-041 dated 27 November 2015)

114 PROHIBITION ON THE SALE OF FOREIGN-BASED MUTUAL FUNDS BY BANKS.

Criminal and administrative sanctions prescribed under Sections 36 and 37, respectively, of R.A. No. 7653 (The New Central Bank Act) shall be imposed on banks marketing/selling foreign-based mutual funds using any or all of their branches as outlets and/or selling such financial products without prior Bangko Sentral approval.

C. CAPITALIZATION AND RISK-BASED CAPITAL

121 MINIMUM REQUIRED CAPITAL

Definition of Capital. The following provisions shall govern the capital requirements for banks.

The term capital shall be synonymous to *unimpaired capital and surplus, combined capital accounts and net worth* and shall refer to the total of the unimpaired paid-in capital, surplus and undivided profits. For this purpose, the following items shall likewise be added to or deducted from capital:

a. Deposits for stock subscription recognized as equity pursuant to Section 123 shall be added to capital.
b. The following shall be deducted from capital:

(1) Treasury stock;

(2) Unbooked allowance for probable losses (which includes allowance for credit losses and impairment losses) and other capital adjustments as may be required by the Bangko Sentral;

(3) Total outstanding unsecured credit accommodations, both direct and indirect, to directors, officers, stockholders, and their related interests (DOSRI) granted by the bank proper;

(4) Total outstanding unsecured loans, other credit accommodations and guarantees granted to subsidiaries;

(5) Total outstanding loans, other credit accommodations and guarantees granted to related parties, as defined in Item "*n*", Section 131 (*Definition of Terms*), that are not at arm's length terms as determined by the appropriate supervising department of the Bangko Sentral;

[1] IC issued Circular Letter (CL) No. 2015-54 dated 16 October 2015 requiring the adoption and implementation of the Enhanced Microinsurance Regulatory Framework

(6) Deferred tax assets that rely on future profitability of the bank to be realized, net of any (a) allowance for impairment and (b) associated deferred tax liability, if the conditions cited in PAS 12 on Income Taxes are met: *Provided*, That, if the resulting figure is a net deferred tax liability, such excess cannot be added to net worth;

(7) Reciprocal investment in equity of other banks/enterprises, whether foreign or domestic, the deduction shall be the lower of the investment of the bank or the reciprocal investment of the other bank or enterprise; and

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

With respect to Item *"b"* hereof, the provision in Sec. 341 (*Definitions*) shall apply except that in the definition of *stockholders* in said Section, the qualification that his stockholdings, individually and/or together with his related interest in the lending bank, should at least amount to two percent (2%) or more of the total subscribed capital stock of the bank, shall not apply for the purpose of this Item.

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

Bank Category	Required Minimum Capitalization
UBs	
Head Office Only	P3.00 billion
Up to 10 branches[1]	6.00 billion
11 to 100 branches[1]	15.00 billion
More than 100 branches[1]	20.00 billion
KBs	
Head Office Only	P2.00 billion
Up to 10 branches[1]	4.00 billion
11 to 100 branches[1]	10.00 billion
More than 100 branches[1]	15.00 billion
TBs	
Head Office in National Capital Region (NCR)	
Head Office Only	P500 million
Up to 10 branches[1]	750 million
11 to 50 branches[1]	1.00 billion
More than 50 branches[1]	2.00 billion
Head Office in all Other Areas Outside NCR	
Head Office Only	P200 million
Up to 10 branches[1]	300 million
11 to 50 branches[1]	400 million
More than 50 branches[1]	800 million
RBs and Coop Banks	
Head Office in NCR	
Head Office Only	P50 million
Up to 10 branches[1]	75 million
11 to 50 branches[1]	100 million
More than 50 branches[1]	200 million
Head Office in All Other Areas Outside NCR	
(All Cities up to 3rd class municipalities)	
Head Office Only	P20 million
Up to 10 branches[1]	30 million
11 to 50 branches[1]	40 million
More than 50 branches[1]	80 million
Head Office in All Other Areas Outside NCR	
(4th class to 6th class municipalities)	
Head Office Only	P10 million
Up to 10 branches[1]	15 million
11 to 50 branches[1]	20 million
More than 50 branches[1]	40 million

[1] Branches- inclusive of Head Office

For purposes of compliance with this Section, the term branch shall exclude the *branch-lite* units of banks.

The above shall also be the required minimum capitalization upon (a) establishment of a new bank, (b) conversion of an existing bank from a lower to a higher category bank and vice versa, and (c) relocation of the head office of a TB/RB in an area of higher classification.

For the grant of the following special banking authorities:

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

the higher of (a) the required minimum capital under this Section at the time of the application for the grant of special banking authority or (b) the amount specified in the applicable Sections for the grant of special banking authorities shall be the required minimum capital which shall be complied with on a continuing basis.

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

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

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

Guidelines on proposed investment from third party investors (TPIs) for purposes of complying with the minimum capital requirements. The Bangko Sentral recognizes the indispensable role of banks in providing financial services to the public and their significant role in attaining sustainable economic development, while adhering to its mandate to safeguard and promote the stability of the financial system by ensuring that banks operate in a safe and sound manner. Hence, the Bangko Sentral sets forth the following guidelines on proposed investments from third party investor/s (TPIs) for purposes of addressing the capital deficiency and restoring the viability of banks:

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

b. In case the transaction requires prior Bangko Sentral approval under Sec. 122 (*Transactions involving voting shares of stocks*, Item *"b"*), the bank shall submit the following documentary requirements within fifteen (15) banking days from the submission of the aforementioned subscription contract/written agreement or within the timeline prescribed by Sec. 122 (*Transactions involving voting shares of stocks*, Item *"b"*)[1], whichever is earlier:

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

   (2) Certified copies of documents showing that the amount of proposed investment of the TPI is deposited/placed in an independent bank[2], such as, certificate of escrow deposit or certificate of deposits with hold-out agreement showing the availability/hold out of funds for the said purpose, together with the corresponding waiver of secrecy of deposits/investments;

[1] Sixty (60) calendar days from date of transaction or thirty (30) calendar days from receipt of corporate secretary of the transaction, whichever comes first.
[2] Refers to a third party bank

(3) Documentary requirements under Sec. 122 (*Transactions involving voting shares of stocks*, Item *"b"*); and

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

c. The bank shall also comply with the requirements under Sec. 123 on the treatment of deposit for stock subscription as part of the equity, if applicable.

d. In case a bank has a pending application with the PDIC under the Consolidation Program for Rural Banks (CPRB) or other similar programs, the bank and the TPI shall submit a joint certification signed by the president or officer of equivalent rank of the bank and the TPI concerned that there is a pending application with the PDIC, together with PDIC's acknowledgement receipt of said application.

In this regard, it is understood that mere submission to Bangko Sentral of a TPI's Letter of Intent (LOI) to invest in the bank shall not be considered sufficient action to address the bank's capital deficiency. Moreover, the investment of the TPI would not be considered for purposes of addressing the capital deficiency if the aforementioned requirements are not complied with, except in cases when the TPI exhibits strong financial capacity and firm commitment[1] to address the capital deficiency of a bank based on assessment, taking into consideration the submitted documents and other available pertinent information.

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

(Circular Nos. 1027 dated 28 December 2018, 1002 dated 10 May 2018, 987 dated 28 December 2017, 932 dated 16 December 2016, and 914 dated 23 June 2016)

122 SHARES OF STOCKS OF BANKS

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

For purposes of this Section, the term "corporations" shall include partnerships, cooperatives, associations and other juridical persons/entities.

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

Particulars	Ceiling
(a) Voting shares of stock of a foreign individual or a foreign non-bank corporation in:	
i. UB/KB and TB	40%
ii. RB	60%
(b) Aggregate ownership of the voting shares of stock of foreign individuals and/or foreign non-bank corporations in:	
i. UB/KB	40%
ii. TB/RB	60%
(c) Voting shares of stock of a qualified foreign bank in UB, KB, TB and RB	100%
(d) Combined ownership of the voting shares of stock of qualified foreign banks in UB, KB, TB and RB	100%
(e) Voting shares of stock of a Filipino individual or a Philippine non-bank corporation in:	
i. UB/KB and TB	40%
ii. RB	60%
Voting shares of stock of a qualified Philippine Corporation in UB, KB, TB and RB, prior to the effectivity of R.A. 10641 (7 August 2014)	60%
(f) Combined ownership of an individual and corporation/s which is/are wholly owned or a majority of the voting shares of stock of which is owned by such individual in:	
i. UB/KB/TB	40%
ii. RB	60%

a. Any foreign individual or non-bank corporation may each own or control up to forty percent (40%) only of the voting stock of a UB, KB or TB: *Provided*, That the aggregate foreign-owned voting stock owned by foreign

[1] Examples are the following:
- The bank and its eligible TPI-bank communicated the TPI's intent to acquire/merge/consolidate with the bank but needs more time for the completion of the due diligence audit and finalize the agreement between the parties;
- Submission of documents showing the eligibility and seriousness of the commitment of the TPI such as certificate of escrow deposit in an independent bank and other documents such as audited financial statements and income tax returns of the TPI which show its financial capacity to acquire the bank.

individuals and non-bank corporations shall not exceed forty percent (40%) of the voting stock of the UB/KB, and sixty percent (60%) in the case of TBs.

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

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

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

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

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

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

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

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

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

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

(2) The citizenship of the corporation, which is a stockholder of a bank shall follow the citizenship of the controlling stockholders of the corporation, irrespective of the place of incorporation. For purposes hereof, the term "controlling stockholders" shall refer to stockholders holding more than fifty percent (50%) of the voting stock of the corporate stockholders of the bank.

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

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

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

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

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

(1) Any transaction involving voting shares of stock of a bank, if such transaction, in itself, or in relation with other/previous transaction/s shall result in the ownership and control by an individual or corporation of voting shares of stock in excess of any of the prescribed limits of stockholdings in a bank.

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

b. *Transactions requiring prior Monetary Board approval*

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

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

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

(2) The request for prior Monetary Board approval shall be submitted jointly by the transferor-stockholder (or the bank in the case of additional subscription or conversion of preferred shares or debt instruments) and the transferee-stockholder thru the bank to appropriate supervising department of the Bangko Sentral. The request shall be accompanied by, in the case of transferee-stockholder, the same papers/documents required of incorporators/stockholders of newly established banks as provided in *Appendix 33*. The corporate secretary shall hold in abeyance the registration of the transaction until the required prior Bangko Sentral approval is submitted as provided hereof.

(3) In the case of additional subscription, the bank shall not recognize the fund infused by the subscriber in its book as asset and liability or equity unless prior Monetary Board approval is obtained. Pending approval by the Monetary Board, the fund infused by the subscriber shall be placed in an independent bank, such as, in the form of an escrow deposit or deposit with hold-out agreement showing availability/hold-out of funds for the said purpose.

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

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

Furthermore, any violation of the provisions under Item *"b(3)"* hereof shall subject the bank and/or its directors and/or officers to the applicable administrative sanctions under Section 37 of R.A. No. 7653, without prejudice to the filing of appropriate criminal charges as provided under Section 36 of R.A. No. 7653.

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

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

(2) require the subscriber, purchaser, transferee or recipient of voting shares of stock, voting trustee, proxy or person vested with the right to vote, at the time of the receipt of the request for registration of transaction, to disclose all information with respect to persons related to the subscriber, transferee or recipient of

voting shares of stock, voting trustee, proxy or person vested with the right to vote, within the fourth degree of consanguinity or affinity, whether legitimate, illegitimate or common-law, as well as corporations, where the subscriber, transferee or recipient of voting shares of stock, voting trustee, proxy or person vested with the right to vote has controlling interest, and the extent thereof;

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

(a) the prohibitions against ownership of voting shares of stock in excess of the ceilings prescribed by laws/Bangko Sentral regulations as provided under Item *"a" hereof*; and/or

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

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

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

In the event the corporate secretary has reason to doubt the legality of the transaction sought to be registered, he/she may commence an action before the appropriate body;

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

(5) disclose the ultimate beneficial owners of bank shares held in the name of Philippine Central Depository (PCD) Nominee Corporation in the annual (or quarterly whenever changes occur) report on Consolidated List of Stockholders and Their Stockholdings (BSP 7-16-11), which report shall be made under oath by the corporate secretary. Any Delayed/Unsubmitted report, a Category A-2 report, shall subject the bank to the corresponding penalties in accordance with Sec. 171 (*Non-compliance with the Bangko Sentral reporting standards*).

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

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

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

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

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

Other foreign equity investment in domestic banks. Except as otherwise covered under Sec. 103 and this Section on Limits of stockholdings in a single bank, the following guidelines shall be observed on equity investments of foreigners in domestic banks:

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

b. The prior authority of the Monetary Board is not required if the foreign investor is (1) an individual, (2) a non-financial entity, or (3) a non-bank financial entity which is not owned or controlled by a bank, its subsidiary or holding company, and the investor is acquiring foreign-owned shares in existing domestic banks: *Provided*, That said shares were outstanding and foreign held as of 27 April 1973 and which continued to be foreign-held up to the date of acquisition by the foreign investor.

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

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

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

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

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

c. Preferred shares of stock with a cumulative feature issued by banks shall automatically be convertible into common shares of stock at the option of the holders thereof whenever the right as may be acquired by the holders by virtue of such cumulative feature are not satisfied by the bank within a period of three (3) years from date of issue.

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

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

(2) subject to prior Monetary Board approval whenever said conversion will result to significant ownership of the voting/common shares of stock of a bank by any person, whether natural or juridical, or by one group of persons, as provided under this Section on Transactions involving voting shares of stocks, Item *"b"*.

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

Issuance of redeemable shares: conditions; certification and report; sanctions.

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

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

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

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

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

(a) Redemption of shares shall be allowed at the specific dates or periods fixed for redemption only upon prior approval of the Bangko Sentral and, where the conditions of the issuance specifically state, only if the shares redeemed are replaced with at least an equivalent amount of newly paid-in shares so that the total paid-in capital stock is maintained at the same level immediately prior to redemption: *Provided*, That the redemption shall not be earlier than five (5) years after the date of issuance: *Provided, further*, That

such redemption may not be made where the bank is insolvent or if such redemption will cause insolvency, impairment of capital or inability of the bank to meet its debts as they mature;

(b) A sinking fund for the redemption of preferred shares is to be created upon their issuance. This is to be effected by the transfer of free surplus to a restricted surplus account. The fund shall not be available for dividends. The guidelines for the establishment and administration/ management of sinking fund for the redemption of redeemable private preferred shares are shown in *Appendix 48*.

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

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

(e) The issuing bank shall execute within ten (10) days after the first issuance a Deed of Undertaking (see *Appendix 38*), to be signed by its directors and principal officers, binding them to comply with the requisites and conditions set forth in Items *"(a)"* to *"(d)"* above;

(f) The conditions in Items *"(3)(a)", "(3)(b)", "(3)(c)" and "(3)(d)"* above shall be incorporated in the certificates of stock; and

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

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

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

(1) On the bank:

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

(i) Suspension of branching privilege;
(ii) Prohibition against granting of new unsecured loans to DOSRI;
(iii) Prohibition against declaration of dividends;
(iv) Denial of access to Bangko Sentral rediscounting facilities;
(v) Revocation of authority to accept government deposits and to handle government funds as a result of agency agreements with the BIR, SSS, etc.

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

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

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

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

(2) On the directors and officers:

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

(i) First offense - A fine of P500 per day for each violation from the time the violation was committed or up to the time the violation is corrected;

(ii) Second and subsequent offenses - A fine of P5,000 per day from the time the violation was committed up to the time the violation is corrected.

(b) If the certification submitted by the bank as required in these guidelines is found to be false, a fine of P5,000 per day from the time the certification was made up to the time the certification was found to be false, shall be imposed against the certifying officer.

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

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

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

The foregoing information shall also be disclosed in cases of the following transactions: availment of credit facility from the bank; purchase or sale of asset from/to the bank; leasing property from or to the bank; providing janitorial, messengerial, security and other services to the bank; and such other transactions as may be required to be disclosed by the Monetary Board. Where the stockholdings of such individual/organization together with his/its related interests amount to at least two percent (2%) of the total subscribed capital stock of the bank, the foregoing transactions shall be subject to the procedural requirements and the reportorial requirements prescribed under Sec. 346.

(Circular Nos.1002 dated 10 May 2018, 963 dated 27 June 2017, 890 dated 2 November 2015, and 888 dated 9 October 2015)

122-A SHARES OF STOCK OF UNIVERSAL/COMMERCIAL BANKS

The following guidelines shall also govern shares of stock in UBs and KBs.

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

Any natural person or a family group, who, together, with any corporation majority or all of the equity of which is owned by such person or family group, owns more than forty percent (40%) of the voting stock of any UB or KB may not acquire more than forty percent (40%) of the voting stock in any other UB or KB, even if the shares of stock are being acquired from a natural person in a single transaction and the stockholding is in excess of forty percent (40%) of the bank's voting stock.

For purposes of determining applicability of the limitations provided in this Section, stockholders shall be deemed as affiliated to each other through common business interest or a business group in cases where the holdings of such stockholders altogether constitute a majority or control in one (1) or more enterprises.

122-B SHARES OF STOCK OF THRIFT BANKS

The following regulations shall also govern shares of stock in TBs.

Preferred shares. Private development banks may also issue ordinary preferred shares of stock to private persons, other than the preferred stock representing government counterpart capital contribution: *Provided*, That said preferred stock sold to private persons shall be governed by the pertinent Bangko Sentral regulations for preferred stock issued to private investors.

Preferred shares of stock of private development banks held by DBP/LBP and sold hereafter to private persons may, at the option of the purchasers, be retained with the same rights as when such shares of stock were held by DBP/LBP, or converted at not less than par to common shares or to ordinary preferred shares of the class issued to private shareholders.

122-C SHARES OF STOCK OF RURAL BANKS AND COOPERATIVE BANKS

The following rules shall govern stockholdings in RBs and Coop Banks:

Government-held shares. The articles of incorporation of RBs or the articles of cooperation of Coop Banks shall provide for: (a) common stock with the power to vote; (b) preferred stock to represent the counterpart capital of the LBP, DBP or any government-owned or controlled bank or FI, which shall be non-voting and preferred as to assets upon liquidation; and (c) preferred stock with such rights, voting powers, preferences and restrictions, as may be approved by the Monetary Board. Preferred and common stocks shall have a minimum par value of one peso (P1.00) per share: *Provided*, That starting 2 July 2009, RBs which have a par value per share higher than P1.00 and choose to lower the par value of their shares of stock will be required to undertake the necessary steps and secure attendant approvals from the board of directors and stockholders of the banks involved as well as from relevant regulatory agencies to ensure that the reduction in par value shall not result to a dilution in the percentage holdings of stockholders and that its effect shall not prejudice the rights of creditor. An RB may not issue no-par value stock.

In the case of an acquisition plan of an RB already approved-in-principle by the Monetary Board where the shares of stock of the target RB are at a par value per share higher than P1.00, the acquiring bank may request from the Bangko Sentral the incentive to value the shares of stock of the to-be-acquired RB at the minimum par value of P1.00: *Provided*, That the acquiring bank will be responsible for securing the necessary approvals from its board of directors and stockholders as well as from the Bangko Sentral and the SEC pursuant to Section 14 of R.A. No. 8791 and Section 38 of the Corporation Code of the Philippines.

The LBP, the DBP, or any government-owned or-controlled bank or financial institution, on representation of the said private shareholders but subject to the investment guidelines, policies and procedures of the bank or financial institution and upon approval by the Monetary Board of the Bangko Sentral, shall subscribe to the capital stock of any RB, which shall be paid in full at the time of subscription, in an amount equal to the fully paid subscribed and unimpaired capital of the private stockholders or such amount as the Monetary Board may prescribe as may be necessary to promote and expand rural economic development.

Limits on stockholdings in several rural banks. Individuals, banks and non-bank corporations may, subject to applicable ownership ceilings, own voting shares in such number of RBs as may be authorized by the Monetary Board.

Convertibility of preferred stock to common stock. RBs may convert their unissued preferred shares into common stock.

In the case of sale by the DBP, LBP or any government-owned or controlled bank or financial institution of preferred stock to private persons, such stock may be converted into common stock: *Provided*, That such shares may be sold at any time at adjusted book value: *Provided, further*, That pending amendment of the bank's articles of incorporation, if necessary for the purpose of reflecting the conversion, the transfer shall be recorded by the bank in its stock and transfer book and such shareholders shall thereafter enjoy all the rights and privileges appurtenant to the converted stock. The certificates for the government preferred stocks so transferred shall be surrendered and cancelled and the corresponding common stock certificates shall be issued.

The corporate secretary of the bank shall submit to the appropriate supervising department of the Bangko Sentral and the SEC a report of every transfer of preferred stock from the LBP, DBP or any government-owned or controlled bank or financial institution to private shareholders within five (5) banking days from the date of such transfer.

When all the preferred shares of stocks held by the LBP, DBP or any government-owned or controlled bank or financial institution have been sold to private shareholders, the bank's articles of incorporation shall be amended to reflect the conversion, if any, of the preferred shares of stock into common stock.

For this purpose, a certificate that all preferred shares have been sold and transferred to private shareholders shall be issued, duly signed by the president, the corporate secretary, and a majority of the board of directors. The bank shall submit copies of such certificate and the amended articles of incorporation to the Bangko Sentral for the issuance of a certificate of authority for the purpose of registering the amended articles with the SEC.

Guidelines for selection. In determining the fitness and propriety of the non-Filipino citizen, excluding foreign banks that will be allowed to invest in the voting stock of an RB, criteria, such as, but not limited to the following, shall be considered:

a. strategic objectives in investing in an RB;
b. demonstrated capacity;
c. good reputation and integrity; and
d. business model that is credible, innovative and consistent with the policy objectives of R.A. No. 10574.

A foreign bank seeking to own, acquire or purchase up to 100% of the voting stock in an RB shall meet the qualification requirements and selection criteria under Sec. 103 (*Qualification requirements and Guidelines for selection*).

(Circular No. 858 dated 21 November 2014)

123 DEPOSITS FOR STOCK SUBSCRIPTION

Deposits for stock subscription refer to payments made by existing stockholders or new subscribers of the bank/QB on subscription to the increase in the authorized capital, which may be recognized either as a liability or equity.

Deposits for stock subscription shall be recognized as part of equity for prudential reporting purposes when all of the following conditions are met:

a. The deposit for stock subscription meets the definition of an equity instrument under Philippine Accounting Standards (PAS) 32 Financial Instruments: Presentation such that the deposit for stock subscription shall not be interest-bearing nor withdrawable by the subscriber;

b. The bank's existing authorized capital is already fully subscribed;

c. The bank's stockholders and board of directors have approved the proposed increase in authorized capital;

d. The bank/QB has filed an application for the amendment of its articles of incorporation for the increase in authorized capital with the appropriate supervising department of the Bangko Sentral, duly supported by complete documents as prescribed by the Bangko Sentral: *Provided*, That the approval of the Securities and Exchange Commission (SEC) on the same application shall be obtained within the period prescribed under the SEC Financial Reporting Bulletin on Deposit for Future Subscription.

In case the applications for the amendment of articles of incorporation for the increase in authorized capital have been returned due to insufficiency of supporting documents, the deposit for stock subscription shall not qualify for recognition as an equity instrument; and

e. The bank must have obtained approval of the Monetary Board on transactions involving significant ownership of voting shares of stock by any person, natural or juridical, or by one group of persons as provided in Sec. 122 (*Transactions involving voting shares of stocks*, Item *"b"*), if applicable.

Deposits for stock subscription, which do not meet the abovementioned conditions shall be classified as a liability.

Deposits for stock subscription, which meet the conditions to be recognized as equity shall form part of a bank's qualifying capital for purposes of computing the risk-based capital adequacy ratio under Sec. 125 for UBs/KBs as well as their subsidiary banks and QBs, and Sec. 127 for standalone TBs, RBs and Coop Banks.

(Circular Nos. 1027 dated 28 December 2018)

124 DIVIDENDS

The following rules and regulations shall govern the declaration of dividends on shares of stock, regardless of feature, as well as interest payments on unsecured subordinated debt which meet the qualification requirements of Additional Tier 1 or Hybrid Tier 1 capital as defined under existing risk-based capital adequacy framework.

Pursuant to Section 57 of R.A. No. 8791, no bank shall declare dividends greater than its accumulated net profits then on hand, deducting therefrom its losses and bad debts. Neither shall the bank declare dividends if, at the time of declaration, it has not complied with the provisions under this Section on Requirements on the declaration of dividends.

Definitions. For purposes of this Section, the following definitions shall apply:

a. *Bad debts* - shall include any debt on which interest is past due for a period of six (6) months, unless it is well secured and in process of collection.

A loan payable in installments with an automatic acceleration clause shall be considered a bad debt within the contemplation of this Section where installments or amortizations have become past due for a period of six (6) months, unless the loan is well secured and in process of collection. For a loan payable in installment without an acceleration clause, only the installments or amortizations that have become past due for a period of six (6) months and which are not well secured and in the process of collection shall be considered bad debts within the contemplation of this Section.

b. *Well secured* - A debt shall be considered well secured (or fully secured), if it is covered by collateral in the form of a duly constituted mortgage, pledge, or lien on real or personal properties, including securities, having a loan value sufficient to discharge the debt in full, including accrued interest and other pertinent fees and expenses.

c. *In process of collection* - A debt due to a bank shall be considered in process of collection when it is the subject of continuing extrajudicial or judicial proceedings aimed towards its full settlement or liquidation or otherwise to place it in current status.

The extrajudicial proceedings, such as the writing of collection or demand letters, must have been initiated by the bank and/or its lawyers before the interest or installments or amortizations on the debt have become past due and unpaid for a period of six (6) months.

The debt shall continue to be considered in process of collection for a period of six (6) months counted from date of the first collection or demand letter and if, within this period, the debtor fails to make a payment of at least twenty percent (20%) of the outstanding balance of the principal on his account, plus all interest which may have accrued thereon, the same shall automatically be classified as bad debts unless judicial proceedings are instituted.

The debt shall continue to be considered in process of collection during the pendency of the judicial proceedings. When judgment against the debtor has been obtained, the bank must be active in enforcing the judgment for the debt to continue to be considered in process of collection.

Requirements on the declaration of dividends. At the time of declaration, banks shall have complied with the following:

a. Clearing account with the Bangko Sentral is not overdrawn;

b. Liquidity floor requirement for government funds;

c. Minimum capitalization requirement and risk-based capital ratios as provided under applicable and existing capital adequacy framework;

d. The combined requirement for capital conservation buffer and the countercyclical capital buffer as defined in *Appendix 59*, for universal and commercial banks (UBs/KBs) and their subsidiary banks and quasi-banks QBs;

e. Higher loss absorbency requirement, phased-in starting 1 January 2017 with full implementation by 1 January 2019, in accordance with Domestic Systemically Important Banks (DSIBs) Framework as provided under Sec. 128, for UB/KBs and their subsidiary banks and QBs that are identified as DSIBs; and

f. Has not committed any unsafe or unsound banking as defined under existing regulations and/or major acts or omissions[1] as may be determined by the Bangko Sentral to be ground for suspension of dividend distribution, unless this has been addressed by the bank as confirmed by the Monetary Board or the Deputy Governor of the appropriate sector, as may be applicable, upon recommendation of the appropriate supervising department of the Bangko Sentral.

Banks shall ensure compliance with the minimum capital requirements and risk- based capital ratios even after the dividend distribution.

Net amount available for dividends. The net amount available for dividends shall be the amount of unrestricted or free retained earnings and undivided profits reported in the Financial Reporting Package (FRP) as of the calendar/fiscal year-end immediately preceding the date of dividend declaration.

The derivation of the amount of dividends from the unrestricted/free retained earnings shall be based on a sound accounting system and loss provisioning processes under existing regulations which takes into account relevant capital adjustments including losses, bad debts and unearned profits or income[2].

Reporting and verification. Declaration of dividends shall be reported by the bank concerned to the appropriate supervising department of the Bangko Sentral within ten (10) business days after date of declaration in the following manner:

a. Submission of a duly notarized certification (*Appendix 120*) signed by the President, or an officer of equivalent rank, and the Chief Compliance Officer stating that the bank has complied with the requirements on the declaration of dividends provided under this Section on Requirements on the declaration of dividends, and, in the case of rural banks and cooperative banks, Sec. 124-C (*Limitations/amount available for dividends declared by rural banks and cooperative banks*), as well as other existing applicable laws; and

b. Submission of the Report on Dividends Declared listed under *Appendix 7*, which shall be considered a Category A-1 report.

However, banks with major supervisory concerns such as those initiated under PCA or with specific MB directive to suspend/refrain/restrict dividend declaration, shall be subject to prior Bangko Sentral verification by the appropriate supervising department of the Bangko Sentral. Pending verification of abovementioned reports, no announcement or communication on the declaration of dividends nor shall any payment be made thereon until receipt of Bangko Sentral advice thereof.

[1] Major acts or omissions is defined as bank individual failure to comply with the requirements of banking laws, rules and regulations as well as Monetary Board directives having material impact on bank capital, 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.

[2] Unearned profits or income refers to unrealized items which are considered not available for dividend declaration such as accumulated share/equity in net income of its subsidiaries, associates or joint venture accounted for under the equity method, recognized deferred tax asset, foreign exchange profit arising from revaluation of foreign exchange denominated accounts and others.

Recording of dividends. The liability for dividends declared shall be taken up in the bank's books upon its declaration.

However, for dividend declarations that are subject to prior Bangko Sentral verification, the liability for dividends declared shall be taken up in the bank's books upon receipt of Bangko Sentral advice thereof. A memorandum entry may be made to record the dividend declaration on the date of approval by the board of directors.

For full disclosure purposes, the dividends declared shall be disclosed in the financial statements either as a footnote in the statement of changes in equity or in the notes to the financial statements. For dividends declared that is still subject to prior Bangko Sentral verification, disclosure by means of a footnote should include a statement to the effect that the dividend declaration is subject to review by the Bangko Sentral.

Issuance of fractional shares. Whenever the declaration of stock dividend results in the issuance of fractional shares, banks may observe the following guidelines:

a. The amount corresponding to the fraction should be given in the form of cash dividend; and

b. The certificate of stock issued should be in whole numbers, and the fractional shares shall be issued in the form of scrip certificates. In no case shall the certificate of stock be issued including such fractional share. The scrip certificate is temporary in nature and should be redeemed in cash when the bank is in a position to do so, or stockholders holding such scrip certificates may negotiate with other stockholders for the purchase or sale of such shares to convert them into full shares, subject to the limitations on stockholdings as provided by law.

Supervisory enforcement actions. Consistent with Sec. 002, the Bangko Sentral may deploy enforcement actions to promote adherence with the rules and regulations governing dividend declaration and bring about timely corrective actions. The Bangko Sentral may issue directives to suspend/refrain/restrict from performing a particular activity or impose sanctions to limit the level of or suspend any business activity that has adverse effects on the safety or soundness of the bank, among others. Sanctions may likewise be imposed on a bank and/or its directors, officers and/or employees.

The imposition of sanctions shall be without prejudice to the imposition of administrative sanctions under Section 37 of R.A. No. 7653 including declaring as unsafe or unsound (as defined under Section 56 of R.A. No. 8791) the inappropriate dividend declarations, and/or to the filing of appropriate criminal charges against culpable persons as provided under Section 35 of R.A. No. 7653 for the willful making of a false/misleading statement.

Further, banks subsequently found to have violated the provisions on dividend declaration or have falsely certified/submitted misleading statements shall be reverted to the prior Bangko Sentral verification wherein the bank can only make an announcement or communication on the declaration of dividends or payment of dividends thereon[1] upon receipt of Bangko Sentral advice thereof.

(Circular Nos. 1024 dated 06 December 2018 and 888 dated 09 October 2015)

124-C LIMITATIONS/AMOUNT AVAILABLE FOR DIVIDENDS DECLARED BY RURAL BANKS AND COOPERATIVE BANKS

The following rules shall also govern the declaration of dividends by RBs and Coop Banks.

a. *Reserve for retirement of government preferred stock.* In addition to the requirements prescribed in Sec. 124 (*Requirements on the declaration of dividends*), an RB/Coop Bank may declare cash dividends only if the amount of its reserve for retirement of government preferred stock is at least equal to the amount which should have been accumulated had the bank transferred annually to the reserve account from its undivided profits an amount equal to at least an average of one-tenth (1/10) of the total amount of preferred stock; and

b. Applicability *of other laws, rules and regulations for Coop Banks*. Coop Banks shall, likewise, comply with the provisions governing the distribution of net surplus as provided under Article 86 of R.A. 9520, the Coop Bank's By-laws as other laws, rules and regulations.

c. Dividends on government shares for RBs

(1) Held prior to 09 June 1992. Whenever dividends of not less than fourteen percent (14%) are declared on common stock, government preferred stock shall be entitled to a cash dividend not to exceed two percent (2%) of total outstanding preferred stock. Should the dividends declared on common stock be less than fourteen percent (14%), the dividend on preferred stock shall be proportionately reduced.

(2) Held on or after 09 June 1992. Shares held by the LBP, DBP, or by any government-owned or-controlled bank or FI shall share in dividend distributions from the date of issuance in the amount of four percent (4%) on the first and second years; six percent (6%) on the third and fourth years; eight percent (8%) on the fifth

[1] Subject banks whose shares are listed with any domestic stock exchange may declare dividends and give immediate notice of such declaration to the SEC and the stock exchanges, in compliance with pertinent rules of the SEC: *Provided,* That no record date is fixed for such dividend pending verification of the report on such declaration by the appropriate supervising department of the Bangko Sentral.

and sixth years; ten percent (10%) on the seventh and eighth years; and twelve percent (12%) on the ninth to the fifteenth years, which shall be cumulative: *Provided*, That the RB and the government-owned or controlled bank are not precluded from entering into an agreement providing for rates of dividends other than those prescribed by law.

(3) Held on or after 13 September 2013. Shares held by the LBP, DBP, or by any government-owned or -controlled bank or FI shall share in dividend distributions from the date of issuance in an amount based on the lending benchmark approved by the Bangko Sentral plus the prevailing non-prime spread of the government FI: *Provided*, That the RB and the government-owned or -controlled bank are not precluded from entering into an agreement providing for rates of dividends other than those prescribed by law.

125 BASEL III RISK-BASED CAPITAL

The guidelines implementing the revised risk-based capital adequacy framework for the Philippine banking system to conform to Basel III recommendations is provided in *Appendix 59*.

These guidelines apply to all UBs and KBs as well as their subsidiary banks and QBs. The risk-based capital ratio of a bank, expressed as a percentage of qualifying capital to risk-weighted assets, shall not be less than ten percent (10%) for both solo basis (head office plus branches) and consolidated basis (parent bank plus subsidiary financial allied undertakings, but excluding insurance companies). Other minimum capital ratios include Common Equity Tier (CET) 1 ratio and Tier 1 capital ratios of six percent (6.0%) and seven and a half percent (7.5%), respectively. With respect to the CET1 requirement, in addition to the minimum, the following capital buffers shall likewise be imposed:

a. A capital conservation buffer (CCB) of two and a half percent (2.5%); and

b. Countercyclical capital buffer (CCyB) of zero percent (0%) subject to upward adjustment to a rate determined by the Monetary Board when systematic conditions warrant but not to exceed two and a half percent (2.5%). Any increase in the CCyB rate shall be effective twelve (12) months after its announcement. Decreases shall be effective immediately.

The prescribed ratios shall be maintained at all times.

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

Market risk capital requirement. UBs/KBs shall also measure and apply capital charges for market risk, in addition to the credit risk capital requirement in this Section, in accordance with the Guidelines to Incorporate Market Risk in the Risk-Basel Capital Adequacy Framework in *Appendix 42*.

The capital treatment of market risk exposures arising from the holdings of Dollar-Linked Peso Notes (DLPNs) is indicated in *Appendix 43*.

The instructions for accomplishing the report on computation of the Adjusted Risk- Based Capital Adequacy Ratio covering combined credit risk and market risk are shown in *Appendices 44* (for UBs and KBs with expanded derivatives authority), *45* (for UBs and KBs with expanded derivatives authority but without options transactions) and *46* (for UBs and KBs without expanded derivatives authority).

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

a. Credit-linked notes in Sec. 624-A.
b. Structured products in Sec. 625-A (*Capital treatment of banks' exposures to structured products*).
c. EFCDU investments in Sec. 626-A (*Capital treatment of structured products*).
d. Investment in securities overlying securitization structures in Sec. 627-A (*Capital treatment of investments in securities overlying securitization structures*).

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

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

Erroneous/Delayed/Erroneous and Delayed/Unsubmitted reports relative to the Basel III requirements shall be subject to penalties provided under Sec. 171 (*Non-compliance with the Bangko Sentral standards*).

Sanctions

a. *For non-reporting of CAR breaches*. It is the responsibility of the bank CEO to cause the immediate reporting of CAR breaches both to its Board and to the Bangko Sentral. It is likewise the CEO's responsibility to ensure the accuracy of CAR calculations and the integrity of the associated monitoring and reporting system. Any willful violation of the above will be considered as a serious offense for purposes of determining the appropriate monetary penalty that will be imposed on the CEO. In addition, the CEO shall be subject to the following non-monetary sanctions:

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

b. *For non-compliance with required disclosures*. Willful non-disclosure or erroneous disclosure of any item required to be disclosed under this framework in the Published Statement of Condition shall be considered as a serious offense for purposes of determining the appropriate penalty that will be imposed on the bank. In addition, the CEO and the board shall be subject to the following non-monetary sanctions:

   (1) First offense – warning on CEO and the Board;
   (2) Second offense – reprimand on CEO and the Board;
   (3) Third offense – one (1) month suspension of CEO without pay; and
   (4) Further offense – possible disqualification of the CEO and/or the Board.

(Circular Nos. 1024 dated 06 December 2018, 988 dated 20 December 2017, 956 dated 17 April 2017, M-2014-019 dated 10 April 2014)

126 CAPITAL INSTRUMENTS ELIGIBLE AS RISK-BASED CAPITAL

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

Minimum features of unsecured subordinated debt.

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

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

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

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

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

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

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

(for LT2); depositors, other creditors and holders of LT2 capital instruments (for UT2); and depositors, other creditors, holders of LT2 and UT2 capital instruments (for HT1); and

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

If the UnSD is scripless in form, the foregoing provisions/information shall be furnished every buyer/investor in a separate written instrument receipt of which must be duly acknowledged by him.

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

Prior Bangko Sentral approval. No UnSD shall be issued without the prior approval of the Bangko Sentral.

Pre-qualification requirements of issuing bank. A bank applying for authority to issue an UnSD shall comply with the following requirements:

a. It has complied with the minimum amount of capital required under Sec. 121 or its paid-in capital is at least equal to the amount required therein.

b. It has established a risk management system appropriate to its operations characterized by clear delineation of responsibility for risk management, adequate risk measurement systems, appropriately structured risk limits, effective internal controls and complete, timely and efficient risk reporting system.

c. It is a locally incorporated bank.

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

a. *Application for authority*

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

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

(3) The application shall be accompanied by:

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

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

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

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

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

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

(g) Specimen of the UnSD;

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

(i) A certification signed by the president (or officer of equivalent rank) and chief compliance officer of the issuing bank stating the compliance of all parties to the UnSD transaction with the respective prequalification requirements prescribed under Item *"c"* of this Section on Public issuance of unsecured subordinated debt.

b. *Additional requirements for the issuance of UnSD*

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

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

(a) A written confirmation from the president or officer of equivalent rank of the Issuing Bank stating that the bank has been rated by an independent credit rating agency duly recognized by the Bangko Sentral;
(b) Information disclosure of the UnSD issuance prepared by the Underwriter Arranger;
(c) Promotional materials;
(d) Specimen of the proposed Purchase Advice and Registry Confirmation; and
(e) Copy of the agreements between the Issuing Bank and the Underwriter/ Arranger/UnSD Registry/Selling Agent(s)/Market Maker(s), and Public Trustee.

The Bangko Sentral reserves the right to suspend the date of offering, within the fifteen (15) banking day period from submission of the above-mentioned requirements.

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

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

c. *Requirements for other parties involved*

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

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

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

(1) Underwriter/Arranger

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

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

(c) If Underwriter, it must have adequate risk management and must be well capitalized, which for a local Underwriter, shall be evidenced by compliance with the risk-based CAR prescribed under applicable and existing capital adequacy framework for the past sixty (60) days immediately preceding the date of application where applicable.

(2) UnSD Registry

(a) It may be a UB, a KB, or such other specialized entity that may be qualified by the Monetary Board.
(b) It must be a third party that has no subsidiary/affiliate or any other relationship with the Issuing Bank that would undermine its independence.
(c) It must not be an Underwriter or a Market Maker of the UnSD.
(d) It must have adequate facilities and the organization to do the following:

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

(ii) Deliver transactions within the agreed trading period; and
(iii) Issue Registry Confirmations and UnSD Certificates if they are not in scripless form to buyers/holders of UnSD.

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

(3) Selling Agent

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

(4) Market Maker

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

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

(c) It must have adequate risk management and must be well capitalized as evidenced by compliance with the risk based CAR prescribed under applicable and existing capital adequacy framework for the past sixty (60) days immediately preceding the date of application where applicable.

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

(5) Public Trustee

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

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

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

(d) It may also be the UnSD Registry.

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

d. *Functions/Responsibilities of other parties involved*

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

(1) Underwriter/Arranger

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

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

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

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

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

(2) UnSD Registry

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

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

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

(d) Issues Registry Confirmation to buyers/holders;

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

(f) Monitors compliance with the prohibitions on holdings of UnSD, as prescribed under this Section on Prohibitions on holdings of unsecured subordinated debt hereof; and

(g) Submits within ten (10) banking days from end of reference month, an exception report on this Section on Prohibitions on holdings of unsecured subordinated debt to the appropriate supervising department of the Bangko Sentral. This report shall be classified as a *"Category B"* report.

(3) Selling Agent

(a) Verifies identity of each investor to ascertain that this Section on Prohibitions on holdings of unsecured subordinated debt is not violated and applies appropriate standards to combat money laundering as required under existing Bangko Sentral regulations;

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

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

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

(i) The in-house distribution shall not exceed fifty percent (50%) of the total issue;
(ii) The sale/distribution must be done under the supervision of an officer of the Issuing Bank who is capable of determining the suitability of the investor and ensuring that he fully understands the risk in UnSD;
(iii) All personnel assigned to distribute sell UnSD must be capable of determining the suitability of the investor and ensuring that he fully understands the risk in UnSD; and
(iv) It must also perform the functions/responsibilities of the Selling Agent.

(4) Market Maker

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

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

(c) Verifies identity of each investor to ascertain that the provisions of this Section on Prohibitions on holdings of unsecured subordinated debt is not violated and applies appropriate standards to combat money laundering as required under existing Bangko Sentral regulations;

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

(e) Issues the Purchase Advice for the secondary trading of the UnSD to the buyer and sends a copy thereof to the UnSD Registry; and

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

(5) Public Trustee

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

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

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

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

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

f. *Agreements between issuing bank and other parties involved.* The agreements between the Issuing Bank and the UnSD Registry/Selling Agent(s)/Market Maker(s)/Public Trustee shall comply with the provisions of Sec. 112 (*Definition*) on bank service contracts. The Issuing Bank shall be liable to investors for any damages caused by actions of the UnSD Registry, Selling Agent(s) and Market Maker(s), which are contrary to the agreements entered into.

g. *Purchase advice and registry confirmation*. The Purchase Advice and Registry Confirmation shall contain all the terms and conditions on the issuance of UnSD and shall conspicuously state the following caveat:

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

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

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

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

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

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

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

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

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

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

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

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

(aa) The UnSD was issued for the purpose of a merger with or acquisition by the Issuing Bank and the merger or acquisition is aborted;
(bb) There is a change in tax status of the UnSD due to changes in the tax laws and/or regulations; or
(cc) The UnSD does not qualify as HT1, UT2 or LT2 capital, as the case may be, as determined by the Bangko Sentral; and

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

(b) Prior notice to holders on record. Negotiations/transfers from one (1) holder to another do not constitute pre-termination.

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

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

(i) 100 basis points less the swap spread between the initial index basis and the stepped-up index basis; or
(ii) Fifty percent (50%) of the initial credit spread less the swap spread between the initial index basis and the stepped-up index basis.

The swap spread shall be fixed at the pricing date and reflect the differential in pricing on that date between the initial reference security or rate and the stepped- up reference security or rate;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

h. *Pre-termination by the Issuer*

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

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

(b) Compliance with Items "*a(2)(a)vii", "b(1)(h)v" or "b(2)(c)iv"* as may be applicable;
(c) Prior notification of thirty (30) banking days or more to holders of record; and
(d) Notwithstanding any agreement to the contrary, the Issuer shall shoulder the tax due, if any, on the interest income already earned by the holders.

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

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

i. *Primary offering/secondary trading*

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

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

(a) record the primary issuance in the Registry Book and issue a Registry Confirmation and the corresponding UnSD certificate to the buyer if it is not scripless in form; and
(b) register the transfer of ownership in the UnSD Registry Book and issue a Registry Confirmation to the buyer, in the case of secondary trading.

Private or negotiated issuance of unsecured subordinated debt.

a. *Private or negotiated issuance of UnSD* is the issuance of UnSD to qualified investors/buyers, whether individuals or institutions as defined under Sec. 126 (*Qualified investors/buyers*). There is no limit on the number of qualified investors/buyers and on the sale or negotiation of the UnSD: *Provided*, That such sale or negotiation shall only be made to another qualified investor/buyer.

b. *Application for authority of the Issuing Bank*

(1) The application shall be signed by the president or officer of equivalent rank of the Issuing Bank.
(2) The application for authority on each negotiated UnSD issue shall be filed with the appropriate supervising department of the Bangko Sentral.
(3) The application shall be accompanied by:

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

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

(c) A written confirmation from the president or officer of equivalent rank of the Issuing Bank stating that all the conditions/eligibility criteria for UnSD to qualify for capital instruments under applicable and existing capital adequacy framework are complied with and that such conditions/eligibility criteria shall be contained in the UnSD Certificates, Prospectus/Information Disclosure and Debt Agreement/Contract.

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

(e) A certification from the president or officer of equivalent rank of the Issuing Bank that the investor/buyer shall not be among those prohibited to hold UnSD under this Section on Prohibitions on holdings of unsecured subordinated debt and that the Issuing Bank has applied appropriate standards to combat money laundering as required under existing Bangko Sentral regulations;

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

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

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

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

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

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

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

d. *Debt agreement/contract*

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

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

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

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

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

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

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

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

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

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

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

(aa) The UnSD was issued for the purpose of a merger with or acquisition by the Issuing Bank and the merger or acquisition is aborted;
(bb) There is a change in tax status of the UnSD due to changes in the tax laws and/or regulations; or
(cc) The UnSD does not qualify as HT1, UT2 or LT2 capital, as the case may be, as determined by the Bangko Sentral; and

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

(b) Prior notice to investors/buyers.

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

(i) 100 basis points less the swap spread between the initial index basis and the stepped-up index basis; or
(ii) Fifty percent (50%) of the initial credit spread less the swap spread between the initial index basis and the stepped-up index basis.

The swap spread shall be fixed at the pricing date and reflect the differential in pricing on that date between the initial reference security or rate and the stepped- up reference security or rate;

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

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

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

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

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

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

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

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

(a) Breach of minimum capital ratio;
(b) Commencement of proceedings for winding up of the Issuing Bank; or
(c) Upon appointment of receiver for the Issuing Bank.

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

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

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

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

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

e. *Pre-termination by the Issuer*

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

(a) The Debt Agreement/Contract shall include the information that the Issuing Bank has the option to pre-terminate the UnSD;
(b) Compliance with call options as provided in applicable and existing capital adequacy framework;

(c) Prior notification of thirty (30) banking days or more to lender/investor; and
(d) Notwithstanding any agreement to the contrary, the Issuer shall shoulder the tax due, if any, on the interest income already earned by the holders.

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

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

f. *Functions/Responsibilities of the Issuing Bank*

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

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

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

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

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

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

(7) Ensures compliance with this Section on Prohibitions on holdings of unsecured subordinated debt and applies appropriate standards to combat money laundering as required under existing Bangko Sentral regulations; and

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

Issuance abroad of unsecured subordinated debt. The overseas issuance of UnSD shall also be subject to the provisions under this Section on Unsecured subordinated debt except for the following:

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

b. The requirements under Item *"c(1)"* on Minimum features of unsecured subordinated debt, Item *"g(1)"* on Public issuance of unsecured subordinated debt, and Items *"d(1)" and "d(6)* on Private or negotiated issuance of unsecured subordinated debt of this Section may be allowed to be dispensed with in cases of overseas issuance of UnSD; and

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

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

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

a. Banks;

b. Investment house (IH);

c. Insurance company;

d. Pension or retirement fund of other entities which have no subsidiary/affiliate or any other relationship with the Issuing Bank;

e. Investment company;

f. Funds managed by another bank or other entities duly authorized to engage in trust or other fiduciary business;

g. Domestic corporate or institutional investors with total assets of at least P100.0 million;

h. Foreign multilateral organizations such as, the ADB and IFC;

i. High net-worth individual investor/buyer who is sophisticated enough to understand and appreciate the significance of and the risk involved in UnSD as may be indicated by his/her educational background and/or employment/business experience; and

j. Stockholder, director or officer with the rank of at least a vice-president of the Issuing Bank.

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

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

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

   (1) That the fund owners give prior authority/instruction to the Trust Department to purchase or invest in the UnSD of the Issuing Bank; and
   (2) That the authority/instruction of the fund owner and his understanding of the risk involved in purchasing or investing in UnSD are fully documented.

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

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

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

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

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

A UnSD eligible as HT1, UT2 or LT2 capital shall be accounted for in accordance with PAS 32 and PFRS 9.

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

a. The issuing bank shall indicate in its application that the UnSD shall be booked in its FCDU/EFCDU;
b. The UnSD shall remain in the FCDU/EFCDU books until full settlement; and
c. The UnSD shall be issued only to non-residents and offshore banking units (OBUs) in accordance with Section 72.2.e of CB Circular No. 1389, as amended.

A UnSD eligible as HT1, UT2 or LT2 capital shall be accounted for in accordance with PAS 32 and PFRS 9.

Sanctions. Without prejudice to the other sanctions prescribed under Sections 36 and 37 of R.A. No. 7653 and the provisions of Section 16 of R.A. No. 8791, sanctions shall be imposed on Bangko Sentral-supervised FIs for failure to comply with the provisions of this Section and for non-disclosure or misrepresentation of information, as follows:

a. *On the issuing bank*

   (1) Suspension of its authority to issue remaining tranches, if any;
   (2) Disqualification from future issuance of UnSD;
   (3) Disqualification of all outstanding issues as eligible Tier 2 capital; and
   (4) Monetary penalty of P30,000 for each violation.

b. *On the underwriter/arranger*

(1) Disqualification from being underwriter/arranger for three (3) years; and
(2) Monetary penalty of P30,000 for each violation.

c. *On the UnSD registry*

(1) Disqualification from being appointed as UnSD Registry for three (3) years; and
(2) Monetary penalty of P30,000 for each violation.

d. *On the selling agent/market maker*

(1) Disqualification from being appointed as selling agent or market maker for three (3) years; and
(2) Monetary penalty of P30,000 for each violation.

e. *On the public trustee*

(1) Disqualification from being appointed as public trustee for three (3) years; and
(2) Monetary penalty of P30,000 for each violation.

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

g. *On the responsible officer* - A fine of P30,000 for participating in or tolerating the non-disclosure or misrepresentation of information, and a possible disqualification if warranted by the gravity of the offense committed.

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

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

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

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

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

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

(3) It must neither be secured nor covered by a guarantee of the issuer or related party or other arrangement that legally or economically enhances the priority of the claim of the PDIC as against depositors, other creditors of the bank and holders of LT2 and UT2 capital instruments;

(4) The PDIC, as holder of the interim capital notes must not have a priority claim, in respect of its principal and coupon payments of the interim Tier 1 capital notes in the event of winding up of the bank, which is higher than or equal with that of depositors, other creditors of the bank and holders of LT2 (e.g., limited life redeemable preferred stock) and UT2 (e.g., perpetual and cumulative preferred stock) capital instruments. The PDIC must waive its right to set-off any amount it owes the bank against any subordinated amount owed to it due to the interim Tier 1 capital notes;

(5) It must not be repayable without the prior approval of the Bangko Sentral: *Provided*, That repayment may be allowed only in connection with a call option after a minimum of five (5) years from issue date: *Provided, however*, That a call option may be exercised within the first five (5) years from issue date upon entry of new investors: *Provided, further*, That such repayment prior to maturity shall be approved by the Bangko Sentral only if it is simultaneously replaced with issues of new capital which is neither smaller in size nor of lower quality than the original issue, unless the bank's capital ratio remains more than adequate after redemption.

It must not contain any clause, which requires acceleration of payment of principal, except in the event of insolvency. The agreement governing its issuance must not contain any provision that mandates or

creates an incentive for the bank to repay the outstanding principal of the interim Tier 1 capital notes, e.g., a cross-default or negative pledge or a restrictive covenant, other than a call option, which may be exercised by the bank;

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

(7) The coupons must be non-cumulative;

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

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

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

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

c. The bank must submit a written opinion from its external auditor that the features of the interim Tier 1 capital notes shall be accounted for as equity instruments in accordance with PAS 32.

(Circular No. 1011 dated 14 August 2018)

127 RISK-BASED CAPITAL ADEQUACY FRAMEWORK FOR STAND-ALONE THRIFT BANKS, RURAL BANKS AND COOPERATIVE BANKS

The guidelines implementing the revised risk-based capital adequacy framework for Stand-alone TBs, RBs, and Coop Banks[1] are in *Appendix 62*.

Capital instruments issued by banks starting 01 January 2014 shall be subject to the criteria for inclusion as qualifying capital provided in *Appendix 59 Annexes A to C* and *Annexes E to F*.

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

b. *Required reports*. Banks shall submit a report of their risk-based capital ratio on a solo basis (head office plus branches) and on a consolidated basis (parent bank plus subsidiary financial allied undertakings [i.e., RBs and Venture Capital Corporations (VCC) for TBs, and RBs for Coop Banks] quarterly in the prescribed forms within the deadlines, i.e., fifteen (15) banking days and thirty (30) banking days after the end of the reference quarter, respectively. Only banks with subsidiary financial allied undertakings (i.e., RBs and VCCs for TBs, and RBs for Coop Banks) which under the existing regulations are required to prepare consolidated financial statements on a line-by-line basis shall be required to submit report on consolidated basis. The abovementioned reports shall be classified as *Category A-2* reports.

c. *Sanctions*

(1) For non-reporting of CAR breaches

(a) It is the responsibility of the president or any officer of the bank holding equivalent position to cause the immediate reporting of CAR breaches both to its board of directors 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 penalties that will be imposed on the president/or any officer holding equivalent position. In addition, the President/or any officer holding equivalent position shall be subject to the non-monetary sanctions:

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

(i) First offense – warning
(ii) Second offense – reprimand
(iii) Third offense – 1-month suspension without pay
(iv) Further offense – disqualification

(2) For non-compliance with required disclosures

(a) Willful non-disclosure or erroneous disclosure of any item required to be disclosed under this framework in the Published Statement of Condition shall be considered as a serious offense for purposes of determining the appropriate penalty that will be imposed on the bank. In addition, the president/or any officer holding equivalent position and the Board shall be subject to the following non-monetary sanctions:

(i) First offense – warning on president/or any officer holding equivalent position and the board of directors
(ii) Second offense – reprimand on president/or any officer holding equivalent position and the board of directors
(iii) Third offense – one (1) month suspension of president/or any officer holding equivalent position without pay
(iv) Further offense – possible disqualification of the president/or any officer holding equivalent position and/or the board of directors

(3) For non-compliance with the minimum CAR

(a) In case a bank does not comply with the prescribed minimum CAR, the Monetary Board may limit or prohibit the distribution of net profits by such bank and may require that part or all of net profits be used to increase the capital accounts of the bank until the minimum requirements has been met. The Monetary Board may, furthermore, restrict or prohibit the acquisition of major assets and the making of new investments by the bank, with the exception of purchases of readily marketable evidences of indebtedness of the Republic of the Philippines and of the Bangko Sentral included in paragraph 2, Item *"a.ii"* of Part III, *Appendix 62* and any other evidences of indebtedness or obligations the servicing and repayment of which are fully guaranteed by the Republic of the Philippines, until the minimum requirement capital ratio has been restored.

(b) In case of a bank merger, or consolidation, or when a bank is under rehabilitation program approved by the Bangko Sentral, the Monetary Board may temporarily relieve the surviving bank, consolidated bank, or constituent bank or corporations under rehabilitation from full compliance with the required capital ratio under such conditions as it may prescribe.

(c) A bank may also be subject to Prompt Corrective Action (PCA) framework when either the total CAR, Tier 1 ratio or leverage ratio falls below ten percent (10%), six percent (6%), and five percent (5%), respectively, or such other minimum levels that may be prescribed for the said ratios under relevant regulations, and/or the combined capital accounts fall below the minimum capital requirement prescribed under Sec. 121, pursuant to the provisions of Sec. 003.

128 DOMESTIC SYSTEMICALLY IMPORTANT BANKS (DSIBs)

It is the thrust of the Bangko Sentral to ensure that its capital adequacy framework is consistent with the Basel principles. Hence, the Bangko Sentral is adopting policy measures for DSIBs, which are essentially aligned with the documents issued by BCBS on global systemically important banks (GSIBs) and DSIBs. The broad aim of the policies is to reduce the probability of failure of DSIBs by increasing their going-concern loss absorbency and to reduce the extent or impact of failure of DSIBs on the domestic/real economy.

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

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

a. *Assessment methodology*

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

b. *Higher Loss Absorbency (HLA) and interaction with other elements of Basel III framework*

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

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

c. *Intensive supervisory approach*

Banks identified as DSIBs shall include in their Internal Capital Adequacy Assessment Process (ICAAP) document concrete and reasonable recovery plans which shall be implemented in case the bank breaches the HLA capital requirement. The recovery plans shall include guidelines and action plans to be taken to restore the DSIB's financial condition to viable level in cases of significant deterioration in certain scenarios. This shall include specific initiatives appropriate to the bank's risk profile such as capital rising activities, streamlining of businesses, restructuring and disposal of assets, to improve capital position.

The guidelines on the framework for dealing with DSIBs and recovery plan of a DSIB are shown in *Appendix 110 and Appendix 111*, respectively.

129 BASEL III LEVERAGE RATIO FRAMEWORK

a. *Minimum requirement.* The Basel III Leverage Ratio is designed to act as a 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. Likewise, it reinforces the risk-based requirements with a simple, non-risk based "backstop" measure.

The Basel III leverage ratio is defined as the capital measure (the numerator) divided by the exposure measure (the denominator), with this ratio expressed as percentage:

$$\textbf{Basel III Leverage Ratio} = \frac{\text{Capital Measure (Tier 1 Capital)}}{\text{Exposure Measure}}$$

The leverage ratio shall not be less than five percent (5%) computed on both solo (head office plus branches) and consolidated bases (parent bank plus subsidiary financial allied undertakings but excluding insurance companies).

The guidelines implementing the Basel III Leverage Ratio framework are provided in *Appendix 116*. The guidelines shall apply to UBs and KBs and their subsidiary banks/QBs.

Starting 31 December 2014 and every quarter thereafter until 30 June 2018, banks concerned shall submit the Basel III Leverage Ratio reporting template, including required disclosure templates, on both solo and consolidated bases for monitoring purposes. The report submission is summarized below:

Report Date	Reference Date	Deadline of Submission
30 September 2017 31 December 2017	31 December2017	Fifteen (15) banking days from end of reference date on solo basis, and Thirty (30) banking days from end of reference date on consolidated basis
31 March 2018	31 March 2018	
30 June 2018	30 June 2018	

During the monitoring period, public disclosure of information relative to leverage ratio shall not be required.

The monitoring of the leverage ratio shall be implemented as a Pillar 1 minimum requirement effective on 1 July 2018. Upon migration to a Pillar 1 requirement, the Basel III Leverage Ratio report shall be submitted quarterly along with the Basel III CAR report on both solo and consolidated bases. The mandatory disclosure requirements provided under *Appendix 116* shall be published in the quarterly published balanced sheet as well as in the annual reports or published financial reports (e.g., audited financial statements).

b. *Sanctions.* Banks shall not be penalized on any breach on the five percent (5%) minimum leverage ratio during the monitoring period. However, erroneous, delayed, erroneous and delayed, or unsubmitted reports of banks shall be subject to penalties provided under Sec. 171 (*Sanctions on Reports for Non-compliance with the Reporting Standards*). The reports shall be classified as *Category A-1* report.

(Circular Nos. 990 dated 22 January 2018, 963 dated 27 June 2017, 943 dated 26 January 2017 and 881 dated 09 June 2015 and M-2015-026 dated 16 July 2015)

130 INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS AND SUPERVISORY REVIEW PROCESS

The guidelines on banks' internal capital adequacy assessment process (ICAAP) and Bangko Sentral's supervisory review process (SRP) are shown in *Appendices 94, 9*5, and *96*, respectively.

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

(Circular No. 869 dated 30 January 2015)

D. CORPORATE GOVERNANCE

131 POLICY STATEMENT AND DEFINITION OF TERMS

It is the thrust of the Bangko Sentral to continuously strengthen corporate governance in its supervised financial institutions cognizant that this is central in sustaining the resiliency and stability of the financial system. In this light, the Bangko Sentral is aligning its existing regulations with the Code of Corporate Governance for Publicly-Listed Companies issued by the SEC as well as with best practices and standards issued by globally recognized standard setting bodies.

Definition of terms. For purposes of these regulations, the following definitions shall apply:

a. *Affiliate* shall refer to an entity linked directly or indirectly to a BSFI by means of:

   (1) Ownership, control as defined under Item *"d"* hereof, or power to vote of at least twenty percent (20%) of the outstanding voting stock of the entity, or vice-versa;
   (2) Interlocking directorship or officership, where the director or officer concerned owns, controls, as defined under Item *"d"* hereof, or has the power to vote, at least twenty percent (20%) of the outstanding voting stock of the entity;
   (3) Common ownership, whereby the common stockholders own at least ten percent (10%) of the outstanding voting stock of the BSFI and at least twenty percent (20%) of the outstanding voting stock of the entity;
   (4) Management contract or any arrangement granting power to the BSFI to direct or cause the direction of management and policies of the entity; or
   (5) Permanent proxy or voting trusts in favor of the BSFI constituting at least twenty percent (20%) of the outstanding voting stock of the entity, or vice versa.

b. *Close family members* shall refer to persons related to the BSFI's directors, officers and stockholders (DOS) within the second degree of consanguinity or affinity, legitimate or common-law. These shall include the spouse, parent, child, brother, sister, grandparent, grandchild, parent-in-law, son-/daughter-in-law, brother/sister-in-law, grandparent-in-law, and grandchild-in-law of the BSFI's DOS.

c. *Complex banks* shall refer to UBs/KBs. Nonetheless, a UB/KB may apply with the Bangko Sentral for a reclassification as simple or non-complex bank in order to avail of the reduced minimum requirement on the constitution of board committees. The Bangko Sentral may likewise declare TBs, RBs or Coop Banks as complex. Any TB, RB or Coop Bank having at least three (3) of the following characteristics shall be deemed a complex bank:

   (1) Total assets of at least P6 billion;

   (2) Extensive branch network;

   (3) Non-traditional financial products and services by virtue of special authorities (e.g., trust, quasi-banking, derivatives licenses), as well as distinctive products like credit cards, remittance, trade-related services, contract-to-sell (CTS) financing, among other financial services;

   (4) Use of non-conventional business model, such as those using non-traditional delivery platform such as electronic platforms; and

   (5) Business strategy characterized by risk appetite that is aggressive, and risk exposures which are increasing, such as those with robust branch expansion programs or acquisition plans as determined by the Bangko Sentral.

d. *Control* of an enterprise exists when there is:

   (1) Power over more than one-half of the voting rights by virtue of an agreement with other stockholders; or
   (2) Power to govern the financial and operating policies of the enterprise under a statute or an agreement; or
   (3) Power to appoint or remove the majority of the members of the board of directors or equivalent governing body; or
   (4) Power to cast the majority votes at meetings of the board of directors or equivalent governing body; or

(5) Any other arrangement similar to any of the above.

Control is presumed to exist if there is ownership or holding, whether direct or indirect, of twenty percent (20%) or more of a class of voting shares of a company.

Should the BSFI choose to disclaim or rebut the presumption, it should provide facts sufficient to show that there is indeed no control. *Further*, the BSFI shall submit a written commitment that: (a) shares owned or held are exclusively for investment purposes; (b) the BSFI-stockholder will not serve on the board of directors and will not nominate any candidate to serve on the board of directors or otherwise seek board representation; (c) the BSFI-stockholder will have only limited contacts with BSFI management that are customary for interested shareholders; (d) the BSFI-stockholder will engage only in normal and customary transactions with the enterprise; and (e) the BSFI will not pledge the shares acquired to secure a loan with any institution.

e. *Corresponding persons in affiliated companies* shall refer to the DOS of the affiliated companies and their close family members.

f. *Directors.* Directors shall include:

(1) directors who are named as such in the articles of incorporation;
(2) directors duly elected in subsequent meetings of the stockholders or those appointed by virtue of the charter of government-owned BSFIs; and
(3) those elected to fill vacancies in the board of directors.

g. *Independent directors.* An independent director shall refer to a person who –

(1) is not or was not a director, officer or employee of the BSFI, its subsidiaries, affiliates or related interests during the past three (3) years counted from the date of his election/appointment;

(2) is not or was not a director, officer, or employee of the BSFI's substantial stockholders and their related companies during the past three (3) years counted from the date of his election/appointment;

(3) is not an owner of more than two percent (2%) of the outstanding shares or a stockholder with shares of stock sufficient to elect one (1) seat in the board of directors of the institution, or in any of its related companies or of its majority corporate shareholders;

(4) is not a close family member of any director, officer or stockholder holding shares of stock sufficient to elect one (1) seat in the board of directors of the BSFI or any of its related companies or of any of its substantial stockholders;

(5) is not acting as a nominee or representative of any director or substantial shareholder of the BSFI, any of its related companies or any of its substantial shareholders;

(6) is not or was not retained as professional adviser, consultant, agent or counsel of the BSFI, any of its related companies or any of its substantial shareholders, either in his personal capacity or through his firm during the past three (3) years counted from the date of his election;

(7) is independent of management and free from any business or other relationship, has not engaged and does not engage in any transaction with the BSFI or with any of its related companies or with any of its substantial shareholders, whether by himself or with other persons or through a firm of which he is a partner or a company of which he is a director or substantial shareholder, other than transactions which are conducted at arm's length and could not materially interfere with or influence the exercise of his judgment;

(8) was not appointed in the BSFI, its subsidiaries, affiliates or related interests as Chairman "Emeritus", "Ex-Officio", Directors/Officers or Members of any Advisory Board, or otherwise appointed in a capacity to assist the board of directors in the performance of its duties and responsibilities during the past three (3) years counted from the date of his appointment;

(9) is not affiliated with any non-profit organization that receives significant funding from the BSFI or any of its related companies or substantial shareholders; and

(10) is not employed as an executive officer of another company where any of the BSFI's executives serve as directors.

h. *Majority stockholder or majority shareholder* shall refer to a person, whether natural or juridical, owning more than fifty percent (50%) of the voting stock of a BSFI.

i. *Non-executive directors* shall refer to those who are not part of the day to day management of operations and shall include the independent directors. However, not all non-executive directors are considered independent directors.

j. *Officers* shall include the chief executive officer (CEO)[1], executive vice president, senior vice-president, vice president, general manager, treasurer, secretary, trust officer and others mentioned as officers of the BSFI, or those whose duties as such are defined in the by-laws, or are generally known to be the officers of the BSFI (or any of its branches and offices other than the head office) either through announcement, representation, publication or any kind of communication made by the BSFI: *Provided,* That a person holding the position of chairman or vice-chairman of the board of directors or another position in the board of directors shall not be considered as an officer unless the duties of his position in the board of directors include functions of management such as those ordinarily performed by regular officers: *Provided, further*, That members of a group or committee, including sub-groups or sub-committees, whose duties include functions of management such as those ordinarily performed by regular officers, and are not purely recommendatory or advisory, shall likewise be considered as officers.

k. *Parent* shall refer to a corporation which has control over another corporation directly or indirectly through one (1) or more intermediaries;

l. *Related company* shall refer to another company which is:

(1) Its parent or holding company;

(2) Its subsidiary or affiliate; or

(3) A corporation where a BSFI or its majority stockholder own such number of shares that will allow/enable such person or group to elect at least one (1) member of the board of directors or a partnership where such majority stockholder is a partner.

m. *Related interest* shall refer to any of the following:

(1) Spouse or relative within the first degree of consanguinity or affinity, or relative by legal adoption, of a director, officer or stockholder of the BSFI;

(2) Partnership of which a director, officer, or stockholder of a BSFI or his spouse or relative within the first degree of consanguinity or affinity, or relative by legal adoption, is a general partner;

(3) Co-owner with the director, officer, stockholder or his spouse or relative within the first degree of consanguinity or affinity, or relative by legal adoption, of the property or interest or right mortgaged, pledged or assigned to secure the loans or other credit accommodations, except when the mortgage, pledge or assignment covers only said co-owner's undivided interest;

(4) Corporation, association or firm of which any or a group of directors, officers, stockholders of the BSFI and/or their spouses or relatives within the first degree of consanguinity or affinity, or relative by legal adoption, hold or own at least twenty percent (20%) of the subscribed capital of such corporation, or of the equity of such association or firm;

(5) Corporation, association or firm wholly or majority-owned or controlled by any related entity or a group of related entities mentioned in Items *"m(2)"* and *"m(4)"* above;

(6) Corporation, association or firm which owns or controls directly or indirectly whether singly or as part of a group of related interest at least twenty percent (20%) of the subscribed capital of a substantial stockholder of the BSFI or which controls majority interest of the BSFI pursuant to Item *"g"* of Sec. 362 (*Definition of terms*);

(7) Corporation, association or firm which has an existing management contract or any similar arrangement with the parent of the BSFI; and

(8) Non-governmental organizations (NGOs)/foundations that are engaged in retail microfinance operations which are incorporated by any of the stockholders and/or directors and/or officers or related BSFIs.

The general principles and standards that will govern the business relationship between BSFIs and their related NGOs/foundations engaged in retail microfinance are found in *Appendix 23*.

n. *Related parties* shall cover the BSFI's subsidiaries as well as affiliates and any party (including their subsidiaries, affiliates and special purpose entities) that the BSFI exerts direct/indirect control over or that exerts direct/indirect control over the BSFI; the BSFI's DOSRI, and their close family members, as well as corresponding persons in affiliated companies. These shall also include such other person/juridical entity whose interests may pose potential conflict with the interest of the BSFI, hence, is identified as a related party.

[1] Shall also refer to the President or any other title referring to the top management post in the BSF

The above definition shall also include direct or indirect linkages to a BSFI identified as follows:

(1) Ownership, control or power to vote, of ten percent (10%) to less than twenty percent (20%) of the outstanding voting stock of the borrowing entity, or vice versa;
(2) Interlocking directorship or officership, except in cases involving independent directors as defined under existing regulations or directors holding nominal share in the borrowing corporation;
(3) Common stockholders owning at least ten percent (10%) of the outstanding voting stock of the BSFI and ten percent (10%) to less than twenty percent (20%) of the outstanding voting stock of the borrowing entity; or
(4) Permanent proxy or voting trusts in favor of the BSFI constituting ten percent (10%) to less than twenty percent (20%) of the outstanding voting stock of the borrowing entity, or vice versa.

o. *Related party transactions (RPTs)* shall refer to transactions or dealings with related parties of the BSFI, including its trust department regardless of whether or not a price is charged. These shall include, but not limited to the following:

(1) On- and off-balance sheet credit exposures and claims and write-offs;
(2) Investments and/or subscriptions for debt/equity issuances;
(3) Consulting, professional, agency and other service arrangements/contracts;
(4) Purchases and sales of assets, including transfer of technology and intangible items (e.g., research and development, trademarks and license agreements);
(5) Construction arrangements/contracts;
(6) Lease arrangements/contracts;
(7) Trading and derivative transactions;
(8) Borrowings, commitments, fund transfers and guarantees;
(9) Sale, purchase or supply of any goods or materials; and
(10) Establishment of joint venture entities.

RPTs shall be interpreted broadly to include not only transactions that are entered into with related parties but also outstanding transactions that were entered into with an unrelated party that subsequently becomes a related party.

p. *Risk appetite statement* shall refer to the articulation in written form of the aggregate level and types of risk that a BSFI is willing to accept, or to avoid, in order to achieve its business objectives. It includes qualitative statements as well as quantitative measures expressed relative to earnings, capital, risk measures, liquidity and other relevant measures as appropriate.

q. *Risk governance framework* shall refer to the framework through which the board of directors and management establish the BSFI's strategy; articulate and monitor adherence to risk appetite and risk limits; and identify, measure, and manage risks.

r. *Risk limits* shall refer to the allocation of the BSFI's risk appetite statement to: specific risk categories (e.g., credit, market, liquidity, operational); the business unit or platform level (e.g., retail, capital markets); lines of business or product level [e.g., concentration, value-at-risk (VaR), or other limits]; and other levels, as appropriate.

s. *Stockholder* shall refer to any stockholder of record in the books of the BSFI, acting personally, or through an attorney-in-fact; or any other person duly authorized by him or through a trustee designated pursuant to a proxy or voting trust or other similar contracts, whose stockholdings in the BSFI, individual and/or collectively with the stockholdings of: (1) his spouse and/or relative within the first degree by consanguinity or affinity or legal adoption; (2) a partnership in which the stockholder and/or the spouse and/or any of the aforementioned relatives is a general partner; and (3) corporation, association or firm of which the stockholder and/or his spouse and/or the aforementioned relatives own more than fifty percent (50%) of the total subscribed capital stock of such corporation, association or firm, amount to one percent (1%) or more of the total subscribed capital stock of the BSFI.

t. *Substantial stockholder* shall refer to a person, or group of persons whether natural or juridical, owning such number of shares that will allow such person or group to elect at least one (1) member of the board of directors of a BSFI or who is directly or indirectly the registered or beneficial owner of more than ten percent (10%) of any class of its equity security.

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

132 BOARD OF DIRECTORS

Powers/Corporate powers of the board of directors. The corporate powers of an institution shall be exercised, its business conducted, and all its resources controlled through its board of directors. The powers of the board of directors as conferred by law are original and cannot be revoked by the stockholders. The directors shall hold their office charged with the duty to exercise sound and objective judgment for the best interest of the institution.

Composition of the board of directors.

a. Pursuant to Sections 15 and 17 of R.A. No. 8791, there shall be at least five (5), and a maximum of fifteen (15) members of the board of directors of a BSFI: *Provided,* That in case of a bank merger or consolidation, the number of directors may be increased up to the total number of the members of board of directors of the merging or consolidating bank as provided for in their respective articles of incorporation, but in no case to exceed twenty-one (21). The board of directors shall determine the appropriate number of its members to ensure that the number thereof is commensurate to the size and complexity of the BSFI's operations.

b. To the extent practicable, the members of the board of directors shall be selected from a broad pool of qualified candidates. Non-executive directors, who shall include independent directors, shall comprise at least majority of the board of directors to promote the independent oversight of management by the board of directors.

c. At least one-third (1/3) but not less than two (2) members of the board of directors shall be independent directors: *Provided,* That any fractional result from applying the required minimum proportion, i.e., one-third (1/3), shall be rounded up to the nearest whole number: *Provided, further,* That in the case of RBs, at least one (1) independent director shall be elected to the board of directors: *Provided, furthermore,* That RBs whose business model is deemed complex by the Bangko Sentral, or as directed by the appropriate supervising department, shall have at least one-third (1/3) but not less than two (2) members of the board of directors as independent directors: *Provided, finally,* That any fractional result from applying the required minimum proportion, i.e., one-third (1/3) shall be rounded-up to the nearest whole number.

d. Non-Filipino citizens may become members of the board of directors of a BSFI to the extent of the foreign participation in the equity of said BSFI: *Provided*, That pursuant to Section 23 of the Corporation Code of the Philippines (BP Blg. 68), a majority of the directors must be residents of the Philippines.

Qualifications of a director.

a. *A director shall have the following minimum qualifications:*

(1) He must be fit and proper for the position of a director. In determining whether a person is fit and proper for the position of a director, the following matters must be considered: integrity/probity, physical/mental fitness; relevant education/financial literacy/training; possession of competencies relevant to the job, such as knowledge and experience, skills, diligence and independence of mind; and sufficiency of time to fully carry out responsibilities.

In assessing a director's integrity/probity, consideration shall be given to the director's market reputation, observed conduct and behavior, as well as his ability to continuously comply with company policies and applicable laws and regulations, including market conduct rules, and the relevant requirements and standards of any regulatory body, professional body, clearing house or exchange, or government and any of its instrumentalities/agencies.

An elected director has the burden to prove that he possesses all the foregoing minimum qualifications and none of the cases mentioned under Sec. 138 (*Persons disqualified to become directors*).

A director shall submit to the Bangko Sentral the required certifications and other documentary proof of such qualifications using *Appendix 101* as guide within twenty (20) banking days from the date of election. Non-submission of complete documentary requirements or their equivalent within the prescribed period shall be construed as his failure to establish his qualifications for the position and results in his removal from the board of directors.

The Bangko Sentral shall also consider its own records in determining the qualifications of a director.

The members of the board of directors shall possess the foregoing qualifications in addition to those required or prescribed under R.A. No. 8791 and other applicable laws and regulations.

(2) He must have attended a seminar on corporate governance for board of directors. A director shall submit to the Bangko Sentral a certification of compliance with the Bangko Sentral-prescribed syllabus on corporate governance for first-time directors and documentary proof of such compliance: *Provided,* That the following persons are exempted from complying with the aforementioned requirement:

(a) Filipino citizens with recognized stature, influence and reputation in the banking community and whose business practices stand as testimonies to good corporate governance;
(b) Distinguished Filipino and foreign nationals who served as senior officials in central banks and/or financial regulatory agencies, including former Monetary Board members; or

(c) Former Chief Justices and Associate Justices of the Philippine Supreme Court:

Provided, further, That this exemption shall not apply to the annual training requirements for the members of the board of directors.

b. *Independent and non-executive directors*

In selecting independent and non-executive directors, the number and types of entities where the candidate is likewise elected as such, shall be considered to ensure that he will be able to devote sufficient time to effectively carry out his duties and responsibilities. In this regard, the following shall apply:

(1) A non-executive director may concurrently serve as director in a maximum of five (5) publicly listed companies. In applying this provision to concurrent directorship in entities within a conglomerate, each entity where the non-executive director is concurrently serving as director shall be separately considered in assessing compliance with this requirement; and

(2) An independent director of a BSFI may only serve as such for a maximum cumulative term of nine (9) years. After which, the independent director shall be perpetually barred from serving as independent director in the same BSFI, but may continue to serve as regular director. The nine (9) year maximum cumulative term for independent directors shall be reckoned from 2012.

c. *Members of the board of directors shall not be appointed as Corporate Secretary or Chief Compliance Officer.*

Chairperson of the board of directors.

a. *Roles of the Chairperson of the board of directors.* The Chairperson of the board of directors shall provide leadership in the board of directors. He shall ensure effective functioning of the board of directors, including maintaining a relationship of trust with members of the board of directors. He shall: (1) ensure that the meeting agenda focuses on strategic matters including discussion on risk appetites, and key governance concerns; (2) ensure a sound decision-making process; (3) encourage and promote critical discussion; (4) ensure that dissenting views can be expressed and discussed within the decision-making process; (5) ensure that members of the board of directors receive accurate, timely, and relevant information; (6) ensure the conduct of proper orientation for first-time directors and provide training opportunities for all directors; and (7) ensure conduct of performance evaluation of the board of directors at least once a year.

b. *Qualifications of the chairperson of the board of directors.* To promote checks and balances, the chairperson of the board of directors shall be a non-executive director or an independent director, and must not have served as CEO of the BSFI within the past three (3) years. The positions of chairperson and CEO shall not be held by one (1) person. In exceptional cases where the position of chairperson of the board of directors and CEO is allowed to be held by one (1) person as approved by the Monetary Board, a lead independent director shall be appointed.

For this purpose, the board of directors shall define the responsibilities of the lead independent director, which shall be documented in the corporate governance manual. The board of directors shall ensure that the lead independent director functions in an environment that allows him to effectively challenge the CEO as circumstances may warrant. The lead independent director shall perform a more enhanced function over the other independent directors and shall: (1) lead the independent directors at board of directors meetings in raising queries and pursuing matters; and (2) lead meetings of independent directors, without the presence of the executive directors.

Board of directors meetings. BSFIs shall include in their by-laws a provision that meetings of their board of directors shall be held only within the Philippines, except in the case of BSFIs with head office located outside the Philippines, where meetings may be held in their respective places of business.

a. *Full board of directors meetings*

The meetings of the board of directors may be conducted through modern technologies such as, but not limited to teleconferencing and video conferencing as long as the director who is taking part in said meetings can actively participate in the deliberations on matters taken up therein: *Provided*, That every member of the board of directors shall participate in at least fifty percent (50%) and shall physically attend at least twenty-five percent (25%) of all meetings of the board of directors every year: *Provided, further*, That the absence of a director in more than fifty percent (50%) of all regular and special meetings of the board of directors during his/her incumbency is a ground for disqualification in the succeeding election.

b. *Board-level committee meetings*

Board-level committees shall meet as prescribed in their respective charters. Participation of committee members may likewise be in person or through modern technologies: *Provided*, That the attendance and

participation of members in committee meetings shall be considered in the assessment of continuing fitness and propriety of each director as member of board-level committees and the board of directors.

Specific duties and responsibilities of the board of directors. The board of directors is primarily responsible for defining the BSFI's vision and mission. The board of directors has the fiduciary responsibility to the BSFI and all its shareholders including minority shareholders. It shall approve and oversee the implementation of strategies to achieve corporate objectives. It shall also approve and oversee the implementation of the risk governance framework and the systems of checks and balances. It shall establish a sound corporate governance framework. The board of directors shall approve the selection of the CEO and key members of senior management and control functions and oversee their performance.

a. *The board of directors shall define the BSFI's corporate culture and values.* It shall establish a code of conduct and ethical standards in the BSFI and shall institutionalize a system that will allow reporting of concerns or violations to an appropriate body. In this regard, the board of directors shall:

   (1) Approve a code of conduct or code of ethics, which shall articulate acceptable and unacceptable activities, transactions and behaviors that could result or potentially result in conflict of interest, personal gain at the expense of the BSFI as well as the corresponding disciplinary actions and sanctions. The code of conduct shall explicitly provide that directors, officers, and all personnel are expected to conduct themselves ethically and perform their job with skill, due care, and diligence in addition to complying with laws, regulations, and company policies.

   (2) Consistently conduct the affairs of the BSFI with a high degree of integrity and play a lead role in establishing the BSFI's corporate culture and values. The board of directors shall establish, actively promote, and communicate a culture of strong governance in the BSFI, through adopted policies and displayed practices. The board of directors shall ensure that the CEO and executive team champion the desired values and conduct, and that they face material consequences if there are persistent or high profile conduct and value breaches.

   (3) Oversee the integrity, independence, and effectiveness of BSFI's policies and procedures for whistleblowing. It shall allow employees to communicate, with protection from reprisal, legitimate concerns about illegal, unethical or questionable practices directly to the board of directors or to any independent unit. Policies shall likewise be set on how such concerns shall be investigated and addressed, for example, by an internal control function, an objective external party, senior management and/or the board of directors itself. It shall prevent the use of the facilities of the BSFI in the furtherance of criminal and other improper or illegal activities, such as but not limited to financial misreporting, money laundering, fraud, bribery or corruption.

b. *The board of directors shall be responsible for approving BSFI's objectives and strategies and in overseeing management's implementation thereof.* In this regard, the board of directors shall:

   (1) Ensure that the BSFI has beneficial influence on the economy by continuously providing services and facilities which will be supportive of the national economy.

   (2) Approve the BSFI's strategic objectives and business plans. These shall take into account the BSFI's long-term financial interests, its level of risk tolerance, and ability to manage risks effectively. In this respect, the board of directors shall establish a system for measuring performance against plans.

   (3) Actively engage in the affairs of the BSFI and keep-up with material changes in the BSFI's business and regulatory environment as well as act in a timely manner to protect the long-term interests of the BSFI.

   (4) Approve and oversee the implementation of policies governing major areas of the BSFI's operations. The board of directors shall regularly review these policies, as well as evaluate control functions (e.g., internal audit, risk management and compliance) with senior management to determine areas for improvement as well as to promptly identify and address significant risks and issues.

c. *The board of directors shall be responsible for the appointment/selection of key members of senior management and heads of control functions and for the approval of a sound remuneration and other incentives policy for personnel.* In this regard, the board of directors shall:

   (1) Oversee selection of the CEO and other key personnel, including members of senior management and heads of control functions based on the application of fit and proper standards. Integrity, technical expertise, and experience in the BSFI's business, either current or planned, shall be the key considerations in the selection process. Moreover, since mutual trust and a close working relationship are important, the members of senior management shall uphold the general operating philosophy, vision and core values of the BSFI.

   (2) Approve and oversee the implementation of performance standards as well as remuneration and other incentives policy. The policy should be consistent with the long-term strategic objectives and financial

soundness of the BSFI and should promote good performance, convey acceptable risk-taking behavior, and reinforce the BSFI's operating and risk culture.

(3) Oversee the performance of senior management and heads of control functions:

(a) The board of directors shall regularly monitor and assess the performance of the management team and heads of control functions based on approved performance standards.

(b) The board of directors shall hold members of senior management accountable for their actions and enumerate the possible consequences if those actions are not aligned with the board of directors' performance expectations. These expectations shall include adherence to the BSFI's values, risk appetite and risk culture, under all circumstances.

(c) The board of directors shall regularly meet with senior management to engage in discussions, question, and critically review the reports and information provided by the latter.

(d) Non-executive board members shall meet regularly, other than in meetings of the audit, risk oversight, corporate governance, and related party transactions committees, in the absence of senior management, with the external auditor and heads of the internal audit, compliance and risk management functions.

(4) Engage in succession planning for the CEO and other critical positions, as appropriate. In this respect, the board of directors shall establish an effective succession planning program. The program should include a system for identifying and developing potential successors for the CEO and other critical positions.

(5) Ensure that personnel's expertise and knowledge remain relevant. The board of directors shall provide its personnel with regular training opportunities as part of a professional development program to enhance their competencies and stay abreast of developments relevant to their areas of responsibility.

(6) Ensure that employee pension funds are fully funded or the corresponding liability appropriately recognized in the books of the BSFI at all times, and that all transactions involving the pension fund are conducted at arm's length terms.

d. *The board of directors shall be responsible for approving and overseeing implementation of the BSFI's corporate governance framework.* In this regard, the board of directors shall:

(1) Define appropriate governance structure and practices for its own work, and ensure that such practices are followed and periodically reviewed:

(a) The board of directors shall structure itself in a way, including in terms of size and frequency of meetings, so as to promote efficiency, critical discussion of issues, and thorough review of matters. The board of directors shall meet regularly to properly discharge its functions, and likewise have discussions on values, conduct, and behaviors.

(b) The board of directors shall create committees to increase efficiency and allow deeper focus in specific areas. The number and nature of board-level committees would depend on the size of the BSFI and the board of directors, the BSFI's complexity of operations, as well as the board of directors' long-term strategies and risk tolerance.

(c) The board of directors shall regularly review the structure, size and composition of the board of directors and board-level committees with the end in view of having a balanced membership. Towards this end, a system and procedure for evaluation of the structure, size and composition of the board of directors and board-level committees shall be adopted which shall include, but not limited to, benchmark and peer group analysis. The results of assessment shall form part of the ongoing improvement efforts of the board of directors.

(d) The board of directors shall adopt policies aimed at ensuring that the members of the board of directors are able to commit to effectively discharge their responsibilities, which shall include policy on the number of directorship positions and/or other internal/external professional commitments that a director may have, commensurate with the responsibilities placed on the director, as well as the nature, scale and complexity of the BSFI's operations.

(e) The board of directors shall ensure that individual members of the board of directors and the shareholders are accurately and timely informed of a comprehensive and understandable assessment of the BSFI's performance, financial condition, and risk exposures. All members of the board of directors shall have reasonable access to any information about the BSFI at all times. The board of directors shall also ensure that adequate and appropriate information flows internally and to the public.

(f) The board of directors shall assess at least annually its performance and effectiveness as a body, as well as its various committees, the CEO, the individual directors, and the BSFI itself, which may be facilitated by the corporate governance committee or external facilitators. This exercise shall cover the assessment of the ongoing suitability of each board member taking into account his or her performance in the board of directors and board-level committees.

(g) The board of directors shall maintain appropriate records (e.g., meeting minutes or summaries of matters reviewed, recommendations made, decisions taken and dissenting opinions) of its deliberations and decisions. The board of directors shall also ensure that independent views in meetings of the board of directors shall be given full consideration and all such meetings shall be duly minuted.

(2) Develop a remuneration and other incentives policy for directors that shall be submitted for approval of the stockholders. The board of directors shall ensure that the policy is consistent with the long-term interest of the BSFI, does not encourage excessive risk-taking, and is not in conflict with the director's fiduciary responsibilities.

(3) Adopt a policy on retirement for directors and officers, as part of the succession plan, to promote dynamism and avoid perpetuation in power.

(4) Conduct and maintain the affairs of the BSFI within the scope of its authority as prescribed in its charter and in existing laws, rules and regulations. It shall ensure effective compliance with the latter, which include prudential reporting obligations. Serious weaknesses in adhering to these duties and responsibilities may be considered as unsafe or unsound banking.

(5) Maintain, and periodically update, organizational rules, by-laws, or other similar documents setting out its organization, rights, responsibilities and key activities. The board of directors shall ensure that the BSFI's organizational structure facilitates effective decision-making and good governance. This includes clear definition and delineation of the lines of responsibility and accountability.

(6) Oversee the development, approve, and monitor implementation of corporate governance policies. The board of directors shall ensure that corporate governance policies are followed and periodically reviewed for ongoing improvement.

(7) Approve an overarching policy on the handling of RPTs to ensure that there is effective compliance with existing laws, rules and regulations at all times, that these are conducted on an arm's length basis, and that no stakeholder is unduly disadvantaged. In this regard:

(a) The board of directors shall approve all material RPTs, those that cross the materiality threshold, and write-off of material exposures to related parties, and submit the same for confirmation by majority vote of the stockholders in the annual stockholders' meeting. Any renewal or material changes in the terms and conditions of RPTs shall also be approved by the board of directors. All final decisions of the board of directors on material RPTs, including important facts about the nature, terms, conditions, original and outstanding individual and aggregate balances, justification and other details that would allow stockholders to make informed judgment as to the reasonableness of the transaction, must be clearly disclosed during stockholders meetings and duly reflected in the minutes of board of directors and stockholders' meetings.

(b) The board of directors shall delegate to appropriate management committee the approval of RPTs that are below the materiality threshold, subject to confirmation by the board of directors. This shall, however, exclude DOSRI transactions, which are required to be approved by the board of directors. All decisions under the delegated authority must be properly recorded in the minutes of the committee meetings.

(c) The board of directors shall establish an effective system to:

(i) Determine, identify and monitor related parties and RPTs;

(ii) Continuously review and evaluate existing relationships between and among businesses and counterparties; and

(iii) Identify, measure, monitor and control risks arising from RPTs. The system should be able to define related parties' extent of relationship with the BSFI; assess situations in which a non-related party (with whom a BSFI has entered into a transaction) subsequently becomes a related party and vice versa; and generate information on the type and amount of exposures to a particular related party. The said system will facilitate submission of accurate reports to the regulators/supervisors. The system as well as the overarching policies shall be subject to periodic

assessment by the internal audit and compliance functions and shall be updated regularly for their sound implementation. The overarching policy and the system shall be made available to the Bangko Sentral and audit functions for review. Any changes in the policies and procedures shall be approved by the board of directors.

(d) The board of directors shall maintain adequate capital against risks associated with exposures to related parties. In this regard, material risks arising from RPTs shall be considered in the capital planning process. The prescribed scenario/stress tests under the capital planning process shall also capture RPTs in order to determine whether the BSFI is well-insulated from any going concern issue of related parties.

(e) The board of directors shall oversee the integrity, independence, and effectiveness of the policies and procedures for whistleblowing. The board of directors should ensure that senior management addresses legitimate issues on RPT that are raised. The board of directors should take responsibility for ensuring that staff who raise concerns are protected from detrimental treatment or reprisals.

(8) Define an appropriate corporate governance framework for group structures, which shall facilitate effective oversight over entities in the group. The board of directors of the parent company shall ensure consistent adoption of corporate governance policies and systems across the group. In this regard:

(a) The board of directors shall define and approve appropriate governance policies, practices and structure that will enable effective oversight of the entire group, taking into account the nature and complexity of operations, size and the types of risks to which the BSFI and its subsidiaries are exposed. The board of directors shall also establish means to ensure that such policies, practices and systems remain appropriate in light of the growth, increased complexity and geographical expansion of the group. Further, it shall ensure that the policies include the commitment from the entities in the group to meet all governance requirements.

(b) The board of directors shall define the risk appetite for the group, which shall be linked to the process of determining the adequacy of capital of the group.

(c) The board of directors shall ensure that adequate resources are available for all the entitles in the group to effectively implement and meet the governance policies, practices and systems.

(d) The board of directors shall define and approve policies and clear strategies for the establishment of new structures.

(e) The board of directors shall understand the roles, the relationships or interactions of each entity in the group with one another and with the parent company. The board of directors shall understand the legal and operational implications of the group structure and how the various types of risk exposures affect the group's capital, risk profile and funding under normal and contingent circumstances. The board of directors shall ensure that the group's corporate governance framework includes appropriate processes and controls to identify and address potential intragroup conflicts of interest, such as those arising from intragroup transactions.

(f) The board of directors shall develop sound and effective systems for generation and sharing of information within the group, management of risks and effective supervision of the group.

(g) The board of directors shall require the risk management, compliance function and internal audit group to conduct a periodic formal review of the group structure, their controls and activities to assess consistency with the board of directors approved policies, practices and strategies and to require said groups to report the results of their assessment directly to the board of directors.

In cases where the BSFI is a subsidiary/affiliate of a non-Bangko Sentral regulated parent company:

(i) The board of directors shall define and approve policies and clear strategies for the establishment of new structures (e.g., subsidiaries/affiliate of the BSFI). The board of directors shall also report to the Bangko Sentral any plan to create additional group structures.

(ii) The board of directors shall understand the roles, relationships or interactions of each entity in the group with one another and with the parent company. The board of directors shall understand the legal and operational implications of the group structure and how the various types of risk exposures affect the BSFI's capital, risk profile and funding under normal and contingent circumstances.

e. *The board of directors shall be responsible for approving BSFI's risk governance framework and overseeing management's implementation thereof.* In this regard, the board of directors shall:

(1) Define the BSFI's risk appetite. In setting the risk appetite, the board of directors shall take into account the business environment, regulatory landscape, and the BSFI's long term interests and ability to manage risk.

(2) Approve and oversee adherence to the risk appetite statement (RAS), risk policy, and risk limits.

(3) Oversee the development of, approve, and oversee the implementation of policies and procedures relating to the management of risks throughout the BSFI.

(4) Define organizational responsibilities following the three lines of defense framework. The business line functions will represent the first line of defense, the risk management and compliance functions for the second line of defense, and the internal audit function for the third line of defense. In this regard:

(a) The board of directors shall ensure that the risk management, compliance and internal audit functions have proper stature in the organization, have adequate staff and resources, and carry out their responsibilities independently, objectively and effectively.

(b) The board of directors shall ensure that non-executive board members meet regularly, with the external auditor and heads of the internal audit, compliance and risk management functions other than in meetings of the audit and risk oversight committees, in the absence of senior management.

Specific duties and responsibilities of a director. The position of a director is a position of trust. A director assumes certain responsibilities to different constituencies or stakeholders, i.e., the BSFI itself, its stockholders, its depositors and other creditors, its management and employees, the regulators, deposit insurer and the public at large. These constituencies or stakeholders have the right to expect that the institution is being run in a prudent and sound manner. The members of the board of directors should exercise their "duty of care" and "duty of loyalty" to the institution.

a. *To remain fit and proper for the position for the duration of his term.* A director is expected to remain fit and proper for the position for the duration of his term. He should possess unquestionable credibility to make decisions objectively and resist undue influence. He shall treat board directorship as a profession and shall have a clear understanding of his duties and responsibilities as well as his role in promoting good governance. Hence, he shall maintain his professional integrity and continuously seek to enhance his skills, knowledge and understanding of the activities that the bank is engaged in or intends to pursue as well as the developments in the banking industry including regulatory changes through continuing education or training.

b. *To conduct fair business transactions with the BSFI and to ensure that personal interest does not bias board decisions.* Directors should, whenever possible, avoid situations that would give rise to a conflict of interest. If transactions with the institution cannot be avoided, it should be done in the regular course of business and upon terms not less favorable to the institution than those offered to others. The basic principle to be observed is that a director should not use his position to make profit or to acquire benefit or advantage for himself and/or his related interests. He should avoid situations that would compromise his impartiality.

c. *To act honestly and in good faith, with loyalty and in the best interest of the institution, its stockholders, regardless of the amount of their stockholdings, and other stakeholders such as its depositors, investors, borrowers, other clients and the general public.* A director must always act in good faith, with the care which an ordinarily prudent man would exercise under similar circumstances. While a director should always strive to promote the interest of all stockholders, he should also give due regard to the rights and interests of other stakeholders.

d. *To devote time and attention necessary to properly discharge their duties and responsibilities.* Directors should devote sufficient time to familiarize themselves with the institution's business. They must be constantly aware of the institution's condition and be knowledgeable enough to contribute meaningfully to the board's work. They must attend and actively participate in board and committee meetings, request and review meeting materials, ask questions, and request explanations. If a person cannot give sufficient time and attention to the affairs of the institution, he should neither accept his nomination nor run for election as member of the board.

e. *To act judiciously.* Before deciding on any matter brought before the board of directors, every director should thoroughly evaluate the issues, ask questions and seek clarifications when necessary.

f. *To contribute significantly to the decision-making process of the board.* Directors should actively participate and exercise objective independent judgment on corporate affairs requiring the decision or approval of such board.

g. *To exercise independent judgment.* A director should view each problem/situation objectively. When a disagreement with others occurs, he should carefully evaluate the situation and state his position. He should not be afraid to take a position even though it might be unpopular. Corollarily, he should support plans and ideas that he thinks will be beneficial to the institution.

h. *To have a working knowledge of the statutory and regulatory requirements affecting the institution, including the content of its articles of incorporation and by-laws, the requirements of the Bangko Sentral and where applicable, the requirements of other regulatory agencies.* A director should also keep himself informed of the industry developments and business trends in order to safeguard the institution's competitiveness.

i. *To observe confidentiality.* Directors must observe the confidentiality of non-public information acquired by reason of their position as directors. They may not disclose said information to any other person without the authority of the board.

BSFIs shall furnish aII of their first-time directors within a BSFI with a copy of the specific duties and responsibilities of the board of directors and as an individual director prescribed under Sec. 132, upon election. The BSFI must keep on file certification under oath of the directors concerned that they have received copies of such specific duties and responsibilities and that they fully understand and accept the same.

(Circular No. 969 dated 22 August 2017)

133 BOARD-LEVEL COMMITTEES

The board of directors may delegate some of its functions, but not its responsibilities, to board-level committees. In this regard, the board of directors shall:

a. Approve, review, and update, at least annually or whenever there are significant changes therein, the respective charters of each committee or other documents that set out its mandate, scope and working procedures. Said documents shall articulate how the committee will report to the full board of directors, what is expected of the committee members, and tenure limits for serving in the committee. The board of directors shall also consider occasional rotation of committee members and chairs to avoid undue concentration of power and promote fresh perspective.

b. Appoint members of the committees taking into account the optimal mix of skills and experience to allow the board of directors, through the committees, to fully understand and objectively evaluate the relevant issues. In order to promote objectivity, the board of directors shall appoint independent directors and non-executive members of the board of directors to the greatest extent possible. Towards this end, an independent director who is a member of any committee that exercises executive or management functions that can potentially impair such director's independence cannot accept membership in committees that perform independent oversight/control functions such as the Audit, Risk Oversight and Corporate Governance, Related Party Transactions committees, without prior approval of the Monetary Board.

c. Ensure that each committee shall maintain appropriate records (e.g., minutes of meetings or summary of matters reviewed and decisions taken) of their deliberations and decisions. Such records shall document the committee's fulfillment of its responsibilities and facilitate the assessment of the effective performance of its functions.

d. Constitute, at a minimum, the following committees: (1) Audit Committee; (2) Risk Oversight Committee, and (3) Corporate Governance Committee: *Provided,* That the board of directors of simple or non-complex banks may, at a minimum, constitute only the Audit Committee unless directed by the Bangko Sentral to create other board-level committees: *Provided, further,* That the board of directors shall discuss risk management and corporate governance matters in the meetings of the board of directors, with the views of the independent directors duly considered and minuted.

UBs/KBs that are part of a conglomerate shall also constitute an RPT Committee. The Bangko Sentral may likewise direct the board of directors of other BSFIs to constitute an RPT committee as part of their corporate governance reforms.

Audit committee.

a. *Composition and chairperson.* The audit committee shall be composed of at least three (3) members of the board of directors, who shall all be non-executive directors, majority of whom shall be independent directors, including the chairperson: *Provided,* That in the case of simple or non-complex RBs, the audit committee shall be composed of at least three (3) members of the board of directors who shall all be non-executive directors, including the chairperson who shall be an independent director: *Provided, further,* That the chairperson of the audit committee shall not be the chairperson of the board of directors or of any other board-level committees.

The audit committee shall have accounting, auditing, or related financial management expertise or experience commensurate with the size, complexity of operations and risk profile of the BSFI. It shall have access to independent experts to assist them in carrying out its responsibilities.

b. *Duties and responsibilities of the audit committee.* The audit committee shall:

(1) *Oversee the financial reporting framework*. The committee shall oversee the financial reporting process, practices, and controls. It shall ensure that the reporting framework enables the generation and preparation of accurate and comprehensive information and reports.

(2) *Monitor and evaluate the adequacy and effectiveness of the internal control system.* The committee shall oversee the implementation of internal control policies and activities. It shall also ensure that periodic assessment of the internal control system is conducted to identify the weaknesses and evaluate its robustness considering the BSFI's risk profile and strategic direction.

(3) *Oversee the internal audit function.* The committee shall be responsible for the appointment/selection, remuneration, and dismissal of internal auditor. It shall review and approve the audit scope and frequency. The committee shall ensure that the scope covers the review of the effectiveness of the BSFI's internal controls, including financial, operational and compliance controls, and risk management system. The committee shall functionally meet with the head of internal audit and such meetings shall be duly minuted and adequately documented. In this regard, the audit committee shall review and approve the performance and compensation of the head of internal audit, and budget of the internal audit function.

(4) *Oversee the external audit function.* The committee shall be responsible for the appointment, fees, and replacement of external auditor. It shall review and approve the engagement contract and ensure that the scope of audit likewise cover areas specifically prescribed by the Bangko Sentral and other regulators.

(5) *Oversee implementation of corrective actions.* The committee shall receive key audit reports, and ensure that senior management is taking necessary corrective actions in a timely manner to address the weaknesses, non-compliance with policies, laws, and regulations and other issues identified by auditors and other control functions.

(6) *Investigate significant issues/concerns raised.* The committee shall have explicit authority to investigate any matter within its terms of reference, have full access to and cooperation by management, and have full discretion to invite any director or executive officer to attend its meetings.

(7) *Establish whistleblowing mechanism*. The committee shall establish and maintain mechanisms by which officers and staff shall, in confidence, raise concerns about possible improprieties or malpractices in matters of financial reporting, internal control, auditing or other issues to persons or entities that have the power to take corrective action. It shall ensure that arrangements are in place for the independent investigation, appropriate follow-up action, and subsequent resolution of complaints.

Risk oversight committee (ROC).

a. *Composition and chairperson.* The committee shall be composed of at least three (3) members of the board of directors, majority of whom shall be independent directors, including the chairperson. The ROC's chairperson shall not be the chairperson of the board of directors, or any other board-level committee. The risk oversight committee shall possess a range of expertise and adequate knowledge on risk management issues and practices. It shall have access to independent experts to assist it in discharging its responsibilities.

b. *Duties and responsibilities of the ROC.* The ROC shall advise the board of directors on the BSFI's overall current and future risk appetite, oversee senior management's adherence to the risk appetite statement, and report on the state of risk culture of the BSFI. The ROC shall:

(1) Oversee the risk management framework. The committee shall oversee the enterprise risk management framework and ensure that there is periodic review of the effectiveness of the risk management systems and recovery plans. It shall ensure that corrective actions are promptly implemented to address risk management concerns.

(2) Oversee adherence to risk appetite. The committee shall ensure that the current and emerging risk exposures are consistent with the BSFI's strategic direction and overall risk appetite. It shall assess the overall status of adherence to the risk appetite based on the quality of compliance with the limit structure, policies, and procedures relating to risk management and control, and performance of management, among others.

(3) Oversee the risk management function. The committee shall be responsible for the appointment/selection, remuneration, and dismissal of the chief risk officer (CRO). It shall also ensure that the risk management function has adequate resources and effectively oversees the risk-taking activities of the BSFI.

Corporate governance committee.

a. *Composition.* The committee shall be composed of at least three (3) members of the board of directors who shall all be non-executive directors, majority of whom shall be independent directors, including the chairperson.

b. *Duties and responsibilities of the corporate governance committee.* The corporate governance committee shall assist the board of directors in fulfilling its corporate governance responsibilities. In this regard, the corporate governance committee shall:

(1) *Oversee the nomination process for members of the board of directors and for positions appointed by the board of directors.* The committee shall review and evaluate the qualifications of all persons nominated to the board of directors as well as those nominated to other positions requiring appointment by the board of directors. The committee shall recommend to the board of directors matters pertaining to the assignment to board committees, as well as succession plan for the members of the board of directors and senior management.

(2) *Oversee the continuing education program for the board of directors.* The committee shall ensure allocation of sufficient time, budget and other resources for the continuing education of directors, and draw on external expertise as needed. The committee shall establish and ensure effective implementation of policy for on-boarding/orientation program for first time directors and annual continuing education for all directors.

For this purpose, the orientation program for first time directors shall be for at least eight (8) hours, while the annual continuing training shall be at least for four (4) hours. The training programs should cover topics relevant in carrying out their duties and responsibilities as directors.

(3) *Oversee the performance evaluation process.* The committee shall oversee the periodic evaluation of contribution and performance (e.g., competence, candor, attendance, preparedness and participation) of the board of directors, board-level committees, and senior management. Internal guidelines shall be adopted that address the competing time commitments of directors serving on multiple boards.

(4) *Oversee the design and operation of the remuneration and other incentives policy.* The committee shall ensure that the remuneration and other incentives policy is aligned with operating and risk culture as well as with the strategic and financial interest of BSFI, promotes good performance and conveys acceptable risk-taking behavior defined under its Code of Ethics, and complies with legal and regulatory requirements. It shall work closely with the BSFI's risk oversight committee in evaluating the incentives created by the remuneration system. In particular, the risk oversight committee shall examine whether incentives provided by the remuneration system take into consideration risk, capital, and the likelihood and timing of earnings. Moreover, it shall monitor and review the remuneration and other incentives policy including plans, processes and outcomes to ensure that it operates and achieves the objectives as intended.

Related party transactions committee.

a. *Composition and chairperson.* The committee shall be composed of at least three (3) members of the board of directors, two (2) of whom shall be independent directors, including the chairperson. The committee shall at all times be entirely composed of independent directors and non-executive directors, with independent directors comprising majority of the members. In case a member has conflict of interest in a particular RPT, he should refrain from evaluating that particular transaction. The compliance officer or internal auditor may sit as resource persons in said committee.

b. *Duties and responsibilities of the related party transactions committee.*

(1) Evaluate on an ongoing basis existing relations between and among businesses and counterparties to ensure that all related parties are continuously identified, RPTs are monitored, and subsequent changes in relationships with counterparties (from non-related to related and vice versa) are captured. Related parties, RPTs, and changes in relationships shall be reflected in the relevant reports to the board of directors and regulators/supervisors.

(2) Evaluate all material RPTs to ensure that these are not undertaken on more favorable economic terms (e.g., price, commissions, interest rates, fees, tenor, collateral requirement) to such related parties than similar transactions with non-related parties under similar circumstances and that no corporate or business resources of the BSFI are misappropriated or misapplied, and to determine any potential reputational risk issues that may arise as a result of or in connection with the transactions. In evaluating RPTs, the Committee shall take into account, among others, the following:

(a) The related party's relationship to the BSFI and interest in the transaction;

(b) The material facts of the proposed RPT, including the proposed aggregate value of such transaction;

(c) The benefits to the BSFI of the proposed RPT;

(d) The availability of other sources of comparable products or services; and

(e) An assessment of whether the proposed RPT is on terms and conditions that are comparable to the terms generally available to an unrelated party under similar circumstances. The BSFI shall have in place an effective price discovery system and have exercised due diligence in determining a fair price for RPTs.

All RPTs that are considered material based on BSFI's internal policies shall be endorsed by the RPT committee to the board of directors for approval.

(3) Ensure that appropriate disclosure is made, and/or information is provided to regulating and supervising authorities relating to the BSFI's RPT exposures, and policies on conflicts of interest or potential conflicts of interest. The disclosure shall include information on the approach to managing material conflicts of interest that are inconsistent with such policies; and conflicts that could arise as a result of the BSFI's affiliation or transactions with other related parties.

(4) Report to the board of directors on a regular basis, the status and aggregate exposures to each related party as well as the total amount of exposures to all related parties.

(5) Ensure that transactions with related parties, including write-off of exposures, are subject to periodic independent review or audit process.

(6) Oversee the implementation of the system for identifying, monitoring, measuring, controlling, and reporting RPTs, including the periodic review of RPT policies and procedures.

(Circular No. 969 dated 22 August 2017)

134 OFFICERS

Qualifications of an officer. An officer must be fit and proper for the position he is being appointed to. In determining whether a person is fit and proper for a particular position, the following matters must be considered: integrity/probity, education/training, and possession of competencies relevant to the function such as knowledge and experience, skills and diligence.

In assessing an officer's integrity/probity, consideration shall be given to the officer's market reputation, observed conduct and behavior, as well as his ability to continuously comply with company policies and applicable laws and regulations, including market conduct rules, and the relevant requirements and standards of any regulatory body, professional body, clearing house or exchange, or government and any of its instrumentalities/agencies.

An appointed officer has the burden to prove that he possesses all the foregoing minimum qualifications and none of the cases mentioned under Sec. 138 (*Persons disqualified to become officers*). An officer shall submit to the Bangko Sentral the required certifications and other documentary proof of such qualifications using *Appendix 101* as guide within twenty (20) banking days from the date of meeting of the board of directors in which the officer is appointed/promoted. Non-submission of complete documentary requirements within the prescribed period shall be construed as his/her failure to establish his/her qualifications for the position and results to his/her removal therefrom.

The Bangko Sentral shall also consider its own records in determining the qualifications of an officer.

The foregoing qualifications for officers shall be in addition to those required or prescribed under R.A. No. 8791 and other applicable laws and regulations.

Duties and responsibilities of officers.

a. *To set the tone of good governance from the top.* Bank officers shall promote the good governance practices within the bank by ensuring that policies on governance as approved by the board of directors are consistently adopted across the bank.

b. *To oversee the day-to-day management of the BSFI.* Bank officers shall ensure that bank's activities and operations are consistent with the bank's strategic objectives, risk strategy, corporate values and policies as approved by the board of directors. They shall establish a bank-wide management system characterized by strategically aligned and mutually reinforcing performance standards across the organization.

c. *To ensure that duties are effectively delegated to the staff and to establish a management structure that promotes accountability and transparency.* Bank officers shall establish measurable standards, initiatives and specific responsibilities and accountabilities for each bank personnel. Bank officers shall oversee the performance of these delegated duties and responsibilities and shall ultimately be responsible to the board of directors for the performance of the bank.

d. *To promote and strengthen checks and balances systems in the BSFI.* Bank officers shall promote sound internal controls and avoid activities that shall compromise the effective dispense of their functions. *Further*, they shall ensure that they give due recognition to the importance of the internal audit, compliance and external audit functions.

Chief Executive Officer (CEO). The CEO shall be the overall-in-charge for the management of the business and affairs of the BSFI governed by the strategic direction and risk appetite approved by the board of directors. He shall be primarily accountable to the board of directors in championing the desired conduct and behavior, implementing strategies, and in promoting the long-term interest of the BSFI.

(Circular No. 969 dated 22 August 2017)

135 REMUNERATION AND OTHER INCENTIVES

The board of directors shall approve a remuneration and other incentives policy that is appropriate and consistent with the BSFI's operating and risk culture, long-term business and risk appetite, performance, and control environment. Said policy shall cover all employees and should be designed to encourage good performance that supports the interest of the BSFI and its stakeholders. It shall be aligned with prudent risk-taking and explicitly discourage excessive risk-taking as defined by internal policies. The board of directors or a board-level committee (e.g., corporate governance committee) shall monitor and review the remuneration and other incentives policy including plans, processes and outcomes, at least annually, to ensure that it operates and achieves the objectives as intended.

BSFIs shall consider the following in the design of the remuneration and other incentives policy:

a. The remuneration and incentives package shall take into account the employee's position, role, responsibilities and activities in the BSFI. It shall also consider the risks that the employee takes on behalf of the BSFI. In this regard, it should be sensitive to prospective risks and risk outcomes that have been realized and considers the overall performance of the BSFI.

b. Remuneration and incentive pay-out schedule should be sensitive to the time horizon of risk. The policy may include provisions that defer payment until risk outcomes are better known or provisions under which remuneration and incentives may be reduced or reversed if new facts emerge showing that the remuneration and incentives paid was based on erroneous assumptions, such as misreporting or if it is discovered that the employee has failed to comply with internal policies or legal requirements.

c. Remuneration of employees in risk control functions (i.e., internal audit, compliance, and risk management functions) shall be based on the achievement of their objectives and shall be independent of the business lines which they oversee.

Profit sharing programs. Profit sharing programs adopted in favor of directors, officers, and employees shall be reflected in the by-laws of the BSFI, subject to the following guidelines:

a. The base in any profit sharing program shall be the net income for the year of the bank as shown in its Consolidated Statement of Income and Expenses for the year, net of the following:

   (1) All cumulative dividends accruing to preferred stock to the extent not covered by earned surplus;

   (2) Accrued interest receivable credited to income but not yet collected, net of reserves already set up for uncollected interest on loans;

   (3) Unbooked allowance for credit losses on loans or the amount required to update allowance for credit losses in accordance with the schedule approved by the Monetary Board, as well as all amortizations due on deferred charges;

   (4) Provisions for current year's taxes;

   (5) Income tax deferred for the year*: Provided, however*, That in case of reversal of deferred income taxes which were deducted from net income in computing for profit sharing of previous years, the deferred income tax reversed to expense shall be added back to net income to arrive at the base for profit sharing for the year during which the reversal is made; and

   (6) Accumulated profits not yet received but already recorded by a bank representing its share in profits of its subsidiaries under the equity method of accounting;

b. The bank may provide in its by-laws for other priorities in the computation of net profits for purposes of profit sharing: *Provided,* That in no case shall profit sharing take precedence over any of the items in the preceding paragraph; and

c. Prior approval of the Monetary Board shall be necessary before a bank which has received financial assistance from the Bangko Sentral may implement its profit sharing program. *Financial assistance* shall refer to emergency loans and advances and such other forms of credit accommodations which are intended to provide banks with liquidity in times of need.

Loans, advances, and other credit accommodations to officers. BSFIs may grant loans, advances, or any other forms of credit accommodations to their officers as part of a board-approved remuneration and incentive program. The board of directors shall ensure that these credit accommodations are granted for legitimate purposes, such as among others, financing the housing, transportation, and personal needs of the officers. In this regard, the board of directors shall identify specific purposes eligible for said credit accommodations to officers to promote good performance and acceptable risk-taking behavior consistent with the BSFI's operating and risk culture, long-term business and risk appetite, performance, and control environment. BSFIs shall submit the board-approved purposes for the grant of loans, advances, or any other forms of credit accommodations to officers for approval of the Bangko Sentral. The guidelines and contractual provisions implementing said defined purposes, and any subsequent changes thereto, shall on the other hand, be approved by the board of directors or a board-level committee.

Transitory provision. Existing financing programs for officers that have been approved by the Bangko Sentral prior to 14 September 2017, need not be resubmitted: *Provided*, That BSFIs that shall change any of the provisions of the earlier approved program shall submit for approval of the Bangko Sentral the board-approved purposes for the grant of loans, advances, or any other forms of credit accommodations to officers.

a. *Funding by foreign banks.* In the case of local branches of foreign banks, financial assistance for their officers and employees may be funded, through any of the following means:

(1) Through a local affiliate by special arrangement with the head office abroad in any of the following forms:

(a) Inward remittance from the head office of the affiliate; or
(b) Assignment to the affiliate of equivalent amounts of profits otherwise remittable abroad under existing regulations; or
(c) Direct loans by the foreign bank to the affiliate; or

(2) Through the local branch itself by:

(a) Segregation or transfer of undivided profits normally remitted to the head office abroad equivalent to the loans to officers and employees which shall be lodged under "Other Liabilities-Head Office Accounts". This account shall at all times have a balance equivalent to the outstanding loans to officers/employees financed under this scheme; or

(b) Inward remittance; or

(3) Through the local branch from local sources without earmarking an equivalent amount of undivided profits: *Provided,* That the aggregate ceilings on such loans as provided under existing regulations shall apply.

Loans under Items *"(2)(a)"* and *"(2)(b)"* above shall be treated in the branch books as loans granted by its head office. The documentation and collection of such loans shall be handled by the branch for the account of the head office.

Loans financed under Items *"(1)"* and *"(2)"* above shall be excluded from the computation of the capital to risk assets ratio.

b. Other conditions/limitations.

(1) The investment by a bank in equipment and other chattels under its fringe benefits program for officers and employees shall be included in determining the extent of the investment of the bank in real estate and equipment for purposes of Section 51 of R.A. No. 8791.

(2) The investment by a bank in equipment and other chattels contemplated under these guidelines shall not be for the purpose of profits in the course of business for the bank.

(3) The aggregate outstanding loans and other credit accommodations granted under the bank's fringe benefits program, inclusive of those granted to officers in the nature of lease with option to purchase, shall not exceed five percent (5%) of the bank's total loan portfolio.

Banks providing financial assistance to their officers/employees shall submit a regular report on "availments of financial assistance to officers and employees" to the Bangko Sentral within fifteen (15) banking days after end of reference semester.

The appropriate supervising department of the Bangko Sentral may further require banks to submit such data or information as may be necessary to facilitate verification of such transactions by Bangko Sentral examiners.

Compensation and other benefits of directors and officers. To protect the funds of depositors and creditors, the Monetary Board may regulate/restrict the payment by the BSFI of compensation, allowances, fees, bonuses, stock options, profit sharing and fringe benefits to its directors and officers in exceptional cases and when the circumstances warrant, such as, but not limited to the following:

a. When the bank is under controllership, conservatorship or when it has outstanding emergency loans and advances and such other forms of credit accommodation from the Bangko Sentral which are intended to provide it with liquidity in times of need;

b. When the institution is found by the Monetary Board to be conducting business in an unsafe or unsound manner;

c. When it is found by the Monetary Board to be in an unsatisfactory financial condition such as, but not limited to, the following cases:

(1) Its capital is impaired;
(2) It has suffered continuous losses from operations for the past three (3) years;
(3) Its composite CAMEL(S) rating in the latest examination is below "3"; and
(4) It is under rehabilitation by the Bangko Sentral/PDIC which rehabilitation may include debt-to-equity conversion, etc.

In the presence of any one (1) or more of the circumstances mentioned above, the Monetary Board may impose the following restrictions in the compensation and other benefits of directors and officers:

a. In the case of profit sharing, the provision under this Section on Profit sharing programs shall be observed except that for purposes of this Section, the total amount of unbooked allowance for credit losses and deferred charges shall be deducted from the net income.

b. Except for the financial assistance to meet expenses for the medical, maternity, education and other emergency needs of the directors or officers or their immediate family, the other forms of financial assistance may be suspended.

c. When the total compensation package including salaries, allowances, fees and bonuses of directors and officers are significantly excessive as compared with peer group averages, the Monetary Board may order their reduction to reasonable levels: *Provided*, That even if a bank is in financial trouble, it may nevertheless be allowed to grant relatively higher salary packages in order to attract competent officers and quality staff as part of its rehabilitation program.

The foregoing provisions founded on Section 18 of R.A. No. 8791 shall be deemed part of the benefits and compensation programs of banks.

136 RELATED PARTY TRANSACTIONS

Policy statement. The Bangko Sentral recognizes that transactions between and among related parties create financial, commercial and economic benefits to individual institutions and to the entire group where said institutions belong. In this regard, related party transactions are generally allowed: *Provided*, That these are done on an arm's length basis. The Bangko Sentral expects banks, including their non-bank financial subsidiaries and affiliates, to exercise appropriate oversight and implement effective control systems for managing said exposures as these may potentially lead to abuses that are disadvantageous to the bank and its depositors, creditors, fiduciary clients, and other stakeholders.

RPT policies/roles of senior management and self-assessment functions.

a. The RPT policies shall include, but not be limited to the following:

(1) *Definition of related parties.* The policy shall clearly define "related parties". It shall identify persons and companies that are considered the BSFI's related parties. The policy shall require management to periodically review and update the inventory of related parties to capture organizational and structural changes in the BSFI and its related parties.

(2) *Coverage of RPT policy.* The coverage of the RPT policy shall capture a broader spectrum of transactions, covering not only those that give rise to credit and/or counterparty risks but also those that could pose material/special risk or potential abuse to the BSFI and its stakeholders.

Transactions that were entered into with an unrelated party that subsequently becomes a related party may be excluded from the limits and approval process required in the policy. However, any alteration

to the terms and conditions, or increase in exposure level, related to these transactions after the non-related party becomes a related party shall subject the RPT to the requirements of the policy. The prospective treatment should, however, be without prejudice to supervisory actions that may be enforced for transactions noted to have not been conducted on an arm's length basis.

(3) *Guidelines in ensuring arm's length terms.* The policy shall have clear guidelines in ensuring that RPTs are conducted in the regular course of business and not undertaken on more favorable economic terms (e.g., price, commissions, interest rates, fees, tenor, collateral requirement) to such related parties than similar transactions with non-related parties under similar circumstances. This shall include guidance for an effective price discovery mechanism to ensure that transactions are engaged into at terms that promote the best interest of the BSFI and its stakeholders. The price discovery mechanism may include, but not limited to, acquiring the services of an external expert, opening the transaction to a bidding process, or publication of available property for sale.

(4) *Conflicts of interest.* The policy shall cover the identification and prevention or management of potential or actual conflicts of interest which may arise. The members of the board of directors, stockholders, and management shall disclose to the board of directors whether they directly, indirectly or on behalf of third parties, have a financial interest in any transaction or matter affecting the BSFI. Directors and officers with personal interest in the transaction shall abstain from the discussion, approval and management of such transaction or matter affecting the BSFI.

(5) *Materiality thresholds and excluded transactions.* The policy shall include materiality thresholds for RPTs, which shall be set at a level where omission or misstatement of the transaction could pose significant risk to the BSFI and could influence the economic decisions of its board of directors.

Materiality threshold may be set for each type of transaction and for each related party group, depending on the nature of the transaction and risks involved. The RPT policy may also identify transactions excluded from the materiality threshold requirement, such as transactions concerning deposit operations, regular trade transactions involving purchases and sales of debt securities traded in an active market, and those granted under Bangko Sentral approved fringe benefit programs. Materiality threshold levels will vary from one BSFI to another depending on the nature, scope, frequency, value of, and risks associated with the RPT. The BSFI shall document the justifications for the materiality thresholds and exclusions set.

The Bangko Sentral may direct a BSFI to reduce its materiality threshold or amend excluded transactions if the Bangko Sentral deems that the threshold or exclusion is inappropriate considering the BSFI's size, risk profile, and risk management systems.

(6) *Internal limits for individual and aggregate exposures.* To ensure that RPTs are within prudent levels, the policy shall, in addition to existing prudential limits which shall be complied with at all times, include internal limits or sub-limits for individual and aggregate exposures to a related party and for aggregate exposures to all related parties that are consistent with the BSFI's risk appetite, risk profile, and capital strength.

The internally-set limits shall be tied in with the BSFI's internal definition of capital. Breaches in limits shall be reported to the board of directors with the decision of the board of directors to accept the exposure or to take steps to address the breaches, as may be necessary, duly documented in the minutes of meetings.

(7) *Whistleblowing mechanisms.* The policy shall include effective whistleblowing mechanisms consistent with the corporate values and codes of conduct set by the board of directors. The policy shall encourage employees to communicate, confidentially and without the risk of reprisal, legitimate concerns about illegal, unethical or questionable RPTs. It shall include guidance on how and by whom legitimate material concerns should be reported, investigated and addressed by an objective independent internal or external body, senior management and/or the board of directors itself.

(8) *Restitution of losses and other remedies for abusive RPTs.* The policy shall include measures that would cut losses and allow recovery of losses or opportunity costs incurred by the BSFI arising from RPTs that are not engaged on arm's length terms. The policy shall also include the manner of handling personnel, officers or directors, who have been remiss in their duties in handling RPTs.

The overarching policy will consolidate all existing policies that address the above requirements or may make reference to already existing policies.

b. *Roles of senior management and self-assessment functions.* Senior management shall implement appropriate controls to effectively manage and monitor RPTs on a per transaction and aggregate basis. Exposures to related parties shall also be monitored on an ongoing basis to ensure compliance with the BSFI's policy and Bangko Sentral's regulations.

The internal audit function shall conduct a periodic formal review of the effectiveness of the BSFI's system and internal controls governing RPTs to assess consistency with the board-approved policies and procedures. The resulting audit reports, including exceptions or breaches in limits, shall be communicated directly to the audit committee.

The compliance function shall ensure that the BSFI complies with relevant rules and regulations and is informed of regulatory developments in areas affecting related parties. It shall aid in the review of the BSFI's transactions and identify any potential RPT that would require review by the Board or RPT Committee. It shall ensure that the RPT policy is kept updated and is properly implemented throughout the BSFI.

Disclosure and regulatory reporting. Banks shall adequately disclose in their Annual Report, if applicable, the overarching policies and procedures for managing RPTs, including managing of conflicts of interest or potential conflicts of interest; responsibility of RPT Committee; nature, terms and conditions, as well as original and outstanding individual and aggregate balances, including off-balance sheet commitments, of material RPTs.

In addition to the required reports on DOSRI and transactions with subsidiaries and affiliates under existing regulations:

a. UBs/KBs that are part of conglomerates shall report all entities in the conglomerate structure where it belongs. The conglomerate structure shall likewise disclose beneficial owners of shareholdings that are in the name of PCD Nominee Corporation. The report on conglomerate structure shall be submitted to the Bangko Sentral within thirty (30) calendar days after the end of every calendar year.

b. Banks shall submit a report on material exposures to related parties, which shall include the material RPTs of their non-bank financial subsidiaries and affiliates, based on the bank's internal definition within twenty (20) calendar days after the end of the reference quarter starting with the quarter ending 31 March 2016. Supervised non-bank financial subsidiaries and affiliates are therefore expected to report their material RPTs to the parent bank, which in turn shall report same to the Bangko Sentral.

Transactions concerning deposit operations, credit card availments, regular trade transactions involving purchases and sales of debt securities traded in an active market, are excluded from the reporting requirement to Bangko Sentral: *Provided,* That credit card lines with amounts falling within the definition of "material transactions" shall be reported to the Bangko Sentral upon approval of the line.

Lease contracts and other similar contracts with recurring payment transaction shall only be reported once, upon approval of said transaction by the board of directors. In case the parties involved in the transactions are both supervised by the Bangko Sentral, only the lessor, in case of a lease contract, or the party engaging/requesting for the services of the other bank, in case of other contracts, shall submit the report.

This section amends the reporting requirement on group structure and the report on significant transactions required under Item *"d(8)"* of Sec. 132 (*Specific duties and responsibilities of the board of directors*).

Applicability to branches of foreign banks. The governance principles and requirements embodied in this Section shall be complied with by branches of foreign banks, to the extent possible, given their distinct organizational set-up. The General Manager or Country Manager is the principal officer that will oversee the implementation of the governance principles embodied in this Section. Branches of foreign banks are not covered by the reportorial requirement on conglomerate structure.

Supervisory enforcement actions. The Bangko Sentral reserves the right to deploy its range of supervisory tools to promote adherence to the requirements set forth in the guidelines under this Section and bring about timely corrective actions and compliance with Bangko Sentral directives. The Bangko Sentral considers abuses in credit to related parties as serious offenses and shall be dealt with severely. In this regard, abuse shall be interpreted to include extending credit to related parties without adopting appropriate internal policies. For this purpose, the Bangko Sentral may, among others, issue directives or sanctions on the bank and responsible persons, which may include restrictions or prohibitions of lending to related parties or from certain authorities/activities, restrictions or prohibitions on dividend declarations; and warning, reprimand, suspension, removal and disqualification of bank directors, officers and/or employees concerned.

(Circular Nos. 969 dated 22 August 2017, 917 dated 08 July 2016, 914 dated 23 June 2016, and 895 dated 14 December 2015)

137 CONFIRMATION OF THE ELECTION/APPOINTMENT OF DIRECTORS/OFFICERS; BIO-DATA OF DIRECTORS AND OFFICERS; INTERLOCKING DIRECTORSHIPS AND/OR OFFICERSHIPS; RULES OF PROCEDURES ON ADMINISTRATIVE CASES INVOLVING DIRECTORS AND OFFICERS OF BSFIS

Confirmation of election/appointment of directors/officers.

a. *Confirming authority.* The election/appointment of directors/officers shall be subject to confirmation by the following:

Confirming Authority	Position Level

a. Monetary Board	Directors and CEO of UBs and KBs, including their subsidiary banks, QBs, trust corporations[1] and NBFIs with trust authority; of stand-alone Islamic Banks, TBs, RBs, Coop Banks, QBs and NBFIs with trust authority with total assets of at least P10.0 billion; and of trust corporations with assets under management of at least P10.0 billion.
b. SES Committee	Directors and CEO of stand-alone Islamic Banks, TBs, RBs, Coop Banks, QBs, and NBFIs with trust authority with total assets of less than P10.0 billion; and of trust corporations[2] with assets under management of less than P10.0 billion.
	Treasurer and heads of internal audit, risk management and compliance functions, and other officers with rank of senior vice president and above (or equivalent ranks) of UBs and KBs and their subsidiary banks, QBs, trust corporations, and NBFIs with trust authority; of stand-alone Islamic Banks, TBs RBs, Coop Banks, QBs and NBFIs with trust authority; and of trust corporations.
	Trust Officer regardless of rank of banks/QBs/NBFIs as provided in Sec. 412 (*Confirmation of the appointment/designation of trust officer and independent professional*).

Provided, That BSFIs shall report to the appropriate supervising department of the Bangko Sentral, any succeeding resignation, retirement, or replacement of directors/officers as mentioned within twenty (20) banking days after such resignation/retirement/replacement.

The election/appointment of abovementioned directors/officers shall be deemed to have been confirmed by the Bangko Sentral, if after sixty (60) banking days from receipt of the complete required reports, the appropriate supervising department of the Bangko Sentral does not advise the BSFI concerned against said election/appointment.

However, the confirmation by the Monetary Board/SES Committee of the election/appointment to above-mentioned position levels shall not be required in the following cases:

(1) Re-election of a director (as a director) in the same BSFI or election of the same director in another bank, QB, trust corporation, and NBFI with trust authority within a banking group;

(2) Re-election of an independent director (as an independent director or not) in the same BSFI or election of the same director (as an independent director or not) in another bank, QB, trust corporation, and NBFI with trust authority within a banking group; and

(3) Promotion of an officer, other than to that which requires (a) prior Monetary Board approval, or (b) a different set of minimum qualifications, or (c) a different level of confirming authority as provided in the first paragraph hereof, in the same bank or appointment/transfer to another bank, QB, trust corporation, and NBFI with trust authority within a banking group:

Provided, That the director/officer concerned has been previously confirmed by the Monetary Board, or if previously confirmed by the appropriate supervising department of the Bangko Sentral, his/her re-election/promotion/transfer requires the same level of confirming authority as provided in the first paragraph hereof: *Provided, further,* That said director/officer has had continuous service within the same BSFI or banking group. This exemption shall apply to directors/officers confirmed by the Monetary Board/appropriate supervising department of the Bangko Sentral starting 01 January 2011.

The appointment of officers below the rank of senior vice president (SVP) other than the treasurer, trust officer, and heads of internal audit, risk management, and compliance functions regardless of rank shall be subject neither to Monetary Board approval nor Bangko Sentral confirmation.

For purposes of this Section, the term *banking group* shall refer to the parent bank and its subsidiary banks, QBs, trust entities, and other NBFIs other than stand-alone and trust corporations as well as other banks, QBs, trust entities, and other NBFIs other than stand-alone and trust corporations over which the parent bank has the power to exercise "control" as defined in Sec. 131 (*Definition of terms*).

The required certifications and other documentary proof of qualifications for the confirmation of the election/appointment of directors/officers, and approval of the appointment of compliance officers of banks/QBs/NBFI with trust authority/trust corporations are shown in *Appendix 101*. Non-submission of complete

[1] As defined under Sec. 102-T (*Definitions*) of the MORNBFI-T
[2] As defined under Sec. 102-T (*Definitions*) of the MORNBFI-T

documentary requirements within the prescribed period shall be construed as his/her failure to establish his/her qualifications for the position.

A director/officer whose election/appointment was not confirmed for failure to submit the complete documentary requirements shall be deemed removed from office after due notice to the board of directors of the BSFI, even if he has assumed the position to which he was elected/ appointed, pursuant to Section 16 of R.A. No. 8791.

Bio-data of directors and officers.

a. BSFI shall submit to the appropriate supervising department of the Bangko Sentral a bio-data with ID picture of their (1) directors and officers who are subject to confirmation under this Section, or (2) officers below the rank of SVP requiring a different set of minimum qualifications, upon every election/re-election/appointment/promotion in a prescribed form and for first time directors/officers within a particular bank/banking group whose election/appointment requires Monetary Board/appropriate supervising department of the Bangko Sentral confirmation, the duly notarized authorization form per *Appendix 80*, within twenty (20) banking days from the date of election/re-election of the directors/meeting of the board of directors in which the officers are appointed/promoted, in accordance with *Appendix 7.*

The bio-data shall be updated and submitted in cases of change of name due to change in civil status and change of residential address, within twenty (20) banking days from the date the change occurred, and in cases of requests for prior Monetary Board approval of interlocks.

For other officers below the rank of SVP other than the treasurer, trust officer, and heads of internal audit, risk management, and compliance functions regardless of rank, the BSFI shall not be required to submit their bio-data to the Bangko Sentral.

b. The bank shall, however, keep a complete record of the bio-data of all its directors and officers and shall maintain a system of updating said records which shall be made available during on-site examination or when required by the Bangko Sentral for submission for off-site verification.

c. Banks shall also submit to the appropriate supervising department of the Bangko Sentral, a duly notarized list of the incumbent members of the board of directors and officers (president or equivalent rank, down the line, format attached as *Appendix 102*, within twenty (20) banking days from the annual election of the board of directors as provided in the bank's by-laws, in accordance with *Appendix 7*.

d. If after evaluation, the appropriate supervising department of the Bangko Sentral shall find grounds for disqualification, the director/officer so elected/re-elected/appointed/promoted may be recommended for removal from office even if he/she has assumed the position to which he/she was elected/re-elected/appointed/promoted pursuant to Section 16 of R.A. No. 8791.

In the case of the independent directors, the bio-data shall be accompanied by a certification under oath from the director concerned that he is an independent director as defined under Item *"g"* of Sec. 131 (*Definition of terms*).

Interlocking directorships and/or officerships. In order to safeguard against the excessive concentration of economic power, unfair competitive advantage or conflict of interest situations to the detriment of others through the exercise by the same person or group of persons of undue influence over the policy-making and/or management functions of similar FIs while at the same time allowing banks, QBs and non-bank financial institutions (NBFIs) without quasi-banking functions to benefit from organizational synergy or economies of scale and effective sharing of managerial and technical expertise, the following regulations shall govern interlocking directorships and/or officerships within the financial system consisting of banks, QBs and NBFIs.

For purposes of this Section, QBs shall refer to investment houses, finance companies, trust entities and all other NBFIs with quasi-banking functions while NBFIs shall refer to investment houses, finance companies, trust entities, insurance companies, securities dealers/brokers, credit card companies, non-stock savings and loan associations (NSSLAs), holding companies, investment companies, government NBFIs, asset management companies, insurance agencies/brokers, venture capital corporations, FX dealers, money changers, lending investors, pawnshops, fund managers, mutual building and loan associations, remittance agents and all other NBFIs without quasi-banking functions.

a. *Interlocking directorships*

While concurrent directorship may be the least prejudicial of the various relationship cited in this Section to the interests of the FIs involved, certain measures are still necessary to safeguard against the disadvantages that could result from indiscriminate concurrent directorship.

(1) Except as may be authorized by the Monetary Board or as otherwise provided hereunder, there shall be no concurrent directorships between banks or between a bank and a QB or an NBFI.

(2) Without the need for prior approval of the Monetary Board, concurrent directorships between entities not involving an investment house shall be allowed in the following cases:

(a) Banks not belonging to the same category: *Provided*, That not more than one (1) bank shall have quasi-banking functions;
(b) A bank and an NBFI;
(c) A bank without quasi-banking functions and a QB; and
(d) A bank and one (1) or more of its subsidiary bank/s, QB/s and NBFI/s.

For purposes of the foregoing, a husband and his wife shall be considered as one (1) person.

b. *Interlocking directorships and officerships*

In order to prevent any conflict of interest resulting from the exercise of directorship coupled with the reinforcing influence of an officer's decision-making and implementing powers, the following rules shall be observed:

(1) Except as may be authorized by the Monetary Board or as otherwise provided hereunder, there shall be no concurrent directorship and officership between banks or between a bank and a QB or an NBFI; and
(2) Without the need for prior approval of the Monetary Board, concurrent directorship and officership between a bank and one (1) or more of its subsidiary bank/s, QB/s and NBFI/s, other than investment house/s, shall be allowed.

c. *Interlocking officerships*

A concurrent officership in different FIs may present more serious problems of self-dealing and conflict of interest. Multiple positions may result in poor governance or unfair competitive advantage. Considering the full-time nature of officer positions, the difficulties of serving two (2) offices at the same time, and the need for effective and efficient management, the following rules shall be observed:

As a general rule, there shall be no concurrent officerships between banks or, between a bank and a QB or a NBFI.[1]

In the case of non-governmental organizations (NGOs)/foundations that are engaged in retail microfinance operations, as defined under Item *"e(8)"* of Sec. 341 (*Definition of terms*), BSFI officers are prohibited from holding officership position or other positions that may cause them to be involved in the daily microfinance operations of related NGOs/foundations.

However, subject to prior approval of the Monetary Board, concurrent officerships, may be allowed in the following cases:

(1) Between a bank and not more than two (2) of its subsidiary bank/s, QB/s, and NBFI/s, other than investment house/s; or

(2) Between a bank and not more than two (2) of its subsidiary QB/s and NBFI/s; or

(3) Between two (2) banks, or between a bank and a QB or an NBFI, other than an investment house: *Provided*, That at least twenty percent (20%) of the equity of each of the banks, QBs or NBFIs is owned by a holding company or a bank/QB and the interlocking arrangement is necessary for the holding company or the bank/QB to provide technical expertise or managerial assistance to its subsidiaries/affiliates.

Aforementioned concurrent officerships may be allowed, subject to the following conditions:

(a) that the positions do not involve any functional conflict of interests;

(b) that any officer holding the positions of president, chief executive officer, chief operating officer or chief financial officer or their equivalent may not be concurrently appointed to any of said positions or their equivalent;

(c) that the officer involved, or his spouse or any of his relatives within the first degree of consanguinity or affinity or by legal adoption, or a corporation, association or firm wholly- or majority-owned or controlled by such officer or his relatives enumerated above, does not own in his/its own capacity more than twenty percent (20%) of the subscribed capital stock of the entities in which the bank has equity investments; and

[1] BSFI officers, who concurrently held officership position or other positions that caused them to be involved in the daily microfinance operations of related NGOs/foundations, were given up to 30 September 2011 to relinquish such officer position.

(d) that where any of the positions involved is held on full-time basis, adequate justification shall be submitted to the Monetary Board; or

(4) Concurrent officership positions in the same capacity which do not involve management functions, i.e., internal auditor, corporate secretary, assistant corporate secretary and security officer, between a bank and one or more of its subsidiary QB/s and NBFI/s, or between bank/s, QB/s and NBFI/s, other than investment house/s: *Provided*, That at least twenty percent (20%) of the equity of each of the banks, QBs and NBFI/s is owned by a holding company or by any of the banks/QBs within the group.

(5) Concurrent officership positions as corporate secretary or assistant corporate secretary between bank/s, QB/s and NBFI/s, other than investment house/s, outside of those covered under Item *"c(4)"* above: *Provided*, That proof of disclosure to and consent from all of the involved FIs, on the concurrent officership positions, shall be submitted to the Bangko Sentral.

For purposes of this Section, members of a group or committee, including sub-groups or sub-committees, whose duties include functions of management such as those ordinarily performed by regular officers, shall likewise be considered as officers.

It shall be the responsibility of the corporate governance committee to conduct an annual performance evaluation of the board of directors and senior management. When a director or officer has multiple positions, the committee should determine whether or not said director or officer is able to and has been adequately carrying out his/her duties and, if necessary, recommend changes to the board based upon said performance/review.

The general principles and standards that will govern the business relationships between banks and their related NGOs/foundations engaged in retail microfinance are found in *Appendix 23*.

d. *Secondment*

A BSFI may second or transfer its employee to another entity for temporary assignment: *Provided*, That it has a board-approved policy on secondment and that the transfer of the employee is approved by the appropriate authority of the BSFI: *Provided, further,* That the secondee or the transferred employee shall relinquish all his duties, responsibilities, and authorities in the BSFI, and shall receive remuneration and other incentives from the host entity. BSFIs shall submit a notice within ten (10) banking days from the approval of secondments of employees to the appropriate supervising department of the Bangko Sentral.

e. *Representatives of government*

The provisions of this Section shall apply to persons appointed to such positions as representatives of the government or government-owned or controlled entities holding voting shares of stock of banks unless otherwise provided under existing laws.

Rules of procedures on administrative cases involving directors and officers of BSFIs. The rules of procedure on administrative cases involving directors and officers of BSFIs are shown in *Appendices 63 and 135.*

(Circular Nos. 1012 dated 12 September 2018, 969 dated 22 August 2017, 953 dated 27 March 2017, 887 dated 07 October 2015, and 851 dated 30 September 2014)

138 DISQUALIFICATION AND WATCHLISTING OF DIRECTORS AND OFFICERS

This Section shall also apply to Coop Banks.

Persons disqualified to become directors. Without prejudice to specific provisions of law prescribing disqualifications for directors, the following are disqualified from becoming directors:

a. *Permanently disqualified*

Directors/officers/employees permanently disqualified by the Monetary Board from holding a director position:

(1) Persons who have been convicted by final judgment of a court for offenses involving dishonesty or breach of trust such as, but not limited to, estafa, embezzlement, extortion, forgery, malversation, swindling, theft, robbery, falsification, bribery, violation of B.P. Blg. 22, violation of Anti-Graft and Corrupt Practices Act and prohibited acts and transactions under Section 7 of R.A. No. 6713 (Code of Conduct and Ethical Standards for Public Officials and Employees);

(2) Persons who have been convicted by final judgment of a court sentencing them to serve a maximum term of imprisonment of more than six (6) years;

(3) Persons who have been convicted by final judgment of the court for violation of banking laws, rules and regulations;

(4) Persons who have been judicially declared insolvent, spendthrift or incapacitated to contract;

(5) Directors, officers or employees of closed banks who were found to be culpable for such institution's closure as determined by the Monetary Board;

(6) Directors and officers of banks found by the Monetary Board as administratively liable for violation of banking laws, rules and regulations where a penalty of removal from office is imposed, and which finding of the Monetary Board has become final and executory; or

(7) Directors and officers of banks or any person found by the Monetary Board to be unfit for the position of directors or officers because they were found administratively liable by another government agency for violation of banking laws, rules and regulations or any offense/violation involving dishonesty or breach of trust, and which finding of said government agency has become final and executory.

b. *Temporarily disqualified*

Directors/officers/employees disqualified by the Monetary Board from holding a director position for a specific/indefinite period of time. Included are:

(1) Persons who refuse to fully disclose the extent of their business interest or any material information to the appropriate supervising department of the Bangko Sentral when required pursuant to a provision of law or of a circular, memorandum, rule or regulation of the Bangko Sentral. This disqualification shall be in effect as long as the refusal persists;

(2) Directors who have been absent or who have not participated for whatever reasons in more than fifty percent (50%) of all meetings, both regular and special, of the board of directors during their incumbency, and directors who failed to physically attend for whatever reasons in at least twenty-five percent (25%) of all board meetings in any year, except that when a notarized certification executed by the corporate secretary has been submitted attesting that said directors were given the agenda materials prior to the meeting and that their comments/decisions thereon were submitted for deliberation/discussion and were taken up in the actual board meeting, said directors shall be considered present in the board meeting. This disqualification applies only for purposes of the immediately succeeding election;

(3) Persons who are delinquent in the payment of their obligations as defined hereunder:

(a) *Delinquency in the payment of obligations means* that an obligation of a person with a bank where he/she is a director or officer, or at least two (2) obligations with other banks/FIs, under different credit lines or loan contracts, are past due pursuant to Sec. 304;

(b) *Obligations* shall include all borrowings from a bank obtained by:

(i) A director or officer for his own account or as the representative or agent of others or where he/she acts as a guarantor, endorser or surety for loans from such FIs;
(ii) The spouse or child under the parental authority of the director or officer;
(iii) Any person whose borrowings or loan proceeds were credited to the account of, or used for the benefit of a director or officer;
(iv) A partnership of which a director or officer, or his/her spouse is the managing partner or a general partner owning a controlling interest in the partnership; and
(v) A corporation, association or firm wholly-owned or majority of the capital of which is owned by any or a group of persons mentioned in the foregoing Items "(i)", "(ii)" and "(iv)";

This disqualification shall be in effect as long as the delinquency persists.

(4) Persons who have been convicted by a court for offenses involving dishonesty or breach of trust such as, but not limited to, estafa, embezzlement, extortion, forgery, malversation, swindling, theft, robbery, falsification, bribery, violation of B.P. Blg. 22, violation of Anti-Graft and Corrupt Practices Act and prohibited acts and transactions under Section 7 of R.A. No. 6713, violation of banking laws, rules and regulations or those sentenced to serve a maximum term of imprisonment of more than six (6) years but whose conviction has not yet become final and executory;

(5) Directors and officers of closed banks pending their clearance by the Monetary Board;

(6) Directors disqualified for failure to observe/discharge their duties and responsibilities prescribed under existing regulations. This disqualification applies until the lapse of the specific period of disqualification or

upon approval by the Monetary Board on recommendation by the appropriate supervising department of the Bangko Sentral of such directors' election/reelection;

(7) Directors who failed to attend the special seminar for board of directors required under Item *"a(2)"* of Sec. 132 (*Qualifications of a director*). This disqualification applies until the director concerned had attended such seminar;

(8) Persons dismissed/terminated from employment for cause. This disqualification shall be in effect until they have cleared themselves of involvement in the alleged irregularity or upon clearance, on their request, from the Monetary Board after showing good and justifiable reasons, or after the lapse of five (5) years from the time they were officially advised by the appropriate supervising department of the Bangko Sentral of their disqualification;

(9) Those under preventive suspension;

(10) Persons with derogatory records as certified by, or on the official files of, the judiciary, NBI, Philippine National Police (PNP), quasi-judicial bodies, other government agencies, international police, monetary authorities and similar agencies or authorities of foreign countries for irregularities or violations of any law, rules and regulations that would adversely affect the integrity of the director/officer or the ability to effectively discharge his duties. This disqualification applies until they have cleared themselves of the alleged irregularities/violations or after a lapse of five (5) years from the time the complaint, which was the basis of the derogatory record, was initiated;

(11) Directors and officers of banks found by the Monetary Board as administratively liable for violation of banking laws, rules and regulations where a penalty of removal from office is imposed, and which finding of the Monetary Board is pending appeal before the appellate court, unless execution or enforcement thereof is restrained by the court;

(12) Directors and officers of banks or any person found by the Monetary Board to be unfit for the position of director or officer because they were found administratively liable by another government agency for violation of banking laws, rules and regulations or an offense/violation involving dishonesty or breach of trust, and which finding of said government agency is pending appeal before the appellate court, unless execution or enforcement thereof is restrained by the court; and

(13) Directors and officers of banks found by the Monetary Board as administratively liable for violation of banking laws, rules and regulations where a penalty of suspension from office or fine is imposed, regardless whether the finding of the Monetary Board is final and executory or pending appeal before the appellate court, unless execution or enforcement thereof is restrained by the court. The disqualification shall be in effect during the period of suspension or so long as the fine is not fully paid.

Persons disqualified to become officers.

a. The disqualifications for directors mentioned under this Section shall likewise apply to officers, except those stated in Items *"b(2)"* and *"b(7)"*.

b. The spouses or relatives within the second degree of consanguinity or affinity are prohibited from holding officership positions across the following functional categories within a bank:

(1) Decision making and senior management function, e.g., chairman, president, chief executive officer (CEO), chief operating officer (COO), general manager, and chief financial officer (CFO) other than the treasurer or controller;
(2) Treasury function, e.g., Treasurer and Vice President – Treasury;
(3) Recordkeeping and financial reporting functions, e.g., controller and chief accountant;
(4) Safekeeping of assets, e.g., chief cashier;
(5) Risk management function, e.g., chief risk officer;
(6) Compliance function, e.g., compliance officer; and
(7) Internal audit function, e.g., internal auditor.

The spouse or a relative within the second degree of consanguinity or affinity of any person holding the position of manager, cashier, or accountant of a branch or extension office of a bank or their respective equivalent positions is disqualified from holding or being appointed to any of said positions in the same branch or branch-lite unit.

c. Any appointive or elective official[1], whether full time or part time, except in cases where such service is incident to financial assistance provided by the government or government owned or -controlled corporations (GOCCs) or in cases allowed under existing law.

[1] In the case of RB, appointive and elective public officials currently holding officership positions shall continue holding such position until the end of their current terms effective 13 September 2013.

d. In the case of Coop Banks, any officer or employee of CDA or any elective public official, except a barangay official.

e. Except as may otherwise be allowed under Commonwealth Act No. 108, otherwise known as "The Anti-Dummy Law", as amended, foreigners cannot be officers or employees of banks.

Effect of non- possession of qualifications or possession of disqualifications. A director/officer elected/appointed who does not possess all the qualifications mentioned under Sec. 132 and Sec. 134 and/or has any of the disqualifications mentioned under Sec. 138 shall not be confirmed by the confirming authority under Sec. 137 and shall be removed from office even if he/she has assumed the position to which he/she was elected or appointed pursuant to Section 16 of R.A. No. 8791. A confirmed director/officer or officer not requiring confirmation found to possess any of the disqualifications, enumerated in the abovementioned Section shall be subject to the disqualification procedures provided under this Section.

Disqualification procedures.

a. The board of directors and management of every institution shall be responsible for determining the existence of the ground for disqualification of the institution's director/officer or employee and for reporting the same to the Bangko Sentral. While the concerned institution may conduct its own investigation and impose appropriate sanction/s as are allowable, this shall be without prejudice to the authority of the Monetary Board to disqualify a director/officer/employee from being elected/appointed as director/officer in any FI under the supervision of the Bangko Sentral. Grounds for disqualification made known to the institution, shall be reported to the appropriate supervising department of the Bangko Sentral within seventy-two (72) hours from knowledge thereof.

b. On the basis of knowledge and evidence on the existence of any of the grounds for disqualification mentioned in Sec. 138, the director or officer concerned shall be notified in writing either by personal service or through registered mail with registry return receipt card at his/her last known address by the appropriate supervising department of the Bangko Sentral of the existence of the ground for his/her disqualification and shall be allowed to submit within fifteen (15) calendar days from receipt of such notice an explanation on why he/she should not be disqualified and included in the watchlisted file, together with the evidence in support of his/her position. The head of said department may allow an extension on meritorious ground.

c. Upon receipt of the reply explanation of the director/officer concerned, the appropriate supervising department of the Bangko Sentral shall proceed to evaluate the case.

   The director/officer concerned shall be afforded the opportunity to defend/clear himself/herself.

d. If no reply has been received from the director/officer concerned upon the expiration of the period prescribed under Item *"b"* above, said failure to reply shall be deemed a waiver and the appropriate supervising department of the Bangko Sentral shall proceed to evaluate the case based on available records/evidence.

e. If the ground for disqualification is delinquency in the payment of obligation, the concerned director or officer shall be given a period of thirty (30) calendar days within which to settle said obligation or, restore it to its current status or, to explain why he/she should not be disqualified and included in the watchlisted file, before the evaluation on his disqualification and watchlisting is elevated to the Monetary Board.

f. For directors/officers of closed banks, the appropriate supervising department of the Bangko Sentral shall make appropriate recommendation to the Monetary Board clearing said directors/ officers when there is no pending case/complaint or evidence against them. When there is evidence that a director/officer has committed irregularity, the appropriate supervising department of the Bangko Sentral shall make recommendation to the Monetary Board that his/her case be referred to the Office of Special Investigation (OSI) for further investigation and that he/she be included in the masterlist of temporarily disqualified persons until the final resolution of his/her case. Directors/officers with pending cases/complaints shall also be included in said masterlist of temporarily disqualified persons upon approval by the Monetary Board until the final resolution of their cases. If the director/officer is cleared from involvement in any irregularity, the appropriate supervising department of the Bangko Sentral shall recommend to the Monetary Board his/her delisting. On the other hand, if the director/officer concerned is found to be responsible for the closure of the institution, the appropriate supervising department of the Bangko Sentral shall recommend to the Monetary Board his/her delisting from the masterlist of temporarily disqualified persons and his/her inclusion in the masterlist of permanently disqualified persons.

g. If the disqualification is based on dismissal from employment for cause, the appropriate supervising department of the Bangko Sentral shall, as much as practicable, endeavor to establish the specific acts or omissions constituting the offense or the ultimate facts which resulted in the dismissal to be able to determine if the disqualification of the director/officer concerned is warranted or not. The evaluation of the case shall be made for the purpose of determining if disqualification would be appropriate and not for the purpose of passing judgment on the findings and decision of the entity concerned. The appropriate supervising department of the Bangko Sentral may decide to recommend to the Monetary Board a penalty lower than disqualification (e.g., reprimand, suspension, etc.) if, in its judgment the act committed or omitted by the director/officer concerned does not warrant disqualification.

h. All other cases of disqualification, whether permanent or temporary shall be elevated to the Monetary Board for approval and shall be subject to the procedures provided in Items *"a"*, "b", *"c"* and *"d"* above.

i. Upon approval by the Monetary Board, the concerned director/officer shall be informed by the appropriate supervising department of the Bangko Sentral in writing either by personal service or through registered mail with registry return receipt card, at his/her last known address of his/her disqualification from being elected/appointed as director/officer in any FI under the supervision of Bangko Sentral and/or of his/her inclusion in the masterlist of watchlisted persons so disqualified.

j. The board of directors of the concerned institution shall be immediately informed of cases of disqualification approved by the Monetary Board and shall be directed to act thereon not later than the following board meeting. Within seventy-two (72) hours thereafter, the corporate secretary shall report to the Governor of the Bangko Sentral through the appropriate supervising department of the Bangko Sentral the action taken by the board on the director/officer involved.

k. Persons who are elected or appointed as director or officer in any of the BSP-supervised institutions for the first time but are subject to any of the grounds for disqualification provided for under Sec. 138, shall be afforded the procedural due process prescribed above.

l. Whenever a director/officer is cleared in the process mentioned under Item *"c"* above or, when the ground for disqualification ceases to exist, he/she would be eligible to become director or officer of any bank, QB, trust entity or any institution under the supervision of the Bangko Sentral only upon prior approval by the Monetary Board. It shall be the responsibility of the appropriate supervising department of the Bangko Sentral to elevate to the Monetary Board the lifting of the disqualification of the concerned director/officer and his/her delisting from the masterlist of watchlisted persons.

Watchlisting. To provide the Bangko Sentral with a central information file to be used as reference in passing upon and reviewing the qualifications of persons elected or appointed as director or officer of a bank, QB or trust entity, the Bangko Sentral shall maintain a watchlist of persons disqualified to be a director or officer of such entities under its supervision under the following procedures:

a. *Watchlist categories.* Watchlisting shall be categorized as follows:

(1) Disqualification File "A" (Permanent) - Directors/officers/employees permanently disqualified by the Monetary Board from holding a director/officer position.
(2) Disqualification File "B" (Temporary) - Directors/officers/employees temporarily disqualified by the Monetary Board from holding a director/officer position

b. *Inclusion of directors/officers/ employees in the watchlist.* Directors/officers/employees disqualified under this Section shall be included in the watchlist disqualification files "A" or "B".

c. *Confidentiality.* Watchlist files shall be for internal use only of the Bangko Sentral and may not be accessed or queried upon by outside parties including banks, QBs NBFIs with trust authority and trust corporations except with the authority of the person concerned (without prejudice to the authority of the Governor and the Monetary Board to authorize release of the information) and with the approval of the appropriate supervising Department Head or Subsector Head or the Deputy Governor or the Governor or the Monetary Board.

The Bangko Sentral will disclose information on the persons included in its watchlist files only upon submission of a duly notarized authorization from the concerned person and approval of such request by the appropriate supervising Department Head or Subsector Head or the Deputy Governor, or the Governor or the Monetary Board. The prescribed authorization form to be submitted to the appropriate supervising department of the Bangko Sentral is in *Appendix 80*.

Banks can gain access to said information in the said watchlist for the sole purpose of screening their nominees/applicants for directors/officers and/or confirming their elected directors and appointed officers. Banks must obtain the said authorization on an individual basis.

d. *Delisting.* All delistings shall be approved by the Monetary Board upon recommendation of the appropriate supervising department of the Bangko Sentral except in cases of persons known to be dead where delisting shall be automatic upon proof of death and need not be elevated to the Monetary Board. Delisting may be approved by the Monetary Board in the following cases:

(1) Watchlist - Disqualification File "B" (Temporary) –

(a) After the lapse of the specific period of disqualification;

(b) When the conviction by the court for crimes involving dishonesty, breach of trust and/or violation of banking law becomes final and executory, in which case the director/officer/employee is relisted to Watchlist - Disqualification File "A" (Permanent); and

(c) Upon favorable decision or clearance by the appropriate body, i.e., court, NBI, Bangko Sentral, bank, QB, trust entity or such other agency/body where the concerned individual had derogatory record.

Directors/officers/employees delisted from the Watchlist - Disqualification File "B" other than those upgraded to Watchlist - Disqualification File "A" shall be eligible for re-employment with any bank, QB or trust entity.

(Circular Nos. 987 dated 28 December 2017 and 969 dated 22 August 2017)

E. RISK MANAGEMENT

141 SUPERVISION BY RISK

The guidelines on supervision by risk to provide guidance on how many banks should identify, measure, monitor and control risks are shown in *Appendix 69.*

The guidelines set forth the expectations of the Bangko Sentral with respect to the management of risks and are intended to provide more consistency in how the risk-focused supervision function is applied to these risks. The Bangko Sentral will review the risks to ensure that a bank's internal risk management processes are integrated and comprehensive. All banks should follow the guidelines in their risk management efforts.

Applicability to branches of foreign banks. Branches of foreign banks shall comply with the governance policies, practices and systems of the head office as well as meet the applicable standards, principles and requirements set forth under Secs. 132 and 142, except the reportorial requirements under Sec. 132 (Spec*ific duties and responsibilities of the board of directors*) on group structures.

Reports of assessment of the risk management, compliance function and internal audit group of branches of foreign banks shall be made available to the Bangko Sentral, during on-site examination or any time upon request.

(Circular No. 969 dated 22 August 2017)

142 RISK GOVERNANCE FRAMEWORK

The risk governance framework shall include policies, supported by appropriate processes and control procedures, designed to ensure that the risk identification, aggregation, mitigation and monitoring capabilities are commensurate with the BSFI's size, complexity, risk profile, and systemic importance. The risk governance framework shall consider the entities in the conglomerate and shall be applied on a group-wide scale.

a. *Risk appetite.* The BSFI's risk appetite shall be clearly conveyed through a risk appetite statement that can be easily understood by all relevant parties, e.g., board of directors itself, senior management, employees, the public, regulators, and other stakeholders. The risk appetite statement shall represent the individual and aggregate level and types of risk that the BSFI is willing to assume in order to achieve its business objectives and considering its capability to manage risk.

b. *Risk management policy.* Risk management policies shall cover:

(1) structure of limits and guidelines to govern risk-taking. These shall include actions that shall be taken when risk limits are breached, including notification and escalation to higher level of Management and corresponding sanctions for excessive risk taking;

(2) clearly delineated responsibilities for managing risk based on the three (3) lines of defense;

(3) system for measuring risk;

(4) checks and balances system; and

(5) framework for risk data aggregation and risk reporting.

c. *Risk management processes and infrastructure.* The degree of sophistication of the risk management and internal control processes and infrastructure shall keep pace with developments in the BSFI such as balance sheet and revenue growth; increasing complexity of the business; risk configuration or operating structure; geographical expansion; mergers and acquisitions; or the introduction of new products or business lines, as well as with the external risk landscape; business environment; and industry practice. This should enable a dynamic, comprehensive, and accurate risk reporting both at the disaggregated (including material risk residing in subsidiaries) and aggregated level to allow for a BSFI-wide or integrated perspective of risk exposures.

In this respect, BSFIs shall ensure that their risk data aggregation capabilities meet the following principles:

(1) *Accuracy and integrity* - this refers to the capability to generate accurate and reliable risk data to meet normal and stress reporting accuracy requirements.

(2) *Completeness* - this refers to the capability to capture and aggregate all material risk data across the banking group. Data should be available by business line, legal entity, asset type, industry, region and other groupings, as relevant for the risk in question, and should permit the identification and reporting of risk exposures, concentrations, and any emerging risks.

(3) *Timeliness* -this refers to the capability to generate aggregate and up-to-date risk data in a timely manner while also meeting the principles relating to accuracy and integrity, completeness and adaptability. Timing shall depend upon the nature and potential volatility of the risk being measured as well as its criticality to the overall risk profile of the BSFI. Timing shall also depend on the BSFI-specific frequency requirements for risk management reporting, under both normal and stress/crisis situations, set based on the characteristics and overall risk profile of the BSFI.

(4) *Adaptability* - this refers to the capability to generate aggregate risk data to meet a broad range of on-demand, ad hoc risk management reporting requests, including requests during stress/crisis situations, requests due to changing internal needs and requests to meet supervisory queries.

d. *Risk identification, monitoring and controlling.* BSFIs shall identify and assess all material risks including new and emerging risks, as well as hard to quantify risks, e.g., reputational risk, on a group-wide and entity specific levels. In this respect, BSFIs should use accurate internal and external data and consider the external operating environment in the risk assessment process to inform strategic business decisions and risk management approaches.

e. *Risk communication.* BSFI shall promote an open communication about risk issues, including risk strategies across the organization. They shall adopt an effective information sharing and communication system enabling the timely, accurate, concise, and understandable transfer of information. This includes the risk reporting framework, which should accurately communicate risk exposures and results of stress tests and should promote robust discussion of risk exposures.

The risk reporting framework should be governed by the following principles:

(1) *Accuracy* - Reports should accurately and precisely convey aggregated risk data and reflect risk in an exact manner. In this regard, relevant reports should be reconciled and validated.

(2) *Comprehensiveness* - Reports should cover all material risk areas within the organization. The depth and scope of these reports should be consistent with the size and complexity of the BSFI's operations and risk profile, as well as the requirements of the users of information.

(3) *Clarity and usefulness* - Reports should communicate information in a clear and concise manner. Reports should be easy to understand and comprehensive enough to facilitate informed decision-making. Reports should include meaningful information tailored to the needs of the recipients.

Risk management function. The risk management function shall be responsible for overseeing the risk-taking activities across the BSFI, as well as in evaluating whether these remain consistent with the BSFI's risk appetite and strategic direction. It shall ensure that the risk governance framework remain appropriate relative to the complexity of risk taking activities of the BSFI. The risk management function shall be responsible for identifying, measuring, monitoring and reporting risk on an enterprise-wide basis as part of the second line of defense. It shall directly report to the Risk Oversight Committee (ROC) or the board of directors, as applicable. Personnel in the risk management function should collectively have knowledge and technical skills commensurate with business activities and risk exposures of the BSFI.

UBs/KBs shall create a separate risk management function that shall primarily assist management in meeting its responsibility to understand and manage risk exposures and ensure the development and consistent implementation of risk policies, processes, and procedures throughout the bank.

In case of group structures, there should be a board-approved policy that defines the risk management framework that shall apply to entities across the group. The policy shall provide the structure that shall be adopted by the group, either to establish the risk management function centrally at the parent bank or in each of the identified subsidiaries. Such policy shall also include the overall responsibility of the parent bank's risk management function with respect to the management of risk exposures of subsidiaries/affiliates.

The establishment of risk management function centrally by the parent bank in group structures shall not fall under the outsourcing framework as provided under Sec. 112 (*Statement of Principle on outsourcing*). In this respect, the head of the risk management function of the parent bank shall define the risk management strategies, processes, and

communication framework for the entire group: *Provided*, That this shall be done in consultation and coordination with the respective board of directors of the subsidiary or affiliate BSFI: *Provided, further,* That the board of directors of the subsidiary or affiliate BSFI, shall remain ultimately responsible for the management of risk exposures.

Branches of foreign banks may establish their own risk management function or may be covered by the parent/regional/group risk management function: *Provided,* That all branches of foreign banks shall meet the applicable provisions set forth under this Section, and comply with the policies, practices, and systems of its head office related to the management of risks.

The board of directors of TBs, RBs, and Coop banks, may, at its own discretion, or as directed by the appropriate supervising department of the Bangko Sentral, create a risk management function, that shall report directly to the ROC or the board of directors, as applicable.

Chief Risk Officer (CRO). UBs/KBs shall appoint a CRO to head the risk management function. Other banks, may at their own discretion, or as directed by the appropriate supervising department, appoint a CRO, or any equivalent position to carry out the responsibilities of the position. The appointment, dismissal and other changes to the CRO or its equivalent position shall have prior approval of the board of directors. In cases, when the CRO will be replaced, the BSFI shall report the same to the appropriate supervising department of the Bangko Sentral within five (5) days from the time it has been approved by the board of directors.

The CRO shall have sufficient stature, authority, and seniority within the BSFI. He shall be independent from executive functions and business line responsibilities, operations and revenue-generating functions, and shall have access to such information as he deems necessary to form his judgment. The CRO shall have direct access to the board of directors and the ROC without any impediment. He shall serve on a full-time basis and shall functionally meet/report to the board of directors or board-level committee: *Provided,* That in cases of branches of foreign banks, the CRO shall report to the regional/group risk function. Meetings with the board of directors or board-level committee shall be duly minuted and adequately documented. In this regard, the board of directors/board-level committee shall review and approve the performance and compensation of the CRO, and budget of the risk management function.

a. *Qualifications of the CRO.* The CRO should have the knowledge and skills necessary to oversee the BSFI's risk management activities. This will be assessed based on the ability of the CRO to influence decisions that affect the BSFI's exposure to risk. The CRO should have the ability to interpret and articulate risk in a clear and understandable manner and, without compromising his independence, can engage in a constructive dialogue with the board of directors, chief executive officer, and other senior management on key risk issues.

b. *Duties and responsibilities of the CRO.* The CRO shall be responsible for overseeing the risk management function and shall support the board of directors in the development of the risk appetite and risk appetite statement of the BSFI and for translating the risk appetite into a risk limits structure. The CRO shall likewise propose enhancements to risk management policies, processes, and systems to ensure that the BSFI's risk management capabilities are sufficiently robust and effective to fully support strategic objectives and risk-taking activities.

(Circular Nos. 971 dated 22 August 2017)

143 CREDIT RISK MANAGEMENT

***Policy statement*.** It is the policy of the Bangko Sentral to ensure that FIs under its supervision have adequate and effective credit risk management systems commensurate with their credit risk-taking activities. Towards this end, the following guidelines on credit risk management set forth the expectations of the Bangko Sentral with respect to the comprehensive management of credit risk. The guidelines further articulate sound principles and practices that shall be embedded in the credit risk management framework of FIs and shall cover the following areas: (a) establishing an appropriate credit risk environment; (b) operating under a sound credit granting process; and (c) maintaining appropriate credit administration, measurement, monitoring and control processes over credit risk. While FIs may employ different approaches in the management of their credit risk, the Bangko Sentral expects that all these areas are effectively addressed.

For purposes of these guidelines, FIs refer to UBs, KBs, TBs, RBs and Coop Banks and their respective credit-granting financial subsidiaries (if any) as well as stand-alone QBs.

Evaluation of credit risk management system. The Bangko Sentral shall evaluate the FI's credit risk management system not only at the level of individual legal entities but also across the subsidiaries within the consolidated banking organization. It will not restrict the scope of the credit risk-taking activities of an FI, so long as the FI is authorized to engage in such activities and:

a. Understands, measures, monitors and controls the risk assumed;
b. Adopts risk management practices whose sophistication and effectiveness are commensurate with the risk being taken; and
c. Maintains capital commensurate with the risk exposure assumed.

If the Bangko Sentral determines that an FI's risk exposures are excessive relative to the FI's capital, or that the risk assumed is not well-managed, the Bangko Sentral will direct the FI to reduce its exposure to an appropriate level and/or to strengthen its risk management systems. In evaluating the above parameters, the Bangko Sentral expects FIs to have sufficient knowledge, skills and appropriate system and technology necessary to understand and effectively manage their credit risk exposures.

The principles set forth in the credit risk management guidelines shall be used in determining the adequacy and effectiveness of an FI's credit risk management process and adequacy of capital relative to exposure. The Bangko Sentral shall consider the following factors:

a. The FI's business strategies, operating environment, and the competencies of its officers and personnel; and
b. The major sources of credit risk exposure and the complexity and level of risk posed by the assets, liabilities, and off-balance sheet activities.

I. Establishing an Appropriate Credit Risk Environment

Role of the board and senior management.

a. *Board of directors.* The board of directors shall be responsible for the approval and regular review of credit risk strategy and credit policy, as well as the oversight of the implementation of a comprehensive and effective credit risk management system appropriate for the size, complexity and scope of operations of an FI. The board shall ensure that the system provides for adequate policies, procedures and processes to identify, measure, monitor and control all credit risks inherent in an FIs products and activities, both at the individual and portfolio levels on a consistent and continuing basis; and that an independent assessment of the system is periodically performed, the results of which shall be reported to it or to a board-level committee for appropriate action.

b. *Senior management.* Senior management shall be responsible for ensuring that the credit risk-taking activities of an FI are aligned with the credit risk strategy approved by the board of directors. It shall also be responsible for developing and implementing an FI's credit policies and procedures that lay down the conditions and guidelines for an effective credit risk management process, as well as proper channels of communication to ensure that these policies are clearly communicated and adhered to by all levels of the organization.

Credit risk management structure.

a. Senior management or an appropriate level of management shall implement a board-approved credit risk management structure that clearly delineates lines of authority, establish accountabilities and responsibilities of individuals involved in the different phases of the credit risk management process.

b. Depending on the size, complexity and scope of credit activities, and in addition to the roles and responsibilities of the board and senior management, an FI's credit risk management organization may be broadly classified into three functional lines of activities: the front, back and middle offices, to properly segregate accountabilities, ensure that no individual is assigned conflicting responsibilities, and effectively monitor and control the risks being taken.

c. The front office function performs credit originating; recommends internal credit ratings, classifications and allowances for losses including changes thereon, when necessary; and the on-going monitoring of credit exposures of borrowers on a day-to-day basis.

d. The back office provides support in the overall credit administration, including, among others: ensuring complete documentation, credit disbursement and recording of payments received; maintenance of credit and collateral files; and compilation of management information reports.

e. The middle office performs risk management and control functions that are independent from the credit originating and administration functions. The risk management function provides meaningful inputs in policy formulation and limits setting; designs and implements the FI's internal credit risk rating system; and performs periodic exposure and exception monitoring. The risk management function shall report directly to the Risk Management Committee (RMC) or appropriate board-level committee or the board.

f. An independent credit review is a function within the middle office that performs an unbiased assessment of the quality of individual credits and the aggregate credit portfolio, including appropriateness of credit risk rating, classification and adequacy of allowance for loan losses. In the case of simple FIs, such independent credit review function may be concurrently performed by qualified personnel fulfilling other independent control oversight functions (e.g. compliance, internal audit).

g. The workout or problem loan management is another function within the middle office that is independent from the credit originating function to ensure that problem loans are managed effectively to minimize potential

losses. For simple FIs, however, the function may still be performed by the credit originating function and/or unit responsible for monitoring the quality of such credit.

h. The structure shall likewise provide for independent audits, i.e., internal audit and compliance, to conduct independent credit and compliance audits of the credit risk management system of the FI. The scope of internal audit shall include the evaluation of the independence and overall effectiveness of the credit review function.

i. Regardless of the organizational structure that an FI adopts, the board shall ensure that the aforementioned key functions are considered and independence and control oversight functions are effective to avoid or address any potential conflict of interest.

j. Personnel or staff involved in all phases of the credit risk management process shall be qualified, competent and have the necessary training and experience to exercise prudent judgment in assessing, managing and/or controlling credit risk, and a solid understanding of an FI's strategic direction, policies, procedures, risk tolerance and limits. Their qualification standards, roles and responsibilities shall be clearly defined in the credit operating policies and procedures manual of the FI. The board and senior management shall ensure that adequate resources and appropriate level of staffing are allocated to execute all kinds of credit activities.

Credit risk strategy. The credit risk strategy must reflect the FI's profitability and portfolio growth targets, and must be consistent with the credit risk tolerance and overall corporate strategy and business goals of the FI.

a. In formulating the credit risk strategy, the FI shall articulate the desired market segments and types of credit exposures (e.g., commercial credits, retail credits, real estate, investments, trading products, credit commitments and/or guarantees); specific characteristics of clients, economic sector, geographical location; the portfolio mix that reflects the acceptable level of diversification and concentration; and consider the risk/ reward trade-off by factoring in, to the greatest extent possible, price and non-price (e.g. collateral, restrictive covenants, etc.) terms as well as likely downside scenarios and their possible impact on the obligors.

   The FI shall likewise define acceptable and unacceptable types of credits, clients, activities, transactions and behaviors that could result or potentially result in conflict of interest, personal gain at the expense of the FI, or unethical conduct.

b. The credit risk strategy shall consider the cyclical aspects of the economy and the varying effects of the economic cycle on the credit portfolio of the FI.

Credit policies, processes and procedures. FIs shall have in place a sound, comprehensive and clearly defined credit policies, processes and procedures consistent with prudent standards, practices, and relevant regulatory requirements adequate for the size, complexity and scope of an FI's operations. The board-approved policies, processes and procedures shall cover all phases of the credit risk management system.

a. FIs shall establish appropriate processes and procedures to implement the credit policy and strategy. These processes and procedures, as well as the credit policy, shall be documented in sufficient detail, effectively communicated throughout the organization to provide guidance to staff, and periodically reviewed and updated to take into account new activities and products, as well as new lending approaches. Subsequent major changes must be approved by the board.

b. The credit policy shall likewise provide for the maintenance of an audit trail documenting that the credit risk management process was properly observed and identifying the unit, individual(s) and/or committee(s) providing input into the process.

c. The credit culture, which reflects the FI's credit values, beliefs and behaviors, shall likewise be articulated in the credit policy and communicated to credit officers and staff at all levels through the strategic plan. The credit practices shall be assessed periodically to ensure that the officers and staff conform to the desired standard and value.

II. Operating Under a Sound Credit Granting Process

Credit approval process. The approval process for new credits as well as the amendment, renewal and refinancing of existing credit exposures shall be aligned with the credit risk management structure and clearly articulated in an FI's written credit policy. The process shall include the different levels of appropriate approving authority and the corresponding approving authority limits, which shall be commensurate with the risks of the credit exposures, as well as expertise of the approving individuals involved. It shall also include an escalation process where approval for restructuring of credits, policy exceptions or excesses in internal limits is escalated to units/officer with higher authorities. Further, there shall be proper coordination of relevant units and individuals and sufficient controls to ensure acceptable credit quality at origination.

Credit granting and loan evaluation/analysis process and underwriting standards. Consistent with safe and sound banking, an FI shall grant credits only in amounts and for the periods of time essential for the effective completion of the

activity to be financed and after ascertaining that the obligor[1] is capable of fulfilling his commitments to the FI. Towards this end, an FI shall establish well-defined credit-granting criteria and underwriting standards, which shall include a clear indication of the FI's target market and a thorough understanding of the obligor or counterparty, as well as the purpose and structure of the credit and its source of repayment.

a. FIs shall conduct comprehensive assessments of the creditworthiness of their obligors, and shall not put undue reliance on external credit assessments. Credit shall be granted on the basis of the primary source of loan repayment or cash flow, integrity and reputation of the obligor or counterparty as well as their legal capacity to assume the liability.

b. Depending on the type of credit exposure and the nature of the credit relationship, the factors to be considered and documented in approving credits shall include, but are not limited to, the following:

   (1) The purpose of the credit which shall be clearly stated in the credit application and in the contract between the FI and the obligor;

   (2) The current risk profile (including the nature and aggregate amounts of risks, risk rating or credit score, pricing information) of the borrower, collateral, other credit enhancements and its sensitivity to economic and market developments;

   (3) The sources of repayment, repayment history and current capacity to repay based on financial analysis from historical financial trends and indicators such as equity, profitability, turnover, leverage, and debt servicing ability via cash flow projections, under various scenarios;

   (4) For commercial credits, the borrower's business expertise, its credit relationships including its shareholders and company directors, as applicable, and the status of the borrower's economic sector and its track record vis-à-vis industry peers;

   (5) The proposed terms and conditions of the credit (i.e., type of financing, tenor, repayment structure, acceptable collateral) including covenants designed to limit changes in the future risk profile of the obligor;

   (6) Use of credit reports; and

   (7) Where applicable, the adequacy, valuation and enforceability of collateral or guarantees.

c. In performing the financial analysis, FIs shall use, to the extent available, credible audited financial statements and other relevant documents and sources. FIs may opt to use financial information/data from other sources: *Provided*, That the process for arriving at such disposition and an evaluation of how much reliance or value was attached into the financial information used is clearly articulated and documented

d. When participating in loan syndications, an FI shall not place undue reliance on the credit analysis done by the lead underwriter and shall perform its own analysis and review of syndicate terms. It shall analyze the risk and return on syndicated loans in the same manner as directly sourced loans and ensure that the loan is consistent with its credit risk strategy.

e. When an FI purchases securities issued by an obligor that is different from the counterparty (e.g. asset swaps), it shall also analyze issuer risk. For treasury and capital market activities, the structure of products and transactions shall be analyzed to determine the source and volatility of credit exposure.

f. When granting consumer credits, an FI shall conduct its credit assessment in a holistic and prudent manner, taking into account all relevant factors that could influence the prospect for the loan to be repaid according to its terms and conditions. This shall include an appropriate consideration of the potential obligor's other debt obligations and repayment history and an assessment of whether the loan can be expected to be repaid from the potential obligor's own resources without causing undue hardship and over-indebtedness. Adequate checkings, including with relevant credit bureaus, shall be made to verify the obligor's credit applications and repayment records.

g. FIs shall factor into their credit-granting decisions the likelihood of providing allowance for identified and expected losses and holding adequate capital to absorb unexpected losses for credits with apparent weaknesses.

h. FIs may utilize physical collateral (like real estate), financial guarantees and other instruments to help mitigate risk in credit exposures. However, these shall not substitute for a comprehensive assessment of the obligor or fully compensate for insufficient information.

i. FIs shall establish adequate policies in determining the acceptability of various forms of credit mitigants and appropriate collateral value limits; procedures for regularly assessing the value of physical collaterals and

[1] Obligor refers to an individual or entity that owes another person or entity a certain debt or duty. For purposes of these guidelines, obligor can also be used interchangeably with borrower or debtor.

availability of financial guarantees; and a process to ensure that these are, and continue to be, enforceable, realizable and marketable. Finally, FIs need to consider that the realizable value of the physical collateral or the quality of financial guarantees and other credit mitigants may be impaired by the same factors that have led to the diminished recoverability of the credit.

In the case of guarantees, the level of coverage being provided in relation to the credit quality, financial and legal capacity of the guarantor shall be evaluated.

For credit exposures secured by deposits, FIs shall likewise require obligors to provide a written waiver of his rights under existing laws to the confidentiality of his deposits, and make this available for inspection and/or examination by the appropriate supervising department of the Bangko Sentral.

j. Netting arrangements also mitigate risks, especially in interbank and off-balance sheet transactions. In order to actually reduce risk, such agreements need to be sound and legally enforceable in all relevant jurisdictions.

k. For more complex credit risk exposures, (e.g., asset securitization, credit derivatives, credit-linked notes, credit granted internationally, etc.), a more sophisticated tool shall be used for identifying, measuring, monitoring and controlling credit, country and transfer risks. Each complex credit risk product or activity, especially those that are new to banking, shall be subject to a thorough analysis in addition to the regular assessment that is done with traditional credit-granting activities.

l. For new products and activities, the credit risk shall be appropriately identified and managed through a formal risk assessment program. FIs shall ensure that they fully understand the risk involved in new products and activities and put in place adequate policies, procedures and controls before being introduced or undertaken.

Renewal or extension of maturity date of credits. FIs shall adopt and adhere to the following explicit standards that control the use of renewals and extensions of maturity date of credits:

a. Credits and other accommodations shall only be renewed or its maturity date extended:

(1) Upon re-establishment of the creditworthiness of the obligor using the same credit-granting criteria for the evaluation and approval of new loans; and
(2) When the corresponding accrued interest receivable has been paid.

b. A policy on clean-up of principal, either partial or full, shall be established and appropriate controls put in place to prevent continuous renewal or extension over a long period of time without reduction in principal; otherwise, such credits and other accommodations shall be subject to classification and allowance for credit losses.

c. Specific and reasonable standards shall be provided for renewals or extensions of certain types of credit exposures that take into consideration the following factors:

(1) Borrower's normal operating, trade or production cycle, in the case of credit exposures for working capital, trade financing, production, and/or other similar purposes to ensure a realistic repayment schedule;

(2) Transaction history such as frequency of renewal or extension, rate of utilization of facilities granted, and business requirements;

(3) Status of collateral and other guarantees in the case of secured credit exposures, including requiring the FI to re-appraise the property especially when there is a material change in market conditions or in the physical aspects of the property that threatens the collateral protection; and

(4) Age of the account, utilization rate, average balance carried, delinquency status, payment history, and account profitability (if available) in the case of retail credits.

Credit limits, large exposures, and credit risk concentrations. An FI is exposed to various forms of credit risk concentration which if not properly managed, monitored and controlled may cause significant losses that could threaten its financial strength and undermine public confidence in the FI. Concentration risk can arise from excessive exposures to individual obligors, groups of connected counterparties and groups of counterparties with similar characteristics (e.g., counterparties in specific geographical locations, economic or industry sectors) or entities in a foreign country or a group of countries with strongly interrelated economies.

While concentration of credit risks is inherent in banking and cannot be total eliminated, this can be mitigated by adopting policies and processes that would limit and control credit exposures and employing portfolio diversification strategies. Policies and procedures may include, but are not limited to the following:

a. Policies and procedures for identifying, reviewing, managing and reporting large exposures and concentration risks of the FI.

b. Segmenting its portfolio into the following diverse categories or such other segmentations consistent with the FI's credit strategy.

(1) Various types of borrowers/counterparties or loan category (e.g., government, banks and other FIs, corporate and individual borrowers, including exchanges, electronic communication networks or ECNs and clearing houses);

(2) A group of connected borrowers/counterparties (includes aggregating exposures to groups of accounts exhibiting financial or economic interdependence, including corporate or non-corporate, where they are under common ownership or control or with strong connecting links, e.g. common management, familial ties);

(3) Individual industry sectors;

(4) Geographic regions or countries;

(5) Loan structure, collateral, and tenor; and

(6) Various types of investments, including other credit instruments in the trading books and off-balance sheet transactions.

c. Defining limit structure on each of the foregoing categories. Limits shall meaningfully aggregate credit exposures, both in the banking, trading book and on and off the balance sheet and shall be reasonable in relation to the FI's level of risk tolerance, historical loss experience, capital and resources. Such limits can be based in part on the internal risk rating assigned to the obligor or counterparty.

d. Procedures shall ensure that limits are not exceeded and are clearly communicated, periodically reviewed and modified, as appropriate. Should exceptions to policy be allowed, the circumstances under which limits may be exceeded and the party authorized to approve such excesses shall be clearly articulated in the credit policy.

Country and transfer risks. Country risk refers to uncertainties arising from economic, social and political conditions of a country which may cause obligors in that country to be unable or unwilling to fulfill their obligations. Transfer risk exists when an obligor is unable to secure foreign exchange to service external obligations due to restrictions imposed by the country on foreign exchange remittance or repayment on foreign-currency denominated assets to a foreign lender. FIs that have cross-border credit risk exposures shall have adequate internal capacity for identifying, measuring, monitoring and controlling country and transfer risks in its international lending and investment activities, and shall not place undue reliance on external ratings. An FI shall consider the following:

a. Establishing credit-granting criteria taking into consideration country risk factors that shall include the potential for default of foreign private sector obligors arising from country-specific economic, social and political factors, the enforceability of loan agreements, and the timing and ability to realize collateral under the national legal framework. The results of the country risk analysis shall be integrated into the internal credit risk rating of the obligor. These country risk factors shall be regularly monitored. An FI shall also assess an obligor's ability to obtain foreign exchange to service cross-currency debt and honor contracts across jurisdictions.

b. Country risk limits shall be put in place and regularly reviewed to determine that approved limits still reflect the FI's business strategy in line with the changing market conditions. FIs shall ensure that country exposures are reported and monitored against these limits. Significant country risks shall be assessed and highlighted in credit proposals submitted to management for approval.

c. Credit policy shall clearly articulate appropriate countermeasures that an FI shall take in the event of an adverse development in a particular country where it has exposures. These measures shall include closer analysis of the obligor's capacity to repay, provisioning and preparation of contingency plans if country risk continues to deteriorate. It shall consider in its monitoring and evaluation of country and transfer risks, the internal and external country risk rating transitions and economic social and political developments of the relevant countries. Any significant changes to the conditions of a country shall also be elevated to the board promptly particularly if the FI has substantial exposure to that country.

Credits granted to related parties. Consistent with sound corporate governance practices, the board and senior management shall articulate and implement clear policies in handling transactions with directors, officers, stockholders, their related interests (DOSRI), the FI's subsidiaries and affiliates, and other related parties, ensuring that there is effective compliance with existing laws, rules, and regulations at all times and that no stakeholder is unduly disadvantaged.

a. All extensions of credit must be made on an arm's-length basis, in accordance with the FI's credit-granting criteria and in the regular course of business, and upon terms not less favorable to the FI than those offered to non-related borrowers.

b. FI policies shall cover standards that require directors and/or officers to avoid placing themselves in a position that creates conflict of interest or the appearance of conflict of interest. The board and management shall likewise establish and implement policies that require full disclosure of personal interests that they may have in credit transactions. Directors and officers with personal interest in a transaction shall not participate in any deliberation, approval, or voting on the matter.

III. Maintaining an Appropriate Credit Administration, Measurement, and Monitoring Process

Credit administration. FIs shall have in place a system for the ongoing administration of their various credit portfolios. Credit administration refers to the back office activities that support and control extension and maintenance of credit. FIs shall ensure the efficiency and effectiveness of the following credit administration functions:

a. *Credit documentation.* Procedures shall be put in place to ensure completeness of documentation in accordance with policy including a file documentation tickler system;

b. *Disbursement.* Proper approval shall be obtained and complete documentation ensured prior to disbursement. Exceptions, if any, shall be duly approved;

c. *Billing and repayment.* Payments received shall be properly recorded. Measures shall be in place to ensure that late payments are tracked and collected; and

d. *Maintenance of credit files.* Credit files shall include sufficient and updated information necessary to ascertain the financial condition of the obligor or counterparty and include documents covering the history of an FI's relationship with the obligor. All loan and collateral documents shall be kept in a secured area under joint custody.

Credit risk measurement, validation and stress testing. FIs shall adopt sound and appropriate risk measurement methodologies which shall provide a framework to control and monitor the quality of credit as well as total loan portfolio.

a. *Internal credit risk rating system.* FIs shall develop and utilize an internal risk rating system appropriate to the nature, size and complexity of the FI's activities in order to help the board and senior management differentiate risks across the individual credits and groups and to facilitate informed decision making.

FIs shall have sophisticated rating systems involving sufficiently granular rating grades. Simple FIs may adopt simpler systems. In all cases, however, FIs shall demonstrate the influence of the internal risk rating system in the following important functions: i) credit approval and underwriting; ii) loan pricing; iii) relationship management and credit administration; iv) allowance for credit losses and capital adequacy; and v) portfolio management and board reporting.

Internal risk rating systems shall generally observe the following standards:

(1) It must be operationally integrated into the FI's internal credit risk management process. Its output shall accordingly be an integral part of the process of evaluation and review of prospective and existing exposures. Credit underwriting criteria shall become progressively more stringent as credit rating declines;

(2) It must be fully documented and shall address topics such as coverage, rating criteria, responsibilities of parties involved in the ratings process, definition of what constitutes a rating exception, parties that have authority to approve exceptions, frequency of rating reviews, and management oversight of the rating process. In addition, FIs must document the rationale for its choice of rating criteria and must be able to provide analyses demonstrating that the rating criteria and procedures are likely to result in ratings that meaningfully differentiate risk;

(3) All credit exposures shall be rated for risk. Where individual credit risk ratings are not assigned, e.g., small-denomination performing loans, FIs shall assign the portfolio of such exposures a composite credit risk rating that adequately defines its risk, i.e., repayment capacity and/or loss potential;

(4) The board shall receive sufficient information to oversee management's implementation of the process. Migration analysis/transition matrix of ratings shall be regularly reported to show the actual performance of the rating system over time;

(5) The risk rating system shall encompass an adequate number of ratings. FIs shall ensure that "pass" credits are sufficiently differentiated and more precisely defined. There shall be a proper process to map the internal rating system to regulatory classification. The FI shall readjust the mapping after every review of its internal risk rating methodology. For FIs whose internal rating systems have several pass grades, special mention loans may pertain to several risk ratings while substandard, doubtful and loss generally correspond to the lowest three risk ratings;

(6) Risk ratings must be reasonable, timely and dynamic. Ratings shall be reviewed at least annually and shall be modified whenever the borrower's creditworthiness changes;

(7) The rating criteria shall reflect an established blend of qualitative (e.g., the quality of management, willingness to repay, etc.) and quantitative (e.g., cash flow, profitability, and leverage) factors. The criteria for assigning each rating shall be clearly defined;

(8) The rating policy shall indicate a time horizon for the risk rating. Generally, the time horizon used for probability of default estimation is one year. However, FIs may use a different time horizon to cover one business cycle;

(9) Ratings shall reflect the risks posed by both the borrower's expected performance and the transaction's structure. The ratings output of internal credit risk rating systems must contain both a borrower and a facility dimension. The borrower dimension shall focus on factors that affect the inherent credit quality of each borrower. The facility dimension, on the other hand, shall focus on security/collateral arrangements and other similar risk influencing factors of each transaction;

(10) The rating assigned to a credit shall be well supported and documented in the credit file; and

(11) Rating histories on individual accounts shall be maintained, which shall include the ratings of the account, the dates the ratings were assigned, the methodology and key data used to derive the ratings and the analyst who gave the ratings. The identity of borrowers and facilities that default, and the timing and circumstances of such defaults, must be retained. FIs must also retain data on the realized default rates associated with rating grades and ratings migration in order to eventually track the predictive power of the risk rating system.

As used in these standards, a default is considered to have occurred in the following cases:

(a) If a credit obligation is considered non-performing under existing rules and regulations;

(b) If a borrower/obligor has sought or has been placed in bankruptcy, has been found insolvent, or has ceased operations in the case of businesses;

(c) If the bank sells a credit obligation at a material credit-related loss[1], i.e., excluding gains and losses due to interest rate movements. Banks' board-approved internal policies that govern the use of their internal rating systems must specifically define when a material credit-related loss[1] occurs; and

(d) If a credit obligation of a borrower/obligor is considered to be in default, all credit obligations of the borrower/obligor with the same bank shall also be considered to be in default.

b. *Credit scoring model.* FIs may use a credit scoring model in measuring credit risk for pools of loans that are similar in purpose, risk characteristics and/or general exposure to groups, industries or geographical locations granted in small denomination: *Provided,* That the FI ensures that the credit scoring model sufficiently captures the credit behavior and other characteristics of the targeted borrowers. These loans include retail loans, loans to micro and small enterprises, microfinance loans and unsecured small business loans, and consumer loans (i.e., housing loans, car or auto loans, loans for the purchase of appliance and furniture and fixtures, loans for payment of educational and hospital bills, salary loans and loans for personal consumption, including credit card loans). Risks for these types of portfolio are generally measured at portfolio level.

c. *Other credit risk measurement/methodologies.* FIs may likewise adopt other appropriate credit risk measurement methodologies/models to estimate expected losses from credit portfolio.

d. *Validation of internal rating systems.* Validation is a process to assess the performance of risk component measurement systems consistently and meaningfully, to ensure that the realized risk measures are within an expected range. It not only increases the reliability of a model, but also promotes improvements and a clearer understanding of a model's strengths and weaknesses among management and user groups.

FIs shall establish comprehensive policies and procedures on effective validation of the rating system (e.g. review of model design/developmental evidence, backtesting, benchmarking and assessment of the discriminatory power of the ratings) and rating process (e.g. review of data quality, internal reporting, problem handling and how the rating system is used by the credit officers). This shall be adequately documented and results reported to appropriate levels of the FI. The process shall likewise be subject to periodic review by qualified, independent individuals.

[1] This refers to economic loss, thus shall include discount effects, as well as direct and indirect costs associated with collecting on the credit obligation. The FIs' board-approved internal policies that govern the use of their internal rating systems must include specific policies and procedures that shall be followed in the determination of economic loss.

Moreover, FIs shall periodically conduct back-testing in evaluating the quality of their credit risk assessment models and establish internal tolerance limits for differences between expected and actual outcomes and processes for updating limits as conditions warrant. The policy shall also include remedial actions to be taken when risk tolerances are exceeded.

e. *Stress testing.* When appropriate, an FI shall conduct stress testing and scenario analysis of its credit portfolio including off-balance sheet exposures, both at an individual and group levels to assess the impact of market dislocations and changes in economic conditions or key risk factors on its profile and earnings.

(1) Whether stress tests are performed manually, or through automated modeling techniques, FIs shall ensure that:

(a) Policies and processes –

(i) Are adequate and clearly documented, rational, easily understood and approved by the board and senior management; and

(ii) Includes methodology for constructing appropriate and plausible single and multi-factor stress tests, and possible events, scenarios, or future changes in economic conditions that could have adverse impact on credit exposures, and assess the FI's ability to withstand such changes;

(b) The inputs are reliable and relate directly to the subject portfolios;

(c) The process includes frequency of test and procedures for convening periodic meetings to identify the principal risk factors affecting the portfolio, setting loss limits and the authority for setting these limits, and monitoring stress loss limits;

(d) Assumptions are well documented and conservative;

(e) Models (if any) are subject to a comprehensive validation process;

(f) Exceptions to limits and stress testing results are reported to the senior management and board of directors for appropriate remedial actions; and

(g) Results are discussed and actions and resolutions are made arising from the discussion.

(2) The linkages between different categories of risk that are likely to emerge in times of crisis shall be fully identified. In case of adverse circumstances, there may be a substantial correlation of various risks, especially credit, liquidity, and market risk.

f. FIs shall develop a contingency plan for scenarios and outcomes that involve credit risk in excess of the FI's established risk tolerances. This plan may include increasing monitoring, limiting portfolio growth, and hedging or exit strategies for both significant individual transactions and key portfolio segments.

Credit risk management information and reporting systems. FIs shall render accurate, reliable and timely information and reports. Thus, adequate management information and reporting systems shall be in place to identify and measure credit risk inherent in all on- and off-balance sheet activities and ensure the overall effectiveness of the risk management process. The information generated from such systems shall enable the board and all levels of management to fulfill their respective oversight roles, including determining the level of capital commensurate with the credit risk exposure of the FI.

a. At a minimum, an effective management information system (MIS) shall enable FIs to:

(1) Provide adequate information on the quality and composition of the credit portfolio (including off-balance sheet accounts);

(2) Determine accurately the level of credit risk exposures of an FI through its various activities (e.g. renewal and extension of loans, collection process, status of delinquent accounts, write-offs, provisioning, among others);

(3) Timely identify and monitor credit risk concentrations, exposures approaching risk limits, exceptions to credit risk limits and overrides to ensure that policy and underwriting deviations as well as breaches and other potential problems are promptly reported to the board and management for appropriate corrective action;

(4) Aggregate credit exposures to individual borrowers and counterparties as well as to a group of accounts under common ownership or control;

(5) Permit additional analysis of the credit portfolio, including stress testing; and

(6) Maintain a database for research and use of analytical techniques, report exposures, track quality and account performances, and maintain limits.

b. The credit policy shall clearly define the types of information and reports to be generated, frequency of reporting, deadline of submission, and the users/recipients of and personnel responsible for the preparation of such information and reports.

c. FIs shall provide sufficient controls to ensure integrity of the MIS. Reports shall be periodically reviewed to ensure adequacy of scope and reliability and accuracy of the information generated. Internal audit shall also periodically assess the controls over MIS.

Credit monitoring. FIs shall develop and implement comprehensive processes, procedures and information systems to effectively monitor the condition and quality of individual credits and group of credits across the FIs' various portfolios. These shall include criteria that identify and report problem credits to reasonably assure that they are appropriately monitored as well as administered and provided for.

a. The system shall be able to, among others, provide measures to ensure that the board and management are kept informed of the current financial condition of the borrower and the various credit portfolios; loan covenants are consistently adhered to; cash flow projections meet repayment requirements; prudential and internal limits are not exceeded; portfolios are stress-tested; and potential problem credits and other transactions are identified. Exceptions, breaches and potential problems noted shall be promptly reported to management for corrective action, possible classification and/or provisioning and more frequent monitoring.

b. Personnel or unit assigned to monitor, on an ongoing basis, credit quality and underlying physical collateral and financial guarantees shall ensure that relevant information is communicated to those personnel or unit assigned to provide internal credit risk ratings.

c. FIs shall perform post-validation of the actual use of funds to determine that credits were drawn down for their intended purposes. Should funds be diverted for purposes other than what has been applied for and approved, the FI shall immediately re-evaluate its approval or if necessary terminate the credit accommodation and demand immediate repayment of the obligation.

d. FIs shall monitor individual and aggregate exposures against prudential and internal limits on a regular basis. Large exposures shall be subject to more intensive monitoring.

e. FIs shall develop a system that allows monitoring of asset quality indicators (e.g. non-performing loans, collateral values, etc.) and trends in loan growth to identify potential weaknesses in the portfolio.

IV. Maintaining an Appropriate Credit Control Process

Credit review process.

a. FIs shall implement an independent and objective credit review process to determine that credits are granted in accordance with the FI's policies; assess the overall asset quality, including appropriateness of classification and adequacy of loan-loss provisioning; determine trends; and identify problems (e.g., risk concentration, risk migration, deficiencies in credit administration and monitoring processes).

b. FIs may employ an appropriate sampling methodology to determine the scope of credit review. At a minimum, credit review shall be conducted on all individual obligors with substantial exposures, and on a consolidated group basis to factor in the business connections among related entities in a borrowing group. Credit review for credits that are similar in purpose or risk characteristics may be performed on a portfolio basis. The portfolio sample selected for review shall provide reasonable assurance that all major credit risk issues have been assessed and valid conclusions can be drawn. Moreover, sampling methodology shall be documented and periodically reviewed to ensure its quality and minimize bias.

c. Credit review shall also evaluate credit administration function and ensure that credit files are complete and updated, and all loan approvals and other necessary documents have been obtained.

d. Credit reviews shall be performed at least annually, and more frequently for substantial exposures, new accounts and classified accounts. Assessments shall be promptly discussed with the officers responsible for the credit activities and escalated to senior management.

e. Results of the credit review shall be promptly reported to the board of directors or the appropriate board-level committee for their appropriate action. The board shall mandate and track the implementation of corrective action in instances of unresolved deficiencies and breaches in policies and procedures. Deficiencies shall be addressed in a timely manner and monitored until resolved/corrected.

Credit classification and provisioning[1]

a. *Classification of loans and other credit accommodations[2].* FIs shall have in place a reliable credit classification system to promptly identify deteriorating credit exposures and determine appropriate allowance for credit losses. Classification can be done on the basis of internal credit risk rating system, including payment delinquency status. All credit classifications, not only those reflecting severe credit deterioration, shall be considered in determining the appropriate allowance for credit losses.

(1) All FIs shall map their classification of loans and other credit accommodations against the regulatory classification criteria provided below. However, FIs are encouraged and not precluded from using additional criteria appropriate to their internal credit risk rating system provided they are consistent with the regulatory classification as follows:

(a) *Pass.* These are loans and other credit accommodations that do not have a greater- than-normal credit risk. The borrower has the apparent ability and willingness to satisfy his obligations in full and therefore no loss in ultimate collection is anticipated.

(b) *Especially Mentioned (EM).* These are loans and other credit accommodations that have potential weaknesses that deserve management's close attention. If left uncorrected, these weaknesses may affect the repayment of the loan. Some degree of structural weakness may be found in virtually any aspect of the loan arrangement or type of loan, and the presence of one (or more) need not be indicative of an overall credit weakness deserving criticism. Instead, the FI must evaluate the relative importance of such factors in the context of the borrower's overall financial strength, the condition of the borrower's industry or market, and the borrower's total relationship with the FI. Basic characteristics include, but are not limited to, any of the following:

(i) Deficiencies in underwriting, documentation, structure and/or credit administration that can compromise an FI's ability to control credit relationship if economic or other events adversely affect the borrower;

(ii) Continuous renewal/extension without reduction in principal, except when the capacity to pay of the borrower has been clearly re-established;

(iii) Adverse economic or market conditions, that in the future may affect the borrower's ability to meet scheduled repayments. Loans and other credit accommodations affected by these characteristics may retain the EM classification in the next examination should the same adverse conditions persist: *Provided*, That the loans remain current; or

(iv) Intermittent delays or inadequate repayment of principal, interest or periodic amortizations of loans and other credit accommodations granted by the FI or by other FIs, where such information is available.

(c) *Substandard.* These are loans and other credit accommodations that have well-defined weakness/(es), that may jeopardize repayment/liquidation in full, either in respect of the business, cash flow or financial position, which may include adverse trends or developments that affect willingness or repayment ability of the borrower. Basic characteristics include any of the following:

(i) Weak financial condition and results of operation that leads to the borrower's inability to generate sufficient cash flow for debt servicing, except for start-up firms which shall be evaluated on a case-to-case basis;

(ii) Past due secured loans and other credit accommodations where properties offered as collateral have been found with defects as to ownership or with other adverse information;

(iii) Breach of any key financial covenants/agreements that will adversely affect the capacity to pay of the borrower; or

(iv) Classified "Especially Mentioned" as of the last credit review without adequate corrective action.

(d) *Doubtful.* These are loans and other credit accommodations that exhibit more severe weaknesses than those classified as "Substandard", whose characteristics on the basis of currently known facts, conditions and values make collection or liquidation highly improbable, however the exact amount remains undeterminable as yet. Classification as "Loss" is deferred because of specific pending factors which may strengthen the assets. Some basic characteristics include any of the following:

[1] See *Appendix 92* on Regulatory Relief for Banks Affected by Calamities.
[2] Other credit accommodations include other credits such as accounts receivables, sales contract receivables, accrued interest receivables and advances.

(i) Secured loans and other credit accommodations where properties offered as collateral are either subject to an adverse claim rendering settlement of the loan through foreclosure doubtful or whose values have materially declined without the borrower offering additional collateral for the loan/s to cover the deficiency; or

(ii) Loans and other credit accommodations wherein the possibility of loss is extremely high but because of certain important and reasonable pending factors (i.e., merger, acquisition, or liquidation procedures, capital infusion, perfecting liens on additional collateral, and refinancing plans) that may work to the advantage and strengthening of the asset, its classification as an estimated loss is deferred until the next credit review.

(e) *Loss.* These are loans and other credit accommodations which are considered uncollectible or worthless and of such little value that their continuance as bankable assets is not warranted although the loans may have some recovery or salvage value. This shall be viewed as a transitional category for loans and other credit accommodations which have been identified as requiring write-off during the current reporting period even though partial recovery may be obtained in the future. Their basic characteristics include any of the following:

(i) When the borrower's and co-makers'/guarantors' whereabouts are unknown, or they are insolvent, or their earning power is permanently impaired; or
(ii) Where the collaterals securing the loans are without recoverable values.

(2) *Split classification* may apply for non-performing secured loans and other credit accommodations, depending on the recoverability and liquidity of the collateral. The secured portion may be classified as "substandard" or "doubtful", as appropriate, while the unsecured portion shall be classified "loss" if there is no other source of payment other than the collateral.

(3) In the case of syndicated loans, each participating FI shall maintain credit information on the borrower, and grade and make provision for its portion of the syndicated loan in accordance with the requirements of these guidelines. The lead FI shall provide participating FIs with the credit information on the borrower upon request by the participating FI and inform the latter if the loan will be classified so as to achieve uniform classification of the syndicated loan.

(4) FIs may upgrade a classified loan or restore it to a pass rating: *Provided*, That it does so on the basis of a written policy on the upgrading of classification or rating and the credit review function is reliable and effective. Such policy shall include a comprehensive analysis of the repayment capability/financial strength of the borrower and the corrective actions made on the weaknesses noted to support the upgrade in classification. Upgrading may be supported by the following developments:

(a) When all arrears or missed payments on principal and interests including penalties have been cleared rendering the account to be fully compliant with the original terms of the loan;

(b) Upon establishing that the weaknesses were substantially addressed and that the borrower has exhibited a sustained trend of improvement and willingness and capability to fully pay its loans and advances in a timely manner to justify the upgrade;

(c) Offering of new or additional collateral security; or

(d) In the case of restructured loans, the classification shall only be upgraded after establishing a satisfactory track record of at least six (6) consecutive payments of the required amortization of principal and interest, or until the borrower has sufficiently exhibited that the loan will be fully repaid (continued collection in accordance with the terms of the loans is expected) and the loan meets the criteria of lower loan classification.

b. *Loan Loss Estimation Methodology, Provisioning and Allowance for Credit Losses*

(1) All FIs shall develop and document a sound loan loss methodology that can reasonably estimate provisions for loans and other credit accommodations and risk assets in a timely manner, using their experience and research and this guidance to ensure that the specific and collective allowance for credit losses[1] (ACL) are adequate and approximates the expected losses in their credit portfolio.

An FI's loan loss methodology shall consider the following:

[1] ACL represents the aggregate amount of individual and collectively assessed probable credit losses.

(a) Written policies and procedures for the credit risk systems and controls inherent in the methodology, including roles and responsibilities of the FI's board of directors and senior management;

(b) A detailed analysis of the entire loan portfolio, including off-balance sheet facilities, performed on a regular basis;

(c) A realistic view of its lending activities and adequately consider uncertainty and risks inherent in those activities in preparing accounting information. Loan accounting policies and practices shall be selected and applied in a consistent way that reasonably assures that loan and loan loss provision information is reliable and verifiable;

(d) Identification of loans to be evaluated individually and segmentation of the remaining portfolio into groups of loans with similar credit risk characteristics for collective assessment.

(i) *Individually assessed loans.* FIs shall establish a materiality threshold for significant credit exposures that will warrant an individual assessment, which threshold shall be regularly reviewed.

The loan loss estimates shall reflect consideration of the facts and circumstances that affect the repayment of each individual loan as of the evaluation date. The following factors are relevant in estimating loan losses for individually assessed loans:

(aa) Significant financial difficulty of the borrower;
(bb) Probable bankruptcy or other financial reorganization of the borrower;
(cc) Breach of contract, such as a default or delinquency in interest or principal payments; or
(dd) Concession granted by the FI, for economic or legal reasons relating to the borrower's financial difficulty, which would not otherwise be considered.

The methodology shall include procedures describing the determination and measurement of the amount of any impairment, the impairment measurement techniques available and steps performed to determine which technique is most appropriate in a given situation.

(ii) *Collectively assessed loans.* FIs may use different methods to group loans for the purpose of assessing credit risk and valuation. More sophisticated credit risk assessment models or methodologies for estimating expected future cash flows, including credit risk grading processes, may combine several of the following characteristics: loan type, product type, market segment, estimated default probabilities or credit risk grading and classification, collateral type, geographical location and past-due status.

Estimated credit losses shall reflect consideration of the FI's historical net charge-off rate[1] of the groups, adjusted for changes in trends, conditions and other relevant factors that affect repayment of the loans in these groups as of the evaluation date, and applied consistently over time;

(e) Methods used to determine whether and how loans individually evaluated, but not considered to be individually impaired, shall be grouped with other loan (excluding individually assessed loans that are impaired) that share similar credit risk characteristics for collective impairment evaluation;

(f) The quality and net realizable values of physical collateral and other financial guarantees and credit risk mitigants incorporated in the loan agreement, where applicable;

(g) Address the methods used to validate models for credit risk assessment;

(h) The analyses, estimates, reviews and other provisioning methodology functions shall be performed by competent and well-trained personnel and be well documented, with clear explanations of the supporting analyses and rationale; and

(i) *Use experienced credit judgment.* Assessment of expected losses shall not be based solely on prescriptive rules or formula but must be enhanced with experienced credit judgment by the appropriate levels of management[2] in as much as historical loss experience or observable data may be limited or not fully relevant to current circumstances. However, the scope for actual discretion shall be prudently within the following constraints:

(i) Experienced credit judgments shall be subject to established policies and procedures;
(ii) With approved and documented analytical framework for assessing loan quality applied consistently over time;

[1] The historical net charge-off rate is generally based on the annualized historical gross loan charge-offs, less recoveries, recorded by the FI.
[2] There may be instances when no adjustments are needed to the data in the recognition and measurement of loan losses because the data are consistent with current conditions.

(iii) Estimates shall be based on reasonable and verifiable assumptions and supported by adequate documentation; and
(iv) Assumptions concerning the impact on borrowers of changes in general economic activity, both favorable and unfavorable, shall be made with sufficient prudence.

The method of determining loan loss provisions shall reasonably assure the timely recognition of loan losses. While historical loss experience and recent economic conditions are a reasonable starting point for the institution's analysis, these factors are not, by themselves, sufficient basis to determine the appropriate level of aggregate loan loss provisions. Management shall also consider any current factors that are likely to cause loan losses to differ from historical loss experience, including changes in the following:

- Lending policies and procedures, including underwriting standards and collection, charge-off, and recovery practices;
- International, national and local economic and business conditions and developments, including the condition of various market segments;
- Trend, volume and severity of past due loans and loans graded as low quality, as well as trends in the volume of impaired loans, troubled debt restructurings and other loan modifications;
- The experience, ability, and depth of lending management and staff;
- Changes related to new market segments and products;
- Quality of the FI's loan review system and the degree of oversight by senior management and board of directors;
- The existence and effect of any concentrations of credit, and changes in the level of such concentrations; and
- Credit risk profile of the loan portfolio as a whole as well as the effect of external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the FI's current portfolio.

Experienced credit judgment shall also be used to determine an acceptable period that will yield reliable historical loss rates as loss rate periods shall not be restricted to a fixed time period to determine the average historical loss experience for any group of loans with similar credit risk characteristics. An FI shall maintain sufficient historical loss data over a full credit cycle to provide robust and meaningful statistical loan loss estimates for establishing the level of collective impairment losses for each group of loans with similar credit risk characteristics. When applying experienced credit judgment, an FI shall provide a sound rationale for excluding any historical loss data that is deemed not representative of the performance of the portfolio.

(2) FIs with credit operations that may not economically justify a more sophisticated loan loss estimation methodology or whose practices fell short of expected standards shall, at a minimum, be subject to the regulatory guidelines in setting up allowance for credit losses prescribed in *Appendix 15*: *Provided*, That the FIs notify the appropriate supervising department of the Bangko Sentral of this preference. Nevertheless, such FIs shall still use experienced credit judgment, subject to the criteria prescribed in this Section, in determining the ACL.

(3) FIs shall set up general loan loss provision equivalent to one percent (1%) of the outstanding balance of individually and collectively assessed loans for which no specific provisions are made and/or for which the estimated loan losses are less than one percent (<1%), less loans which are considered non-risk under existing laws, rules and regulations.

(4) FIs shall ensure the adequacy of the individual and collective ACL for the entire loan portfolio. They shall have a policy for the regular review of the ACL, which shall be conducted at least semi-annually after considering results of the credit review, level of classified loans, delinquency reports, historical losses and market conditions. Failure to make adequate provisions for estimated future losses results in material misrepresentation of an FI's financial condition.

Credit workout and remedial management of problem credits. FIs shall develop and maintain a disciplined and vigorous process for the early identification and intervention for potential or existing problem credits. The process shall ensure that timely and adequate management action is taken to maintain the quality of the credit portfolio, prevent further deterioration, and minimize the likelihood of future losses.

a. *Problem credits* refer to credits that display signs of potential problems and/or well-defined weaknesses such as those not performing according to the terms of the contract, or with credit quality impairment, or deficiencies relating to their approval and/or conduct that are not in keeping with sound and prudent credit policies. These shall include past due loans, non-performing loans and restructured loans.

b. FIs shall adopt appropriate and cost effective workout, restructuring or remedial management policies, processes and strategies to revive and recover problem credits. The strategies shall take into account the specific

condition of the obligor and the FI's interest, and shall be approved by the board of directors or management, in accordance with internal policy.

c. At a minimum, the policies and strategies shall cover the following areas:

(1) authority and responsibilities of officers and staff in managing problem credits;
(2) collection strategy to be adopted for different types of loans;
(3) restructuring and handling of restructured accounts and/or loans for workout;
(4) supervision and monitoring of loan recovery performance;
(5) management and disposal of real and other properties acquired (ROPA), including appraisal process;
(6) management information system to support the reporting, monitoring and decision making processes;
(7) defined timelines and provision for regular monitoring; and
(8) other strategies, such as the use of collection agencies, and criteria for hiring a consultant on problem credits.

d. Restructuring strategies

(1) Restructuring may be resorted to for the purpose of lessening the financial difficulty of the obligor towards full settlement of his obligation, and restructuring agreements shall always take into account the borrower's capacity to pay his obligation and available credit enhancements such as financial guarantees and physical collateral. Thus, except in special cases which also require approval by the Monetary Board, such as loans funded by foreign currency obligations, FIs shall have full discretion on whether to restructure loans in order to provide flexibility in arranging the repayment of such loans without impairing or endangering the FI's interest.

(2) Accounts shall not be restructured unless the financial capacity of the obligor to repay has been re-established, the events or crises that triggered the financial stress had been identified, and the nature and extent of protection of the FI's exposure had been determined, to justify the need for restructuring.

(3) At a minimum, the classification and provisioning of a loan, prior to the execution of the restructuring agreement shall be retained until the borrower has sufficiently exhibited that the loan will be fully repaid.

(4) A second restructuring of a loan shall be allowed only if there are reasonable justifications: *Provided,* That it shall be considered a non-performing loan and classified, at least, *"Substandard"*. The restoration to a performing loan status and/or upgrading of loan classification, e.g., from *"Substandard"* to *"Especially Mentioned"*, may be allowed if circumstances warrant an upgrading in accordance with this Section.

(5) When restructuring of exposures to DOSRI and other related parties is pursued, this shall be upon terms not less favorable to the FI than those offered to others and shall be approved by the board, excluding the concerned director.

(6) Physical collaterals offered, such as real estate, shall be appraised by an independent appraisal company (not a subsidiary or an affiliate of the FI) acceptable to the Bangko Sentral at the time of restructuring and every year thereafter to ensure that current market values are being used. A credit exposure benchmark of P1.0 million for simple FIs and P5.0 million for all other FIs shall be observed, such that physical collaterals for credit exposures beyond this amount will require an independent appraisal.

e. Problem credits, including restructured accounts, shall be subjected to more frequent review and monitoring. Regular reports on the status of loan accounts and progress of any remedial plan shall be submitted to senior management to facilitate an informed decision whether escalated remedial actions are called for.

Writing off problem credits. Policies for writing off problem credits must be approved by the board of directors in accordance with defined policies, and shall incorporate, at a minimum, well-defined criteria (i.e., circumstances, conditions and historical write-off experience) under which credit exposures may be written off. Procedures shall explicitly narrate and document the necessary operational steps and processes to execute the policies.

Policies and procedures shall be periodically reviewed and if necessary, revised in a timely manner to address material internal changes (e.g., change in business focus) or external circumstances (e.g., changes in economic conditions).

FIs shall write off problem credits, regardless of amount, against ACL or current operations within a reasonable period as soon as such problem credits are determined to be worthless as defined in the FIs' written policies. However, problem credits to DOSRI shall be written off only upon prior approval of the Monetary Board.

Policies shall define and establish the reasonable period of time within which to write off loans already classified as "Loss". There shall be no undue delay in implementing write-offs. Notice of write-off of problem credits shall be submitted in the prescribed form to the appropriate supervising department of the Bangko Sentral within thirty (30) business days after every write-off with a sworn statement signed by the President of the FI or officer of equivalent rank that write-off did not include transactions with DOSRI and was undertaken in accordance with board-approved internal credit policy.

An effective monitoring and reporting system shall be in place to monitor debts written off and future recoveries. Progress on recovery shall be periodically reported to the board and senior management. A database of loan accounts written off shall be maintained and must be periodically reviewed for updates on individual loan obligor's information.

Enforcement actions. The Bangko Sentral reserves the right to deploy its range of supervisory tools to promote adherence to standards and principles set forth in these guidelines, bring about timely corrective actions and compliance with Bangko Sentral directives and ensure that FIs continuously observe the said standards. Persistent non-observance of the provisions of Sec. 143, which may lead to material misstatement of the financial condition or illiquidity of the FI, may be a ground for declaration of unsafe or unsound banking under Section 56 of R.A. No. 8791 and subject the FI to appropriate sanctions.

Enforcement actions shall be based on a holistic assessment to determine if FIs adopt appropriate risk management practices and maintain capital commensurate with the risk assumed based on existing rules and regulations. These may include, but are not limited to, the following:

a. *Corrective actions.* These are measures intended to primarily require FIs to rectify any deviations from the standards and principles expected in the conduct of its credit risk-taking activities to address the negative impact of such deviation. Corrective actions generally include issuance of specific directives to address supervisory concerns within a reasonable timeframe.

b. *Sanctions.* The Monetary Board may impose sanctions on an FI and/or its board, directors and officers, as provided under existing laws, Bangko Sentral rules and regulations proportionate to the gravity/seriousness of offense.

c. *Other enforcement actions.* Subject to prior Monetary Board approval, the Bangko Sentral, when warranted, may deploy other enforcement actions such as:

   (1) Initiation into the prompt corrective action (PCA) framework whenever grounds for PCA exist;

   (2) Issuance of cease and desist order (CDO) in case of persistence of unsafe or unsound banking and/or violation of any banking law or any order, instruction or regulation issued by the Monetary Board or any order, instruction or ruling issued by the Governor;

   (3) Additional capital infusion in case hazardous lending practices resulted in excessive provisions for credit losses leading to capital deficiency;

   (4) Requiring the FI to gross up the amount of required allowance for credit losses based on the examination of a representative sample of loans, if in the course of the Bangko Sentral examination, a high incidence of non-reporting/concealment of past due and/or problem loans is noted; or

   (5) Other appropriate non-monetary enforcement actions that the Monetary Board may impose.

(M-2015-039 dated 04 November 2015, Circular No. 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, and Circular No. 855 dated 29 October 2014)

144 MARKET RISK MANAGEMENT

The guidelines on market risk management in *Appendix 70* set forth the expectations of the Bangko Sentral with respect to the management of market risk and are intended to provide more consistency in how the risk-focused supervision function is applied to this risk. Banks are expected to have an integrated approach to risk management to identify, measure, monitor and control risks. Market risk should be reviewed together with other risks to determine overall risk profile.

The Bangko Sentral is aware of the increasing diversity of financial products and that industry techniques for measuring and managing market risk are continuously evolving. As such, the guidelines are intended for general application; specific application will depend to some extent on the size, complexity and range of activities undertaken by individual banks.

(Circular Nos. 903 dated 29 February 2016)

145 LIQUIDITY RISK MANAGEMENT

Policy statement. The Bangko Sentral is cognizant that the viability of financial institutions, particularly banks, is heavily influenced by their ability to manage liquidity, including intraday liquidity positions. Opportunities to expand lending activities, continuous innovations in investment and funding products, growth in off-balance sheet activities, and intense competition for retail and wholesale funds affect the way banks operate. Thus, banks are expected to fully understand, measure, and control the resulting liquidity risk from their operations.

The guidelines in *Appendix 71* shall be used to determine the adequacy and effectiveness of a bank's liquidity risk management process. The sophistication of the liquidity risk management system shall depend on the size, nature and complexity of a bank's activities. However, regardless of its size and complexity, a bank must be able to identify, measure, monitor, and control its exposures to liquidity risk in a timely and comprehensive manner, and maintain a structurally

sound funding and liquidity profile. Banks shall likewise hold liquidity in accordance with the minimum prudential requirements set by the Bangko Sentral.

Liquidity Coverage Ratio (LCR)

To promote the short-term resilience of the liquidity risk profile of a bank, it shall maintain an adequate stock of unencumbered high-quality liquid assets (HQLAs) that consists of cash or assets that can be converted into cash at little or no loss of value in private markets, to meet its liquidity needs under stressed conditions. The stock of liquid assets should enable the bank to withstand significant liquidity shocks for at least thirty (30) calendar days, which would give time for corrective actions to be taken by the bank management and/or the Bangko Sentral.

The LCR framework shall apply to all UBs/KBs[1] and their subsidiary banks and QBs on both solo (head office plus branches/other offices) and consolidated (parent bank plus subsidiary financial allied undertakings, but excluding insurance companies) bases.

a. *Minimum requirement*. The LCR is the ratio of HQLAs to total net cash outflows. Under a normal situation, the value of the ratio shall not be lower than 100% on an ongoing basis. While the LCR is expected to be met in a single currency (i.e., in peso equivalent terms of all currencies), 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. The detailed LCR framework is provided in *Part 1 of Appendix 72*.

b. *Reporting and monitoring requirements* – Covered banks shall comply with the minimum LCR requirement on a daily basis, and shall have appropriate systems in place to ensure the same. For reporting purposes, covered banks shall submit a report in accordance with *Appendix 7.*

   The LCR Reports shall be accompanied by a certification under oath to the effect that the bank has fully complied with the LCR requirement on all calendar days of the reference period in the form provided under *Appendix 73*. The solo and consolidated LCR Reports, together with the Sworn Certification shall be classified as *Category A-1* reports.

   While there is no minimum threshold for LCRs in each significant currency, covered banks shall report the significant currency LCR to the Bangko Sentral for monitoring purposes using the same LCR Report template as of the LCR measurement date. The significant currency LCR shall be reported in the original currency. 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 the measurement date.

   The submission of the LCR report shall be subject to the governance process on the quality of bank reporting under Sec. 171. Any non-compliance with the reporting standards, or non-submission or delayed submission of the LCR report and the report on significant currency LCRs shall be subject to the monetary and non-monetary sanctions provided under Sec. 171 (*Sanctions on reports for non-compliance with the reporting standards*).

c. *Implementation.* The implementation of the minimum LCR shall be phased in to help ensure that the banks concerned can meet the standard through reasonable measures without disrupting credit extension and financial market activities. In order to facilitate compliance, banks shall undergo an observation period before the LCR becomes a minimum requirement. The timelines are set out in the table below:

	Observation Period	**Minimum LCR**	
UBs/KBs	01 July 2016 – 31 December 2017	01 January 2018 and thereafter – 90%	01 January 2019 & thereafter – 100%
Subsidiary Banks and QBs of UBs/KBs	Until 31 December 2018		

Requirements during the observation period. For monitoring purposes, banks concerned shall submit the LCR Reports quarterly in single currency and per significant currency, on both solo and consolidated bases following the submission deadlines for consolidated reports set out in Item "*b*". Any non-submission or delayed submission of the LCR Report during the observation period shall be subject to the monetary and non-monetary sanctions provided under Sec. 171 (*Sanctions on reports for non-compliance with the reporting standards*).

During the observation period, the Bangko Sentral is not precluded from assessing the covered bank's compliance with the LCR requirement. 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. Where a subsidiary bank/QB of a UB/KB is unable to meet the minimum LCR for two (2) consecutive weeks during the observation period, the bank shall immediately adopt a board-approved liquidity build-up plan. The plan should clearly articulate the bank's defined strategies and timelines for meeting the required LCR by 1 January 2019, and should include estimates of the liquidity ratio at every quarter prior to the effectivity date. The build-up plan shall be submitted to the appropriate supervising department of the Bangko Sentral, within ten (10) banking days after it is

[1] Including branches of foreign banks

approved by the board. The appropriate supervising department of the Bangko Sentral will evaluate the continuing compliance of the bank with the said plan. In case of non-compliance, the Bangko Sentral may require the covered bank to undertake a set of actions. The Bangko Sentral may likewise impose enforcement actions as provided under this Section.

LCR disclosure requirements. To improve the transparency of the regulatory liquidity requirement, enhance market discipline, and reduce uncertainty in the market, covered banks shall publicly disclose information related to the LCR on solo and consolidated bases as prescribed under *Part II of Appendix 72* starting year 2019. The mandatory disclosure requirements in single currency should be published in the quarterly published balance sheet, as well as in the annual reports or published financial reports (e.g., the audited financial statements).

Minimum Liquidity Ratio (MLR) for Stand-Alone TBs, RBs and Coop Banks. To promote short-term resilience to liquidity shocks, banks shall maintain a stock of liquid assets proportionate to their on- and off-balance sheet liabilities. The prudential MLR requirement applies to all TBs, RBs and Coop Banks and QBs that are not subsidiaries of UBs/KBs.

a. *Minimum requirement* - A prudential MLR of twenty percent (20%) shall apply to banks on an ongoing basis absent a period of financial stress. The liquidity ratio is expressed as a percentage of a bank's eligible stock of liquid assets to its total qualifying liabilities.

   (1) The stock of liquid assets shall consist of:

      (a) Cash on hand;
      (b) Reserves in the Bangko Sentral;
      (c) Overnight and term deposits[1] with the Bangko Sentral, including reverse repos where the Bangko Sentral is the counterparty;
      (d) Eligible debt securities representing claims on or guaranteed by-

         (i) The Philippine national government (NG) and the Bangko Sentral; or
         (ii) Sovereigns, central banks of foreign countries, or by multilateral organizations that are assigned a zero percent risk weight under Part III of *Appendix 62*; and

      (e) Deposits in other banks:

      Provided, That the amounts to be included in the stock of liquid assets are immediately liquefiable and free from encumbrances.

   (2) The qualifying liabilities shall consist of the following:

      (a) Total liabilities; and
      (b) Irrevocable obligations under off-balance sheet items, such as:

         (i) Guarantees issued;
         (ii) Trade related guarantees;
         (iii) Letters of credit; and
         (iv) Other committed credit lines.

b. *Reporting and monitoring requirements*. Covered banks shall comply with the MLR on a daily basis, and shall have the appropriate systems in place to ensure the same. For reporting purposes, covered banks shall submit a monthly report on their compliance with the MLR to the appropriate supervising department of the Bangko Sentral. The report shall be submitted on solo basis in peso-equivalent terms using the prescribed form within fifteen (15) banking days after the end of the reference period, effective 1 January 2019.

   The reports shall be accompanied by a certification under oath to the effect that the bank has fully complied with the MLR requirement on all calendar days of the reference period shown under *Appendix 129*. In cases when the MLR is not met but the same do not warrant the submission of a notification to the Bangko Sentral under Item *"b"* of this Section (*Supervisory framework for the minimum prudential liquidity requirements*), the specific date of the occurrence of the shortfall/s shall likewise be indicated in the certification. These reports shall be considered as *Category A-1 reports*.

   In addition, banks shall use the MLR template to internally measure and monitor their compliance with the prudential requirement for each currency in which they have significant activities. For this purpose, a currency is considered significant if the aggregate liabilities denominated in that currency amount to five percent (5%) or more of the total liabilities as of the MLR measurement date. Banks are expected to be able to meet their liquidity needs in each currency and maintain a stock of eligible liquid assets consistent with the distribution of their liquidity needs by currency to ensure that risks arising from currency mismatch are properly mitigated.

[1] To the extent allowed to be drawn down in times of stress.

The submission of the MLR report shall be subject to the governance process on the quality of bank reporting under Sec. 171. Any non-compliance with the reporting standards, or non-submission or delayed submission of the MLR report and the report on significant currency MLRs shall be subject to the monetary and non-monetary sanctions provided under Sec. 171 (*Sanctions on reports for non-compliance with the reporting standards*).

c. *Implementation.* In order to facilitate compliance with the MLR, stand-alone TBs, RBs, Coop Banks and QBs shall undergo a one-year observation period beginning 1 January 2018 until the MLR takes effect on 1 January 2019.

Requirements during the observation period. During this period, banks shall submit the MLR report quarterly on a solo basis to the appropriate supervising department of the Bangko Sentral. Each quarterly submission shall consist of the MLR reports for each month-end within a reference quarter. The report shall be submitted within thirty (30) banking days after the end of each reference quarter. For example, a bank's submission for the reference period covering 1 January to 31 March 2018 shall consist of the MLR on solo basis as of end-January, end-February and end-March. The report shall be submitted within thirty (30) banking days after end-March 2018.

The Bangko Sentral is not precluded from assessing a bank's compliance with the MLR during the observation period. Banks with liquidity ratios that are already at or near the prescribed minimum should not view the transition period as an opportunity to reduce their liquidity coverage. Where a bank is unable to meet the MLR for two (2) consecutive weeks during the observation period, the bank shall immediately adopt a board-approved liquidity build-up plan. The plan should clearly articulate the bank's defined strategies and timelines for meeting the required MLR by 1 January 2019, and should include estimates of the liquidity ratio at every quarter prior to the effectivity date. The build-up plan shall be submitted to the appropriate supervising department of the Bangko Sentral, within ten (10) banking days after it is approved by the board. The appropriate supervising department of the Bangko Sentral will evaluate the continuing compliance of the bank with the said plan. In case of non-compliance, the Bangko Sentral may require the covered bank to undertake a set of actions. The Bangko Sentral may likewise impose enforcement actions as provided under this Sec. 145.

MLR disclosure requirements. A bank shall disclose its MLR on a solo basis in its annual report or audited financial statement (AFS), as well as in the quarterly Published Balance Sheet (PBS) starting year 2019.

Net Stable Funding Ratio (NSFR). To promote long-term resilience of a bank against liquidity risk, it shall maintain a stable funding profile in relation to the composition of its assets and off-balance sheet activities. The NSFR seeks to meet this objective by limiting overreliance on short-term wholesale funding and promoting enhanced assessment of funding risk across all on- and off-balance sheet accounts. The NSFR complements the Liquidity Coverage Ratio (LCR), which promotes short term resilience of a bank's liquidity profile.

The NSFR framework shall apply to all universal and commercial banks and their subsidiary banks and QBs, hereinafter referred to as "covered banks", on both solo (head office plus branches) and consolidated (parent bank plus subsidiary financial allied undertakings, but excluding insurance companies) bases.

a. *Minimum requirement.* The NSFR is the ratio of a covered bank's available stable funding (ASF) to its required stable funding (RSF), as shown below:

$$\text{Basel III Net Stable Funding Ratio (\%)} = \frac{\text{Available stable funding (ASF)}}{\text{Required stable funding (RSF)}}$$

The covered bank shall maintain an NSFR of at least 100% at all times.

The NSFR shall be computed and reported in a single currency, i.e., in peso equivalent terms of all currencies. Notwithstanding this requirement, a covered bank shall internally measure and monitor NSFR per significant currency. A currency is considered *significant* if the aggregate liabilities denominated in that currency amount to five percent (5%) or more of the covered banks' total liabilities as of NSFR measurement date. The guidelines implementing the NSFR are provided in *Appendix 130.*

b. *Reporting and monitoring requirements.* Covered banks shall comply with the minimum NSFR on a daily basis, and shall have appropriate systems in place to ensure the same. For reporting purposes, the covered banks shall submit a report of their NSFR to the Bangko Sentral in accordance with *Appendix 7*.

The NSFR reports shall be accompanied by a certification under oath to the effect that a covered bank has fully complied with the NSFR requirement on all calendar days of the reference period in the form provided under *Appendix 131.* This requirement shall take effect on 1 January 2019. The solo and consolidated NSFR reports, together with the Sworn Certification, shall be classified as *Category A-1* reports.

The submission of the NSFR report shall be subject to the governance process on the quality of bank reporting under Sec. 171. Any non-compliance with the reporting standards, or non-submission or delayed submission of the NSFR report shall be subject to the monetary and non-monetary sanctions provided under Sec. 171 (*Sanctions on reports for non-compliance with the reporting standards*).

c. *Implementation.* The implementation of the minimum NSFR shall be phased in to help ensure that the covered banks can meet the standard through reasonable measures without disrupting credit extension and financial market activities. In order to facilitate compliance, covered banks shall undergo an observation period before the minimum NSFR becomes a requirement. The timelines are set out in the table below:

	Timelines
Observation period	01 July 2018 – 31 December 2018
Actual implementation	01 January 2019 and thereafter – 100%

Requirements during the observation period. Consistent with the expectations set out on the governance process for an effective reporting system, the Board and Senior Management shall ensure the generation of complete, accurate, consistent, and reliable reports that are timely submitted to the Bangko Sentral. For monitoring purposes, covered banks shall submit the solo and consolidated NSFR Reprts in accordance with the following timelines:

	Reporting Details
Frequency	Quarterly
Measurement Date	End-of-quarter
Submission Deadlines	30 banking/business days from measurement date

Any non-submission or delayed submission of the NSFR Reports during the observation period shall be subject to monetary and non-monetary sanctions provided under Sec. 171 (*Sanctions on reports for non-compliance with the reporting standards*).

During the observation period, the Bangko Sentral is not precluded from assessing the covered bank's compliance with the NSFR requirement. The covered banks with NSFRs that are already at or near the prescribed minimum should not view the transition period as an opportunity to reduce their stable funding profile. Where a covered bank is unable to meet the minimum NSFR for two (2) consecutive weeks during the observation period, the covered bank shall immediately adopt a board-approved stable funding build-up plan. The plan should clearly articulate the covered bank's defined strategies and timelines for meeting the required NSFR by 01 January 2019, and should include estimates of the NSFR at every quarter prior to the effectivity date. In modifying its stable funding profile, the covered bank should ensure that all other minimum liquidity requirements shall be complied with. The build-up plan shall be submitted to the Bangko Sentral through the appropriate supervisory department, within ten (10) banking days after it is approved by the board. The appropriate supervisory department concerned will evaluate the continuing compliance of the covered bank with the said plan. In case of non-submission of, or non-compliance with, the said build-up plan, the Bangko Sentral may require the covered bank to undertake a set of actions. The Bangko Sentral may likewise impose enforcement actions as provided under Sec. 145 (*Supervisory enforcement actions*).

Supervisory framework for the minimum prudential liquidity requirements.

a. General Provisions

(1) While the minimum prudential liquidity requirements establish common parameters for stress testing, they should be viewed as minimum supervisory requirements. Covered banks are expected to conduct their own stress tests in accordance with Part IX of *Appendix 71* as part of their liquidity risk management process in order to identify the risk drivers that may lead to drastic fluctuations in their liquidity positions. Accordingly, banks should be able to assess the level of liquidity they should hold, which could possibly go beyond the regulatory minimum.

Where the Bangko Sentral is not satisfied with the adequacy of a bank's liquidity management framework or where it has particular concerns about a bank's liquidity exposures, it may require the bank to comply with a higher liquidity requirement.

(2) It shall be the responsibility of the board of directors and senior management, or the equivalent governing bodies in the case of foreign bank branches, to institute a system that would ensure compliance with the minimum liquidity requirements, the accuracy of their calculations, and the integrity of the related monitoring and reporting system. It is likewise the responsibility of senior management to report shortfalls in the minimum liquidity requirements both to their board of directors immediately and to the Bangko Sentral within the prescribed timelines.

(3) As the stock of liquid assets is intended to serve as a defense against the potential onset of liquidity stress, banks are allowed to use their stock of liquid assets as necessary during a period of financial stress in order to meet unforeseen liquidity needs, thereby causing the LCR to temporarily fall below the minimum requirement or the MLR to be breached. This may also alter the stable funding profile of banks and result in non-compliance with the required NSFR.

Under this condition, the Bangko Sentral will assess the situation to determine the extent to which the reported decline in the LCR or NSFR/non-compliance with the MLR is due to a bank-specific or market-wide shock and will accordingly provide the supervisory response necessary to address the circumstances. The action of the Bangko Sentral shall be proportionate to the drivers, magnitude, duration and frequency of the reported liquidity deficit.

In all cases, the Bangko Sentral will be cognizant of the procyclicality of supervisory actions if 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, NSFR or the MLR. 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. Liquidity ratios below the minimum

(1) In the event that a shortfall in the stock of HQLA/eligible liquid assets/available stable funding occurs on three (3) banking/business days within any two-week rolling calendar period, thereby causing the LCR or NSFR to fall below the minimum threshold/the MLR to be breached on such days, the bank must notify the appropriate supervising department of the Bangko Sentral, of such non-compliance within the banking/business day immediately following the occurrence of the third liquidity/stable funding shortfall, notwithstanding the restoration of the LCR or NSFR/compliance with the MLR on the day that the shortfall must be reported.

The shortfall notice shall be signed by the bank President or officer of equivalent rank, and by the officer charged with managing the liquidity of the bank. It shall contain the following minimum information:

(a) The dates the shortfalls occurred;
(b) The reason/s or factor/s leading to the utilization of the stock of liquid assets and non-compliance with the minimum LCR/MLR/NSFR;
(c) The action/s the bank has taken and/or will take to achieve full compliance with the minimum requirement;
(d) The expected duration and possible extent of the shortfall (although this may no longer be applicable if the LCR or NSFR has been restored/MLR has been met); and
(e) A commitment to submit its LCR/MLR/NSFR Report weekly until the bank is able to comply with the required LCR/NSFR/MLR.

A shortfall will not necessarily result in supervisory or enforcement action; at a minimum, it will entail heightened supervisory monitoring. The shortfall notice, together with the information gathered from the latest report of examination, regular prudential reports, available market information, and, if available, the internal management reports of the bank, will serve as the basis of the Bangko Sentral in making an assessment of the extent of the liquidity deficit. The Bangko Sentral will also assess whether the non-compliance with the minimum requirement is temporary, part of a regular pattern or practice, or caused by an unusual event.

(2) The Bangko Sentral will require effective and timely remedial action from the bank to address the deficiency in its liquidity position within a committed timeline under the following circumstances:

(a) The liquidity requirement is not met for a prolonged period of time or if the Bangko Sentral has determined that the bank is otherwise materially non-compliant with the minimum LCR, NSFR or the MLR; or

(b) The reported shortfall is caused by a firm-specific stress situation, i.e., based on operational issues of the bank which are 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).

Subject to the approval of the Monetary Board, banks may continue to have access to the credit and liquidity facilities of the Bangko Sentral during the period that the liquidity requirement is being restored notwithstanding non-compliance with standard conditions of access to such facilities that pertain to a bank's liquidity position.

Supervisory enforcement actions. Consistent with Sec. 002, the Bangko Sentral may deploy enforcement actions to promote adherence with the requirements set forth in these guidelines and bring about timely corrective actions. If a

bank's risk exposures are not well managed, the Bangko Sentral may direct the bank to augment its funds management practices and the level of its liquid assets, reduce its liquidity risk exposures, and/or strengthen its risk management system. The Bangko Sentral may likewise impose sanctions to limit the level of or suspend any business activity that has adverse effects on the safety or soundness of the bank, among others. Sanctions may likewise be imposed on a bank and/or its directors, officers and/or employees.

The Bangko Sentral reserves the right, upon authority of the Deputy Governor of the appropriate sector of the Bangko Sentral, to require the submission of reports and information prescribed under Item *"b"* of this Section (*LCR and MLR for Stand-Alone TBs, RBs and Coop Banks, and NSFR*) outside the regular reporting periods, and to conduct on-site inspections outside of regular or special examinations, for the purpose of ascertaining the accuracy of calculations of the minimum liquidity requirement/s as well as the integrity of the related monitoring and reporting systems.

If a bank experiences a shortfall in respect of its minimum prudential liquidity requirement and fails to restore its liquidity position within the committed timeline, the Bangko Sentral may deploy more stringent enforcement actions. In cases where a bank's liquidity problem is deemed to be exceptionally serious from the outset, or when the bank refuses to restore the required liquidity position, the Bangko Sentral may employ more drastic measures based on existing laws, rules and regulations.

(Circular Nos. 1007 dated 6 June 2018, 996 dated 8 February 2018, 981 dated 3 November 2017, 903 dated 29 February 2016)

146 OPERATIONAL RISK MANAGEMENT

Policy statement.[1] It is the thrust of the Bangko Sentral to promote the adoption of effective risk management systems to sustain the safe and sound operations of banks. Cognizant that operational risk is inherent in all activities, products and services, and is closely tied in with other types of risks (e.g., credit, liquidity and market risks), the Bangko Sentral is issuing these guidelines to clearly set out its expectations and define the minimum prudential requirements on operational risk management. These guidelines align existing regulations to the extent possible, with international standards[2] and best practices. Bangko Sentral expects banks to adopt an operational risk management framework, as part of the enterprise-wide risk management system, that is suited to their size, complexity of operations, and risk profile.

Definition of operational risk. *Operational risk* refers to 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. Operational risk is inherent in all activities, products and services, and cuts across multiple activities and business lines within the bank and across the different entities in a banking group or conglomerate where the bank belongs.

Duties and responsibilities.

a. *Board of directors.* Consistent with the principles embodied under Sec. 132 (*Specific duties and responsibilities of the board of directors*), the duties and responsibilities of the board of directors in relation to the effective management of risk include the establishment of a comprehensive and effective operational risk management framework as part of the enterprise-wide risk management system. In this regard, the board of directors shall:

   (1) Ensure that it is aware of and understands the nature and complexity of the major operational risks in the bank's business and operating environment, including risks arising from transactions or relationships with third parties, vendors, suppliers including outsourced service providers, and clients of services provided. This should include understanding of both the financial and non-financial impact of operational risk to which the bank is exposed to;

   (2) Approve the operational risk management framework which shall form part of the bank's enterprise-wide risk management system and shall cover all business lines and functions of the bank, including outsourced services and services provided to external parties. The operational risk management framework should include an enterprise-wide definition of operational risk, which should be consistent with the definition under Sec. 146, governance, and reporting structures including the roles and responsibilities of all personnel, feedback mechanism, as well as standards and tools for operational risk management. In this respect, the board shall:

      (a) Define the operational risk management strategy and ensure that it is aligned with the bank's overall business objectives. Relative to this, the board should set and provide clear guidance on the bank's operational risk appetite (i.e., the level of operational risk the bank is willing to take and able to manage in pursuit of its business objectives as well as the type of risks that are not acceptable to the board and management), which should consider all material risk exposures as well as the bank's financial condition and strategic direction;

[1] Banks shall comply with the foregoing standards on operational risk management within a period of two (2) years from 05 February 2016. In this regard, a bank should be able to show its plan of actions with specific timelines, as well as the status of initiatives being undertaken to fully comply with the provisions of Sec. 146.
[2] Embodied in the relevant documents issued by the Basel Committee on Banking Supervision.

(b) Approve appropriate thresholds or limits to ensure that the level of operational risk is maintained within tolerance and at prudent levels and supported by adequate capital. Relative to this, the board shall approve policy on resolving limit breaches which should cover escalation procedures for approving or investigating breaches, approving authorities, and requirements in reporting to the appropriate level of management or the board;

(c) Ensure that operational risk is appropriately considered in the capital adequacy assessment process;

(d) Ensure that it receives adequate information on material developments in the operational risk profile of the bank, including pertinent information on the current and emerging operational risk exposures and vulnerabilities as well as information on the effectiveness of the operational risk management framework. The board must challenge the quality and comprehensiveness of the operational risk information it receives. It should also be satisfied with the reliability of the said information and the monitoring system for operational risk;

(e) Ensure that business objectives, risk appetite, the operational risk management framework, and the respective roles and responsibilities of personnel and officers at all levels in terms of implementing the operational risk management framework, are properly disseminated, clearly communicated/discussed, and understood by personnel concerned;

(f) Provide senior management with clear guidance and direction regarding the principles underlying the operational risk management framework. The board shall ensure that senior management appropriately implements policies, processes and procedures, and provides feedback on the operational risk management process. In this regard, the board shall establish a feedback and reporting system that will allow employees to raise their concerns without fear of negative consequences; and

(g) Ensure that the operational risk management framework is subject to effective and comprehensive independent review, on a periodic basis, by operationally independent, appropriately trained, and competent staff to ensure that it remains commensurate with the bank's risk profile and continues to be adequate and effective in managing operational risk. The review should take into account the changes in business and operating environment, material changes in systems, business activity or volume of transactions, quality of control environment, effectiveness of risk management or mitigation strategies, loss experience, and the frequency, volume or nature of breaches in limits or any policy.

(3) Provide adequate oversight on all outsourcing activities and ensure effective management of risks arising from these activities. In this regard, the board of directors shall approve a framework governing outsourcing activities, which includes a system to evaluate the risk and materiality of all existing and prospective outsourcing engagements and the policies that apply to such arrangements;

(4) Ensure observance of expectations and requirements prescribed under relevant laws, rules and regulations, industry-set standards, and policies on internal control, internal audit, and disclosure;

(5) Promote a culture of high standards of ethical behavior. The board shall adopt a code of conduct of ethical behaviors with corresponding disciplinary actions for non- compliance, which should cover, among others, guidance and protocols on conflicts of interest situations, safeguarding of confidential information, and use of sensitive information. The board should likewise institute tools, methodologies, and practices in order to ensure compliance and adherence to the standards by all employees including the senior officers and the board itself. In this regard, employees should be required to acknowledge in writing that they have read, understood, and will observe the code of conduct;

(6) Ensure that business and risk management activities, including the operational risk management function, are carried out by adequate and qualified staff with the necessary experience, technical capabilities, and competence. Moreover, the board shall ensure that employees and officers in all areas of operations have a high degree of integrity.

For this purpose, the board shall approve appropriate hiring and selection policies and processes, adopt a continuing professional development program, and institutionalize a framework for continuing assessment of fitness and propriety of employees. These policies, processes and programs should reinforce the conduct and values being promoted in the organization.

Further, the board shall oversee the design and implementation of remuneration policies. It shall ensure that the remuneration policies do not encourage excessive risk-taking or provide incentives to people to perform contrary to the desired risk management values. It shall also ensure that remuneration policies are appropriate and aligned with the bank's long-term strategic direction and risk appetite, as well as with relevant legal or regulatory requirements;

(7) Ensure that all units in the organization have adequate resources, including personnel complement, and are supported by appropriate technological systems. The use of technological systems must be commensurate with the activities being undertaken; and

(8) Oversee implementation of a sound business continuity management framework. The board should create and promote an organizational culture that places high priority on business continuity. This shall include providing sufficient financial and human resources associated with the bank's business continuity initiatives.

b. *Senior management.* Senior management shall be responsible for the implementation and consistent adherence by all personnel to the operational risk management framework approved by the board of directors. In this respect, senior management shall:

(1) Translate the approved operational risk management framework into specific policies and processes covering all businesses and functions of the bank, including outsourced services and services provided to external parties. Said policies should be clearly documented, approved by the board of directors and communicated to personnel at all levels. Policies should include, among others:

(a) Definition of operational risk and operational risk loss. This should be supported by common operational risk taxonomy that includes the operational risk event type and causes losses to facilitate the consistent identification of operational risks across the bank as well as the management of operational risk in an integrated manner;

(b) Appropriate governance and oversight structures, reporting lines, and accountabilities for managing operational risks;

(c) Clear description of risk limits and thresholds that correspond to the bank's approved operational risk appetite and tolerance;

(d) Risk mitigation strategies and tools for maintaining risks within the thresholds and limits set;

(e) Approach to operational risk identification, assessment, monitoring and reporting that utilizes appropriate operational risk management tools. This should include an outline of the reporting framework and types of data/information to be included in the risk management reports; and

(f) Requirement for the conduct of independent review of the framework as well as its implementation, on a periodic basis, and whenever there are material changes in the bank's operational risk profile.

(2) Communicate individual roles and responsibilities of personnel. It is important that personnel at all levels understand their respective roles in the operational risk management process. In this regard, senior management should clearly assign authority, responsibility, and reporting relationships to encourage and maintain accountability, and ensure that the necessary resources are available to manage operational risk effectively;

(3) Establish system to report, track, escalate, and resolve issues; and set the frequency of operational risk management reporting considering the level and type of risks involved as well as the pace and nature of the operating environment of the bank;

(4) Assess the appropriateness of the operational risk management process in light of the changing business environment and nature of risks arising from business activities or functions;

(5) Ensure that sufficient number of personnel, technical support, and other resources are devoted for operational risk management such that the bank's activities are conducted by qualified personnel with the necessary experience and technical capabilities. It shall also ensure that personnel responsible for monitoring and enforcing compliance with the bank's operational risk policy as well as the compliance and internal audit units have authority independent from the units they review and are knowledgeable about the different areas of operations; and

(6) Establish policies, standards and processes for an effective business continuity management.

c. *Business units.* Business line management and personnel, as the first line of defense, are responsible on a day-to-day basis for identifying, managing and reporting operational risks inherent in the products, activities, processes and systems for which they are accountable. In this regard, business line management shall ensure that:

(1) Internal controls and practices within their business lines are consistent with the enterprise-wide policies and procedures to support the management of operational risk;

(2) Business line specific policies, processes, and procedures are adequate and effectively implemented, and personnel are adequate and competent to manage operational risk for all material products, activities, and processes;

(3) Operational risk management framework within each business line reflects the scope of that business line and its inherent operational complexity and operational risk profile;

(4) Risk mitigation strategies and processes as approved by the board and senior management are established and executed;

(5) Internal controls, and operational risk mitigation strategies and processes are periodically reviewed within the business units to effectively manage operational risks within approved risk tolerance, and consistent with enterprise-wide policies and procedures established. There must be clear expectations and processes established to ensure prompt escalation and actions to address any gap or issue identified; and

(6) Operational risk-related information (e.g., loss events, incidents, et al.) are adequately and timely communicated/coordinated to Operational Risk Management Function (ORMF) for risk monitoring and reporting, in addition to the usual reporting to senior management and/or board.

Roles and functions.

a. *Operational risk management function.* UBs/KBs shall create a separate ORMF or assign specific personnel under the risk management unit to handle operational risk concerns. The ORMF shall primarily assist management in meeting its responsibility to understand and manage operational risk exposures and ensure the development and consistent implementation of operational risk policies, processes, and procedures throughout the bank. In this regard, the ORMF shall:

(1) Recommend to the board of directors and senior management appropriate policies and procedures relating to operational risk management and controls;
(2) Design and implement the bank's operational risk assessment methodology tools and risk reporting system;
(3) Coordinate risk management activities across the organization;
(4) Consolidate all relevant operational risk information/reports to be elevated/presented to the board and senior management;
(5) Provide operational risk management training and advice to business units on operational risk management issues; and
(6) Coordinate with compliance function, internal audit, and external audit on operational risk matters.

ORMF personnel should have technical proficiency, appropriate educational background, and exposure to enable them to effectively perform the unit's mandate. Banks shall have in place a training program to keep its personnel up-to-date on different operational risk issues and challenges.

The ORMF shall be supported by a board-approved charter that defines its stature, authority, and independence. It shall directly report to the head of the Risk Management Unit (RMU) or to the board-level Risk Oversight Committee (ROC), as appropriate. The head of the RMU or the ROC, as appropriate, shall be responsible for assessing the annual performance of said function taking into account how it carried out its duties and responsibilities.

In case of group structures, there should be a board-approved policy that defines the operational risk management framework that shall apply to entities across the group. The policy shall provide the structure that shall be adopted by the group, either to establish the ORMF centrally at the parent bank or in each of the identified subsidiary. Such policy shall also include the overall responsibility of the parent bank's ORMF with respect to the management of operational risk exposures of subsidiaries/affiliates.

Branches of foreign banks may establish their own ORMF or may be covered by the parent/regional/group ORMF: *Provided,* That all branches of foreign banks shall comply with the policies, practices and systems of its head office relative to the management of operational risk, as well as meet the applicable provisions set forth under this Section.

TBs, RBs and Coop Banks are not required to create an ORMF. However, the board of directors is expected to discuss operational risk issues during its board meetings with discussions adequately documented in the minutes of meetings. The board of directors of complex[1] TBs, RBs, Coop Banks may, at its own discretion, or as directed by the appropriate supervising department of the Bangko Sentral, create an RMU and assign specific personnel under said unit to handle operational risk concerns. The said RMU shall directly report to the ROC or the board, as applicable. The ROC or the board shall be responsible for assessing the annual performance of the unit taking into account how said unit carried out its duties and responsibilities.

b. *Compliance function.* The compliance function shall conduct an independent assessment of the bank's compliance with relevant laws, rules and regulations, as well as internal policies, and determine areas that may potentially result in risk of loss due to inadequate or failed internal processes, systems, and people. The latter includes inappropriate conduct/behavior of personnel, officers, and the board, that may lead to fraud or any form of

[1] Sec. 131 (*Policy statement and Definition of terms*) provides the grounds for classifying banks as *'Complex'* for regulatory purposes.

business disruption. The compliance function shall assess whether the identified operational risk exposure by the business units or by the function itself shall affect the franchise value of the bank. In this regard, it shall advise and assist management in establishing guidance on the appropriate implementation of relevant laws, rules and regulations, and internal policies.

c. *Internal audit.* Internal audit shall conduct an independent assessment of the operational risk management framework, including the implementation of operational risk management policies and procedures. The board of directors, either directly or indirectly through the board-level Audit Committee shall ensure that the scope and frequency of audit is appropriate to the risk exposures. Any operational risk issue identified and reported in the audit process should be addressed by senior management in a timely and effective manner, or raised to the attention of the board as appropriate.

Operational risk management framework. Banks shall have in place an appropriate operational risk management framework, as part of the enterprise-wide risk management system, that is effective and efficient in identifying, assessing, monitoring and controlling/mitigating operational risk. They shall ensure that their operational risk management framework is commensurate with the complexity of their operations, range of products and services, organizational structure, and risk profile.

a. *Risk identification and assessment.* Risk identification and assessment are fundamental elements of an effective operational risk management system. Effective risk identification shall consider both internal factors (such as bank structure, nature of activities, the quality of human resources, organizational changes and employee turnover, among others) and external factors (such as changes in the broader environment and the industry, advances in technology, and developments in political, legal, and economic factors, among others). Risk identification and assessment allow the bank to better understand its risk profile and allocate risk management resources and strategies more effectively. Since the business lines are expected to have the best knowledge of their risk exposures and processes, these units should play a major role in the identification and assessment of operational risk.

(1) Banks shall consider the following loss event-type categories as part of their risk identification and assessment processes:

(a) Internal fraud, e.g., intentional misreporting of positions, employee theft, and insider trading on an employee's own account;

(b) External fraud, e.g., robbery, forgery, check kiting, and damage from computer hacking;

(c) Employment practices and workplace safety, e.g., workers compensation claims, violation of health and safety rules, organized labor activities, discrimination claims, and general liability;

(d) Clients, products and business practices, e.g., fiduciary breaches, misuse of confidential customer information, improper trading activities on the bank's account, money laundering, and sale of unauthorized products;

(e) Damage to physical assets, e.g., terrorism, vandalism, earthquakes, fires and floods;

(f) Business disruption and system failures, e.g., hardware and software failures, telecommunication problems, and utility outages; and

(g) Execution, delivery, and process management, e.g., data entry errors, collateral management failures, incomplete legal documentation, unapproved access given to client accounts, non-client counterparty misperformance, and vendor disputes.

(2) Banks shall adopt tools and mechanisms that are appropriate to their size, complexity of operations and risk profile to properly identify and assess operational risk. The tools that may be used for identifying and assessing operational risk may include, but not limited to:

(a) *Results of internal/external audit and supervisory issues raised in the Bangko Sentral Report of Examination (ROE)* – Internal audit surfaces issues on effectiveness of internal control, risk management, and governance systems and processes of an organization, while external audit focuses on control weaknesses and susceptibility of the bank to material misstatements in the financial statements. On the other hand, the Bangko Sentral ROE highlights deficiencies in the risk management systems and governance processes as well as issues on compliance with relevant laws, rules and regulations, which could have adverse effects on the safety and soundness of the bank;

(b) *Internal loss data collection and analysis* – Internal operational loss data provides meaningful information for assessing bank's exposure to operational risk and the effectiveness of internal controls. Analysis of loss events can provide insights into the causes of large losses and information on whether

control failures are isolated or pervasive. Banks may consider mapping internal loss data to the following business lines:

(i) Corporate finance;
(ii) Trading and sales;
(iii) Retail banking;
(iv) Commercial banking;
(v) Payment and settlement;
(vi) Agency services;
(vii) Asset management; and
(viii) Retail brokerage.

Loss events linked to credit and market risk may also relate to operational issues and should be segmented in order to obtain a more comprehensive view of the bank's operational risk exposure;

(c) *Risk Self Assessments (RSA)/Risk Control Self Assessments (RCSA)* – RSA is a tool to assess processes underlying bank's operations against a library of potential threats and vulnerabilities including their potential impact. A similar approach, RCSA, typically evaluates inherent risk (the risk before controls are considered), the effectiveness of the control environment, and residual risk (the risk exposure after controls are considered). Scorecards on RCSAs may be developed by allocating weights to residual risks to provide a means of translating the RCSA output into metrics that will give a relative ranking of the control environment;

(d) *Business process mappings* – These help identify key steps in business processes, activities, and organizational functions as well as the key risk points in the bank's overall business process. Process maps can reveal individual risks, risk interdependencies, and areas of control or risk management weakness. They can also help prioritize subsequent management action;

(e) *Risk and performance indicators* – Risk and performance indicators, such as Key Risk Indicators (KRIs) and Key Performance Indicators (KPIs), provide an insight into a bank's emerging risk exposure. KRIs are used to monitor the main drivers of exposure associated with key risks that contribute to early detection of heightened risk, ongoing monitoring of their movements, and preemptive reactions as necessary. KPIs, on the other hand, provide insight into the status of operational processes, which may in turn provide insights into operational weaknesses, failures, and potential loss. Risk and performance indicators are often used with escalation triggers to warn when risk levels approach or exceed acceptable ranges and prompt mitigation plans;

(f) *Scenario analysis* – This refers to the process of obtaining expert opinion of business line and risk managers to identify potential operational risk events and assess the potential outcome. Scenario analysis is an effective tool when considering potential sources of significant operational risk and the need for additional risk management controls or mitigation solutions. Given the subjectivity of the scenario process, a robust governance framework is essential to ensure the integrity and consistency of the process;

(g) *Model measurement* – Larger banks may deem it useful to quantify their operational risk exposures by using the output of the risk assessment tools as inputs into a model that estimates operational risk exposure. The results of the model can be used in an economic capital process and can be allocated to business lines to link risk and return; and

(h) *Comparative analysis* – Comparative analysis consists of comparing the results of the various assessment tools to provide a more comprehensive view of the bank's operational risk profile.

Comparison of external loss data, if available, such as industry experiences, vis-à-vis bank's internal loss data can also be made to explore possible weaknesses in the financial institution's control environment and enable it to consider previously unidentified risk exposures.

In choosing among these tools, each bank must carefully consider what is proportionate to its size, risk profile, and complexity of operations. Data/information gathered from these tools should enable banks to make a thorough causal analysis, identify control gaps, and consequently adopt appropriate corrective actions.

UBs/KBs are expected to adopt more sophisticated tools in identifying and assessing their operational risk exposures. TBs, RBs and Coop Banks, on the other hand, are expected to adopt at the minimum, the (i) results of internal/external audit and supervisory issues raised in the Bangko Sentral ROE and (ii) internal loss data collection and analysis.

(3) Banks shall develop databases to accumulate at least a five (5)-year history of operational risk losses which can be fed back into the operational risk management process. Apart from capturing events that resulted to actual loss, banks shall also gather potential loss or near-misses[1]. Said database of loss events provides basis for analysis which can help direct corrective action to improve the control environment, as well as determine risk mitigating actions. Banks should assess the depth of its data collection which is vital in understanding the risk environment. The loss event database shall at a minimum disclose the following:

(a) Short description of the event;
(b) Loss event type category;
(c) Department/Unit/Branch sustaining the loss;
(d) Business line classification;
(e) Date of occurrence;
(f) Date of discovery;
(g) Date of booking of actual losses;
(h) Actual loss amount or potential loss amount, if a near-miss event;
(i) Amount recovered and date of recovery;
(j) Causes of the event (e.g., control weaknesses identified);
(k) Consequence of the loss event (e.g., market loss, fees paid to a counterparty, a lawsuit or damage to the bank's reputation); and
(l) Action(s) taken.

Banks shall define appropriate thresholds for internal loss data collection and must be able to justify the same. Thresholds should be reasonable and should not omit any operational loss event data that is material for operational risk exposure and for effective risk management. Banks shall ensure that the choice of threshold should not adversely impact the credibility and accuracy of operational risk measurement.

(4) Banks shall determine based on the results of the risk assessment process whether the risks are within the scope of its operational risk management strategy and policies. It shall identify the risk exposures that are unacceptable or are outside its risk appetite and/or risk management capacity, and design and prioritize appropriate risk mitigation and corrective actions with clear accountabilities, roles and responsibilities for implementation within reasonable timelines.

(5) Banks shall continually assess its operational risk exposures in order to gain broader recognition and understanding of their effects. It shall consider the following factors in the assessment:

(a) Expected and unexpected changes to the bank's operating environment;
(b) Actual operational loss events that could have resulted in substantial losses/damage but were avoided (e.g., near misses) or recovered;
(c) Reported external operational losses and incidents which have damaged investor confidence and caused serious reputational harm;
(d) Areas of concern or unusual volumes or high number of exceptions; and
(e) Results of internal assessment of risks and controls.

(6) Banks shall ensure that their risk management and control infrastructure keep pace with the growth of or changes in their business activities, i.e., when they engage in any new activity; introduce a new product; enter new or unfamiliar markets; implement new business processes or technology systems; establish subsidiaries/branches that are geographically remote from the head office; and/or embark on an aggressive growth strategy by acquiring problem banks to rapidly increase branch network during a short period of time. Banks should have relevant policies and procedures that address the process for review and approval of new products, activities, processes and systems. The review and approval process shall consider the following:

(a) Inherent risks in the new product, service, or activity;
(b) Changes to the bank's operational risk profile, appetite and tolerance, including the impact on existing products or activities;
(c) Necessary controls, risk management processes, and risk mitigation strategies;
(d) Any residual risk; and
(e) Procedures and metrics to measure, monitor, and manage the risk of the new product or activity.

b. *Risk monitoring and reporting.* Banks shall implement a process to regularly monitor their operational risk profiles and material exposures to losses on a continuing basis. The process shall take into account both qualitative and quantitative assessment of exposure to all types of operational risk, assess the quality and appropriateness of corrective or mitigating actions, and ensure that adequate controls and systems are in place to identify and address problems before they become major concerns.

[1] *Potential loss* is an initial estimate of the loss that the bank may have sustained at the time of discovery of the event. *Near miss* is an adverse operational risk event which was not prevented by internal controls but did not result in an actual adverse impact (financial or reputational) due to chance, recovery or other external factors.

(1) Risk monitoring should be an integral part of a bank's activities, the frequency of which should reflect the risks involved in these activities as well as the frequency and nature of changes in the operating environment. The results of the monitoring activities, findings of compliance, internal audit and risk management functions, management letters issued by external auditors, and reports generated by supervisory authorities, as appropriate, should be included in regular reports to the board and the senior management to ensure that timely and appropriate measures are undertaken to address the issues/findings.

(2) Management shall ensure that regular reports on operational risk are received on a timely basis and in a form and format that will aid in the monitoring and control of their business areas. The board should receive sufficient high-level information to enable it to understand the bank's overall operational risk profile and focus on the material and strategic implications for the business.

(3) Management reports should contain relevant internal financial, operational, and compliance data, as well as external market information about events and conditions that are relevant to decision making. They should aim to provide information such as:

(a) The critical operational risks facing, or potentially facing, the bank (e.g., as shown in KRIs and their trend data, changes in risk and control self-assessments, comments in audit/compliance review reports, etc.);
(b) Major risk events/loss experience, issues identified and intended remedial actions;
(c) The status and/or effectiveness of actions taken; and
(d) Exception reporting (covering among others authorized and unauthorized deviations from the bank's operational risk policy and likely or actual breaches in predefined thresholds for operational exposures and losses).

(4) Reports should be analyzed with a view to improving existing management performance as well as developing new risk management policies, procedures and practices. Moreover, to ensure the usefulness and reliability of the reports received, management should regularly verify the timeliness, accuracy, and relevance of reporting systems and internal controls in general.

(5) Management should keep track of the information provided in the reports, particularly the loss data, to establish a framework for systematically tracking and recording the frequency, severity and other relevant information on loss events.

c. *Risk control and mitigation.* Strong control environment is key to effective risk control and mitigation. In this respect, banks are expected to adhere to the standards set forth under Secs. 162, 163, and 436 (*Internal audit*) and *Appendix 117* on Internal Control and Internal Audit.

Banks shall decide whether to use appropriate procedures to control and/or mitigate the risks, or bear the significant risks that have been identified. In those instances, where internal controls do not adequately address risk and accepting the risk is not a reasonable option, banks may seek to transfer the risk to another party such as through insurance. Relative thereto, the board shall determine the maximum loss exposure the bank is willing to take and has the capacity to assume, and should perform an annual review of the bank's risk and insurance management program.

Banks, however, should not consider risk transfer tools as substitute but as complementary tools to sound controls and risk management system. Management shall also assess the extent to which risk mitigation tools such as insurance reduces risk, transfer the risk to another business sector or area, or create a new risk (e.g., counterparty risk).

Management of human resource-related risk. One of the major sources of operational risk is "people risk". In this regard, banks shall embed in their enterprise-wide risk management framework measures to identify, measure, monitor, and control human resource related risks. Banks shall ensure that there are adequate policies and risk management and control measures in the following areas:

a. *Recruitment and selection.* The board shall establish efficient process that will facilitate timely recruitment and selection of personnel from a broad pool of candidates with appropriate educational background, skills, experience and competencies to fulfill the duties and responsibilities of the function. Management shall also ensure that the bank's culture, values and expectations on behavior are compatible with those of its employees so that there is unity of direction and purpose.

b. *Performance management.* The board shall establish effective performance management framework that will ensure that personnel's performance is at par with the standards set by the board/senior management. Results of performance evaluation should be linked to other human resource activities such as training and development, remuneration, and succession planning. These should likewise form part of the assessment of the continuing fitness and propriety of personnel in carrying out their respective duties and responsibilities.

The assessment of continuing fitness and propriety of personnel should take into account factors that may affect the performance of an individual. For instance, the financial circumstances of an employee who will be responsible for the custody of, or handling of cash related transactions, shall be taken into consideration in the evaluation of his continuing qualification.

c. *Training and development.* The board shall establish training and development programs that will ensure continuing development of employees' knowledge, competence, and skill. Results of gaps assessment in the performance evaluation/appraisal process can be used in the creation of training and development programs for employees.

d. *Remuneration and compensation.* The board shall establish sound remuneration and compensation policies that can be used by the institution to attract/recruit and retain highly qualified workforce. Said policies should appropriately motivate personnel and discourage excessive risk taking. This can be achieved through timely assessment of performance and competencies based on set standards. Results of performance assessment/appraisal can be used in the organization's remuneration decisions.

e. *Succession planning.* The board shall establish an effective succession planning program. The program should include a system for identifying and developing potential successors for key and or critical positions in an organization, through systematic evaluation process and training. This will require identifying critical skills and competencies; assessing gaps; and designing, developing, and delivering training and development programs to build or improve critical skills and competencies. The program should be adequately documented to facilitate monitoring and assessment of its implementation.

f. *Adequacy of complement.* The board shall establish effective strategic manpower planning to ensure that there is adequate and right manpower complement to meet the strategic goals and operational plans of the organization.

g. *Disciplinary actions.* The board, officers and all employees are expected to conform to prescribed ethical culture and guidelines, meet performance standards, and to behave ethically/appropriately in the workplace. Disciplinary or corrective actions may be taken to improve/arrest unacceptable behavior or performance. Disciplinary action must be in accordance with the laws and the applicable rules.

h. *Separation from service.* The board shall establish policies and procedures governing the separation of employees from service (e.g., termination, dismissal, retrenchment, retirement, or resignation), which should include transfer of accountabilities and/or salient information (e.g., client data, business strategies and formula, other trade secrets, etc.) to the successor, and clearance requirements. Policies may also include "non-compete" clauses, in accordance with existing laws.

The Human Resource Department shall assist the board in fulfilling its oversight responsibilities in the areas of recruitment, manpower planning, personnel development, performance appraisal, remuneration, termination, retrenchment and other key human resource issues.

Management of information technology-related risk. Banks shall refer to Sec. 148 for the management of information technology-related risk.

Management of integrity of prudential reports or reports submitted to Bangko Sentral. Banks shall adopt a prudential reporting framework that ensures the integrity of information submitted to the Bangko Sentral. They shall establish a system for ensuring effective compliance with the standards prescribed by the Bangko Sentral on acceptable reporting quality. Banks shall likewise maintain adequate documentation of the processes and procedures covering the prudential reporting framework and conduct a periodic review of their continuing relevance.

Management should be cognizant of relevant guidelines that may be issued by the Bangko Sentral relative to issues on the integrity and accuracy of prudential reports. Persistent concerns on the integrity and accuracy of prudential reports including failure to comply with the directives of the Bangko Sentral in this respect may be considered by the Bangko Sentral as conducting business in an unsafe or unsound manner, subject to applicable provision of laws and regulations.

Management of legal risk exposures. Banks shall adopt a system for identifying and assessing legal risks related to business line functions as well as products and services offered. This shall include a process for assessing the bank's rights and obligations in contractual relationships and in ensuring that all agreements/contracts entered into by the bank conform to legal and regulatory requirements and that no party is unduly disadvantaged. This shall also include the assessment of trends of customer complaints to determine potential legal risk exposures.

There should be a system in place to manage outstanding legal cases involving the bank or any of its directors and officers, with respect to suits filed in line with the performance of their duties. Said system should cover a periodic review of the status of cases, an assessment of potential outcome including probable liability or receivable, and regular reporting of the same to the appropriate level of management and the board.

Management of operational risk arising from financial inclusion initiatives. Banks that provide financial services to the unserved and underserved sector generally handle small and voluminous transactions, which have inherently high operational risk. Incremental operational risk also comes from the higher number of personnel or from the use of technology-based platform to effectively and efficiently deliver financial services. Banks are expected to identify and understand the distinct operational risk arising from the products and services they offer or innovative delivery channels they use. They should also be cognizant of potential transformation or transfer or risk exposures. In this regard, banks shall adopt an operational risk management framework appropriate to the nature and scale of their operations. Said framework shall consider the principles embodied in this Section designed to suit the bank's business model and ensure sustained delivery of financial services to the unserved and underserved sector.

Notification/Reporting to Bangko Sentral. Banks shall notify the appropriate supervising department of the Bangko Sentral, within ten (10) calendar days from the date of discovery, of any operational risk event[1] that may result in any of the following:

a. Significant operational losses or exposures;
b. Activation of business continuity plan; or
c. Any material change in business and operating environment.

Upon receipt of notification, the Bangko Sentral may require, if warranted, the reporting bank to submit a report detailing the causes and impact of such events and an acceptable action plan to address the issue and any other weakness identified.

Supervisory enforcement actions. Consistent with Sec. 002, the Bangko Sentral may deploy enforcement actions to promote adherence with the requirements set forth in this Section and bring about timely corrective actions. The Bangko Sentral may issue directives to improve the operational risk management system, or impose sanctions to limit the level of or suspend any business activity that has adverse effects on the safety or soundness of the bank, among others. Sanctions may likewise be imposed on a bank and/or its directors, officers and/or employees.

(Circular Nos. 969 dated 22 August 2017, 930 dated 18 November 2016, and 900 dated 18 January 2016)

147 BANK PROTECTION

Each bank shall adopt an adequate security program commensurate with its operations, taking into consideration its size, location, number of offices and business operations.

Objectives. These regulations are designed to:

a. Promote maximum protection of life and property against crimes (e.g., robbery, hold-up, theft, etc.) and other destructive causes;
b. Prevent and discourage perpetration of crimes against bank; and
c. Assist law enforcement agencies in the identification, apprehension and prosecution of the perpetrators of crimes committed against banks.

Designation of a chief security officer. The board of directors of each bank, or the country head in the case of a foreign bank branch, shall designate a chief security officer (CSO).

A full-time CSO shall be designated whenever the bank operates an extensive physical network of branches and other offices that regularly handle cash. For purposes of this section, extensive branch network means a bank has at least ten (10) branches and/or other cash handling banking offices.

A bank that falls outside the preceding criteria is considered to have reduced security risk exposure and may designate a senior officer to act as concurrent CSO: *Provided*, That such designation shall not result to a conflict of interest situation.

In banking group or conglomerate structure, the parent bank or the primary bank may establish a group-wide security management system to facilitate a consolidated approach in handling security risks. This, however, does not relieve each bank from appointing its own CSO.

Qualification and responsibilities of the CSO.

a. Before appointing its CSO, the board of directors must ensure that its security officer-designate meets the following minimum qualifications:

    (1) Be at least thirty (30) years of age;
    (2) Be a college graduate;
    (3) Have at least five (5) years experience in the field of law enforcement and/or security operations, two (2) years of which is in a managerial position; and
    (4) Possess all the qualifications and none of the disqualifications provided for under Secs. 134 and 138, respectively.

[1] As enumerated under Sec. 146 (*Operational risk management framework, loss event-type categories*).

In the event that the senior officer, acting concurrently as the bank's CSO, does not meet the minimum experience defined under Item "*(3)*", said officer shall be supported by a competent consultant/adviser who may be a person or a firm independent of the bank with special knowledge, skill and experience on security management matters. The hiring of said consultant/adviser shall be approved by the board of directors of the bank or the country head in the case of a foreign bank branch.

When assessing competency, the board of directors of the bank should consider the reputation and integrity, the extent of relevant education/training and the knowledge and experience of the consultant/adviser on security management matters.

b. All CSOs, including those acting in concurrent capacity shall be responsible for:

(1) Developing and administering a security program appropriate to the risk profile of the bank;
(2) Constituting a security management team, as appropriate;
(3) Conducting a security awareness program among bank employees on a continuing basis;
(4) Investigating bank robberies/hold-ups, recommending the filing of appropriate charges in court as the evidence may warrant and assisting in the prosecution of the perpetrator(s) thereof;
(5) Establishing an effective working relationship with the Bangko Sentral, PNP and other law enforcement agencies in the prevention of bank crimes and other natural and man-made hazards; and
(6) Implementing new techniques, methods and equipment to enhance bank protection measures in a cost effective manner.

Security program. The security program of each bank shall be in writing, duly approved by its board of directors or the country head in the case of a foreign bank branch. In addition, the security program shall define measures and procedures to detect and prevent the commission of bank crimes, as well as provide contingency plans in case of calamities, terrorist attacks and other emergency situations. The security program shall include the following:

a. Installation of the prescribed minimum security devices;

b. A schedule for the periodic inspection, testing and servicing of all security devices installed in each of the bank's offices, designation of an officer or employee responsible for ensuring that such devices are inspected, tested, serviced and kept in good working order, and requiring record of such inspections, testing and servicing;

c. Standard operating procedures for the safekeeping of all currencies, negotiable securities and similar valuables in vaults or safes;

d. Provision for other security measures and procedures aimed at giving added protection to the bank, e.g., procedures for the transport of funds and other cash items, and defining responsibility for their implementation;

e. Provision for the training and periodic re-training of employees in their respective areas of responsibility under the security program, including the proper use of security devices and proper employee conduct during and after an emergency situation;

f. Contingency measures for security and rescue operations in emergency situations;

g. Provision for the posting of adequate number of security personnel in all vital and/or critical areas in the bank's premises, and the minimum number of hours when each personnel shall be on duty; and

h. Such other provisions/measures as the president of the bank or country head in the case of a foreign bank branch may, in consultation with its security officer, deem appropriate.

Minimum security measures.

a. *Guard system*. All banking offices shall be manned by an adequate number of security personnel to be determined by the bank, taking into consideration its size, location, costs and overall bank protection requirement: *Provided*, That cash centers shall be manned by an adequate number of security guards as may be necessary during banking hours. For this purpose, cash centers shall refer to branches which also handle the cash requirements of other branches of the same bank.

b. *Security devices*. Within 120 calendar days from 23 September 2008 in the case of existing offices and before opening for business in the case of offices to be opened after 23 September 2008, banks shall effect the installation, operation and maintenance, as individually appropriate, of the following security devices in each banking office;

(1) A time delay device in the cash vault/safe;

(2) A lighting system for illuminating the area around the vault, if the vault is visible from outside the banking office;

(3) Tamper-resistant locks on exterior doors and windows;

(4) A robbery alarm system or other appropriate device for promptly notifying the nearest law enforcement office either directly or through an intermediary of an attempted, ongoing or perpetrated robbery;

(5) Anti-burglary or intrusion system capable of detecting promptly an attack on the outer doors, walls, floor or ceiling of the bank premises, including the vault(s); and

(6) Such other devices like the closed circuit television (CCTV) and video recording system appropriate to deter the commission of bank crimes and assist in the identification and apprehension of the culprit/s: *Provided,* That the bank security officer shall consider, among other things, the following:

(a) The incidence of crimes against the particular banking office and other business establishments in the area where the banking office is located;
(b) The amount of currency or other valuables exposed to robbery and other man-made hazards;
(c) The distance of the banking office from the nearest law enforcement office and the time ordinarily required for law-enforcement officers to arrive at the banking office;
(d) The cost of the security devices;
(e) Other existing security measures in effect at the banking office; and
(f) The physical characteristics of the banking office structure and its surroundings.

Each bank shall install, operate and maintain security devices which are expected to give a general level of bank protection equivalent, at least, to the standards prescribed herein.

c. *Vaults and safes.* Vault walls, ceilings and floors, shall be made of steel-reinforced concrete or such other equally safe materials/specifications. Vault doors shall be made of steel or other drill and torch resistant material, equipped with a dual combination lock and time-delay device, and provided with inner and outer grill doors: *Provided*, That all vaults constructed after 23 September 2008 shall be equipped with a breathing/ventilation device and emergency button capable of giving audible and visible signal in case of accidental lock-up.

A vault record book shall be maintained to record all activities relative to the opening and closing of the vault.

Safes should be sufficiently heavy or be securely anchored to the premises where located. The door shall be equipped with a combination lock with a time-delay device if used for safekeeping cash and other valuables. The body shall consist of steel with an ultimate tensile strength of 50,000 pounds per square inch or the equivalent in metric system.

Safe and vault combinations must be changed whenever the custodian is terminated or transferred to another place of assignment. A record of the names of the holder of the keys and combinations shall be maintained for each lock, safe, vault and compartment. Changing of combinations shall be documented to pinpoint responsibility and to ensure confidentiality and proper observance of this requirement.

d. *Security of the premises.* For emergency purposes and where applicable, each banking office shall be provided with a back door with a steel or grill door which shall be used as an alternative exit door for evacuation in case of fire, flood, bomb threats, wind damage, explosion, civil disturbance, earthquake, or other emergency.

Steel grills, where applicable, shall support exterior glass doors and windows of all banking offices for protection against any forcible entry. Access to the back door shall be limited to authorized bank personnel. Opening and closing thereof before and after banking hours shall be recorded in a registry.

Firearms and other deadly weapons shall not be allowed inside bank premises except when so authorized by the bank. A signage for this purpose shall be conspicuously placed near the main entrance door of the bank. Specific guidelines as to when to allow firearms and other deadly weapons inside bank premises should be incorporated in the security program.

A bank shall maintain within its premises a record of the addresses and telephone numbers of the nearest law enforcement agencies, hospitals, rescue agencies and fire departments.

The security officer of each bank shall conduct, at least annually, a security survey of bank premises and make available the inspection report to Bangko Sentral examiners during regular examination.

The bank shall conduct fire, earthquake and bomb threat drill at least once a year.

e. *ATM.* ATM sites shall be provided with adequate security. Where there are no security personnel assigned to secure the ATM, an anti-tampering device shall be installed or the ATM and its immediate surroundings shall be regularly inspected to promptly detect any attempt to rob or destroy the same.

f. *Armored Car Operation.* To ensure the protection of crew members and valuables, all armored vehicles shall be built with bullet-resistant materials capable of withstanding the firepower of high-powered firearms, e.g., M16 and M14 rifles. Moreover, armored vehicles shall be equipped with a vault or safe or a partition wall with a combination lock designed to prevent retrieval of the cargo while in transit. When in use the armored vehicles shall be provided with at least two (2) armed guards and its operations must be supervised by at least two (2) officers of the bank.

All canvass bags that contain cash and other items of value shall be provided with padlocks for security and control purposes. Armored cars shall not be operated a mobile bank.

Reports. Banks shall conduct a review and self-assessment of their security program to ensure their compliance with prescribed security requirements. Any substantive amendment thereto shall be approved by the bank's board of directors or country head in the case of branches of foreign banks. The self-assessment of compliance with prescribed security requirements together with the updated security program (if amended during the year) shall be submitted annually to the appropriate supervising department of the Bangko Sentral on or before 30 January of the following year in accordance with the format shown in *Appendix 10*. The self-assessment together with the updated security program shall be considered Category A-2 reports.

Bangko Sentral inspection. During regular examination, the Bangko Sentral reserves the right to perform a compliance assessment of the adequacy of a bank's security arrangements. The Bangko Sentral, with approval of the Governor, may also conduct at any time a targeted inspection of the bank's implementation of its security program to determine compliance with regulations. For this purpose, the Bangko Sentral may avail of the services of experts as resource persons.

Sanctions. Any violation of the provisions of this Section, as well as non-compliance with the minimum standards set forth or any directive of the Monetary Board issued pursuant hereof, shall be subject to the administrative sanctions provided under Section 37 of R.A. No. 7653 and may, depending on the materiality or seriousness of the violation, constitute a ground for considering the same as an unsafe or unsound banking.

(Circular Nos. 969 dated 22 August 2017 and 823 dated 10 January 2014)

148 INFORMATION TECHNOLOGY RISK MANAGEMENT[1]

The enhanced guidelines on Information Technology Risk Management (ITRM) keep abreast with the aggressive and widespread adoption of technology in the financial service industry and consequently strengthen existing Bangko Sentral framework for IT risk supervision. ITRM should be considered a component and integrated with the institutions' risk management program. The guidelines likewise provide practical plans to address risks associated with emerging trends in technology and growing concerns on cyber security.

Policy statement. The rapid pace of digital innovation has significantly reshaped the financial services landscape. BSFIs employ advances in technology to sharpen business insights, enhance operational efficiencies, and deliver innovative financial products and services in line with emerging market trends and evolving client needs. Technological developments also enable greater access to financial services that promote an inclusive and responsive digital financial ecosystem. As technological innovations become more deeply entrenched in business models, infrastructure, and delivery channels, system-related failures and malfunctions can create major operational disruptions in BSFIs. Social media platforms may further complicate matters as news of disruptions as well as customer complaints can spread at unprecedented speeds. Further, cyber-threats and attacks confronting the financial services industry pose added risks that can undermine public trust and confidence in the financial system.

In line with their growing technology usage and dependence at the back of a dynamic operating and cyber-threat environment, BSFIs should establish robust and effective technology risk management processes, governance structures, and cybersecurity controls. This is to ensure that the benefits derived from technological innovations can be fully optimized without compromising financial stability, operational resilience, and consumer protection.

Purpose and scope. The enhanced guidelines aim to provide guidance in managing risks associated with use of technology. The guidelines outlined are based on international standards and recognized principles of international practice for ITRM and shall serve as Bangko Sentral's baseline requirement for all BSFIs.

The guidelines shall apply to BSFIs which include banks, non-banks with quasi-banking function (NBQB), non-bank electronic money issuers and other non-bank institutions which under existing Bangko Sentral rules and regulations and special laws are subject to Bangko Sentral supervision and/or regulation. Moreover, subject guidelines shall also apply to BSFIs with offshore data processing as may be appropriate to their situation. The framework covers different facets of ITRM, some of which are supplemented with detailed guidelines in *Appendices 74, 75, 76, 77, 78* and *79*. The Bangko Sentral shall keep the Appendices updated and, in the future, issue additional regulations on new and emerging products, services, delivery channels, and other significant applications of technology.

[1] BSFIs shall comply with the Enhanced Guidelines on Information Security Management within a period of one (1) year from 5 December 2017. In this regard, a BSFI should be able to show its plan of actions with specific timelines, as well as the status of initiatives being undertaken to fully comply with the provisions of this circular, upon request of the Bangko Sentral starting December 2017.

Subject guidelines, including the *Appendices 74, 75, 76, 77, 78* and *79*, are not "one-size-fits-all" and implementation of these need to be risk-based and commensurate with size, nature and types of products and services and complexity of IT operations of the individual BSFIs. BSFIs shall exercise sound judgment in determining applicable provisions relevant to their risk profile.

IT Profile Classification. To ensure that IT risk management system, governance structure and processes are commensurate with the attendant IT risks, the Bangko Sentral shall determine the IT profile of all BSFIs and classify them as *"Complex"*, *"Moderate"* or *"Simple"*. The IT profile refers to the inherent risk of a BSFI before application of any mitigating controls, and is assessed taking into consideration the following factors:

a. *IT infrastructure and operations.* Inherent IT risks of a BSFI largely depend on the degree of automation of core processes and applications, the size of branch networks, and the characteristics of its IT organization. BSFIs with larger branch networks and more complex organizational structures usually require a higher degree of reliance on IT systems/infrastructure, which in turn, carry higher levels of inherent IT risks. Interconnectivity risks also play a factor in determining IT risk levels since added connections to third party networks increase complexity as well as exposure to potential information security/cybersecurity risks. These include participation in electronic payment systems and interconnections with other financial institutions, business partners, customers, and third party service providers, among others.

b. *Digital/Electronic financial products and services.* Digital/electronic financial products and services provided to the BSFI's corporate and retail clients, by their very nature, can have a direct impact on IT risks, including information security/cybersecurity risks. This is because these products and services are normally provided via the internet or public networks which are inherently risky. Digital/electronic financial products and services include ATM debit, prepaid and credit cards and e-channels such as ATM terminals, point-of-sale (POS) terminals, internet banking and mobile banking facilities, among others. BSFIs that are more aggressive in providing such services are expected to have greater IT risks.

c. *IT projects and initiatives.* The extent and nature of the BSFI's IT projects prospectively impact IT risk exposure and complexity. For instance, developing or acquiring a new core banking system is considered a major project, that if not adequately managed and overseen, may heighten inherent IT risks. Also, IT projects and initiatives entail the use of current resources in terms of funding and manpower that might affect existing IT operations and risk profile.

d. *Outsourced services.* While outsourcing in general does not diminish the BSFI's responsibility over the function/service outsourced, outsourcing poses an added dimension to IT and information security risks. For this reason, outsourcing arrangements require a higher degree of oversight, due diligence, and risk management controls. Outsourcing core IT services and functions via cloud computing platforms may further intensify IT and information security risks.

e. *Systemic importance.* The systemic importance of a BSFI is a critical determinant in assessing inherent IT and information security/cybersecurity risks since BSFIs identified as *"Domestic Systemically Important Banks"* or DSIBs are essentially larger in size and have more complex operations and product offerings. Moreover, cyber-attacks against DSIBs can have serious implications to financial and economic stability that may undermine public trust and confidence in the financial system.

f. *Threats.* The volume, type, and severity of cyber-attacks and fraud targeting a specific BSFI affects IT and cybersecurity risk profiles. Some BSFIs may be more prone to attacks compared to others by virtue of their asset size, customer base, systemic importance, and other factors. Thus, BSFIs that are likely targets of these types of threats should have greater degree of cyber-preparedness and resilience.

A general description for each IT profile classification is outlined as follows:

IT Profile Classification	General Description/Attributes
Complex	A BSFI with complex IT profile uses technology extensively in supporting mission-critical business processes and delivering financial products and services. It has ubiquitous branch network in the country and offers a wide array of digital/electronic financial products and services to a large number of corporate and retail clients. It is highly interconnected with external third party stakeholders and actively participates in electronic payment systems and networks, usually involving large-value transfers. Business strategies and objectives are largely anchored on IT platforms, digital innovation, and technology-based solutions. It is also aggressively utilizing/exploring emerging technologies such as cloud computing, social media and big data.
Moderate	A BSFI classified as moderate uses technology to some extent, but not as aggressively as those classified as complex. Its branch network, IT organization and structure, and extent of IT projects are also relatively less significant than those of complex BSFIs. IT applications and systems are integrated but primarily support traditional banking

	products and services. It may offer basic digital/electronic products and services, such as ATM terminals/card-based products, to a limited number of clients.
Simple	A BSFI classified as simple generally has very limited use of technology with minimal interconnectivity to its clients and other institutions. Likewise, branch network or geographic presence is confined to a specific locality. IT applications and systems are stand-alone or are not fully integrated and e-banking products and services are rarely offered. A simple BSFI also has few IT personnel and customer base.

The IT profile of rural banks, cooperative banks, NBFIs, and non-bank institutions shall be classified as "*Simple*", unless notified by the Bangko Sentral of a higher classification. For other BSFIs, the Bangko Sentral shall notify in writing their assigned classification within a reasonable timeline from 5 December 2017. The Bangko Sentral-assigned classification shall remain effective until such time that the Bangko Sentral informs the concerned BSFI of a change in classification.

The Bangko Sentral assessment and classification process should not preclude BSFIs from assessing their own IT profile classification on an ongoing basis. All BSFIs are required to have periodic and rigorous self-assessment exercises using more robust data sets and variables as part of their information security risk management system.

IT rating system. The Bangko Sentral, in the course of its on-site examination activities, shall evaluate BSFIs' ITRM system and measure the results based on Bangko Sentral's IT rating system. A composite rating is assigned based on a "1" to "4" numerical scale, as follows:

4	BSFIs with this rating exhibit strong performance in every respect. Noted weaknesses in IT are minor in nature and can be easily corrected during the normal course of business.
3	BSFIs with this rating exhibit satisfactory performance but may demonstrate modest weaknesses in operating performance monitoring, management processes or system development.
2	BSFIs with this rating exhibit less than satisfactory performance and require considerable degree of supervision due to a combination of weaknesses that may range from moderate to severe.
1	BSFIs with this rating exhibit deficient IT environment that may impair the future viability of the entity, thereby requiring immediate remedial action.

Definition of terms. In these guidelines, terms are used with the following meanings:

a. *Advanced persistent threat or APT* shall refer to a sophisticated form of attack that involves coordinating multiple methods of identifying and exploiting a target's vulnerabilities over an extended period to do harm.

b. *Card skimming* shall refer to the illegal copying of information from the magnetic stripe of a credit or ATM card to gain access to accounts.

c. *Cloud computing* shall refer to a model for enabling ubiquitous, convenient, and 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.

d. *Compromised state* shall refer to a state wherein someone or something has maliciously broken into networks, systems and computers which raises doubt as to the integrity of information assets, such as but not limited to, program files, image files, and operating system files.

e. *Cyber-threat* shall refer to a deliberate act of omission or commission by any person carried out using the internet and/or other electronic channels, in order to communicate false or fraudulent representations to prospective victims, to conduct fraudulent transactions, or to illegally obtain proprietary data or information related to the institution, their customers and other stakeholders. Cyber-threat can be used synonymously with cyber-fraud, cyber-attack or cyber-related incidents.

f. *Cybersecurity* shall refer to technologies, processes, and practices designed to protect a BSFI's information assets and consumers by preventing, detecting, and responding to cyber-attacks.

g. *Data Breach* shall refer to an incident in which sensitive, protected or confidential data or information has potentially been viewed, stolen, leaked used, or destroyed by unauthorized persons.

h. *Defense-in-depth* shall refer to a security strategy or design of deploying security controls over multiple or various layers across the network, systems, and applications such that a failure in one control would be compensated by another control in the next layer. This approach effectively delays or disrupts an attacker's ability to progress within the attack sequence.

i. *Distributed denial of Service (DDoS)* shall refer to a type of attack which makes use of the capacity limitation of enterprise networks, systems or ingress with extreme traffic loads.

j. *Hacking* shall refer to unauthorized access into or interference in networks, systems and computers without the knowledge and consent of the system/information owner.

k. *Information security program (ISP)* shall refer to information security policies, standards and procedures, security operations, technologies, organizational structures, and information security awareness and training programs aimed at protecting a BSFI's information assets and supporting infrastructure from internal and external threats.

l. *Information security strategic plan (ISSP)* shall refer to the roadmap to guide a BSFI in transforming the current state of security to the desired state taking into account business goals and strategies.

m. *Information security risk management (ISRM)* shall refer to the process of identifying, assessing, mitigating, managing, and monitoring information security risks, including cyber-risk, to ensure these are within acceptable levels. It should be integrated into the BSFI's ISP and enterprise-wide risk management system.

n. *Malware* shall refer to malicious software that compromises the confidentiality, availability or integrity of information systems, networks or data. Examples of malware include ransomware, trojans, adware, botnets, bugs, and spyware, among others.

o. *Pharming* shall refer to a form of cyber-attack that redirects a website traffic to another fake website to obtain user credentials and information.

p. *Phishing* shall refer to the use of electronic communications such as e-mail to masquerade with trusted identity to capture sensitive information to gain access to accounts. It involves tricking customers into giving sensitive information through fraudulent emails or websites.

q. *Reportable major cyber-related incidents* shall refer to any cyber-related incidents that meet the criteria for reporting/notification to the Bangko Sentral as laid out in Item a(2)(a) of this Section (*Reporting and Notification Standards*).

r. *Security operations center (SOC)* shall refer to a unit or function that provides centralized visibility, continuous monitoring, and rapid response and recovery procedures on security incidents and events.

s. *Spearphishing* shall refer to a more advanced type of phishing attack which is customized to a particular target (e.g., executives, privileged users, etc.).

t. *Threat actor* shall refer to a person, group or nation/state/government that carries out or intends to carry out damaging acts against another party. An advanced threat actor shall refer to a person, organized group, or nation/state/government that (a) possesses superior capabilities, resources and skills to launch sophisticated cyber-attacks; or (b) seeks military and/or intelligence information for cyber-espionage purposes.

u. *Threat intelligence* shall refer to the process of gathering and analyzing information about the proficiencies, tactics, and motives of malicious actors/attackers that enables a BSFI to institute appropriate countermeasures quickly.

Description of IT-related risks. As BSFIs increase their reliance on IT to deliver products and services, inappropriate usage of IT resources may have significant risk exposures. While IT does not trigger new types of risks, it brings in new dimensions to traditional banking risks (i.e. strategic risk, credit risk, market risk, liquidity risk and operational risk) that require new or enhanced control activities (e.g. a failure of a credit risk measurement application is an IT failure and, therefore, a systems failure in the sense of operational risk). Moreover, IT is an implied part of any system of internal controls, regardless of the type of risk and, consequently, forms an important element in organization-wide risk management. Among the risks associated with the use of IT are the following:

a. *Operational risk* is the risk to earnings and capital arising from problems with service or product delivery. This risk is a function of internal controls, IT systems, employee integrity and operating processes. Operational risk exists in all products and services;

b. *Strategic risk* is the risk to earnings and capital arising from adverse business decisions on IT-related investments or improper implementation of those decisions. The risk is a function of the compatibility of an organization's strategic goals, the business strategies developed to achieve those goals, the resources deployed against these goals and the quality of implementation. The resources needed to carry out business strategies are both tangible and intangible which include communication channels, operating systems, delivery networks and managerial capacities and capabilities;

c. *Reputational risk* is the risk to earnings and capital arising from negative public opinion. This affects the institution's ability to establish new relationships or services or continue servicing existing relationships. The risk can expose the institution to litigation, financial loss or damage to its reputation; and

d. *Compliance risk* is the risk to earnings and capital arising from the violations of, or non-conformance with laws, rules and regulations, prescribed practices or ethical standards. Compliance risk also arises in situations where the laws and rules governing certain products activities of the BSFI's clients may be ambiguous or untested. Compliance risk exposes the institution to monetary penalties, non-monetary sanctions and possibility of contracts being annulled or declared unenforceable.

IT Risk Management System (ITRMS). As BSFIs become more dependent on IT systems and processes, technology risks and information security issues have become progressively more complex and pressing in recent years. Information security is just as important as the new technologies being installed by BSFIs. As progress in technology shifts to higher gear, the trend in cyber-attacks, intrusions, and other form of incidents on computer systems shows that it will not only persist but will continue to increase in frequency and spread in magnitude.

Management of IT risks and information security issues becomes a necessity and an important part of BSFIs' risk management system. BSFIs are therefore required to establish a robust ITRM system covering four (4) key components: 1) IT governance, 2) risk identification and assessment, 3) IT controls implementation, and 4) risk measurement and monitoring.

a. *IT Governance.* This is an integral part of BSFIs' governance framework and consists of the leadership and organizational structures and processes that ensure the alignment of IT strategic plan with BSFIs' business strategy, optimization of resources management, IT value delivery, performance measurement and the effective and efficient use of IT to achieve business objectives and effective IT risk management implementation. BSFIs must establish an effective IT governance framework covering the following:

(1) *Oversight and organization of IT functions.* Accountability is a key concern of IT governance and this can be obtained with an organizational structure that has well-defined roles for the responsibility of information, business processes, applications, IT infrastructure, etc.

The board of directors is ultimately responsible for understanding the IT risks confronted by a BSFI and ensuring that they are properly managed, whereas the senior management is accountable for designing and implementing the ITRMS approved by the board. For complex BSFIs, the board may delegate to an IT steering committee (ITSC) or its equivalent IT oversight function to cohesively monitor IT performance and institute appropriate actions to ensure achievement of desired results. The ITSC, at a minimum, should have as members a non-executive director who oversees the institution's IT function, the head of IT group/department, and the highest rank officer who oversees the business user groups. The head of control groups should participate in ITSC meetings in advisory capacity only.

A charter should be ratified by the board to clearly define the roles and responsibilities of the ITSC. Formal minutes of meeting should be maintained to document its discussions and decisions. The ITSC should regularly provide adequate information to the board regarding IT performance, status of major IT projects or other significant issues to enable the board to make well-informed decisions about the BSFIs' IT operations.

BSFIs should develop an IT strategic plan that is aligned with the institution's business strategy. This should be undertaken to manage and direct all IT resources in line with the business strategy and priorities. IT strategic plan should focus on long term goals covering three (3) to five (5) year horizon and should be sufficiently supplemented by tactical IT plans which specify concise objectives, action plans and tasks that are understood and accepted by both business and IT. The IT strategic plan should be formally documented, endorsed by the Board and communicated to all stakeholders. It should be reviewed and updated regularly for new risks or opportunities to maximize the value of IT to the institution.

BSFIs should also create an organization of IT functions that will effectively deliver IT services to business units. For complex BSFIs, a full-time IT head or equivalent rank should be designated to take the lead in key IT initiatives and oversee the effectiveness of the IT organization. In addition to managing the delivery of day-to-day IT services, the IT head should also oversee the IT budget and maintain responsibility for performance management, IT acquisition oversight, professional development and training. The IT head should be a member of executive management with direct involvement in key decisions for the BSFI and usually reports directly to the president or chief executive officer.

A clear description of roles and responsibilities for individual IT functions should be documented and approved by the board. Proper segregation of duties within and among the various IT functions should be implemented to reduce the possibility for an individual to compromise a critical process. A mechanism should be in place to ensure that personnel are performing only the functions relevant to their respective jobs and positions. In the event that an institution finds it difficult to segregate certain IT control responsibilities, it should put in place adequate compensating controls (e.g. peer reviews) to mitigate the associated risks.

(2) *IT policies, procedures and standards.* IT controls, policies, and procedures are the foundation of IT governance structure. It helps articulate the rules and procedures for making IT decisions, and helps to set, attain, and monitor IT objectives.

BSFIs should adopt and enforce IT-related policies and procedures that are well-defined and frequently communicated to establish and delineate duties and responsibilities of personnel for better coordination, effective and consistent performance of tasks, and quicker training of new employees. Management should ensure that policies, procedures, and systems are current and well-documented. The ITSC should review IT policies, procedures, and standards at least on an annual basis. Any updates and changes should be clearly documented and properly approved. IT policies and procedures should include at least the following areas:

- IT Governance/ Management;
- Development and Acquisition;
- IT Operations;
- Communication networks;
- Information security;
- Electronic Banking/Electronic Products and Services; and
- IT Outsourcing/Vendor Management.

For simple BSFIs, some of the above areas (i.e., development, electronic banking, etc.) may not be applicable, thus sound judgment should be employed to ensure that the BSFI's IT policies and procedures have adequately covered all applicable areas.

(3) *IT audit.* Audit plays a key role in assisting the board in the discharge of its corporate governance responsibilities by performing an independent assessment of technology risk management process and IT controls.

Auditors provide an assurance that important control mechanisms are in place for detecting deficiencies and managing risks in the implementation of IT. They should be qualified to assess the specific risks that arise from specific uses of IT. BSFIs should establish effective audit programs that cover IT risk exposures throughout the organization, risk-focused, promote sound IT controls, ensure the timely resolution of audit deficiencies and periodic reporting to the Board on the effectiveness of institution's IT risk management, internal controls, and IT governance. Regardless of size and complexity, the IT audit program should cover the following:

- Independence of the IT audit function and its reporting relationship to the Board or its Audit Committee;
- Expertise and size of the audit staff relative to the IT environment;
- Identification of the IT audit universe, risk assessment, scope, and frequency of IT audits;
- Processes in place to ensure timely tracking and resolution of reported weaknesses; and
- Documentation of IT audits, including work papers, audit reports, and follow-up.

In case in-house IT audit expertise is not available, such as for a simple BSFI, the IT audit support may be performed by external specialists and auditors of other institutions consistent with existing Bangko Sentral rules and regulations on outsourcing. (Detailed guidelines/standards on IT Audit are shown in *Appendix 74*).

(4) *Staff competence and training.* The rapid development in technology demands appropriate, skilled personnel to remain competent and meet the required level of expertise on an ongoing basis.

BSFIs should have an effective IT human resources management plan that meets the requirements for IT and the business lines it supports. Management should allocate sufficient resources to hire and train employees to ensure that they have the expertise necessary to perform their job and achieve organizational goals and objectives.

Management needs to ensure that staffing levels are sufficient to handle present and expected work demands, and to cater reasonably for staff turnover. Appropriate succession and transition strategies for key officers and personnel should be in place to provide for a smooth transition in the event of turnover in vital IT management or operations functions.

(5) *Management Information Systems (MIS).* The BSFIs' IT organization often provides an important support role for their MIS. Accurate and timely MIS reports are an essential component of prudent and reasonable business decisions. At the most senior levels, MIS provides the data and information to help the Board and management make strategic decisions. At other levels, MIS allows management to monitor the institution's activities and distribute information to other employees, customers, and members of management.

Advances in technology have increased the volume of information available to management and directors for planning and decision-making. However, if technology is not properly managed, the potential for inaccurate reporting and flawed decision making increases. Because report generation systems can rely on manual data entry or extract data from many different financial and transaction systems, management should establish appropriate control procedures to ensure information is correct, relevant, and adequately protected. Since MIS can originate from multiple equipment platforms and systems, the controls should ensure all information systems have sufficient and appropriate controls to maintain the integrity of the

information and the processing environment. Sound fundamental principles for MIS review include proper internal controls, operating procedures, safeguards, and audit coverage.

(6) *IT risk management function.* Management of risk is a cornerstone of IT Governance. BSFIs should have a policy requiring the conduct of identification, measurement, monitoring and controlling of IT risks for each business function/service on a periodic basis. BSFIs should define and assign these critical roles to a risk management unit or to a group of persons from different units collectively performing the tasks defined for this function.

The function should have a formal technology risk acknowledgement and acceptance process by the owner of risk to help facilitate the process of reviewing, evaluating and approving any major incidents of non-compliance with IT control policies. The process can be supported by the following:

- a description of risk being considered for acknowledgement by owner of risk and an assessment of the risk that is being accepted;
- identification of mitigating controls;
- formulation of a remedial plan to reduce risk; and
- approval of risk acknowledgement from the owner of the risk and senior management.

ITRM processes should be integrated into the enterprise-wide risk management processes to allow BSFIs to make well-informed decisions involving business plans and strategies, risk responses, risk tolerance levels and capital management, among others.

b. *Risk identification and assessment.* BSFIs should maintain a risk assessment process that drives response selection and controls implementation. An effective IT assessment process begins with the identification of the current and prospective IT risk exposures arising from the institution's IT environment and related processes. The assessments should identify all information assets, any foreseeable internal and external threats to these assets, the likelihood of the threats, and the adequacy of existing controls to mitigate the identified risks. Management should continually compare its risk exposure to the value of its business activities to determine acceptable risk levels.

Once management understands the institution's IT environment and analyzes the risk, it should rank the risks and prioritize its response. The probability of occurrence and the magnitude of impact provide the foundation for reducing risk exposures or establishing mitigating controls for safe, sound, and efficient IT operations appropriate to the complexity of the organization. Periodic risk assessment process should be done at the enterprise-wide level and an effective monitoring program for the risk mitigation activities should be manifested through mitigation or corrective action plans, assignment of responsibilities and accountability and management reporting.

c. *IT controls implementation.* Controls comprise of policies, procedures, practices and organizational structures designed to provide reasonable assurance that business objectives will be achieved and undesired events will be mitigated. Management should establish an adequate and effective system of internal controls based on the degree of exposure and the potential risk of loss arising from the use of IT. Controls for IT environment generally should address the overall integrity of the environment and should include clear and measurable performance goals, the allocation of specific responsibilities for key project implementation, and independent mechanisms that will both measure risks and minimize excessive risk-taking. BSFI Management should implement satisfactory control practices that address the following as part of its overall IT risk mitigation strategy: 1) Information security; 2) Project management/development and acquisition and change management; 3) IT operations; 4) IT outsourcing/Vendor management; and 5) Electronic banking, Electronic payments, Electronic money and other Electronic products and services.

(1) *Information security.* Information is a vital asset of a BSFI that must be adequately protected and managed to preserve its confidentiality, integrity and availability. Considering the crucial role information plays in supporting business goals and objectives, driving core operations and critical decision-making, information security is intrinsically linked to the overall safety and soundness of BSFIs. Thus, the BSFI needs to put in place a robust, resilient and enterprise-wide framework for ISRM supported by effective information security governance and oversight mechanisms. Information security risk exposures must be managed to within acceptable levels through a dynamic interplay of people, policies and processes, and technologies and must be integrated with the enterprise-wide risk management system.

Management should adopt a holistic, integrated and cyclical approach to managing information security risks. An ISRM framework should be in place encompassing key elements and phases with effective governance mechanisms to oversee the entire process. The framework represents a continuing cycle that should evolve over time taking into account changes in the operating and business environment as well as the overall cyber-threat landscape.



Figure 1. Information Security Risk Management Framework

The ISRM framework is based upon the following underlying fundamental principles and concepts:

(a) *Strong leadership and effective Information Security (IS) governance and oversight.* The BSFI's board and senior management set the overall tone and strategic direction for information security by providing strong leadership, effective information security governance and oversight. They should take the lead in establishing an information security culture that regards security as an intrinsic part of the BSFI's core business and operations. Instilling a strong security culture ensures that security controls, processes, and measures are deeply embedded into the institution's lines of business, products, services and processes, including its employees and external relationships. The board and senior management should adopt the right mindset and understand the crucial role of information security in supporting/achieving business goals and objectives. Towards this end, they should oversee the development of an information security strategic plan (ISSP) to clearly articulate security strategies and objectives aligned with business plans.

The BSFI should maintain a comprehensive, well-designed and effective information security program (ISP) that is commensurate with its operational and IT profile complexity. To ensure its effectiveness and sustainability, the ISP should have strong support from the board and senior management as well as cooperation of all concerned stakeholders. Management should see to it that adequate resources, organizational functions/capabilities, policies, standards, and procedures as well as the supporting infrastructure commensurate with the BSFI's IT risk complexity and appetite are available and optimized to effectively implement the ISSP and ISP. Lastly, the board and senior management should appoint a chief information security officer (CISO), a senior level executive with sufficient authority within the institution, who will be responsible and accountable for the organization-wide ISP.

(b) *Integrated, holistic and risk-based approach.* The ISRM should form an integral part of the BSFI's ISP and enterprise risk management system. It encompasses the people, policies and processes, and technology elements in the organization that should be harmonized to support information security goals and objectives. Information security is not achieved by merely focusing on technology or one aspect and no one element is superior over the other. Each of these elements must work together to achieve the desired security posture and manage information security risks to acceptable levels. In line with the increasing interconnectivity of BSFIs and other industry players, the ISRM should also consider security controls and requirements over third party service providers, customers, banks, and other third party stakeholders which are linked or have access to the BSFI's network and systems. This is because threat actors may launch their attacks on the BSFI through these third party networks.

Likewise, the ISRM including cyber-risk management programs should be commensurate with the inherent risks involved. This means that the BSFI's information security controls and maturity levels should be commensurate with its operations and complexity of IT profile. In this regard, in determining whether a certain control requirement is applicable to the BSFI, it shall first assess the complexity of its IT profile pursuant to Sec. 148. BSFIs with complex IT profile are expected to implement the more advanced security control measures and be at the higher levels of the information security/cyber-maturity curve. BSFIs may also refer to leading standards and frameworks issued by standard-setting bodies[1] on information security and cybersecurity in designing their ISRM.

[1] US National Institute of Standards and Technology (NIST), ISO/IEC, ISACA and Committee and Payments and Market Infrastructures (CPMI), among others.

(c) *Continuing cycle*. The ISRM involves a continuing cycle consisting of the following six (6) major phases:

(i) *Identify.* The starting point of the cycle is the identification of the BSFI's information security as well as cyber-related risks. Under this phase, management needs to identify its business processes and functions, information assets classified as to sensitivity and criticality, threats and vulnerabilities, interconnections, and security architecture. Identification of these factors facilitates BSFI's understanding and assessment of its inherent information security and cyber risks which are key inputs in determining, designing, and implementing the appropriate risk treatment options.

(ii) *Prevent.* After identifying these key factors and assessing the information security and cyber risks, the prevent phase comes into play where adequate protection mechanisms and controls are designed and implemented. These include measures ranging from baseline to advanced tools and approaches such as defense-in-depth, malware prevention, access controls and cybersecurity awareness programs, among others. These preventive controls are generally categorized into three (3) types, as follows:

(aa) *Administrative controls* – refer to the policies, standards, and procedures in place which articulate Management's intent, expectations, and direction on information security. It also includes security trainings and awareness programs and personnel security practices designed to prevent unwarranted employee behavior.

(bb) *Physical and environmental controls* – pertain to the security controls and measures implemented to protect physical infrastructure such as data centers, computer facilities, and equipment from damage, unauthorized access or environmental hazards.

(cc) *Technical controls* – refer to the logical security controls, security tools, and technologies to ensure that the confidentiality, integrity, and availability objectives for information assets are achieved.

(iii) *Detect.* Detection capabilities should also be in place as prevention alone is not sufficient. As demonstrated in recent cyber-attacks, the ability of an institution to quickly detect anomalous activities and evaluate the scope of an attack is an important aspect in significantly reducing negative impacts. Management should design and implement effective detection controls over the BSFI's networks, critical systems and applications, access points, and confidential information.

(iv) *Respond.* The response phase is triggered upon confirmation of an occurrence of a cyber-attack or security incident affecting the BSFI and its customers. With the growing incidence of sophisticated cybercrimes and threats, the BSFI should be prepared to respond quickly considering that cyber-attacks are no longer a remote possibility. Therefore, it should develop comprehensive, updated, and tested incident response plans supported by well-trained incident responders, investigators, and forensic data collectors. Through adequate response capabilities, the BSFI should be able to minimize and contain the damage and impact arising from security incidents, immediately restore critical systems and services, and facilitate investigation to determine root causes.

(v) *Recover.* This phase encompasses both the resumption of activities at a level which is considered "good enough for a certain period of time" and full recovery, i.e., an eventual return to full service. Management should be able to establish back-up facilities and recovery strategies to ensure the continuity of critical operations. During the recovery phase, it should ensure that information processed using back-up facilities and alternate sites still meet acceptable levels of security. To achieve cyber resilience, the BSFI should consider information security incidents and cyber-related attack scenarios in its business continuity management and recovery processes.

(vi) *Test.* The BSFI needs to continually assess and test controls and security measures implemented under the prevent, detect, respond, and recover phases to ensure that these are effective and working as intended. Likewise, a comprehensive, systematic and layered testing and assurance program covering security processes and technologies should be in place. This is to ensure that the ISRM is on track in providing appropriate level of information security commensurate with the BSFIs' IT profile complexity. This phase also ensures that both the ISSP and ISP remain effective vis-a-vis the fast-evolving cyber-threat landscape.

(d) *Cyber threat intelligence and collaboration.* In response to the growing cyber-threat landscape, BSFIs need to step up their information security posture and resilience beyond their respective networks. Likewise, BSFIs need to enhance situational awareness that would provide a keen sense of the threat landscape as it relates to their IT risk and cyber-risk profiles, operating complexities, and business models. Further, BSFIs need to collaborate with each other, including regulators, law enforcement agencies, and other third party stakeholders for a collective, coordinated, and strategic response through information sharing and collaboration. Information sharing allows BSFIs to enhance threat intelligence that enables quick identification, prevention and response to emerging and persistent threats. (Detailed guidelines/standards on information security are shown in *Appendix 75*).

(2) *Project management/development and acquisition and change management.* BSFIs should establish a framework for management of IT-related projects. The framework should clearly specify the appropriate project management methodology that will govern the process of developing, implementing and maintaining major IT systems. The methodology, on the other hand, should cover allocation of responsibilities, activity breakdown, budgeting of time and resources, milestones, checkpoints, key dependencies, quality assurance, risk assessment and approvals, among others. In the acquisition and/or development of IT solutions, BSFIs should ensure that business and regulatory requirements are satisfied. (Detailed guidelines/standards on Project Management/Development and Acquisition and Change Management are shown in *Appendix 76*).

(3) *IT operations.* IT has become an integral part of the day-to-day business operation, automating and providing support to nearly all of the business processes and functions within the institution. Therefore, the IT systems should be reliable, secure and available when needed which translates to high levels of service and dependency on IT to operate.

One of the primary responsibilities of IT operations management is to ensure the institution's current and planned infrastructure is sufficient to accomplish its strategic plans. BSFI management should ensure that IT operates in a safe, sound, and efficient manner throughout the institution. Given that most IT systems are interconnected and interdependent, failure to adequately supervise any part of the IT environment can heighten potential risks for all elements of IT operations and the performance of the critical business lines of the BSFIs. Such scenario necessitates the coordination of IT controls throughout the institution's operating environment. (Detailed guidelines/standards on IT Operations are shown in *Appendix 77*).

(4) *IT outsourcing/vendor management program.* IT outsourcing refers to any contractual agreement between a BSFI and a service provider or vendor for the latter to create, maintain, or reengineer the institution's IT architecture, systems and related processes on a continuing basis. A BSFI may outsource IT systems and processes except those functions expressly prohibited by existing regulations. The decision to outsource should fit into the institution's overall strategic plan and corporate objectives and said arrangement should comply with the provisions of existing Bangko Sentral rules and regulations on outsourcing. Although the technology needed to support business objectives is often a critical factor in deciding to outsource, managing such relationships should be viewed as an enterprise-wide corporate management issue, rather than a mere IT issue.

While IT outsourcing transfers operational responsibility to the service provider, the BSFIs retain ultimate responsibility for the outsourced activity. Moreover, the risks associated with the outsourced activity may be realized in a different manner than if the functions were inside the institution resulting in the need for controls designed to monitor such risks.

BSFI management should implement an effective outsourcing oversight program that provides the framework for management to understand, monitor, measure, and control the risks associated with outsourcing. BSFIs outsourcing IT services should have a comprehensive outsourcing risk management process which provides guidance on the following areas: 1) risk assessment; 2) selection of service providers; 3) contract review; and 4) monitoring of service providers. Detailed guidelines/standards on IT Outsourcing/Vendor Management and on the adoption of outsourced cloud computing model are shown in *Appendix 78*.

(5) *Electronic products and services.* The evolution in technology revolutionized the way banking and financial products and services are delivered. Physical barriers were brought down enabling clients to access their accounts, make transactions or gather information on financial products and services anywhere they are, at any time of the day and at their own convenience. As development in technology continues to accelerate, innovative electronic products and services are foreseen to bring more accessibility and efficiency. However, BSFIs may be confronted with challenges relating to capacity, availability and reliability of the electronic services. Likewise, fraudulent activities via electronic channels are also rising in number.

BSFIs should protect customers from fraudulent schemes done electronically. Otherwise, consumer confidence to use electronic channels as safe and reliable method of making transactions will be eroded. To mitigate the impact of cyber fraud, BSFIs should adopt aggressive security posture such as the following:

(a) The entire ATM system shall be upgraded/converted to allow adoption of end-to-end Triple DES (3DES) encryption standards by 01 January 2015. The 3DES encryption standards shall cover the whole ATM network which consists of the host processors, switches, host security module (HSM), automated teller machines (ATMs), point-of-sale (POS) terminals and all communication links connected to the network;

(b) ATMs to be installed after 04 September 2014 should be 3DES compliant; and

(c) ATMs, POS terminals and payment cards are also vulnerable to skimming attacks due to the lack of deployment of globally recognized EMV enabled technology by BSFIs. Magnetic stripe only ATMs, POS Terminals and cards are largely defenseless against modern fraud techniques. Therefore, all concerned

BSFIs should shift from magnetic stripe technology to EMV chip-enabled cards, POS Terminals and ATMs. The entire payment card network should be migrated to EMV. This requirement shall cover both issuing and acquiring programs of concerned BSFIs. A written and board-approved EMV migration plan should be submitted to the appropriate supervising department of the Bangko Sentral within six (6) months from 22 August 2013. The guidelines on EMV Implementation are shown in *Appendix 112*. The guidelines on the EMV Card Fraud Liability Shift Framework (ECFLSF) are in *Appendix 113.*[1]

Detailed guidelines/standards on Electronic Products and Services are shown in *Appendix 79*.

d. *Risk measurement and monitoring.* BSFI Management should monitor IT risks and the effectiveness of established controls through periodic measurement of IT activities based on internally established standards and industry benchmarks to assess the effectiveness and efficiency of existing operations. Timely, accurate, and complete risk monitoring and assessment reports should be submitted to management to provide assurance that established controls are functioning effectively, resources are operating properly and used efficiently and IT operations are performing within established parameters. Any deviation noted in the process should be evaluated and management should initiate remedial action to address underlying causes. The scope and frequency of these performance measurement activities will depend on the complexity of the BSFI's IT risk profile and should cover, among others, the following:

(1) *Performance vis-à-vis approved IT strategic plan.* As part of both planning and monitoring mechanisms, BSFI management should periodically assess its uses of IT as part of overall business planning. Such an enterprise-wide and ongoing approach helps to ensure that all major IT projects are consistent with the BSFI's overall strategic goals. Periodic monitoring of IT performance against established plans shall confirm whether IT strategic plans remain in alignment with the business strategy and the IT performance supports the planned strategy.

(2) *Performance benchmarks/service levels.* BSFIs should establish performance benchmarks or standards for IT functions and monitor them on a regular basis. Such monitoring can identify potential problem areas and provide assurance that IT functions are meeting the objectives. Areas to consider include system and network availability, data center availability, system reruns, out of balance conditions, response time, error rates, data entry volumes, special requests, and problem reports.

Management should properly define services and service level agreements (SLA) that must be monitored and measured in terms understandable to the business units. SLA with business units and IT department should be established to provide a baseline to measure IT performance.

(3) *Quality assurance/quality control.* BSFI should establish quality assurance (QA) and quality control (QC) procedures for all significant activities, both internal and external, to ensure that IT is delivering value to business in a cost effective manner and promotes continuous improvement through ongoing monitoring. QA activities ensure that product conforms to specification and is fit for use while QC procedures identify weaknesses in work products and to avoid the resource drain and expense of redoing a task. The personnel performing QA and QC reviews should be independent of the product/process being reviewed and use quantifiable indicators to ensure objective assessment of the effectiveness of IT activities in delivering IT capabilities and services.

(4) *Policy compliance.* BSFIs should develop, implement, and monitor processes to measure IT compliance with their established policies and standards as well as regulatory requirements. In addition to the traditional reliance on internal and third party audit functions, BSFIs should perform self-assessments on a periodic basis to gauge performance which often lead to early identification of emerging or changing risks requiring policy changes and updates.

(5) *External assessment program.* Complex BSFIs may also seek regular assurance that IT assets are appropriately secured and that their IT security risk management framework is effective. This may be executed through a formal external assessment program that facilitates a systematic assessment of the IT security risk and control environment over time.

Reporting and notification standards. In line with the increased reliance on and adoption of technology by BSFIs, along with growing concerns on cybersecurity, BSFIs should submit regular and event-driven reports covering technology-related information as well as incidence of major cyber-attacks and operational disruptions. This will enable the Bangko Sentral to have an enhanced visibility on the changing IT risk landscape and to proactively ensure that the impact and risks arising from cyber-related incidents and operational disruptions are minimized and contained to avert potential systematic risks to the financial system.

a. Reporting requirement. BSFIs are required to submit to the Bangko Sentral the following reports/information:

(1) Periodic reports. BSFIs shall submit an Annual IT Profile, as listed in *Appendix 7,* electronically to the appropriate supervising department of the Bangko Sentral within twenty five (25) days from the end of reference year.

[1] This paragraph shall take effect on 01 January 2017.

Event-driven reports. BSFIs shall notify the Bangko Sentral upon discovery of any of the following:

(a) Reportable Major Cyber-related Incidents. These cover all events which may seriously jeopardize the confidentiality, integrity or availability of critical information, data or systems of BSFIs, including their customers and other stakeholders. Reporting of such incidents to the Bangko Sentral should form part of the incident management plan of BSFIs.

An incident is considered a reportable major cyber-related incident, if after assessing the nature of the incident or attack, the BSFI has determined that the same:

(i) resulted in an unauthorized access and infiltration into the BSFI's internal network (i.e., hacking, advanced persistent threats, presence of malware);
(ii) involved a system-level compromise (i.e., attacks on BSFI's core systems, as opposed to phishing attempts of individual clients);
(iii) affected a significant number of customer accounts simultaneously;
(iv) involved significant data loss or massive data breach;
(v) indicated spearphishing attacks targeting the BSFIs' directors, senior executives, officers, or privileged users;
(vi) resulted in the unavailability of critical systems/services (e.g., Distributed Denial of Service (DDoS) attack resulting in service outage);
(vii) inflicted material financial losses to the BSFIs, their customers and other stakeholders; or
(viii) has been suspected to be perpetrated by an advanced threat actor.

(b) Disruptions of financial services and operations. These include disruption of critical operations which lasts for more than two (2) hours due to internal and external threats, which may be natural, man-made or technical in origin. Such scenarios usually involve loss of personnel, technology, alternate site, and service providers. Causes of such interruptions include, but are not limited to, fire, earthquakes, flood, typhoon, long-term power outage, technical malfunctions, pandemics and other threats.

Security events/attacks which are normally prevented by security systems/devices need not be reported to the Bangko Sentral, except if the same involve significant financial value and/or multitude of customer accounts beyond BSFI's reasonable threshold levels. For instance, an attempt to fraudulently transfer funds involving large sums of money requires immediate notification to the Bangko Sentral as this can be a signal of impending attacks to other BSFIs.

b. Procedure for event-driven reporting. The following procedures shall be followed by BSFIs in reporting reportable major cyber-related incidents and/or disruptions of financial services and operations stated in Item *"(a)2"* of this Section (*Reporting and notification standards*):

(1) The BSFIs' Compliance Officer and/or BSFI-designated Officer shall notify the appropriate supervising department of the Bangko Sentral within two (2) hours from discovery of the reportable major cyber-related incidents and/or disruptions of financial services and operations stated in Item a(2) of this Section (*Reporting and notification standards*), in accordance with *Appendix 7*.

(2) The BSFIs shall disclose, at the minimum, the nature of the incident and the specific system or business function involved.

(3) Within twenty-four (24) hours from the time of the discovery of the reportable major cyber-related incident and/or disruption, a follow-up report should be sent to the appropriate supervising department of the Bangko Sentral through e-mail indicating the following, as applicable:

(a) nature of the incident;
(b) manner and time of initial detection;
(c) impact of the incident based on initial assessment (e.g., length of downtime, number of affected customers/accounts, number of complaints received, value of transactions involved);
(d) initial response or actions taken/to be taken (e.g., conduct of root cause analysis) with respect to the incident; and
(e) information if the incident resulted in activation of the Business Continuity Plan (BCP) and/or Crisis Management Plan (CMP).

c. Verification of root cause. Depending on the nature and severity of the reported incident/disruption, the Bangko Sentral may require BSFIs to provide additional information or updates until the matter is satisfactorily resolved. Likewise, the Bangko Sentral may conduct special examination or overseeing inspection, if necessary, to verify root cause of the incident, assess the impact to the BSFI and the financial system as a whole, identify areas for improvement to prevent recurrence of the incident, and promote enterprise and industry-wide operational resilience.

d. Compliance with reporting of crimes and losses. Compliance with event-driven report requirement shall not excuse BSFIs from complying with the existing rules on the reporting of crimes and losses under Sec. 173 (*Report on crimes/losses*). Likewise, any cyber-related incident which does not qualify as a reportable major cyber-related incident and other disruptions arising from crimes and losses must be reported to the Bangko Sentral in accordance with the aforesaid regulations. Operational risk events which are covered under Item "*a(2)*" on the event-driven reporting and notification requirements shall no longer require separate reporting and notification pursuant to Sec. 146 (*Notification/reporting to Bangko Sentral*).

e. Information gathering. Should the conduct of in-depth studies and research on certain technology development or key area of concern relating to technology risk and cybersecurity be warranted, the Bangko Sentral, from time to time, may request BSFIs to submit specific data and information thereon through surveys, questionnaires or other means.

Sanctions and penalties. BSFIs should make available all policies and procedures and other documents/requirements related to the foregoing during on-site examination as well as provide copies thereof to the Bangko Sentral when a written request is made to determine their compliance with this Section.

a. Non-compliance with the requirements in Item *"b"* of Sec. 148 (*Reporting and notification standards*) will be subject to "High" penalty level monetary sanctions pursuant to Sec. 1102 (*Guidelines on the imposition of monetary penalties*).
b. Consistent with Sec. 002 (*Supervisory enforcement policy*), the Bangko Sentral may deploy applicable enforcement actions on the BSFI and/or its directors, officers, and/or employees for violations on this requirement.
c. Annual IT Profile and other periodic reports which have been considered as erroneous, delayed or unsubmitted shall be subject to the penalties for Category *B* reports under Sec. 171 (*Sanctions on reports for non-compliance with the reporting standards*).

(Circular Nos.1019 dated 31 October 2018, 982 dated 9 November 2017, 958 dated 25 April 2017, 936 dated 28 December 2016, 859 dated 24 November 2014, 833 dated 28 May 2014)

149 BUSINESS CONTINUITY MANAGEMENT

***Policy statement*[1].** BSFIs can be adversely affected by disruption of critical operations due to internal and external threats, which may be natural, man-made or technical in origin. Extreme events may cause major disruptions whose impact are very broad in scope, duration or both and can pose a substantial risk to the continued operation of BSFIs. Because BSFIs play a crucial role in the financial system and economy as a whole, it is important to ensure that their operations can withstand the effects of major disruptions. Thus, BSFIs need to have a comprehensive business continuity management (BCM) process as an integral part of their operational risk management system. A well-designed BCM process enables BSFIs to resume critical operations swiftly and minimize operational, financial, legal, reputational, and other material risks arising from a disruption. This also helps mitigate systemic risks as well as maintain public trust and confidence in the financial system.

Purpose, applicability, and scope. The guidelines aim to promote sound management of business continuity risks. These align existing regulations, to the extent possible, with leading standards and recognized principles on BCM, and shall serve as the Bangko Sentral's baseline requirement for all BSFIs.

The guidelines shall apply to BSFIs which include banks, non-banks with quasi-banking function (NBQB), non-bank electronic money issuers and other non-bank institutions which under existing Bangko Sentral rules and regulations and special laws are subject to Bangko Sentral supervision and/or regulation. Moreover, subject guidelines shall also apply to BSFIs with offshore data processing as may be appropriate to their situation.

Definition of terms. In these guidelines, terms are used with the following meanings:

a. *Alternate and Business Recovery Sites* shall refer to standby facilities for use during disruption of critical operations to ensure business continuity. These provide work space and/or the necessary technology environment needed to process business-critical information. Organizations may have more than one (1) alternate site. In some cases, alternate sites may involve facilities that are used for normal day-to-day operations but which are able to accommodate additional business processes when a primary location becomes inoperable. Examples of alternate sites include relocation and disaster recovery sites, whether managed directly or maintained by a third party for a BSFI or for use by multiple organizations.

b. *Business Continuity* shall refer to a state of continued, uninterrupted operation of a business.

c. *Business Continuity Management (BCM)* shall refer to an enterprise-wide framework encompassing policies, standards, facilities, personnel and practices that provides for continuous functioning of the institution during disruptions. It is proportionate to the BSFI's internal and external risk exposures and tailored to the nature, scale, and complexity of its business.

[1] BSFIs shall comply with the foregoing standards on BCM within a period of one (1) year from 11 April 2017. In this regard, a BSFI should be able to show its plan of actions with specific timelines, as well as the status of initiatives being undertaken to fully comply with the provisions of Sec. 149 starting July 2017, upon request of the Bangko Sentral.

d. *Business Continuity Plan (BCP)/Plan* shall refer to a documented plan detailing the orderly and expeditious process of recovery, resumption, and restoration of business functions in the event of disruptions. It should be able to cover and establish linkages among its multiple components, such as communication plan, crisis management plan, contingency funding plan, and technology recovery plan.

e. *Business Impact Analysis (BIA)* shall refer to the process of identifying and measuring (quantitatively and qualitatively) the business impact or loss of business processes in the event of a disruption. It is used to identify recovery priorities, recovery resource requirements, essential staff, and dependencies (internal and external) to be incorporated in the plan.

f. *Crisis* shall refer to a situation that requires urgent action due to its disruptive impact on the BSFI's core activities or business and operating environment.

g. *Crisis Management Plan (CMP)* shall refer to a documented plan detailing the actions to be taken when a crisis strikes a BSFI and designed to maintain order amidst the confusion surrounding such situations. During and immediately after a crisis, the members of the crisis management team will convene and activate the plan to attain control over the crisis and minimize its impact to operations.

h. *Critical Process* shall refer to any activity, function or service, which when lost would materially affect the continued operation of the BSFI.

i. *Cyber Resilience* shall refer to an organization's ability to anticipate, handle, adapt to, and/or recover from evolving cyber threats.

j. *Events* shall refer to disruption scenarios such as loss of people, technology, alternate site, and service providers.

k. *Pandemic* shall refer to epidemics or outbreaks in humans of infectious diseases that have the ability to spread rapidly over large areas, possibly worldwide.

l. *Recovery Point Objective (RPO)* shall refer to acceptable amount of data loss should a disruption occur without severe impact on the recovery of operations.

m. *Recovery Time Objective (RTO)* shall refer to the period of time following an incident within which a product, system or business process must be resumed or resources must be recovered.

n. *Resilience* shall refer to the ability of an organization to anticipate, handle, adapt to and/or recover from a disruption and resume operations.

o. *Risk Assessment* shall refer to the process involving the identification and assessment of potential threats and vulnerabilities that could severely interrupt a BSFI's business activities and the corresponding likelihood and magnitude of impact on business processes.

p. *Technology Recovery Plan (TRP)/Disaster Recovery Plan (DRP)* shall refer to a documented plan detailing the technology strategy and requirements during recovery for business and support functions. The relevant regulations are in Item *"3.3.2.13"* of *Appendix 77*.

Roles and responsibilities.

a. *Board of directors and senior management.* The BSFI's board and senior management are responsible for overseeing the implementation of a sound BCM process, which involves the creation and promotion of an organizational culture that places high priority on business continuity. This should be reinforced by providing sufficient financial and human resources associated with the BSFI's business continuity initiatives. Senior management should establish BCM policies, standards, and processes, which must be duly endorsed to and approved by the board.

Awareness training and periodic reporting to board and senior management on matters related to business continuity are equally important to ensure their continuing commitment and support. At a minimum, periodic management reports should include the following:

(1) implementation status of the BCP;
(2) incident reports;
(3) plan test results;
(4) changes to the plan; and
(5) related action items to strengthen the BSFI's ability to recover during disruptions.

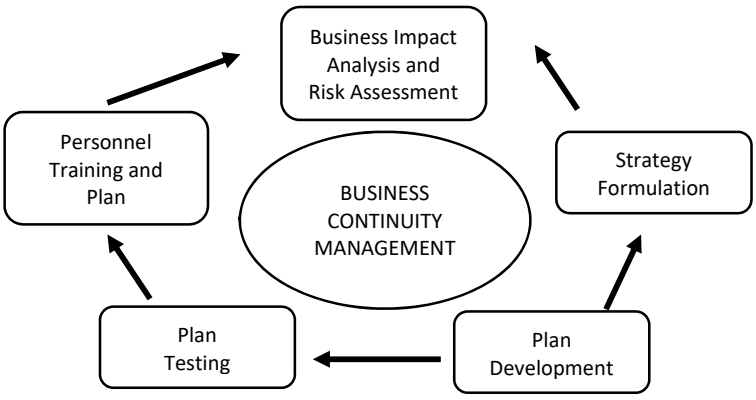
b. *BCM Coordinator/Unit.* Coordination and supervision of all business continuity activities should be assigned to a competent individual and/or unit with technical knowledge and experience consistent with the nature and complexity of the BSFI's business activities. A complex[1] BSFI may need a BCM unit with a team of departmental liaisons throughout the organization. For a simple BSFI, an individual BCM coordinator may suffice. While the BCM coordinator/unit may recommend initiatives or activities to be prioritized, the board and senior management are ultimately responsible for understanding the critical business processes and subsequently establishing plans to meet business process requirements in a safe and sound manner.

c. *BSFI Personnel.* BSFI personnel should understand their roles and responsibilities on the prevention of crisis and recovery of business operations during disruptions. Business and support functions should allocate responsibilities for managing disruptions and provide clear guidance regarding the succession of authority to account for unavailability of key personnel in the event of a disruption.

d. *Audit.* An independent review of the BSFI's BCM framework and corresponding plans should be periodically performed with frequency based on a sound risk assessment process. This is to ensure that significant policy revisions resulting from changes in the operating environment, lessons learned from plan tests, and internal and regulatory audit recommendations have been considered. Moreover, plan testing exercises should be independently observed, verified, and evaluated to ensure reasonableness and validity of the testing process and the accuracy of test results.

Business Continuity Management Framework. BSFIs should adopt a cyclical, process-oriented BCM framework, which, at a minimum, should include five (5) phases, namely: BIA and risk assessment, strategy formulation, plan development, plan testing, and personnel training and plan maintenance. This framework represents a continuous cycle that should evolve over time based on changes in business and operating environment, audit recommendations, and test results. This framework should cover each business function and the technology that supports it. Other related policies, standards, and processes should also be integrated in the overall BCM framework.

Figure 1. Business Continuity Management Process



a. *Business impact analysis and risk assessment.* A comprehensive BIA and risk assessment should be undertaken to serve as the foundation in the development of the plan. The BIA entails determining and assessing the potential impact of disruptions to critical business functions, processes, and their interdependencies through work-flow analyses, enterprise-wide interviews, and/or inventory questions. Accordingly, the BSFI should determine the recovery priority, RTO, RPO, and the minimum level of resources required to ensure continuity of its operations consistent with the criticality of business function and technology that supports it. The BSFI should then conduct risk assessment incorporating the results of the BIA and evaluating the probability and severity of a wide-range of plausible threat scenarios in order to come up with recovery strategies that are commensurate with the nature, scale, and complexity of its business functions.

Domestic systemically important banks (DSIBs). To minimize the extent or impact of a DSIB's failure in the financial system, BSFIs identified as DSIBs by the Bangko Sentral, pursuant to Sec. 128, should set the RTO for each of their critical processes to a maximum of four (4) hours from the point of disruption. For non-DSIB BSFIs, the RTO of critical processes should be primarily driven by their BIA and risk assessment.

b. *Strategy formulation.* Recovery and resumption strategies to achieve the agreed time-frame and deliver the minimum required services as identified in the BIA should be defined, approved, and tested. The minimum requirements for the provision of essential business and technology service levels during disruptions should be established by concerned business and support functions.

[1] Pursuant to Sec. 148 (*Complexity of IT risk profile*), BSFIs are classified as *"simple"* but maybe re-classified as *"complex"* depending on extent or degree of reliance of core business functions to technology.

(1) *Recovery strategy.* As business resumption relies primarily on the recovery of technology resources, adequate provisions should be in place to ensure systems availability and recoverability during disruptions as prescribed under *Appendix 77*. Recovery strategies should be able to meet the agreed requirements between business units and support functions for the provision of essential business and technology service levels.

(2) *Continuity of operations/business resumption strategy.* The business continuity models adopted by the BSFI to handle prolonged disruptions should be based on the risk assessment of its business environment and the characteristics of its operations. The resumption strategies and resource requirements should be approved by the board as recommended by senior management or the relevant board committees to ensure alignment with corporate goals and business objectives.

c. *Plan development.* Plans are an important, tangible evidence of the BSFI's business continuity initiatives. The objective of the plan is to provide detailed guidelines and procedures on response and management of a crisis, recovery of critical business services and functions and to ultimately resume to normal operations. The plan should be formulated on an enterprise-wide basis, reviewed and approved by the board of directors and senior management at least annually and disseminated to all concerned employees. The plan should include provisions for both short-term and prolonged disruptions.

A well-written plan should describe the various types of events or scenarios that could prompt BCP activation. It should include, at a minimum, the following components:

(1) Escalation, declaration and notification procedures;

(2) Responsibilities and procedures to be followed by each continuity or recovery teams and their members. The procedures should enable the BSFI to respond swiftly to a crisis (i.e., a crisis management plan) and to recover and resume the critical processes outlined in the plan within the stipulated time frame during disruptions;

(3) A list of resources required to recover critical processes in the event of a major disruption. This would include, but not limited to: (a) key recovery personnel; (b) computer hardware and software; (c) communication systems; (d) office equipment; and (e) vital records and data;

(4) Relevant information about the alternate and recovery sites; and

(5) Procedures for restoring normal business operations. This should include the orderly entry of all business transactions and records during disruption into the relevant systems up to completion of all verification and reconciliation procedures.

Communication is a critical aspect of a BCP. In this respect, the BSFI should include a communication plan for notifying all relevant internal and external stakeholders (e.g., employees, customers, vendors, regulators, counterparties, and key service providers, media and the public) following a disruption. The BSFI should maintain an up-to-date call tree and contact list of key personnel and service providers, including communication flow and channels for internal and external stakeholders. Clear and effective communication will facilitate escalation for appropriate management action and instruction to all concerned and help manage reputational risks. The BSFI should consider alternate methods of communication and preparation of predetermined messages tailored to a number of plausible disruption scenarios to ensure various stakeholders are timely, consistently, and effectively informed.

A crisis management plan should be included in the BCP to assist senior management in dealing with and containing an emergency and avoid spillover effects to the business. Senior management should identify potential crisis scenarios and develop corresponding crisis management procedures. This includes identifying a mix of individuals from various departments who are authorized to make instantaneous decisions during crisis situations. This team shall be responsible for the actual declaration of an event, activation of the plan, and internal and external communication process.

When outsourcing plan development, management should ensure that the chosen service provider has the expertise required to analyze the business needs of the BSFI and that the arrangement conforms to legal and regulatory requirements. The service provider should be able to design executable strategies relevant to the BSFI's risk environment and design education and training programs necessary to achieve successful BCP deployment.

d. *Plan Testing*

(1) *Types of testing methods.* Plan testing is a vital element of the BCM. It ensures that the plan remains accurate, relevant, and operable. Tests should be conducted periodically, with the nature, scope, and frequency determined by the criticality of the applications, business processes, and support functions. In some cases, plan tests may be warranted due to changes in BSFI's business, responsibilities, systems, software, hardware, personnel, facilities, or the external environment.

Testing methods can vary from simple to complex each bearing its own characteristics, objectives, and benefits. Types of testing methods in order of increasing complexity include:

(a) *Tabletop exercise/structured walk-through test* – the primary objective is to ensure that critical personnel from all areas are familiar with the plan and that it accurately reflects the BSFI's ability to recover from a disruption.

(b) *Walk-through drill/simulation test* – similar to a tabletop exercise but with a more focused application. During this test, participants choose a specific scenario to which relevant plan provisions shall be applied.

(c) *Communication/call tree test* – an exercise that validates the capability of crisis management teams to respond to specific events and the effectiveness of the call tree notification process in disseminating information to employees, vendors, and key clients.

(d) *Alternate site test/exercise* – tests the capability of staff, systems, and facilities, located at alternate sites to effectively support production processing and workloads.

(e) *Component test/exercise* – A testing activity designed to validate the continuity of individual systems, processes, or functions, in isolation.

(f) *Functional drill/parallel test* – test to determine capability of alternate site and BSFI employees to support strategy as defined in the plan, which involves actual mobilization of personnel, establishing communications, and recovery processing.

(g) *Enterprise-wide full-interruption/full-scale test* – the most comprehensive type of test encompassing the entire organization and requires activation of all the components of the plan at the same time to simulate a real-life emergency and processing data and transactions using back-up media at the recovery site.

(2) *Test policy/plan.* Testing should be viewed as a continuously evolving cycle. The BSFI should incorporate the results of BIA and risk assessment and work towards a testing strategy that increases in scope and complexity to address a variety of threat scenarios. Test scenarios should vary from isolated system failures to wide-scale disruptions and promote testing its primary and alternate facilities, as well as with key counterparties and third-party service providers.

A testing policy should define roles and responsibilities for the implementation and evaluation of the testing program. Test plans with pre-determined goals and test criteria should be developed for each testing activity. It should clearly define the objectives of testing, identify the functions, systems, or processes to be tested and the criteria for assessing what constitutes a successful test.

Formal testing documentation (i.e., test plans, test scenarios, test procedures, test results) should be prepared to ensure thoroughness and effectiveness of testing and properly maintained for audit and review purposes.

(3) *Annual enterprise-wide business continuity testing.* The BSFI must conduct an enterprise-wide business continuity test at least annually, or more frequently depending on changes in the operating environment, to ensure its plan's relevance, effectiveness, and operational viability. The scope of testing should be comprehensive to cover the major components of the plan as well as coordination and interfaces among important parties.

(4) *Analysis and report of test result.* Plan tests, including successes, failures, and lessons learned, should be thoroughly analyzed to promote continuous BCM improvement. Exceptions noted should be documented and corrective actions should be closely monitored to ensure that they are implemented in a timely manner by concerned parties, including the board of directors and senior management, business line management, risk management, IT management, and other internal stakeholders.

e. *Personnel training and plan maintenance*

(1) *Training program.* A business continuity training program should be provided to all concerned employees to promote awareness, familiarity, and understanding of their roles and responsibilities in the event of a disruption. The training program should be offered on a continuing basis for existing and new employees and should be updated to address changes to the plan.

(2) *Plan maintenance.* Plans and results of BIA and risk assessment should be reviewed and updated on an ongoing basis (at least annually or when necessary) so that they remain consistent with the BSFI's current operations and business strategies.

BCM-related documents (i.e., BCP, test program, policy guidelines, and program requirements) should be subject to change management process to ensure that these are updated with proper approval and documentation with respect to any significant changes in the business environment or as a result of audit findings.

Other policies, standards and processes. The following policies, standards and processes should be integrated into the BCM process:

a. *Pandemic planning.* Similar to natural disasters or technical disruptions, pandemics may also interrupt a BSFI's business activities. However, the difficulty in determining a pandemic's scope and duration present additional challenges in ensuring resilience and continuity of a BSFI's operations.

Generally, pandemic plans are integrated in the BSFI's BCP and follow the same BCM process with additional considerations, such as:

(1) *Business impact analysis and risk assessment.* The BCM process should consider pandemics as early as the BIA and risk assessment phase. The BIA and risk assessment should be updated to incorporate complexities that may arise from pandemics, such as (a) increasing level of absenteeism based on a pandemic's severity; and (b) the need for another layer of contingency plans as regular disaster or emergency response methods are no longer feasible.

(2) *Strategy formulation.* To complement strategies for natural and technical disruptions, the following should be given due consideration when planning for pandemics:

(a) *Trigger events* – Trigger events and strategies should be defined depending on the nature of a pandemic. Pandemic planning should have the flexibility to accommodate varying degrees of epidemic or outbreak as pandemics normally occur in waves or phases and of varying severity.

(b) *Remote access capability* – In the event of a pandemic, enabling remote access may be one of the primary strategies available to a BSFI. To support a telecommuting strategy, the BSFI should ensure adequate capacity, bandwidth and authentication mechanisms in its technological infrastructure against expected network traffic or volume of transactions.

(c) *External parties* – With pandemics not limited to the BSFI, establishing working relationships with external parties is an essential component. In addition to the communication plan for all relevant internal and external stakeholders, the BSFI should establish open relationships and communication channels with local public health and emergency response teams or other government authorities. The BSFI should inform concerned parties of any potential outbreaks and, at the same time, be aware of any developments in the expected scope and duration of a pandemic.

(d) *Employee awareness* – As information becomes available from reputable sources or local agencies, the BSFI should ensure that steps to limit or reduce the risk of being affected by the pandemic are cascaded to its employees.

(3) *Plan development.* Pandemic plans should be commensurate with the nature, size and complexity of a BSFI's business activities and have sufficient flexibility to address the various scenarios that may arise. At a minimum, the pandemic plan should include:

(a) Strategy that is scalable dependent on the extent and depth of the outbreak;
(b) Preventive measures, including monitoring of current environment and hygiene tools available to employees;
(c) Communication plan with internal and external stakeholders, including concerned local public health teams and government agencies; and
(d) Tools, systems and procedures available to ensure continuity of its critical operations even with the unavailability of BSFI's staff for prolonged periods.

(4) *Plan testing.* Test policy/plan should include strategies to assess capability to continue critical operations, systems and applications even in the event of a severe pandemic. When regular tests are unable to cover pandemic scenarios, separate pandemic plan tests should be carried out.

(5) *Personnel training and plan maintenance.* The plan should be updated as developments and information become available. As needed, employee training programs should cover pandemic risks, including the roles and responsibilities of each employee during pandemic situations.

b. *Cyber resilience.* Cyber-threats and attacks against the financial services industry have become increasingly widespread, sophisticated and coordinated. Recent cyber-attacks worldwide highlight, not only the degree of disruption to a BSFI's operations, but also the extent of reputational damage which could undermine public trust

and confidence. As such, the BSFI should consider the potential impact of these cyber events into its BCM process and institute adequate cyber resilience capabilities.

Given the unique characteristics of cyber-threats and attacks, traditional back-up and recovery arrangements adopted by the BSFI may no longer be sufficient and even increase the damage to the BSFIs' network, operations and critical information assets. In worst case scenarios, back-up systems and alternate recovery sites are likewise affected rendering both sites inoperable. To ensure cyber resilience, the BSFI should take into consideration a wide-range of cyber-threat scenarios perpetrated from diverse threat sources (e.g., skilled hackers, insiders, state-sponsored groups) which seek to compromise the confidentiality, availability and integrity of its information assets and networks. Defensive strategies and innovative recovery arrangements should be explored that are commensurate with the BSFI's cyber-security risk exposures and aligned with its information security program in accordance with *Appendix 75*.

c. *Information security.* Mitigation strategies should consider security controls to manage risks that may arise once an event triggers plan activation. Security during disasters and disruptions is an important consideration to manage risks arising from the change in working environment. The relevant guidelines/standards on information security that may be considered in strategy formulation and/or in choosing alternate sites are in *Appendix 75.*

d. *Interdependencies.* An effective plan coordinates across its many internal and external components, identifies potential process or system dependencies, and mitigates risks from interdependencies. The BSFI may have very complex operating and recovery environment wherein interdependencies need to be duly considered, such as telecommunications, third party service providers, and recovery site. Given the critical resources and services that are being shared with the BSFI or other entities, additional mitigating controls and recovery strategies need to be integrated in the plan.

e. *Liquidity risk management.* Sound liquidity risk management practices enable a BSFI to maintain availability of funds even in times of financial stress or adverse changes in market conditions. In the event of a business disruption, sound liquidity risk management practices should similarly apply. The BSFI should ensure it has sufficient liquidity to support its recovery strategies and continue supporting the delivery of basic banking services to the clients pending full business resumption. Guidelines on liquidity risk management are in *Appendix 71*.

f. *Project management.* Senior management should ensure that availability and business continuity requirements are considered at the planning and development stages of new business products and services and other critical technology processes, such as systems development and acquisition, and change management.

g. *Event/problem management.* Operations personnel should be properly trained to recognize events that could trigger implementation of the plan. Although an event may not initially activate the plan, it may become necessary as conditions and circumstances change. Management should train and test BSFI personnel to implement and perform appropriate business continuity procedures within the timeframes of the plan.

h. *Outsourcing.* When a BSFI enters into an outsourcing arrangement, it should put due consideration on the business continuity and disaster recovery arrangements of the service provider to ensure continuity of operations. Detailed guidelines/standards on business continuity considerations for outsourcing arrangements are in *Appendix 77.*

i. *Insurance*. Insurance is an option available to a BSFI for recovery of losses that cannot be completely prevented and the expenses related to recovering from a disruption. The BSFI should regularly review the adequacy and coverage of its insurance policies in reducing any foreseeable risks caused by disruptive events, such as loss of offices, critical facilities and equipment, and casualty. Insurance policies may also need to address the BSFI's legal responsibilities for failing to deliver services to its customers and counterparties. To facilitate the claims process, the BSFI should create and retain a comprehensive hardware and software inventory list in a secure off-site location and detailed expenses should be documented to support insurance claims.

Supervisory enforcement actions. BSFIs should make available all policies and procedures and other documents/information related to the foregoing during on-site examination as well as provide copies thereof to the regulator when a written request is made to determine compliance.

Consistent with Sec. 002, the Bangko Sentral may deploy enforcement actions to promote adherence with the requirements set forth in Sec. 149 and bring about timely corrective actions. The Bangko Sentral may issue directives to improve the BCM process, or impose sanctions to limit the level of or suspend any business activity that has adverse effects on the safety and soundness of the BSFI, among others. Monetary and non-monetary sanctions, as provided under existing laws, Bangko Sentral rules and regulations, may likewise be imposed on a BSFI and/or its directors, officers and/or employees for violation of subject Sec. 149.

(Circular No. 951 dated 20 March 2017)

Policy statement. BSFIs shall comply with the foregoing standards on social media risk management within a period of six (6) months from 04 April 2017. In this regard, a BSFI should be able to show, upon request of the Bangko Sentral, its plan of actions with specific timelines, as well as the status of initiatives being undertaken to fully comply with the provisions of this Section.

Social media, a low-cost solution capable of disseminating real-time information via the internet, presents vast opportunities for growth, customer engagement and business benefits as usage, customer reach and adoption scale up and become widespread and ubiquitous. Considering these potential benefits alongside exponential growth in the number of social media users and its massive reach, BSFIs have started to leverage on social media platform/s to promote their business and improve customer interaction experience to help drive business objectives/strategies.

Similar to any new technology, however, social media introduces a new attack vector which may expose BSFIs to compliance, legal, reputational, strategic, and operational risks. Risks in social media include susceptibility to account take-over, malware distribution, brand bashing, inadvertent disclosure of sensitive information and privacy violation, among other possible threats. As such, BSFIs should adopt an appropriate risk management system, commensurate with the extent and degree of their social media usage, to effectively identify, measure, manage and monitor risks arising from the use of social media platforms. This should form an integral part of their operational risk management system.

Applicability and scope. The guidelines underscore the importance of having a well-defined social media risk management strategy in supporting BSFI's overall business goals and objectives. These guidelines align existing regulations, to the extent possible, with leading standards and recognized principles. They outline the minimum standards/basic principles that shall govern the BSFI's framework to aid in the sound management of risks associated with the use of social media for official purpose or employees' personal use, within and outside the organization.

It is not intended to provide procedural specifics or a "one-size-fits-all" solution for carrying out compliance and risk management responsibilities. Each BSFI is therefore expected to establish its own risk management strategy; suitable to its size, risk tolerance level, and the nature and scope of social media activities engaged in.

The guidelines shall apply to all BSFIs which include banks, 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.

Definition of terms. In these guidelines, terms are used with the following meanings:

a. *Attack vector* shall refer to the path or means by which an attacker can gain access to a computer system in order to deliver a malicious code (e.g., virus, worms, trojans).

b. *Non-technical controls* shall refer to management, administration, and operational controls employed that are manual and procedural in nature (e.g., security-related policies and procedures; operational procedures; personnel, physical, and environmental security controls; performance management and measurement).

c. *Risk assessment* shall refer to the process involving the identification and assessment of potential threats and vulnerabilities related to the use of social media and determination of the likelihood that the threat will occur as well as the corresponding impact to the business should the threat occur.

d. *Social media* shall refer to online communication channels dedicated to community-based content generation and sharing, interaction, and collaboration.

e. *Social media platform* shall refer to any form of interactive communication medium wherein users can generate and disseminate content (e.g., text, images, audio, video) through social networks using the internet. Examples of popular social media platform categories include the following:

   (1) Social networking (e.g., Facebook, Linkedln)
   (2) Micro-blogging (e.g., Twitter, Tumblr)
   (3) Blogging (e.g., Wordpress, Blogger)
   (4) Photo Sharing (e.g., Flicker, Instagram, Pinterest)
   (5) Video Sharing (e.g., Youtube, Vimeo, Vine)
   (6) Crowdsourcing (e.g., Ushahidi, Inc.)

f. *Technical controls* shall refer to the controls incorporated into the computer hardware, software, or firmware to aid in the effective implementation of policies and standards (e.g., access control, authentication, web scanner/crawler).

Social media risk management system. BSFIs should establish an appropriate framework that will result in sound social media governance and risk management. At a minimum, the framework shall include the following elements:

a. Clearly defined governance structure indicating the roles and responsibilities of the board of directors and senior management in setting the direction on the BSFI's use of social media, including its alignment to the BSFI's strategic goals/plans; establishing adequate standards, policies, procedures, and controls; and implementing ongoing risk assessment of social media-related activities.

The board of directors shall be primarily responsible for defining the BSFI's risk tolerance level, understanding the nature and degree of risks the BSFI will be exposed to, and ensuring that these risks are properly addressed. Moreover, the board of directors, as part of its duties, shall approve and oversee the design and implementation of the social media strategy; related standards, policies and procedures; and means to ensure compliance with said standards and/or policies as well as applicable laws and regulations. Senior management, on the other hand, shall be responsible for the implementation of the social media risk management system approved by the board of directors.

The governance process should also include reporting mechanisms to the board of directors and/or senior management to enable periodic evaluation of the effectiveness of the BSFI's social media strategy/program, in terms of achieving its stated objectives, and measures put in place to manage the risks related to its use.

b. Policies and procedures governing the following, among others:

(1) Scope and definition of social media;

(2) Social media regulatory landscape reflecting applicable laws, rules and regulations for compliance;

(3) Individuals and/or composition of the team/s who will be responsible for the creation, maintenance, and monitoring of the BSFI's proprietary social media sites/pages. Their corresponding roles and accountabilities should also be clearly defined;

(4) Content management and approval process;

(5) Ongoing assessment, management, and monitoring of risks associated with social media-related activities;

(6) Acceptable use as well as prohibitions/restrictions on the business/official use of social media platforms. These guidelines shall likewise apply to the employees'[1] personal use of social media, insofar as it may impact the BSFI's operations, reputation and/or compliance with applicable laws and regulations. These should cover matters such as, but not limited to, expectations, ethical behavior, types/nature and extent of BSFI and/or customer-related information that can be posted, statements that can or cannot be made about or in behalf of the institution, comments that should not be made about a competitor, and corresponding sanctions/penalties for inappropriate use of social media and committing non-permissible activities;

(7) Use and monitoring of the BSFI's proprietary social media sites/pages to ensure compliance with applicable laws, regulations and internal policies;

(8) Monitoring and recording of suspicious transactions and customer activities on the BSFI's proprietary social media sites/pages;

(9) Adoption of technical and non-technical controls to address risks associated with the use of social media platform/s including methodologies to manage risks from online postings, edits, replies and retention;

(10) Due diligence process for selecting, managing and continuous monitoring of third-party service providers (TSP) that administer the BSFI's social media site(s)/page(s). In addition, the specific roles and responsibilities of the TSP, including liabilities and accountabilities for errors, omissions, fraud, and other instances, resulting from the TSP's actions, which may adversely affect the BSFI, should also be defined;

(11) Social media crisis management plan and escalation procedures;

(12) Enterprise-wide employee training and awareness programs covering relevant topics such as the BSFI's social media use policies, employee roles and responsibilities and non-permissible activities;

(13) Records retention of social media data; and

(14) Communication of the BSFI's official social media sites/pages to its customers to avoid confusion and being misled to unofficial sites.

[1] Includes the BSFI's employees, contractual employees and/or project hires, and third-party service providers

c. Specific roles and responsibilities of the risk management, consumer protection, audit and compliance functions to ensure that social media risks are adequately managed and integrated in the BSFI's enterprise-wide risk management systems.

BSFIs that do not utilize social media should nevertheless have clear policies and measures in place to address the potential reputational risks that may arise within the various social media platforms and provide guidance on employee use of social media.

Compliance with relevant regulations. BSFIs, in formulating and implementing their social media policies, should ensure compliance with the applicable requirements of Bangko Sentral rules and regulations on financial consumer protection, especially those relating to disclosures and transparency in advertising and promotional materials, protection of client information, effective recourse, and financial education and awareness. They should likewise conform to the relevant provisions of Bangko Sentral outsourcing framework should they decide to outsource the conduct of social media-related activities to a service provider.

The use of social media platforms, including information gathered therein, for the conduct of account origination activities should comply with applicable rules and regulations, especially on the provisions relating to customer identification procedures under the existing anti-money laundering rules and regulations. In the event that BSFIs opt to use social media for processing financial transactions, the applicable Bangko Sentral rules and regulations on electronic banking/electronic services and technology risk management should likewise be observed to ensure security, reliability and authenticity of such transactions.

The regulations mentioned herein are not exhaustive. It is the BSFI's responsibility to ensure that all applicable laws and regulations relevant to the activities it will choose to engage in using social media will be adequately complied with. Moreover, the BSFI is expected to stay abreast of and continuously adapt to changes in the regulatory requirements.

Supervisory enforcement actions. BSFIs should make available all policies and procedures and other documents/information related to the foregoing during the on-site examination as well as provide copies thereof when a written request is made to determine compliance.

Consistent with Sec. 002, the Bangko Sentral may deploy enforcement actions to promote adherence with the requirements set forth in Sec. 150 and bring about timely corrective actions. The Bangko Sentral may issue directives to improve the social media risk management system or impose monetary and non-monetary sanctions on a BSFI and/or its directors, officers and/or employees.

(Circular No. 949 dated 15 March 2017)

151 GUIDELINES ON THE CONDUCT OF STRESS TESTING EXERCISES[1]

Policy Statement. Stress testing is an integral part of the risk management systems and capital planning process that would enable banks to effectively manage risk exposures and ultimately promote strong risk governance. In this regard, the following guidelines are issued to define minimum prudential requirements on stress testing. These guidelines shall be read in conjunction with the relevant provisions on stress testing provided under the risk management guidelines covering specific risk areas that were earlier issued by the Bangko Sentral.

Stress testing. Stress testing shall refer to the tool to evaluate the potential effects of a set of specified changes in risk factors on a bank's financial position under a severe but plausible scenario to assist the board and management in decision making. Stress testing refers not only to the mechanics of applying specific individual tests, but also considers the wider environment within which the tests are developed, evaluated and used.

Duties and responsibilities/roles and functions.

a. Board of Directors. Consistent with the principles embodied under Sec. 132 (*Board of Directors*), the board of directors shall have the overall responsibility in ensuring that the stress testing framework is fully integrated into the bank's risk management framework and capital planning process, and adequately supports decision-making. In this regard, the board of directors shall:

(1) Approve the stress testing framework. The framework shall cover the purposes for conducting stress tests, methodologies applicable to the bank, stress scenario selection process, governance and reporting structures, including the roles and responsibilities of business lines and control functions;

The stress testing framework shall provide a clear set of pre-agreed strategies or principles in determining whether remedial actions should be taken in response to stress-testing results. The level of authority (e.g., Asset and Liability Committee and/or Risk Management Committee) for determining remedial actions to be taken should also be clearly designated by the board;

[1] Banks shall comply with the foregoing standards within a period of two (2) years from 27 January 2018. In this regard, a bank should be able to show its plan of actions with specific timelines, as well as the status of initiatives being undertaken to fully comply with the provisions of this Section, upon request of the Bangko Sentral starting June 2018.

(2) Ensure that stress testing exercises are linked to the risk appetite, business strategies as well as capital and liquidity plans. The results of the stress testing should also aid in the crafting of policies and setting of risk limits;

(3) Ensure that stress testing is considered in planning for business continuity management, and in the case of a domestic systemically important bank[1] (DSIB), its recovery plan. The board shall likewise ensure that risk mitigation techniques are systematically challenged; and

(4) Ensure that the stress testing framework, including scenarios and assumptions used therein, are subjected to an effective and continuous review by an independent and competent professional to ensure that the framework remains appropriate and effective in assessing the bank's vulnerabilities.

b. Senior Management. Senior management shall be responsible for the effective and consistent implementation of the stress testing framework as approved by the board of directors. In this respect, senior management shall:

(1) Translate the board-approved stress testing framework into specific policies and procedures, which shall cover, at a minimum, the following:

(a) Objectives of stress testing, and the corresponding methodology/ies and frequencies;
(b) Roles and responsibilities of business lines, control functions, and board- and/or senior management committees;
(c) Parameters in developing assumptions and scenarios as well as units that should be involved in the development;
(d) Evaluation of the continuing soundness and relevance of the assumptions and scenarios;
(e) Extent of reliance on expert judgment[2] in the stress testing process;
(f) Range of measures or actions to take considering the results of the stress testing exercises; and
(g) Documentation requirements.

(2) Ensure that the identification of relevant stress scenarios, application of sound modeling approaches, and the appropriate use of stress testing results are done in collaboration with the different senior experts in the bank;

(3) Identify the risk drivers to be considered in the stress testing exercise and actively engage in the discussions on assumptions and scenario selection. It shall participate in the review and identification of potential stress scenarios and contribute to the development of risk mitigation strategies;

Below are some common risk factors that are relevant to the banking and trading portfolios of banks:

(a) Credit risk characterized by the increase in default probabilities (e.g., the rise in delinquencies and charge-offs) and worsening of credit spreads. Banks should be aware of the major drivers of repayment ability, such as economic downturns and significant market shocks, that will affect entire classes of counterparties or credits;

(b) Concentration risk in terms of the exposures to individual counterparties, group of related entities, industries, market sectors, countries or regions. Banks should assess the effects and possible linkages between different markets, countries and regions as well as the potential vulnerabilities of emerging markets;

(c) Interest rate risk arising from parallel or non-parallel shifts in the yield curve, and the increase in basis risk (i.e. changes in relationships between key market rates);

(d) Market or price risk arising from adverse changes in asset prices (e.g., currencies, bonds) and their impact on relevant portfolios and markets;

(e) Liquidity risk as a result of the tightening of credit lines and market liquidity under stressed situations and the impact on funding sources and cash flow assumptions;

(f) Operational risk caused by various factors such as internal or external fraud, system failure and security risks (e.g., in respect of transactional e-banking services);

(g) Reputational risk arising from negative perception on the part of the customers, counterparties, shareholders, investors, debt holders, market analysts, other relevant parties or regulators that can adversely affect a bank's ability to maintain existing or establish new business relationships and continued access to sources of funding;

(h) Product-specific risks such as prepayment risk for debt securities, including structured products;

(i) Macro-economic factors [e.g., Gross Domestic Product (GDP) growth, change in property prices, unemployment rate and inflation or deflation rate] and their impact on other risk factors; and

[1] Systemic importance of a bank is assessed in relation to the impact of its failure on the domestic economy based on bank's size, interconnectedness, substitutability/financial institution infrastructures and complexity pursuant to Sec. 128 on DSIBs.
[2] An approach for soliciting informed opinions from individuals with particular expertise

(j) Various political and economic factors pertaining to industries, regions and emerging markets.

The above list is not exhaustive. Banks should identify the risk factors applicable to the circumstances specific to their institutions. They should ensure that important risk factors or relationships between these factors are not omitted from the analysis, as these factors will serve as basis when developing the stress scenarios.

(4) Ensure that the stress testing program is supported by appropriate infrastructure and adequate resources, which shall include information technology system, qualified professionals, and data of appropriate quality and granularity. The systems in place should be sufficiently flexible to allow the bank to modify methodologies and apply new scenarios as needed and to allow for targeted or ad-hoc stress tests at the business line or institution-wide level to assess vulnerabilities in times of stress;

(5) Evaluate the results of the stress test and recommend appropriate measures to the board. These measures may vary depending on the circumstances and other available information, examples of which are:

(a) Review of the set of limits;
(b) Review of capital plans;
(c) Use of risk mitigation techniques;
(d) Reduction/restructuring of portfolio exposures or business in specific sectors, countries, regions;
(e) Reconsideration of the funding policy;
(f) Review of strategy or risk appetite; and
(g) Development/Revision of contingency plan.

Stress testing framework. The stress testing framework shall be governed by the following guidelines:

a. Design. The identification of relevant stress events, the application of sound modeling approaches, and the appropriate use of stress testing results require the collaboration of different experts from various business lines and control functions within a bank, and/or from the regional office, in case of branches of foreign banks. The unit responsible for implementing the stress testing program shall organize appropriate dialogue among these experts, challenge their opinions, check them for consistency (e.g., with other relevant stress tests) and develop the design and implementation of the stress tests, ensuring an adequate balance between usefulness, accuracy, comprehensiveness and tractability.

b. Methodologies. Banks shall conduct stress tests and employ a combination of the different approaches depending on their portfolio risk and complexity of their activities. Effective methods can range from a single-factor sensitivity analysis to a more sophisticated model.

Banks are expected to adopt a combination of the following stress testing methodologies as appropriate to their portfolios or exposures in order to determine the impact of stressed conditions to capital, earnings and/or liquidity position. Stand-alone thrift, rural and cooperative banks should at a minimum, employ the stress testing approaches provided in Item *"c"* of this Section (Application of the guidelines); however, they are not precluded from applying more sophisticated techniques as their board and/or senior management may deem necessary.

(1) *Sensitivity Analysis.* Sensitivity analysis assesses the impact of pre-defined movement in risk factors in the value of a portfolio, and provides a fast initial assessment of a portfolio's sensitivity to a given risk factor or closely related set of factors. In conducting sensitivity analysis, the bank shall identify the relevant risk factors or drivers for its portfolio. The risk factors or drivers should be stressed with different degrees of severity in order to help deepen management's understanding of the bank's vulnerabilities and the effect of non-linear loss profiles. Risk factor shocks that are based on historical scenarios should be supplemented with hypothetical shocks based on expert judgment to reflect the risk arising from market developments and provide a more forward looking assessment of the banks' vulnerabilities.

Single factor sensitivity analysis can be supplemented with a multi-factor sensitivity analysis. Banks should conduct sensitivity analysis at different levels, taking into account the identified relevant risk factors or drivers. This may be conducted at the product or portfolio level, business line level, or at institution-wide level. For example, sensitivity analysis may involve an assessment of the impact to the bank's solvency and liquidity in cases where: (a) the probability of default (PD) of its largest counterparty or portfolio class increases; (b) interest rates change; and/or (c) large depositors withdraw significant amount from their accounts.

(2) *Scenario Analysis.* A scenario analysis measures the change in portfolio value by simulating scenarios (e.g., decline in gross national product or changes in central bank policy rates) that affect a number of risk factors (e.g., interest rates, credit spreads or foreign exchange rates). The scenario should incorporate the dynamics and interrelationship between different economic and financial drivers and provide a more holistic picture of a bank's vulnerabilities, and the combined effect of such changes in risk factors to the bank's financial position. When developing their stress scenarios, banks shall be guided by the following minimum expectations:

(a) Scenarios should be forward-looking. In particular, scenarios should take into account market developments or emerging possibilities, and possible changes to the bank's risk profile as a result of new business model or strategies (e.g., deleveraging or roll-out of a major new product).

Scenarios derived from historical data/events may be used as starting point for developing forward-looking hypothetical scenarios, which highly requires expert judgment. Banks should consider their "baseline" scenarios in developing a range of severe scenarios, reflecting an increasing level of stress compared with that of the "baseline".

(b) The impact of a scenario to all material risk factors (e.g., credit risk, market risk, interest rate risk, market liquidity risk, funding liquidity risk, and reputational risk) of a bank should be taken into account.

(c) All major vulnerabilities that are specific to a bank should be covered. Among those that should be taken into account are concentration exposures, and specific product/business line exposures.

(d) When performing an institution-wide stress test, scenarios that apply to individual risks or portfolio should be internally aligned so that risk factors behave in ways consistent with other risk factors during times of stress. For example, a spike in interest rates would generally lead to mark-to-market losses, but may also result to a higher net interest margin.

(e) The time horizon/s for stress testing should be defined based on the objective for the conduct of the stress test (e.g., tactical or strategic use), as well as the characteristics/risk profile of the underlying portfolio (e.g., maturity and liquidity of positions). Nevertheless, banks should cover substantially longer periods, taking into consideration the ability of the bank (or market, in case of systemic crisis) to react to and withstand a stressed condition.

(f) Stress tests undertaken by banks to assess the viability of their capital plan in adverse circumstances should use a time horizon that is consistent with its capital planning exercise.

(g) When analyzing the potential impact of a set of macroeconomic and financial shocks, system-wide interactions and feedback effects should be taken into account. This means that apart from the best estimate of how a scenario will impact the bank's capital and liquidity, scenarios should also be developed taking into consideration the possible changes to economic and financial variables as financial institutions, households, firms and policy makers respond to the crisis. These scenarios should capture the dependencies between the different economic and financial drivers. For instance, continuous oil price hike may lead to lower disposable household income, thus affecting retail consumers' debt servicing capability. On the other hand, a prolonged decline in oil price may result in a decline in deposit placements by oil companies, which may adversely affect funding position of a bank.

(h) Banks should adequately document each stress scenario, describing and linking the movement in risk factors to economic and financial sector events/developments, such as, monetary policy, political events, natural disasters, and market liquidity. Likewise, the document should provide a qualitative picture of a plausible future state of events.

(3) *Reverse Stress Test.* Reverse stress tests may be used to determine the stress scenarios that could impair the solvency and/or liquidity of the bank. This type of analysis would help a bank consider scenarios beyond normal business expectations, and challenge common assumptions about performance and risk mitigation strategies. For instance, if a bank has a loan portfolio that is highly concentrated to real estate industry, a reverse stress test may help a bank-identify conditions or changes in key variables that would cause losses sufficient to make the capital ratios fall below regulatory minimum levels.

Reverse stress testing may also be carried out in a qualitative manner. This involves the development of a narrative report that discusses the dynamics of different risk types, risk factors, and feedback effects that would make the business unviable. UBs/KBs are expected to have a more sophisticated qualitative and quantitative methodology for this type of stress testing.

Upon identifying such scenarios, senior management should assess the plausibility of the scenarios, make contingency plans, and/or take other steps to mitigate the identified risks. Diagnostic support should be in place to investigate the reasons for potential failures, if the need arises.

c. *Severity of Stress Events.* Stress test should cover a range of scenarios, which are exceptional but plausible and with different level of severities, including those that reflect a severe economic downturn. Severity should be understood in the context of the specific vulnerabilities of the bank (as may be identified through reverse stress test). Relevance of certain economic scenarios (e.g., increase in default probabilities in certain economic sectors) depends on a bank's exposure to specific economic sector.

d. Portfolio, Individual Risk, and Institution-wide Stress Testing. The stress test methodologies provided under Item *"(b)"* of this Section (Stress testing framework), may be performed at portfolio, individual risk, and/or institution-wide levels depending on a bank's activities or business model. Stress tests should encompass all the material risks, both on- and off-balance sheet that are relevant for the bank on solo and consolidated bases. In this regard, the scope of stress test may vary from a simple portfolio-level sensitivity analysis to a comprehensive institution-wide scenario stress test.

(1) Portfolio and Individual Risk Level Stress Testing. Stress tests on an individual portfolio basis may be performed using sensitivity or scenario analysis, or both. Banks should identify severe stress with respect to a specific portfolio. For instance, in the case of a mortgage portfolio, high unemployment rate and huge spike in interest rates provide a severe scenario. Other portfolios, such as investments in emerging market bonds, expose a bank to different risk drivers and therefore a different stress scenario should be applied.

Portfolios and business units should be stressed to identify risk concentrations that may arise across their book. For example, a credit risk stress across asset classes and portfolios may identify potential concentrations in retail and corporate exposures.

Stress tests should also take into account changes in correlations between risks recognizing interactions between risk types, such as market and credit risk, particularly in times of stress.

(2) Institution-wide Stress Testing. Stress testing on an institution-wide basis should cover a range of risks in order to deliver a complete and holistic picture of the bank's risk profile. This entails identification of all material risks. Once identified, banks should derive material risk drivers and integrate the same in the institution-wide stress.

Depending on the organizational structure and business model of a particular bank, a complete evaluation of all the risks affecting it would require the performance of stress test exercises both at consolidated and at material entities levels within the group. Furthermore, a bank that is internationally active is also expected to perform stress tests at the level of business units in specific geographic regions, business sectors or business lines. The added value is that a severe stress scenario differs for different businesses and different geographic regions.

When looking at risks at an institution-wide level, particular attention should be paid to risk concentrations on a holistic basis. Bank should also note that risks at the institution-wide level may not be well reflected by simple aggregation of stress tests on individual risk areas or business units. Correlations and offsetting of individual exposures should be adequately captured. Thus, banks should ensure that there is neither double counting of risks or underestimation of the impact of a stress scenario.

e. Impact Assessment. Senior management and relevant business line managers should be closely informed of the results of stress-testing, drawing their attention to potential risks and vulnerabilities identified and making recommendations for possible courses of remedial action.

The impact of stress tests should be evaluated against one or more measures, depending on the specific purpose of the test, the risk exposures, and particular issues being analyzed. A range of measures may be needed to provide comprehensive perspectives on identified vulnerabilities and the impact of the stress scenarios. Typical measures include, but are not limited to the following: (1) asset values, (2) accounting profit or loss, (3) economic profit or loss, (4) regulatory capital requirements, (5) regulatory liquidity requirements, (6) economic capital measures, and (7) liquidity and funding gaps.

The board of directors should be presented with a holistic view of the effect of stresses so that they can take an aggregated view of the implications. Where formal aggregation is not possible, an informal assessment of the totality of institution-wide effects will still be useful.

Supervisory expectations and independent review.

a. Supervisory Expectations on the Use of Models for Stress Testing. Due to the complexity involved in modeling hypothetical and macro-economic based scenarios, banks should be cognizant of the model risk involved. In this respect, the board should ensure that an effective model risk management is in place. This includes ensuring that stress test models are subjected to appropriate standards for model development, implementation and use, model validation, and model governance. An effective challenge process by independent and competent parties should be in place for all models prior to use. There should also be sufficient documentation of all models, including assumptions, as well as limitations. Banks should ensure that the assumptions and parameters used in models hold during periods of stress. These minimum expectations apply to models that are either internally developed or acquired from a vendor.

Senior management should provide information to the board of directors that is sufficient to allow the latter to adequately assess and critique the methodologies and results.

b. Independent Review of Stress Testing. Regular and independent review and assessment of stress testing policies, procedures and processes should be carried out to ensure the quality and effectiveness of the stress testing program. Such review should be undertaken at least once a year, or more frequently if this is warranted by significant changes in the business strategies and risk characteristics of the bank, or in the external environment in which it operates. The review should be undertaken by independent professionals, who may either be internal or external to the bank, but possess the relevant knowledge and expertise.

The review should cover, at the minimum, the following:

(1) effective ness of the stress-testing program in meeting its intended purposes;
(2) adequacy of board and senior management oversight;
(3) adequacy of documentation for the program;
(4) integration of stress-testing into the daily risk management and decision-making processes at appropriate management levels, as well as capital and liquidity planning;
(5) approval process for the program, including the authorization for significant changes;
(6) implementation of the program, as well as its continuous development or enhancement (i.e., to take account of changes in a bank's business strategies, risk characteristics or external environment);
(7) methodologies, scenarios and assumptions used;
(8) scope of exposures captured by the program;
(9) quality of data used to run the stress tests (i.e., accuracy, consistency, timeliness, completeness and reliability of data);
(10) integrity of management information and reporting systems for the stress tests; and
(11) validation of stress testing results by benchmarking with historical scenarios (e.g., the 2008 Financial Crisis and the 1997 Asian Financial Crisis) and their impact on bank's portfolios.

In this respect, issues or weaknesses disclosed during the review should be adequately addressed by the bank, and any consequential changes to the stress testing program should be documented and duly subjected to the approval by the board.

Application of the guidelines.

a. Banks that are part of group structures, shall conduct stress testing exercises on a consolidated basis or at the parent bank's level, covering all institutions considered as material in the banking group, and on a stand-alone basis, or at the level of each of the bank in the group.

b. Branches of foreign banks shall comply with the requirements of this Section to the extent applicable and in relation to the stress testing program being implemented by the Head Office. In this regard, stress testing exercises conducted at the branch level shall consider vulnerabilities of the Head Office that may likewise affect branch operations.

c. Stand-alone TB/s, RB/s, and Coop Bank/s shall conduct simple sensitivity analysis covering credit, liquidity, and operational risks.

These banks shall consider, at a minimum, the following in their stress testing exercises:

(1) Twenty percent (20%) and fifty percent (50%) of the total loan portfolio turning into non-performing loans (NPL) for full provision of allowance for credit losses;
(2) Twenty percent (20%) and fifty percent (50%) deposit withdrawal; and
(3) Recognition of operational losses accounting for five percent (5%) and ten percent (10%) of total assets.

The board of directors of stand-alone TBs, RBs, and Coop Banks are expected to assess the interconnectedness of the impact of the above-mentioned factors. For example, an assumption that may result in twenty percent (20%) default rate of the loan portfolio may likewise affect the liquidity position of the bank.

The board's discussion on stress testing exercises shall be adequately documented. The board shall demonstrate its understanding of the results of the stress testing exercises and how these were considered in the strategies and policies developed as well as decisions made.

Reporting. UBs/KBs shall report the results of the stress testing that were undertaken to the Bangko Sentral on an annual basis as part of the Internal Capital Adequacy Assessment Process (ICAAP) document provided under *Appendix 94.* The report shall cover the results of the latest stress tests under the most severe scenario used, and shall include information on the following:

a. Description of the coverage;

b. Conditions prevailing and assumptions used over the stress test time horizon;

c. Description of the event and details of the conditions prevailing in each scenario such as, but not limited to, the level of GDP, interest rates, unemployment, or exposure concentration. Other significant assumptions used in the stress tests should be included in the list;

d. Results of stress test, which shall include, at the minimum, the impact on the financial condition at each significant balance sheet date (for example, financial half-year or financial year-end) over the stress test time horizon, absolute amounts and key financial ratios, and other indicators or ratios that the bank considers relevant;

e. Assessment of vulnerabilities as well as the key risk factor(s) affecting the vulnerable areas. A sufficient level of detail should be given in the assessment in order to provide a meaningful understanding of the vulnerable areas (for example, business line, geographical sectors, economic sectors or sub-sectors, market segments, borrower groups etc.) and the causes of stress losses; and

f. Specific decisions or actions taken and the rationale behind the measures adopted.

For other banks, results of their stress testing should be made available any time upon request of the Bangko Sentral.

Supervisory enforcement action. The Bangko Sentral reserves the right to deploy its range of supervisory tools to promote adherence to this Section to bring about timely corrective actions and compliance with Bangko Sentral directives. For this purpose, the Bangko Sentral may issue directives or impose sanctions on the bank and/or its directors, officers and/or employees.

(Circular No. 989 dated 4 January 2018)

F. COMPLIANCE, INTERNAL CONTROL, AND AUDIT

161 COMPLIANCE FRAMEWORK

Compliance Risk Management. BSFIs shall establish a dynamic and responsive compliance risk management system. The compliance risk management system shall be designed to specifically identify and mitigate risks that may erode the franchise value of the BSFI such as risks of legal or regulatory sanctions, material financial loss, or loss to reputation, a BSFI may suffer as a result of its failure to comply with laws, rules, related self-regulatory organization standards, and codes of conduct applicable to its activities. Said risk may also arise from failure to manage conflict of interest, treat customers fairly, or effectively manage risks arising from money laundering and terrorist financing activities. Compliance risk management should be an integral part of the culture and risk governance framework of the BSFI. In this respect, it shall be the responsibility and shared accountability of all personnel, officers, and the board of directors.

Compliance function. The compliance function shall have a formal status within the organization. It shall be established by a charter or other formal document approved by the board of directors that defines the compliance function's standing, authority and independence. It shall have the right to obtain access to information necessary to carry out its responsibilities, conduct investigations of possible breaches of the compliance policy, and shall directly report to and have direct access to the board of directors or appropriate board-level committee.

The compliance function shall facilitate effective management of compliance risk by:

a. Advising the board of directors and senior management on relevant laws, rules and standards, including keeping them informed on developments in the area;

b. Apprising BSFI personnel on compliance issues, and acting as a contact point within the BSFI for compliance queries from BSFI personnel;

c. Establishing written guidance to staff on the appropriate implementation of laws, rules and standards through policies and procedures and other documents such as compliance manuals, internal codes of conduct and practice guidelines;

d. Identifying, documenting and assessing the compliance risks associated with the BSFI's business activities, including new products and business units;

e. Assessing the appropriateness of the BSFI's compliance procedures and guidelines, promptly following up any identified deficiencies, and where necessary, formulating proposals for amendments;

f. Monitoring and testing compliance by performing sufficient and representative compliance testing;

g. In the case of branches of foreign banks, the compliance function shall be responsible for maintaining official English translation of bank documents including, but not limited to policies, procedures, manuals, and all documents supporting the approval of transactions and contracts/agreements entered into; and

h. Maintaining a constructive working relationship with the Bangko Sentral and other regulators.

Compliance program. The compliance program shall set out the planned activities of the compliance function, such as the review and implementation of specific policies and procedures; compliance risk assessment; compliance testing; educating staff on compliance matters; monitoring compliance risk exposures; and reporting to the board of directors or board-level committee. The program shall espouse a risk-based approach and shall have appropriate coverage across businesses and units. For this purpose, the compliance program shall be updated on a regular basis or at least annually.

In case of group structures, there should be a board-approved policy that defines the compliance framework that shall apply to entities across the group. The policy shall provide the structure that shall be adopted by the group, either to establish the compliance function centrally at the parent bank or in each of the identified subsidiary. Such policy shall also include the overall responsibility of the parent bank's compliance function with respect to the management of compliance risk exposures of subsidiaries/affiliates.

The establishment of compliance function centrally by the parent bank in group structures shall not fall under the outsourcing framework as provided under Sec. 112. In this respect, the head of the compliance function of the parent bank shall define the compliance risk management strategies, processes, and communication framework for the entire group: *Provided,* That this shall be done in consultation and coordination with the respective board of directors of the subsidiary or affiliate BFSI: *Provided, further,* That the board of directors of the subsidiary or affiliate BSFI, shall remain ultimately responsible for the performance of the compliance risk management activities.

Chief Compliance Officer (CCO). The CCO should have the necessary qualifications, experience, and professional background and should have a sound understanding of relevant laws and regulations and their potential impact on the BSFI's operations. The CCO should be up-to-date with the developments in laws, rules and standards maintained through continuous training. BSFIs shall appoint a CCO who shall serve on a full-time basis and shall functionally report to the board of directors or board-level committee. BSFIs operating on a business model deemed simple by the Bangko Sentral, by virtue of their scale and complexity of activities, may designate its Internal Auditor to serve as the CCO in concurrent capacity. Banks with subsidiary banks and quasi-banks may appoint a CCO for the banking group: *Provided*, That the parent bank can show to the Bangko Sentral that the compliance function is conducted on a group-wide basis. In cases of branches of foreign banks, the CCO shall report to the regional/group compliance function.

An appointed CCO has the burden to prove that he possesses all the minimum qualifications and none of the disqualifications by submitting to the Bangko Sentral proof of such qualifications[1]. Non-submission of complete documentary requirements within the prescribed period shall be construed as his failure to establish his qualifications for the positions and results in his removal as CCO. The Bangko Sentral shall also consider its own records in determining the qualifications of a CCO.

The CCO shall oversee the identification and management of the BSFI's compliance risk and shall supervise the compliance function staff. He is expected to liaise with the Bangko Sentral on compliance related issues and shall also be responsible for ensuring the integrity and accuracy of all documentary submissions to the Bangko Sentral. He shall functionally meet/report to the board of directors or board-level committee and such meetings shall be duly minuted and adequately documented. In this regard, the board of directors/board-level committee shall review and approve the performance and compensation of the CCO, as well as the budget of the compliance function.

In case of group structure, the head of the compliance function of the parent bank shall define the compliance activities for the entire group: *Provided,* That this shall be done in consultation and coordination with the respective board of directors and CCO of the subsidiary or affiliate BSFI: *Provided, further,* That the board of directors of the subsidiary or affiliate BSFI, shall remain ultimately responsible for the performance of compliance activities.

Responsibilities of the board of directors and senior management. Aside from the duties and responsibilities of the board of directors mentioned under Sec. 132, the board of directors shall ensure that a compliance program is defined for the BSFI and that compliance issues are resolved expeditiously. For this purpose, a board-level committee, chaired by a non-executive director, shall oversee the compliance program.

The board of directors shall ensure that BSFI personnel and affiliated parties adhere to the pre-defined compliance standards of the BSFIs. Implementation of the compliance program rests collectively with senior management, of which the CCO is the lead operating officer on compliance. Senior management, through the CCO, should periodically report to the board of directors or its designated committee matters that affect the design and implementation of the compliance program. Any changes, updates and amendments to the compliance program must be approved by the board of directors. However, any material breaches of the compliance program shall be reported to and promptly addressed by the CCO within the mechanisms defined by the compliance manual.

A compliance system found to be materially inadequate shall be construed as unsafe or unsound banking.

Cross-border compliance issues. The compliance function for institutions that conduct business in other jurisdictions should be structured to ensure that local compliance concerns are satisfactorily addressed within the framework of the compliance policy for the organization as a whole. As there are significant differences in legislative and regulatory

[1] Using the list in *Appendix 101* as guide.

frameworks across countries or from jurisdiction to jurisdiction, compliance issues specific to each jurisdiction should be coordinated within the structure of the institution's group-wide compliance policy. The organization and structure of the compliance function and its responsibilities should be in accordance with local legal and regulatory requirements.

Outsourcing of compliance risk assessment and testing. The review, assessment and testing of the compliance program may be outsourced to qualified third parties. The handling and management of this outsourcing arrangement shall be governed by Sec. 112.

(Circular Nos. 972 dated 22 August 2017, 969 dated 22August 2017 and 893 dated 16 November 2015)

162 INTERNAL CONTROL FRAMEWORK

Internal control is a process designated and effected by the board of directors, senior management, and all levels of personnel to provide reasonable assurance on the achievement of objectives through efficient and effective operations; reliable, complete and timely financial and management information; and compliance with applicable laws, regulations, supervisory requirements, and the organization's policies and procedures.

Banks shall have in place adequate and effective internal control framework for the conduct of their business taking into account their size, risk profile and complexity of operations. The internal control framework shall embody management oversight and control culture; risk recognition and assessment; control activities; information and communication; and monitoring activities and correcting deficiencies.

Management oversight and control culture. Consistent with the principles provided under Secs. 132 (*Specific duties and responsibilities of the board of directors*) and 134 (*Duties and responsibilities of officers*), the board of directors and senior management shall be responsible for promoting high ethical and integrity standards; establishing the appropriate culture that emphasizes, demonstrates and promotes the importance of internal control; and designing and implementing processes for the prevention and detection of fraud.

a. The board of directors shall be ultimately responsible for ensuring that senior management establishes and maintains an adequate, effective and efficient internal control framework commensurate with the size, risk profile and complexity of operations of the bank. The board of directors shall also ensure that the internal audit function has an appropriate stature and authority within the bank and is provided with adequate resources to enable it to effectively carry out its assignments with objectivity.

   Further, the board of directors shall, on a periodic basis:

   (1) conduct discussions with management on the effectiveness of the internal control system;

   (2) review evaluations made by the audit committee on the assessment of effectiveness of internal control made by management, internal auditors and external auditors;

   (3) ensure that management has promptly followed up on recommendations and concerns expressed by auditors and supervisory authorities on internal control weaknesses; and

   (4) review and approve the remuneration of the head and personnel of the internal audit function. Said remuneration shall be in accordance with the bank's remuneration policies and practices and shall be structured in such a way that these do not create conflicts of interest or compromise independence and objectivity.

   The board of directors of UBs/KBs shall likewise commission an assessment team outside of the organization to conduct an independent quality assurance review of the internal audit function at least every five (5) years.

b. The audit committee shall be responsible for overseeing senior management in establishing and maintaining an adequate, effective and efficient internal control framework. It shall ensure that systems and processes are designed to provide assurance in areas including reporting, monitoring compliance with laws, regulations and internal policies, efficiency and effectiveness of operations, and safeguarding of assets.

   The audit committee shall oversee the internal audit function and shall be responsible for:

   (1) monitoring and reviewing the effectiveness of the internal audit function;

   (2) approving the internal audit plan, scope and budget;

   (3) reviewing the internal audit reports and the corresponding recommendations to address the weaknesses noted, discussing the same with the head of the internal audit function and reporting significant matters to the board of directors;

(4) ensuring that the internal audit function maintains an open communication with senior management, the audit committee, external auditors, and the supervisory authority;

(5) reviewing discoveries of fraud and violations of laws and regulations as raised by the internal audit function;

(6) reporting to the board of directors the annual performance appraisal of the head of the internal audit function;

(7) recommending for approval of the board of directors the annual remuneration of the head of the internal audit function and key internal auditors;

(8) appointing, reappointing or removing the head of the internal audit function and key internal auditors; and

(9) selecting and overseeing the performance of the internal audit service provider.

In particular, the audit committee shall be responsible for:

(1) ensuring independence of the internal audit service provider;

(2) reporting to the board of directors on the status of accomplishments of the outsourced internal audit activities, including significant findings noted during the conduct of the internal audit;

(3) ensuring that the internal audit service provider comply with sound internal auditing standards such as the Institute of Internal Auditors' International Standard for the Professional Practice of Internal Auditing and other supplemental standards issued by regulatory authorities/government agencies, as well as with relevant code of ethics;

(4) ensuring that the audit plan is aligned with the overall plan strategy and budget of the bank and is based on robust risk assessment; and

(5) ensuring that the internal audit service provider has adequate human resources with sufficient qualifications and skills necessary to accomplish the internal audit activities.

c. Senior management shall be responsible for maintaining, monitoring and evaluating the adequacy and effectiveness of the internal control system on an ongoing basis, and for reporting on the effectiveness of internal controls on a periodic basis. Management shall develop a process that identifies, measures, monitors and controls risks that are inherent to the operations of the bank; maintain an organizational structure that clearly assigns responsibility, authority and reporting relationships; ensure that delegated responsibilities are effectively carried out; implement internal control policies and ensure that activities are conducted by qualified personnel with the necessary experience and competence. Management shall ensure that bank personnel undertake continuing professional development and that there is an appropriate balance in the skills and resources of the front office, back office, and control functions. Moreover, management shall promptly inform the internal audit function of the significant changes in the bank's risk management systems, policies and processes.

d. All personnel need to understand their roles and responsibilities in the internal control process. They should be fully accountable in carrying out their responsibilities effectively and they should communicate to the appropriate level of management any problem in operations, action or behavior that is inconsistent with documented internal control processes and code of ethics.

Risk recognition and assessment. An effective internal control system shall identify, evaluate and continually assess all material risks that could affect the achievement of the bank's performance, information and compliance objectives. The potential for fraud shall be considered in assessing the risks to the achievement of said objectives. Further, the risk assessment shall cover all risks facing the bank, which include, among others, credit; country and transfer; market; interest rate; liquidity; operational; compliance; legal; and reputational risks.

Effective risk assessment identifies and considers both internal (e.g., complexity of the organization's structure, nature of the bank's activities and personnel profile) and external (e.g., economic conditions, technological developments and changes in the industry) factors that could affect the internal control framework. The risk assessment shall be conducted at the level of individual business units and across all bank activities/groups/units and subsidiaries, in the case of a parent bank. Internal controls shall be revised to address any new or previously uncontrolled or unidentified risks.

Control activities. Control activities shall form part of the daily activities of the bank and all levels of personnel in the bank. Control activities are designed and implemented to address the risks identified in the risk assessment process. These involve the establishment of control policies and procedures, and verification that these are being complied with.

Banks shall have in place control activities defined at every business level, which shall include a system that provides for top and functional level reviews; checking compliance with exposure limits and follow-up on non-compliance; a system of approvals and authorizations, which shall include the approval process for new products and services; and a system of verification and reconciliation.

Control activities complement existing policies, procedures and other control systems in place such as, among others, having clearly defined organizational structure and reporting lines, and arrangements for delegating authority; adequate accounting policies, records and processes; robust physical and environmental controls for tangible assets and access controls to information assets; and appropriate segregation of conflicting functions.

a. *Clear arrangements for delegating authority.* The functions and scope of authority and responsibility of each personnel should be adequately defined, documented and clearly communicated. The extent to which authorities may be delegated and the corresponding accountabilities of the personnel involved shall be approved by the appropriate level of management or the board of directors.

b. *Adequate accounting policies, records and processes.* Banks shall maintain adequate financial policies, records and processes. These records shall be kept up-to-date and contain sufficient detail to establish an audit trail. Further, banks shall conduct independent balancing and reconciliation of records and reports to ensure the integrity of the reported data and balances. Banks shall also put in place a reliable information system that covers all of its significant activities which shall allow the board of directors and management access to data and information relevant to decision making such as, among others, financial, operations, risk management, compliance and market information. Moreover, these systems shall be secured, monitored independently and supported by adequate contingency arrangements.

c. *Robust physical and environmental controls to tangible assets and access controls to information assets.* Banks shall adopt policies and practices to safeguard its tangible and information assets. These shall include, but shall not be limited to:

   (1) identifying officers with authorities to sign for and on behalf of the bank. Signing authorities shall be approved by the board of directors and the extent of authority at each level shall be clearly defined;

   (2) implementing joint custody on certain assets. Joint custody shall mean the processing of transactions in the presence, and under the direct observation, of a second person. Both persons shall be equally accountable for the physical protection of the items and records involved: *Provided*, That persons who are related to each other within the third degree of consanguinity or affinity shall not be made joint custodians;

   (3) adopting dual control wherein the work of one (1) person is to be verified by a second person to ensure that the transaction is properly authorized, recorded and settled;

   (4) incorporating sequence number control in the accounting system which shall also be used in promissory notes, checks and other similar instruments. Management shall also put in place appropriate controls to monitor the usage, safekeeping and recording of accountable forms;

   (5) restricting access to information assets by classifying information as to degree of sensitivity and criticality and identifying information owners or personnel with authority to access particular classifications based on job responsibilities and the necessity to fulfill one's duties; and

   (6) implementing authentication and access controls prior to granting access to information such as, among others, implementing password rules. This shall be supplemented by appropriate monitoring mechanisms that will allow audit of use of information assets.

d. *Segregation of conflicting functions.* Banks shall ensure that areas of potential conflicts of interest shall be identified, minimized and subjected to independent monitoring. Further, appropriate segregation of functions shall be observed in identified areas that may pose potential conflict of interest. Moreover, periodic reviews of responsibilities and functions shall be conducted to ensure that personnel are not in a position to conceal inappropriate actions.

Examples of internal control measures are in *Appendix 117*.

Information and communication. An effective internal control system requires that there are adequate and comprehensive internal financial, operational and compliance data, as well as external information about events and conditions that are relevant to decision making. Information shall be reliable, timely, accessible, and provided in a consistent format. Banks shall have in place a reliable management information system that covers significant activities of the bank and has the capability to generate relevant and quality information to support the functioning of internal control.

Banks shall also establish effective channels of communication to ensure that all personnel fully understand and adhere to policies and procedures and control measures relevant to their duties and responsibilities and that relevant information is reaching the appropriate personnel. Management shall also ensure that all personnel are cognizant of their duty to promptly report any deficiency to appropriate levels of management or to the board of directors, where required. These shall enable them to quickly respond to changing conditions and avoid unnecessary costs.

Monitoring activities and correcting deficiencies. The overall effectiveness of the internal controls shall be monitored on an ongoing basis. Monitoring functions and activities shall be adequately defined by management, integrated in the operating environment and should produce regular reports for review. In this regard, all levels of review shall be adequately documented and results thereof reported on a timely basis to the appropriate level of management.

Evaluations of the effectiveness of the internal control system and the corresponding monitoring activities may be done by personnel from the same operational area in the form of self-assessment or from other areas such as internal audit: *Provided*, That, self-assessment done by business units shall be subject to independent validation.

Evaluations done shall be adequately documented and internal control deficiencies and weaknesses identified shall be reported on a timely basis to the appropriate level of management or the board of directors, where necessary, and addressed promptly.

(Circular Nos. 969 dated 22 August 2017 and 871 dated 05 March 2015)

163 INTERNAL AUDIT FUNCTION

An effective and efficient internal audit function constitutes the third line of defense in the system of internal control.

Internal audit is an independent, objective assurance and consulting function established to examine, evaluate and improve the effectiveness of internal control, risk management and governance systems and processes of an organization, which helps management and the board of directors in protecting the bank and its reputation. The internal audit function shall both assess and complement operational management, risk management, compliance and other control functions. In this respect, internal audit shall be conducted in frequencies commensurate with the assessed levels of risk in specific banking areas.

a. *Permanency of the internal audit function.* Each bank shall have a permanent internal audit function. In the case of group structures involving a parent bank and subsidiary or affiliate Bangko Sentral-supervised financial institutions (BSFIs), the internal audit function shall either be established in each of the BSFI or centrally by the parent bank.

b. *Internal audit function in group structures.* In case each BSFI belonging to group structures has its own internal audit function, said internal audit function shall be accountable to the financial institution's own board of directors and shall likewise report to the head of the internal audit function of the parent bank within a reasonable period and frequency prescribed by the board of directors of the parent bank.

   On the other hand, in case the parent bank's internal audit function shall cover the internal audit activities in the subsidiary or affiliate BSFI, the board of directors of the parent bank shall ensure that the scope of internal audit activities is adequate considering the size, risk profile and complexity of operations of the subsidiary or affiliate concerned.

   The establishment of internal audit function centrally by the parent bank in group structures shall not fall under the outsourcing framework as provided under Sec. 112. In this respect, the head of the internal audit function of the parent bank shall define the internal audit strategies, methodology, scope and quality assurance measures for the entire group: *Provided*, That this shall be done in consultation and coordination with the respective board of directors and of the subsidiary or affiliate BSFI: *Provided*, *further*, That, the board of directors of the subsidiary or affiliate BSFI, shall remain ultimately responsible for the performance of the internal audit activities.

c. *Outsourcing of internal audit activities.* Banks may outsource, in accordance with existing Bangko Sentral regulations on outsourcing, internal audit activities except for areas covered under existing statutes on deposit secrecy. Outsourcing of internal audit activities shall however, be done on a limited basis to have access to certain areas of expertise that are not available to the internal audit function or to address resource constraints: *Provided*, That the internal audit activity shall not be outsourced to the bank's own external auditor/audit firm nor to internal audit service provider that was previously engaged by the bank in the same area intended to be covered by the internal audit activity that will be outsourced, without a one-year "cooling off" period: *Provided, further,* That the head of the bank's internal audit function shall ensure that the knowledge or inputs from the outsourced experts shall be assimilated into the bank to the greatest extent possible.

   Non-complex TB, RB and Coop banks on the other hand, shall be allowed to outsource internal audit activities covering all areas of bank operations except for areas covered by existing statutes on deposit secrecy: *Provided*, That the board of directors, through the audit committee, shall be ultimately responsible for the conduct of audit on areas covered by existing statutes on deposit secrecy.

d. *Internal audit function of branches of foreign banks.* Branches of foreign banks may establish their own internal audit function or may be covered by the regional/group internal audit function: *Provided*, That in case the regional/group internal audit function performs the internal audit activities in branches of foreign banks, the Senior Management team in branches of foreign banks shall conduct a periodic self-assessment of the effectiveness of internal control, risk management and governance systems and processes in the branch and report the results thereof to the regional/group internal audit function to ensure that the scope of internal audit activities is adequate considering the size, risk profile and complexity of operations of the branch: *Provided, further*, That the regional/group internal audit function shall likewise inform the senior management team in branches of foreign banks of the results of internal audit conducted: *Provided, finally,* That in cases when the risk assessment of the senior management team in branches of foreign banks or of the Bangko Sentral differs from the risk assessment of the regional/group internal audit function, the senior management team in branches of foreign banks or the Bangko Sentral may require the regional/group internal audit function to subject the branch to an immediate or more frequent internal audit.

Qualifications of the head of the internal audit function. The head of the internal audit function must have an unassailable integrity, relevant education/experience/training, and has an understanding of the risk exposures of the bank, as well as competence to audit all areas of its operations. He must also possess the following qualifications:

a. The head of the internal audit function of a UB or a KB must be a Certified Public Accountant (CPA) or a Certified Internal Auditor (CIA) and must have at least five (5) years experience in the regular audit (internal or external) of a UB or KB as auditor-in-charge, senior auditor or audit manager. He must possess the knowledge, skills, and other competencies to examine all areas in which the institution operates. Professional competence as well as continuing training and education shall be required to face up to the increasing complexity and diversity of the institution's operations.

b. The head of the internal audit function of a complex TB, RB and Coop Bank; QB and; trust entity must be a graduate of any accounting, business, finance or economics course with technical proficiency on the conduct of internal audit and must have at least five (5) years experience in the regular audit (internal or external) of a TB, national Coop Bank or, at least three (3) years experience in the regular audit (internal or external) of a UB or KB.

c. The head of the internal audit function of a simple or non-complex TB, RB and Coop Bank; and NSSLA must be a graduate of any accounting, business, finance or economics course with technical proficiency on the conduct of internal audit and must have at least two (2) years experience in the regular audit (internal or external) of a UB, KB, TB, RB, Coop Bank, QB or NSSLA.

A qualified head of the internal audit function of a UB or a KB shall be qualified to audit TBs, RB, Coop Banks, QBs, trust entities, NSSLAs, subsidiaries and affiliates engaged in allied activities, and other financial institutions under Bangko Sentral supervision. A qualified internal auditor of a complex TB, RB, and Coop Bank; QB and trust entity shall likewise be qualified to audit non-complex TB, RB and Coop Bank and NSSLA.

The head of the internal audit function shall be appointed/reappointed or replaced with prior approval of the audit committee. In cases when the head of the internal audit function will be replaced, the bank shall report the same and the corresponding reason for replacement to the appropriate supervising department of the Bangko Sentral within five (5) days from the time it has been approved by the board of directors.

Duties and responsibilities of the head of the internal audit function or the chief audit executive.

a. To demonstrate appropriate leadership and have the necessary skills to fulfill his responsibilities for maintaining the unit's independence and objectivity;

b. To be accountable to the board of directors or audit committee on all matters related to the performance of its mandate as provided in the internal audit charter. The head of the internal audit function shall submit a report to the audit committee or board of directors on the status of accomplishments of the internal audit unit, including findings noted during the conduct of the internal audit as well as status of compliance of concerned departments/units;

c. To ensure that the internal audit function complies with sound internal auditing standards such as the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing and other supplemental standards issued by regulatory authorities/government agencies, as well as with relevant code of ethics;

d. To develop an audit plan based on robust risk assessment, including inputs from the board of directors, audit committee and senior management and ensure that such plan is comprehensive and adequately covers regulatory matters. The head of the internal audit function shall also ensure that the audit plan, including any revisions thereto, shall be approved by the audit committee; and

e. To ensure that the internal audit function has adequate human resources with sufficient qualifications and skills necessary to accomplish its mandate. In this regard, the head of the internal audit function shall periodically assess and monitor the skill-set of the internal audit function and ensure that there is an adequate development program for the internal audit staff that shall enable them to meet the growing technical complexity of banking operations.

Professional competence and ethics of the internal audit function. The internal audit function shall be comprised of professional and competent individuals who collectively have the knowledge and experience necessary in the conduct of an effective internal audit on all areas of bank's operations. The skill set of the internal audit staff shall be complemented with appropriate audit methodologies and tools as well as sufficient knowledge of auditing techniques in the conduct of audit activities.

All internal audit personnel shall act with integrity in carrying-out their duties and responsibilities. They should respect the confidentiality of information acquired in the course of the performance of their duties and should not use it for personal gain or malicious actions. Moreover, internal audit personnel shall avoid conflicts of interest. Internally-recruited internal auditors shall not engage in auditing activities for which they have had previous responsibility before a one-year "cooling off" period has elapsed. The internal audit personnel shall adhere at all times to the bank's Code of Ethics as well as to an established code of ethics for internal auditors such as that of the Institute of Internal Auditors.

Independence and objectivity of the internal audit function. The internal audit function must be independent of the activities audited and from day-to-day internal control process. It must be free to report audit results, findings, opinions, appraisals and other information through clear reporting line to the board of directors or audit committee. It shall have authority to directly access and communicate with any officer or employee, to examine any activity or entity of the bank, as well as to access any records, files or data whenever relevant to the exercise of its assignment.

If independence or objectivity of internal audit function is impaired, in fact or appearance, the details of the impairment must be disclosed to the audit committee. Impairment to organizational independence and individual objectivity may include, but is not limited to, personal conflict of interest, scope limitations, restrictions on access to records, personnel, and properties, and resource limitations, such as funding.

The internal audit function shall inform senior management of the results of its audits and assessment. Senior management may consult the internal auditor on matters related to risks and internal controls without tainting the latter's independence: *Provided,* That, the internal auditor shall not be involved in the development or implementation of policies and procedures, preparation of reports or execution of activities that fall within the scope of his review.

Staff of the internal audit function shall be periodically rotated, whenever practicable, and without jeopardizing competence and expertise to avoid unwarranted effects of continuously performing similar tasks or routine jobs that may affect the internal auditor's judgment and objectivity.

Internal audit charter. Banks shall have an internal audit charter approved by the board of directors. The internal audit charter shall be periodically reviewed by the head of the internal audit function and any changes thereto shall be approved by the board of directors.

The internal audit charter shall establish, among others, the following:

a. Purpose, stature and authority, and responsibilities of the internal audit function as well as its relations with other control functions in the bank. The charter shall recognize the authority of the internal audit function, to initiate direct communication with any bank personnel; to examine any activity or entity; and to access any records, files, data and physical properties of the bank, in performing its duties and responsibilities;

b. Standards of independence, objectivity, professional competence and due professional care, and professional ethics;

c. Guidelines or criteria for outsourcing internal audit activities to external experts;

d. Guidelines for consulting or advisory services that may be provided by the internal audit function;

e. Responsibilities and accountabilities of the head of the internal audit function;

f. Requirement to comply with sound internal auditing standards such as the Institute of Internal Auditor's International Standards for the Professional Practice of Internal Auditing and other supplemental standards issued by regulatory authorities/government agencies, as well as with relevant code of ethics; and

g. Guidelines for coordination with the external auditor and supervisory authority.

Scope. All processes, systems, units, and activities, including outsourced services, shall fall within the overall scope of the internal audit function. The scope of internal audit shall cover, among others, the following:

a. Evaluation of the adequacy, efficiency and effectiveness of internal control, risk management and governance systems in the context of current and potential future risks;

b. Review of the reliability, effectiveness and integrity of management and financial information systems, including the electronic information system and electronic banking services;

c. Review of the systems and procedures of safeguarding the bank's physical and information assets;

d. Review of compliance of trading activities with relevant laws, rules and regulations;

e. Review of the compliance system and the implementation of established policies and procedures; and

f. Review of areas of interest to regulators such as, among others monitoring of compliance with relevant laws, rules and regulations, including but not limited to the assessment of the adequacy of capital and provisions; liquidity level; regulatory and internal reporting.

(Circular Nos. 969 dated 22 August 2017 and 871 dated 05 March 2015)

164 SELECTION, APPOINTMENT, REPORTING REQUIREMENTS AND DELISTING OF EXTERNAL AUDITORS AND/OR AUDITING FIRM; SANCTIONS; EFFECTIVITY

Pursuant to Section 58, R.A. No. 8791, and the existing provisions of the executed Memorandum of Agreement (MOA) dated 12 August 2009, binding the Bangko Sentral, SEC, Professional Regulation Commission (PRC) – Board of Accountancy (BOA) and the Insurance Commission (IC) for a simplified and synchronized accreditation requirements for external auditor and/or auditing firm, following are the revised rules and regulations that shall govern the selection and delisting by the Bangko Sentral of external auditors and auditing firms of covered institutions which under special laws are subject to Bangko Sentral supervision.

Policy statement. 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 that 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 provisions of and implementing regulations issued pursuant to the aforesaid MOA.

a. *Rules and regulations.* The revised rules and regulations that shall govern the selection and delisting by the Bangko Sentral of external auditors and auditing firms of covered institutions which under special laws are subject to Bangko Sentral supervision are shown in *Appendix 39*.

b. *Sanctions.* The applicable sanctions/penalties prescribed under Sections 36 and 37 of R.A. No. 7653 to the extent applicable shall be imposed on the covered institution, its audit committee and the directors approving the hiring of external auditors/auditing firm who/which are not in the Bangko Sentral list of selected auditors for covered institutions for hiring, and/or retaining the services of the external auditor/auditing firm in violation of any of the provisions of this Section and for non-compliance with the Monetary Board directive under Item *"K"* in *Appendix 39*. Erring external auditors/auditing firms may also be reported by the Bangko Sentral to the PRC for appropriate disciplinary action.

G. REPORTING GOVERNANCE

171 REPORTING GOVERNANCE FRAMEWORK

The proper conduct of monetary policy and effective banking supervision are core mandates of the Bangko Sentral. These mandates are facilitated by the accurate and timely submission of required information concerning a bank's financial condition and results of operations. At the same time, high quality individual bank reports contribute to the preparation of aggregate statistics that enable banks to make better informed business decisions.

It is incumbent upon the board and senior management to implement an effective reporting system to generate complete, accurate, consistent, reliable and timely reports to the Bangko Sentral. Banks are expected to capitalize on available information technology in establishing an effective reporting system that is appropriate for their size and complexity of operations. The Bangko Sentral shall prescribe reasonable reporting standards which shall consider the cost of reporting relative to the expected benefits.

Reporting standards. Reports submitted to the Bangko Sentral must be complete, accurate, consistent, reliable and timely to be considered compliant with the Bangko Sentral reporting standards. It follows that the report shall conform to

the relevant submission and validation guidelines as prescribed by the Bangko Sentral. Likewise, reports with incomplete schedules or attachments shall be considered non-compliant with the reporting standards. As such, said reports should have been reviewed and validated by the bank prior to submission to the Bangko Sentral to ensure its completeness and correctness. Adequate internal controls should likewise be in place to ensure adherence to the reporting standards.

Reports as contemplated in this Section pertain to a bank's financial condition (i.e., solvency, liquidity, and profitability) as well as its operations and management.

Governance process. An effective governance process over the bank's reporting system must be established by the Board and implemented by senior management to ensure the bank's adherence to the reporting standards. The bank's reporting system should be supported by a combination of systems, policies and procedures that are intended to facilitate the accurate and timely generation of bank reports. A bank's periodic review of the governance process is likewise integral in determining whether the reporting system continues to be relevant and effective.

An effective reporting system shall include the following key components:

a. A management information system and technology infrastructure capable of supporting the bank's reporting requirements as well as the conduct of its own internal validation prior to the submission of reports to ensure compliance with the Bangko Sentral reporting standards;

b. Written policies and procedures documenting the bank's standards and processes in generating quality internal and external reports;

c. Timely and periodic review of the systems, policies and procedures to ensure their continuing relevance and effectiveness conducted by an independent unit within the bank (e.g., internal audit) or an external party contracted by the bank for such purpose;

d. A process to implement appropriate enhancements in response to changes in the bank's operating environment or in the process of addressing weaknesses noted during periodic reviews conducted; and

e. A process for the timely reporting to the board and senior management of significant transactions, events and activities that have material impact on the quality of reports of the bank.

Bank reports shall meet the reporting standards prescribed under this Section. To ensure the quality of bank's reporting, this Section on Sanctions on reports for non-compliance with the reporting standards) prescribes the corresponding sanctions for banks that fail to comply with such reporting standards. The Bangko Sentral shall conduct, as described under this Sec. 171 on Assessment of reporting system, an assessment of the quality of a bank's reporting system in order to determine the underlying integrity of reports being submitted and root cause of persistent submission problems, if any.

Sanctions on reports for non-compliance with the reporting standards.

a. *Definitions*

(1) *Erroneous report* – A report submitted within the prescribed deadline, but is found to be non-compliant with the Bangko Sentral reporting standards described under this Section shall be classified as "Erroneous". Submission of an Erroneous Report shall be considered as willful failure to comply with a regulation.

(2) *Delayed report* – A report that was able to comply with the Bangko Sentral reporting standards after the submission deadline for said report shall be classified as "Delayed". Submission of a compliant report after the submission deadline shall be considered as willful delay in submission of reports.

(3) *Unsubmitted* – A report that was not submitted, or was submitted but not able to comply with the Bangko Sentral reporting standards, by the time the next report becomes due or upon the lapse of thirty (30) banking days from the report's submission deadline, whichever comes first shall be classified as "Unsubmitted". See Table 2 as reference for the defined number of banking days after submission deadline for a report to be considered "Unsubmitted". Non-submission of reports under this item shall be considered as willful refusal to comply with a regulation.

b. *Monetary Penalties*

The applicable monetary penalty shall be based on a prescribed fine for each occurrence (in case of Erroneous reports) or for each day (in case of Delayed or Unsubmitted reports) which will accumulate until such time the report has been determined compliant with the prescribed reporting standards, as provided for in Table 1:

Table 1 - Prescribed fines for reporting violations

Bank Type	Primary Report	Secondary Report
UBs/KBs	P3,000	P600
TBs	1,500	300
RBs/Coop Banks	450	150

The list of reports classified as Primary and Secondary are provided under *Appendix 7*.

Erroneous – For a report initially considered *Erroneous* but subsequently complied with the reporting standards within the prescribed deadline, the penalty shall be computed by multiplying the prescribed fine by the number of times the subject report was submitted before being considered compliant.

Delayed – For *Delayed* reports, the penalty shall be computed by multiplying the prescribed fine by the number of calendar days delayed.

Erroneous and delayed – If the report initially considered *Erroneous* was able to comply with the reporting standards but after the prescribed deadline (i.e., *Delayed*), the penalty shall be based on the sum of the penalty for being Erroneous and the penalty for being *Delayed*.

Unsubmitted – For reports classified as *Unsubmitted* (regardless if said report was not submitted or was previously submitted but remains non-compliant as described under this Section on Sanctions on reports for non-compliance with the reporting standards), the monetary penalty shall be three times (3x) the number of days applied for determining such classification, as provided in Table 2:

Table 2 - Defined number of days for penalty computation of reports considered Unsubmitted

(Column A) Reporting Frequency	(Column B) Defined # of banking days after submission deadline to be considered *"Unsubmitted"*	(Column C) # of days for penalty computation of reports considered *"Unsubmitted"*
	(A)	(B) = (A multiplied by 3)
Weekly	7	21
Monthly	30	90
Quarterly		
Semestral		
Annual		
Event-based*		

***** Refers to reports that are not due under a regular periodicity since their required submission is instead reckoned from the occurrence of an event/incident or upon knowledge thereof.

In the event that a compliant report is received after it has been considered *Unsubmitted*, the applicable penalty shall be based on the number of days provided in Column C of Table 2. This will be the case even if the actual number of banking days delayed is less than the constant number of days provided in said Column C[1].

Failure to submit a report on time due to fortuitous events such as fire and other natural calamities, public disorders including strike and lockout affecting a bank as defined in the Labor Code or of a national emergency affecting the operation of banks shall not be considered as willful delay or willful failure.

In cases of reports falling due in a period affected by a fortuitous event or within a regulatory relief period as contemplated under *Appendix 92*, said reports should comply with the reporting standards of the Bangko Sentral within fifteen (15) banking days after the end of the said fortuitous event or regulatory relief. Otherwise, they shall be considered *Unsubmitted* and imposed with a monetary penalty equivalent to the applicable fine prescribed in Table 1 multiplied by forty-five (45) days [i.e., three times (3x) fifteen (15) days].

A bank is still required to submit a compliant report regardless if said report has been classified as *"Unsubmitted"* unless the non-submission is approved by the Bangko Sentral. Otherwise, failure to submit a compliant report within seven (7) banking days from the time an instruction was made to submit the said *Unsubmitted* report shall result in disciplinary enforcement action against the bank in accordance with existing regulations such as, but not limited to, the Bangko Sentral's Supervisory Enforcement Policy under Sec. 002.

[1] For instance, a weekly report received on the eighth (8th) banking day after the submission deadline will still be penalized the equivalent of twenty-one (21) days, while it likewise follows that a weekly report received on the twenty-eighth (28th) banking day shall still be penalized for twenty-one (21) days.

c. *Implementation*

In the implementation of the rules in this Section, the submission deadline is considered moved to the next banking day should it fall on a non-working day in the locality where the reporting bank is situated or on a working day where business operations in government offices were suspended due to typhoon, flood, or similar fortuitous events.

The submission of reports with the appropriate supervising department of the Bangko Sentral or with the Bangko Sentral Regional Offices shall be effected by sending them electronically or through registered mail/courier or through messengerial services, unless otherwise specified in the circular or memorandum of the Bangko Sentral. The date when the report was sent electronically or the date of mailing postmarked on the envelope or the date of receipt from the messengerial service, as the case may be, shall be considered as the date of filing.

d. *Habituality*

Habituality shall refer to the repetitive incurrence of reporting violations. For the purpose of objectively determining habituality, a demerit points system shall be put into effect. A bank that incurs more than 100 demerit points within a calendar year shall be considered a habitual violator.

The total number of demerit points for a calendar year shall be computed based on the total amount of penalties approved for the said year divided by the prescribed fine for the applicable reporting category. For purposes of determining demerit points, the coverage of approved penalties shall apply to reports prescribed for submission to the appropriate supervising department of the Bangko Sentral.

The demerit points system as well as the coverage of reports for determining habituality shall remain in effect unless otherwise specified by the Bangko Sentral. Table 3 provides an example of how demerit points are computed:

Table 3 - Determination of demerit point incurred by a bank in a reporting calendar year

	Report Category		Total
	Primary	Secondary	
Monetary penalties approved for imposition	P180,000	P30,000	
Prescribed fine per applicable category based on Table 1	3,000	600	
Number of demerit points (A/B)	60	50	110

Based on the sample computation, the bank is considered a habitual violator since it has incurred more than 100 demerit points within the calendar year.

When a bank is considered habitual in incurring reporting violations, the Bangko Sentral shall require the bank to undertake measures to address the root cause/s of the problem. The bank may also be subject to non-monetary sanctions provided under Section 37 of R.A.No. 7653 (The New Central Bank Act), as well as restriction/suspension of branching privileges and other special authorities involving the offering of new products and services to the public.

The non-monetary sanctions shall continue to be in effect until the habituality is considered addressed. The habituality is considered addressed and the non-monetary sanctions will be lifted if the bank did not incur any demerit points (i.e., none of the reports of the bank was classified as either *Erroneous, Delayed, Erroneous and Delayed, or Unsubmitted*) for at least three (3) consecutive months from the time the habituality was observed.

Assessment of reporting system. If the results of the assessment disclose significant deficiencies in the reporting system, the bank shall be required to submit a Board-approved action plan. Such action plan shall include measures that the bank must undertake within a specified period of time to address the deficiencies noted.

Failure of the board and senior management of the bank to implement the required corrective measures within the specified time frame shall be grounds to subject the bank including its board, senior management and other responsible official/s to the Bangko Sentral's Supervisory Enforcement Policy under Sec. 002. This is without prejudice to imposition of sanctions provided under applicable regulations and law, such as but not limited to, Sections 34, 35, and 36 of R.A. No. 7653 (The New Central Bank Act).

Transitory provisions. Banks have until 31 December 2017 to make the necessary preparations to their systems and processes to ensure compliance with this Section. The period of preparation shall be treated as an observation period wherein banks will be provided information on their accumulated demerit points described under this Section on Sanctions on reports for non-compliance with the reporting standards as of various periods in 2017. The Bangko Sentral shall provide banks with information on their accumulated demerit points within the months of August, and December 2017. Full implementation will take effect beginning 01 January 2018.

(Circular No. 963 dated 27 June 2017)

Banks shall have a true and accurate account, record or statement of their daily transactions. For this purpose, the definition of records under Sec. 001 shall apply. The making of any false entry or the willful omission of entries relevant to any transaction is a ground for the imposition of administrative sanctions under Section 37 of R.A. No. 7653 and the disqualification from office of any director or officer responsible therefor under Section 9-A of R.A. No. 337, as amended. This is without prejudice to their criminal liability under Sections 35 and 36 of R.A. No. 7653 and/or the applicable provisions of the Revised Penal Code.

Records shall be retained for a period of at least five (5) years, unless they are otherwise required by law or other regulations, or as directed by the Bangko Sentral to be retained for a longer period. RBs and Coop banks shall follow the guidelines on the retention and disposal of records in *Appendix 51*. However, records which are the subject of, or are pertinent to, an issue that has been raised during a Bangko Sentral examination shall be preserved until such time that the issue has been fully resolved with finality by the Bangko Sentral.

Adoption of the Manual of Accounts. Banks shall strictly adopt the Manual of Accounts prescribed by the Bangko Sentral for recording daily transactions including reportorial and publication requirements.

Local branches of foreign banks may continue using their parent bank's general ledger accounts: *Provided,* That published statements and reports submitted to the Bangko Sentral follow the account definitions in the Bangko Sentral-prescribed Manual of Accounts: *Provided, further,* That the mathematical formulas for reconciling such published statements and submitted reports with the general ledger accounts of the bank are submitted to the appropriate supervising department of the Bangko Sentral: *Provided, finally,* That said banks prepare for Bangko Sentral use, reconciliations of their ledger accounts with the Bangko Sentral prescribed Manual of Accounts during regular or special bank examinations.

Any bank which fails or refuses to adopt the prescribed Manual of Accounts, or any of the applicable accounts contained therein, or adopts any general ledger account not specified in the said Manual of Accounts without prior written approval of the Governor of the Bangko Sentral, shall be penalized by revocation or suspension of its authority to engage in quasi-banking function.

Financial Reporting Package. In line with the adoption of the Philippine Financial Reporting Standards (PFRS) and Philippine Accounting Standards (PAS) effective the annual financial reporting period beginning 01 January 2005, the Manual of Accounts and the Bangko Sentral reportorial requirements consisting of the Consolidated Statement of Condition (CSOC), Consolidated Statement of Income and Expense (CSIE) and their supporting schedules are amended through the issuance of the new Financial Reporting Package (FRP) for banks.

The general features as well as the implementing guidelines of the FRP is provided in *Appendix 81.*

Philippine Financial Reporting Standards/Philippine Accounting Standards.

*Statement of Policy***.** It is the thrust of the Bangko Sentral to align its financial reporting requirements with standards and practices that are widely accepted internationally to promote fairness, transparency, and accountability in the financial industry. In this light, the Bangko Sentral is issuing guidelines governing the adoption of the PFRS, aimed at ensuring consistency of application and comparability of financial reports across the industry.

a. *Adoption of PFRS.* BSP Supervised Financial Institutions (BSFIs) shall adopt PFRS in recording transactions and in the preparation of financial statements and reports to the Bangko Sentral. However, in cases where there are differences between Bangko Sentral regulations and PFRS as when more than one (1) option are allowed or certain maximum or minimum limits are prescribed by PFRS, the option or limit prescribed by the Bankgo Sentral shall be adopted by BSFIs. These include the accounting treatment of "Government Grants".

   Government grants extended in the form of loans bearing nil or below-market rate of interest shall be measured upon initial recognition at its fair value (i.e, the present value of the future cash flows of the financial instrument discounted using the market interest rate). The difference between the fair value and the net proceeds of the loan shall be recorded under "Unearned Income-Others", and shall be recognized as income on a systematic basis over the period of the loan necessary to match with the related cost for which the grants are intended to compensate.

b. *Preparation of prudential reports.* For prudential reporting, BSFIs shall adopt in all respect the PFRS except in the following cases:

   (1) In preparing consolidated financial statements, only investments in financial allied subsidiaries except insurance subsidiaries shall be consolidated with the financial statements of the parent bank on a line-by-line basis; while insurance and non-financial allied subsidiaries shall be accounted for using the equity method. Investments in financial/non-financial allied/non-allied associates and joint ventures shall be accounted for using the equity method in accordance with the provisions of the Philippine Accounting Standards (PAS) 28 "Investments in Associates and Joint Ventures".

In preparing solo/separate financial statements, investments in financial/non-financial allied/non-allied subsidiaries/associates, including insurance subsidiaries/associates, shall be accounted for using the equity method as described in PAS 28.

The rules on the preparation of solo financial statements as provided in *Appendix 81* shall apply to banks.

(2) BSFIs shall recognize adequate and timely allowance for credit losses at all times. In this respect, BSFIs shall adopt the principles provided under the Enhanced Standards on Credit Risk Management under Sec. 143 as well as the provisions of *Appendix 100* in measuring credit losses.

c. *Preparation of Audited Financial Statements (AFS).* AFS shall in all respect be PFRS compliant and shall be submitted to the Bangko Sentral in accordance with the provisions of Sec. 174.

BSFIs shall submit to the Bangko Sentral adjusting entries reconciling the balances in the financial statements for prudential reporting with those in the AFS.

d. *Guidelines on adoption of PFRS 9 Financial Instruments.* BSFIs shall adopt, as part of the PFRS framework, PFRS 9: Financial Instruments upon its mandatory effectivity date of 01 January 2018.

For this purpose, BSFIs shall be governed by the following:

(1) Consistent with the duties and responsibilities of the board of directors provided under Sec. 132 (*Specific duties and responsibilities of the board of directors*), the board of directors or any equivalent governing body in the case of branches of foreign banks, shall ensure that the BSFI appropriately and consistently adopts PFRS 9 as part of its reporting governance process. In this respect, the board shall assess the impact of PFRS 9 on business strategies and risk management systems and ensure availability of sufficient resources, including capacity building initiatives, in adopting the standard.

The board shall approve policies and guidelines relative to the adoption of PFRS 9, which shall cover responsibilities of the different units in the BSFI (e.g., Treasury, Risk Management, Financial Controllership) as well as the extent of participation or involvement of third parties in the adoption process. The board shall likewise ensure that adequate control measures are in place to ensure integrity of reports.

(2) Management shall implement the policies set by the board related to the adoption of PFRS 9 and ensure that sound professional judgement is exercised in implementing the provisions of the standard. Management shall provide feedback to the board on the effectiveness of implementation of PFRS 9.

(3) BSFIs shall be guided by the provisions of Appendix 27 on "Guidelines on the Adoption of Philippine Financial Reporting Standards 9 (PFRS 9) – Classification and Measurement" and Appendix 100 on "Impairment" in implementing the provisions of PFRS 9.

e. *Enforcement Actions.* Consistent with Sec. 002, the Bangko Sentral reserves the right to deploy its range of supervisory tools and enforcement actions to promote adherence with the requirements set out in this Section and bring about timely corrective actions to ensure appropriate and consistent adoption of PFRS. In this respect, the Bangko Sentral may issue directives or impose sanctions on the BSFI and/or its directors, officers and/or employees concerned for noted supervisory issues on the adoption of PFRS 9.

Prudential reports affected by non-adherence to the provisions of this Section shall be subject to penalties/sanctions provided under Sec. 171 *(Sanctions on Reports for Non-compliance with the Reporting Standards)*.

f. *Transitory Provisions.* BSFIs shall observe the following transition rules:

(1) BSFIs shall apply PFRS 9, retrospectively, in accordance with the transition requirements and guidance provided under PFRS 9 and PAS 8 "*Changes in Accounting Policies, Changes in Accounting Estimates and Errors".* BSFIs shall be guided by the provisions of PAS 8 if the retrospective application is impracticable.

(2) A BSFI that applied the earlier versions of PFRS 9 (2009), PFRS 9 (2010) or PFRS 9 (2013) shall be allowed to reclassify its financial assets: *Provided*, That the reclassification requirements under the standard are met.

(3) A BSFI is expected to comply with the reportorial and disclosure requirements of the Securities and Exchange Commission on the adoption of PFRS 9.

Accounting treatment for prudential reporting. For prudential reporting, banks shall adopt in all respect the PFRS and PAS except as follows:

a. In preparing consolidated financial statements, only investments in financial allied subsidiaries except insurance subsidiaries shall be consolidated on a line-by-line basis; while insurance and non-financial allied subsidiaries shall be accounted for using the equity method. Financial/non-financial allied/non-allied associates shall be accounted for using the equity method in accordance with the provisions of PAS 28 "Investments in Associates"; and

b. Banks shall be required to meet the Bangko Sentral recommended allowance for credit losses.

Government grants extended in the form of loans bearing nil or low interest rates shall be measured upon initial recognition at its fair value (i.e., the present value of the future cash flows of the financial instrument discounted using the market interest rate). The difference between the fair value and the net proceeds of the loan shall be recorded under "Unearned Income-Others", which shall be amortized over the term of the loan using the effective interest method.

The provisions on government grants shall be applied retroactively to all outstanding government grants received. FIs that adopted an accounting treatment other than the foregoing shall consider the adjustment as a change in accounting policy, which shall be accounted for in accordance with PAS 8.

Notwithstanding the exceptions in Items *"a"* and *"b"*, the audited financial statements required to be submitted to the Bangko Sentral in accordance with the provisions of Sec. 174 (*Financial audit*) shall in all respect be PFRS/PAS compliant: *Provided,* That FIs shall submit to the Bangko Sentral adjusting entries reconciling the balances in the financial statements for prudential reporting with that in the audited financial statements.

Guidelines on the preparation of solo/separate financial statements. For purposes of preparing solo/separate financial statements, financial allied, non-financial allied and non-allied subsidiaries/associates/joint ventures, including insurance subsidiaries/associates, shall be accounted for using the equity method, in accordance with PAS 27, as amended.

The rules on the preparation of solo financial statements are also provided under *Appendix 81* on the Financial Reporting Package.

Guidelines on the adoption of PFRS 9 financial instruments[1]. Banks, including their trust entities, shall adopt the full provisions of PFRS 9 Financial Instruments only upon its mandatory effectivity date of 01 January 2018. Prior to said mandatory effectivity date, financial instruments of banks, including their trust entities, shall continue to be accounted for in accordance with the provisions of PAS 39 under *Appendix 27*.

As an exception, banks, including their trust entities, which have early-adopted PFRS 9 (2009 and 2010) as of 31 December 2015, shall continue to account for their financial instruments in accordance with the provisions of *Appendix 100* until 31 December 2017.

Marking to market of financial instruments. Financial instruments that are required to be classified and measured at fair value, within the scope of Philippine Financial Reporting Standards (PFRS 9) under *Appendix 27*, shall be marked-to-market in accordance with the provisions of PFRS 13 on Fair Value Measurement and the related rules and regulations issued by the Securities and Exchange Commission**.** The marked-to-market guidelines for debt and equity securities are set out in *Appendix 28.*

BSFIs and the concerned officers found to have violated the provisions of these regulations shall be subject to the enforcement actions under this Section (*Philippine Financial Reporting Standards/Philippine Accounting Standards*).

(Circular Nos. 1021 dated 15 November 2018, 1011 dated 14 August 2018, 960 dated 04 May 2017, 957 dated 17 April 2017, 915 dated 05 July 2016, 912 dated 27 May 2016, 890 dated 02 November 2015 and 837 dated 18 June 2014, and M-2014-009 dated 17 March 2014)

173 REPORTS

Banks shall submit to the appropriate supervising department of the Bangko Sentral all their statements and/or periodic reports listed in *Appendix 7* in such frequency and deadlines indicated therein. In the preparation of said statements/reports, banks shall use and strictly follow the forms prescribed by the Bangko Sentral.

In line with the policy direction of R.A. No. 8792 (E-Commerce Act), the Bangko Sentral is strongly encouraging banks to submit their regular reports to the Bangko Sentral in electronic form.

However, the Bangko Sentral cannot presently guarantee the security/confidentiality of data in the course of electronically transmitting reports to Bangko Sentral. Bangko Sentral recommends that sensitive or confidential information be provided by ordinary post or courier. The Bangko Sentral will accept no responsibility for electronic messages/reports/information that may be hacked or cracked, intercepted, copied or disclosed outside Bangko Sentral's information system.

[1] As an exception, banks, including their trust entitles, which have early-adopted PFRS 9 (2009 and 2010) as of 31 December 2015, shall continue to account for their financial instruments in accordance with the provisions of *Appendix 100* until 31 December 2017.

Categories and signatories of bank reports.

a. *Categories of reports.* Reports required to be submitted to the Bangko Sentral by banks are grouped into Category A-1, Category A-2, Category A-3 and Category B reports as indicated in *Appendix 7*.

b. *Authorized signatories*

(1) *Category A-1* reports shall be signed by the bank's chief executive officer or, in his absence, by the executive vice president, and by the comptroller or, in his absence, by the chief accountant, or officers holding equivalent positions.

(2) *Category A-2* reports shall be signed by the president, executive vice president, vice president or by an officer holding equivalent position.

(3) *Category A-3* and *Category B* reports shall be signed by officers or their alternates, duly designated by the board of directors.

The designated signatories of *Categories A-1, A-2, A-3 and B* reports including their specimen signatures shall be contained in a resolution approved by the board of directors. A copy of the board resolution covering the initial designation and subsequent change(s) in signatories as well as specimen signatures of the signatories and alternates, shall be made available for inspection by Bangko Sentral examiners and submitted to the Bangko Sentral upon request of the appropriate supervising department of the Bangko Sentral.

(4) Reports in computer media that are submitted by banks shall be subject to the same requirements regarding authorized signatories.

(5) Any report submitted to the Bangko Sentral that is signed by an officer who is not listed or included in any of the resolutions mentioned above, shall be considered as not having been submitted at all.

(6) All authorized agent banks shall submit to the Director, Branch Operations, Bangko Sentral, the updated specimen signatures of senior bank officers in their respective head offices who are authorized to authenticate the signatures of their provincial branch officers transacting business with the Bangko Sentral Regional Offices/Branches.

The Bangko Sentral Branch Operations shall be advised of any changes in authorized branch signatories, as well as authenticating head office senior officers.

c. *Deadline for submission of reports*

(1) *Regular reports.* Unless otherwise specified, the deadlines for submission of reports enumerated in *Appendix 7*, shall be reckoned on the basis of banking days. For this purpose, banking days shall be understood to mean Monday through Friday or banking days of the Bangko Sentral.

(2) *Call Reports.* The deadline of submission of call reports shall be specified in the letter calling for the report.

Submission of certain required information.

a. Banks shall submit to the appropriate supervising department of the Bangko Sentral the following:

(1) Information on bank's profile required in *Appendix 8*. Any change in any of the required information submitted, after the initial submission, shall be reported to the said department immediately.

(2) Any or all of the documents/information on bank's organization structure and operational policies enumerated in *Appendix 9*. Any subsequent change/issuance should be furnished the department within fifteen (15) banking days from such change/issuance.

b. Banks registered with SEC to act as broker, dealer or transfer agent pursuant to Sections 28 and 39 of R.A. No. 8799 and SRC Rules 28.1 and 36.4 and those accredited by DOF-BTr as GSEDs pursuant to DOF Department Order No. 20-10, shall submit to the appropriate supervising department of the Bangko Sentral not later than December 15 every year, the following reports:

(1) List of bank personnel acting as salesmen or associated persons;

(2) List of licenses granted by SEC and/or DOF-BTr (as broker, dealer, broker-dealer, GSED and/or transfer agent); and

(3) Notarized certification stating that the lists submitted pursuant to Items *"b(1)"* and *"b(2)"* of this Section on Submission of certain required information are complete and accurate lists and that the personnel acting as salesmen or associated persons are duly licensed/authorized by the SEC to act as such.

The notarized certification shall be signed by the president or officer of equivalent rank.

c. *Sanctions.* The following sanctions shall be imposed on the bank and/or its concerned officers for violations of Item *"b"*, of this Section on Submission of certain required information:

(1) On the bank

(a) *For willful delay to submit the documents required under Item "b" of this Section on Submission of certain required information.* A bank failing to submit the required reports which shall be classified as a *Category A-2* report, within the prescribed deadline, shall be subject to monetary penalties applicable for delayed reporting under existing regulations.

(b) *For the willful making of a false/misleading statement in the documents required under Item "b" of this Section on Submission of certain required information*. A bank which has been found to have willfully made a false or misleading statement in the documents required under Item *"b"* of this Section on Submission of certain required information shall be subject to the appropriate monetary penalties under Sec. 1102. The willful making of a false or misleading statement shall be reckoned on a daily basis from the day following the due date of the said certification until such time that an amended or corrected document has been submitted to the Bangko Sentral.

(2) On the concerned officer

(a) *For willful non-compliance.* The concerned officer/s of the bank who willfully fail/refuse to comply with the provisions of Item *"b"* of this Section on Submission of certain required information shall be subject to the appropriate monetary penalties under Sec. 1102.

(b) *For false/misleading statements.* The concerned officers which have been found to have willfully falsely certified or willfully submitted misleading statements in the certification and/or in the list of bank personnel required to be submitted under Items *"b(1)"* and *"b(2)"* of this Section on Submission of certain required information, shall be subject to the appropriate monetary penalties under Sec. 1102, which shall be reckoned on a daily basis from the day following the due date of the said certification/list until such time that an amended or corrected certification and/or list of bank personnel have been submitted to the Bangko Sentral.

The imposition of the above sanctions is without prejudice to the filing of appropriate criminal charges against the culpable persons as provided under Section 35 of R.A. No. 7653, as amended, for the willful making of a false/misleading statement.

Submission of certain required information by UBs.

a. UBs registered with the SEC as Underwriters pursuant to P.D. No. 129 (The Investment Houses Law), R.A. No. 8791 (The General Banking Law), R.A. No. 8799 (The Securities Regulations Code) and the Omnibus Rules and Regulations for Investment Houses and UBs registered as Underwriters of Securities shall submit to the appropriate supervising department of the Bangko Sentral not later than December 15 every year, the following reports:

(1) List of bank personnel performing underwriting functions; and

(2) Notarized certification stating that the list submitted pursuant to Item *"a(1)"* of this Section on Submission of certain required information by UBs is a complete and accurate list and that the personnel performing underwriting functions are duly licensed/authorized by the SEC to perform such functions.

The notarized certification shall be signed by the president or officer of equivalent rank.

b. *Sanctions.* The following sanctions shall be imposed on the bank and/or its concerned officers for violations of this Section on Submission of certain required information by UBs:

(1) On the bank

(a) *For willful delay to submit the documents required under Item "a" of this Section on Submission of certain required information by UBs.* A bank failing to submit the required reports which shall be classified as a *Category A-2* report, within the prescribed deadline, shall be subject to monetary penalties applicable for delayed reporting under existing regulations.

(b) *For the willful making of a false/misleading statement in the documents required under Item "a" of this Section on Submission of certain required information by UBs.* A bank which has been found to have willfully made a false or misleading statement in the documents required under Item *"a"* of this Section on Submission of certain required information by UBs shall be subject to the appropriate monetary penalties under Sec. 1102. The willful making of a false or misleading statement shall be reckoned on a daily basis from the day following the due date of the said certification until such time that an amended or corrected document has been submitted to the Bangko Sentral.

(2) On the concerned officer

(a) *For willful non-compliance.* The concerned officer/s of the bank who willfully fail/refuse to comply with the provisions of this Subsection shall be subject to the appropriate monetary penalties under Sec. 1102.

(b) *For false/misleading statements.* The concerned officers which have been found to have willfully falsely certified or willfully submitted misleading statements in the certification and/or in the list of bank personnel required under Item *"a"* of this Section (*Submission of certain required information by UBs*), shall be subject to the appropriate monetary penalties under Sec. 1102, which shall be reckoned on a daily basis from the day following the due date of the said certification/list until such time that an amended or corrected certification and/or list of bank personnel have been submitted to the Bangko Sentral.

The imposition of the above sanctions is without prejudice to the filing of appropriate criminal charges against the culpable persons as provided under Section 35 of R.A. No. 7653, as amended, for the willful making of a false/misleading statement.

Report on crimes/losses. Banks shall report on the following matters to the appropriate supervising department of the Bangko Sentral.

a. Crimes whether consummated, frustrated or attempted against property/facilities (such as robbery, theft, swindling or estafa, forgery and other deceits) and other crimes involving loss/destruction of bank property when the amount involved, in each crime is P20,000 or more.

Crimes involving bank personnel, regardless of whether or not such crimes involve the loss/destruction of bank property, even if the amount involved is less than P20,000, shall likewise be reported to the Bangko Sentral.

b. Incidents involving material loss, destruction or damage to the bank's property/facilities, other than arising from a crime, when the amount involved per incident is P100,000 or more.

c. *Definition of terms.* For the purpose of this regulation, the following definitions shall apply:

(1) *Estafa* –a crime committed by a person who defrauds another causing the latter to suffer damage by means of any of the following:

(a) unfaithfulness or abuse of confidence;
(b) false pretense; or
(c) fraudulent acts/means, under Articles 315 to 317 of the Revised Penal Code, as amended.

(2) *Theft* – a crime committed by a person who, with intent to gain but without violence against or intimidation of persons nor force upon things, shall take personal property of another without the latter's consent pursuant to Article 308 and other pertinent provisions of Chapter III, Title X of the Revised Penal Code, as amended.

(3) *Robbery* – a crime committed by a person who, with intent to gain, shall take any personal property belonging to another, by means of violence against or intimidation of any person, or using force upon anything pursuant to Article 295 and other pertinent provisions of Chapter 1, Title X of the Revised Penal Code, as amended.

(4) *Falsification* – a crime committed by a person who falsifies a document by:

(a) Counterfeiting or imitating any handwriting, signature or rubric;
(b) Causing it to appear that persons have participated in any act or proceeding when they did not in fact so participate;
(c) Attributing to persons who have participated in an act or proceeding statements other than those in fact made by them;
(d) Making untruthful statements in a narration of facts;
(e) Altering true dates;
(f) Making any alteration or intercalation in a genuine document which changes its meaning;
(g) Issuing in an authenticated form a document purporting to be a copy of an original document when no such original exists, or including in such a copy a statement contrary to, or different from, that of the genuine original; or

(h) Intercalating any instrument or note relative to the issuance thereof in a protocol, registry, or official book and other acts falling under Articles 169, 171 and 172 of the Revised Penal Code, as amended.

(5) *Credit-card related crimes* – crimes arising through the use of credit cards.

(6) *Other crimes that may cause loss to the bank* – crimes committed that cannot be appropriately classified under any of the above classifications.

(7) *Negligence* – the failure to exercise the care which an ordinarily prudent person would use under the circumstances in the discharge of the duty then resting upon him (People v. Aguilar, 2899-R, 18 October 1949).

(8) *Non-crime related loss* – Incidents that may cause the bank to suffer a loss arising from fortuitous events.

(9) *Insider* – person involved include stockholders, directors, officers and employees of the bank.

(10) *Outsider* – persons involved other than an insider.

(11) *Perpetrator* – a person, whether an insider or outsider, who is responsible for the commission of crime either by direct participation, inducement or cooperation, including accomplices and accessories as defined under Articles 18 and 19 of the Revised Penal Code, as amended.

(12) *Victim* – an insider or outsider other than the perpetrator, who is the aggrieved party to the crime and may as a result of the incident, suffered the loss.

(13) *Attempted crime* – a crime is attempted when the perpetrator commences the commission of the crime directly by overt acts but does not perform all of the acts of execution which constitute the crime by reason of some cause or act other than his own voluntary desistance under Article 6 of the Revised Penal Code, as amended.

(14) *Frustrated crime* – a crime is classified as frustrated, when the perpetrator performs all the acts of execution which should produce the crime as a consequence but which, nevertheless, do not produce it by reason of causes independent of the will of the perpetrator under Article 6 of the Revised Penal Code, as amended.

(15) *Consummated crime* – a crime is consummated when all the acts of execution which constitute the crime was performed. As a result, the bank may have suffered a loss, the recoverable portion of which should be deducted to arrive at the probable loss incurred by the bank.

(16) *Termination of the investigation* – an investigation is said to be terminated when all the material facts/information which are sufficient to support a conclusion relative to the matters involved have already been gathered and a finding/conclusion may be made based on the gathered information.

d. The following guidelines shall be observed in the preparation and submission of the report:

(1) The Branch or Head Office unit's Report on Crimes and Losses (RCL), as listed in Appendix 7, shall be submitted electronically to the appropriate supervising department of the Bangko Sentral) within ten (10) calendar days from knowledge of the crime/incident;

(2) The RCL shall be submitted through the bank's head office unit and shall be certified correct by the compliance officer.

(3) Where a thorough investigation and evaluation of facts is necessary to complete the report, an initial report electronically submitted within the said deadline of ten (10) calendar days may be accepted: *Provided*, That a complete report is electronically submitted not later than twenty (20) calendar days from the termination of the investigation.

Moreover, an RCL considered as erroneous/delayed/erroneous and delayed/unsubmitted shall be subject to the penalties for *Category B* reports under Sec. 171 (*Sanctions on Reports for Non-compliance with the reporting standards*) but will not form part of the computation of demerit points of BSFIs for purposes of determining habituality.

Reconciliation of head office and branch transactions. Banks shall prepare reconciliation statements covering transactions between the head office and all its branches within thirty (30) banking days after the end of each month.

The reconciliation statement shall be made available for inspection by Bangko Sentral examiners and submitted to the Bangko Sentral upon request of the appropriate supervising department of the Bangko Sentral.

List of stockholders and their stockholdings.

a. Banks shall submit to the appropriate supervising department of the Bangko Sentral annually a complete list of stockholders and their stockholdings in the prescribed form within the deadline indicated in *Appendix 7*.

b. Any change in the list shall also be reported to the said department in such frequency and within the deadline indicated in *Appendix 7*, indicating the name(s) and/or stockholdings involved which is/are to be cancelled or replaced, and the new name(s) and/or stockholdings which shall be included for that quarter. In case no change occurred during a particular quarter, the report shall provide a notation, viz "no change(s) since last report submitted for quarter ended, _____ __, 20__".

Bangko Sentral offices, where reports are submitted. Submission of Bangko Sentral periodic or call reports shall be as follows:

a. All banking offices shall submit the required reports in accordance with *Appendix 7* to the Bangko Sentral, Manila or to the nearest Bangko Sentral Regional Offices: *Provided,* That the head office of a bank may submit to the appropriate supervising department of the Bangko Sentral in electronic form the batched copy of all its banking units' Quarterly Statement of Condition and Statement of Income and Expenses by Banking Unit in behalf of its branches and other offices;

b. Where a particular report form calls for distribution of copies to other departments of the Bangko Sentral, the bank concerned shall furnish said copies of the report directly to the respective departments of the Bangko Sentral; and

c. As an exception to Item *"a"* above, the duplicate copy of the bio-data for directors/officers shall be submitted to the appropriate supervising department of the Bangko Sentral.

Consolidated financial statements of banks and their subsidiaries engaged in financial allied undertakings. Banks shall submit after the end of the calendar year or the end of the fiscal year adopted by the bank their consolidated financial statements and supported by the individual annual financial statements of their subsidiaries engaged in financial allied undertakings.

For purposes of preparing consolidated financial statements, the provisions of Sec. 172 (*Philippine Financial Reporting Standards/Philippine Accounting Standards, preparation of consolidated financial statements*) shall apply.

The consolidated financial statements and the supporting individual financial statements of their subsidiaries shall be submitted to the appropriate supervising department of the Bangko Sentral within the deadline indicated in *Appendix 7*.

Reports required of foreign subsidiaries/affiliates/banking offices or non-bank entities of domestic banks. The submission of periodic reports of a foreign subsidiary/affiliate/banking offices or non-bank entities of domestic banks shall be governed by the following rules:

a. For foreign subsidiaries/affiliates of domestic banks, the local investor-bank(s) concerned shall regularly submit to the appropriate supervising department of the Bangko Sentral a quarterly statement of condition and quarterly/annual report of income and expenses concerning the operations of the foreign subsidiaries/affiliates, including such other periodic reports which may be required from time to time in the forms prescribed by the Bangko Sentral for domestic financial intermediaries to the extent that their operations are applicable;

b. For foreign subsidiaries/affiliates of domestic banks, the appropriate supervising department of the Bangko Sentral shall be furnished by said domestic banks copies of the annual report prescribed by any of the supervisory/regulatory authorities in the country of operations;

c. When material changes noted in the annual financial statements warrant an interim comprehensive evaluation, the foreign affiliate concerned shall be requested to submit to the appropriate supervising department of the Bangko Sentral, through its domestic investor-bank, copies of its quarter/interim reports to stockholders or the call reports in the case of U.S. banks;

d. Audited financial statements (AFS) of the foreign banking offices and subsidiaries; and

e. Examination reports done by the foreign bank supervisory authority.

The submission of the documents in Items *"d"* and *"e"* to Bangko Sentral shall not be later than thirty (30) banking days from date of submission/release of said reports to the foreign banking offices and subsidiaries of Philippine banks. Material findings, if any, contained in said reports should be highlighted.

f. For purpose of this Section, affiliate shall refer to an entity linked directly or indirectly to a bank by means of:

(1) Ownership, control as defined under Sec. 131 (*Policy statement and definition of terms*), or power to vote, of at least twenty percent (20%) of the outstanding voting stock of the borrowing entity, or vice-versa;

(2) Interlocking directorship or officership, where the concerned director or officer owns; controls, as defined under Sec. 131 (*Policy statement and definition of terms*); or has the power to vote of at least twenty percent (20%) of the outstanding voting stock of the borrowing entity;

(3) Common stockholders owning at least ten percent (10%) of the outstanding voting stock of the bank and at least twenty percent (20%) of the outstanding voting stock of the borrowing entity;

(4) Management contract or any arrangement granting power to the bank to direct or cause the direction of management and policies of the borrowing entity; or

(5) Permanent proxy or voting trusts in favor of the bank constituting at least twenty percent (20%) of the outstanding voting stock of the borrowing entity, or vice-versa.

For purposes of this Manual, the above definition of affiliate shall be adopted except where the provision of the regulation expressly states otherwise.

Report on cross-border financial positions. The Report on Cross-Border Financial Positions is designed to measure and monitor the cross-border financial claims and liabilities of UBs and KBs and their subsidiary TBs to provide the Bangko Sentral with a comprehensive view of potential financial risks and transmission channels emanating from foreign counterparties of Philippines banks.

All UBs/KBs and their subsidiary TBs shall submit the Report on Cross-Border Financial Positions on a solo basis in accordance with the Guidelines on the completion of the Report in *Appendix 109*.

This report shall be considered *Category B* report.

Additional reports from UBs/KBs.

a. *Volume and weighted average interest rates of deposits and loans.* Data on the volume of transactions and weighted average interest rates of certificates of time deposits and secured/unsecured loans granted, classified by maturity, and outstanding savings deposits classified by interest rates, shall be prepared daily (except data on savings deposits which shall be prepared weekly) and submitted weekly by all head offices of UBs/KBs to the Department of Economic Research of the Bangko Sentral not later than 4:00 PM on Thursday after end of reference week.

b. *Short-term prime rates.* All UBs and KBs shall submit in the prescribed form a report on the volume and interest rates on credit line availments under short-term prime rates in such frequency and within the deadline indicated in *Appendix 7*.

c. *Foreign Exchange Position Report.* Banks may be allowed to submit on a weekly basis the notarized certification signed by the bank's president/CEO/country manager and the treasurer to cover the daily hard copies of Schedule 13, FX Form I and CFXPR pertaining to each day of the week. Delayed submission of the notarized certification shall be subject to monetary penalty, as follows:

	Daily Penalty
1st banking day of delay	P6,000 (equivalent P1,200 per day for five report dates covered by the certification on the assumption that the five (5) weekdays of the reference week are all banking days)
2nd banking day of delay and onwards	P1,200 per day

Reports of strikes and lockouts. Banks through their president or chief executive officer shall immediately apprise the Deputy Governor of the appropriate sector of the Bangko Sentral on the status of strikes/lockouts involving their banks, if unsettled after seven (7) calendar days. The bank shall disclose the following pertinent information on the strike/lockout:

a. Cause of the strike/lockout and bank management's position on its legality; and
b. Bank operations affected.

Notarized contracts/agreements between banks and their related microfinance (MF) non-governmental organizations (NGO's)/foundations. Business relationships between banks and their related MF NGO's/foundations shall be covered by notarized contracts/agreements specifying the nature of transactions and enumerating the terms and conditions thereof.

Banks shall submit said notarized contracts/agreements within fifteen (15) banking days from the date of meeting of the board of directors approving said contracts/agreements.

Said notarized contracts/agreements shall be considered *Category A-3* reports. Submission of said reports shall become effective starting with the reporting period ended 30 September 2011.

Submission of Bank Quarterly Report on Residential Real Estate Loans for the Generation of the Residential Real Estate Price Index. To generate the Residential Real Estate Price Index (RREPI) as a valuable tool in assessing the real estate and credit market conditions in the country, all UBs/KBs and TBs on a solo basis, shall submit a quarterly report to the Bangko Sentral covering the following data on properties acquired through residential real estate loans granted by banks:

Data Item	Unit of Expression
Month of Loan Granted/Booked	Number
Location of Property	Number
Type of Property	Number
Type of Housing Unit	Number
Appraisal Value of Housing Unit	Peso Amount
Total Floor Area	Number
Number of Floors	Number
Number of Bedrooms	Number
Effective Age of Housing Unit	Number
Appraised Value of Lot	Peso Amount
Total Lot Area	Number
Total Appraised Value of Property	Peso Amount
Housing Segment	Number
Acquisition Cost	Peso Amount
Name of Developer	Number
Name of Other Developer	Number

Report on Repurchase Agreements. The Report on Repurchase Agreements is designed to capture timely and comprehensive transactional-level data on repos of UBs and KBs and their subsidiary TBs to strengthen financial surveillance, particularly in monitoring market trends and vulnerabilities in the repo market, and to enable the Bangko Sentral to formulate effective policy responses to ensure continued stability of the financial system.

All UBs/KBs and their subsidiary TBs shall submit the Report on Repurchase Agreements on a solo basis in accordance with the Guidelines on the completion of the Report in *Appendix 122.*

This report shall be considered a *Category B* report.

Erroneous/delayed/erroneous and delayed/unsubmitted reports shall be subject to penalties prescribed under Sec. 171 (*Sanctions on reports for non-compliance with the reporting standards*) for *Category B* reports.

Report on Project Finance Exposures. The Report on Project Finance Exposures is designed to measure and monitor the exposure of the banking system to project finance as defined under Sec. 344 (*Exclusion from the thirty percent (30%) unsecured individual ceiling for project finance*).

All UBs/KBs shall submit the Report on Project Finance Exposures in accordance with the guidelines on the preparation of solo and consolidated financial statements under Sec. 172 (*Philippine Financial Reporting Standards/Philippine Accounting Standards*); and (b) the line item instructions prescribed under *Appendix 128*.

This report shall be considered a *Category A-1* report and shall be submitted within the deadlines indicated in *Appendix 7*.

(1) Bank Report

All UBs/KBs shall submit the Report on Project Finance Exposures on a solo (i.e., head office and branches) basis. UBs/KBs shall, likewise, submit the Report on Project Finance Exposures covering project finance exposures of their trust departments.

(2) Banking Group Report

A parent UB/KB shall, likewise, submit the Report on Project Finance Exposures on a consolidated (i.e., consolidated project finance exposures of the banking group) basis, including aggregate project finance exposures of trust departments of banks/Financial Institutions (FIs) that are part of the banking group.

The schedules comprising covered banks' Report on Project Finance Exposures are as follows:

Report / Covered Banks	UBs	KBs
Bank Report. This shall contain the solo report of the bank's project finance exposures. Trust departments of covered banks shall likewise submit the Report on Project Finance Exposures covering the project finance exposure of their clients.	x	x

a. Bank Proper and Trust Department b. Schedule 1- Bank Proper c. Schedule 2 -Trust Department		
Banking Group Report. This shall contain the consolidated report of the banking group's project finance exposures. UBs/KBs shall likewise submit aggregate project finance exposures of trust departments of banks/FIs that are part of the banking group. Banking Group and Trust Department(s) of Banks/FIs that are part of the banking group Schedule 1- Banking Group Schedule 2 -Trust Department(s)	x	x

A pilot run of the Report on Project Finance Exposures shall be conducted for the quarter-ending 31 March 2018 which shall be submitted within forty-five (45) banking days after the reference quarter. The template of the Report on Project Finance Exposures shall take effect starting with the reporting period ending 30 June 2018.

(Circular Nos. 1019 dated 31 October 2018, 988 dated 20 December 2017, 987 dated 28 December 2017, 976 dated 10 October 2017, 969 dated 22 August 2017, 963 dated 27 June 2017, 941 dated 20 January 2017, 923 dated 31 August 2016, 914 dated 23 June 2016, and 890 dated 02 November 2015, M-2015-015 dated 16 March 2015, Circular Nos. 870 dated 20 February 2015, 866 dated 07 January 2015, 850 dated 08 September 2014)

174 AUDITED FINANCIAL STATEMENTS

The following rules shall govern the utilization and submission of AFS of banks.

For purposes of this Section, AFS shall include the balance sheets, income statements, statements of changes in equity, statements of cash flows and notes to financial statements which shall include among other information, disclosure of the volume of past due loans as well as loan-loss provisions. On the other hand, financial audit report shall refer to the AFS and the opinion of the auditor. The AFS of banks with subsidiaries shall be presented side by side on a solo basis (parent) and on a consolidated basis (parent and subsidiaries).

Financial audit. Banks shall cause an annual financial audit by an external auditor acceptable to the Bangko Sentral not later than thirty (30) calendar days after the close of the calendar year or the fiscal year adopted by the bank. Report of such audit shall be submitted to the board of directors or country head, in the case of foreign bank branches, and the appropriate supervising department of the Bangko Sentral not later than 120 calendar days after the close of the calendar year or the fiscal year adopted by the bank. The report to the Bangko Sentral shall be accompanied by the:

a. Certification by the external auditor on the: (1) dates of start and termination of audit; (2) date of submission of the financial audit report and certification under oath stating that no material weakness or breach in the internal control and risk management systems was noted in the course of the audit of the bank to the board of directors or country head; and (3) the absence of any direct or indirect financial interest and other circumstances that may impair the independence of the external auditor;

b. Reconciliation Statement between the AFS and the balance sheet and income statement for bank proper (regular and FCDU) and trust department submitted to the Bangko Sentral including copies of adjusting entries on the reconciling items; and

c. Other information that may be required by the Bangko Sentral.

In addition, the external auditor shall be required by the bank to submit to the board of directors or country head, a letter of comment indicating any material weakness or breach in the institution's internal control and risk management systems within thirty (30) calendar days after submission of the financial audit report. If no material weakness or breach is noted to warrant the issuance of an LOC, a certification under oath stating that no material weakness or breach in the internal control and risk management systems was noted in the course of the audit of the bank shall be submitted in its stead, together with the financial audit report.

Material weakness shall be defined as a significant control deficiency, or combination of deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be detected or prevented by the entity's internal control. A material weakness does not mean that a material misstatement has occurred or will occur, but that it could occur. A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles. The phrase *more than remote likelihood* shall mean that future events are likely to occur or are reasonably possible to occur.

The board of directors, in a regular or special meeting, shall consider and act on the financial audit report and the certification under oath submitted in lieu of the letter of comment and shall submit, within thirty (30) banking days after receipt of the reports, a copy of its resolution to the appropriate supervising department of the Bangko Sentral. The resolution shall show, among other things, the actions(s) taken on the reports and the names of the directors present and absent.

The board shall likewise consider and act on the letter of comment and shall submit, within thirty (30) banking days after receipt thereof, a copy of its resolution together with said letter of comment to the appropriate supervising department of the Bangko Sentral. The resolution shall show the action(s) taken on the findings and recommendations and, the names of the directors present and absent, among other things.

The country head of foreign banks with branches in the Philippines shall submit a report on the action taken by management (head office, regional, or country, as the case may be) on the financial audit report and the certification under oath submitted in lieu of the letter of comment within thirty (30) banking days after receipt thereof.

The country head shall likewise submit a report on the action taken by management on the letter of comment within thirty (30) banking days after receipt thereof.

The letter of comment shall be accompanied by the certification of the external auditor of the date of its submission to the board of directors or country head, as the case may be.

Government-owned or-controlled banks, including their subsidiaries and affiliates under Bangko Sentral supervision, which are under the concurrent jurisdiction of the Commission on Audit (COA) shall be exempt from the aforementioned annual financial audit by an acceptable external auditor: *Provided*, That when warranted by supervisory concern such as material weakness/breach in internal control and/or risk management systems, the Monetary Board may, upon recommendation of the appropriate supervising department of the Bangko Sentral, require the financial audit to be conducted by an external auditor acceptable to the Bangko Sentral, at the expense of the institution concerned: *Provided, further,* That when circumstances such as, but not limited to loans from multilateral FIs, privatization, or public listing warrant, the financial audit of the institution concerned by an acceptable external auditor may also be allowed.

Banks under the concurrent jurisdiction of the Bangko Sentral and COA shall, however, submit a copy of the annual audit report (AAR) of the COA to the appropriate supervising department of the Bangko Sentral within forty (40) calendar days after receipt of the AAR by the board of directors. The AAR shall be accompanied by the:

a. certification by the institution concerned on the date of receipt of the AAR by the board of directors;

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

c. other information that may be required by the Bangko Sentral.

The board of directors of said institutions, in a regular or special meeting, shall consider and act on the AAR, as well as on the comments and observations and shall submit, within thirty (30) banking days after receipt of the report, a copy of its resolution to the appropriate supervising department of the Bangko Sentral. The resolution shall show the action(s) taken on the report, including on the comments and observations and the names of the directors present and absent, among other things.

The financial audit report required to be submitted shall in all respect be PFRS/PAS compliant: *Provided*, That banks shall submit to the Bangko Sentral adjusting entries reconciling the balances in the financial statements for prudential reporting with that in the audited annual financial statements.

Banks as well as external auditors shall strictly observe the requirements in the submission of the financial audit report and reports required to be submitted under *Appendix 55*.

The reports and certifications of institutions concerned, schedules and attachments required under this Section shall be considered *Category B* reports, wherein Delayed/Unsubmitted reports are subject to the penalties under Sec. 171 (*Sanctions on reports for non-compliance with the reporting standards*).

Posting of audited financial statements. Local banks shall post in conspicuous places in their head offices, all their branches and other banking offices, as well as in their respective websites, their latest financial audit report.

The abovementioned documents shall also be posted by foreign bank branches in all their banking offices in the Philippines.

Disclosure of external auditor's adverse findings to the Bangko Sentral; sanction.

a. *Findings to be disclosed.* Banks shall require their external auditors to report to the Bangko Sentral any matter adversely affecting the condition or soundness of the bank, such as, but not limited to:

   (1) Any serious irregularity, including those involving fraud or dishonesty, that may jeopardize the interest of depositors and creditors;
   (2) Losses incurred which substantially reduce the capital funds of the bank; and
   (3) Inability of the auditor to confirm that the claims of creditors are still covered by the bank's assets.

The disclosure of information by the external auditor to the Bangko Sentral shall not be a ground for civil, criminal or disciplinary proceedings against the former.

Bank management shall be present during discussions or at least be informed of the adverse findings in order to preserve the concerns of the supervisory authority and external auditors regarding the confidentiality of information.

b. *Sanction.* The auditing firm(s) shall be blacklisted by the Monetary Board for a period as the Board may deem appropriate for their failure to perform their duty of reporting to the Bangko Sentral any matter adversely affecting the condition or soundness of the bank. Banks shall not be allowed to engage the services of the blacklisted auditing firm.

Disclosure requirement in the notes to the audited financial statements. Banks shall require their external auditors to include the following additional information in the notes to financial statements:

a. Basic quantitative indicators of financial performance such as return on average equity, return on average assets and net interest margin;

For purposes of computing the indicators, the following formulas shall be used:

$$\text{Return on Average Equity (\%)} = \frac{\text{Net Income (or Loss) after Income Tax x 100}}{\text{Average Total Capital Accounts}}$$

$$\text{Where: Average Total Capital Accounts} = \frac{\text{Sum of Total Capital Accounts as of the 12-month ends in the calendar/fiscal year adopted by the bank}}{12}$$

$$\text{Return on Average Assets (\%)} = \frac{\text{Net Income (or Loss) after Income Tax x 100}}{\text{Average Total Assets}}$$

$$\text{Where: Average Total Assets} = \frac{\text{Sum of Total Assets as of the 12-month ends in the calendar/fiscal year adopted by the bank}}{12}$$

$$\text{Net Interest Margin (\%)} = \frac{\text{Net Interest Income x 100}}{\text{Average Interest Earning Assets}}$$

$$\text{Where: Net Interest Income} = \text{Total Interest Income} - \text{Total Interest Expense}$$

$$\text{Where: Average Interest Earning Assets} = \frac{\text{Sum of Total Interest Earning Assets as of the 12-month ends in the calendar/fiscal year adopted by the bank}}{12}$$

b. Risk-based capital adequacy ratio under Section 34 of R.A. No. 8791 and applicable and existing capital adequacy framework;

c. Concentration of credit as to industry/economic sector where concentration is said to exist when total loan exposures to a particular industry/economic sector exceeds thirty percent (30%) of total loan portfolio;

d. Breakdown of total loans as to secured and unsecured and breakdown of secured loans as to type of security;

e. Total outstanding loans to bank's DOSRI, percent of DOSRI loans to total loan portfolio, percent of unsecured DOSRI loans to total DOSRI loans, percent of past due DOSRI loans to total DOSRI loans and percent of non-performing DOSRI loans to total DOSRI loans;

f. Nature and amount of contingencies and commitments arising from off-balance sheet items [include direct credit substitutes (e.g., export LCs confirmed, underwritten accounts unsold), transaction-related contingencies (e.g., performance bonds, bid bonds, standby LCs), short-term self-liquidating trade-related contingencies arising from the movement of goods (e.g., sight/usance domestic LCs, sight/usance import LCs), sale and repurchase agreements not recognized in the balance sheet; interest and foreign exchange rate related items; and other commitments];

g. Provisions and allowances for losses and how these are determined;

h. Aggregate amount of secured liabilities and assets pledged as security; and

i. Accounting policies which shall include, but shall not be limited to, general accounting principles, changes in accounting policies/practices, principles of consolidation, policies and methods for determining when assets are impaired, recognizing income on impaired assets and losses on non-performing credits, income recognition, valuation policies and accounting policies on securitizations, foreign currency translations, loan fees, premiums and discounts, repurchase agreements, premises/fixed assets, income taxes and derivatives.

(Circular Nos. 963 dated 27 June 2017, 957 dated 17 April 2017, 890 dated 02 November 2015, 827 dated 28 February 2014 and 781 dated 15 January 2013)

175 PUBLIC DISCLOSURES

Publication/Posting of balance sheet.

a. *UBs/KBs, TBs, RBs and Coop Banks with resources of P1.0 billion and above*

(1) Banks belonging to this category shall accomplish the prescribed form and publish their quarterly Balance Sheet (BS) as of the cut-off date indicated in the call letter issued by the appropriate supervising department of the Bangko Sentral.

The Consolidated Balance Sheet (CBS) of a bank and its subsidiaries and affiliates shall be published side by side with the BS of its head office and its branches/other offices.

(2) The CBS of the bank and its subsidiaries and affiliates shall be prepared in accordance with the rules of consolidation provided under the Financial Reporting Package (FRP), in which case, only financial allied subsidiaries, except subsidiary insurance companies, shall be consolidated on a line-by-line basis, while non-financial allied subsidiaries including subsidiary insurance companies shall be accounted for using the equity method.

(3) Such BS, and CBS where applicable, shall be published in a newspaper of general circulation in the city/province where the principal office, in the case of a domestic bank, or the principal branch/office, in the case of a foreign bank, is located, but if no newspaper is published in the same province, then in a newspaper published in Metro Manila or in the nearest city/province.

(4) The names and position/designation of the members of the board of directors, president and executive vice presidents (senior vice presidents, if there are no executive vice presidents), shall be published and shown in the right side column of the published BS as of June of every year.

(5) (a) Before publication, a soft copy of the BS shall be submitted to the appropriate supervising department of the Bangko Sentral within twelve (12) banking days from the date of the call letter.

Further, a hard copy of the control proof list for the said report shall likewise be submitted to the appropriate supervising department of the Bangko Sentral within the said deadline.

(b) Banks that are incapable of submitting the BS in electronic form shall submit the same in hard copy to the appropriate supervising department of the Bangko Sentral within the said deadline.

(c) The published BS with the publisher's certificate shall be submitted within twenty (20) banking days after the date of said call letter to the appropriate supervising department of the Bangko Sentral.

b. *TBs/RBs/Coop Banks with resources of less than P1 billion*

(1) A TB, RB and Coop Bank belonging to this category shall either publish its quarterly BS as of the cut-off date indicated in the call letter issued by the appropriate supervising department of the Bangko Sentral, in a newspaper of general circulation as in Item *"a(3)"* above or post the same in the most conspicuous area of its premises, in the municipal building, municipal public market, barangay hall and barangay public market where the head office and all its branches are located. The posting shall be printed on 12"x18" white paper, preferably white buff paper (cartolina) and shall be made within twenty (20) banking days from the end of the reference quarter and for a period of thirty (30) successive calendar days.

(2) (a) A TB, RB and Coop Bank that shall publish/post its quarterly BS shall submit a soft copy of the same to the appropriate supervising department of the Bangko Sentral within twenty (20) banking days after the end of the reference quarter.

(b) Banks that are incapable of submitting the BS in electronic form shall submit the same in hard copy to the appropriate supervising department of the Bangko Sentral within the said deadline.

(c) In either case, an affidavit executed by the president, or in his absence, the vice-president or manager, as the case may be, shall likewise be submitted to appropriate supervising department of the Bangko Sentral within the said deadline.

c. *Additional information required.* Banks shall disclose the following information in the quarterly published/posted BS:

(1) Solo BS (Head Office and Branches/Other Offices)

(a) Gross total loan portfolio (TLP);
(b) Specific allowance for credit losses on the TLP;
(c) Non-performing loans (NPLs):

(i) Gross NPLs;
(ii) Ratio of gross NPLs to gross TLP (%);
(iii) Net NPLs. This shall refer to gross NPLs less specific allowance for credit losses on NPLs;
(iv) Ratio of net NPLs to gross TLP (%);
(v) Ratio of total allowance for credit losses to gross NPLs (%);
(vi) Ratio of specific allowance for credit losses on the gross TLP to gross NPLs (%);

(d) Classified loans and other risk assets, gross of allowance for credit losses;
(e) DOSRI loans and receivables, gross of allowance for credit losses;
(f) Ratio of DOSRI loans and receivables, gross of allowance for credit losses, to gross TLP (%);
(g) Gross non-performing DOSRI loans and receivables;
(h) Ratio of gross non-performing DOSRI loans and receivables to gross TLP (%);
(i) Percent compliance with Magna Carta

- 8% for micro and small enterprises;
- 2% for medium enterprises;

(j) Return on equity (ROE) (%);
(k) CAR on solo basis, as prescribed under existing regulations:

(i) Total CAR
(ii) Tier 1 Ratio
(iii) CET 1 Ratio

(l) Deferred charges not yet written down; and
(m) Unbooked allowance for credit losses on financial instruments received.

(2) Consolidated Balance Sheet (parent bank and financial allied subsidiaries excluding subsidiary insurance companies)

(a) List of financial allied subsidiaries (excluding subsidiary insurance companies)
(b) List of subsidiary insurance companies
(c) CAR on consolidated basis, as prescribed under existing regulations:

(i) Total CAR
(ii) Tier 1 Ratio
(iii) CET 1 Ratio

For purposes of additional information, all amounts and ratios shall be as of the same call date. However, the basis for computing the ROE shall be the latest quarter immediately preceding the call date using the following formula:

$$\text{ROE (\%)} = \frac{\text{Net Income (or Loss) After Income Tax}}{\text{Average Total Capital Accounts}} \times 100$$

Where net income/(loss) after tax and average capital accounts shall be:

Quarter-end	Net Income (Loss) After Tax (NIAT)	Average Total Capital Accounts
March	Quarter end NIAT multiplied by 4	Sum of end-month capital accounts (December - March) divided by 4
June	Semester end NIAT multiplied by 2	Sum of end-month capital accounts (December - June) divided by 7
September	Nine (9) months-end NIAT multiplied by 1.33333	Sum of end-month capital accounts (December - September) divided by 10
December	Year-end NIAT	Sum of end-month capital accounts (December - December) divided by 13

d. *Deferment of publication requirement.* The abovementioned publication requirement may be deferred by the Monetary Board by at least five (5) affirmative votes upon application by the bank concerned during periods of national and/or local emergency or of imminent panic which directly threaten monetary and banking stability.

The amended prescribed form for the published BS shall be used starting with the quarter-end March 2013 reports.

Disclosure requirements in the annual report. It is the thrust of the Bangko Sentral to promote greater disclosure and transparency to the public. In line with this, the Bangko Sentral recognizes the importance of the annual report in providing financial information on the bank, which will be useful to the public in understanding the true condition of the bank. This is consistent with financial consumer protection and aligned with international best practices. Accordingly, the Bangko Sentral revised the minimum disclosure requirements in the annual report of banks to ensure that proper disclosure is made on all significant matters regarding the bank, including its financial condition, performance, ownership and governance.

Consistent with the principles embodied under Sec. 132 (*Duties and responsibilities of the board of directors/directors*), the board of directors shall have the overall responsibility in ensuring that the annual report of the bank fully discloses the minimum disclosure requirements as included in this Section. The board of directors may delegate its oversight function to a board-level committee which shall have oversight over the preparation of the annual report.

All banks shall prepare an annual report which shall include a discussion and/or analysis of the following minimum information in no particular order:

a. Corporate policy;
b. Financial summary/Financial highlights;
c. Financial condition and results of operations;
d. Risk management framework, including practices to mitigate and/or prevent money laundering and terrorist financing risks;
e. Corporate governance;
f. Corporate information; and
g. Audited Financial Statements (AFS). For banks with subsidiaries, the AFS should be presented side by side on a solo basis (parent) and on a consolidated basis (parent and subsidiaries) as provided under Sec. 174.

For complex banks[1] with various business segments, it shall also disclose the "Financial Results of Business Segments".

The guidelines for the preparation of disclosure requirements in the annual report are provided in *Appendix 125*.

Additional disclosure requirements for UBs and KBs, as well as their subsidiary banks, are found under Part IX of *Appendix 59*. For stand-alone TBs, RBs, and Coop Banks, additional disclosure requirements are found under Part V of *Appendix 62*.

Locally incorporated subsidiary banks of foreign banks shall likewise be covered by the requirements of this Section. Branches of foreign banks are exempted from compliance with the guidelines.

The revised disclosures shall commence with annual reports for financial year 2017.

Posting and submission of annual report. A copy of the latest annual report shall be posted/displayed by the bank in a conspicuous place in its head office, all its branches and other offices. The annual report should also be published in the bank's website.

Covered banks shall submit the Annual Report Assessment Checklist (ARAC) together with the annual report. The ARAC identifies the pages and sections of the annual report corresponding to the disclosures.

The deadline for the submission of the annual report and ARAC to the appropriate supervising department of the Bangko Sentral is 180 calendar days after the close of the calendar or fiscal year adopted by the bank.

Banks under the concurrent jurisdiction of the Bangko Sentral and COA, however, shall submit the annual report and ARAC to the appropriate supervising department of the Bangko Sentral within 100 calendar days after receipt of the annual audit report by the board of directors.

The annual report shall be submitted in soft copy to the Bangko Sentral and shall be in Portable Document Format (PDF) as provided in *Appendix 7*. Transmittal of the soft copy of the report shall be covered by a letter to the appropriate supervising department of the Bangko Sentral. On the other hand, banks shall continue to submit the ARAC in hard copy.

Sanctions for non-disclosure of certain information and/or delayed submission of annual report.

a. *Non-disclosure of certain information.* Willful non-disclosure or erroneous disclosure of any item required to be disclosed under Sec. 175 on disclosure requirements in the annual report shall be subject to the appropriate monetary penalties under Sec. 1102 that will be imposed on the bank.

[1] As defined under Sec. 131 (*Policy statement and definition of terms*).

The Bangko Sentral shall also determine if the non-disclosure or erroneous disclosure involves material information that may mislead the public, which warrants stiffer sanctions as provided under Sec. 002.

Material information refers to information which if omitted or misstated, could change or influence the assessment or decisions of a person relying on the disclosure, such as depositors, creditors, investors, and professional analysts, for the purpose of making deposits and investments, among others.

b. *Delayed/Unsubmitted annual report.* Sanctions in case of delayed/unsubmitted annual report and the ARAC shall be in accordance with the provision under Sec. 171 (*Non-compliance with the Bangko Sentral reporting standards*).

(Circular No. 956 dated 17 April 2017, M-2017- 011 dated 31 March 2017, Circular No. 911 dated 02 May 2016, and M-2014-007 dated 04 March 2014)

H. UNSAFE OR UNSOUND BANKING

181 CONDUCTING BUSINESS IN AN UNSAFE OR UNSOUND BANKING

Whether a particular activity may be considered as conducting business in an unsafe or unsound banking, all relevant facts must be considered. An analysis of the impact thereof on the bank's operations and financial conditions must be undertaken, including evaluation of capital position, asset condition, management, earnings posture and liquidity position.

In determining whether a particular act or omission, which is not otherwise prohibited by any law, rule or regulation affecting banks, may be deemed as conducting business in an unsafe or unsound banking, the Monetary Board, upon report of the head of the supervising or examining department based on findings in an examination or a complaint, shall consider any of the following circumstances:

a. The act or omission has resulted or may result in material loss or damage, or abnormal risk or danger to the safety, stability, liquidity or solvency of the institution;

b. The act or omission has resulted or may result in material loss or damage or abnormal risk to the institution's depositors, creditors, investors, stockholders, or to the Bangko Sentral, or to the public in general;

c. The act or omission has caused any undue injury, or has given unwarranted benefits, advantage or preference to the bank or any party in the discharge by the director or officer of his duties and responsibilities through manifest partiality, evident bad faith or gross inexcusable negligence; or

d. The act or omission involves entering into any contract or transaction manifestly and grossly disadvantageous to the bank, whether or not the director or officer profited or will profit thereby. The list of activities which may be considered unsafe or unsound is shown in *Appendix 49*.

Reportorial requirement. For purposes of determining market median rates on deposits and monitoring banks that rely excessively on large, high-cost or volatile deposits/borrowings specified in Item *"g"* of *Appendix 49*, all banks shall submit a quarterly report on bank deposit interest rates which shall be included in the report of selected branch accounts.

Guidelines on reportorial requirement for bank interest rates is provided in *Appendix 108*.

(Circular No. 848 dated 08 September 2014)

I. LIQUIDATION AND RECEIVERSHIP

191 VOLUNTARY LIQUIDATION

The following guidelines shall be observed when a bank decides to undertake voluntary liquidation as a consequence of voluntary dissolution, such as (i) by vote of the board of directors and stockholders, where no creditors are affected; (ii) judgment of the SEC after hearing the petition for voluntary dissolution; (iii) amending the articles of incorporation to shorten the corporate term.

Prior Monetary Board approval. Upon voluntary dissolution of a bank pursuant to the provisions of the Corporation Code, voluntary liquidation may be undertaken by the bank itself through its board of directors, by a trustee appointed by the bank, or by a receiver appointed to the bank: *Provided, however,* That no voluntary dissolution shall be undertaken by a bank without prior approval of the Monetary Board: *Provided, further*, That requests for approval of a voluntary dissolution shall be accompanied by a liquidation plan which lays down the procedure to be adopted by the bank in the event of liquidation: *Provided, finally*, That written notice shall be sent to the Monetary Board before actual liquidation is undertaken in accordance with the liquidation plan previously approved by the Monetary Board.

Liquidation plan. The minimum requirements to be set forth in a liquidation plan are the following:

a. *Inventory/Appraisal of assets and liabilities.* Submission to the Monetary Board within thirty (30) days from written notice of liquidation, a schedule/inventory and status/appraisal reports on assets and liabilities of the bank.

b. *Notice to creditors requirement.* Notice by registered mail to all recorded claimants of the bank, and notice by publication in a newspaper of general circulation at least once a week for two (2) consecutive weeks, to be made within thirty (30) days from submission of aforesaid inventory of assets and liabilities.

c. *Conversion of assets into money.* Projected timetable in the conversion, manner of sale (public auction, sealed bidding, or on negotiated basis), notice by publication requirement, and report on liquidation to be submitted to the Monetary Board.

d. *Final notice to claimants/creditors.* Undertaking of the board of directors/ trustee/receiver to cause, within thirty (30) days from conversion into money of all or substantially all of the assets of the bank, the publication in a newspaper of general circulation at least once a week for two (2) consecutive weeks of a notice giving claimants/creditors fifteen (15) days within which to file their claims.

e. *Inventory of remaining claims against the bank.* Submission to the Monetary Board of a complete list of all remaining claims against the bank, within thirty (30) days from the deadline given in the final notice to claimants/creditors.

f. *Plan for distribution of proceeds of sales and distribution of liquidating dividends.* Submission to the Monetary Board of a distribution plan of assets within thirty (30) days from conversion of all or substantially all of the assets of the bank.

Final liquidation report. The board of directors/trustee/receiver shall submit to the Monetary Board a final liquidation report after winding up the affairs of the bank.

192 INSOLVENCY OR RECEIVERSHIP OF BANKS

The rules and regulations governing insolvency and receivership are as follows:

Definition of term. A *"bank declared insolvent or placed under receivership by the Monetary Board"* shall refer to a banking institution that has been forbidden from doing business in the Philippines by the Monetary Board under the applicable grounds provided for under Section 30 of R.A. No. 7653 and placed under receivership of the PDIC.

Prohibited acts. Any director or officer of a bank declared insolvent or placed under receivership by the Monetary Board shall not commit any of the following acts:

a. refusing to turn over the bank's records and assets to the designated receivers;
b. tampering with bank records;
c. appropriating for himself or another party, or destroying or causing misappropriation and destruction of the bank's assets;
d. receiving or permitting or causing to be received in said bank any deposit, collection of loans and/or receivables;
e. paying out or permitting or causing to be paid out any funds of said bank; and transferring or permitting or causing to be transferred any securities or property of said bank.
f. transferring or permitting or causing to be transferred any securities or property of said bank.

Penalties and sanctions. Any director or officer of a bank declared insolvent or placed under receivership by the Monetary Board who commits any of the foregoing acts shall be subject to the sanctions under Sections 36 and 37 of R.A. No. 7653, in correlation with Section 66 of R.A. No. 8791. Moreover, any such director or officer thereby sanctioned shall be included in the watchlist files of directors/officers disqualified by the Monetary Board from holding any position in any bank or FI.

PART TWO

DEPOSITS, BORROWINGS AND OTHER LIABILITIES

A. DEMAND DEPOSITS

201 AUTHORITY TO ACCEPT OR CREATE DEMAND DEPOSITS

Banks may accept or create demand deposits subject to withdrawal by check.

A UB/KB may accept or create demand deposits subject to withdrawal by check, without prior authority from the Bangko Sentral.

A TB/RB/Coop Bank may accept or create demand deposits upon prior authority of the Bangko Sentral.

Prerequisites to accept or create demand deposits for thrift banks/rural banks/cooperative banks. In addition to the *Standard Pre-qualification Requirements for the Grant of Banking Authorities* enumerated in *Appendix 5*, a TB/RB/Coop Bank applying for authority to accept or create demand deposits shall also comply with the following requirements:

a. The applicant TB/RB/Coop Bank must have complied with the minimum capital required under Sec. 121. The terms *capital* and *net assets* shall have the same meaning as in Sec. 121;
b. It has neither unpaid assessment due nor past due obligations with the PDIC; and
c. The applicant bank must have been examined by the Bangko Sentral within one (1) year prior to the date of submission of complete documentary requirements with the appropriate supervising department of the Bangko Sentral.

Requirements for accepting demand deposits. After a TB's/RB's/Coop Bank's application to accept demand deposits has been approved, it may actually accept such deposits, subject to the following conditions:

a. Submission of a certification signed by the President/Chairman of the Board of the bank stating that the requirements enumerated in this Section on Prerequisites to accept or create demand deposits for thrift banks/rural banks/cooperative banks have been complied with up to the day before the checking account services are actually offered/extended to the public;

b. That if it is not a member of the Philippine Clearing House Corporation (PCHC), it has appointed a commercial bank, or a normally operating thrift bank which is a direct participant in the clearing with the PCHC/Bangko Sentral and has complied with the minimum capital required for commercial banks, thru which it shall participate in the check clearing system; and

c. That it has complied with all other conditions that the Bangko Sentral may impose.

The applicant bank shall submit a written notice to the appropriate supervising department of the Bangko Sentral of the actual date when the demand deposit service is offered to the public not later than ten (10) banking days from such offering of the service.

Sanctions. If any part of the certification submitted by the bank as required in these guidelines is found to be false, the following sanctions shall be imposed, without prejudice to the sanctions under Section 35 of R.A. No. 7653:

a. *On the bank*

Suspension of its authority to accept or create demand deposits for one (1) year

b. *On the certifying officer*

A fine of P5,000 per day from the time the certification was made up to the time the certification was found to be false

202 RETURNED CHECKS

a. *Checks without sufficient funds/with stop payment orders*

To complement the provisions of Batas Pambansa Blg. 22, (An Act Penalizing the Making or Drawing and Issuance of a Check Without Sufficient Funds or Credit), the following regulations shall govern checks drawn against insufficient funds and checks drawn against closed accounts:

(1) The Drawee bank shall generate and transmit to the Presenting bank through the Check Image Clearing System (CICS), the pertinent electronic documents[1] containing information on the dishonored check or the check clearing item including the date when the check is returned and the reason for the refusal to pay the same to the holder thereof.

(2) Notwithstanding receipt of an order to stop payment, the Drawee bank shall likewise indicate that there are no sufficient funds or credit with such bank for the payment in full of such check or that 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 indicate in the electronic documents[1] the date when the check is returned and the reason for the refusal to pay the same to the holder thereof; and
(b) The Drawee bank shall indicate the remark or notation "Payment Stopped" or "With Stop Payment Order" on the pertinent electronic documents.

(3) The Presenting bank, on the other hand, shall generate the necessary documents[2] with the images of the clearing item printed with information on the reason for the dishonor. This document, together with the original check, shall be handed over to the depositor which shall serve as the official notification on the return or the dishonor of the check.

(4) In front of the original check to be handed over to the depositor, the Presenting bank shall affix a return stamp, indicating therein the date when the check is returned and the reason for refusal to pay the same to the holder thereof.

b. *Checks dishonored due to technical reasons*

In a similar manner, the Drawee bank shall generate and transmit to the Presenting bank, through CICS pertinent electronic document/s[3] containing information on the dishonored check or the check clearing item including the reason for the refusal to pay the same to the holder thereof. The Presenting bank, on the other hand, upon receipt of the electronic document/s, shall likewise generate the necessary documents[4] with the images of the clearing item printed with information on the reason for the dishonor. The same procedure of affixing a return stamp on the check to be handed over to the depositor shall be observed.

c. The Drawee bank shall transmit the electronic documents[1] relative to the dishonor to the Presenting bank within the prescribed period or not later than the cut-off time indicated in *Appendix 35* for returned items in accordance with the following procedures:

(1) The settlement of interbank transactions vis-à-vis covering reserve requirement/deficiency of banks' demand deposit account (DDA) is shown in *Appendix 35*;

(2) The AM clearing window for clearing items dishonored due to insufficiency of funds or credit, technical reasons, closed account and/or stop payment order shall be conducted from 4:31 PM of the same day up to the cut-off time indicated in *Appendix 35* for returned items; and

(3) Returned clearing item in the AM clearing window shall be given value on the same date as the date of original presentation of the Checks and Other Cash Items (COCI) to PCHC. 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 clearing item. 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 clearing items later returned due to insufficient funds or credit, closed account and/or stop payment order.

(Circular Nos. 986 dated 29 December 2017, and 924 dated 07 September 2016)

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1 Such as but not limited to the Return Image Cash Letter (Return ICL) containing the dishonored Regular Clearing Item [i.e., electronically generated document showing a Check Image with Electronic Payment Information transmitted via CICS to the Drawee bank for collection of the amount]. Image Cash Letter (ICL) is an ANSI standard interface file specifications (X9.100-187) for electronic exchange of check and image data. It is generated by the front-end system of a Presenting bank or Drawee bank containing CICS Items transmitted to the Drawee bank or Presenting bank, respectively.

2 Such as but not limited to the Return Check Advice (RCA)

3 Such as but not limited to the Return ICL containing the dishonored Regular Clearing Item [i.e., electronically generated document showing a Check Image with Electronic Payment Information transmitted via CICS to the Drawee bank for collection of the amount]. ICL is an ANSI standard interface file specifications (X9.100-187) for electronic exchange of check and image data. It is generated by the front-end system of a Presenting bBank or Drawee Bank containing CICS Items transmitted to the Drawee bank or Presenting bank, respectively.

4 Such as but not limited to the RCA

203 TEMPORARY OVERDRAWINGS; DRAWINGS AGAINST UNCOLLECTED DEPOSITS

The following regulations shall govern temporary overdrawings and drawings against uncollected deposits (DAUDs).

a. *Temporary overdrawings.* Temporary overdrawings against DDA shall not be allowed, unless caused by normal bank charges and other fees incidental to handling such accounts.

Banks which violate these regulations shall be subject to a fine of one-tenth of one percent (1/10 of 1%) per day of violation, computed on the basis of the amount of overdrawing or fines in amounts as may be determined by the Monetary Board, but not to exceed P30,000 a day for each violation.

Technical overdrawings arising from *"force posting"* in-clearing checks shall be debited by banks under *"Returned Checks and Other Cash Items (RCOCI)"* which is part of *"Other Assets"* in the Balance Sheet. Items to be lodged under this account shall consist only of in-clearing checks which may result in *"technical overdrawn"* accounts.

In case a check clearing item is dishonored, the Drawee bank shall generate the pertinent electronic documents[1] on the dishonored clearing item due to insufficiency of funds and electronically submit the same to the Presenting bank within the prescribed period, or not later than the cut-off time indicated in *Appendix 35* for returned items.

Peso DDAs maintained by foreign correspondent banks with UBs/KBs shall not be subject to the above-mentioned regulations: *Provided*, That:

(1) The maintenance of non-resident correspondent bank's peso DDAs and overdrawings therefrom are covered by reciprocal arrangement;
(2) Temporary overdrawings are covered within fifteen (15) banking days from the date overdrawings are incurred; and
(3) Such accounts are credited only through foreign exchange inward remittance.

b. *DAUDs.* DAUDs shall be prohibited except when the drawings are made against uncollected deposits representing manager's/cashier's/treasurer's checks, treasury warrants, postal money orders and duly funded "*on us*" checks which may be permitted at the discretion of each bank.

(Circular Nos.986 dated 29 December 2017, and 924 dated 07 September 2016)

204 DEMAND DEPOSITS OF BANK OFFICERS AND EMPLOYEES

As a general rule, officers and employees of banks, their spouses and relatives within the second degree of consanguinity and affinity, including partnerships, associations or corporations in which such officers and employees, their spouses and relatives within the second degree of consanguinity and affinity, individually or as a group, own or control at least a majority of the capital are prohibited from maintaining demand deposits or current accounts with the banking office in which they are assigned. However, officers and employees without direct access and involvement in the handling of transactions and/or records pertaining to demand deposit operations may be allowed to maintain demand deposits or current accounts in the banking office where they are assigned subject to the following conditions:

a. It shall be the responsibility of the bank concerned to identify the officers, employees, departments or units with direct involvement in its demand deposit operations and/or deposit records;
b. The opening of current accounts of officers and employees shall be subject to approval of the head of the branches department or any designated higher ranking officer; and
c. The following minimum operating control measures shall be implemented to ensure systems integrity and mitigate technology-related risks:

(1) *Tagging of accounts.* Savings and demand deposits of officers and employees, their spouses and relatives within the second degree of consanguinity and affinity, including partnerships, associations or corporations in which such officers and employees, their spouses and relatives within the second degree of consanguinity and affinity, individually or as a group, own or control at least a majority of the capital shall be tagged in the bank's current accounts/savings accounts (CA/SA) system;

(2) *Monitoring of accounts.* All accounts maintained by officers, employees and said relatives including their business interests shall be monitored by a designated officer who shall be responsible for ensuring that accounts of officers and staff are properly maintained. Any irregularity in the account activity shall be promptly investigated and reported to the appropriate management level;

[1] Such as but not limited to the Return ICL containing the dishonored Regular Clearing Item [i.e., electronically generated document showing a Check Image with Electronic Payment Information transmitted via CICS to the Drawee bank for collection of the amount]. ICL is an ANSI standard interface file specifications (X9.100-187) for electronic exchange of check and image data. It is generated by the front-end system of a Presenting Bank or Drawee Bank containing CICS Items transmitted to the Drawee bank or presenting bank, respectively.

(3) *Access controls.* Access to all data, application software, operating systems and utilities must be restricted to authorized persons through appropriate identification mechanisms and access codes and such authentication and authorization controls must be fully documented and auditable. No officer or employee, regardless of rank or position, shall be allowed to process any transaction from initiation to final authorization;

(4) *Data capture.* Operating procedures for data capture, update and retrieval must be strictly adhered to. The operating system shall maintain a permanent record of each authenticated user session including every user input; and

(5) *Audit trails.* Detailed records and audit trails shall be maintained to substantiate the processing of all transactions. Audit trails must be reviewed periodically by a designated officer commensurate with the risk level of the information system. The review process must ensure that the reviewer does not review his/her own activity.

B. SAVINGS DEPOSITS

211 SAVINGS DEPOSIT TRANSACTIONS

Banks are prohibited from issuing/accepting withdrawal slips or any other similar instruments designed to effect withdrawals of savings deposits without requiring the depositors concerned to present their passbooks and accomplishing the necessary withdrawal slips, except for banks authorized by the Bangko Sentral to adopt the no passbook withdrawal system.

The provisions of Item *"b"* of Sec. 203 shall also apply to withdrawals from savings deposits.

212 PESO SAVINGS DEPOSIT ACCOUNTS OF EMBASSY OFFICIALS

Embassy officials are allowed to open peso savings deposit accounts with Philippine banks: *Provided,* That they submit proof of conversion of foreign currency to peso with Philippine banks.

213 BASIC DEPOSIT ACCOUNT

A *basic deposit account* refers to interest- or non-interest-bearing account designed to promote financial inclusion. This account will enable Filipinos, especially the unserved and underserved, to receive and make payments, as well as have a facility for store of value. It will have the basic functionalities that will characterize ease, accessibility, convenience, and reasonable cost for both banks and customers.

Banks shall be given the liberty to customize their product offerings based on the needs of the identified market: *Provided,* That banks adopt the following minimum key features of a basic deposit account:

Features	
Liberalized customer onboarding	Follows simplified Know-Your Customer (KYC) for low risk customers, wherein identifying the customer and verifying their true identity may be based on any document or information reduced in writing which the covered person deems sufficient to establish customer's identity as provided under Item *"w"* of Sec. 904, or other reliable, independent source documents, data, or information.
Opening amount	Not more than P100.00
Minimum maintaining balance	None
Dormancy charges	None
Maximum balance	Not more than P50 thousand; Should the depositor exceed the P50 thousand maximum balance, the bank should convert the basic deposit account to a regular deposit account
Reserve requirement	0%

In offering the basic deposit account, banks shall adopt clearly-defined written policies, procedures and controls to ensure due diligence and compliance with applicable rules and regulations.

(Circular No. 992 dated 01 February 2018)

C. TIME DEPOSITS

216 TERM OF TIME DEPOSITS

Time deposits shall be issued for a specific period of term.

217 CERTIFICATES OF TIME DEPOSIT

a. *Negotiable Certificates of Time Deposits (NCTDs)*

(1) UBs/KBs may issue NCTDs without approval of the Bangko Sentral.
(2) TBs/RBs/Coop Banks may issue NCTDs upon the prior approval of the Bangko Sentral.

b. *Non-Negotiable Certificates of Time Deposit*

Banks may issue long-term non-negotiable tax-exempt certificates of time deposit without approval of the Bangko Sentral**.**

Prerequisites to issue negotiable certificates of time deposits for thrift banks/rural banks/cooperative banks. In addition to the *Standard Pre-qualification Requirements for the Grant of Banking Authorities* enumerated in *Appendix 5*, a TB/RB/Coop Bank applying for authority to issue NCTDs shall also comply with the following requirements:

a. Applicant's capital must be at least P150.0 million. For this purpose, capital shall have the same meaning as in Sec. 121; and
b. It has neither assessment due nor past due obligations with the PDIC.

Requirements for issuing negotiable certificates of time deposits. After a TB's/RB's/Coop Bank's application to issue NCTDs has been approved, it may actually issue the same subject to the following conditions:

a. Submission of a certification signed by the president/chairman of the board of the bank stating that the requirements enumerated in this Section on Prerequisites to issue negotiable certificates of time deposits have been complied with up to the day before the NCTDs are actually issued to the public; and

b. That it has complied with all other conditions that the Bangko Sentral may impose.

The applicant bank shall submit a written notice to the appropriate supervising department of the Bangko Sentral of the actual date when the NCTDs are actually issued to the public not later than ten (10) banking days from such issuance.

Minimum features of negotiable certificates of time deposits

a. *Form; denomination* - NCTDs may be issued in bearer or other form denoting negotiability and shall have a standard format to be prescribed by the Bangko Sentral which shall be prenumbered serially and predenominated. The minimum denomination shall be at the discretion of the issuing bank. No certificate payable to bearer shall contain words prohibiting its negotiation.

b. *Term* - The minimum maturity of the certificates shall be 731 days.

c. *Manner of issuance* - The certificates shall be printed on security paper.

d. *Manner of printing* - NCTDs shall be printed on security paper by the Security Plant Complex (SPC) of the Bangko Sentral.

Orders for the printing of the desired forms shall not exceed a total value equivalent to twenty percent (20%) of the issuing bank's capital accounts (based on the quarter immediately preceding the request for printing) at any one time.

Additional orders for printing which shall result in an excess over the prescribed benchmark shall require prior Bangko Sentral approval.

Insurance coverage. The NCTDs shall be insured with the PDIC. Banks issuing bearer certificates shall imprint on the instrument the following:

"For purposes of deposit insurance by the PDIC, the holder shall have his name registered in the books of the issuing bank."

Desistance from issuing new negotiable certificates of time deposits. Unless authorized by the Bangko Sentral, TBs/RBs/Coop Banks with outstanding NCTDs shall immediately desist from issuing new NCTDs.

All outstanding NCTDs shall be valid and negotiable up to their maturity dates and shall not be subject to renewal.

Sanctions. If any part of the certification submitted by the bank as required in these guidelines is found to be false, the following sanctions shall be imposed, without prejudice to the sanctions under Section 35 of R.A. No. 7653.

a. *On the bank*

Suspension of its authority to issue NCTDs for one (1) year.

b. *On the certifying officer*

A fine of P5,000 per day from the time the certification was made up to the time the certification was found to be false.

Long-term negotiable certificates of time deposit. The following guidelines shall govern the issuance of long-term negotiable certificates of time deposit (LTNCTDs) with a minimum maturity of five (5) years:

a. *Prior to Bangko Sentral approval.* No LTNCTD shall be issued without the prior approval of the Bangko Sentral.

b. *Application for authority of the issuing bank.* An application for authority on each issue/issue program of LTNCTD shall be filed with the appropriate supervising department of the Bangko Sentral.

The application shall be signed by the president/country manager (branch of a foreign bank) of the bank. It shall be accompanied by: (i) a certified true copy of the resolution of the bank's board of directors authorizing the issuance of LTNCTD indicating, among others, the issue size, offering period, purpose or intended use of proceeds thereof, registry bank, underwriter/arranger, selling agent(s); and (ii) a Letter of Undertaking (LOU) signed by the president/country manager that the issuing bank will ensure its continuous compliance with the prequalification requirements under Item *"(c)1"* below up to the time of the last offering of its approved and listed LTNCTDs.

c. *Pre-qualification requirements.* The issuing bank shall be held accountable for ensuring the continuous compliance by its chosen participant-FIs with the qualification requirements prescribed by the Bangko Sentral. As such, the issuing bank shall make a careful and diligent evaluation of the parties whom it shall engage to act as underwriter/arranger, registry bank and selling agent of its LTNCTDs.

The following qualification requirements shall be strictly complied with prior to and on a continuing basis by the issuing bank and FIs engaged to act as underwriter/arranger, registry bank and selling agent while the LTNCTD of the issuing bank remains outstanding.

(1) *Issuing bank*

A bank applying for authority to issue an LTNCTD shall comply with the following requirements:

(a) It has complied with the following capital adequacy requirements:

(i) Minimum capitalization as defined under Sec. 121; and
(ii) Risk-based capital adequacy ratio under Sec. 123 within the sixty (60) days immediately preceding the date of application;

(b) It has not incurred net weekly reserve deficiencies within eight (8) weeks immediately preceding the date of application;

(c) It has generally complied with banking laws, rules and regulations, orders or instructions of the Monetary Board and/or Bangko Sentral Management in the last two (2) preceding examinations prior to the date of application, more particularly:

(i) The ceilings on credit accommodations to DOSRI;
(ii) Liquidity floor requirements for government deposits;
(iii) Single borrower's loan limit; and
(iv) Investment in bank premises and other fixed assets;

(d) It maintains adequate provisions for probable losses commensurate to the quality of its asset portfolio but not lower than the required allowance for credit losses as determined by the Bangko Sentral;

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

(f) It has no past due obligations with the Bangko Sentral or with any government FI;

(g) It has established a risk management system appropriate to its operations characterized by clear delineation of responsibility for risk management, adequate risk measurement systems, appropriately structured risk limits, effective internal controls and complete, timely and efficient risk reporting system;

(h) It has a CAMELS Composite Rating of at least "3" in the last regular examination; and

(i) It has neither unpaid assessment due nor past due obligations with the PDIC.

(2) *Registry bank*

(a) It may be a UB, a KB, or such other specialized entity that may be qualified by the Monetary Board; and
(b) In the case of a UB or a KB:

(i) It must be a third party:

(aa) with no subsidiary/affiliate relationship with the issuing bank; and
(bb) which is not related to the issuing bank in any manner that would undermine its independence.

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

(aa) Maintain the Electronic Registry Book (ERB);
(bb) Deliver transactions within the agreed trading period; and
(cc) Issue registry confirmations to holders of LTNCTDs.

(iii) It must have a CAMELS Composite Rating of at least "3" in the last regular examination.

(3) *Underwriter/Arranger*

(a) It is either a UB or an IH: *Provided,* That if an offering is on a best-efforts basis, such arranger may also be a KB.
(b) It must be a third party, such that:

(i) it has no subsidiary/affiliate relationship with the issuing bank; and
(ii) it is not related in any manner that would undermine the objective conduct of due diligence.

(c) Underwriters must be well capitalized and must have adequate risk management as evidenced by compliance with Items "*c(1)(a), (d), (g) and (h*)" as may be applicable.

(4) *Selling agent*

It must be an FI with dealership or brokering license.

d. *Listing of LTNCTD[1] with an accredited exchange.* LTNCTDs duly approved by the Monetary Board shall be issued and immediately listed on an accredited exchange[2]: *Provided,* That banks which opt to issue portions of the approved amount in tranches shall immediately list such tranche issuance: *Provided further,* That if within one (1) year from approval of the Monetary Board, the entire amount of the approved LTNCTDs shall not have been issued, the bank's authority to issue the unissued portion of the approved amount shall be deemed revoked, and said unissued portion shall no longer be issued.

Banks which fail to list their LTNCTDs on an accredited exchange within the prescribed period shall be subject to the sanctions under Item *"o(1)"* below.

e. *Additional requirements for the issuance of LTNCTD.* The following additional requirements shall be submitted to the appropriate supervising department of the Bangko Sentral within ten (10) calendar days after issuance of the initial offering/tranche:

(1) Written waiver of the secrecy of deposits on said LTNCTD by the issuing bank, its subsidiaries, affiliates and wholly or majority-owned or controlled entities of such subsidiaries and affiliates;
(2) Information disclosure and the terms and conditions of the LTNCTD issuance;
(3) Promotional materials; and

[1] Approved applications and outstanding LTNCTDs as of 22 February 2014 shall not be covered by the new requirements.
[2] A bank shall be allowed to issue LTNCTDs subject to the condition that the bank shall submit a deed of undertaking to the Bangko Sentral that all LTNCTDs issued after 22 February 2014 shall be applied for listing on an accredited exchange within one (1) day after the LTNCTD platform commences operation. The platform for the listing of the LTNCTDs was made available on 01 September 2014. In this regard, banks that issued LTNCTDs after 22 February 2014 shall apply for listing by 02 September 2014.

(4) Specimen of the proposed registry confirmation and purchase advice from each selling agent which will evidence sale of the LTNCTD.

The bank shall, likewise, submit within ten (10) calendar days after issuance of the initial and subsequent tranches, a written notice to the appropriate supervising department of the Bangko Sentral of the actual date of initial/tranche offering.

f. *Functions/responsibilities of the parties involved.* The respective parties shall have, among others, the following functions/responsibilities:

(1) *Registry bank*

(a) Generates and maintains the ERB;
(b) Records any transfer of ownership;
(c) Issues and sends registry confirmation to holders;
(d) Functions as paying agent for periodic interest and principal payments; and
(e) Monitors compliance with the prohibition on holdings of LTNCTD, as prescribed under Item *"h"* hereof.

(2) *Underwriter/Arranger*

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

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

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

(d) Disseminates information to prospective depositors/investors of LTNCTDs on the terms and conditions of the issue (including information of non-pretermination by the depositor prior to original maturity and the liquidity mechanism in secondary trades) and the rights and obligations of the holder, issuer, selling agent, underwriter/arranger and registry bank; and

(e) When selling to its clients, it must perform the functions/responsibilities of the selling agent under Items *"f(3)(a)"* and *"(b)"*.

(3) *Selling agent*

(a) Verifies identity of each investor and applies other standards to combat money laundering as required under Sec. 902; and
(b) Issues the purchase advice for the primary offering of the LTNCTDs.

g. *Change of underwriter/arranger, registry bank, selling agent(s).* The issuing bank shall notify the appropriate supervising department of the Bangko Sentral in writing of any change in the identity of its registry bank, underwriter/arranger and selling agent within ten (10) calendar days from date of such change.

Said written notice shall state the (i) reasons for the change, (ii) identity of the newly designated FI(s), and (iii) effectivity of the engagement.

h. *Prohibition on holdings of LTNCTDs.* The issuing bank including its related companies (subsidiaries and affiliates and wholly or majority-owned or controlled entities of such subsidiaries and affiliates) cannot be a holder of the LTNCTDs of the issuing bank.

The issuing bank shall provide the registry bank with an updated list of all related companies. This report shall be a "*Category B*" report.

For purposes of this Section, an affiliate is an entity, at least twenty percent (20%) but not exceeding fifty percent (50%) of the outstanding voting stock of which is, owned by the issuing bank.

i. *Agreements between issuing bank and registry bank/selling agent(s).* The agreements between the issuing bank and the registry bank /selling agents shall comply with the provisions of Sec. 112 on bank service contracts. The issuing bank shall be liable for any damages to investors/depositors caused by actions of said registry bank, selling agent(s) contrary to the agreements entered into.

j. *Minimum features*

(1) *Form; denomination* - An LTNCTD shall be in scripless form with a third party registry bank maintaining the ERB. To have legal effect, it shall comply with the provisions of R.A. No. 8792 (Electronic Commerce Act) particularly on the existence of an assurance on the integrity, reliability and authenticity of the LTNCTD in electronic form. LTNCTDs shall be registered in the name of individuals or corporations, negotiable and prenumbered serially. The minimum denomination shall be at the discretion of the issuing bank.

(2) *Currency* - Denomination shall be in Philippine pesos.

(3) *Term* - The minimum maturity of the LTNCTDs shall be five (5) years.

(4) *Primary Offering/Secondary Trading* - The initial offering shall be executed through an underwriter or an arranger. Subsequent negotiations in secondary trading must be executed through an accredited exchange.

k. *Purchase Advice and Registry Confirmation*

(1) The Purchase Advice and Registry Confirmation shall conspicuously contain the following *caveat*:

(a) *"This LTNCTD cannot be terminated by the holder nor the Issuing Bank before maturity date. However, negotiations/transfers from one (1) holder to another do not constitute pretermination.*

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

The *caveat* shall apply if the issuing bank commits no pretermination. Otherwise, it shall read as follows: "*This LTNCTD cannot be terminated by the holder before (maturity date). However, it may be preterminated at the instance of the Issuing Bank upon prior notice to the holder on record. Negotiations/transfers from one (1) holder to another do not constitute pretermination.*

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

(b) *"All negotiations/transfers of this LTNCTD prior to maturity must be coursed through an accredited exchange."*

(2) The selling agent shall issue a Purchase Advice to evidence initial purchase of LTNCTD with the original copy given to the holder.
(3) The registry bank shall issue a Registry Confirmation to evidence ownership of the LTNCTD, with the original copy given to the holder.

l. *Deposit insurance coverage.* The LTNCTDs shall be insured with the PDIC, subject to applicable rules and regulations, among others, on maximum insurance coverage.

m. *Pre-termination by the issuer.* LTNCTDs may be preterminated by the issuing bank, subject to the following conditions:

(1) The Information Disclosure, Purchase Advice and Registry Confirmation shall include the information that the LTNCTD may be preterminated by the issuing bank;
(2) Thirty (30) day prior notification must be given to the appropriate supervising department of the Bangko Sentral together with the justification for the pre-termination;
(3) Thirty (30) day prior notification to holders of record;
(4) Notwithstanding any agreement to the contrary, the issuer shall shoulder the tax due on the interest income already earned by the holders; and
(5) The issuing bank's reserve positions shall be recomputed retroactively based on the applicable reserve rate(s) for regular time deposits during the affected periods.

If the recomputed amounts result in a reserve deficiency, the issuing bank shall be fined with the corresponding monetary penalties. The preceding monetary penalty, however, shall not be imposed if pretermination by the issuer is due to a change in law or regulation that will increase the cost of maintaining the LTNCTDs.

n. *Non-pretermination by the holder.* Presentation of the LTNCTD to the issuing bank for payment before the maturity date is not allowed. However, negotiation or transfer from one (1) holder to another shall not constitute pretermination of the LTNCTD. For tax purposes, negotiations/transfers from one (1) holder to another shall be

subject to the pertinent provisions of the National Internal Revenue Code of 1997, as amended and Bureau of Internal Revenue (BIR) regulations.

o. *Sanctions.* Without prejudice to the other sanctions prescribed under Sections 36 and 37 of R.A. No. 7653 and the provisions of Section 16 of R.A. No. 8791, the following sanctions will be imposed on Bangko Sentral-supervised FIs for failure to comply with the provisions of this Section and for non-disclosure or misrepresentation of information:

(1) *On the issuing bank* - Suspension of its authority to issue LTNCTDs, disqualification from future issuance of LTNCTDs and a monetary penalty of P30,000 for each violation.
(2) *On the registry bank* - Disqualification to be a registry bank for one (1) year and a monetary penalty of P30,000 for each violation.
(3) *On the selling agents* - Disqualification to be appointed as selling agent for one (1) year and a monetary penalty of P30,000 for each violation.
(4) *On the certifying officer* - A fine of P5,000 per day from the time of required disclosure up to the time disclosure was made; or from the time misrepresentation was made up to the time the information was corrected.
(5) *On the responsible officer* - A fine of P30,000 for participating or confirming in the non-disclosure or misrepresentation of information.

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

*Supervisory Enforcement Action*s. The Bangko Sentral reserves the right to deploy its range of supervisory tools provided in Sec. 002 to ensure compliance with the provisions of this Section.

Long-term non-negotiable tax-exempt certificates of time deposit. The issuance of long-term non-negotiable tax-exempt certificates of time deposit shall be governed by the following rules:

a. *Minimum features*

(1) *Form; denomination* - The certificate shall contain words denoting its non-negotiability and shall be issued by banks only in the name of individuals with denominations in increments of P1,000.00.

(2) *Term* - The minimum maturity of the certificate shall be five (5) years.

(3) *Manner of issuance* - The certificate shall be issued only upon receipt of funds equivalent to their face value.

(4) *Manner of printing* - The certificate shall be printed on security paper.

(5) *Pre-termination* - In case of pre-termination, the deposit shall be subject to income tax as provided under Section 24(B)(1) of the Tax Reform Act of 1997, as amended by Section 5 of R.A. No. 10963 or Tax Reform for Acceleration and Inclusion (TRAIN), which states that "a final tax shall be imposed on the entire income and shall be deducted and withheld by the depository bank from the proceeds of the long-term deposit or investment certificate based on the remaining maturity thereof:

(a) Four (4) years to less than five (5) years - 5%
(b) Three (3) years to less than four (4) years - 12%
(c) Less than three (3) years - 20% "

b. *Insurance coverage.* The deposits shall be insured with the PDIC, subject to applicable rules and regulations, among others, on maximum insurance coverage.

c. *Reserves against long-term non-negotiable certificates of time deposit.* The rate and form of required reserves on regular time deposit shall also apply to the required reserves on long-term non-negotiable tax-exempt certificates of time deposit.

(Circular Nos. 890 dated 02 November 2015 and 877 dated 22 May 2015, M-2014-034 dated 27August 2014, Circular No. 834 dated 26 May 2014, M-2014-023 dated 23 May 2014, Circular No. 824 dated 30 January 2014)

218 SPECIAL TIME DEPOSITS

Authority shall be automatically granted to any accredited banking institution which may participate in the supervised credit program to accept special time deposits from the Agrarian Reform Fund Commission with interest lower than the

rate allowed on time deposits accepted from the general public. Such deposits shall be exempt from the legal reserve requirements, as an exception to the existing policies on the matter.

D. NEGOTIABLE ORDER OF WITHDRAWAL ACCOUNTS

221 AUTHORITY TO ACCEPT NEGOTIABLE ORDER OF WITHDRAWAL ACCOUNTS

Negotiable Order of Withdrawal (NOW) accounts are interest-bearing deposit accounts that combine the payable on demand feature of checks and investment feature of savings accounts.

A UB/KB may offer NOW accounts without prior authority of the Monetary Board.

A TB/RB/Coop Bank may accept NOW accounts upon prior approval of the Monetary Board.

Prerequisites to accept negotiable order of withdrawal accounts for thrift banks/rural banks/cooperative banks. In addition to the *Standard Pre-qualification Requirements for the Grant of Banking Authorities* enumerated in *Appendix 5*, a TB/RB/Coop Bank applying for authority to accept NOW accounts shall also comply with the following requirements:

a. The applicant TB must have complied with the minimum capital required under Sec. 121.

   In the case of RB/Coop Bank, it must have net assets of at least P5.0 million: *Provided*, That RBs which have been authorized to accept or create NOW accounts prior to the approval of R.A. No. 7353 (Rural Banks Act of 1992) shall be allowed to continue servicing such deposits. The terms *capital* and *net assets* shall have the same meaning as in Sec. 121.

b. It has neither unpaid assessment due nor past due obligations with the PDIC.

Requirements for accepting negotiable order of withdrawal accounts. After a TB's/RB's/Coop Bank's application to accept NOW account has been approved, it may actually accept the same subject to the following conditions:

a. Submission of a certification signed by the president/chairman of the board of the bank stating that the requirements enumerated in this Section on Prerequisites to accept negotiable order of withdrawal accounts for thrift banks/rural banks/cooperative banks have been complied with up to the day before the NOW account services are actually offered/extended to the public; and

b. That it has complied with all other conditions that the Bangko Sentral may impose.

The applicant bank shall submit a written notice to the appropriate supervising department of the Bangko Sentral of the actual date when the NOW account deposit service is offered to the public not later than ten (10) banking days from such offering of the service.

Sanctions. If any part of the certification submitted by the bank as required in these guidelines is found to be false, the following sanctions shall be imposed, without prejudice to the sanctions under Section 35 of R.A. No. 7653:

a. *On the bank*

   Suspension of its authority to accept or create NOW accounts for one (1) year.

b. *On the certifying officer*

   A fine of P5,000 per day from the time the certification was made up to the time the certification was found to be false.

222 MINIMUM FEATURES OF NEGOTIABLE ORDER OF WITHDRAWAL ACCOUNTS

The standards and design of the order of withdrawal form shall be in accordance with the PCHC rules and regulations if said order of withdrawal form is intended to be cleared through PCHC. Otherwise, the minimum features of the pro-forma order of withdrawal shall conform with *Appendix 11*.

(Circular No. 924 dated 07 September 2016)

223 RULES ON SERVICING NEGOTIABLE ORDER OF WITHDRAWAL ACCOUNTS

The following rules shall be observed in servicing NOW accounts:

a. Prior to or simultaneous with the opening of a NOW account, the bank shall inform the depositor of its terms and conditions;
b. The bank shall be responsible for the proper identification of its depositors; it shall require, among other things, two (2) specimen signatures and such other pertinent information;
c. Deposits shall be covered by deposit slips in duplicate duly validated and initialed by the teller receiving the deposit. A copy of the deposit slip shall be furnished the depositor;
d. NOW accounts shall be kept and maintained separately from the regular savings deposits;
e. Blank NOW forms shall be prenumbered and shall be controlled as in the case of unissued blank checks;
f. A bank statement shall be sent to each depositor at the end of each month for confirmation of balances; and
g. Banks must use the form prescribed by present rules for NOW accounts.

Nothing herein shall be construed as precluding a TB, RB or Coop Bank from applying for authority to accept both demand deposits and NOW accounts.

E. GOVERNMENT DEPOSITS

231 ACCEPTANCE OF GOVERNMENT DEPOSITS

Policy Statement. As a general policy, cash balances of the Government, its political subdivisions and instrumentalities as well as of government-owned or controlled corporations (GOCCs) shall be deposited with the Bangko Sentral, with only minimum working balances to be held by government-owned banks and such other banks incorporated in the Philippines as the Monetary Board may designate: *Provided,* That such banks may be authorized by the Monetary Board to hold deposits of the political subdivisions and instrumentalities of the Government beyond their minimum working balances whenever such subdivisions and instrumentalities have outstanding loans with said banks.

For purposes of this Section:

a. The term *GOCCs* shall refer to government-owned or controlled corporations which are created by special laws. It shall exclude government FIs such as DBP, LBP and Al-Amanah Islamic Investment Bank of the Philippines, corporations which are created under the provisions of the Corporation Law (Act No. 1459, as amended) or the Corporation Code (BP Blg. 68) and private corporations which are taken over by GOCCs.

b. *Minimum working balances* shall represent the minimum amounts necessary to enable the government instrumentality/political subdivision making the deposit to transact business efficiently and effectively as determined by the Department of Finance.

Prior Monetary Board approval. No private bank shall, without prior approval of the Monetary Board, accept, as depository, any fund or money from the Government, its political subdivisions and instrumentalities, and GOCCs; nor shall a private bank borrow any fund or money therefrom, through the issuance or sale of its acceptances, notes or other evidences of indebtedness.

Banks which may accept government funds.

a. Banks, the majority of the capital of which is owned by the Government, may act as depository of funds of the Government, its political subdivisions and instrumentalities, and GOCCs.

b. Private banks incorporated in the Philippines may act as depository of government funds only with the prior approval of the Bangko Sentral. Local government units may maintain depository accounts preferably in government banks and, in exceptional cases and with the prior approval of the Monetary Board, in the name of their respective government units, in private banks located in or nearest to their respective areas of jurisdiction but the depository bank(s) must also seek the prior approval of the Bangko Sentral: *Provided,* That a TB/RB/Coop Bank may only act as official depository of government funds pursuant to R.A. Nos. 7906, 7353 and 6938, as follows:

   (1) A TB may only act as official depository of national agencies, and of municipal, city or provincial funds in the municipality, city or province where the TB is located;
   (2) A RB may only act as official depository of municipal, city or provincial funds in the municipality, city or province where the RB is located; and
   (3) A Coop Bank may accept deposits of all government departments, agencies and units of the national and local governments including GOCCs.

c. Where there is no government bank or Bangko Sentral office in the province and the nearest government bank or Bangko Sentral office is inaccessible by ordinary transportation, or transporting/withdrawing the government deposits to and from the said office is impractical or risky, the province, as well as cities and municipalities located therein, may seek approval of the Monetary Board to consider all their funds eligible for deposits with a qualified private depository bank within the province, city or municipality, as the case may be.

d. Banks acting as official depository of government funds may accept demand, savings or time deposits.

e. The authority of a bank to accept government deposits does not obligate the Government, its subdivisions and instrumentalities and GOCCs to deposit with that bank. Thus, even if a TB or RB is authorized by the Monetary Board to accept government deposits, a municipality is not obligated to deposit with that TB or RB. Similarly, a bank which is authorized to accept deposits of the Government or a government corporation because of outstanding loans granted by the bank cannot demand as a matter of right that the Government or government corporation make deposits unless there is a stipulation in the loan agreement.

Prerequisites for the grant of authority to accept deposits from the Government and government entities. In addition to the *Standard Pre-qualification Requirements for the Grant of Banking Authorities* enumerated in *Appendix 5,* private banks applying for authority to accept deposits from the Government, its subdivisions and instrumentalities and GOCCs and government banks applying for authority to accept government deposits in excess of minimum working balances shall also comply with the following conditions:

a. The applicant bank must have complied with the minimum capital required under Sec. 121;
b. It has neither unpaid assessment due nor past due obligations with the PDIC; and
c. The bank's CAMELS composite rating in its latest examination is not lower than three (3) with Management component score of not lower than three (3).

Application for authority. An application for authority to accept government deposits shall be signed by the president of the bank and shall be filed with the appropriate supervising department of the Bangko Sentral. The application shall be accompanied by a certification by the bank president or executive vice-president that the bank has complied with all the requirements enumerated in this Section on Prerequisites for the grant of authority to accept deposits from the Government and government entities.

Banks authorized to accept government funds as depository shall continuously comply with the conditions enumerated in this Section on Prerequisites for the grant of authority to accept deposits from the Government and government entities even after the authority to accept government deposits has been granted and during the period while the banks actually hold government deposits, otherwise, any violation may be a basis for the imposition of sanctions against the bank, its directors and officers, or revocation of the authority to accept government deposits.

Deposits maintained by the Government, its subdivisions and instrumentalities and GOCCs shall be supported by the following documents whenever applicable:

a. A copy of the resolution of the barangay, municipal or city council (Sangguniang Bayan/Panglunsod) or the provincial board (Sangguniang Panlalawigan) authorizing the deposit of municipal, city or provincial funds;

b. A copy of the resolution of the board of directors of the GOCCs authorizing the deposit of funds of said corporations; or

c. In case of the National Government, its unincorporated branches, agencies and instrumentalities, a written authority to open deposit accounts and/or deposit government funds signed by the duly authorized official of the Department of Finance/Bureau of the Treasury (DOF/BTr) and of the department, bureau, agency, or office making the deposit.

The resolution or authority should state the name and location of the depository bank, type and terms of the deposit, and that the amount to be deposited represents working balances.

Limits on funds of the Government and government entities that may be deposited with banks.

a. Funds of the Government, its subdivisions and instrumentalities and GOCCs, deposited with banks authorized to receive deposits shall be limited to the minimum working balance of the depositor.

   With prior Monetary Board approval, government or private banks may be authorized to accept amounts in excess of minimum working balances if the Government or government entity making the deposit has outstanding loan obligations to the depository bank but such amounts shall not exceed the amount of its outstanding loan obligations to the depository bank. The amount of non-transferable and non-negotiable government securities with market or below market interest rate at the time of issue, issued by the National Government to the depository bank shall be considered as "outstanding loans" of the National Government to said bank within the meaning of Section 113 of R.A. No. 7653.

b. The aggregate amount of government funds which a private bank can hold at any given time shall not exceed 200% of the bank's net worth.

c. Where any director, officer or stockholder of a private bank, as defined under Sec. 341 (Definitions), is also an elective or appointive official of a municipality, city or province, said bank is prohibited from accepting deposits from said municipality, city or province unless it is the only bank existing therein: *Provided,* That this provision shall not be construed as a grant of authority to such elective or appointive public official to act as director or officer of a private bank.

Liquidity floor. Unless otherwise prescribed by the Monetary Board, authorized government depository banks other than the Bangko Sentral, and authorized private banks shall, inclusive of the required reserves against deposits and/or deposit substitutes, maintain a fifty percent (50%) liquidity floor with respect to deposits of, borrowings from, and all other liabilities to, the Government and government entities, in the form of transferable government securities which represent direct obligations of the National Government, until 31 December 2017.

Effective 01 January 2018, liquidity floor reserve requirement shall be as follows:

	Required Liquidity Floor	
UBs/KBs	0%	Government deposits and government deposit substitutes shall continue to be subject to the reserve requirements provided under Sec. 251.
For TBs and RBs and Coop Banks	50%	Inclusive of the required reserves against deposits and/or deposit substitutes

Effective 01 January 2019, the liquidity floor reserve requirements shall be as follows:

	Required Liquidity Floor	
For UBs/KBs/TBs/RBs /Coop Banks	0%	Government deposits and government deposit substitutes shall continue to be subject to the reserve requirements provided under Sec. 251

Eligible securities being used as such reserve shall not in any way be encumbered or be subject to any transaction without prior approval of the Bangko Sentral.

Also eligible for liquidity floor are the following:

a. The free portion of the *"Due from Bangko Sentral - Local Currency"* after satisfying the legal and other reserve requirements; and
b. Placement of banks in the TDF and the ODF of the Bangko Sentral.

Banks authorized to accept government deposits shall specify in the prescribed reports submitted to the SDC of the Bangko Sentral the balance of government deposits subject to liquidity floor requirement and, if any, the corresponding GS earmarked for subject purpose.

Exempt transactions. The following deposits of, borrowings from and/or liabilities to, the Government and government entities shall be exempt from the liquidity floor:

a. Obligations to the Bangko Sentral arising from rediscounting facilities and sale of government securities under repo agreements made in connection with the provisions of Sec. 282, and Sec. 601 (Repurchase agreements with Bangko Sentral);

b. Special time deposits (STDs) and deposit substitutes under the special financing program of the Government and/or international FIs;

c. Obligations to the Bangko Sentral consisting of emergency advances, overdraft facilities, and those arising from peso swap differentials and supervision and examination fees;

d. Marginal deposits on importations;

e. Due to the Treasurer of the Philippines (unclaimed deposit balances);

f. Funds held by participating financial institutions (PFIs) under the GSIS Housing Loan Programs: *Provided,* That the agreement between GSIS and the conduit banks specify that such funds may be held by the conduit banks for a period of not more than seven (7) calendar days prior to their release to the borrower and prior to the remittance by the conduit banks of payment to the GSIS;

g. Deposits of the BIR and BOC; and

h. Any other form of deposits, borrowings and/or liabilities specifically authorized by law or exempted by the Monetary Board.

Reports. Banks shall submit to the appropriate supervising department of the Bangko Sentral a report of their government deposits from all sources in the aggregate in the prescribed form.

Sanctions. Any violation of this Section shall be a ground for the imposition of the following sanctions:

a. The deposit account with the Bangko Sentral of the bank concerned shall be debited by the Accounting Department of the Bangko Sentral in the amount of the unauthorized deposit or borrowing upon receipt of a report or notice from the appropriate supervising department of the Bangko Sentral and the deposit account of the government institutions with the Bangko Sentral shall be credited for the same amount. A copy of said report or notice of the appropriate supervising department of the Bangko Sentral shall be furnished each to the bank concerned and the government institutions.

b. The withdrawal of previously granted authority to accept government funds.

c. Without prejudice to the sanctions under Section 35 of R.A. No. 7653, the following administrative sanctions shall be imposed if any part of the certification as required in this Section is found to be false or misleading:

On the bank - Cancellation of the authority to accept government deposits if one has already been granted and/or disqualification to act as a government depository for not more than one (1) year.

On the certifying officer - A fine of P5,000 per day from the time the certification was found to be false, for each application filed with the Bangko Sentral.

d. Any bank with deficiency in the required liquidity floor against deposits of, and/or borrowings from, the Government and government entities or with excess holdings of such deposits shall: (1) be denied the credit facilities of the Bangko Sentral; and (2) if the deficiency lasts for four (4) consecutive weeks, the bank shall be prohibited from declaring cash dividends and making new loans and investments, except investments in government securities. The prohibition shall be lifted by the Governor of the Bangko Sentral, upon certification by the appropriate supervising department of the Bangko Sentral that the bank has had no deficiency in its liquidity floor and no excess holdings of government deposits for at least four (4) consecutive weeks.

Acceptance by banks with internet banking facility of payment of fees for account of government entities. Domestic private banks with Bangko Sentral-approved internet banking facility are allowed to accept payment of fees/other charges of similar nature for the account of the departments, bureaus, offices and agencies of the government as well as all GOCCs: *Provided*, That the funds so accepted/collected shall be treated as deposit liabilities subject to existing regulations on government deposits and shall not exceed the minimum working balance of the said government entities.

These banks are required to notify the appropriate supervising department of the Bangko Sentral that supervises the bank, copy furnished the Head of the Technical Working Group on E-Banking, SDC, of the names of the government institutions that will interface with their systems and any changes that may subsequently be made on the arrangements.

(Circular Nos.996 dated 08 February 2018, 946 dated 17 February 2017, 913 dated 02 June 2016)

F. DEPOSIT SUBSTITUTE OPERATIONS (QUASI-BANKING FUNCTIONS)

241 SCOPE OF QUASI-BANKING FUNCTIONS

The following rules and regulations shall govern the quasi-banking operations of banks.

Elements of quasi-banking. The essential elements of quasi-banking are:

a. Borrowing funds for the borrower's own account;

b. Twenty (20) or more lenders at any one (1) time;

c. Methods of borrowing are issuance, endorsement, or acceptance of debt instruments of any kind, other than deposits, such as acceptances, promissory notes, participations, certificates of assignments or similar instruments with recourse, trust certificates, repurchase agreements, and such other instruments as the Monetary Board may determine; and

d. The purpose of which is (1) relending, or (2) purchasing receivables or other obligations.

Definition of terms and phrases. The following terms and phrases shall be understood as follows:

a. *Borrowing* shall refer to all forms of obtaining or raising funds through any of the methods and for any of the purposes provided in this Section on Elements of quasi-banking whether the borrower's liability thereby is treated as real or contingent.

b. *For the borrower's own account* shall refer to the assumption of liability in one's own capacity and not in representation, or as an agent or trustee, of another.

c. *Purchasing of receivables or other obligations* shall refer to the acquisition of claims collectible in money, including interbank borrowings or borrowings between FIs, or of acquisition of securities, of any amount and maturity, from domestic or foreign sources.

d. *Relending* shall refer to the extension of loans by an institution with antecedent borrowing transactions. Relending shall be presumed, in the absence of express stipulations, when the institution is regularly engaged in lending.

e. *Regularly engaged in lending* shall refer to the practice of extending loans, advances, discounts or rediscounts as a matter of business, as distinguished from isolated lending transactions.

Transactions not considered quasi-banking. The following shall not constitute quasi-banking:

a. Borrowing by commercial, industrial and other non-financial companies through any of the means listed under this Section on Elements of quasi-banking, for the limited purpose of financing their own needs or the needs of their agents or dealers; and

b. The mere buying and selling without recourse of instruments mentioned under this Section on Elements of quasi-banking: *Provided*, That:

   (1) The institution buying and selling without recourse shall indicate in conspicuous print on its instrument the phrase *without recourse*, *sans recourse* or words of similar import that will convey the absence of liability or guarantee by said institution; and

   (2) In the absence of the phrase *"without recourse", "sans recourse"* or words of similar import, the instrument so issued, endorsed or accepted, shall automatically be considered as falling within the purview of these regulations: *Provided, further,* That any of the following practices or practices similar and/or tantamount thereto in connection with a without recourse transaction is hereby prohibited:

      (a) Issuance of postdated checks by a financial intermediary, whether for its own account or as an agent of the debt instrument issuer, in payment of the debt instrument, sold, assigned or transferred without recourse; or

      (b) Issuance by a financial intermediary of any form of guaranty on sale transactions or on negotiations or assignment of debt instruments without recourse; and

      (c) Payment with its own funds by a financial intermediary which assigned, sold or transferred the debt instrument without recourse, unless the financial intermediary can show that the issuer has with the said financial intermediary funds corresponding to the amount of the obligation.

Pre-conditions for the exercise of quasi-banking functions. No bank shall engage in quasi-banking functions without authority from the Bangko Sentral: *Provided, however,* That banks authorized by the Bangko Sentral to perform universal or commercial banking functions shall automatically have the authority to engage in quasi- banking functions: *Provided, further,* That the authority to obtain funds from the public, which shall mean twenty (20) or more persons under Section 8.2 of R.A. 8791, is not a condition but an authorization for the bank or quasi-bank, once the Monetary Board has granted the quasi-banking license.

In addition to the Standard Pre-qualification Requirements for the Grant of Bank Authorities enumerated in *Appendix 5,* a TB securing Bangko Sentral authority to engage in quasi-banking functions must meet the following requirements:

a. The bank must have a net worth or combined capital of at least P650.0 million computed in accordance with Sec. 121;

b. The bank is well capitalized with risk-based capital adequacy ratio of not lower than twelve percent (12%) at the time of filing the application;

c. The bank's operation during the preceding calendar year and for the period immediately preceding the date of application has been profitable;

d. The bank has elected at least two (2) independent directors and all its directors have attended the required seminar for directors of banks conducted or accredited by the Bangko Sentral;

e. The bank has established a risk management system appropriate to its operations characterized by clear delineation of responsibility for risk management, adequate risk measurement systems, appropriately structured risk limits, effective internal controls, and complete, timely and efficient risk reporting system; and

f. The bank has a CAMELS Composite Rating of at least "3" in the last regular examination with management rating of not lower than "3".

Certificate of Authority from the Bangko Sentral. A bank securing Bangko Sentral's Certificate of Authority to engage in quasi-banking functions shall file an application with the appropriate supervising department of the Bangko Sentral. The application shall be signed by the bank president or officer of equivalent rank and shall be accompanied by the following documents:

a. Certified true copy of the resolution of the bank's board of directors authorizing the application;
b. A certification signed by the president or the officer of equivalent rank that the institution has complied with all conditions/prerequisites for the grant of authority to engage in quasi-banking functions;
c. An information sheet;
d. Bio-data signed under oath, of the members of the managerial staff who will undertake quasi-banking operations;
e. Borrowing-investment program for one (1) year which should include at the minimum:

(1) planned distribution of portfolios as to:

(a) underwriting;
(b) commercial paper markets;
(c) stocks and bonds;
(d) government securities;
(e) receivables financing, discounting and factoring;
(f) leasing; and
(g) direct loans; and

(2) expected sources of funds to support investment program classified as to:

(a) maturity: short, medium and long- term;
(b) interest rates; and
(c) domestic or foreign sources whether institutional or personal.

Sale, discounting, assignment or negotiation by banks of their credit rights arising from claims against the Bangko Sentral to clients. Pursuant to the policy of the Bangko Sentral to promote investor protection and transparency in securities transactions as important components of capital markets development, placements in the Term Deposit Facility (TDF), the Overnight Deposit Facility (ODF) and Reverse Repurchase agreements with the Bangko Sentral, shall not be subject of sale, discounting, assignment or negotiation on a *with or without recourse basis.*

Any violation of the provisions of this Section shall subject the bank and the director/s and/or officer/s concerned to the sanctions provided under Sec. 009.

(Circular Nos. 988 dated 20 December 2017, and 913 dated 02 June 2016)

242 DEPOSIT SUBSTITUTE INSTRUMENTS

Any deposit substitute transaction by a bank performing quasi-banking functions shall be limited to its own promissory notes, repurchase agreements, and certificates of assignment/participation with recourse.

Prohibition against use of acceptances, bills of exchange and trust certificates. Acceptances, bills of exchange, and trust certificates shall not be used by banks as evidence of deposit substitute liabilities in connection with their quasi-banking functions. This prohibition shall not apply to the acceptance or negotiation of bills of exchange in connection with trade transactions, or to the issuance of trust certificates creating trust relationships.

Negotiation of promissory notes. Negotiable promissory notes acquired by banks in connection with their quasi-banking functions shall not be negotiated by mere endorsements and/or delivery, if they do not conform with the minimum features prescribed under this Section. If these notes do not contain the features, their negotiation shall be covered by any of the appropriate deposit substitute instruments abovementioned.

Minimum features. Deposit substitute instruments issued by entities performing quasi-banking functions shall have the following minimum features:

a. The present value and maturity value and/or the principal amount and interest rate and such other information as may be necessary to enable the parties to determine the cost or yield of the borrowing or placement shall be specified.

b. The date of issuance shall be indicated at the upper right corner of the instrument, and directly below which shall be the maturity period or the word *"demand"*, if it is a demand instrument.

c. The payee may be identified by his trust account/deposit account number in both negotiable and non-negotiable instruments.

d. Securities which are the subject of a repurchase agreement or a certificate of assignment/participation with recourse, shall be particularly described on the face of said instruments or on a separate instrument attached and specifically referred to therein and made an integral part thereof as to the maker, value, maturity, serial number, and such other particulars as shall clearly identify the securities.

e. The instrument shall provide for the payment of liquidated damages, in addition to stipulated interest, in case of default by the maker or issuer, as well as attorney's fees and costs of collection in case of suit.

f. A conspicuous notice at the lower center margin of the face of the instrument that the transaction is not insured by the PDIC shall be indicated.

g. The corporate name of the issuer shall be printed at the upper center margin of the instrument and directly below which shall be a designation of the instrument, such as "*Promissory Note" or "Repurchase Agreement"*.

h. The words *"duly authorized officer"* shall be placed directly below the signature of the person signing for the maker or issuer.

i. Each instrument shall be serially pre-numbered.

j. The copy delivered to the payee shall bear the word *"Original"* and the copies retained by the issuer shall be identified as *"Duplicate", "File Copy"* or words of similar import.

k. Only security paper with adequate safeguards against alteration or falsification shall be used.

Borrowings of banks from the loans and discounts window of other banks or non-bank financial intermediaries shall be exempted from the documentation requirements prescribed in this Section: *Provided,* That the exemption from the documentation requirements prescribed in this Section shall not be construed or interpreted as exempting said borrowings from other regulations standardizing deposit substitute instruments and from other Bangko Sentral regulations on deposit substitutes.

Deposit substitute instruments shall conform to the language prescribed by the Bangko Sentral. Any substantial deviation there from or any additional stipulation therein shall be referred to the Bangko Sentral for prior approval. The size and appearance of these instruments shall not be similar to the size and appearance of checks. Rubber stamping, typewriting or handwriting some provisions shall not be considered compliance with said regulations. (Shown in *Appendix 12* are the samples of standardized instruments as evidence of deposit substitute liabilities.)

Interbank loan transactions. Except for interbank borrowings which are settled through the banks' respective DDAs with the Bangko Sentral via PhilPaSS, all interbank borrowings shall be evidenced by deposit substitute instruments containing the minimum features prescribed in this Section.

Delivery of securities

a. Securities, warehouse receipts, quedans and other documents of title which are the subject of quasi-banking functions, such as repurchase agreements, shall be delivered to a Bangko Sentral accredited securities custodian or an SEC authorized central securities depository in accordance with the guidelines set forth in *Appendix 73.* The securities custodian shall hold the securities in the name of the borrower/seller, but shall keep said securities segregated from the proprietary securities account of the borrower/seller if the borrower/seller has an existing securities account with the custodian: *Provided,* That a bank authorized by the Bangko Sentral to perform custodianship function may not be allowed to be custodian of securities issued or owned by said bank, its subsidiaries or affiliates, or of securities in bearer form.

The delivery shall be effected upon payment and shall be evidenced by a securities delivery receipt duly signed by authorized officers of the custodian and delivered to both the lender/purchaser and seller/borrower.

Sanctions. Violation of any provision of Item *"a"* shall be subject to the following sanctions/penalties:

(1) *Monetary penalties*

First offense - Fine of P10,000 a day for each violation reckoned from the date the violation was committed up to the date it was corrected.

Subsequent offenses - Fine of P20,000 a day for each violation reckoned from the date the violation was committed up to the date it was corrected.

(2) *Other sanctions*

First offense - Reprimand for the directors/officers responsible for the violation.

Subsequent offense –

(a) Suspension for ninety (90) days without pay of directors/officers responsible for the violation;
(b) Suspension or revocation of the accreditation to perform custodianship function;
(c) Suspension or revocation of the authority to engage in quasi-banking function; and/or
(d) Suspension or revocation of the authority to engage in trust and other fiduciary business.

b. The guidelines to implement the delivery by the seller of securities to the buyer or to his designated securities custodian or central securities depository are shown i*n Appendix 73.*

The guidelines on the delivery of government securities to the investor's principal securities account with the Registry of Scripless Securities (RoSS) are in *Appendix 74*.

Sanctions. Without prejudice to the penal and administrative sanctions provided for under Sections 36 and 37, respectively of R.A. No. 7653 (The New Central Bank Act), violation of any provision of the guidelines in *Appendix 73* shall be subject to the following sanctions/penalties depending on the gravity of the offense:

a. *First offense*

(1) Fine of up to P10,000 a day for the institution for each violation reckoned from the date the violation was committed up to the date it was corrected; and
(2) Reprimand for the directors/officers responsible for the violation.

b. *Second offense*

(1) Fine of up to P20,000 a day for the institution for each violation reckoned from the date the violation was committed up to the date it was corrected; and
(2) Suspension for ninety (90) days without pay of directors/officers responsible for the violation.

c. *Subsequent offenses*

(1) Fine of up to P30,000 a day for the institution for each violation from the date the violation was committed up to the date it was corrected;
(2) Suspension or revocation of the authority to act as securities custodian and/or registry; and
(3) Suspension for 120 days without pay of the directors/officers responsible for the violation.

Other rules and regulations governing the issuance and treatment of deposit substitute instruments

a. If there is any stipulation that payment of the deposit substitute shall be chargeable against a particular deposit account, it shall further provide that the liability of the maker or issuer of the instrument shall not be limited to the outstanding balance of said account.

b. Any agreement allowing the issuer or maker to substitute the underlying securities shall further provide that the actual substitution shall be with the prior written consent of the payee.

c. Automatic renewal upon maturity of the instrument may be effected only under terms and conditions previously stipulated by the parties.

d. Stipulations between the maker or issuer and the payee which are embodied in separate instruments shall be specifically referred to in the deposit substitute instruments and made an integral part thereof.

e. In the case of repurchase agreements and certificates of assignment/participation with recourse, the stipulation shall clearly state either (1) that the underlying securities are being delivered to the buyer or assignee as collaterals or (2) that the ownership thereof is being transferred to the buyer or assignee.

f. The regulations on interbank loan transactions prescribed in Sec. 315 shall also apply to interbank borrowings.

Repurchase agreements covering government securities, commercial papers and other negotiable and non-negotiable securities or instruments. The following regulations shall govern repurchase agreements covering government securities, commercial papers and other negotiable and non-negotiable securities or instruments of banks as well as sale on a without recourse basis of said securities by banks.

a. *Proper recording and documentation of repurchase agreements.*

Banks shall have a true and accurate account, record or statement of their daily transactions. As such, repurchase agreements covering government securities, commercial papers and other negotiable and non-negotiable securities or instruments must be properly recorded and documented in accordance with existing Bangko Sentral regulations.

The absence of proper documentation for repurchase agreements is tantamount to willful omission of entries relevant to any transaction, which shall be a ground for the imposition of administrative sanctions and the disqualification from office of any director or officer responsible therefor under existing laws and regulations.

b. *Responsibilities of the chief executive officer (CEO) or officer of equivalent rank*

It shall be the responsibility of the CEO or the officer of equivalent rank in a bank to:

(1) Institute policies and procedures to prevent undocumented or improperly documented repurchase agreements covering government securities, commercial papers and other negotiable and non-negotiable securities or instruments;

(2) Ascertain and ensure that the bank did not enter into a repurchase agreement covering government securities, commercial papers and other negotiable and non-negotiable securities or instruments that are not documented in accordance with existing Bangko Sentral regulations and that the bank has strictly complied with the pertinent rules of the SEC and the Bangko Sentral on the proper sale of securities to the public and performed the necessary representations and disclosures on the securities particularly the following:

(a) Informed the clients that such securities are not deposits and as such, do not benefit from any insurance otherwise applicable to deposits such as, but not limited to, R.A. No. 3591, as amended, otherwise known as the PDIC law;

(b) Informed and explained to the client all the basic features of the security being sold on a without recourse basis, such as but not limited to:

(i) issuer and its financial conditions;
(ii) term and maturity date;
(iii) applicable interest rate and its computation;
(iv) tax features (whether taxable, tax paid or tax-exempt);
(v) risk factors and investment considerations;
(vi) liquidity feature of the instrument:

(aa) procedures for selling the security in the secondary market (e.g., OTC or exchange);
(bb) authorized selling agents; and
(cc) minimum selling lots.

(vii) disposition of the security:

(aa) registry (address and contact numbers);
(bb) functions of the registry; and
(cc) pertinent registry rules and procedures.

(viii) collecting and paying agent of the interest and principal; and
(ix) other pertinent terms and conditions of the security and if possible, a copy of the prospectus or information sheet of the security.

(c) Informed the client that pursuant to Secs. 242 (*Delivery of securities*) and 245 (*Delivery of securities*):

(i) Securities sold under repurchase agreements shall be delivered in accordance with the guidelines set forth in *Appendix 73;* and
(ii) Securities sold on a without recourse basis are required to be delivered in accordance with the guidelines set forth in *Appendix 73.*

(d) Clearly stated to the client that:

(i) The bank does not guarantee the payment of the security sold on a "without recourse basis" and in the event of default by the issuer, the sole credit risk shall be borne by the client; and
(ii) The bank is not performing any advisory or fiduciary function.

(3) Report to the appropriate supervising department of the Bangko Sentral any undocumented repurchase agreement within seventy-two (72) hours from knowledge of such transactions.

c. *Treatment as Deposit Substitutes.* All sales of government securities, commercial papers and other negotiable and non-negotiable securities or instruments that are not documented in accordance with existing Bangko Sentral regulations shall be deemed to be deposit substitutes subject to regular reserves.

d. *Sanctions.* The Monetary Board may, at its evaluation and discretion, impose any or all of the following sanctions to a bank or the director/s or officer/s found to be responsible for repurchase agreements covering government securities, commercial papers and other negotiable and non-negotiable securities or instruments that are not documented in accordance with existing Bangko Sentral regulations:

(1) Fine of up to P30,000 a day to the concerned entity for each violation from the date the violation was committed up to the date it was corrected;
(2) Suspension of interbank clearing privileges/immediate exclusion from clearing;
(3) Suspension of access to Bangko Sentral rediscounting facilities;
(4) Suspension of lending or foreign exchange operations or authority to accept new deposits or make new investments;
(5) Revocation of quasi-banking license;
(6) Revocation of authority to perform trust operations; and
(7) Suspension for 120 days without pay of the directors/officers responsible for the violation.

(Circular Nos. 873 dated 25 March 2015 and 870 dated 20 February 2015)

243 MINIMUM TRADING LOT AND MINIMUM TERM OF DEPOSIT SUBSTITUTE

The minimum size of any single deposit substitute transaction shall be P50,000. No bank performing quasi-banking functions shall issue deposit substitute instruments in the name of two (2) or more persons or accounts except those falling under the following relationships in which cases, commingling may be allowed: (a) husband and wife; (b) persons related to each other within the second degree of consanguinity; and (c) "in trust for" (ITF) arrangements.

244 MONEY MARKET PLACEMENTS OF RURAL BANKS

Banks shall not accept money market placements from any RB unless the latter presents a certification under oath stating: (a) that it has no overdue special time deposits; (b) that it has no past due obligations with the Bangko Sentral or other government financial institutions; (c) the amount of its current obligations, if any, with said government financial institutions; and (d) the amount of its total outstanding money market placements. However, in no case shall such banks sell receivables to RBs without recourse.

Definition of terms. As used in this Section, the following terms shall have the following meanings:

a. *Money market placements* shall include investments in debt instruments, including purchase of receivables with recourse to the lending institution, except purchase of government securities on an outright basis.

b. *Government securities* shall include evidences of indebtedness of the Republic of the Philippines, the Bangko Sentral and other evidences of indebtedness or obligations of government entities the servicing and repayment of which are fully guaranteed by the Republic of the Philippines.

c. *Persistent violation* shall mean the violation of any of the provisions of these rules by the director or officer concerned for four (4) or more times within a 12-month period from the date the first offense was committed.

Conditions required on accepted placements not covered by prohibition. Placements accepted which are otherwise not covered by the above prohibition must comply with the following conditions:

a. That total money market placements of an RB as stated in the certification, including the placement being accepted by the entity concerned, shall not exceed the RB's combined capital accounts or net worth less current obligations with the Bangko Sentral or other government financial entities;

b. The maturity of the money market placement shall not exceed sixty (60) days; and

c. That placements shall be evidenced in all cases by promissory notes of accepting entities/repurchase agreements and/or certificates of participation/assignment with recourse and that underlying instruments shall be certificates of indebtedness issued by the Bangko Sentral or other government securities the servicing and repayment of which are guaranteed by the Republic of the Philippines.

Sanctions. Violations of the provisions of this Section shall be subject to the following sanctions/penalties:

a. *Monetary penalties*

First offense - Fines of P3,000 a day, reckoned from the date placement started up to the date when said placement was withdrawn, for each violation shall be assessed on the bank.

Subsequent offenses - Fines of P5,000 a day, reckoned from the date placement started up to the date placement was withdrawn, for each violation shall be assessed on the bank.

b. *Other sanctions*

First offense - Reprimand for the directors/officers who approved the acceptance/placement with a warning that subsequent violations will be subject to more severe sanctions.

Subsequent offenses –

(1) Suspension for ninety (90) days without pay for directors/officers who approved the placement.
(2) Suspension or revocation of the authority to engage in quasi-banking functions.

245 WITHOUT RECOURSE TRANSACTIONS

No bank shall sell, discount, assign, or negotiate, in whole or in part, such as thru syndications, participations and other similar arrangements, any notes, receivables, loans, debt instruments and any type of financial asset or claim, except government securities, or be a party in any capacity in any of the above transactions, on a without recourse basis unless such receivables, notes, loans, debt instruments and financial assets or claims are registered with the SEC. This prohibition includes transactions between a bank and its trust department.

Unregistered commercial papers may be sold, discounted, assigned, or negotiated by banks to the following:

a. other banks;
b. QBs;
c. IHs;
d. insurance companies;
e. finance companies;
f. investment companies;
g. pension or retirement plan maintained by the government of the Philippines or any political subdivision thereof or managed by a bank or other persons authorized by the Bangko Sentral to engage in trust functions;
h. funds managed by another bank or other entities duly authorized to engage in trust or other fiduciary business; and
i. such other person as the SEC may by rule determine as qualified buyers, on the basis of such factors as financial sophistication, net worth, knowledge, and experience in financial and business matters, or amount of assets under management.

Delivery of securities

a. Securities sold on a without recourse basis allowed under this Section shall be delivered directly to the purchaser or to the purchaser's designated Bangko Sentral accredited securities custodian or SEC authorized central securities depository in accordance with the guidelines set forth in *Appendix 73.* The securities custodian shall hold the securities in the name of the buyer: *Provided,* That a bank authorized by the Bangko Sentral to perform custodianship function or an SEC-authorized central securities depository may not be allowed to be custodian/depository of securities issued or sold by said custodian or central securities depository, by entities

belonging to the same financial conglomerate or banking group as that of the custodian or depository, or of securities in bearer form.

The delivery shall be effected upon payment and shall be evidenced by a securities delivery receipt duly signed by the authorized officer of the custodian/central securities depository and delivered to the purchaser.

Sanctions. Violation of any provisions of Item *"a"* shall be subject to the following sanctions/penalties:

(1) *Monetary penalties*

First offense - Fine of P10,000 a day for each violation reckoned from the date the violation was committed up to the date it was corrected.

Subsequent offenses - Fine of P20,000 a day for each violation reckoned from the date the violation was committed up to the date it was corrected.

(2) *Other sanctions*

First offense - Reprimand for the directors/officers responsible for the violation.

Subsequent offense –

(a) Suspension for ninety (90) days without pay of directors/officers responsible for the violation;
(b) Suspension or revocation of the accreditation to perform custodianship function;
(c) Suspension or revocation of the authority to engage in quasi-banking function; and/or
(d) Suspension or revocation of the authority to engage in trust and other fiduciary business.

b. The guidelines to implement the delivery by the seller of securities to the buyer or to his designated securities custodian or central securities depository are shown in *Appendix 73.*

The guidelines on the delivery of government securities to the investor's principal securities account with the RoSS are in *Appendix 74*.

Sanctions. Violation of any provision of the guidelines in *Appendix 73* shall be subject to the sanctions/penalties under Sec. 242 (*Delivery of securities*, Item "*b*").

Sanctions. Unless specific sanctions are prescribed under these rules, any violation of the provisions of this Section shall be subject to any or all of the following sanctions:

a. Suspension of quasi-banking authority for a period of six (6) months; and
b. Monetary penalty of P500 per day per transaction for each officer of the bank involved in any capacity in any transaction violative of these regulations.

(Circular No. 873 dated 25 March 2015)

246 ISSUANCE OF BONDS AND COMMERCIAL PAPERS

All banks with quasi-banking authority issuing bonds or commercial papers shall comply with Republic Act No. 8799 or the Securities Regulation Code (SRC) and its Implementing Rules and Regulation, and other applicable rules and regulations issued by the Securities and Exchange Commission (SEC). A bank may issue bonds and/or commercial papers without prior Bangko Sentral approval: *Provided,* That it meets the following prudential criteria as described in Sec. 111 (*Prudential Criteria*).

a. The bank must have a CAMELS composite rating of at least "3" and a "Management" rating of not lower than "3";
b. The bank has no major supervisory concerns in governance, risk management systems, and internal controls and compliance system; and
c. The bank has complied with directives and/or is not subject of specific directives and/or enforcement actions by the Bangko Sentral.

Provided, further, That bonds issued are enrolled and/or traded in a market which is organized in accordance with the SEC rules and regulations.

Notice to the Bangko Sentral ng Pilipinas. Within five (5) banking days from approval by the bank's board of directors of the bond/commercial paper issuance, the bank shall submit the following documents to the appropriate supervising department of the Bangko Sentral:

a. Notification letter signed by the president or officer of equivalent rank, indicating the amount and the terms of the bond/commercial paper issuance. The letter shall also include the funding plan of the bank in the next three (3) years considering its strategic direction and business model. The funding plan, at the minimum, shall contain how the planned issuance factors into the funding plan;

b. Secretary's certificate on the approval of the board of directors on the bond/commercial paper issuance;

c. Certification signed by the bank's president or officer of equivalent rank and chief compliance officer, that the bank has complied with the prudential criteria as provided in this Section, and the relevant requirements of the SRC and other pertinent rules and regulations of the SEC; and

d. Written Undertaking to enroll and/or trade the bonds in a market which is organized in accordance with SEC rules and regulations.

***Prohibition on Issuing Banks and Their Related Entities*.** The issuing bank, including its subsidiaries, affiliates, and the wholly or majority-owned or -controlled entities of such subsidiaries and affiliates, except for its trust departments or related trust entities, is prohibited from holding or acting as a market maker of the bank's listed/traded bonds or commercial papers. Likewise, the registry bank, including the underwriter/arranger of the issuance, shall be a third party with no subsidiary/affiliate relationship with the issuing bank, and which is not related to the issuing bank in any manner that would undermine its independence.

***Enforcement Action*.** Consistent with Sec. 002 (*Supervisory enforcement policy*), the Bangko Sentral may deploy enforcement actions to promote compliance with the requirements set forth in this Section and ensure timely implementation of preventive or corrective measures as needed. As part of its enforcement actions, the Bangko Sentral may issue directives or impose sanctions which limit the level of or suspend any business activity that adversely affects the safety and soundness of a bank.

(Circular No. 1010 dated 09 August 2018)

G. RESERVES AGAINST DEPOSITS AND DEPOSIT SUBSTITUTE LIABILITIES

251 ACCOUNTS SUBJECT TO RESERVES; AMOUNTS REQUIRED

The following rules and regulations shall govern the reserves against deposit and deposit substitute liabilities.

Required reserves against deposit and deposit substitute liabilities. The rates of required reserves against deposit and deposit substitute liabilities in local currency of banks starting reserve week 1 June 2018 shall be as follows:

	UBs/KBs	TBs	RBs/Coop Banks
a. Demand Deposits	18%	8%	5%
b. NOW Accounts	18%	8%	5%
c. Savings Deposits	18%	8%	3%
d. Time Deposits, Negotiable CTDs, Long-Term Non-Negotiable Tax Exempt CTDs	18%	8%	3%
e. Long-term Negotiable Certificate of Time Deposits			
(1) LTNCTDs under Circular No. 304	4%	4%	4%
(2) LTNCTDs under Circular No. 824	7%	7%	7%
f. Deposit Substitute (DS)	18%	8%	NA
g. DS evidenced by repo agreement	0%	0%	NA
h. IBCL (Sec. 315)	0%	0%	0%
i. Bonds	6%	6%	NA
j. Mortgage/CHM cert.	NA	6%	NA
k. Peso deposits lodged under Due to foreign banks	18%	NA	NA
l. Peso deposits lodged under Due to Head Office/Branches/ Agencies Abroad (Philippine branch of a foreign bank)	18%	NA	NA
m. Basic deposit accounts, as defined in Sec. 213[1]	0%	0%	0%

Item *"g"* refers to deposit substitutes evidenced by repo agreements covering government securities that are transacted in an organized market under the Government Securities Repo Program.

[1] The required reserves for banks shall take effect starting reserve week 23 February 2018.

Items *"k"* and *"l"* refer to peso deposits, except those utilized as capital of foreign banks (including Head Office/Branches/Agencies abroad of local branches of foreign banks) booked under the "Due to Foreign Banks" and "Due to Head Office/Branches/Agencies Abroad" accounts as provided under Sec. 172 (*Adoption of the Manual of Accounts*), as amended.

(Circular Nos.1004 dated 24 May 2018, 997 dated 15 February 2018 and 992 dated 01 February 2018)

252 COMPOSITION OF RESERVES

Composition of required reserves. The required reserves shall be kept in the form of deposits placed in banks' demand deposit accounts (DDAs) with the Bangko Sentral.

Transitory provisions. Government securities which are used as compliance with the regular and/or liquidity reserve requirement as of 06 April 2012, shall continue to be eligible as compliance with the reserve requirement until they mature.

For purposes of this Section, government securities which may form part of the reserves against deposits/deposit substitute liabilities of banks shall refer to bonds or other evidences of indebtedness representing direct obligations of the Government of the Republic of the Philippines: *Provided*, That such securities shall have the following minimum features/conditions:

a. The securities must bear an interest rate of not more than four percent (4%) per annum, must be non-negotiable and shall carry Bangko Sentral support;
b. The amount, maturity date and rate of interest must be definite and stated in the certificate itself; and
c. The government securities may not be hypothecated or encumbered in any way or earmarked for any other purpose.

The government securities held as reserves shall be valued at cost of acquisition and the bank may freely alter its composition: *Provided*, That any substitution or acquisition satisfies the eligibility requirements prescribed above: *Provided, further*, That the bank notifies the Bangko Sentral of any such change in the prescribed forms not later than the reporting day following the change.

Only the buying/lending bank in a resale agreement covering eligible government securities may use such securities as reserves against deposits/deposit substitutes. Conversely, the selling/borrowing bank in a repo agreement covering eligible government securities may not use such securities as reserves against deposits/deposits substitutes.

The reserve eligibility of government securities used as collateral in the reverse repo operations of the Bangko Sentral shall be suspended during the term of the reverse repo agreement.

The phrase *non-reserve eligible* shall be stamped on the face of the custodian receipt being issued by the Bangko Sentral to buyer FIs.

***Allowable drawings against res*erves.** Deposit with the Bangko Sentral to comply with reserve requirements are not regular current accounts. The use, therefore, of Bangko Sentral checks for drawings against reserve deposits shall be limited to (a) settlement of obligations with the Bangko Sentral, and (b) withdrawals to meet cash requirements.

Exclusion of uncleared checks and other cash items. COCIs which have not been cleared yet through the Clearing Office should not be debited to the account *Due from the Bangko Sentral* and should not be considered as available reserves against deposit/deposit substitute liabilities. Such items shall be debited to the COCIs account.

Only after the COCIs have been cleared through the Clearing Office can the bank debit the *Due from the Bangko Sentral* account for said items.

Interest income on reserve deposits. Deposits maintained by banks with the Bangko Sentral in compliance with the reserve requirement shall no longer be paid interest effective 06 April 2012.

Book entry method for reserve securities. In the implementation of the book entry system for transactions in government securities eligible for reserves, transactions concerning reserve-eligible securities shall be entered in the respective securities account of each bank with the Bangko Sentral and shall be evidenced by securities account debit or credit advices to be promptly furnished the institution/s concerned. No certificate shall be issued for any purpose. Transactions with third parties other than the Bangko Sentral shall not be recognized.

253 EXEMPTIONS FROM RESERVE REQUIREMENTS

The following shall be exempt from reserve requirements:

a. All collections credited to the special account *"Due to Bangko Sentral - Internal Revenue Account (Other Cities and Municipalities)";*

b. STDs from the Agrarian Reform Fund Commission and special savings deposits from farmer-borrowers; and

c. Unclaimed balances of deposit liabilities already reported to the Treasurer of the Philippines in accordance with the Unclaimed Balances Act (Act No. 3936, as amended) and transferred/reclassified from the deposit liability/other credit accounts to the liability account *"Due to the Treasurer of the Philippines."*

Local banks may deduct from the amount of their gross demand deposits, the total of their *Due from Local Banks - Demand and Due from PNB - Clearing* in an amount not exceeding the total of their *Demand Deposits-Banks and Due to Local Banks*. As used herein, the term *gross demand deposits* shall mean the sum of all individual deposits, including deposits made by other local banks, the Philippine Government, its political subdivisions and instrumentalities, and GOCCs.

254 COMPUTATION OF RESERVE POSITION

The reserve position of any bank and the penalty on reserve deficiency shall be computed based on a seven (7)-day week, starting Friday and ending Thursday, including Saturdays, Sundays, public special/legal holidays, non-banking days or declared half-day holidays and days when there is no clearing: *Provided,* That with reference to public special/legal holidays, non-banking days, unexpected declared non-banking days, declared half day holidays and days when there is no clearing, the reserve position as calculated at the close of the business day immediately preceding such public special/legal holidays, non-banking days and unexpected declared non-banking days and declared half-day holidays and days when there is no clearing, shall apply thereon. For this purpose, the principal office in the Philippines and all other banking offices located therein shall be treated as a single unit.

The guidelines on the computation of a banks' reserve position during public sector holidays are shown in *Appendix 88*.

Measurement of reserve requirement. The required reserves in the current period (reference reserve week) shall be computed based on the corresponding levels of deposit and deposit substitute liabilities of the prior week.

(Circular Nos. 1043 dated 2 August 2019, 893 dated 23 November 2017, 890 dated 02 November 2015 and 827 dated 28 February 2014)

255 RESERVE DEFICIENCIES; SANCTIONS

Whenever the reserve position of any bank computed in the manner specified in Sec. 254 is below the required minimum, it shall pay the Bangko Sentral one-tenth of one percent (1/10 of 1%) per day on the amount of the deficiency or the prevailing ninety-one (91) day T-Bill rate plus three (3) percentage points, whichever is higher: *Provided, however*, That a bank shall be permitted to offset any reserve deficiency occurring one (1) or more days of the week covered by the report against excess reserves which it may hold on other days of the same week, and shall be required to pay the penalty only on the average daily net deficiency during the week[1].

In case of abuse, a bank shall automatically lose the privilege of offsetting reserve deficiency in the aforesaid manner until such time that it maintains its daily reserve position at the required minimum for at least two (2) consecutive weeks.

As used in this Section, "*abuse*" in the privilege of offsetting reserve deficiencies against excess reserves shall mean having reserve deficiencies occurring four (4) or more times during any given week for two (2) consecutive weeks, whether or not resulting in net weekly deficiencies.

***Chronic reserve deficiency; penalties*.** In cases where the bank has chronic reserve deficiency in deposit/deposit substitute liabilities, the bank shall be denied the credit facilities of the Bangko Sentral; and the Monetary Board may:

a. limit or prohibit the making of new loans or investments by the bank; and
b. prohibit the declaration of cash dividends. The board of directors of said bank shall be notified of such chronic reserve deficiency and the penalties therefor, and be required to immediately correct the reserve position of the bank.

As used in this section, *"chronic reserve deficiency"* shall mean having net reserve deficiencies for two (2) consecutive weeks.

Failure to cover overdrawings with the Bangko Sentral. Any bank is allowed to incur an overdrawing in its deposit account with the Bangko Sentral shall fully cover said overdraft not later than the next clearing day including interest thereon equivalent to one-tenth of one percent (1/10 of 1%) per day or the prevailing ninety-one (91) day T-Bill plus three (3) percentage points, whichever is higher. In case a bank fails to cover its overdrawings, it shall be excluded from clearing on such day and it shall also be denied the credit facilities of the Bangko Sentral. Such exclusion from clearing shall continue for as long as it has not maintained credit balances with the Bangko Sentral for at least five (5) consecutive banking days. If its clearing account is overdrawn for at least five (5) consecutive banking days, it shall be prohibited from (a) making new loans or investments, except investment in government securities with Bangko Sentral support; (b) declaring cash dividends until it has maintained credit balances in its Bangko Sentral clearing account for at least fifteen

[1] See *Appendix 99* on Regulatory Relief for Banks Affected by Calamities.

(15) consecutive banking days; and (c) establishing branches. The denial from availment of credit facilities of the Bangko Sentral shall continue for as long as the bank has not maintained credit balances with the Bangko Sentral for at least fifteen (15) consecutive banking days.

For purposes of computing the total available reserves against deposit/deposit substitute liabilities, the total amount of overdrawing in the clearing account with the Bangko Sentral shall be deducted from available reserves after the required reserves against deposit/deposit substitute liabilities shall have been satisfied.

Payment of penalties on reserve deficiencies. Penalties if unpaid within fifteen (15) days from receipt of the assessment shall be charged against the demand deposit accounts of banks with the Bangko Sentral: *Provided*, That where the bank's credit balance is insufficient and it fails to settle the assessment, the Monetary Board may limit or prohibit the making of new loans or investments by the bank.

(Circular No. 903 dated 29 February 2016, M-2015-039 dated 04 November 2015, Circular No. 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, M-2014-039 dated 01 October 2014, M-2014-031 dated 08 August 2014, and M-2014-006 dated 12 February 2014)

256 REPORT ON COMPLIANCE

Every bank shall make a weekly report to the Bangko Sentral of its daily required and available reserves on deposit/deposit substitute liabilities in the prescribed forms.

H. INTEREST AND FEES

261 INTEREST ON DEPOSITS/DEPOSIT SUBSTITUTES

Demand, savings, NOW accounts, time deposits and deposit substitutes shall not be subject to interest ceilings.

Time of payment of interest on time deposits/deposit substitutes. Interest or yield on time deposit/deposit substitute may be paid at maturity or upon withdrawal or in advance: *Provided, however*, That interest or yield paid in advance shall not exceed the interest for one (1) year.

Treatment of matured time deposits/deposit substitutes. A time deposit not withdrawn or renewed on its due date shall be treated as a savings deposit and shall earn interest from maturity to the date of actual withdrawal or renewal at a rate applicable to savings deposits.

A deposit substitute instrument not withdrawn or renewed on its maturity date shall from said date become payable on demand and shall earn an interest or yield from maturity to actual withdrawal or renewal at a rate applicable to a deposit substitute with a maturity of fifteen (15) days.

Banks performing quasi-banking functions shall continue to consider matured and unwithdrawn deposit substitutes as such and subject to reserves.

262 DISCLOSURE OF EFFECTIVE RATES OF INTEREST

Banks are required to disclose to depositors the following information on interest computation and payments:

a. Type/kind of deposit;
b. Nominal rate of interest and period covered;
c. Manner of interest payment, i.e., whether credited in advance or otherwise;
d. Basis of interest payment, i.e., whether based on average daily balance compounded quarterly or otherwise;
e. Effective rate of interest expressed as a simple annual rate, on the basis of the information above given and indicating the formula used to arrive at the effective rate of interest; and
f. Illustration of basis of computing interest on a hypothetical deposit account.

Copies of the abovementioned information shall be made available to each and every depositor by attaching these copies to savings deposit passbooks and time deposit certificates.

Posters disclosing the above information and aggregate deposit rates shall also be displayed conspicuously within the bank premises.

263 FEES ON RETAIL BANK PRODUCTS/SERVICES[1]

Pursuant to the consumer protection principle of fair treatment, a bank's board of directors shall adopt a policy on the imposition of any fee on its retail products/services. The policy shall cite the basis for the imposition of fees and rationalize the fee structure/amount.

[1] Effective 25 April 2017

Fees on deposit accounts

a. *Maintenance Fee.* Banks may impose maintenance fees on a deposit account, whether active or dormant, subject to the following conditions:

   (1) The required minimum monthly average daily balance (ADB), as well as the imposition and the rate/amount of maintenance fee, are properly disclosed among the terms and conditions of the deposit;
   (2) The deposit account balance has fallen below the required minimum monthly ADB for at least two (2) consecutive months; and
   (3) Banks must ensure that clients are notified of any change in the required minimum monthly ADB and amount of dormancy fee at least sixty (60) days prior to implementation.

b. *Dormancy Fee.* Banks may only impose dormancy fee on a dormant deposit account five (5) years after the last activity therein: *Provided,* That:

   (1) The balance falls below the minimum monthly ADB, if any;
   (2) The monthly dormancy fee shall not exceed thirty pesos (P30.00); and
   (3) The bank complied with the two (2) notice requirement under Items *"7.b.(2)" and "7.b.(4)", Appendix 117,* prior to the charging of dormancy fees.

Additional disclosure requirements. Banks shall post fees/charges in readable font size at the following places:

a. Automated Teller Machine (ATM) transaction fees at the ATM's on-screen messages; and
b. Fees and charges on all retail bank products/services such as deposit, remittance and loan, on the bank's official website and at a conspicuous place within the premises of all banking units.

Amendments to terms and conditions of retail bank products and services. Clients should be notified at least sixty (60) days prior to implementation of any amendments to the terms and conditions of retail bank products and services by public notice. Public notice may take the form of posting in public places, such as the bank's official websites and/or at a conspicuous place within the premises of all banking units.

Changes in deposit interest rate, however, may be immediately effected after the public notice.

Complementary individual notices to a client shall be sent if the amendments pertain to or will result to fees to be paid or charged on the account of the client.

Clients who do not agree with the new/revised terms and conditions have the right to exit the contract without penalty: *Provided,* That such right is exercised within thirty (30) days from receipt of individual notice or thirty (30) days from issuance of public notice.

Individual notifications. 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.

Non-waiver by contractual provisions. The provisions of Sec. 263 (*Amendments to terms and conditions of retail bank Products and Services*) shall apply, notwithstanding any contrary provisions in the terms and conditions.

(Circular No. 928 dated 24 October 2016)

I. DEPOSIT OPERATIONS

271 BOOKING OF DEPOSITS AND WITHDRAWALS

The following regulations shall govern the booking of deposits and withdrawals of banks.

Clearing cut-off time. As a general rule, all deposits and withdrawals during regular banking hours shall be credited or debited to deposit liability accounts on the date of receipt or payment thereof: *Provided, however,* That a bank may set a clearing cut-off time for its head office not earlier than two (2) hours before the start of clearing at the Bangko Sentral, and not earlier than three and one-half (3-1/2) hours before the start of clearing for all its branches, agencies and branch lite unit/s doing business in the Philippines, after which time, deposits received shall be booked as hereinafter provided: *Provided, further,* That banks which are located in areas where there are no Bangko Sentral regional/clearing arrangements may set a clearing cut-off time not earlier than two (2) hours before the start of their local clearing after which time, deposits received shall be booked likewise as hereinafter provided.

***Definitions*.** As used in this Section, the following terms shall have the following meanings:

Regular banking hours shall refer to the banking hours reported to the Bangko Sentral pursuant to Sec. 108, including the extended banking hours reported for servicing deposits and withdrawals.

Clearing cut-off time shall mean the bank's closing time for the acceptance of deposits in the form of checks, bills and other demand items for clearing on the day of their receipt.

Booking of cash deposits. Cash deposits received after the selected clearing cut-off time until the close of the regular banking hours shall be booked as deposits on the day of receipt.

Booking of non-cash deposits. Deposits of checks including "*on us*" checks, *manager's/ cashier's/treasurer's checks* and *demand drafts*, which are drawn against the depository bank and all its offices, as well as treasury warrants and postal money orders, received after the selected clearing cut-off time until the close of the regular banking hours, may, at the option of the bank, be booked as deposits on the day of receipt.

Other non-cash deposits received after the selected clearing cut-off time shall be treated as contingent accounts on the day of receipt and shall be booked as deposits the following banking day.

***Booking of deposits after regular banking hours*.** Deposits, whether cash or non-cash, received after the close of the regular banking hours shall be treated as contingent accounts on the day of receipt and shall be booked as deposits the following banking day.

Other records required. For record and control purposes, banks shall prepare a daily abstract of deposit transactions treated as contingent accounts.

Notice required. Banks shall post at a conspicuous place near each teller's window a notice to depositors indicating their selected clearing cut-off time and a statement to the effect that non-cash items deposited after said cut-off time shall be treated as transactions for the next banking day.

(Circular No. 987 dated 28 December 2017)

272 UNCLAIMED BALANCES

All unclaimed balances, which include credits or deposits of money, bullion, securities or other evidences of indebtedness of any kind, and interest thereon already reported to the Treasurer of the Philippines in accordance with the Unclaimed Balances Act (Act No. 3936, as amended) shall be transferred/reclassified from the deposit liability/other credit accounts to the liability account, "*Due to the Treasurer of the Philippines*," until they are deposited with or turned over to the Treasurer of the Philippines upon order of the court that the same have been escheated in favor of the Government of the Republic of the Philippines and as such, the unclaimed deposit liabilities shall no longer be covered by reserves required of deposit liabilities.

273 RENTAL DEPOSITS OF LESSEES

The following guidelines shall govern the opening and handling by banks of deposits made by lessees under Section 5(b) of Batas Pambansa Blg. 25, otherwise known as the Rent Control Law:

a. The deposit made by the lessee shall only be accepted by the bank under a special savings account in the name of the lessor;
b. The bank shall require the lessee to submit a copy of the written notice sent to the lessor for the deposit made, stating among other things, the date and amount of the deposit and the name and address of the lessor;
c. The bank, at its option, may require the lessee to submit any supporting document, such as the lease contract or official receipts of previous rentals paid, which will show the specimen signature of the lessor, or other papers to identify the lessor;
d. The bank shall segregate from its regular savings deposit accounts and maintain a separate subsidiary control ledger for deposits made under Section 5(b) of Batas Pambansa Blg. 25;
e. Any withdrawal against these special savings deposit accounts may only be allowed in favor of the lessee concerned before the amount deposited under consignation has been accepted by the lessor, or when authorized by the lessor;
f. The expenses which may be incurred by the bank with respect to such rental deposits shall be charged against the lessor;
g. All the minimum internal control standards applicable to savings deposit accounts prescribed in Sec.162 shall be complied with; and
h. The acceptance of such rental deposits, however, shall be optional or discretionary only upon the bank concerned.

274 SERVICING DEPOSITS OUTSIDE BANK PREMISES

Subject to approval by the Deputy Governor, of the appropriate Sector of the Bangko Sentral, a bank may solicit and accept deposits outside of its premises through its employees. This includes deposit pick-up/delivery services with the use of vehicles accompanied by an authorized bank teller or of an authorized mobile bank teller or solicitor, subject to the following conditions:

a. The bank has no major supervisory concerns on its safety and soundness;

b. The bank shall observe prudent security measures and shall obtain appropriate insurance coverage; and

c. Transaction with depositors outside bank premises by bank personnel is deemed a transaction within bank premises and shall be recognized and/or recorded by the bank as occurring at actual point of transaction consistent with procedures for transactions made within bank premises.

The bank's board of directors shall adopt clearly-defined written policies, procedures and controls for the operation of deposit servicing activities outside of bank premises, including but not limited to the criteria for determining to whom the service will be made available, and the terms and conditions for such services.

Once a bank is allowed to solicit and accept deposit outside bank premises, it may continuously undertake these activities unless otherwise ordered by the Bangko Sentral.

Transitory Provisions. Banks with existing authority to solicit and accept deposits outside bank premises shall submit a certification of compliance with the basic conditions hereof within three (3) months from 09 February2017, otherwise, said authority shall be deemed automatically revoked.

(Circular No. 940 dated 20 January 2017)

275 CASH PICK-UP/CASH DELIVERY SERVICES; CASH AGENTS

Subject to approval by the Deputy Governor of appropriate Sector of the Bangko Sentral, a bank may accredit third party service providers, which may be authorized by customers to perform cash/check pick-up and/or cash delivery services on their behalf, or contract third party entities as cash agents to accept and disburse cash on the bank's behalf in order to promote operational efficiency, more expanded service delivery channels, and greater convenience of banking customers.

Once given such approval, a bank may continuously undertake these activities unless otherwise ordered by the Bangko Sentral.

Cash pick-up/Cash delivery services. A bank may accredit third party service provider/s, which may be authorized by customers to pick-up cash/checks for deposit and/or deliver proceeds from cash withdrawal and/or cash exchange, subject to the following conditions:

a. The bank shall exercise due diligence to assure itself that prudent security measures are observed by the service provider, and that customer risk of loss shall be covered by insurance;

b. The customer executes a written authorization for the cash/check pick-up and/or cash delivery and accepts that no deposit relationship exists with the bank for the cash/checks in transit;

c. Customer deposit accounts shall be credited or debited when the cash/checks picked up or cash delivered are turned over to the bank by the service provider and vice-versa consistent with procedures for transactions made by clients within bank premises; and

d. The bank shall ensure due diligence and compliance with applicable rules, regulations and policies on anti-money laundering, consumer protection, bank secrecy, and customer data confidentiality.

The board of directors shall adopt clearly-defined written policies, procedures and controls for cash/check pick-up/cash delivery services, including, but not limited to, the criteria for determining to whom the service will be made available, and the terms and conditions for such services.

Use of cash agents. A bank may contract third party entities as cash agents subject to existing rules on outsourcing: *Provided,* That the following conditions are complied with:

a. The bank shall have an electronic banking solution to implement its cash agent operations and comply with the requirements of Part Seven, on the Guidelines on Electronic Banking Services and Operations. The bank shall deploy

to its cash agents a device through which its customers can perform secure online, real-time deposit and withdrawal transactions for his/her own bank account, fund transfers and bills payment (self-service transactions).

b. Cash agents shall be allowed to accept and disburse cash on bank's behalf in connection with the following self-service transactions of customers:

(1) Deposit and withdrawal transactions performed by the customer on his bank account;
(2) Fund transfers performed by the customer;
(3) Bills payment; and
(4) Payments due to government institutions, e.g., members' contributions to the SSS and premiums payable to the Philhealth.

In addition to the above, cash agents are also allowed to perform the following for the bank:

(a) Perform Know-Your-Customer and other related processes in accordance with existing regulations;
(b) Collect and forward applications for opening a savings account;
(c) Accept and forward loan application documents; and
(d) Market, sell and service insurance products in accordance with existing regulations.

c. The bank assumes full responsibility and liability for all acts and omissions of its cash agents on bank-related services. The bank shall exercise due diligence to ensure its cash agents comply with applicable rules, regulations, and policies on anti-money laundering, consumer protection, bank secrecy and customer data confidentiality.

The board of directors of the bank shall adopt clearly-defined written policies, procedures and controls for its cash agent operations, including but not limited to cash agent selection and due diligence, and customer care arrangements.

Upon receipt of notice of Bangko Sentral approval to contract cash agents, the bank shall inform the Bangko Sentral of the target launch date of such service, which shall be within six (6) months from the date of said approval.

(Circular No. 940 dated 20 January 2017)

276 MISCELLANEOUS RULES ON DEPOSITS

Banks shall also be governed by the following miscellaneous rules on deposits.

***Specimen signatures or biometrics, identification photos*.** For opening an account/establishing relationship under the true and full name of the depositor, all banking institutions are required to simultaneously obtain a minimum of three (3) specimen signatures or biometrics from their depositors and to update the same based on risk and materiality. Banks may, at their option, require their depositors to submit clear ID photos together with the specimen signatures or biometrics

For accounts used purely for digital or electronic payments or transactions, banks may define appropriate due diligence procedures provided that ML/TF risks are effectively managed.

Insurance on deposits. All banks shall indicate the coverage of the PDIC in each passbook, certificate of time deposit and/or cover of checkbook for demand deposit/NOW accounts stating, among other things, the maximum amount of insurance.

***Certification of compliance with Subsection 55.4 of R.A. No. 8791*.** Banks shall submit to the appropriate supervising department of the Bangko Sentral, through the Deputy Governor, a statement within seven (7) banking days after end of June and December, signed solely by the Vice-President for Administration or Human Resource or Personnel, or by any officer assuming equivalent responsibility, certifying their institution's compliance with Subsection 55.4 of R.A. No. 8791, which prohibits banks from employing casual, non-regular personnel or too lengthy probationary personnel in the conduct of its business involving bank deposits. A format for the certification of compliance is shown in *Appendix 50.*

In classifying employee/personnel as casual, regular or probationary, banks shall apply the definitions contained in Articles 280 and 281 of the Labor Code of the Philippines for private banks; and Section 2 of the Civil Service Commission Memorandum Circular No. 40 and Rule VII of Civil Service (Laws and Rules for Government Banks). Personnel with too lengthy probationary status are employees who are allowed to work after a probationary period of six (6) months without being considered a regular/permanent employee.

J. BORROWINGS FROM THE BANGKO SENTRAL

281 REDISCOUNTING LINE

The following guidelines shall govern the operations of the Bangko Sentral's rediscounting line by banking institutions.

Coop Banks shall be given the same privileges and incentives granted to RBs, TBs, UBs and KBs to rediscount notes with the Bangko Sentral, the Land Bank of the Philippines, and other government banks.

***Credit Information System*.** The rediscounting availments of all eligible banks shall be drawn against their rediscounting line which is based on their total credit score under the Credit Information System (CRIS). The scoring system under the CRIS shall consider the following factors:

a. Management and risk management system;

   (1) Management; and
   (2) Risk management system;

b. Financial indicators;

   (1) Capital adequacy;
   (2) Asset quality;
   (3) Profitability; and
   (4) Liquidity;

c. Credit experience;

   (1) Compliance with the terms and conditions of the loan and other Bangko Sentral regulations; and
   (2) Credit experience with other FIs.

The CRIS guidelines shall be reviewed on a regular basis by a Credit Committee created under MB Resolution No. 832 dated 02 July 2008, to maximize its effectiveness in managing the credit risk of the Bangko Sentral.

***Application Procedures*.** Banks applying for a rediscounting line shall submit their application in the prescribed form (RL Form No. 1) to the Department of Loans and Credit (DLC), Bangko Sentral-Manila, together with the following documents:

a. Board resolution duly signed by the board of directors of the applicant bank, authorizing the bank to apply for a rediscounting line with the Bangko Sentral and designating the officer/s of the bank to sign and endorse documents pertaining thereto, together with their specimen signature/s;

b. Articles of incorporation (for new applicants only) and amendments, if any;

c. Organizational chart (for new applicants only);

d. List of board of directors and principal officers [top three (3) executive officers] and their education/training and work experience;

e. Annual report/AFS for the immediately preceding year; and

f. For banks applying for microfinance facility, a copy of the Manual of Operations pertaining to microfinance operations.

Approval/Renewal of the line. The approval/renewal of rediscounting line shall be subject to the bank's full compliance with the following requirements:

a. Minimum capital prescribed under Sec. 111 based on the latest available report of the SDC;
b. CAR as required under applicable and existing capital adequacy framework, based on the latest available report of the SDC except those with capital build-up program approved by the Monetary Board;
c. Required reserves against deposit liabilities/deposit substitutes for two (2) consecutive weeks based on the latest available report of the SDC;
d. NPL ratio lower or equal to the industry average adjusted upward by two percent (2%) based on the latest available report of the SDC, or the allowable NPL ratio approved by the Monetary Board;
e. Positive DDA balance with the Bangko Sentral as of date of application;
f. No past due obligations or collateral deficiencies on account of matured notes/unremitted collections/missing collaterals or ineligible papers with the Bangko Sentral as of date of application;
g. A CAMELS composite rating of "3" or higher based on the latest general examination of the appropriate supervising department of the Bangko Sentral; and
h. The ratio of past due direct and indirect loans to DOSRI to the aggregate past due loans should not be more than five percent (5%) based on latest available report of the SDC.

Banks applying for the microfinance facility shall also comply with the following requirements based on the latest available report of the appropriate supervising department of the Bangko Sentral:

a. At least one (1) year track record in microfinance;

b. At least 500 active microfinance borrowers;

c. A portfolio at risk ratio (PAR) of not more than five percent (5%);

d. The ratio of total collections (excluding prepayments) during the preceding 12-month period to total collectibles (past due microfinance loans beginning, plus matured loans/principal amortizations due for the period) should not be less than ninety-five percent (95%); and

e. Officers and staff responsible for microcredit operations shall have completed: (1) a training course on microfinance; and (2) at least one (1) year experience in microlending activities.

The approval, disapproval, extension, amendment, cancellation, suspension and restoration of the rediscounting line shall be delegated to a Credit Committee composed of the Assistant Governor/Managing Director (MD) of the Monetary Operations Sub-Sector, MD of the Regional Monetary Affairs Sub-Sector, and the Director of the DLC.

Banks with approved rediscounting line shall, thereafter, submit the following:

a. Rediscounting line agreement (RL Form No. 3); and
b. For new applicant rural/cooperative banks with designated custodian bank, a tripartite depository agreement (RL Form No. 2) by and among the applicant bank, designated depository bank (duly concurred by its Head Office) and the DLC.

For newly merged or consolidated banks, a temporary line not exceeding fifty percent (50%) of its adjusted net worth as of latest date may be granted for a period of 180 days while awaiting the required reports/data from the appropriate supervising department of the Bangko Sentral, renewable for another 180 days or until such time that the required reports/data are made available, whichever comes earlier, subject to the following conditions[1]:

a. Compliance with the requirements cited under Items *"e"* and *"f"* under this Section on Approval/Renewal of the line, and other guidelines issued by the DLC; and
b. One (1) of the merging or consolidating banks has CAMELS composite rating of at least three *"3"* and minimum CAR of ten percent (10%) based on the latest available SDC data.

Amount of line. The amount of rediscounting line shall be based on the total credit score obtained by the applicant bank computed under the CRIS guidelines which ranges from fifty percent (50%) to 200% of adjusted net worth.

***Term of the line*.** The term of the line shall be for one (1) year unless sooner cancelled, suspended, amended or extended by the Credit Committee. The line is renewable annually upon submission of application one (1) month before the expiry of said line. Should there be special circumstances or information from the appropriate supervising department of the Bangko Sentral that may adversely affect the credit worthiness of a bank in the intervening period, the rediscounting line of the bank concerned will be reviewed immediately and acted upon accordingly.

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

282 REDISCOUNTING AVAILMENTS

Banks may avail of the rediscounting facility under a unified rediscounting window. They shall enroll in the Electronic Rediscounting System (eRS) by executing and submitting to the DLC a notarized Electronic Rediscounting System Participation Agreement before availing of the rediscounting facility of the Bangko Sentral.

Eligibility requirements at the time of availment. Banks availing of the Bangko Sentral rediscounting facility must have at the time of availment:

a. A positive DDA balance;
b. No past due obligations;
c. No collateral deficiencies on account of matured notes, unremitted collections, missing collaterals or ineligible papers; and
d. No chronic reserve deficiency in deposit/deposit substitute liabilities immediately preceding the loan drawdown/availment.

For purposes of determining compliance with the reserve requirement, a bank will be considered non-compliant with the reserve requirement for the reference week when its actual net reserve position for said reference week cannot be determined due to delayed submission or non-submission of the relevant reserve report.

[1] These conditions shall not limit the Monetary Board from granting rediscounting line incentives to merged/consolidated banks pursuant to Sec. 104.

***Eligible papers and collaterals*.** The Bangko Sentral shall accept credit instruments covering all economic activities except the following:

a. Interbank loans;
b. Extended/Restructured loans;
c. Past due loans;
d. Unsecured loans;
e. Personal consumption loans;
f. Loans to NBFIs; and
g. Loans funded from other borrowings, e.g., government FIs or multi-lateral agencies.

Credit instruments offered as collateral shall be subject to the eligibility requirements provided under Section 82 of R.A. No. 7653.

a. *Commercial credits* - Bills, acceptances, promissory notes (PNs) and other credit instruments with maturities of not more than 180 days from the date of their rediscount, discount or acquisition by the Bangko Sentral and resulting from transactions related to:

(1) the importation, exportation, purchase or sale of readily saleable goods and products, or their transportation within the Philippines; or
(2) the storing of non-perishable goods and products which are duly insured and deposited, under conditions assuring their preservation, in authorized bonded warehouses or in other places approved by the Monetary Board.

Credit instruments acquired under commercial credits shall be secured either by:

Type of Collateral	Collateral Value
(1) Duly notarized assignment of export or domestic letters of credit, confirmed purchase order sales contract, quedans	Shall equal or exceed the outstanding balance of the credit instrument
(2) Trust Receipts	Shall equal or exceed the outstanding balance of the credit instrument
(3) Duly registered mortgage on real property	70% of the appraised value shall equal or exceed the outstanding balance of the PN
(4) Credit guarantees/sureties issued by the lGLF, the Small Business Corporation (SBC) and the national government	Shall equal or exceed the outstanding balance of the PN
(5) Credit guarantees/sureties issued by the Credit Surety Fund (CSF) jointly established by cooperatives and local government units	Shall equal or exceed 80% of the outstanding balance of the PN
(6) Marketable debt instruments issued by the NG and all its instrumentalities, including Republic of the Philippines US$ denominated bonds or ROPs	Current market value shall equal or exceed the outstanding balance of the PN

The outstanding National Food Authority papers that a bank can rediscount shall not exceed the rediscounting bank's SBL [twenty-five percent (25%) of its net worth].

Dollar-denominated trust receipts covering importation of goods and raw materials are also considered eligible papers for rediscounting under the Exporters' Dollar and Yen Rediscount Facility (EDYRF)

b. *Production credits* - Bills, acceptances, PNs and other credit instruments having maturities of not more than 360 days from the date of their rediscount, discount or acquisition by the Bangko Sentral and resulting from transactions related to the production or processing of agricultural, animal, mineral, industrial and other products.

Credit instruments acquired under production credits shall be secured by a duly registered mortgage on real property, seventy percent (70%) of the appraised value of which equals or exceeds the outstanding balance of the PN.

c. *Other credits* - Special credit instruments not otherwise rediscountable under the immediately preceding Items *"a"* and *"b"* such as, but not limited to, microfinance, housing, services, agricultural loans with long gestation period and other eligible economic activities with maturity of not more than ten (10) years from date of their rediscount, discount or acquisition of the Bangko Sentral. Dollar-term loans to finance capital expenditures (plant expansion/modernization) by exporters are also considered eligible papers for rediscounting under the EDYRF provided they are booked in the regular banking units.

Credit instruments acquired under other credit shall be secured by:

Type of Collateral	Collateral Value
a. Duly registered mortgage on real property	70% of the appraised value shall equal or exceed the outstanding balance of the PN
b. Duly notarized assignment of receivables from service contract	Shall equal or exceed the outstanding balance of the PN
c. Credit guarantees/sureties issued by the IGLF, the SBC and the national government	Shall equal or exceed the outstanding balance of the PN
d. Credit guarantees sureties issued by the CSF jointly established by cooperatives and LGUs	Shall equal or exceed 80% of the outstanding balance of the PN
e. Marketable debt instruments issued by the NG and all its instrumentalities, including Republic of the Philippines US$ denominated bonds or ROPs	Current market value shall equal or exceed the outstanding balance of the PN

For housing loans, the lien or mortgage shall cover the property being financed.

An Original Certificate of Title issued by virtue of Free Patent, covering agricultural lands, may be accepted as underlying collateral for loans offered for rediscounting with the Bangko Sentral after the expiry of the prescription period of five (5) years from date of the approval of the order to issue the patent. The five (5)-year restriction is not applicable for residential lands acquired under free patent as provided under Section 9 of R.A No. 10023.

A Land Title, with P.D. No. 1271[1] annotation, may be accepted as underlying collateral for loans offered for rediscounting with the Bangko Sentral subject to the following conditions:

(1) The land titles submitted specify that the original registration date was on or before 31 July 1973; and
(2) The lands covered by titles are not within any government, public or quasi-public reservation, forest, military or otherwise, as certified by appropriate government agencies.

Unsecured loans may be accepted for rediscounting provided they are:

(a) Microfinance loans; or

(b) Loans secured by a duly registered mortgage on real property of the bank, seventy percent (70%) of the appraised value of which equals or exceeds the outstanding balance of the unsecured PN and other collaterals acceptable to the Bangko Sentral, e.g., marketable debt instruments issued by the NG and all its instrumentalities, including Republic of the Philippines US$ denominated bonds or ROPs.

For real estate properties covered by Section 7 of R.A. No. 26 offered as collateral, the following conditions must be met:

(1) The two (2) year period from date of entry of the notation has already expired;

(2) The bank has already filed the petition with the court for the cancellation thereof; and

(3) The bank shall submit prior to the release of the loan a surety bond issued by an insurance/surety company which is acceptable to the Bangko Sentral and is not affiliated with the bank or its subsidiaries, or their stockholder, directors or officers, equivalent to the loan value of the property plus interest and other charges that may fall due, to answer for the payment of the obligations in the event that the petition for cancellation is denied or the notation is not cancelled on or before the maturity of the loan.

Syndicated loans may be accepted for rediscounting, subject to the following minimum requirements:

(1) The promissory note (PN) is negotiable;
(2) The master loan agreement allows the endorsement of the PN; and
(3) The opinion from the borrowing bank's counsel(s) that the master loan agreement allows the endorsement of the PN; that the PN is negotiable; and that no other act or approval is necessary to perfect the endorsement.

Loans with underlying real estate collateral(s) under Mortgage Trust Indentures (MTI) may likewise be accepted, subject to the following minimum eligibility requirements:

[1] An act nullifying decrees of registration and certificates of title covering lands within the Baguio Townsite Reservation issued in Civil Reservation Case No. 1, GLRO Record No. 211 pursuant to R.A. No. 931, as amended, but considering as valid certain titles of such lands that are alienable and disposable under certain conditions and for other purposes.

(1) The trustee must be a bank or quasi-bank authorized by the Monetary Board to engage in trust and other fiduciary business;

(2) The borrowing bank must notify the trustee that it is assigning its participation to the Bangko Sentral by way of collateral;

(3) The borrowing bank must provide a certification specifying the following: current participations in the MTI; that there is no senior claim to that of the prospective claim of Bangko Sentral; and that it does not violate any existing loan agreement with other creditors; and

(4) The trustee must provide Bangko Sentral with a certified copy of the relevant collateral(s).

Loan availment procedures. Banks availing of the rediscounting facility shall submit their loan applications electronically to the Bangko Sentral using their eRS registered computers.

Upon receipt of the confirmation of loan approval:

a. Banks shall execute the PNs with Trust Receipt Agreement and Deed of Assignment (PNTRADA) in favor of the Bangko Sentral (RL Form No. 7 for peso and RL Form No. 8 for dollar and yen), signed by the authorized officer/s of the bank.

b. Banks authorized to hold-in trust the rediscounted credit instruments and underlying collaterals shall segregate and keep the same together with the PNTRADA at a secured place within their premises under the custody of the accountable officer.

c. Banks with custodianship agreements shall deposit with their respective depositary/custodian bank the rediscounted credit instruments, underlying collaterals and the PNTRADA not later than the next banking day from date of loan grant, receipt of which shall be acknowledged by the depositary bank in the List of Rediscounted Loans.

Loan value. The loan value of all eligible papers shall be eighty percent (80%) of the outstanding balance of the borrower's credit instrument but not higher than seventy percent (70%) of the appraised value of the underlying collateral.

Maturities. The maturities of Bangko Sentral rediscounts are, as follows:

Type of Credit	Maturity Date
a. Commercial Credits	180 days from date of rediscount but shall not go beyond the maturity date of the credit instrument
(1) Export Packing	
(2) Trading	
(3) Transport	
(4) Quedan	
(5) Export Bills (EBs)	
At Sight	Fifteen (15) days from date of purchase
Usance EB	Term of draft but not to exceed sixty (60) days from shipment date
b. Production Credits	180 days from date of rediscount but shall not go beyond the maturity date of the promissory note (PN). Renewable, not to exceed 180 days.
c. Other Credits	180 days from date of rediscount but shall not go beyond the maturity date of the PN (renewable depending on the type of credit).

Rediscount/Lending rates and liquidated damages. The rediscount rates for peso, dollar and yen loans shall be, as follows:

a. Peso Rediscounts

Rediscount Maturities	Rediscount Rates
	Bangko Sentral overnight (O/N) lending rate plus term premium:
1-90 days	Bangko Sentral O/N lending rate + 0.0625
91-180 days	Bangko Sentral O/N lending rate + 0.1250

b. Dollar/Yen Rediscounts - Based on the 90-day London Inter-bank Offered Rate (LIBOR) plus 200 bps plus term premia for longer maturities, as follows:

Term	Premium
1-90 days	90-day LIBOR + 200 bps

91-180 days	90-day LIBOR + 200 bps + 6.25 bps
181-360 days	90-day LIBOR + 200 bps + 12.50 bps

The lending rates of banks on their rediscounted papers shall not be subject to any ceiling but the spreads of the banks on these papers shall be closely monitored by the Bangko Sentral to ensure that these are consistent with the prevailing market rates.

Past due Bangko Sentral loans and unpaid matured notes shall be levied liquidated damages equivalent to five percent (5%) per annum[1].

Release of proceeds. The proceeds of the rediscounting availment shall be released, as follows:

a. *Peso rediscounts* - automatically credited to the borrowing bank's DDA or its depository bank's DDA with the Bangko Sentral on the same day for loan application submitted to the Bangko Sentral before 4:30 pm during banking days.

b. *Dollar/Yen rediscounts* - released through the Treasury Department, Bangko Sentral, for credit to the designated foreign correspondent bank of the borrowing bank, as follows:

(1) Same banking day credit for dollar loan application submitted to the Bangko Sentral before 11:00 am, during banking days; and
(2) Following banking day credit for yen loan application submitted to the Bangko Sentral before 11:00 am, during banking days.

Repayments/Remittance of collections/arrearages[2]. The following shall govern repayments, remittance of collections, and arrearages:

a. Repayments

(1) Peso rediscounts

(a) The loan value of the rediscounted credit instruments or the amortization plus interest due thereon shall automatically be debited against the borrower bank's DDA with the Bangko Sentral at maturity/amortization due date.

(b) For microfinance loans, the DDA of the borrower bank shall automatically be debited on the amortization due date for the loan value of the amortization plus interest due thereon. For loans with daily, weekly or semi-monthly amortizations, the borrower bank's DDA shall automatically be debited on the last amortization due date of said month for the total loan value of the amortizations for the month plus interest due thereon.

(c) The loan value of unremitted collections and of the rediscounted credit instruments and/or underlying collaterals found to be missing, ineligible or with exceptions not corrected within fifteen (15) days from receipt of notice plus interest due thereon shall automatically be debited against the borrowers bank's DDA with the Bangko Sentral.

(2) Dollar/Yen rediscounts

Dollar and yen loans shall be repaid in the same currency under which they were released. For this purpose, the bank shall submit online to the Bangko Sentral its payment instruction one (1) day before the payment date or the maturity date of the loan corresponding to the remittance instruction to its designated correspondent bank. The payment shall cover total collections or payment of maturing loans plus interest due thereon. In case of short payment, the bank's DDA with the Bangko Sentral shall automatically be debited for the peso equivalent of the shortage.

If the foreign currency denominated loans are not settled on maturity date, the borrowing bank's DDA with the Bangko Sentral shall be debited automatically for the peso equivalent of the matured obligation plus accrued interest due thereon. The foreign exchange (FX) rate at the time of the loan repayment shall not be lower than the FX rate at the time of loan availment and any FX loss arising from default or repayment shall be for the account of the borrower and not for the Bangko Sentral.

[1] See *Appendix 92* on Regulatory Relief for Banks Affected by Calamities.

[2] See *Appendix 100* on Regulatory Relief for Banks Affected by Calamities.

b. Remittance of collections

(1) Total collections received by the borrowing bank before the maturity date of the rediscounted credit instruments shall be remitted not later than five (5) banking days following the date of receipt of collections to the following:

Peso Rediscounts - Bangko Sentral
Dollar Rediscounts - Federal Reserve Bank of New York for the account of Bangko Sentral

Yen Rediscounts - Bank of Tokyo for the account of Bangko Sentral

(a) *Total collections* shall refer to the loan value of the principal amount collected from rediscounted credit instruments plus accrued interest due on the outstanding balance of subject credit instruments.

(b) For banks with Bangko Sentral loans under past due status, total collections shall include all collections on principal, interest and penalty.

(c) In the case of negotiated EBs, the receipt by the borrowing bank of payment from its correspondent bank either through actual remittance or credit advice; or through book entries made by the borrowing bank charging its correspondent bank before receipt of advice shall constitute receipt of collection.

(2) The bank shall ensure that adequate records are maintained in its Head Office on the collections made by the branches.

c. Arrearages. The Bangko Sentral shall undertake all necessary collection measures allowed by law, such as foreclosure proceedings against banks with past due loans.

Prohibited transactions. The following shall not be allowed without prior approval of the Bangko Sentral:

a. Substitution of rediscounted credit instruments and underlying collateral real properties on outstanding loans with the Bangko Sentral;
b. Renewal of rediscounted credit instruments without remitting payment while the loan released against the rediscounted credit instrument is still outstanding with the Bangko Sentral; and
c. Acceptance of properties as payment (*dacion en pago*).

Monitoring and credit examination of borrowing banks. The DLC shall conduct an off-site analysis of the Bangko Sentral's credit exposure to borrowing banks and a risk-based on-site credit examination that will focus primarily on determining whether there is a "high", "moderate" or "low" probability of default on the settlement of the banks' rediscounting obligations with the Bangko Sentral.

Penalties/sanctions. The following penalties and sanctions shall be imposed on the erring bank and/or the bank's authorized/certifying officers.

a. For serious offense

Aggregate Amount/Penalty Range	Minimum	Maximum
P50K or less	P83	P250
Above P50K to 100K	250	750
Above P100K to P500K	1,000	3,000
Above P500K to 1M	2,500	7,500
Above P1M	5,000	15,000

b. For less serious offense

Aggregate Amount/Penalty Range	Minimum	Maximum
P50K or less	P63	P188
Above P50K to 100K	188	563
Above P100K to P500K	750	2,250
Above P500K to 1M	1,875	5,625
Above P1M	3,750	11,250

c. Minor offense

Aggregate Amount/Penalty Range	Minimum	Maximum
P50K or less	P42	P125
Above P50K to 100K	125	375
Above P100K to P500K	500	1,500
Above P500K to 1M	1,250	3,750
Above P1M	2,500	7,500

The following definition of terms shall apply:

(1) *Offense* shall refer to a violation that connotes infraction of the terms and conditions of the loans granted by the Bangko Sentral and of the applicable laws, rules and regulations, Bangko Sentral credit policies and non-compliance with the Bangko Sentral/Monetary Board directives.

(2) *Serious offense* - This refers to acts or omissions constituting violation of the terms and conditions of the loans granted to the bank and of the applicable laws, rules and regulations that constitute unsafe or unsound banking; and the misrepresentation of facts and warranties committed by the bank/individual(s) that influenced the approval and amount of the rediscounting loan/line granted, such as:

(a) Rediscounting of ineligible papers, fictitious borrowers/loans/titles or submission of spurious documents;

(b) Absence of or failure to execute vital loan documents;

(c) Failure or delay in the deposit of rediscounted loan documents with the custodian bank, except those caused by fortuitous events; and

(d) Failure to remit to the Bangko Sentral collections on principal of the rediscounted loans within the prescribed period of five (5) banking days from date of actual receipt of collections except collections from microfinance loans.

(3) *Less serious offense* - This refers to acts or omissions constituting violation of the terms and conditions of the loans granted to the bank and of the applicable laws, rules and regulations that constitute unsafe or unsound banking but not falling under the serious offense category; however, the deficiencies noted should be addressed immediately to mitigate the credit risk of the Bangko Sentral.

(4) *Minor offense* - This includes acts or omissions which are procedural in nature, not intentional, may not result in any loss or damage to or any significant increase in the risk of the creditor Bangko Sentral and can be resolved immediately during the normal course of business. For purposes of classifying the nature of the offense, this includes all other acts or omissions which cannot be classified under serious or less serious offenses.

(5) *Aggregate amount* - shall refer to the aggregate amount of the following under the current examination:

(a) *Under serious offense*: Total loan value of the following:

(i) Rediscounted ineligible papers with serious offense, fictitious loans or spurious loan documents as determined by the Bangko Sentral or Office of Special Investigation;
(ii) Undeposited vital loan documents and underlying collaterals as of examination date; and
(iii) Collections on principal of rediscounted loans which were not remitted to the Bangko Sentral within the prescribed period of five (5) banking days from date of receipt of collections.

(b) *Under less serious offense*: Total loan value of rediscounted ineligible papers with less serious offense as determined by the Bangko Sentral.
(c) *Under minor offense*: Total loan value of rediscounted ineligible papers with minor offense as determined by the Bangko Sentral.

(6) *Minimum penalty* - refers to the range of penalties to be imposed if the mitigating factor(s) outweighs the aggravating circumstances, to wit:

(a) The act or omission is not intentional or the bank acted in "good faith" when the error, deficiency, violation or the absence/lack of the required action were committed.
(b) The bank is willing to take immediate action or has started to rectify the deficiencies/violations noted or undertakes to correct the deficiencies within fifteen (15) days from receipt of notice.

(c) The bank has voluntarily disclosed the offense/violation committed before it is discovered by the Bangko Sentral or has remitted to the Bangko Sentral the total amount due plus accrued interest.

(7) *Maximum penalty* - refers to the range of penalties to be imposed if the aggravating circumstances outweigh the mitigating factor(s), to wit:

(a) The act or omission carries with it the intention to commit or cover up a violation or to defraud the Bangko Sentral.
(b) Commission or omission of a specific offense corrected in the past but found repeated in another transaction in subsequent examination.
(c) Additional interest charges on unpaid penalty.

An additional interest of twelve percent (12%) per annum shall be assessed on nonpayment of the penalties, from date of demand until full settlement thereof.

The foregoing monetary penalties shall be without prejudice to the cancellation of the bank's rediscounting line with the Bangko Sentral and/or administrative and criminal sanctions that may be charged against its culpable officers.

Interlocking directorship/officership. Banks owned or managed by the same owners, stockholders, directors, officers or family/business group may also be suspended from availment of the rediscounting facility by the Credit Committee once the rediscounting line of any of the banks belonging to the same group is suspended, until such time that the suspension of the erring bank is lifted.

(Circular Nos. 1008 dated 14 June 2018, 964 dated 27 June 2017, 948 dated 01 March 2017, 916 dated 08 July 2016, and 903 dated 29 February 2016, M-2015-039 dated 04 November 2015, Circular No. 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, Circular No. 861 dated 01 December 2014, M-2014-039 dated 01 October 2014, M-2014-031 dated 08August 2014, M-2014-006 dated 12 February 2014)

283 REPURCHASE AGREEMENTS WITH THE BANGKO SENTRAL

Repo agreements with the Bangko Sentral shall be governed by Sec. 601.

284 BANGKO SENTRAL LIQUIDITY WINDOW

The following guidelines shall govern the grant by the Bangko Sentral of credit accommodations through a liquidity window to banks.

Nature of liquidity window. The window shall meet the liquidity needs of the financial system under normal conditions and shall be distinct from overdrafts and emergency advances.

Terms of credit

a. *Interest rate* - The rate of interest chargeable on availments under the liquidity window shall be the rate equivalent to the reference rate for ninety (90) days determined and announced by the Bangko Sentral for floating rate loans, plus or minus a rate to be determined by the Bangko Sentral on the basis of the prevailing monetary situation.

The additional or discount rate established for any given time shall be made public by the Bangko Sentral and applied uniformly to all borrowers during that period.

The additional rate to be imposed over and above the reference rate shall not be less than two (2) percentage points, with the applicable additional rate to be determined by the Bangko Sentral on the basis of the prevailing monetary situation.

b. *Security* - Any paper, irrespective of maturity, eligible under Section 82 of R.A. No. 7653.

c. *Loan values* - The loan values of the paper offered as collateral should be eighty percent (80%) of the amount still due outstanding on the paper offered as collateral.

d. *Repayment period* - The term of the credit accommodation shall not exceed seven (7) days.

***Limit*.** Availment by any bank under this facility shall not exceed ten percent (10%) of its net worth, as defined under Sec. 121 as of the end of the quarter preceding the date of application. In the case of branches of foreign banks, the quota shall be ten percent (10%) of the assigned capital as of the date of application. Additionally, a bank or a branch of a foreign bank may avail itself of this facility to the extent equivalent to a further five percent (5%) of its net worth, as defined under Sec. 121 or assigned capital, as the case may be, as of the end of the quarter preceding the date of availment. Any

availment of the liquidity window shall fall within the unavailed basic rediscount ceiling of the bank or the branch of a foreign bank as the case may be.

285 EMERGENCY LOANS OR ADVANCES TO BANKING INSTITUTIONS

The emergency loan or advance to banking institutions is governed by the provisions of Sections 84 to 88 of R.A. No. 7653, otherwise known as The New Central Bank Act. The following guidelines shall govern the Bangko Sentral's emergency loans and advances.

Nature of emergency loans or advances. An emergency loan or advance is a credit facility that is intended to assist a bank experiencing serious liquidity problems arising from causes not attributable to, or beyond the control of, the bank management. The grant of such facility is discretionary upon the Monetary Board, and is intended only as a temporary remedial measure to help a solvent bank overcome serious liquidity problems. As provided under Sections 84 to 88 of R.A. No. 7653, no emergency loan or advance may be granted except on a fully secured basis and the Monetary Board may prescribe additional conditions, which the borrowing banks must satisfy in order to have access to the credit facility of the Bangko Sentral.

When an emergency loan or advance may be availed of. An emergency loan or advance may be granted:

a. In periods of national and/or local emergency or of imminent financial panic which directly threaten monetary and banking stability, i.e., situations involving bank runs, massive movements by depositors of their funds from certain banks to other banks, bank holidays and voluntary cessation of business, or when there are movements which endanger the economy, or when the international stability of the peso is threatened, or when there is an exchange crisis.

b. During normal periods for the purpose of assisting a bank in a precarious financial condition or under serious financial pressures brought about by unforeseen events or events which though foreseeable, cannot be prevented by the bank concerned.

Provided, That there is a concurrent vote of at least five (5) members of the Monetary Board and the latter has ascertained that the bank is not insolvent: *Provided, further,* That banks with positive CAR of not more than six percent (6%) based on adjusted books of accounts shall submit a Business Improvement Plan (BIP) acceptable to the Bangko Sentral within six (6) months from date of advice by the appropriate supervising department of the Bangko Sentral. For this purpose, the appropriate supervising department of the Bangko Sentral shall warn the concerned banks that failure to submit the required BIP in accordance with the criteria of the appropriate supervising department of the Bangko Sentral shall disqualify the bank from access to the Bangko Sentral's emergency loan facility. Banks with zero to negative CAR should have an existing Bangko Sentral-approved rehabilitation plan and on track with the Plan to be eligible to avail itself of emergency loan.

Allowable amount of emergency loan or advance. The maximum amount of an emergency loan or advance shall be limited to the amount needed by the applicant bank to overcome the emergency or financial predicament but not to exceed the sum of fifty percent (50%) of its total deposits and deposit substitutes as of the last banking day of the month preceding the date of emergency loan application: *Provided,* That, in no case shall such maximum amount exceed the loan values of the collaterals submitted, as determined by the Bangko Sentral.

The amount approved by the Monetary Board shall be released in tranches. The first tranche shall not exceed twenty-five percent (25%) of the total deposits and deposit substitutes of the bank as of the last banking day of the month preceding the date of emergency loan application and shall be released only after the submission of the collaterals and required documents under this Section on Application procedures and Other documentary requirements: *Provided, however,* That upon request of the applicant bank, the Monetary Board may authorize a first tranche in an amount greater than twenty-five percent (25%) of the bank's total deposits and deposit substitutes if the circumstances surrounding the emergency or financial predicament warrant the release of such greater amount and the same is adequately secured by first class collaterals, i.e., assets and securities which have relatively stable and clearly definable value and/or greater liquidity and free from lien and encumbrances.

Except as provided in Item "*d"* of this Section on Manner and conditions of release hereof, the proceeds of the emergency loan or advance shall be utilized exclusively to service net withdrawals of deposits and deposit substitutes, i.e., amount of the bank's total withdrawals less total deposits.

The principal amount of the emergency loan or advance shall not exceed the difference between the highest level of the bank's deposit and deposit substitutes of the immediately preceding thirty (30)-day period from date of emergency loan application and the current level of deposits and deposit substitutes as determined by the appropriate supervising department of the Bangko Sentral.

Application procedures. Banks applying for an emergency loan or advance shall submit an application (EL Form No. 1) with the appropriate supervising department of the Bangko Sentral, copy furnished the DLC. During normal periods, the applicant-bank shall state the reasons for the proposed loan availment and other details showing the precarious financial condition or the serious financial pressures being experienced by the bank.

The bank shall submit together with the application, the following documents:

a. Certified Statement of Condition (under oath) as of the last banking day of the month preceding the date of emergency loan application.
b. A duly notarized secretary's certificate (EL Form No. 2) together with a resolution of the board of directors of the bank:

    (1) Authorizing the availment by the bank of an emergency loan or advance from the Bangko Sentral.

    (2) Signifying the bank's commitment to comply with the guidelines set forth herein and the terms and conditions that may be imposed by the Monetary Board.

    (3) Designating the chairman and the president or in their absence, any of the next two (2) highest officers, as duly authorized signatories for the emergency loan or advance application, promissory notes, and all undertakings. Designated authorized officers not lower than senior vice president, or equivalent position, may be authorized to execute all accessory documents for the emergency loan or advance.

    (4) Authorizing the Bangko Sentral to evaluate other assets of the bank certified by its auditors to be good and available for collateral purposes should the grant of subsequent tranches be applied for.

After determining the eligibility of the applicant bank to avail of the emergency loan or advance under this Section on when an emergency loan or advance may be availed of, the appropriate supervising department of the Bangko Sentral shall prepare a memorandum to the Monetary Board stating among others, the following:

a. Validation of the eligibility of applicant bank.
b. Financial condition of applicant bank.
c. Volume of deposits and expected withdrawals of deposits.
d. Amount and terms of the loan.
e. Whenever applicable, circumstances that warrant the grant of the first tranche greater than twenty-five percent (25%) of the total deposits and deposit substitutes as provided by law.

The applicant bank shall submit to the DLC, prior to the release of the first tranche, the following documents together with the copy of the application:

a. Listing of assets that are good and available for collateral purposes as certified by the bank's duly appointed external auditor (EL Form No. 3).

b. Listing of collaterals in the prescribed formats (EL Form Nos. 4/4a/4b) as well as a 3.5" diskette containing the database, (in MS Excel format), together with the documents of title and/or evidences of ownership of the collaterals offered including the following documents:

    (1) Appraisal reports of not more than one (1) year conducted by an independent appraiser acceptable to the Bangko Sentral in accordance with Bangko Sentral's terms of reference.
    (2) Latest tax declarations.
    (3) Current tax receipts, tax clearances and other documents needed for registration of mortgages and deeds of assignment.
    (4) Current insurance policies covering improvements and official receipts of premium payments.
    (5) Department of Agrarian Reform (DAR) certification that agricultural properties offered as collaterals are not covered by the Comprehensive Agrarian Reform Program (CARP).
    (6) Current original promissory notes of bank's borrowers duly endorsed in favor of the Bangko Sentral.
    (7) Special power of attorney or stockholder's resolution, when appropriate.

c. Notarized Deed of Undertaking executed by the above-mentioned officers of the bank to: (1) register with the Registry of Deeds all the covering legal documents before loan release at the expense of the bank and that, in the event the Bangko Sentral agrees to release the proceeds of the loan before said documents are registered, the same shall be registered by the bank at its own expense; and (2) submit the documents needed to complete the requirements of the tranche not later than fifteen (15) days from release of the emergency loan or advance (EL Form No. 5).

In case of failure by the bank to register the covering legal documents within fifteen (15) days from date of release of loan proceeds, the Bangko Sentral shall register said documents for the account of the applicant bank, and all costs and expenses shall, at the option of Bangko Sentral, be deducted from any subsequent availments of the bank or from its DDA or be added to its liability account with the Bangko Sentral.

d. Notarized Joint and Several Undertaking executed by all the controlling stockholders [owning more than fifty percent (50%) of the voting stocks] of the bank and every person or a group of persons whose stockholdings are sufficient to elect at least one (1) director to indemnify and hold harmless from suit the Bangko Sentral, its Monetary Board members, Governor, officers and personnel, and the conservator whose appointment the Monetary Board may find necessary at any time. The Department of Finance or stockholder of record will sign the joint and several undertaking if the government is a stockholder (EL Form No. 6).

e. Notarized Deed of Undertaking with waiver of secrecy of deposits and commitment by the directors, principal officers with the equivalent rank of vice-president and up, all the controlling stockholders, and every person or group of persons and their respective spouses, whose stockholdings are sufficient to elect at least one (1) director not to withdraw any portion of their deposits and deposit substitutes as of date of release of the first tranche while the emergency loan remains outstanding. In the event of a compelling reason to withdraw, payment of the emergency loan or advance in an amount equivalent to the deposits to be withdrawn shall be made (EL Form No. 7).

f. Notarized Surety Agreement executed by the controlling stockholders and every person or group of persons whose stockholdings are sufficient to elect at least one (1) director obligating themselves jointly and severally with the bank to pay promptly on maturity, or when due, the Bangko Sentral, its successors or assigns, all promissory notes covering the emergency loan or advance. (The Government, its subdivisions, instrumentalities and agencies, and government entities are exempted from this requirement) (EL Form No. 8).

g. Notarized Deed of Negative Pledge executed by the controlling stockholders and every person or group of persons whose stockholdings are sufficient to elect at least one (1) director, together with their respective certificates of stock. (The Government, its subdivisions, instrumentalities and agencies, and government entities are exempted from this requirement.) (EL Form No. 9).

h. Certification under oath executed by the chairman and president of the bank that the bank or any of its stockholders does not fall within the prohibition under Section 16, Article XI of the Constitution (EL Form No. 10).

Prior to the release of the subsequent tranches, the bank shall submit to DLC the documents of title and/or evidences of ownership of the collaterals, together with the other documents referred to in Item *"b"* above for the amount being applied for release and, where necessary, such other acceptable security which, in the judgment of the Monetary Board, would be adequate to supplement the assets tendered to collateralize the subsequent tranche.

Banks availing of emergency loan or advance may decline to submit either Item *"f"* or *"g"* or both, but the loan values specified in Items *"b"* and *"d"* of this Section on Acceptable collaterals and their corresponding loan values shall be reduced.

Other documentary requirements. Before release of any emergency loan or advance, the applicant bank shall, aside from the documentary requirements already mentioned above, submit such other requirements/documentation as may be required by the DLC, e.g., duly Notarized Promissory Note in Favor of the Bangko Sentral (EL Form No. 11/11a), Notarized Deed of Real Estate Mortgage (EL Form No. 12-Bank Assets/12a-Stockholder/Third Party Assets), Notarized Deed of Pledge (EL Form No.13- Individual/Corporation/13a- Stockholders'/Third Party Assets), Notarized Deed of Assignment of Mortgages (EL Form No. 14), Hold-out on Foreign Currency Deposits with Bangko Sentral (EL Form No. 15) and Joint Affidavit executed by the bank's chairman and president and the Individual Mortgagor (EL Form No. 16- Individual) or the Corporate-Mortgagor's chairman and president (EL Form 16a- Corporation).

Acceptable collaterals and their corresponding loan values. All availments of the emergency loan or advance shall be secured by first class collaterals to the extent of their applicable loan values, as follows:

ACCEPTABLE COLLATERALS	With Surety Agreement and Negative Pledge	With Surety Pledge but no Negative Pledge	With Negative Pledge but no Surety Agreement	No Surety Agreement and no Negative Pledge
a. Government securities - based on the current market value of the securities	80%	80%	80%	80%
b. Unencumbered real estate properties in the name of the bank				

ACCEPTABLE COLLATERALS	With Surety Agreement and Negative Pledge	With Surety Pledge but no Negative Pledge	With Negative Pledge but no Surety Agreement	No Surety Agreement and no Negative Pledge
(1) Initial rate - based on the appraised value (AV) of the land and insured improvements	40%	35%	30%	25%
(2) Final rate - based on the AV of the land and insured improvements determined by a licensed and independent appraiser acceptable to the Bangko Sentral in accordance with Bangko Sentral's terms of reference	70%	65%	60%	55%
c. Hold-outs on foreign currency deposits with the Bangko Sentral based on current market value	80%	80%	80%	80%
d. Mortgage credits (with remaining maturities of not more than 360 days)				
(1) Initial rate - based on the AV of the property securing the loan evidenced by negotiable instruments or the outstanding balance of such loan whichever is lower	40% of AV or 50% of the outstanding balance	35% of AV or 40% of the outstanding balance	30% of AV or 40% of the outstanding balance	25% of AV or 40% of the outstanding balance
(2) Final rate - based on the AV of the property securing the loan evidenced by negotiable instruments as determined by a licensed and independent appraiser acceptable to the Bangko Sentral in accordance with Bangko Sentral's terms of reference or the outstanding balance of such loan whichever is lower.	70% of AV or 80% of the outstanding balance	65% of AV or 75% of the outstanding balance	60% of AV or 70% of the outstanding balance	55% of AV or 65% of the outstanding balance
e. Commercial papers ("AAA")	80%	80%	80%	80%

Mortgage credits arising from syndicated loans and loans with underlying real estate collateral(s) under MTI shall likewise be assigned their applicable loan values based on the submission or non-submission of Surety Agreement and/or Negative Pledge as summarized in the immediately preceding table. Such loans shall be subject to the same minimum requirements under Section 282 (Eligible papers and collaterals).

Assets of stockholders and of other third parties, the latter acceptable only in instances provided under the last paragraph of this Section on Interest rates, liquidated damages, and penalties are acceptable as collaterals for emergency loan with corresponding loan values, as follows:

ACCEPTABLE COLLATERALS	With Surety Agreement and Negative Pledge	With Surety Pledge but no Negative Pledge	With Negative Pledge but no Surety Agreement	No Surety Agreement and no Negative Pledge
Asset of stockholders to secure new loan releases if the bank has no available first class collaterals:				
a. Unencumbered real estate				
(1) Initial rate - based on the AV of the land and insured improvements	35%	30%	25%	20%
(2) Final rate - based on the AV of the land and insured improvements determined by a licensed and independent appraiser acceptable to the Bangko Sentral in accordance with Bangko Sentral's terms of reference	60%	55%	50%	45%
b. Government Securities	80%	80%	80%	80%
c. Commercial papers ("AAA")	80%	80%	80%	80%
Assets of other third parties to cover deficiency arising from unpaid interest and liquidated damages, reduction in loan value of existing collaterals and conversion of overdrafts into emergency loan:				
a. Unencumbered real estate				

ACCEPTABLE COLLATERALS	With Surety Agreement and Negative Pledge	With Surety Pledge but no Negative Pledge	With Negative Pledge but no Surety Agreement	No Surety Agreement and no Negative Pledge
(1) Initial rate - based on the AV of the land and insured improvements	30%	25%	20%	15%
(2) Final rate - based on the AV of the land and insured improvements determined by a licensed and independent appraiser acceptable to the Bangko Sentral in accordance with Bangko Sentral's terms of reference	50%	45%	40%	35%
b. Government securities	80%	80%	80%	80%
c. Commercial papers ("AAA")	80%	80%	80%	80%

Other types of assets may be acceptable as collateral for emergency loan as the Monetary Board may approve.

The initial valuation rate shall apply in case the appraisal reports of independent appraiser acceptable to the Bangko Sentral for real estate collaterals are not available or not in accordance with Bangko Sentral's terms of reference or the collaterals themselves are with rectifiable minor deficiencies as determined by DLC, but will be adjusted upon compliance with the foregoing requirements.

All collateralization expenses, such as registration fees, documentary stamps, etc., shall be borne by the applicant bank.

Manner and conditions of release. The manner and conditions of release of emergency loan or advance shall be as follows:

a. The grant of emergency loan or advance shall bear the concurrent vote of at least five (5) members of the Monetary Board.

b. The emergency loan or advance shall have a ninety (90)-day availability period from date of Monetary Board approval, non-renewable, non-extensible. Request for extension or renewal shall be treated as new loan application to be evaluated by the appropriate supervising department of the Bangko Sentral if qualified under this Section on when an emergency loan or advance may be availed of.

c. The amount approved by the Monetary Board may be disbursed in one (1) or more releases as dictated by the needs of the bank and availability of first class collateral.

d. The proceeds of the emergency loan or advance shall be applied first to the advance interest, and then to any outstanding overdrawings that may have been incurred by the bank in its demand deposit with the Bangko Sentral.

e. The bank shall submit to the DLC a board resolution confirming every receipt of proceeds of emergency loan or advance. Likewise, the bank shall submit a board resolution confirming the undertakings executed by the officers under this Section on Application procedures.

Interest rates, liquidated damages, and penalties. The interest rate that shall be charged on emergency loan or advance shall be based on the Bangko Sentral lending rate plus two percent (2%) per annum. Interest shall be collected in advance from the borrowing bank.

An additional five percent (5%) per annum shall be imposed as liquidated damages on the past due emergency loan or advance.

A penalty of one-tenth of one percent (1/10th of 1%) per day of delay on unremitted/delayed remittance of collections received by the bank from promissory notes covering the assigned mortgage credits or the proceeds of sale from assigned/mortgaged real estate properties commencing on the day following the deadline prescribed in this Section on Remittance of collections/repayments/arrearages shall be imposed on the erring bank.

Any shortfall in collateral due to unpaid accrued interest, liquidated damages, reduction in loan value of existing collaterals and conversion of overdraft into emergency loan may be covered by third party assets after the assets of the bank have been exhausted.

A Joint Affidavit (EL Form No. 16/16a) between the bank's chairman and president and the corporate-mortgagor's chairman and president or the individual mortgagor to be signed and notarized in the Bangko Sentral shall be submitted in support of the mortgage documents. The signing shall be photographed as well as recorded in video.

General terms and conditions. A bank with an outstanding emergency loan or advance shall comply with the following conditions:

a. The bank shall not, without the prior authorization of the Monetary Board, expand its outstanding loans or investments as of the date of application for emergency loan, except for investment in government securities;

b. The bank shall not declare cash dividends;

c. The bank shall not grant new loans to DOSRI or to affiliates and subsidiaries;

d. The bank shall accept the Bangko Sentral designated Comptroller to be assisted by examiners recommended by the appropriate supervising department of the Bangko Sentral and the DLC to monitor the operations of the bank under the Terms of Reference as determined by the Monetary Board;

e. The bank shall not be allowed to avail of the Bangko Sentral rediscounting facility; and

f. The bank shall comply with any other terms and conditions that may be imposed by the Monetary Board.

Maturity/Conditions for renewals. The term of any emergency loan or advance shall not exceed 180 days including renewals. Any request for renewal of an emergency loan or advance shall be treated as a new loan and shall be considered only upon the bank's compliance with the following:

a. All the requirements of the previous tranche/s;
b. Remittance of collections/proceeds of sales under this Section on Remittance of collections/ repayments/arrearages;
c. Payment of advance interest;
d. Submission of a duly notarized promissory note in favor of the Bangko Sentral; and
e. Other requirements that may be imposed by the Monetary Board on the borrowing bank.

The Director of the DLC shall approve the renewal of an emergency loan or advance.

Remittance of collections/repayments/arrearages. The following shall govern remittance of collections, sale proceeds, repayments and arrearages:

a. Total collections received on loan accounts assigned to the Bangko Sentral shall be held in trust for, and remitted to the Bangko Sentral not later than five (5) banking days following the date of receipt in payment of the bank's outstanding emergency loan or advance, net of refund of interests, if any.

b. Proceeds from the sale of properties assigned/mortgaged to the Bangko Sentral shall be held in trust for, and remitted to the Bangko Sentral not later than five (5) banking days following the date of receipt in payment of the bank's outstanding emergency loan or advance, net of refund of interests, if any.

For banks with emergency loan or advance under current status, "total collections" and "proceeds from the sale" shall pertain to the loan value of the mortgaged credits and properties.

For banks with emergency loan or advance under past due status:

(1) Total collections shall pertain to total collections from the mortgaged credits, i.e. principal plus interest and penalty.

(2) Proceeds from the sale shall pertain to net proceeds from the sale of assigned/mortgaged properties or the total Bangko Sentral claims pertaining to the sold properties, i.e., loan value plus interest and penalty, whichever is higher.

The bank shall ensure that adequate records on the collections and sale made by the branches are maintained in its Head Office.

c. Increases in the deposit level of the borrowing bank equivalent to the recovery of the net withdrawal of deposits, shall be remitted to the Bangko Sentral or debited against the bank's demand deposit account in payment of the emergency loan or advance, net of refund of interest.

d. The loan value of the collaterals of the emergency loan or advance, i.e., mortgaged credits and properties, discovered by the Bangko Sentral falling short of its criteria of first class collaterals, shall be debited against the bank's DDA with the Bangko Sentral, net of refund of interest.

e. The Bangko Sentral shall undertake all necessary collection measures allowed by law, such as foreclosure proceedings against banks, whether operating or closed, with past due loans.

In the event the bank fails to comply with any of the foregoing, the DLC shall notify, copy furnished the bank, the borrowers of the assignment of their outstanding loans to the Bangko Sentral and advise them to remit payment directly to the Bangko Sentral (EL Form 17).

Default. The following shall constitute events of default which shall render the emergency loan or advance due and demandable and shall be sufficient cause for the Bangko Sentral to stop further releases of funds, without prejudice to any action the Bangko Sentral may decide to take in accordance with R.A. No. 7653:

a. Insolvency or bankruptcy of the bank.
b. Appointment of a receiver for the bank.
c. The bank's property and business is taken possession of or its business suspended or closed by the lawfully authorized governmental agency or authority.
d. Violation of any of the terms and conditions of all loan and collateral documents.
e. Non-compliance with the undertakings executed by the borrowing bank.

(Circular No. 1008 dated 14 June 2018)

286 FACILITY TO COMMITTED CREDIT LINE ISSUERS

The following guidelines shall govern the grant by the Bangko Sentral of special credit accommodations to banks which establish committed credit line in favor of corporations proposing to issue commercial paper.

Nature of special credit accommodations. The Bangko Sentral may extend a loan to any bank which on its own or as a member of a group of banks, provides a committed credit line facility to a corporation proposing to issue commercial paper.

Conditions to access. A bank applying for a loan pursuant to the provisions of this Section shall submit to the Bangko Sentral documents showing that it has extended a committed credit line to a commercial paper issuer and that such issuer has availed itself of said credit line.

Terms of credit

a. *Interest rate*. The rate of interest chargeable on the availment of this credit facility shall be that which is equivalent to eighty percent (80%) of the total of interest and fees received by the bank from the issuer, net of provision for gross receipts tax paid by the bank on such income.

b. *Security*. The promissory note executed by the commercial paper issuer in favor of the bank for the amount drawn against the committed credit line shall be the security for this credit facility.

c. *Loan values*. The loan value of paper offered as collateral shall be eighty percent (80%) of the amount still due and outstanding on the paper offered as collateral.

d. *Repayment period*. The term of the credit accommodation may not exceed ninety (90) days and shall be non-renewable.

Ceiling. If availment of this credit facility is outside the other rediscount ceiling of the bank, it shall be limited to the extent of fifteen percent (15%) of the net worth of the bank.

(Circular No. 1008 dated 14 June 2018)

287-B/C COUNTRYSIDE FINANCIAL INSTITUTIONS ENHANCEMENT PROGRAM (CFIEP) FOR THRIFT, RURAL AND COOPERATIVE BANKS

The CFIEP shall be implemented under the terms of reference indicated in *Appendix 13*.

288 RECORDING AND REPORTING OF BORROWINGS

The bank's liability for papers discounted and/or rediscounted *"with recourse"* with the Bangko Sentral and/or other financial institutions shall be recorded and shown as "*Bills Payable*" in all reports submitted to the Bangko Sentral.

The loans and discounts, bills purchased, acceptances and other accounts affected by such discounting and/or rediscounting transactions shall remain as part of the bank's loan portfolio. A footnote in the financial statement shall indicate the outstanding balances of the discounted and/or rediscounted loans.

289 REDISCOUNTING WINDOW

Rediscounting Window for Low-Cost Housing as Defined by the Housing and Urban Development Coordinating Council (HUDCC). The rules and regulations governing the rediscounting of housing loan papers of qualified banks under the low-cost housing program of the HUDCC are shown in *Appendix 36.*

Rediscounting Window Available to All Universal and Commercial Banks for the Purpose of Providing Liquidity Assistance to Investment Houses. The following implementing guidelines shall govern the new rediscount window available to all UBs and KBs under Section 82(c) of R.A. No. 7653,
for the purpose of providing liquidity assistance to IH:

a. Criteria for eligibility

(1) Eligible papers - Promissory note of the UB/KB executed in favor of the Bangko Sentral and secured by a Deed of Pledge or Assignment of unencumbered/unhypothecated commercial papers with a rating of triple "A" and double "A".

(2) Loan limit - Availments against this facility shall be charged against the rediscount ceiling of the borrowing bank (100% of net worth) as of the end of the quarter immediately preceding the date of application.

b. Terms and conditions

(1) The loan shall be assessed an annual interest rate equivalent to one percent (1%) below the weighted average of the ninety-one (91)-day Treasury Bill rate for the last auction of the immediately preceding month.
(2) The loan shall have a term of 180 days from date of availment.
(3) The loan value shall be ninety percent (90%) of the face value of the commercial paper.
(4) The Bangko Sentral will automatically debit the demand deposit account of the UB/KB upon maturity of the rediscounting loan.
(5) The chief executive officer of the bank or his equivalent must certify that the rediscounted commercial paper is still outstanding as of the time of assignment.
(6) The UBs/KBs shall comply with the documentary requirements of the DLC.

c. Duration - Qualified UBs/KBs may avail of this facility until December 2000.

Rediscounting Window Available to TBs for the Purpose of Providing Liquidity Assistance to Support and Promote Microfinance Programs. TBs availing of rediscounting facility for purposes of providing liquidity assistance to support and promote microfinance programs shall comply with the guidelines under this Section on Rediscounting Window Available to Rural and Cooperative Banks for the Purpose of Providing Liquidity Assistance to Support and Promote Microfinance Programs, except for the requirement of a custodian bank under Item *"a(6)"* of this Section on Rediscounting Window Available to Rural and Cooperative Banks for the Purpose of Providing Liquidity Assistance to Support and Promote Microfinance Programs - Documentary requirements.

Rediscounting Window Available to Rural and Cooperative Banks for the Purpose of Providing Liquidity Assistance to Support and Promote Microfinance Programs. The following guidelines shall govern the rediscounting facility available to RBs and Coop Banks for the purpose of providing liquidity assistance to support and promote microfinance programs.

a. *Eligibility requirements*

(1) *Eligible borrowers* - RBs and Coop Banks with at least one (1) year track record in microfinance and at least 500 active borrowers, ratio of past due microfinance loans to total outstanding microfinance loans of not more than five percent (5%) as of end of the month preceding loan application and collection ratio of not less than ninety-five percent (95%) based on ratio of total collections (excluding prepayments) during the preceding twelve (12)-month period to the sum of past due microfinance loans at the beginning of said period and amount of matured loans including principal amortizations during the same twelve (12)-month period.

(2) *Eligible papers* - Promissory Note (PN) of the RB or Coop Bank executed in favor of the Bangko Sentral and secured by duly endorsed PN of microcredit borrowers.

(3) *Manual of operations* - Written policies on microfinance operations must be set forth and documented in a policy manual duly approved by the bank's board of directors. The manual should include the following minimum features:

(a) Scope of microfinance activities and the types of services or products offered to clients;
(b) Authorities and responsibilities of:

(i) Board of directors;
(ii) Management;
(iii) Chief executive officer or its equivalent;
(iv) Credit officers; and
(v) Other officers involved in the microfinance operations;

(c) Policies and procedures covering microfinance program/project;
(d) Client evaluation process which should involve at least: client orientation, pre-application, credit investigation, and loan application process;
(e) Loan processing, documentation and release of proceeds;
(f) Accounts monitoring system;
(g) Accounts delinquency management;
(h) Management Information System;
(i) Accounting policies, systems and procedures; and
(j) Internal controls and audit policies, systems and procedures.

(4) A copy of System of Reviewing Asset Accounts and Setting Up of Adequate Allowance for Credit Losses submitted.

(5) *Staff training and experience* - Key officers and staff responsible for microcredit operations must have a minimum experience of one (1) year and have completed a training course in microlending activities.

(6) *Prescribed financial ratios and regulations* - Applicant bank must comply with the following financial ratios and regulations:

(a) Minimum capital prescribed under Sec. 121;
(b) Risk-based capital ratio of not less than ten percent (10%);
(c) Reserves against deposit liabilities prescribed under existing regulations;
(d) Ratio of past due direct and indirect loans to DOSRI to the bank's aggregate past due loans of not more than ten percent (10%);
(e) Loans-to-deposits ratio of at least seventy-five percent (75%);
(f) Reports required to be submitted to the various departments and/or offices of the Bangko Sentral;
(g) CAMELS rating of three "3" or better; and
(h) Ratio of past due loans to total loan portfolio of not more than the industry average for RBs as of the preceding quarter.

b. *Microcredit line*

Application for Microcredit Line shall be filed with the DLC, Bangko Sentral at its head office in Manila or the appropriate Bangko Sentral Regional Loans and Credit Unit (BSPRLCU). The term of the microcredit line shall not exceed one (1) year from the date it is granted. The line may be renewed for another year upon submission of an application at least two (2) months before expiry, subject to full compliance with the prescribed eligibility requirements and the credit review by the DLC.

Total availments against the facility, which shall be charged against the approved microcredit line, shall form part of the total authorized rediscount ceiling of the borrowing bank. The rediscount ceiling for microfinance shall be equivalent to one hundred percent (100%) of the bank's net worth, net of allowance for credit losses and other capital adjustments as recommended by the appropriate supervising department of the Bangko Sentral as of the last regular examination of the bank.

The proceeds of availment or drawdown against the approved microcredit line shall be credited to the account of the RB or Coop Bank maintained with the depository bank or with Bangko Sentral. The RB or Coop Bank shall be notified in writing/electronically of the credit of such account on the same banking day that the proceeds are released.

c. *Terms and conditions*

(1) The loan value shall be equivalent to eighty percent (80%) of the outstanding balance of the microfinance borrower's PN.

(2) The RB or Coop Bank's loan from the Bangko Sentral shall have a term of not more than 360 days. The maturity date of the microfinance borrower's PN shall in no case be beyond the maturity date of the RB or Coop Bank's PN.

(3) The loan shall be assessed an annual interest rate equivalent to the ninety-one (91) day Treasury Bill rate for the last auction date of the preceding month.

(4) The demand deposit account of the RB or Coop Bank will be automatically debited at the maturity date of the Bangko Sentral loan for the full amount due excluding collections from microfinance borrowers which were credited to the Special Savings Account of the Bangko Sentral with the borrowing bank.

(5) Any responsible officer who is holding a position that is not lower than manager or equivalent rank must, upon approval by the bank's Board, endorse the rediscounted PNs and certify that the same are still outstanding as of the time of application.

(6) Collections made on amortizations due and maturing PNs shall be remitted to the DLC not later than two (2) banking days following the date of receipt of collections by the Head Office/branches located within Metro Manila and not later than four (4) banking days following the date of receipt of collections by the Head Office/branches located outside Metro Manila as provided under this Section on Rediscounting Window Available to Rural and Cooperative Banks for the Purpose of Providing Liquidity Assistance to Support and Promote Microfinance Programs - Remittance of collections/payments/repayments.

(7) A penalty of five percent (5%) per annum shall be imposed on matured and unpaid bank PNs in favor of the Bangko Sentral.

Full compliance at all times with the eligibility requirements as prescribed under this Section on Rediscounting Window Available to Rural and Cooperative Banks for the Purpose of Providing Liquidity Assistance to Support and Promote Microfinance Programs - Eligibility requirements.

d. *Documentary requirements*

(1) *Application for Microcredit Line.* RBs or Coop Banks applying for an microcredit line shall submit a letter of application to DLC or the appropriate BSPRLCU accompanied by the following documents:

(a) Certificate of the Secretary (original) and copy of the resolution duly signed by the board of directors of the applicant bank, authorizing the bank to apply for an microcredit line with the Bangko Sentral and designating the officer authorized under Item *"e"* of this Section on Rediscounting Window Available to Rural and Cooperative Banks for the Purpose of Providing Liquidity Assistance to Support and Promote Microfinance Programs - Terms and conditions to endorse the PNs and sign all papers pertaining to the rediscounting line in the prescribed format.

(b) Certification of the applicant bank that it has complied with the financial and regulatory ratios, conditions, and reportorial requirements prescribed under the eligibility requirements for rediscounting as provided under this Section on Rediscounting Window Available to Rural and Cooperative Banks for the Purpose of Providing Liquidity Assistance to Support and Promote Microfinance Programs - Eligibility requirements.

(c) *Consolidated Financial Statements* - Statement of Condition as of the end of the month immediately preceding the date of application together with the corresponding Statement of Income and Expenses covering the results of operations for the last three (3) years.

(d) Report on required and available reserves covering the past two (2) consecutive weeks immediately preceding the date of application.

(e) Rediscounting Line Agreement executed by the CEO of the RB or Coop Bank.

(f) Notarized custodian agreement executed among the CEO of the RB or Coop Bank, the third party custodian and the Bangko Sentral.

(2) *Availment of microcredit Line.* For availment of microcredit line, the RB or Coop Bank shall submit the following documents:

(a) Application for Microcedit Line Availment - original and one (1) copy in prescribed form duly accomplished and signed by the CEO of the applicant bank;
(b) Rediscount Schedule (RS); and
(c) Notarized PNs in favor of the Bangko Sentral - original and two (2) copies.

e. *Remittance of collections/payments/repayments*

Collections made on amortizations due and maturing PNs shall be remitted to the DLC not later than two (2) banking days following the date of receipt of collections by the Head Office/branches located within Metro Manila and not later than four (4) banking days following the date of receipt of collections by the Head Office/branches

located outside Metro Manila. As an alternative, collections may be deposited in a Special Savings Deposit Account (SSDA) which shall be maintained by the Bangko Sentral with the borrower-bank and remitted to DLC or the appropriate BSPRLCU on the last banking day of every month. The SSDA shall earn interest of one percent (1%) lower than the 91-day Treasury Bill rate for the last auction date of the preceding month.

On due date of the PN, the RB or Coop Bank shall remit to the Bangko Sentral the unpaid balance of such PN: *Provided,* That any amount credited to the SSDA shall be applied as payment of the PN in favor of Bangko Sentral. The remittance shall be reported under DLC Form No. 5. The remittance to Bangko Sentral shall be in the form of cash, demand draft, manager's check or based on authority issued by the bank to debit its demand deposit account with Bangko Sentral. Check payments and demand drafts shall be given value when cleared.

f. *Reports required*

A monthly report on microfinance transactions shall be submitted to DLC or the appropriate BSPRLCU within the deadline set in *Appendix 7.*

g. *Accounts verification*

The microcredit accounts rediscounted shall be subject to verification and confirmation by authorized DLC or the appropriate BSPRLCU representatives to determine their eligibility and acceptability for rediscounting.

h. *Sanctions*

Any misrepresentation and/or violation of the provisions of this Section shall subject the RB or Coop Bank and/or the erring directors/officers to any of the following sanctions:

(1) *Erring RB or Coop Bank*

(a) Fines in amounts as may be determined by the Monetary Board to be appropriate, but in no case to exceed Thirty thousand pesos (P30,000) a day for each violation;
(b) Suspension of rediscounting privileges or access to Bangko Sentral credit facilities; and/or
(c) Reduction of rediscounting line.

(2) *Erring directors/officers*

For violation of any of the provisions of this Section the following shall be imposed against the directors and officers of the bank:

(a) *1st offense* - a warning that a repetition of the same or similar offense shall subject the erring director/officer to monetary penalties and/or sanctions;
(b) *2nd offense* - a fine of P500 per day for each violation from the time the violation was committed up to the time it is corrected without prejudice, however, to the imposition of higher penalties; and
(c) *3rd and subsequent offenses* - a fine of P5,000 per day from the time the violation was committed up to the time it is corrected without prejudice, however, to the imposition of higher penalties.

If any of the documentary requirements submitted by the bank as required under this Section on Rediscounting Window Available to Rural and Cooperative Banks for the Purpose of Providing Liquidity Assistance to Support and Promote Microfinance Programs - Documentary requirements is found to be false, a fine of P5,000 per day, from the time the certification was made up to the time the certification was found to be false, shall be imposed against the certifying officer.

290 ENHANCED INTRADAY LIQUIDITY FACILITY

The ILF is a smoothening mechanism which is available to eligible participant banks in the Philippine Payments and Settlements System (PhilPaSS) to support their liquidity requirements and avoid payment gridlocks in PhilPaSS. The revised features of the enhanced intraday liquidity facility are in *Appendix 18*.

K. OTHER BORROWING OF BANKS

291 BORROWINGS FROM THE GOVERNMENT

Except as may be authorized by existing statutes, no private bank shall, whether or not performing quasi-banking functions, borrow any fund or money from the Government and government entities, through the issuance or sale of its acceptances, notes or other evidences of debt.

***Exemption from reserve requirement*.** The following borrowings shall not be subject to the reserve requirements:

a. STDs and deposit substitutes of specialized government banks and private banks arising from their lending operations under the special financing programs of the Government and/or international FIs; and

b. Funds held by participating financial institutions (PFIs) under the GSIS Housing Loan Programs: *Provided*, That the agreement between the GSIS and the conduit banks specify that such funds may be held by the conduit banks for a period of not more than seven (7) calendar days prior to their release to the borrower and prior to the remittance by the conduit banks of payments to the GSIS.

c. Borrowings by accredited FIs under the Wholesale Lending Program for SMEs of the SBGFC.

292 BORROWINGS FROM TRUST DEPARTMENTS OR INVESTMENT HOUSES

Funds borrowed by banks from trust departments or managed funds of banks or IHs are not considered as interbank borrowings and therefore are subject to the:

a. Reserve requirement on deposit substitutes; and
b. Minimum trading lot rule.

293-B MORTGAGE/CHM CERTIFICATES OF THRIFT BANKS

With prior approval of the Monetary Board, TBs may issue and deal in mortgage and CHM certificates. The rules and regulations governing the issuance of said certificates is shown in *Appendix 14*.

294-C BORROWINGS OF RURAL BANKS/COOPERATIVE BANKS

RBs and Coop Banks may rediscount papers with any bank.

The obligations of RBs arising from availments of rediscounting facilities and other borrowings from the Bangko Sentral, will be considered as deposit substitutes. However, with the qualification in the Tax Code of 1997 that the term *public* means borrowing from twenty (20) or more individual or corporate lenders at any one (1) time, it is clear that the obligations of the RBs to Bangko Sentral, which are entered in their books as *"Bills Payable-Bangko Sentral,"* do not presently fall under the category of deposit substitutes.

L. OTHER LIABILITIES

295 COLLECTION OF CUSTOMS DUTIES/TAXES/LEVIES AND OTHER REVENUES, AND ACCEPTANCE, ENCASHMENT OR NEGOTIATION OF CHECKS DRAWN IN FAVOR OF COMMISSIONER

The following regulations shall govern the collection and reporting of customs duties, taxes, levies and other revenues through the banking system.

Coverage. All presently accredited agent banks with demand deposit accounts with the Bangko Sentral and government banks are authorized to collect (a) customs duties, taxes and other levies, (b) import processing fees, and (c) export/premium duties: *Provided, however*, That the collection of taxes from GOCCs shall be made only through banking offices of government banks.

Collection and reporting of internal revenue taxes. Banks which are duly accredited by the BIR to accept payment of internal revenue taxes shall be governed by the relevant BIR Revenue Regulations.

Deposits of the BIR shall be limited to those arising from tax collection.

The Authorized Agent Banks (AABs) shall transfer the deposit collection to the account of the Treasurer of the Philippines with the Bangko Sentral on the sixth day from the day of deposit of the BIR collections.

Collection and reporting of customs duties and import processing fees. Participating banks are authorized to accept payment of customs duties, taxes and other levies, and import processing fees under the following procedures:

a. The collecting bank shall acknowledge receipt of payments of customs duties, taxes and other levies, and import processing fees by issuing Official Receipts (ORs) in forms to be requisitioned by the Head Office from the General Services Division, Bureau of Customs, Manila;

b. The collecting bank shall book all such collections and credit the same to the special account *"Due to Bangko Sentral - Bureau of Customs"*;

c. The branch shall report by telephone, telex or other means to its Head Office, at the end of each day, total collections for the day and the inclusive serial numbers of ORs issued, to be used as basis for the preparation by the Head Office of the *Consolidated Report of Daily Collections of Customs Duties, Taxes and Other Levies (RC 82-005);*

d. The Head Office and its branches shall accomplish the *Abstract of Daily Collections of Customs Duties, Taxes and Other Levies (RC 82-006)* and submit the same, duly supported with copies of Orders of Payment (OPs), ORs, Release Certificates (RCs) and commercial invoices on the same day to the offices indicated in the form; and

e. The Head Office of the participating banks shall consolidate all reports of collections with those of its branches and submit the original of the *Consolidated Report on Daily Collections of Customs Duties, Taxes and Other Levies (RC 82-005)* to the Comptrollership Department, Bangko Sentral, Manila on the 10th calendar day following the date of collection. Simultaneously, the remaining copies shall be distributed to the offices indicated in the form.

Deposits of the BOC shall be limited to those arising from customs collection.

The AABs shall transfer the deposit collection to the account of the Treasurer of the Philippines with the Bangko Sentral on the eleventh day from the day of deposit of the BOC collections.

Collection and reporting of export/premium duties. Participating banks are authorized to accept payment of export premium duties under the following procedures:

a. The collecting bank shall deduct from the export proceeds the estimated amount of export/premium duties due from the export shipment upon negotiation of the shipping documents but shall collect the exact and correct amount of such duties upon presentation of the OP issued by the Export Coordinating Division, Bureau of Customs (For Port of Manila) or the Collector of Customs concerned;

b. The collecting bank shall issue the corresponding ORs in forms to be requisitioned by the Head Office from the General Services Division, Bureau of Customs, Manila;

c. The collecting bank shall book all such collections and credit the same to the special account *"Due to Bangko Sentral-Export/Premium Duty";*

d. The branch/extension office agency shall:

(1) Report by telephone, telex or other means to its Head Office, at the end of each day, total collections for the day and the inclusive serial numbers of ORs issued, to be used as basis for the preparation by the Head Office of the *Consolidated Report on Daily Collections of Export/Premium Duty (RC 82-007)*; and

(2) Accomplish the *Abstract of Daily Collections of Export/Premium Duty (RC 82-008)* and submit the same, duly supported with copies of OPs and ORs, within ten (10) calendar days from date of collection to the offices indicated in the form.

e. The Head Office of the collecting bank shall:

(1) Consolidate its report of collection with those of its branches/extension offices/agencies and submit to the Bureau of Customs the *Consolidated Report of Daily Collections of Export/Premium Duty (RC 82-009)* on the day following the date of collection; and

(2) Consolidate the *Abstract of Daily Collections of Export/Premium Duty (RC 82-010)* with those received from branches/extension offices/agencies. The original of the *Consolidated Abstract of Collection of Export/Premium Duty (RC 82-011)* shall be submitted to the Comptrollership Department, Bangko Sentral, Manila, on the 10th calendar day following the date of collection.

Simultaneously, the remaining copies, with the supporting OPs and ORs, shall be submitted to the Bureau of Customs.

Remittances thru debit/credit advices. The Comptrollership Department of Bangko Sentral, Manila, shall debit the DDAs of the banks concerned for the total daily collection, which is due for remittance on the 10th calendar day from the date of collection (based on either forms RC 82-005, RC 82-007 or RC 82-011). Said Department shall also credit on the same day the account of the Treasurer of the Philippines for all such remittances of tax collections, duties, fees and other levies.

Copies of debit/credit advices to AABs shall be furnished by the Comptrollership Department, Bangko Sentral.

Reconciliation of revenue collections. The Bureau of Customs shall report to the appropriate supervising department of the Bangko Sentral, Manila, any unreported collection or other discrepancies discovered for proper examination. The Bangko Sentral shall take appropriate action, through the Comptrollership Department, either by debiting or crediting the

DDA of the bank concerned, upon advice by the appropriate supervising department of the Bangko Sentral on the results of the investigation.

Penalty for willful delay on the reporting of collections/remittances. In the event the Bureau of Customs shall discover, in the course of its verification, any willful delay in the reporting of collections and remittances by banks, said Bureau shall advise the Comptrollership Department of the Bangko Sentral to debit the DDA of the bank concerned with the corresponding penalty therefor, in accordance with this Section (Fines for delayed reports/remittances of collections).

Fines for delayed reports/remittances of collections. Any bank authorized to collect customs duties, taxes and other levies and export/premium duty, which shall willfully delay the submission of reports and remittance of its collection to the Bangko Sentral within the period prescribed thereon, shall pay fines in accordance with the following schedule:

	Per delay in submission of report	**Per delay in remittance of collection**
a. Per day of default for the first 5 days of default	P60 plus	1/30 of 1% on the amount of delayed remittance
b. Per day of default for the next 5 days of default	P90 plus	1/15 of 1% on the amount of delayed remittance
c. Per day of default for the succeeding days of default	P120 plus	1/10 of 1% on the amount of delayed remittance

Provided, That:

(1) Fines imposed above shall not be in excess of P30,000 a day;

(2) The default shall start to run on the day following the last day required for submission of the report or remittance, as the case may be. However, should the last day of filing fall on a non-banking day in the locality where the reporting bank is situated, the default shall start on the day following the next banking day; and

(3) The manner of payment or collection of fines enumerated under Sec. 1102 (*Guidelines on the imposition of monetary penalties*) shall apply.

Liquidity floor requirement on revenue collections. Revenue collections of AABs shall be subject to the liquidity floor requirement under Sec. 231 (*Liquidity floor*).

Collection of import duties at the time of opening of letters of credit. The following rules and regulations shall govern the collection of import duties at the time of openissng of letters of credit (LC) covering imports and for other purposes:

Under Non-Electronic to Mobile (e2m) ports

a. *Collection of deposits of import duties.* All FIs shall, upon opening of the LC covering imports, collect from the applicant/importer a deposit equivalent to the full amount of import duties due on the importation covered by such LC. The deposit shall not be withdrawable and shall be utilized only by crediting the same to the import duties due on the importation.

b. *Amount of import duties.* The import duties due shall be determined and declared by the applicant for the LC subject to the penalties prescribed under the Tariff and Customs Code.

c. *Other payment arrangements.* The requirement of a deposit shall likewise apply even if the importation is effected under other types of payment arrangements or on a deferred payment basis. The deposit should be made upon presentation of the import documents to the agent bank

d. *Validation of official receipt.* Such deposits shall be validated by official receipts of the FIs concerned and shall be credited in the final computation of the import duties, taxes and other charges due on the importation, upon the filing of the corresponding import entry.

e. *Collection of deficiency and refund of excess deposits.* Any deficiency in the deposit made as against the actual import duties, taxes and other charges due on the importation shall be collected by the Bureau of Customs from the importer prior to the release or withdrawal of the shipment. Any excess deposit shall be refunded by the Bureau of Customs to the importer.

f. *Remittance of collection.* The Bangko Sentral DDA of the FIs concerned shall be debited for the deposits collected, in accordance with Sec. 295 (*Remittances thru debit/credit advices*).

Under e2m ports

a. *Collection of deposits of import duties.* All FIs shall, prior to opening of the LC covering imports, collect from the applicant/importer a deposit equivalent to the full amount of advance import duties due on the importation covered by such LC. The deposit which shall be effected through an electronic Import Entry Declaration (IED) lodged thru a Value Added Service Provider (VASP), shall not be withdrawable and shall be utilized only by crediting the same to the import duties due on the importation.

b. *Amount of advance deposit.* The import duties due shall be computed by the Electronic to Mobile (e2m) system based on the applicant's declared descriptions, ASEAN Harmonized Tariff Nomenclature (AHTN), quantities and values in the IED. The LC applicant must ensure that the particulars of the LC application and the supporting pro-forma invoice correspond to those declared in the IED and any undervaluation, misclassification and misdeclaration in the IED shall subject the LC applicant to the penalties prescribed under Section 2503 of the Tariff and Customs Code, as amended. The amount payable to the AAB, which shall be the full advance duty payable on the importation taking into account exemptions obtained, shall be notified to the AAB thru an electronic Advance Deposit Payment Instruction (ADPI).

The net amount payable must be paid within the IED validity period which is reckoned as seven (7) calendar days from date the payment instruction is generated by the e2m system. Beyond the validity period, the IED status will be indicated as expired. For expired lEDs, AABs shall not accept payment. Importers will have to file a new IED.

c. *Duty exempt imports.* If the importer/applicant declares in the IED that the importation is exempt from duties, such claim shall be taken at face value in the determination by the Bureau of Customs (BOC) of the amount of advance deposit. However, AABs shall, as a requirement for the opening of the LC, require from the applicant a sworn statement to the effect that it is duty-exempt and citing the specific basis/authority of such exemption, supported by a copy of the applicable certification/approval/letter of authority of the government agency concerned.

d. *Transmittal of the ADPI to the AABs.* The ADPI shall be transmitted by the BOC to the PCHC Payment Gateway which shall have responsibility for forwarding the same to the AAB concerned.

e. *Collection by debit from designated bank account.* The collection of the advance deposit as well as of the final duties, taxes and other charges payable on the importation shall be by debit from the applicant's bank account designated in the ADPI or in the Final Payment Instruction (FPI) and credited to the BOC's account.

f. *Validation of advance deposits.* Payment of advance deposits shall be validated by official receipts, such as electronic Advance Payment Confirmations (APC) prepared and transmitted by the AAB using the payment subsystem of the e2m system via the PCHC Payment Gateway.

g. *Other payment arrangements.* The requirement of a deposit as stated in Item "*a"* hereof shall likewise apply even if the importation is effected under other types of payment arrangements or on a deferred payment basis. The deposit should be made upon presentation of the import documents to the AAB.

h. *Confirmation of advance duties collected.* The e2m system shall provide the importer's VASP the APC. The VASP shall in turn notify the importer by e-mail of its receipt of the APC and provide the importer a printed copy thereof upon request.

i. *Collection of final duties and tax payable*. The final duties and tax payable as computed by the e2m system shall be notified to the AAB concerned thru an electronic FPI. After collecting the amount in the FPI, the AAP shall transmit to BOC via the PCHC Payment Gateway a Final Payment Confirmation (FPC).

j. *Statement of duties and taxes availment (SDTA).* Upon receipt of the FPC from the AAB, the BOC shall provide the importer electronically an SDTA which shall be his proof of having settled all duties, taxes, and other charges on the importation.

k. *Phased implementation*. The e2m system shall be rolled out nationwide in phases. Importations to be cleared thru Customs Collection Districts already operating the e2m system shall be paid thru payment system prescribed under this Section. However, importations to be cleared thru non-e2m customs ports shall follow the old payment system during the migration period.

Violations. Any violation of the provisions of this Section shall be penalized under the pertinent provisions of the Tariff and Customs Code of the Philippines, as amended, and/or under Section 37 of R.A. No. 7653.

Acceptance, encashment or negotiation of checks drawn in favor of commissioner/Collector of Customs. All checks payable to the Commissioner/Collector of Customs shall be accepted for deposit only to the account of the

Commissioner/Collector of Customs. Banks where the Commissioner/Collector of Customs has no account shall not encash, accept nor negotiate checks payable to the Commissioner/Collector of Customs.

Any attempt to defraud the government or the bank through the irregular or unauthorized encashment or deposit of these checks to accounts other than that of the Commissioner/Collector of Customs shall be reported immediately by the head of the banking office to the BOC, copy furnished the Bangko Sentral.

(Circular No.987 dated 15 December 2017)

296 COLLECTION AGENTS OF THE SOCIAL SECURITY SYSTEM

Banks duly accredited by the SSS are authorized to act as collection agents under which agency, members of the SSS may pay their contributions for social security and employees' compensation to the SSS through the said banks. Such banks are also authorized to receive from SSS members amortization payments for loans granted by the SSS and such other payments due to SSS.

The funds thus collected shall be remitted to the SSS within the period prescribed by the SSS. Any form of business/compensation arrangement to the collection agents shall be in accordance with the terms and conditions agreed upon by the parties.

The funds collected by banks shall be handled by the bank proper and not the trust department: *Provided, however*, That such deposits shall be subject to the reserve requirements and the liquidity floor requirements on government deposits.

297 COLLECTION AGENTS OF PHILHEALTH

Banks are authorized to act as collecting agents of the Philippine Health Insurance Corporation (PhilHealth) under which agency:

a. PhilHealth members may pay their premium contributions to PhilHealth through the said banks and the funds thus collected shall be remitted to PhilHealth in accordance with PhilHealth's agreed remittance schedule which in no case shall exceed thirty (30) days from receipt thereof;

b. During the period that such premium contributions are in the custody of banks, such funds shall not earn interest; and

c. The banks shall not collect from PhilHealth any service charge for such agency.

The funds collected by the banks shall be handled by the operating departments (cash departments) of the banks concerned and not their trust operations: *Provided, however*, that such funds shall be subject to the reserve requirement on deposits and to the liquidity floor on government deposits.

298 DISCLOSURE OF REMITTANCE CHARGES AND OTHER RELEVANT INFORMATION[1]

It is the policy of the Bangko Sentral to promote the efficient delivery of competitively-priced remittance services by banks and other remittance service providers by promoting competition and the use of innovative payment systems, strengthening the financial infrastructure, enhancing access to formal remittance channels in the source and destination countries, deepening the financial literacy of consumers, and improving transparency in remittance transactions, consistent with sound banking.

Towards this end, banks providing overseas remittance services shall disclose to the remittance sender and to the recipient/beneficiary, the following minimum items of information regarding remittance transactions, as defined herein:

a. *Transfer/remittance fee* - charge for processing/sending the remittance from the country of origin to the country of destination and/or charge for receiving the remittance at the country of destination;
b. *Exchange rate* - rate of conversion from foreign currency to local currency, e.g., peso-dollar rate;
c. *Exchange rate differential/spread* - foreign exchange mark-up or the difference between the prevailing Bangko Sentral reference/guiding rate and the exchange/conversion rate;
d. *Other currency conversion charges* - commissions or service fees, if any;
e. *Other related charges* - e.g., surcharges, postage, text message or telegram;
f. *Amount/currency paid out in the recipient country* - exact amount of money the recipient should receive in local currency or foreign currency; and
g. *Delivery time to recipients/beneficiaries* - delivery period of remittance to beneficiary stated in number of days, hours or minutes.

[1] The BSFIs are given until 27 April 2017 to comply with the provision of this Section.

Banks shall likewise post said information in their respective websites and display them prominently in conspicuous places within their premises and/or remittance/service centers.

In case of domestic remittance transactions, all fees to the transactions shall be charged upfront by banks from the sender/remitter's end, with appropriate disclosure to the sender/remitter of the components of the fees being charged. This does not preclude the bank and/or other participants to the domestic remittance transaction from charging service fees. *Domestic remittance transaction*, for this purpose, is a transfer of funds between a sender/remitter and a beneficiary who are both within the Philippines, and is not covered by electronic payment transaction as defined under the National Retail Payment System (NRPS) Framework.

(Circular Nos. 980 dated 2 November 2017 and 952 dated 22 March 2017)

299 SEGREGATION OF CUSTOMER FUNDS AND SECURITIES RECEIVED BY BANKS IN THE PERFORMANCE OF THEIR SECURITIES BROKERING FUNCTIONS

Policy Statement. Pursuant to the Bangko Sentral's policy of promoting the development of domestic capital markets by upholding investor protection and transparency in securities transactions, following are the guidelines relating to the segregation, handling and reporting of customer funds and securities received by banks in the performance of their securities brokering functions.

The limited coverage of the guidelines shall not relieve the bank acting as securities broker of its obligation to comply with other requirements of the Securities Regulation Code (SRC) and its Implementing Rules and Regulations (IRR).

Definition of terms

a. *Securities brokering* - A securities brokering transaction refers to the act of buying and selling evidences of indebtedness, shares and all types of securities by order of and for the account of customers.

b. *Securities broker* – A securities broker refers to an entity which is duly-registered by the SEC to engage in securities brokering transactions.

c. *Customer* – A customer refers to any person from whom, or on whose behalf, a securities broker receives, acquires or holds funds or securities for the account of such person.

d. *Customer securities* – Customer securities refer to (1) securities received by a securities broker in behalf of any customer; (2) securities carried long by a securities broker for the account of any customer; and (3) securities sold to, or bought for, a customer, by a securities broker.

e. *Customer funds* - This shall refer to funds received from a customer by a broker under a securities brokering arrangement.

f. *Broker customer account for settlement of customer trades* - This shall refer to the separate cash account and margin account of the customer which shall be used exclusively for the settlement of securities brokering transactions.

g. *Broker customer securities account* - This shall refer to customer securities held in accordance with securities brokering agreements such as securities held as margin and/or prior to the settlement of a customer securities transaction.

Segregation of customer funds and securities. A bank which receives customer funds and securities in the performance of their securities brokering transactions shall keep these funds and securities separate from its own assets and liabilities.

a. For securities brokering purposes, separate accounts, shall be opened and maintained by/for the customers, designated as follows:

   (1) "Broker Customer Account for Settlement of Customer Trades" where all funds pertinent to securities brokering transactions shall be lodged; and
   (2) "Broker Customer Securities Account" where all securities pertinent to securities brokering transaction of the customers shall be lodged.

b. The bank must institute adequate risk management systems and controls to ensure protection of customer funds and securities, proper segregation of functions and prevention of conflict of interest situations that may arise in the conduct of securities brokering activities within the bank.

Accounting and record keeping. A bank shall make and keep current books and records relating to customer funds and securities which shall be maintained in the principal office of the bank.

a. Customer funds received by banks in its brokering activities shall be recorded in the liability account "Broker Customer Account for Settlement of Customer Trades." This account shall be governed by the following guidelines:

(1) All funds under this account are held by the bank in a fiduciary capacity.
(2) It shall be free from any and all liens on the bank's assets and shall not be held to answer for any liability of the bank.
(3) It shall not earn interest and will not be included under the coverage of an insured deposit under R.A. No. 3591, as amended.
(4) It shall also be excluded from the monies/assets for which the Bangko Sentral requires reserves.

b. Securities received by banks in its brokering activities such as securities held as margin and/or held prior to the settlement of customer securities transaction shall be recorded as an off-balance sheet item under the "Broker Customer Securities Account" in the books of the bank proper. This account shall be governed by the following guidelines:

(1) All securities under this account are held by the bank in a fiduciary capacity.
(2) This shall be free from any and all liens on the bank's assets and shall not be held to answer for any liability of the bank.
(3) This shall also be excluded from the monies/assets for which the Bangko Sentral provides reserve requirements.

Receivership. Whenever a receiver is appointed by the Monetary Board for a bank which is authorized to engage in securities brokering activities, the receiver shall, pursuant to the instructions of the Monetary Board, proceed to close the securities business promptly and arrange for another Exchange Member, where such bank is a member of an Exchange, to take over any outstanding contracts and inform the affected customers in writing that their accounts have been transferred.

Where the bank is not a member of an Exchange, the receiver pursuant to the instructions of the Monetary Board, shall notify the affected customers, if any, of the placement of such bank under receivership and require that they transfer their accounts to another broker.

Reportorial requirements. All banks with securities brokering license shall submit to the appropriate unit of the Bangko Sentral on a monthly basis an additional report listed in *Appendix 7.* This report shall be considered a *Category A-1* report and shall contain the end-of-week balances of cash and securities that are held in accordance with the securities brokering arrangement with its clients.

(Circular No. 903 dated 29 February 2016, M-2015-034 dated 14 September 2015, and Circular No. 885 dated 14 August 2015)

PART THREE

LOANS, INVESTMENTS AND SPECIAL CREDITS

A. GENERAL PROVISIONS ON LENDING OPERATIONS

301 GRANT OF LOANS AND OTHER CREDIT ACCOMMODATIONS

In addition to the principles and standards provided under Sec. 143, the following regulations shall be observed in the grant of loans and other credit accommodations.

Additional requirements. FIs shall require submission and maintain on file updated ITRs of the borrower, and his co-maker, if applicable, duly stamped as received by the BIR together with supporting financial statements, as applicable. FIs shall likewise require borrowers to execute a waiver of confidentiality of client information and/or an authority of the FI to conduct random verification with the BIR in order to establish authenticity of these documents.

Should the document(s) submitted prove to be incorrect in any material detail, the FI may terminate any loan or other credit accommodation granted on the basis of said document(s) and shall have the right to demand immediate repayment or liquidation of the obligation.

The required submission of such documents shall not cover the following credit exposures:

a. Microfinance loans as defined under Sec. 314 (*Definition*, Item *"a"*);

b. Loans to registered Barangay Micro- Business Enterprises (BMBEs);

c. Interbank loans;

d. Loans secured by hold-outs on or assignment of deposits or other assets considered non-risk by the Monetary Board;

e. Loans to individuals who are not required to file ITRs under BIR regulations, as follows:

   (1) Individuals whose gross compensation income does not exceed their total personal and additional exemptions, or whose compensation income derived from one (1) employer does not exceed P60,000 and the income tax on which has been correctly withheld;

   (2) Those whose income has been subjected to final withholding tax;

   (3) Senior citizens not required to file a return pursuant to R.A. No. 7432, as amended by R.A. No. 9257, in relation to the provisions of the National Internal Revenue Code (NIRC) or the Tax Reform Act of 1997; and

   (4) An individual who is exempt from income tax pursuant to the provisions of the NIRC and other laws, general or special; and

f. Loans to borrowers, whose only source of income is compensation and the corresponding taxes on which has been withheld at source: *Provided*, That the borrowers submitted, in lieu of the ITR, a copy of their Employer's Certificate of Compensation Payment/Tax Withheld (BIR Form 2316) or their payslips for at least three (3) months immediately preceding the date of loan application;

g. Loans and other credit accommodations not exceeding P3.0 million; or

h. Loans to start up enterprise borrowers during the first three (3) years of their operations or banking relationship.

Prohibited use of loan proceeds. Banks are prohibited from requiring their borrowers to acquire shares of stock of the lending bank out of the loan or other credit accommodation proceeds from the same bank.

Signatories. Banks shall require that loans and other credit accommodations be made under the signature of the principal borrower and, in the case of unsecured loans and other credit accommodations to an individual borrower, at least one (1) co-maker, except that a co- maker is not required when the principal borrower has the financial capacity and a good track record of paying his obligations.

Policies on loans to non-immigrants and embassy officials. Banks are allowed to extend peso loans to the following:

a. Non-immigrants holding visas issued under Secs. 9(d) and 9(g) of the Immigration Act of 1940, Special Investor's Resident Visa (SIRV) and visas issued by the Philippine Economic Zone Authority: *Provided*, That such loans shall be limited to peso consumer loans including credit cards, auto loans and appliance loans, but excluding real estate or housing loans: *Provided, further*, That the lending bank institutes measures to mitigate credit risk such

as requiring the submission of a Comfort Letter from the visa holder's employer, limiting the term of the loan to the period of the visa's validity, submission of SIRV identification card, as well as subjecting the visa holder to the usual credit processes/requirements; and

b. Embassy officials [foreign diplomats and career consular officials and employees who are physically residing in the Philippines for a term of one (1) year or more]: *Provided*, That such loans shall be limited to consumer loans, including credit cards, auto loans, appliance loans and others that may henceforth be allowed by the Monetary Board: *Provided, further*, That the lending bank institutes measures to mitigate credit risk such as requiring the submission of a Comfort Letter from the Embassy employing said officials.

Minimum required disclosure. Banks shall provide a table of the applicable fees, penalties and interest rates on loan transactions, including the period covered by and the manner of and reason for the imposition of such penalties, fees and interests; fees and applicable conversion reference rates for third currency transactions, in plain sight and language, on materials for marketing loans, such as brochures, flyers, primers and advertising materials, on loan application forms, and on billing statements: *Provided,* That these disclosures of the fees, charges and interest rates in the terms and conditions of the loan agreement: *Provided further,* That such table of fees, penalties and interest rates shall be printed in plain language and in bold black letters against a light or white background, and using the minimum Arial 12 theme font and size, or its equivalent in readability, and on the first page, if the applicable document has more than one (1) page.

Unfair collection practices. Banks, collection agencies, counsels and other agents may resort to all reasonable and legally permissible means to collect amounts due them under the loan agreement: *Provided,* That in the exercise of their rights and performance of duties, they must observe good faith and reasonable conduct and refrain from engaging in unscrupulous or untoward acts. Without limiting the general application of the foregoing, the following conduct is a violation of this Section:

a. the use or threat of violence or other criminal means to harm the physical person, reputation, or property of any person;

b. the use of obscenities, insults, or profane language which amount to a criminal act or offense under applicable laws;

c. disclosure of the names of borrowers who allegedly refuse to pay debts, except as allowed under this Section on Confidentiality of information;

d. threat to take any action that cannot legally be taken;

e. communicating or threat to communicate to any person credit information which is known to be false, including failure to communicate that a debt is being disputed;

f. any false representation or deceptive means to collect or attempt to collect any debt or to obtain information concerning a borrower; and

g. making contact at unreasonable/ inconvenient times or hours which shall be defined as contact before 6:00 A.M. or after 10:00 P.M., unless the account is past due for more than sixty (60) days or the borrower has given express permission or said times are the only reasonable or convenient opportunities for contact.

Banks shall inform their borrowers in writing of the endorsement of the collection of their account to a collection agency/agent, or the endorsement of their account from one collection agency/agent to another, at least seven (7) days prior to the actual endorsement. The notification shall include the full name of the collection agency and its contact details: *Provided*, That the required notification in writing shall be included in the terms and conditions of the loan agreement. Banks shall adopt policies and procedures to ensure that personnel handling the collection of accounts, whether these are in-house collectors, or third-party collection agents, shall disclose his/her full name/true identity to the borrower.

Confidentiality of information. Banks shall keep strictly confidential the data on the borrower or consumer, except under the following circumstances:

a. disclosure of information with the consent of the borrower or consumer;
b. release, submission or exchange of customer information with other financial institutions, credit information bureaus, lenders, their subsidiaries and affiliates;
c. upon orders of court of competent jurisdiction or any government office or agency authorized by law, or under such conditions as may be prescribed by the Monetary Board;
d. disclosure to collection agencies, counsels and other agents of the bank to enforce its rights against the borrower;
e. disclosure to third party service providers solely for the purpose of assisting or rendering services to the bank in the administration of its lending business; and
f. disclosure to third parties such as insurance companies, solely for the purpose of insuring the bank from borrower default or other credit loss, and the borrower from fraud or unauthorized charges.

Sanctions. Violations of the provisions of this Section on Minimum required disclosure, Unfair collection practices and Confidentiality of information shall be subject to any or all of the following sanctions depending upon their severity:

a. *First offense*. Reprimand for the directors/officers responsible for the violation;
b. *Second offense.* Disqualification of the bank concerned from the credit facilities of the Bangko Sentral except as may be allowed under Section 84 of R. A. No. 7653;
c. Subsequent offense/s:

    (1) Prohibition on the bank concerned from the extension of additional credit accommodation against personal security; and
    (2) Penalties and sanctions provided under Sections 36 and 37 of R. A. No. 7653.

(Circular Nos. 890 dated 02 November 2015 and 855 dated 29 October 2014)

302 AMORTIZATION ON LOANS AND OTHER CREDIT ACCOMMODATIONS

The amortization schedule of bank loans and other credit accommodations shall be adapted to the nature of the operations to be financed.

In case of loans and other credit accommodations with maturities of more than five (5) years, provisions must be made for periodic amortization payments, but such payments must be made at least annually: *Provided, however,* That when the borrowed funds are to be used for purposes which do not initially produce revenues adequate for regular amortization payments, the bank may permit the initial amortization payment to be deferred until such time as said revenues are sufficient for such purpose, but in no case shall the initial amortization date be later than five (5) years from the date on which the loan or other credit accommodation is granted: *Provided, further,* That in the case of agriculture and fisheries projects with long gestation periods, the initial amortization payment may be deferred for a longer period based on the economic life of the project as provided under Section 24 of R.A. No. 8435 and implemented under Sec. 313 (*Agriculture and Fisheries Projects with Long Gestation Periods*).

303 SECURED LOANS AND OTHER CREDIT ACCOMMODATIONS

A loan may be considered secured by collateral to the extent the estimated value of net proceeds at disposition of such collateral can be used without legal impediment to settle the principal and accrued interest of such loan: *Provided,* That such collateral must have an established market and the valuation methodology used is sound, and: *Provided further,* That in the case of real estate collateral, the maximum collateral value shall be sixty percent (60%) of its value as appraised by an appraiser acceptable to the Bangko Sentral.

A loan may also be considered as secured to the extent covered by a third party financial guarantee or surety arrangement where the credit enhancement provider is itself considered to be of high credit quality (credit rating of at least AA or equivalent) or is considered to be such by the Bangko Sentral.

Finally, a loan may be secured by a combination of acceptable collateral and guarantee arrangements as defined above, provided such arrangements are independent of one another for credit enhancement purposes.

Participation in foreclosure proceedings. Foreign banks which are authorized to do banking business in the Philippines through any of the modes of entry under Sec. 103 shall be allowed to bid and take part in foreclosure sales of real property mortgaged to them, as well as to avail of enforcement and other proceedings, and accordingly take possession of the mortgaged property, for a period not exceeding five (5) years from actual possession which excludes the redemption period, as defined under this Section on Redemption of foreclosed real estate mortgage, unless actual possession was acquired earlier: *Provided*, That in no event shall title to the property be transferred to such foreign bank.

In case said bank is the winning bidder, it shall, during the said five (5)-year period, transfer its rights to a qualified Philippine national, without prejudice to a borrower's rights under applicable laws. Should the bank fail to transfer such property within the five (5)-year period, it shall be penalized one half (1/2) of one percent (1%) per annum of the price at which the property was foreclosed until it is able to transfer the property to a qualified Philippine national.

To enable the Bangko Sentral to determine compliance with the foregoing, the foreign bank shall maintain, and make readily available for inspection, information pertaining to individual mortgaged properties foreclosed.

This provision does not limit the right of the mortgagee-bank to own condominium units as provided under existing laws.

Foreclosure by thrift banks. The foreclosure of mortgages covering loans granted by TBs and executions of judgment thereon involving real properties levied upon by a sheriff shall be exempt from the publications in newspapers now required by law where the total amount of loan, excluding interests due and unpaid, does not exceed P100,000 or such amount as the Monetary Board may prescribe as may be warranted by prevailing economic conditions and by the nature of service of customers served by each category of the TB. It shall be sufficient publication in such cases if the notices of foreclosure and execution of judgment are posted in the conspicuous area of the TB's premises, municipal building,

municipal public market, the barangay hall, and the barangay public market, if there be any, where the land mortgaged is situated within a period of sixty (60) days immediately preceding the public auction of execution of judgment. Proof of publication as required herein shall be accomplished by an affidavit of the sheriff or officer conducting the foreclosure sale or execution of judgment and shall be attached with the records of the case.

A TB shall be allowed to foreclose lands mortgaged to it: *Provided,* That said lands shall be covered under R.A. No. 6657.

Foreclosure by rural/cooperative banks. The foreclosure of mortgages covering loans granted by RBs and executions of judgment thereon involving real properties levied upon by a sheriff shall be exempt from the publications in newspapers now required by law where the total amount of loan, excluding interests due and unpaid, does not exceed P100,000 or such amount as the Monetary Board may prescribe as may be warranted by prevailing economic conditions. It shall be sufficient publication in such cases if the notices of foreclosure and execution of judgment are posted in the most conspicuous area of the municipal building, the municipal public market, the RB, the barangay hall, and the barangay public market, if any, where the land mortgaged is situated during the period of sixty (60) days immediately preceding the public auction of execution of judgment.

Proof of publication as required herein shall be accomplished by an affidavit of the sheriff or officer conducting the foreclosure sale or execution of judgment and shall be attached with the records of the case: *Provided*, That when a homestead or free patent is foreclosed, the homesteader or free patent holder, as well as his heirs shall have the right to redeem the same within one (1) year from the date of foreclosure in the case of land not covered by a Torrens Title or one (1) year from the date of the registration of the foreclosure in the case of land covered by a Torrens Title. *Provided, further*, That in any case, borrowers, especially those who are mere tenants, need only to secure their loans with the produce corresponding to their share.

In the case of Coop Banks, the foreclosure of mortgages and execution of judgment thereon involving real properties levied upon by a sheriff shall be exempt from the publications in newspaper now required by law where the total amount of loan, excluding interests due and unpaid, does not exceed P250,000 or such amount as the Bangko Sentral may prescribe as may be warranted by prevailing economic conditions and by the nature and character of the Coop Banks. It shall be sufficient publication in such cases if the notices of foreclosure and execution of judgment are posted in conspicuous areas in the bank's premises, municipal hall, the municipal public market, the barangay hall and the barangay public market, if any, where the property mortgaged is situated during the period of sixty (60) days immediately preceding the public auction or execution of judgment. Proof of publication as required herein shall be accomplished by an affidavit of the sheriff or officer conducting the foreclosure sale or execution of judgment and shall be attached to the records of the case.

An RB/Coop Bank shall be allowed to foreclose lands mortgaged to it including lands covered by R.A. No. 6657 (The Comprehensive Agrarian Reform Law of 1988), as amended: *Provided,* That said lands shall be subject to the retention limits provided under R.A. No. 6657: *Provided, further*, That a rural bank's power to foreclose lands mortgaged to it shall be subject to the limitations in the succeeding paragraph.

RBs which are not qualified to acquire or hold land in the Philippines pursuant to existing laws shall be allowed to bid and take part in foreclosure sales of real property mortgaged to them, as well as to avail of enforcement and other proceedings, and accordingly to take possession of the mortgaged property, for a period not exceeding five (5) years from actual possession which excludes the redemption period, as defined under this Section on Redemption of foreclosed real estate mortgage, unless actual possession was acquired earlier: *Provided*, That in no event shall title to the property be transferred to such RB.

In case the RB, which is not qualified to acquire or hold land in the Philippines, is the winning bidder, it shall, during the said five (5) year period, transfer its rights to a qualified Philippine national as defined under existing laws without prejudice to a borrower's right under applicable laws. Should said unqualified RB fail to transfer such property within the five (5) year period, it shall be penalized at one-half (1/2) of one percent (1%) *per annum* of the price at which the property was foreclosed until the property is transferred to a qualified Philippine national.

To enable the Bangko Sentral to determine compliance with the foregoing, RBs not qualified to acquire or hold land in the Philippines shall maintain, and make readily available for inspection, information pertaining to individual mortgaged properties foreclosed.

***Transitory provisions*.** An RB established and operating prior to the effectivity of R.A. No. 10574, and which is considered as an RB not qualified to acquire or hold land in the Philippines starting 13 September 2013, shall:

a. submit to the appropriate supervising department of the Bangko Sentral a divestment plan for the disposal of its title/interest in all land properties held by it; and

b. transfer for a period of five (5) years existing owned or acquired properties to qualified Philippine nationals; *Provided,* That upon the expiry of the said five (5)-year period, RBs not qualified to acquire or hold land in the Philippines which fail to transfer their properties to qualified Philippine nationals shall be subject to the penalties under this Section on Foreclosure by rural/cooperative banks.

***Redemption of foreclosed real estate mortgage*.** In the event of foreclosure, whether judicially or extrajudicially, of any mortgage on real estate, the mortgagor or debtor shall have the right within one (1) year after the sale of the real estate, to redeem the property by paying the amount due under the mortgage deed, with interest thereon at the rate specified in the mortgage, and all costs and expenses incurred by the bank or institution from the sale and custody of said property less the income derived therefrom. However, the purchaser at the auction sale concerned shall have the right to enter upon and take possession of such property immediately after the date of the confirmation of the auction sale and administer the same in accordance with the law.

Juridical persons, whose property is being sold pursuant to an extra-judicial foreclosure, shall have the right to redeem the property in accordance with this provision until, but not after, the registration of the certificate of foreclosure sale with the applicable Register of Deeds which in no case shall be more than three (3) months after foreclosure, whichever is earlier.

(Circular Nos. 858 dated 21 November 2014 and 855 dated 29 October 2014)

304 PAST DUE ACCOUNTS AND NON-PERFORMING LOANS[1]

The following regulations shall guide BSFIs in determining their past due accounts and non-performing loans.

Definition of terms. For purposes of this Section, the following definitions shall apply:

a. *Restructured loans* shall refer to loans and other credit accommodations the original contractual terms and conditions of which have been modified in accordance with a formal restructuring agreement that sets forth a revised schedule of payments for the purpose of lessening the financial difficulty of the borrower and maximizing collection and realizable economic value on an obligation within a reasonable period of time. The modification may include, but is not limited to, change in principal due, maturity, interest rate and other charges, collateral, or other terms and conditions.

b. *Items in litigation* shall refer to loans or other credit accommodations for which cases, such as collection or foreclosure, have been filed in court or sheriff's office, as the case may be. The loan or other credit accommodation shall remain in this account during the pendency of the proceedings, until full payment, restructuring of the obligation, foreclosure of the collateral, or such other disposition is made as would cause such proceedings to cease.

Accounts considered past due. As a general rule, loans, investments, receivables, or any financial asset, including restructured loans, shall be considered past due when any principal and/or interest or installment due, or portions thereof, are not paid at their contractual due date, in which case, the total outstanding balance thereof shall be considered as past due. However, BSFIs may provide a cure period on a credit product-specific basis, not to exceed thirty (30) days within which to allow the obligors or borrowers to catch up on their late payment without being considered as past due: *Provided,* That any cure period policy shall be based on verifiable collection experience and reasonable judgment that support tolerance of occasional payment delays: *Provided, further,* That the observance of a cure period policy shall not preclude the timely adverse classification of an account that has developed material credit weakness/es, and that BSFIs shall regularly review the reasonableness of its cure period policy. For microfinance and other small loans that feature high frequency payments, the cure period allowable by policy shall not exceed ten (10) days.

Accounts considered non-performing. Loans, investments, receivables, or any financial asset shall be considered non-performing, even without any missed contractual payments, when it is considered impaired under existing accounting standards[2], classified as doubtful or loss, in litigation, and/or there is evidence that full repayment of principal and interest is unlikely without foreclosure of collateral, if any. All other loans, even if not considered impaired, shall be considered non-performing if any principal and/or interest are unpaid for more than ninety (90) days from contractual due date, or accrued interests for more than ninety (90) days have been capitalized, refinanced, or delayed by agreement.

Microfinance and other small loans with similar credit characteristics shall be considered non-performing after contractual due date or after it has become past due.

Restructured loans shall be considered non-performing. However, if prior to restructuring, the loans were categorized as performing, such classification shall be retained.

Non-performing loans, investments, receivables, or any financial asset (and/or any replacement loan) shall remain classified as such until (a) there is sufficient evidence to support that full collection of principal and interests is probable and payments of interest and/or principal are received for at least six (6) months; or (b) written-off.

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1 Effective from 10 February 2017 up to 31 December 2017, BSFIs shall make the necessary revisions in their management information and reporting systems relating to past due and non-performing loans (NPLs). Effective 01 January 2018, past due and NPLs shall be mandatorily reported in accordance with the requirements of this Section.

2 Applicable accounting standard is PAS 39 until 31 December 2017 and International Financial Reporting Standards (IFRS) 9 starting 01 January 2018. A financial asset or a group of financial assets is impaired when there is objective evidence that its recoverable value is less than its carrying amount, as a result of one or more loss events that occurred after the initial recognition of the asset and that the loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. It may not be possible to identify a single, discrete event that caused the impairment. Rather, the combined effect of several events may have caused the impairment.

Updating of information provided to credit information bureaus. Banks which have provided adverse information, such as the past due or litigation status of loan accounts, to credit information bureaus, or any organization performing similar functions, shall submit monthly reports to these bureaus or organizations on the full payment or settlement of the previously reported accounts within five (5) banking days from the end of the month when such full payment was received. For this purpose, it shall be the responsibility of the reporting banks to ensure that their disclosure of any information about their borrowers/clients is with the consent of borrowers/clients concerned.

(Circular Nos. 941 dated 20 January 2017, 903 dated 29 February 2016, M-2015-039 dated 04 November 2015, Circular No. 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, Circular No. 855 dated 29 October 2014, M-2014-039 dated 01 October 2014, M-2014-031 dated 08 August 2014, M-2014-006 dated 12February 2014)

305 INTEREST AND OTHER CHARGES

The rate of interest, including commissions, premiums, fees and other charges, on any loan, or forbearance of any money, goods or credits regardless of maturity and whether secured or unsecured shall not be subject to any regulatory ceiling.

***Rate of interest in the absence of stipulation*.** The rate of interest for the loan or forbearance of any money, goods or credits and the rate allowed in judgments, in the absence of expressed contract as to such rate of interest, shall be six percent (6%) per annum.

Escalation clause; when allowable*.* Parties to an agreement pertaining to a loan or forbearance of money, goods or credits may stipulate that the rate of interest agreed upon may be increased in the event that the applicable maximum rate of interest is increased by the Monetary Board: *Provided*, That such stipulation shall be valid only if there is also a stipulation in the agreement that the rate of interest agreed upon shall be reduced in the event that the applicable maximum rate of interest is reduced by law or by the Monetary Board: *Provided, further*, That the adjustment in the rate of interest agreed upon shall take effect on or after the effectivity of the increase or decrease in the maximum rate of interest.

Floating rates of interest. The rate of interest on a floating rate loan during each interest period shall be stated on the basis of Manila Reference Rates (MRRs), T-Bill Rates or other market based reference rates plus a margin as may be agreed upon by the parties.

The MRRs for various interest periods shall be determined and announced by the Bangko Sentral every week and shall be based on the weighted average of the interest rates paid during the immediately preceding week by the ten (10) KBs with the highest combined levels of outstanding deposit substitutes and time deposits, on promissory notes issued and time deposits received by such banks, of P100,000 and over per transaction account, with maturities corresponding to the interest periods for which such MRRs are being determined. Such rates and the composition of the sample KBs shall be reviewed and determined at the beginning of every calendar semester on the basis of the banks' combined levels of outstanding deposit substitutes and time deposits as of 31 May or 30 November, as the case may be.

The rate of interest on floating rate loans existing and outstanding as of 23 December 1995 shall continue to be determined on the basis of the MRRs obtained in accordance with the provisions of the rules existing as of 01 January 1989: *Provided, however,* That the parties to such existing floating rate loan agreements are not precluded from amending or modifying their loan agreements by adopting a floating rate of interest determined on the basis of the TBR or other market based reference rates.

Where the loan agreement provides for a floating interest rate, the interest period, which shall be such period of time for which the rate of interest is fixed, shall be such period as may be agreed upon by the parties.

For the purpose of computing the MRRs, banks shall accomplish the report forms, RS Form 2D and Form 2E (BSP 5-17-34A).

Accrual of interest earned on loans and other credit accommodations. Accrual of interest earned on non-performing loans other credit accommodations shall not be allowed.

Accrued interest receivable shall be classified in accordance with their respective loan accounts and provided with *Allowance for Uncollected Interest on Loans.*

Method of computing interest. Banks may only charge interest based on the outstanding balance of a loan at the beginning of an interest period.

For a loan where principal is payable in installments, interest per installment period shall be calculated based on the outstanding balance of the loan at the beginning of each installment period.

Towards this end, all loan-related documents shall show repayment schedules in a manner consistent with this provision. Marketing materials and presentations shall likewise be consistent with this provision.

To enhance loan transaction transparency, Effective Interest Rate (EIR) calculation models illustrative of common loan features are presented in *Appendix 97* for guidance. It is understood, however, that an EIR calculation model, founded on established principles of discounted cash flow analysis, for a loan should be based on the actual features thereof. A bank

shall be solely responsible for the propriety and accuracy of its EIR calculation model. However, for purposes of determining compliance with this Section, the Bangko Sentral's determination of the reasonableness and accuracy of an EIR calculation model prevails.

(Circular Nos. 1011 dated 14 August 2018 and 855 dated 29 October 2014)

306 "TRUTH IN LENDING ACT" DISCLOSURE REQUIREMENT

Banks are required to strictly adhere to the provisions of R.A. No. 3765, otherwise known as the "Truth in Lending Act", and shall make the true and effective cost of borrowing an integral part of every loan contract.

The following regulations shall apply to all banks engaged in the following types of credit transactions:

a. Any loan, mortgage, deed of trust, advance and discount;
b. Any conditional sales contract, any contract to sell, or sale or contract of sale of property or services, either for present or future delivery, under which part or all of the price is payable subsequent to the making of such sale or contract;
c. Any rental-purchase contract;
d. Any contract or arrangement for the hire, bailment, or leasing of property;
e. Any option, demand, lien, pledge, or other claim against, or for delivery of, property or money;
f. Any purchase, or other acquisition of, or any credit upon security of any obligation or claim arising out of any of the foregoing; and
g. Any transaction or series of transactions having a similar purpose or effect.

The following categories of credit transactions are outside the scope of these regulations:

(1) Credit transactions which do not involve the payment of any finance charge by the debtor; and
(2) Credit transactions in which the debtor is the one specifying a definite and fixed set of credit terms such as bank deposits, insurance contracts, sale of bonds, etc.

***Definition of terms*.**

a. *Person* means any individual, partnership, corporation, association or other organized group of persons, or the legal successor or representative of the foregoing, and includes the Philippine Government or any agency thereof or any other government, or any of its political subdivisions, or any agency of the foregoing.

b. *Cash price or delivered price,* in case of trade transactions, is the amount of money which would constitute full payment upon delivery of property (except money) or service purchased at the bank's place of business. In the case of financial transactions, cash price represents the amount of money received by the debtor upon consummation of the credit transaction, net of finance charges collected at the time the credit is extended (if any).

c. *Down Payment* represents the amount paid by the debtor at the time of the transaction in partial payment for the property or service purchased.

d. *Trade-in* represents the value of an asset agreed upon by the bank and debtor, given at the time of the transaction in partial payment for the property or service purchased.

e. *Non-finance charges* correspond to the amounts advanced by the bank for items normally associated with the ownership of the property or of the availment of the service purchased which are not incident to the extension of credit. For example, in the case of the purchase of an automobile on credit, the creditor may advance the insurance premium as well as the registration fee for the account of the debtor.

f. *Amounts to be financed* consist of the cash price plus non-finance charges less the amount of the down payment and value of the trade-in.

g. *Finance charge* includes interest, fees, service charges, discounts, and such other charges incident to the extension of credit.

h. *Simple annual rate* is the uniform percentage which represents the ratio between the finance charge and the amount to be financed under the assumption that the loan is payable in one (1) year with single payment upon maturity and there are no upfront deductions to principal.

For loans with terms different from the above assumptions, the EIR shall be calculated and disclosed to the borrower as the relevant true cost of the loan comparable to the concept of simple annual rate.

For loans with contractual interest rates stated on monthly basis, the effective interest rate may be expressed as a monthly rate.

In accordance with the Philippine Accounting Standards (PAS) definition, EIR is the rate that exactly discounts estimated future cash flows through the life of the loan to the net amount of the loan proceeds. For consistency, methodology and standards for discounted cash flow models shall be prescribed to be used for the purpose.

Information to be disclosed. As a general rule, loan terms shall be disclosed to all types of borrower. For small business/retail/consumer credit, the following are the minimum information to be disclosed (sample form in *Appendix 16*):

a. The total amount to be financed;

b. The finance charges expressed in terms of pesos and centavos;

c. The net proceeds of the loan; and

d. The percentage that the finance charge bears to the total amount to be financed expressed as a simple annual rate or an EIR as described in Item *"h"* of Definition of terms in this Section. EIR may also be quoted as a monthly rate in parallel with the quotation of the contractual rate.

Banks are required to furnish each borrower a copy of the disclosure statement, prior to the consummation of the transaction.

Inspection of contracts covering credit transactions. Banks shall keep in their offices or places of business copies of contracts which involve the extension of credit by the bank and the payment of finance charges therefor. Such copies shall be available for inspection or examination by the appropriate supervising department of the Bangko Sentral.

***Posters*.** Banks shall post in conspicuous places in their principal place of business and branches, the information as contained in the revised format of disclosure statement in *Appendix 16*. The posters shall include an explicit notification that the disclosure statement is a required attachment to the loan contract and the customer has a right to demand a copy of such disclosure.

Sanctions and penal provisions. Non-compliance with any of the provisions of this Section may be subject to appropriate monetary penalties under Sec. 1102, depending on the severity of non-disclosure, number of loans and amount involved in the violation. In addition to sanctions under R.A. No. 3765, the following sanctions may be imposed:

a. *First offense.* Reprimand on the erring officer/s;
b. *Second offense*. Reprimand on the entire board of directors; and
c. *Subsequent offense/s*:

(1) Suspension of the erring officer/s and/ or entire board of directors; and
(2) Restriction on lending activities.

This is without prejudice to other penalties and sanctions provided under Sections 36 and 37 of R.A. No. 7653.

(Circular No. 988 dated 20 December 2017)

B. TYPES OF LOANS AND CREDITS

311 SALARY-BASED GENERAL-PURPOSE CONSUMPTION LOANS

Policy statement. The Bangko Sentral recognizes the helpful role of salary-based, consumer lending schemes in allowing an individual borrower to manage his/her cash flows provided these are granted under sound credit standards and fair consumer practices. The Bangko Sentral likewise encourages competition and transparency to promote efficient and innovative delivery of financial services and fair dealing with customers.

Definition; Transactions covered; Exclusions; Report.

a. *Definition. Salary-based general-purpose consumption loans* refer to unsecured loans for a broad range of consumption purposes, granted to individuals mainly on the basis of regular salary, pension or other fixed compensation, where repayment would come from such future cash flows, either through salary deductions, debits from the borrower's deposit account, mobile payments, pay- through collections, over-the-counter payments or other type of payment arrangement agreed upon by the borrower and lender.

b. *Transactions covered.* Salary-based general-purpose consumption loans may include credit accommodations for education, hospitalization, emergency, travel, household and other personal consumption needs.

c. *Exclusions.* Credit cards, motor vehicles and other personal loans which are covered by other existing applicable regulations are excluded from the coverage of this Section.

d. *Report.* For the purpose of reporting in the Financial Reporting Package, financial assistance under an approved fringe benefit program should be reported/classified according to the purpose of the financial assistance (e.g., housing/real estate, motor vehicle, salary-based general-purpose consumption, etc.)

Credit granting.

a. Policies of financial institutions (FIs) shall be consistent with best practices and sound credit processes prescribed under Bangko Sentral regulations, including a comprehensive assessment of the borrower's creditworthiness, and shall not be reliant on mere formula such as those automatically granted based on certain multiples of monthly salary or other regular compensation.

b. Individual borrowing capacity should be prudently assessed considering reasonable estimates of total personal and household indebtedness as well as disposable income available for family and personal needs after considering debt servicing.

c. Original loan term shall not exceed three (3) years but may have longer maturity in meritorious cases provided that in no case shall maturity exceed five (5) years;

No loan renewal shall be granted without re-assessing borrowing capacity and establishing continuing creditworthiness. Further, no loan renewal shall be allowed without payment of accrued interest receivable and substantial reduction in principal.

d. In the case of loan "takeout" from another FI, the FI taking out the loan(s) should ensure that the loan from the originating FI has been fully settled. FIs are expected to institute adequate controls over loan "takeout" such as: (a) directly releasing the loan proceeds to the FIs where the loan will be taken out; and (b) obtaining a copy of the official receipt evidencing full settlement of account from the originating FI, among others.

Consumer protection. FIs are required to strictly adhere to Bangko Sentral regulations on Financial Consumer Protection as prescribed under Part Ten.

Sanctions. The Monetary Board may, at its evaluation and discretion, impose sanctions on an FI and/or its Board, directors and officers, proportionate to the gravity/seriousness of the offense in cases of persistent non-observance of the provisions contained herein.

(Circular Nos. 903 dated 29 February 2016, 886 dated 08 September 2015 and 837 dated 18 June 2014)

312 CREDIT CARD OPERATIONS

Policy statement. The Bangko Sentral shall foster the development of the credit card industry to make consumer credit readily available under conditions of fair and sound business practices aligned with global best practices. The Bangko Sentral likewise envisions effective and efficient delivery of credit card services that encourages transparency and competition.

The following rules and regulations shall govern the establishment and operations of all bank credit card issuers, acquirers and all credit card transactions.

***Definition of terms*.**

a. *Credit card* refers to any card or other credit device, including its virtual representation, intended for the purpose of obtaining money, property, goods or services on credit.

b. *Minimum amount due or minimum payment required* refers to the minimum amount that the credit cardholder is required to pay on or before the payment due date for a particular billing period/cycle which may include:

(1) Outstanding balance multiplied by the required payment percentage or a fixed amount, whichever is higher;
(2) Any amount which is part of any fixed monthly installment that is charged to the card;
(3) Any amount in excess of the credit line; and
(4) All past due amounts, if any.

c. *Default or delinquency* refers to non-payment of, or payment of an amount less than the *"Minimum Amount Due"* or *"Minimum Payment Required",* or words of similar import, for at least three (3) billing cycles, in which case, the *"Total Amount Due"* or "*Outstanding Balance*" for the particular billing period as reflected in the monthly statement of account may be considered in default or delinquent.

d. *Acceleration clause* refers to any provision in the contract between the bank and the cardholder that gives the bank the right to demand the full settlement of the obligation in case of default or non-payment of any amount due, or for any valid reason.

e. *Simple annual rate* refers to the uniform percentage which represents the ratio between the finance charge and the amount to be financed under the assumption that the loan is payable in one (1) year with single payment upon maturity and there are no upfront deductions to principal.

For loans with terms different from the above assumptions, the effective annual interest rate shall be calculated and disclosed to the borrower as the relevant true cost of the loan comparable to the concept of simple annual rate.

For loans with contractual interest rates stated on monthly basis, the effective interest rate (EIR) may be expressed as a monthly rate.

In accordance with the PAS definition, EIR is the rate that exactly discounts estimated future cash flows through the life of the loan to the net amount of loan proceeds. For consistency, methodology and standards for discounted cash flow models shall be prescribed to be used for the purpose.

f. *Credit card acquirer* refers to the institution that accepts and facilitates processing of the credit card transaction which is initially accepted by the merchant.

g. *Credit cardholder* refers to a person who owns and benefits from the use of a credit card.

h. *Credit card business activity report* refers to a report which contains the quantitative data on the credit card industry.

i. *Credit card issuer* refers to a bank that offers the use of its credit card.

j. *Pre-approved credit cards* refer to unsolicited credit cards issued by credit card issuers to consumers who have not applied for such credit cards. Acts described under *Appendix 106* and other similar acts are deemed tantamount to the act of issuing pre-approved credit cards, notwithstanding any contrary stipulations in the contract.

k. *Application* refers to a request, documented in physical or electronic form with clear and explicit intention and consent of the applicant to avail of a credit card from a credit card issuer.

l. *Balance transfer* refers to the transfer of the balance in a credit card account with one (1) credit card issuer to another account under a different credit card issuer subject to terms mutually agreed upon by the parties concerned.

m. *Billing cycle/billing period* refers to the period of time between two (2) successive cut-off dates documented in a billing statement and defined under the terms and conditions of the credit card contract/agreement. A billing cycle/billing period shall comprise of at least fifteen (15) calendar days.

n. *Card association or payment network or credit card network provider* refers to any company that provides credit card network such as, but not limited to American Express, VISA International, MasterCard International, JCB International, Diners Club and China Union Pay.

o. *Cash advances* refer to cash obtained by the cardholder from his/her credit card account, availed in any manner as stipulated in the credit card contract/agreement.

p. *Credit card limit* refers to the maximum total amount for purchases, cash advances, balance transfers, and finance charges, service fees, penalties, and other charges which can be charged to the credit card. It represents the total loan or credit that a credit card issuer can extend to a cardholder.

q. *Finance charges* refer to the interest charged to the cardholder on all credit card transactions in accordance with the terms and conditions specified in the contract/agreement on the use of the credit card.

r. *Installment purchases* refer to transactions wherein payment for which is amortized in parts over a fixed period.

s. *Industry association* refers to an association composed of companies engaged in the business of banking, finance, credit and/or payments.

t. *Membership fee* refers to the amount a credit card issuer charges the credit cardholder for the right to use its credit card and acquire access to other membership benefits. This may also be referred to as annual membership fee, annual fee, joining fee or application fee.

u. *Outstanding balance or Total amount due* refers to the amount to be repaid as of statement cut-off date.

v. *Statement cut-off date* refers to the end date of a billing cycle, as determined by the credit card issuer, when account activities (such as purchases, payments, charges) during the billing cycle are summarized.

w. *Statement of account or billing statement* refers to the regular statement listing of the purchases, payments and other debits and credits made to the credit card account within the billing cycle.

x. *Supplementary card or extension card* refers to a credit card issued to another person whose credit limit is consolidated with the primary cardholder.

Minimum requirements for banks operating as credit card issuers.

A duly incorporated bank of good standing which intends to engage in credit card business, may operate as a credit card issuer: *Provided,* That it submits the following requirements:

a. Notice to the appropriate supervising department of the Bangko Sentral that the Bank will engage in credit card operations; and
b. Certification under oath executed by the president or officer of equivalent rank of the Bank that it has complied with the relevant risk management standards, including among others, Credit and Information Technology Risk Management.

Commencement of operations as credit card issuer. A bank shall commence its credit card operations within six (6) months from its submission of the documents required under the rules on minimum requirements for banks operating as credit card issuers. The president or officer of equivalent rank of the bank shall submit a written notice of commencement of business operations within ten (10) banking days therefrom.

Minimum requirements for the governance and risk management system for credit card operations of banks. To effectively deliver services, banks must have adequate financial strength, fit and proper board and management and must demonstrate technical and risk management capability to operate a credit card business. Banks shall establish a risk governance framework that includes policies, supported by appropriate processes and control procedures, designed to ensure that the risk arising from credit card operations are identified, aggregated, monitored and mitigated. The risk governance framework of banks shall be guided by Sec. 142, as applicable.

At the minimum, the risk management and control systems on credit card operations shall cover:

a. Policies, procedures and management information systems for credit card operations. These shall include limits and thresholds on exposures considering the bank's approved credit risk appetite;

b. Organizational set up and the corresponding roles and responsibilities of personnel in the unit handling the credit card business;

c. Approach to identifying, assessing, aggregating, monitoring, and reporting risks arising from credit card operations using appropriate risk management tools. This shall likewise include risk mitigation strategies and tools for maintaining risks within thresholds and limits set; and

d. Internal audit and other independent review of credit card operations.

Written policies, procedures and internal control guidelines shall be established on the following aspects of credit card operations:

a. Requirements for application;
b. Solicitation and application processing;
c. Determination and approval of credit limits;
d. Issuance, distribution and activation of cards;
e. Supplementary or extension cards;
f. Cash advances;
g. Billing and payments;
h. Deferred payment program or special installment plans;
i. Collection of past due accounts;
j. Handling of accounts for write-off;
k. Suspension, cancellation and withdrawal or termination of card;
l. Renewal of cards, upgrade or downgrade of credit limit;
m. Lost or stolen cards and their replacement;
n. Accounts of DOSRI and employees;
o. Disposition of errors and/or questions about the billing statement/statement of account and other customers' complaints; and
p. Dealings with marketing agents/collection agents.

Minimum requirements for the issuance of credit cards. Banks shall not issue pre-approved credit cards as provided under *Appendix 106* notwithstanding any contrary stipulations in the credit card contract/agreement with the cardholder.

Before issuing credit cards, banks shall conduct know-your-client (KYC) and customer identification procedures, consistent with applicable regulations; and exercise proper diligence in ascertaining that applicants possess good credit standing and are financially capable of fulfilling their credit commitments.

All credit card applications shall undergo a strict credit underwriting process, and information stated thereon shall be verified and validated by authorized personnel of banks, other than those handling marketing.

***Information to be disclosed*.** Banks shall disclose to each of their existing and potential credit cardholders the following information:

a. the finance charges for unpaid amounts after payment due date to be paid by the cardholder;

b. other charges or fees, individually itemized, such as membership/renewal fees, processing fees, over-the-limit fees, collection fees, credit investigation fees and attorney's fees to be paid by the cardholder in connection with the transaction and incidental to the extension of credit;

c. the percentage that the interest/finance charge bears to the total amount to be financed expressed as a simple monthly or annual rate, or a monthly or annual effective interest rate, on the outstanding balance of the obligation, as herein defined.

d. for installment loans, the number of installments, amount and due dates or payment schedules to repay the indebtedness;

e. the late payment fee/penalty for late payments or similar delinquency-related charges payable in the event of late payments, which shall be computed in accordance with the late payment fees/penalty for late payment of this Section;

f. when one (1) or more periodic rates is used to compute interest: each such rate, the balances to which it is applicable, and the corresponding simple annual rate;

g. in cases when transactions are made in foreign currencies, or for dual currency accounts, or when payments are made in any currency other than the billing currency: the manner of conversion from transaction currency to billing currency; or a general description of the conversion rates;

h. a reminder to the cardholder in the billing statement, or its equivalent document, that payment of only the minimum amount due or any amount less than the total amount due for the billing cycle/billing period would mean the imposition of interest and/or other charges. A written statement in the following form must be printed in the billing statement:

> "Important Reminder: Paying less than the total amount due will increase the amount of interest and other charges you pay and the time it takes to repay your balance."

Banks may provide additional reminders to the cardholder, including but not limited to late payment fees that may be imposed on past due or delinquent accounts;

i. to the extent practicable, a detailed explanation and a clear illustration of the manner by which all interest, charges and fees are computed.

Banks shall notify the cardholder at least ninety (90) calendar days prior to any change in the manner of computation of the outstanding balance and the amount of fees to be imposed on the cardholder. If the cardholder finds the change to be unacceptable, he/she shall have the right to terminate his/her account with the bank, subject to the suspension, termination of effectivity and reactivation of credit cards and termination of accounts of this regulation;

j. a table of all applicable fees, penalties, interest rates, conversion reference rates for third currency transactions, and the reason for their imposition, on credit card application forms, billing statements, and in the terms and conditions of the credit card agreement; and

k. any other information that may be required by the Bangko Sentral.

Banks shall endeavor to convey the above information in a manner that is understandable to the credit cardholder. The items enumerated above may be included in a billing statement on a quarterly basis at the minimum, in tabular format.

The table of fees, penalties, interest rates and reminder shall be printed in plain language and in bold black letters against a light or white background using the minimum Arial 12 theme font and size, or its equivalent in readability, and on the first page, if applicable document has more than one (1) page.

Banks shall ensure that all above information, conveyed through written or electronic forms of communication, is easy to read for the average person. All marketing and advertising materials shall also disclose information that are consistent with the aforementioned provisions.

Banks shall put in place policies and procedures to ensure timely and effective delivery, either through physical or electronic means, of statement of accounts or billing statements, and other important information related to the credit card account of the cardholder.

Accrual of interest earned on loans. Accrual of interest earned on loans shall be subject to the provisions of Sec. 305 (*Accrual of interest earned on loans*).

Method of computing and imposition of interest or finance charges. Banks shall only charge interest or finance charges arising from the non-payment in full or on time of the outstanding balance based on the unpaid amount of the outstanding balance as of statement cut-off date, but excluding:

a. the current billing cycle's purchase transactions reckoned from the previous cycle's statement cut-off date; and
b. deferred payments under zero-interest installment arrangements which are not yet due.

Interest or finance charges shall be imposed on the unpaid outstanding balance as of cut-off date each time a cardholder pays less than, or does not pay on time, the outstanding balance stated in his/her statement of account. Such interest or finance charge shall continue to be imposed until the outstanding balance and applicable interest are fully paid.

For credit card cash advances, a cardholder may be charged cash advance fees and finance charge on the date that the cash is obtained, subject to terms and conditions under the credit card contract/agreement.

For a loan where the principal is payable in installments, interest per installment period shall be calculated based on the outstanding balance of the loan at the beginning of each installment period.

All credit card-related documents shall show repayment schedules in a manner consistent with this provision. Marketing and advertising materials shall likewise be consistent with this provision.

Payment due date. Payment due date, or the date on which payment of the minimum amount due must be made to the bank, shall be specified in the statement of account or billing statement: *Provided*, That:

a. Payment due date shall be the same whatever the mode of payment: *Provided, further*, That payment through any authorized mode, or made to any accredited payment center of the bank, shall be considered as payment to the bank made on the same date. Accordingly, Service Legal Agreements between banks and their accredited payment centers shall be amended to operationalize this requirement.

b. Notwithstanding any provisions in the credit card contract/agreement, if the payment due date falls on a weekend and regular national holidays, the payment due date shall be automatically moved to the next business day and payment thereon shall not be treated as late payment.

Deferral charges. The bank and the cardholder may, prior to the consummation of the transaction, agree in written or electronic form, to a deferral of all or part of one (1) or more unpaid installments; and the bank may collect a deferral charge which shall not exceed the rate previously disclosed pursuant to the provisions on disclosure in this Section.

Late payment fees/penalty for late payment. No late payment fees or penalty for late payment shall be collected from cardholders unless the collection thereof is fully disclosed in the contract/agreement between the bank and the cardholder: *Provided,* That such fees shall be based on the unpaid minimum amount due or a prescribed minimum fixed amount, whichever is lower: *Provided, further,* That said fees may be based on the total outstanding balance of the credit card obligation, including amounts payable under installment terms or deferred payment schemes, if the contract/ agreement between the bank and the cardholder contains an *"acceleration clause"* as defined herein, and the total outstanding balance of the credit card is classified and reported as past due.

Confidentiality of information. Banks, their directors, officers, employees and agents shall keep strictly confidential the data on the cardholder, except under any of the following circumstances:

a. when disclosure of information is with the consent of the cardholder, which shall be stipulated in the application forms, the credit card contract/agreement, or any manner allowed by applicable laws, rules and regulations;
b. upon orders of a court of competent jurisdiction or any government office or agency authorized by law, or under such conditions as may be prescribed by the Bangko Sentral Monetary Board;
c. when the cardholder information is released, submitted or exchanged with credit information bureaus, industry associations, card associations or payment networks;
d. when disclosure to third party service providers is necessary for the sole purpose of assisting or rendering services to the bank in enforcing its rights against the cardholder;
e. when disclosure to third parties such as insurance companies is necessary for the sole purpose of insuring the bank from cardholder default or other credit loss, and the cardholder from fraud or unauthorized charges; and
f. when disclosure to third parties is for the purpose of investigating fraud or unauthorized activities or mitigating risk involving card issuance, use and acquiring.

The recipients of information described in Items *"a"* to *"f"* above shall likewise be bound to preserve the confidentiality of cardholder data.

The disclosure of cardholder information by banks to third parties shall be subject to applicable laws, rules and regulations on data privacy.

Suspension, termination of effectively and reactivation of credit cards; and termination of accounts. Banks shall formulate criteria or parameters for suspension, revocation and reactivation of the right to use the card, and shall include in their contract/agreement with cardholders a provision authorizing banks to suspend or terminate the credit card effectivity, if circumstances warrant.

A cardholder may cancel or terminate his/her credit card account with any bank anytime: *Provided,* That the cardholder either pays in full, or enters into another agreement for payment of the outstanding balance and new purchases, debits and deferred instalments. Payment may be made either through a one-time payment or on installments within a fixed period of time: *Provided, further,* That repayment in installments shall only be generally subject to interest, unless there is a violation of the above-mentioned new agreement.

A bank may initiate suspension, cancellation or revocation of a credit card account for any valid reason, as indicated in the terms and conditions of the credit card agreement: *Provided,* That the cardholder is notified of the suspension/cancellation/revocation within seven (7) business days from the date of suspension/cancellation/revocation. The credit cardholder shall have the right to appeal the suspension/cancellation/revocation subject to mutual agreement with the bank.

Inspection of records covering credit card transactions; determination of credit card limit; and over-the-limit transactions. Banks shall make available for inspection or examination by the appropriate supervising department of the Bangko Sentral the complete and accurate files on card applicant/cardholder to support the consideration for approval of the application and determination of the credit limit, which shall be in accordance with the verified debt repayment ability and/or net worth of the card applicant/cardholder.

Banks shall determine, based on the credit standing, credit history and financial capacity of the cardholder, the credit limit to be extended to the cardholder. Banks may thereafter implement changes in the credit limit applicable on the account based on their policies: *Provided,* That the cardholder is notified of such changes: *Provided, further,* That any credit limit increase may be declined by the cardholder: *Provided, finally,* That the cardholder has the option to request for a credit limit adjustment upon submission of updated information, but subject to the approval of the bank.

If a cardholder breaches the credit limit by a new transaction, the transaction may be processed, subject to the discretion of the bank as guided by its policies: *Provided*, That fees on over-the-limit transactions, if any, are clearly and prominently disclosed in the table of fees and charges, pursuant to the rules on information to be disclosed.

Offsets. A bank shall inform the cardholder, through the agreement, contract or any equivalent document governing the use of the credit card that, pursuant to the provisions of Articles 1278 to 1290 of the New Civil Code of the Philippines, as amended, a bank may offset any amount due and payable on the credit card against the cardholder's deposits with the bank, if any.

Handling of complaints, inquiries, or requests. Banks shall establish a Consumer Assistance Unit within its organization, which shall be responsible for providing prompt action for the expeditious resolution of credit card related complaints, inquiries and requests.

a. Billing statement. Banks shall give cardholders up to thirty (30) calendar days from statement date to report any error or discrepancy in their statement of account or billing statement. The manner of reporting or notice of any billing error or discrepancy to the bank may be through written, verbal or any documented means.

   The banks shall take action within ten (10) business days from receipt of such notice together with relevant documents or records in physical or electronic form from the cardholder.

   Within ninety (90) days after receipt of the notice, banks shall conduct a thorough investigation; shall make appropriate corrections in their records; and send a written explanation or clarification to the cardholder, prior to taking any action to collect the contested amount, subject to the result of the investigation.

   Nothing in this Section shall be construed to prohibit any action by the bank to collect any amount which has not been indicated by the cardholder to contain a billing error.

b. Lost or stolen Cards. In case a credit card is lost or stolen, any transaction made prior to reporting by the cardholder of the loss or theft of his/her card to the bank shall be for the account of the cardholder: *Provided,* That this is without prejudice to the right of the cardholder to dispute the transaction, which, if found to be an unauthorized or fraudulent transaction, shall be corrected or reversed by the bank, including any finance charges and other fees related thereto, in accordance with the procedures set forth in the aforementioned regulations.

Appropriate manner of collection and use of third party collection agents. Banks may resort to all reasonable and legally permissible means to collect amounts due them under the credit card agreement: *Provided*, That in the exercise of their rights and performance of duties, they must observe good faith, reasonable conduct and proper decorum, and refrain from engaging in unscrupulous acts.

Banks may engage qualified third party service providers/collection agents for the purpose of assisting or rendering services in the administration of the credit card business, including recovery of unpaid obligations and enforcement of rights against the cardholder: *Provided,* That the engagement is in accordance with Bangko Sentral regulations on outsourcing, as applicable: *Provided, further,* That the outsourcing arrangement shall be covered by a Service Level Agreement covering the responsibilities and accountabilities of each party.

Notwithstanding any contractual agreement between a bank and service provider/collection agent, the bank shall be responsible to its customers for maintaining customer service standards, without prejudice to further recourse, if any, by the bank to the service provider/collection agent.

A bank or its service provider/collection agent may communicate with a credit cardholder in connection with the collection of any debt through acceptable and reasonable modes. They shall not harass, abuse or oppress any cardholder or any person, or engage in any unfair practices in the collection of credit card debt.

The following activities are considered as guidelines and are not irrebutably presumed to be unfair collection practices. Conversely, not all practices which might under the circumstances be termed unfair are mentioned here. The Monetary Board may now and then consider any other acts/omissions as unfair collection practices:

a. the use or threat of violence or other criminal means to harm a person, or his/her reputation or property;
b. the use of obscenities, insults, or profane language which amount to a criminal act or offense under applicable laws;
c. disclosure of the names of credit cardholders who allegedly refuse to pay debts, except as allowed under this Section;
d. threat to take any action that cannot legally be taken;
e. communicating or threatening to communicate to any person or entity, credit information which is known to be false, including failure to communicate that a debt is being disputed;
f. any false representation or deceptive means to collect or attempt to collect any debt, or to obtain information concerning a cardholder; and
g. making contact at unreasonable/inconvenient hours, defined as contact before 6:00 a.m. or after 10:00 p.m., unless the cardholder has given express permission, or said times are the only reasonable or convenient opportunities for contact.

Banks shall inform their cardholder in writing of the endorsement of the collection of his/her account to a collection agency/agent, or the endorsement of the account from one (1) collection agency/agent to another, at least seven (7) business days prior to the actual endorsement. The notification shall include the full name of the collection agency and its contact details. The requirement to notify in writing shall be included in the terms and conditions of the credit card agreement: *Provided,* That the bank shall refer the collection of an account to only one (1) collection agency/agent at any one time.

Banks shall adopt policies and procedures to ensure that personnel handling the collection of accounts, whether these are in-house collectors, or third-party collection agents, shall disclose his/her full name/true identity to the cardholder.

Application of card payment. Upon receipt of a payment from a cardholder whose account carries different interest rates for different types of purchases (i.e., cash advances, regular purchases, balance transfers), the bank shall apply amounts in excess of the minimum payment amount first to the fees and charges, and then to the billed balance bearing the highest rate of interest, followed by the billed balance bearing the next higher rate of interest, until the payment is exhausted: *Provided,* That the original rates for promotional offers shall be the basis for determining hierarchy of payment.

Service level agreement among industry players. There shall be, in the Service Level Agreement between acquirers and their partner merchants, a provision requiring merchants to perform due diligence to establish the identity of the cardholders, in accordance with applicable laws, rules and regulations.

Nothing in these regulations shall preclude banks from verifying or seeking confirmation with the cardholder any purchase, if in their assessment there is reasonable concern as to the validity of the purchase.

Sanctions and penal provisions. Violations of the provisions of this Section shall be subject to any or all of the following sanctions depending upon their severity:

a. Consistent with Sec. 002, the Bangko Sentral may deploy enforcement actions to promote adherence with the requirements set forth in this Section and bring about timely corrective actions.
b. Imposition of penalties and sanctions provided under Section 37 of R.A. No. 7653.

The provisions of Section 37 shall be made applicable to any bank, acquirer, their directors and officers including, but not limited to, the administrative sanctions that may be imposed, without prejudice to the criminal sanctions against the culpable persons provided in R.A. No. 10870, for any willful violation of such law, or any related rules, regulations, orders or instructions issued by the Monetary Board: *Provided,* That in addition to the

administrative sanctions that may be imposed, the authority of the bank to issue credit cards may be suspended or cancelled by the Bangko Sentral.

c. Appropriate monetary penalties, sanctions and other enforcement action/s shall be imposed for the following violation/s:

Nature of Violation/Exception	Possible Sanctions/Penalties
i. Operating without prior notification to the Bangko Sentral	• Applicable penalty prescribed under Section 37 of R.A. No. 7653, as implemented under Sec. 1102 (*Guidelines on the imposition of monetary penalties*) • Applicable enforcement actions under Sec. 002
ii. Violation of any provisions/requirements of this regulation	• Penalties and sanctions and enforcement actions under applicable laws, such as Section 27 R.A. No. 10870, rules and regulations, such as, but not limited to Sec. 1102 (*Guidelines on the imposition of monetary penalties*) and Sec. 002.
iii. Erroneous/delayed/ unsubmitted reports	• Applicable penalties under Sec. 171 (*Sanctions on Reports for Non-compliance with the Reporting Standards*)

Submission of credit card business activity report. For purposes of transparency and availability of data on credit card operations and in light of ensuring consumer protection, as well as managing risks involved in credit transactions, banks shall submit a monthly quantitative report to Bangko Sentral covering the following data on bank credit card issuers/ acquirers, cardholders, credit card complaints, and usage location:

Credit Card Issuance	**Unit of Expression**
I. Cards-in-force per network/brand	Number
II. Cards-in-force per card type	Number
III. Approved credit card applications	Number
IV. Cards issued by status	Number
V. Cards issued per credit limit	Peso amount
VI. Billings per mode of transactions	Peso amount
VII. Billings per network/brand	Peso amount
VIII. Billed fees/charges	Peso amount
IX. Gross payment	Peso amount
X. Receivables	Peso amount
XI. Rates/charges per cardholder	Peso amount
XII. Gross payment Peso	Peso amount
XIII. Receivables	Peso amount
XIV. Rates/charges per cardholder	Peso amount/percentage

Cardholder Profile	
I. Cardholder information (age, occupation, gender, civil status, educational attainment, geographic location)	Number
II. Cardholder by type of payment	Number

Complaints	
I. Cardholder issues	Number
II. Complaint/request resolution	Number
III. External service provider	Number

Usage Location	
I. Incoming	Peso amount
II. Outgoing	Peso amount

Voluntary cessation of credit card business. A bank may undertake voluntary cessation of its credit card business: *Provided*, That it notifies the appropriate supervising department of the Bangko Sentral and submits a plan of cessation of operations within ten (10) banking days from date of approval of such plan of cessation by the bank's Board of Directors.

Transitory provisions. Banks with existing credit card operations shall be allowed a transitory period to make appropriate adjustments in their systems, processes and personnel to be compliant with the following provisions of this Section:

a. For method of computing and imposition of interest or finance charges, which pertains to adjustments in the computation and imposition of interest and finance charges; and for application of card payment which pertains to the hierarchy of application of credit card payments: within one (1) year from 6 June 2018;

b. For Payment due date, which pertains to same day recognition of payments made in accredited payment centers by banks: within nine (9) months from 6 June 2018;

c. For Payment due date, which pertains to adjustment of payment due dates falling on weekends and holidays into the next business day: within three (3) months from 6 June 2018; and

d. For late payment fees/penalty for late payment, which pertains to adjustments in the computation of late payment fees or penalty for late payment: within six (6) months from 6 June 2018.

(Circular Nos. 1003 dated 16 May 2018, 988 dated 20 December 2017 and 845 dated 15 August 2014)

313 AGRICULTURAL LOANS

Agriculture and fisheries projects with long gestation periods. Pursuant to Section 24 of R.A. No. 8435 (Agriculture and Fisheries Modernization Act of 1997), agriculture and fisheries projects with long gestation periods shall be entitled to longer grace periods in repaying the loan based on the economic life of the project. For purposes of this Section, the following definitions and guidelines shall govern the grant of loans for long-gestating agriculture and fisheries projects.

Definition of terms.

a. *Gestation period* shall refer to the span of time from the commencement of the project to the time that it is economically productive and producing revenues; and
b. *Grace period* under this Section shall refer to the period that the initial amortization payment on the loan is deferred. All payments, however, must be made on or before the maturity of the loan.

Grace period. Banks are allowed to extend loans/guarantees with a grace period of up to seven (7) years to viable long-gestating agriculture and fisheries projects.

Suggested gestation and grace periods for some of the long-gestating projects are in *Appendix 32*.

Responsibility of lending banks. Lending banks shall institute the necessary safeguards and precautions to ascertain the viability of the projects financed and the capability of the borrower in fulfilling his commitments.

Past due loans. The rule on past due accounts under Sec. 304 shall apply except that the reckoning date shall be the grace period and not the original maturity of the loan.

Non-performing loans. The rule on non-performing loans under Sec. 304 (*Accounts considered non-performing*) shall apply except that the reckoning date shall be the grace period and not the original maturity of the loan.

Agricultural value chain financing framework. The Bangko Sentral supports the promotion of agricultural value chain financing as an effective and organized approach to channel financing to the agriculture and fisheries sectors and promote financial inclusion. By encouraging the linking of various actors/ players in an agricultural value chain, credit risk of participating smallholder farmers/ fisherfolks can be reduced. As a result, this type of financing would facilitate and allow small farmers/fisherfolks to have, if not more, access to credit. This is expected to further improve productivity in the agriculture and fisheries sectors and at the same time uplift the lives of these marginalized farmers/ fisherfolks.

The provisions covering the agricultural value chain financing framework shall be implemented in consonance with Sec. 143.

***Definition of terms*.** For purposes of this Section, the following definitions shall apply:

a. *Value chain* - refers to a set of actors/ players, e.g., producers (farmers/fisherfolks), traders, suppliers, processors, aggregators, who conduct linked sequence of value- adding activities involved in bringing a product from its raw material stage to the final consumers;

b. *Value chain finance* - refers to the financial flows to those actors/players from both within the value chain and financial flows to those actors/players from the outside as a result of their being linked within a value chain;

c. *Agricultural value chain analysis* - refers to the assessment of actors/players, e.g., from input suppliers to producers to processors and to traders, their interests and the factors influencing the performance of a particular value chain, e.g., palay, corn, livestock, marine products, as a whole, as opposed to only examining targeted sections of the chain; it also includes understanding the nature of the chain, identifying the weakest and strongest links along the chain and the business models shown in *Appendix 121*; and

d. *Value chain aggregator* - refers to any value chain actor/player or any entity outside the value chain which initiates the formalization and/or organization of a value chain and/or which offers services that aim to strengthen existing value chains.

Features of agricultural value chain financing program. Consistent with existing provisions on sound credit risk management practices, the Bangko Sentral hereby recognizes agricultural value chain financing programs that have the following features:

a. *Agricultural value chain policy and procedures*. The BSFI shall put in place adequate policies and procedures which cover the identification of value chains, comprehensive value chain analysis, and the design of appropriate financial products and services, among others;

b. *Types of credit products.* BSFIs can design and/or offer appropriate financial products either to a specific actor/player or to various actors/players of the value chain model simultaneously. In addition to the traditional loans and discounts that BSFIs are currently offering, the following products and financial services may also be made available to agricultural value chain actors/ players:

(1) *Trade-receivables finance* - a BSFI advances working capital to agribusiness (supplier, processor, marketing and export) companies against accounts receivable or confirmed orders to producers. Receivables financing takes into account the strength of the buyer's purchases and repayment history;

(2) *Factoring* - a financial transaction whereby a business sell its accounts receivable or contracts of sales of goods at a discount to an appropriate BSFI, called a factor, who pays the business minus a factor discount and collects the receivables when due; and

(3) *Warehouse receipts* - farmers and other value chain enterprises receive a receipt from a certified warehouse that can be used as collateral to access a loan from an appropriate BSFI against the security of goods in an independently controlled warehouse.

c. *Loan disbursement.* Loan releases may take the following forms depending on the role that the borrower takes in the value chain and the risks to be addressed by the BSFI:

(1) *Cash disbursements* - the most common practice which may be completed in one transaction or in installments;

(2) *Loan proceeds transfer to suppliers* - under this scheme the BSFI prefers to deal with the supplier directly to control loan utilization and, therefore, prefers to transfer the loan proceeds straight to the supplier upon full acceptance of the buyer (borrower). In case the supplier is a related party, the BSFI shall ensure that the terms and conditions of the loan are not less favorable to the borrower than those offered by other lenders; and

(3) *Anchor firm (institutional buyer) triggered loan release* - loan release to the borrower will be endorsed by the anchor firm to ensure the adoption of the technology protocol required by the buyer (anchor firm). This would optimize productivity by the farmer-borrower and the technology adopted conforms with the requirements of the buyer; thus, reduce rejects on the deliveries of the produce;

d. *Disaster contingency mechanism.* In light of the vulnerability of the agriculture and fisheries sectors which could result in significant credit losses to financial institutions, if not managed well, the BSFI may put in place a disaster contingency mechanism that anticipates such events and provides response mechanisms to mitigate the impact of such inherent risks. The disaster contingency mechanism can provide timely relief to a borrower to facilitate recovery. This mechanism shall be adequately documented with clear policies and guidelines.

Provided such built-in contingency mechanism is prudently designed, its activation shall not automatically trigger adverse loan classification and past due loan recognition so as to manage credit losses to the BSFI and minimize burden on the client. Any new financing granted under such schemes will also not be adversely classified. However, such credit should be closely monitored and appropriate corrective measure should be taken once it becomes clear that recoverability is impaired.

e. *Other features.* The following activities may also be allowed:

(1) Director/s, officer/s and/or stockholder/s of BSFIs engaged in agricultural value chain financing may own and/or control: (i) private entities that would act as aggregators to facilitate the formation of value chains, and (ii) economically-linked entities that are also actors/players in the value chain: *Provided,* That all transactions with such entities shall be in the ordinary course of business and not undertaken on more favorable economic terms to such related parties than similar transactions with non-related parties under similar circumstances. These transactions shall comply and adhere to existing regulations pertaining to DOSRI loans and/or related-party transactions; and

(2) The BSFI, if necessary, may initiate the formulation of formal agreement(s) with qualified value chain actors/players to protect the interests of all parties involved.

Regulatory incentives. To encourage BSFIs to engage in agricultural value chain financing, the following incentives shall apply; provided, this Section on Features of Agricultural Value Chain Financing Program is complied with:

a. Loans granted to agricultural value chain actor(s)/player(s), who are qualified borrowers under Sec. 331 shall be considered as either direct or allowable alternative compliance to the mandatory agriculture and agrarian reform credit allocation; and

b. Increase in SBL for an additional twenty-five percent (25%) for loans, other credit accommodations and guarantees granted to entities, which act as value chain aggregators of the lending banks' clients, and/or economically-linked entities that are also actors/players in the value chain: *Provided,* That the additional twenty-five percent (25%) will apply only to non-director/s, officer/s, stockholder/s, and related interest/s (DOSRI)/related party transaction (RPT) loans: *Provided, further,* That such increase in the SBL for an additional twenty-five percent (25%) shall only be for a period of three (3) years starting 02 April 2016[1], subject to review after said period.

Parcellary plans on crop loans. Banks shall require the submission of parcellary plans as requisite for granting crop loans to sugarcane planters.

(Circular No. 908 dated 14 March 2016)

314 MICROFINANCE LOANS

Pursuant to Sections 40, 43 and 44 of R.A. No. 8791 the following rules, regulations and standards shall govern microfinancing operations of banks.

In the implementation of this Section, banks should be guided by the Notes on Microfinance in *Appendix 41*.

Definition.

a. *Microfinance loans* refer to the amortized cost of loans granted under the bank's microfinance loan products that meet the general features provided under *Appendix 41*, Item "*e*".

b. *Refinanced loans* are loans that have been disbursed to enable repayment of prior loans that would not have been paid in accordance with the original installment schedule. Loans granted within a week or less from the date an original loan with more than thirty percent (30%) of the original principal still outstanding had been paid in advance shall be considered as refinanced loans. Refinanced loans shall be classified and reported as restructured loans.

Loan limit; amortization; interest.

a. The maximum principal amount of microfinance loans shall not exceed P150,000. This is equivalent to the maximum capitalization of a microenterprise under R.A. No. 8425.

b. The schedule of loan amortization shall take into consideration the projected cash flow of the borrowers which is adopted into the terms and conditions formulated. Hence, microfinance loans may be amortized on a daily, weekly, bi-monthly or monthly basis, depending on the cash flow conditions of the borrowers.

c. Interest on such microfinancing loans shall be reasonable and just as may be determined by management to be consistent with its credit policies. The interest rate shall not be lower than the prevailing market rates to enable the lending institution to recover the financial and operational costs incidental to this type of microfinance lending.

d. Interest accrued and/or booked shall be reversed and no accrual of interest shall be allowed after the microfinance loan has become past due as defined in Sec. 304.

Credit information exemption. In cases of microfinancing loans which meet the criteria in this Section on Loan limit; amortization; interest, a bank may not require from its credit applicants, a statement of assets and liabilities, and of their income and expenditures and such information as may be prescribed by law or by rules and regulations of the Monetary Board to enable the bank to properly evaluate the credit application which includes the corresponding financial statements submitted for taxation purposes to the BIR, as prescribed under Section 40 of R.A. No. 8791.

Exemptions from rules on unsecured loans. In view of the unique characteristics of microfinance loans, i.e., small unsecured and based on cash flow of borrowers, these loans may be exempted from rules and regulations which may be

[1] Effectivity date of Circular No. 908 dated 14 March 2016.

issued by the Monetary Board with respect to unsecured loans under Section 41 of the General Banking Law of 2000: *Provided*, That the bank has:

a. well-defined standards, credit policies and procedures for microfinance loans which are in conformity with microfinance international best practices;
b. specific measures to be undertaken to ensure collection such as close supervision of borrowers' projects and operations; and
c. Loan Portfolio and Other Risk Assets Review System required under Sec. 143 (*Credit review process*) which would serve as:

    (1) An adequate loan tracking system that allows daily monitoring of the status of loan releases, collection and arrearages, any restructuring or refinancing; and
    (2) A regular monitoring of past due loans and portfolio at risk.

Housing microfinance loan. The Bangko Sentral adopts a holistic approach in addressing social and economic objectives through microfinance. Microfinance has been confined to mean financing for microenterprises or small livelihood activities. It has been proven, however, that clients of microfinance also need a wide range of financial services including housing finance. Further, it is typical that some microfinance clients also use their access to credit for their homes.

Housing microfinance involves the application of microfinance principles and methodologies to the provision of housing finance and consists mainly of loans to existing clients of microfinance institutions and other poor and low-income households. With adequate and appropriate risk management measures, the product will enable institutions to appropriately service the housing needs of those who are unable to access traditional housing finance. The provision of housing microfinance is also seen as a way to improve the living conditions of the enterprising poor and the low-income households which will contribute to better health, productivity and quality of life.

Housing as a shelter is a necessity. As a sector, it spurs economic activity and creates employment through the multiplier effects generated in the downstream industries by the procurement of construction materials. It is therefore important to support this sector.

The following rules and regulations shall govern the granting of housing microfinance products:

a. *Minimum criteria to determine bank's capacity to grant housing microfinance* – Banks planning to grant housing microfinance loans shall ensure that the following requirements are complied with:

    (1) The bank must have a track record of at least two (2) years in implementing sustainable microfinance programs, including acceptable portfolio-at-risk (PAR) levels as evaluated against prevailing Bangko Sentral standards.

    (2) The bank must have an appropriate housing microfinance product manual where the product will be included in the bank's microfinance manual as one of the types of services or products offered to prospective clients. Loan/account officers must be trained about the housing microfinance product and that the details of the program can be communicated clearly to the clients.

    (3) Appropriate verification of the following prudential requirements:

        (a) latest CAMELS rating of at least "3" and a management score of at least "3";
        (b) CAR of not lower than twelve percent (12%);
        (c) no major supervisory concerns as to warrant initiation of Prompt Corrective Action (PCA) under existing regulations;
        (d) no arrearages in microfinance borrowings; and

    (4) Appropriate certification of the bank's commitment to implement the housing microfinance product following the guidelines set forth in the submitted manual.

b. *Basic product characteristics.* The housing microfinance product shall have the following basic characteristics:

Subject	Particulars
Purpose	• House construction • House and/or lot acquisition • Lot acquisition should be for housing/business • Home improvement/repairs
Eligibility	• Existing microfinance clients • New clients who will normally be eligible for microfinance loans based on banks' policies • Borrowers who have qualified for the Credit Surety Fund credit enhancement program provided they qualify with the banks policies
Loan Amount	• Up to P300,000 for house construction and/or lot acquisition (must show tenure security) • Up to P150,000 for home improvement/repairs • Incremental loan amounts to support incremental building

Subject	Particulars
Loan Value	• Up to ninety percent (90%) of the appraised value in case of REM • Acceptable valuation in cases of usufruct, leases, etc. • Capacity to pay based on household cash flow analysis
Payment	• Frequent amortization • With savings component • Loan payments should not exceed a reasonable percentage of clients income as determined by cash flow analysis and capacity to pay determined through a clear credit process
Terms	• Up to fifteen (15) years for house construction and house and/or lot acquisition subject to banks' credit policies • Up to 5 years for home improvement/repairs

The product must share the chara cteristics of the microfinance loan as described under this Section and *Appendix 41* except for the following:

(1) The maximum loan amount shall be P300,000.
(2) The loans have longer terms with a maximum of five (5) years for home improvement/repairs and fifteen (15) years for house construction and house/lot acquisition.
(3) For house construction and house/ lot acquisition loans, secure tenure instruments will be used as collateral (See *Appendix 85*).

c. *Appropriate risk management*. Due to a risk profile that may be different from the typical microfinance loan, the following risk management elements must be highlighted and embedded in the product:

(1) Clients ability to repay based on cash flow analysis and affordability especially the new clients;
(2) Opening of a savings account shall be required for clients with no existing savings account;
(3) Secure tenure instruments as collateral/collateral substitutes for loans over P150,000;
(4) Adequate loan monitoring, collection, control, provisioning which is also to be included in the banks' housing microfinance manual;
(5) Additional risk cover may be availed from government guarantee program;
(6) A lien or mortgage covering the house and/or lot financed by the loan shall be executed by the borrower in favor of the lending bank; and
(7) Mortgage redemption insurance shall be required to cover against death or permanent disability.

d. *Regulatory treatment.* The housing microfinance product will be considered as a microfinance loan and will have the following incentives in addition to existing incentives available for microfinance loans:

(1) The loans shall have an assigned risk-weight of fifty percent (50%) when not guaranteed and zero percent (0%) when guaranteed by the HGC.
(2) For housing microfinance loans secured by REM, a ninety percent (90%) loan valuation may be allowed for loans with a government guarantee component.
(3) Secure tenure instruments such as freehold, usufruct, leasehold and right to occupy and/or build shall be recognized as collateral/collateral substitute subject to approved loan valuations *(Appendix 85)*.

Banks that will offer housing microfinance shall also comply with the following:

(1) The bank must maintain a subcontrol ledger for the housing microfinance product.
(2) The housing microfinance loans shall not exceed thirty percent (30%) of the total loan portfolio.
(3) Recording of PAR and the provisioning requirements shall be strictly in accordance with applicable Bangko Sentral regulations.

e. *Notarized certificate of compliance.* The bank president or officer or equivalent rank and the compliance officer shall submit a notarized certificate of compliance, attesting that the bank meets the minimum prudential requirements and that the housing microfinance loan complies with the prescribed product characteristics/features. *(Appendix 105)*

The notarized certificate shall be submitted within fifteen (15) banking days from the date of meeting of the board of directors approving the housing microfinance loan product.

f. *Sanctions.*

(1) In case the submitted certificate of compliance is found later, during on-site examination, to be erroneous and/or untrue, the bank may be sanctioned under Sec. 37 of R.A. No. 7653 for willful making of a false or misleading statement.

(2) In addition to the above-mentioned penalty, subject bank is not allowed to grant any new housing microfinance loan and its transaction shall be limited only to the collection of outstanding microfinance

housing loan receivables. This prohibition shall remain until bank's compliance with the prescribed regulations is verified to be in order by the appropriate supervising department of the Bangko Sentral.

(3) Banks, with certificates of compliance found to be in order, shall continue to comply with the prescribed prudential requirements. If found later on that the bank is non-compliant with any or all of the requirements, it shall be given one examination-cycle to correct any deficiency. If the bank remains non-compliant after the lapse of one examination-cycle, the granting of housing microfinance loan shall be deemed suspended effective on the day after the corrective period has expired. While the suspension is in effect, the bank's transactions shall be limited to the collections of outstanding housing microfinance loan receivables.

For the purpose of this provision, one (1) examination-cycle is defined as the period commencing from the date the bank is formally informed of the findings/ exceptions of the last general examination up to the date of the exit conference of the immediately succeeding general examination.

(4) Other sanctions. The imposition of the foregoing sanctions shall be without prejudice to the imposition of other administrative sanctions, as provided in other regulations in this Manual.

Micro-agri loans; Policy statement. The Bangko Sentral adopts a holistic approach in addressing social and economic objectives through microfinance. Microfinance utilizes an innovative technology and methodology that has proven successful in providing the appropriate financing for microentrepreneurs who were previously underserved by the formal financial system. Through the years, it has been evident that the microfinance technology and methodology can be appropriately utilized to deliver other types of financial services in a sound, prudent and sustainable manner, including credit for small farming activities.

a. *Minimum criteria to determine bank's capacity to grant micro-agri loans*. Banks planning to grant micro-agri loans shall ensure that the following requirements are complied:

(1) To ensure that the banks have the financial capacity, managerial and technical capabilities to offer micro-agri loans; the following prudential requirements must be complied at all times:

(a) CAMELS rating of at least "3" and a 'Management' score of at least "3";
(b) CAR of not lower than twelve percent (12%);
(c) no major supervisory concerns as to warrant initiation of prompt corrective action under existing regulations; and
(d) no arrearages on microfinance borrowings (bills payable) from Bangko Sentral or other creditors.

Banks authorized to offer a micro-agri loan product shall continually comply with the above-mentioned prudential requirements. Banks found to be non- compliant with any or all of the requirements shall be given one (1) examination cycle to correct non-compliance with any or all of the prudential requirements, provided the bank submits a viable plan to rectify pertinent non-compliance. If the bank remains non-compliant after the lapse of one (1) examination cycle, its authority to offer micro-agri loan shall be deemed suspended effective on the day after the corrective period has expired. While the suspension is in effect, bank's micro-agri loan transactions shall be limited to collections of outstanding receivables.

For the purpose of this Section, *one (1) examination-cycle* is defined as the period commencing from the date of the exit conference of the last general examination up to the date of the exit conference of the immediately succeeding general examination.

(2) The bank must have a track record of at least two (2) years in implementing sustainable microfinance programs, including acceptable portfolio-at-risk (PAR) levels as evaluated against prevailing Bangko Sentral standards; and

(3) The bank must have well-defined policies covering the micro-agri loan product to be included in the bank's microfinance manual as one of the types of services or products to be granted to prospective clients. Loan/account officers must be trained about the micro-agri loan product and that the details of the program can be communicated clearly to the clients.

b. *Basic product characteristics.* The micro-agri loan product shall have the criteria/characteristics of a microfinance loan as provided in existing regulations in addition to the following product characteristics:

Subject	Particulars
Purpose/Term	- Short term purposes only (up to 12 months) whether it is for farm activities, agri-business, agri-related fixed assets, among others
Eligibility	Multiple income generation activities (farm and off-farm) Farm activities at least 2 years in operation Existing borrowers with good track record based on banks' policies
Loan Amount	- Up to P150,000 - Loans to start small and increase incrementally based on banks' policies

Subject	Particulars
Loan Value	- Capacity to pay based on household cash flow analysis
Payment	Frequent amortization (weekly, semi-monthly, monthly) Lump sum payment may be considered an option of up to forty percent (40%) of loan amount
Security	- Like microfinance loans, collateral substitutes may be required

c. *Appropriate risk management.* Micro-agri loans shall be subject to the same risk management mechanisms required for microfinance loans including, but not limited to the following:

(1) Clients' ability to repay based on cash flow analysis and affordability especially for new clients. The prospective client must have other sources of income sufficient for the periodic payment of the loan while the loan project is not yet generating income, evaluated through household cash flow analysis;

(2) Adequate management information and loan tracking systems, loan monitoring, collection, control, provisioning consistent with existing Bangko Sentral regulations;

(3) The loan product is included in the banks' microfinance manual as one (1) of the types of services or products offered to prospective clients; and

(4) The micro-agri loans must have a subcontrol ledger.

d. *Other micro-agri products.* No provision in the micro-agri product inconsistent with Micro-agri loans in this Section shall be allowed except upon prior Bangko Sentral approval. The Bangko Sentral shall allow deviation from the provisions of Micro-agri loans in this Section provided appropriate risk management system compensates for the additional risks involved.

e. *Regulatory treatment.* The micro-agri loan product will be considered as microfinance loan and will have the same regulatory treatment as provided by existing microfinance regulations.

f. *Reportorial requirement*. Notarized certificate of compliance. The bank president or officer of equivalent rank and the compliance officer shall submit a notarized certificate of compliance, attesting that the bank meets the minimum prudential requirements and that the micro-agri loan complies with the prescribed product characteristics/features. *(Appendix 105).*

The notarized certificate shall be submitted within fifteen (15) banking days from the date of meeting of the board of directors approving the micro-agri loan product.

g. *Sanctions.* In case of non-compliance, the bank shall be subject to the following:

(1) In case the submitted certificate of compliance is found later, during on-site examination, to be erroneous and/or untrue, the bank may be sanctioned under Sec. 37 of R.A. No. 7653 for willful making of a false or misleading statement.

(2) In addition to the above-mentioned penalty, subject bank shall not be allowed to grant any new micro-agri loan and its transaction shall be limited only to the collection of outstanding micro-agri loan receivables. This prohibition shall remain until bank's compliance with the prescribed regulations is verified to be in order by the appropriate supervising department of the Bangko Sentral.

(3) Banks, with certificates of compliance, found to be in order shall continue to comply with the prescribed prudential requirements. If found later on that the bank is non-compliant with any or all of the requirements, it shall be given one examination cycle to correct any deficiency If the bank remains non-compliant after the lapse of one (1) examination cycle, the granting of micro-agri loan shall be deemed suspended effective on the day after the exit conference, during which the management shall be informed of its failure to make proper corrective actions within the prescribed period. While the suspension is in effect, the bank's transactions shall be limited to the collections of outstanding micro-agri loan receivables.

For the purpose of this provision, *one examination-cycle* is defined as the period commencing from the date the bank is formally informed of the findings/exceptions of the last general examination up to the date of the exit conference of the immediately succeeding general examination.

(4) *Other sanctions.* The imposition of the foregoing sanctions shall be without prejudice to the imposition of other administrative sanctions, as provided in other regulations in this Manual.

Marketing, sale and servicing of microinsurance products by thrift banks. A TB including its authorized branch/es and branch-lite unit/s shall comply with Sec. 113-B for the presentation, marketing and sale of microinsurance products.

Marketing, sale and servicing of microinsurance products by rural and cooperative banks. An RB/Coop bank including its authorized branch/es and branch-lite unit/s shall comply with Sec. 113-C for the presentation, marketing and sale of microinsurance products.

Required reports. Banks, with retail microfinance operations, shall be required to submit the "Report on Microfinance Products" on a monthly basis, and the "Income Statement on Retail Microfinance Operations" on a quarterly basis. Both reports shall be submitted within fifteen (15) banking days after the end of the reference month and quarter, respectively.

Banks with no microfinance operations, either retail or wholesale, are expected to fill up only Item "*3.1.B*", "Other Microenterprises Loans", under "Additional Information" of the "Report on Microfinance Products". On the other hand, banks engaged solely in wholesale microfinance operations are expected to fill up only Item "*2*", "Wholesale Microfinance Operations", and its related sub-accounts under "Additional Information" of the 'Report on Microfinance Products". These banks, however, are required to submit the quarterly "Income Statement on Retail Microfinance Operations", indicating that the required data are not applicable, otherwise, these banks will be sanctioned for incomplete submission of reports.

Erroneous/Delayed/Erroneous and Delayed/Unsubmitted reports shall be subject to penalties prescribed for *Category A-2* report under Sec. 171 (*Non-compliance with the Bangko Sentral reporting standards*).

Sanctions. Violations of the provisions of this Section shall be subject to any or all of the following sanctions:

a. Disqualification of the bank concerned from the credit facilities of the Bangko Sentral except as may be allowed under Section 84 of R.A. No. 7653;
b. Prohibition of the bank concerned from the extension of additional microfinance loans; and
c. Penalties and sanctions provided under Sections 36 and 37 of R.A. No. 7653.

(Circular Nos. 987 dated 28 December 2017, 963 dated 27 June 2017, 945 dated 06 February 2017, 941 dated 20 January 2017, 890 dated 02 November 2015, 841 dated 04 July 2014, 836 dated 13 June 2014 and 825 dated 07 February 2014)

315 INTERBANK LOANS

Interbank loan transactions shall include, among other things, (a) interbank call loan (IBCL) transactions; (b) interbank term loan transactions; (c) borrowings evidenced by deposit substitute instruments; and (d) purchases of receivables with recourse: *Provided, however,* That only IBCL transactions which are settled through the banks' respective DDAs with the Bangko Sentral via PhilPaSS shall be subject to the reserve requirement prescribed for IBCL in Sec. 251 (*Required reserves against deposit and deposit substitute liabilities*): *Provided, further,* that funds borrowed by banks from trust departments of banks or IHs shall be excluded from the herein definition of interbank loan transactions.

Systems and procedures for interbank call loan transactions. IBCL transactions of banks shall be governed by the Agreement for the PhilPaSS executed on 12 December 2002 between the Bangko Sentral and the Bankers Association of the Philippines (BAP)/ Chamber of Thrift Banks (CTB)/Rural Bankers Association of the Philippines (RBAP) and any subsequent amendments thereto.

Accounting procedures.

a. Both lending and borrowing banks shall immediately pass the corresponding entries in their books.
b. IBCL transactions shall be recorded by the lending bank as Interbank Call Loans Receivable and by the borrowing bank as Bills Payable Interbank - Call Loans.
c. Banks shall reconcile their demand deposit accounts with the Bangko Sentral against monthly statements of account to be furnished by the Bangko Sentral Financial Accounting Department, Comptrollership Sub-Sector.

Settlement procedures for interbank loan transactions. Interbank loan transactions (call and term) among banks shall be settled gross with finality subject to the availability of balances in the deposit reserves maintained by banks in the Bangko Sentral in accordance with the provisions of the Agreement for the PhilPaSS executed on 12 December 2002 between the Bangko Sentral and the BAP/ CTB/RBAP and any subsequent amendments thereto.

316 BANK LOANS TO GOVERNMENT

Domestic borrowings by local government units (LGUs) pursuant to Section 123 of R.A. No. 7653. The domestic borrowings of LGUs within the Philippines, the procedures to be observed as well as the documentary requirements to be submitted, relative to the requests for Monetary Board opinion on the probable effects of the proposed credit operation on monetary aggregates, the price level and the balance of payments (BOP), pursuant to Section 123 of Republic Act No. 7653, as well as other pertinent laws and regulations shall be governed by the guidelines as contained in *Appendix 53*.

Debt service limit on local government borrowings. To ensure the effective implementation of the debt service limit on local government borrowings as stipulated in Section 324 (b) of the Local Government Code of 1991, all banks shall require each borrowing LGU to present a certificate of its debt service and borrowing capacity, duly certified by the Bureau of Local Government Finance – Department of Finance (BLGF DOF).

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. The domestic borrowings of GOCCs, LWDs, and SUCs within the Philippines, the procedures to be observed as well as the documentary requirements to be submitted, relative to the requests for Monetary Board opinion on the probable effects of the proposed credit operation on monetary aggregates, the price level and the BOP, pursuant to Section 123 of R.A. No. 7653, as well as other pertinent laws and regulations shall be governed by the guidelines, as contained in *Appendix 54*.

Enforcement actions. Any violation of this Section shall be subject to appropriate enforcement/supervisory action/s provided under Sec. 002 and Sections 36 and 37 of R.A. No. 7653, as well as those contained in other applicable regulations of the Bangko Sentral. Imposition of applicable enforcement action shall be on a per loan/borrowing account, regardless of the number of tranches or releases from the same loan/borrowing.

(Circular Nos. 926 dated 13 September 2016)

317 OTHER LOANS AND REDISCOUNTING TO THRIFT/RURAL/COOPERATIVE BANKS

Loans under Section 12 of R.A. No. 7353, Section 10 of R.A. No. 7906 and Article 102, R.A. No. 6038, as amended by RA. No. 9520. Banks may rediscount papers of TBs/RBs/Coop Banks. Banks shall specify the nature of papers acceptable for rediscounting as well as the rediscount rate.

Loans under Section 14 of R.A. No. 7353. The following are the guidelines in the grant by the LBP, DBP or any government-owned or controlled bank or FI of a loan to an RB under Section 14 of R.A. No. 7353.

a. *Issuance of certification.* Subject to the qualifications of the RBs prescribed in Item "*b*" hereof, the Monetary Board shall issue the certification required under Section 14 of R.A. No. 7353, which shall be final, after the Monetary Board has determined that:

(1) The resources of the RB are inadequate to meet the legitimate credit needs of the locality wherein the RB is established;
(2) There is dearth of private capital in said locality; and
(3) It is not possible for the stockholders of the RB to increase the paid-up capital thereof.

The appropriate supervising department of the Bangko Sentral may prescribe and require the submission by the RB of papers and documents necessary for such determination.

b. *Qualifications for loan.* In order to qualify for the financial assistance under said provision of law, the RB shall first meet the following requirements:

(1) Its capital-to-risk assets ratio during the last six (6) months immediately preceding the loan application should be at least ten percent (10%);
(2) Its past due loans are not more than twenty-five percent (25%);
(3) It has no deficiency in allowance for probable losses on loans and other risk assets;
(4) It must not have incurred deficiency in its reserves against deposit liabilities for the last six (6) months preceding the filing of the application;
(5) It must have been operating profitably for the last three (3) years;
(6) Its arrearages with the Bangko Sentral or other government FIs, if any, are being liquidated through an approved plan of payment, the conditions of which are being complied with; and
(7) It is operating substantially in accordance with applicable laws and Bangko Sentral rules and regulations.

c. *Extension of loan.* The LBP, the DBP or any government-owned or controlled bank or FI shall, within sixty (60) days from issuance by the Monetary Board of the certification, and subject to their loan and investment policies, extend to an RB a loan or loans from time to time, repayable in ten (10) years, with concessional rates of interest, against security/ies which the stockholder or stockholders of the RB may offer.

318 STANDBY LETTERS OF CREDIT

The following shall govern the issuance of standby letters of credit.

Domestic standby letters of credit. Domestic standby letters of credit may be issued or used in transactions other than those involving movement of goods under the following guidelines:

a. The bank's obligation to pay shall be either unconditional (as against presentation of a clean draft) or conditional only upon the presentation of documents and not upon actual existence or non-existence of facts, i.e., the bank must not be called upon to determine disputed questions of facts or law;

b. The bank's obligation shall be limited to a fixed maximum amount;

c. The bank's obligation shall have an expressed expiration date;

d. The standby letters of credit accommodation shall not violate any law or existing Bangko Sentral directives, rules and regulations, such as the SBL and DOSRI ceilings;

e. The party who opened the standby letters of credit or the ultimate borrower shall not have any past due obligation with the issuing bank for the ninety (90)-day period preceding the date of issuance of the letter of credit; and

f. The party who opened the letter of credit (borrower or principal obligor) must have an unqualified obligation to reimburse the bank on the same condition as the bank has paid.

319 COMMITTED CREDIT LINE FOR COMMERCIAL PAPER ISSUES

The following guidelines shall govern committed credit line agreements of banks with corporations proposing to issue commercial paper, pursuant to pertinent rules and regulations of the SEC.

Who may grant line facility. A bank with a net worth of at least P1.0 billion as defined in Sec. 121, may provide a committed credit line facility to a commercial paper issuer.

The bank shall exercise proper caution in ascertaining that the party, in whose favor the credit line shall be granted, is capable of fulfilling his commitments to the bank under the credit line agreement.

A bank or a group of banks may enter into a committed credit line agreement with any corporation proposing to issue commercial paper. Where a group of banks is involved, a lead bank shall be designated from among themselves.

Ceilings. The aggregate commitments under committed credit line agreements entered into by each bank pursuant to this Section shall not exceed an amount equivalent to thirty percent (30%) of its net worth, reckoned as of the date of execution of the latest agreement: *Provided*, That in no case shall a bank extend commitments to a single issuer for more than twenty-five percent (25%) of its net worth exclusive of other exposures to the said issuer.

Terms; conditions; restrictions. The committed credit line agreement shall incorporate the following terms, conditions and restrictions:

a. That the credit line agreement is executed pursuant to the provisions of this Section;

b. That the bank or banks are committed to make available to the issuer funds equivalent to at least twenty percent (20%) of the aggregate of the commercial paper issued and outstanding at any time;

c. That the commitment of the bank or banks shall be firm and irrevocable and effective for as long as the issues under a particular permit are outstanding, subject to renewal by the bank;

d. That availments pursuant to the credit line agreement shall be for the exclusive purpose of meeting obligations arising from commercial paper issues in accordance with the provisions of the Rules on Registration of Commercial Papers, which availments shall be honored not earlier than three (3) banking days prior to the date of payment of obligation arising from outstanding commercial paper;

e. That the request to avail of the credit line agreement shall be addressed to the bank or to the lead bank acting for a group of banks, which request shall be duly signed by a member of the board of directors and a senior ranking officer of the commercial paper issuer duly authorized for the purpose through an appropriate board resolution, which resolution shall also provide for the designation of the alternate signatories who shall likewise be a member of the board of directors and a senior financial officer of the corporation;

f. That the extent of the commitment of each participant in a group of banks under a credit line agreement shall be stipulated in the agreement; and

g. That the commitment of the bank under the credit line agreement shall be a net risk to the bank and the practice of requiring the commercial paper issuer to maintain a compensating deposit with the bank shall be prohibited.

Reports to the Bangko Sentral. The bank or the lead bank, as the case may be, shall report to the Bangko Sentral:

a. All commitments entered into with commercial paper issuers within ten (10) banking days after the issuer shall have been authorized by the SEC; and
b. Any availment under the committed credit line agreement within three (3) banking days from date of drawdown.

Loan limit. The liabilities of a commercial paper issuer to a bank arising from the availment by the issuer of the credit line agreement shall not be counted in determining compliance by the bank with the SBL for a period of ninety (90)

calendar days from each availment of the credit line[1]: *Provided*, That in no case shall they exceed five percent (5%) of the net worth of the bank beyond the normal applicable SBL.

(Circular Nos. 975 dated 10 October 2017)

C. MANDATORY/SPECIALIZED CREDITS

331 AGRICULTURE AND AGRARIAN REFORM CREDIT

Pursuant to R.A. No. 10000, The Agri- Agra Reform Credit Act of 2009, the following guidelines shall govern the grant of agrarian reform credit by banks, government or private.

Definition of terms. For purposes of this Section, the following definitions shall apply:

a. *Accredited rural financial institutions (FIs)* shall refer to FIs like RBs, Coop Banks, farmer's cooperatives and farmer's cooperative insurance or mutual benefit associations whose portfolios are substantially agri-agra related and have been certified as such either by the Bangko Sentral, in the case of banks, or by the DA, or by an agency duly-authorized by the DA, in the case of NBFIs.

b. *Agrarian reform beneficiaries* shall refer to farmers who were granted lands under P.D. No. 27 or the *"Emancipation of Tenants from the Bondage of the Soil, Transferring to Them the Ownership of the Land They Till and Providing the Instruments and Mechanism Therefor",* R.A. No. 6657 or the *"Comprehensive Agrarian Reform Law"* and R.A. No. 9700 or the *"Comprehensive Agrarian Reform Extension with Reforms"* and regular farmworkers who are landless, irrespective of tenurial arrangement, who benefited from the redistribution of lands, regardless of crops or fruits produced, to include the totality of factors and support services designed to lift the economic status of the beneficiaries and all other alternative arrangements to the physical distribution of lands, such as production or profit-sharing, labor administration, and the distribution of shares of stock under the stock distribution option scheme, which will allow beneficiaries to receive a just share of the fruits of the lands they work, which farmers and farmworkers shall be endorsed by the nearest office of the DAR.

The term shall, likewise, include registered agrarian reform beneficiaries' cooperatives/associations/other farm groups respectively endorsed as comprising of agrarian reform beneficiaries by the nearest office of the DAR.

c. *Agrarian reform credit* shall refer to loans granted to agrarian reform beneficiaries for agricultural and agrarian reform purposes.

d. *Agricultural credit* shall refer to loans granted to borrowers for agricultural purposes.

e. *Agricultural lessee* shall refer to any person who, with or without help from his/ her immediate farm household, cultivates the land owned by another for a certain price in money, in produce or in both.

f. *Agriculture and agrarian reform credit* shall refer to loans granted for the following activities and purposes:

(1) agricultural production;
(2) promotion of agribusiness and exports;
(3) acquisition of work animals, farm and fishery equipment and machinery;
(4) acquisition of seeds, fertilizers, poultry, livestock, feeds and other similar items;
(5) acquisition of lands authorized under the Agrarian Reform Code of the Philippines and its amendments;
(6) construction, acquisition and repair of facilities for production, processing, storage, and marketing and such other facilities in support of agriculture and fisheries;
(7) efficient and effective merchandising of agricultural and fishery commodities stored and/or processed by the facilities aforecited in domestic and foreign commerce;
(8) agricultural value chain financing availed by actor(s)/player(s) who are considered as qualified borrowers under this Section; and
(9) other activities identified in Section 23 of R.A. No. 8435, otherwise known as the "*Agriculture and Fisheries Modernization Act of 1997*", as follows:

(a) Agriculture and fisheries production including processing of fisheries and agri-based products and farm inputs;
(b) Acquisition of work animals, farm and fishery equipment and machinery,
(c) Acquisition of seeds, fertilizer, poultry, livestock, feeds and other similar items;
(d) Procurement of agriculture and fisheries products for storage, trading, processing and distribution;
(e) Acquisition of water pumps and installation of tube wells for irrigation;
(f) Construction, acquisition and repair of facilities for production, processing, storage, transportation, communication, marketing and such other facilities in support of agriculture and fisheries;

[1] This shall cover all new underwritten debt and equity securities issued from 15 February 2013.

(g) Working capital for agriculture and fisheries graduates to enable them to engage in agriculture and fisheries-related economic activities;
(h) Agribusiness activities which support soil and water conservation and ecology-enhancing activities;
(i) Privately-funded and LGU-funded irrigation systems that are designed to protect the watershed;
(j) Working capital for long-gestating projects; and
(k) Credit guarantees on uncollateralized loans to farmers and fisherfolk.

g. *Agro-industry Modernization Credit and Financing Program (AMCFP)* refers to the umbrella credit/financing program of the government for the agriculture and fisheries sector created under R. A. No. 8435.

h. *Amortizing owners* shall refer to landowners who still amortize payment for the land to a private individual or to the State.

i. *BSP-accredited rural financial institutions (FIs)* shall refer to banks that are accredited by the Bangko Sentral in accordance with criteria set forth in this Section.

j. *Compact farmers* shall refer to those farmers with adjoining farms operating as a single unit under one management, farm plan and budget.

k. *Farm to market road* shall refer to roads linking the agriculture and fisheries production sites, coastal landing points and post-harvest facilities to the market and arterial roads and highways.

l. *Farmer* shall refer to a natural person whose primary livelihood is cultivation of land or the production of agricultural crops, agroforest products, livestock and/or fisheries, either by himself/herself, or primarily with the assistance of his/her immediate farm household, whether the land is owned by him/her or by another person under a leasehold or share tenancy agreement or arrangement with the owner thereof.

m. *Farmworker* shall refer to a natural person who renders service for value as an employee or laborer in an agricultural enterprise or farm regardless of whether his/ her compensation is paid on a daily, weekly, monthly or "pakyaw" basis. The term includes an individual whose work has ceased as a consequence of, or in connection with, a pending agrarian dispute who has not obtained a substantially equivalent and regular farm employment.

n. *Farmer's cooperatives* shall refer to organizations composed primarily of small agricultural producers, farmers, farmworkers, or other agrarian reform beneficiaries who voluntarily organize themselves for the purpose of pooling land, manpower, technological, financial or other economic resources, and operate on the principle of one (1) member, one (1) vote. A juridical person may be a member of a cooperative, with the same rights and duties as a natural person.

o. *Farmer's and fisherfolk's organizations or associations* shall refer to farmer's and fisherfolk's cooperatives, associations or corporations duly registered with appropriate government agencies and which are composed primarily of small agricultural producers, farmers, farmworkers, agrarian reform beneficiaries or fisherfolk who voluntarily join together to form business enterprises or non-business organizations which they themselves own, control and patronize.

p. *Fisherfolk* shall refer to people directly or personally and physically engaged in taking and/or culturing and processing, fishery and/or aquatic resources.

q. *Fisheries* shall refer to all activities relating to the act or business of fishing, culturing, preserving, processing, marketing, developing, conserving and managing aquatic resources and the fishery areas, including the privilege to fish or take aquatic resource thereof.

r. *Fishworker* shall refer to a person whether or not regularly employed in commercial fishing and related industries, whose income is either from wages, profit sharing or stratified sharing basis, including those working in fishpens, fish corral/traps, fishponds, prawn farms, sea farms, salt beds, fish ports, fishing boat or trawlers, or fish processing and/or packing plants, but excluding administrators, security guards and overseers.

s. *Loanable funds* shall refer to total funds generated from 20 April 2010, the computation of which is described in this Section.

t. *National Food Authority*, otherwise known as the NFA, shall refer to the government entity created through P.D. No. 4 dated 26 September 1972. It is currently vested with the function of ensuring food security and stability of price and supply of staple grain-rice through procurement of paddy from individual bonafide farmers and their organizations, buffer stocking, processing activities, dispersal of paddy and milled rice to strategic locations, distribution of the staple grain to various marketing outlets at appropriate times of the year and other similar activities. As used in these rules, its role shall be limited to the issuance of warehouse receipts, which may be used as collateral for bank loans and loans under the AMCFP value chain financing facility.

As a government non-financial agency, the NFA cannot and will not perform any lending function consistent with the provisions of R.A. No. 8435.

u. *Owner-cultivators* shall refer to natural persons who own lands by purchase, inheritance, or land distribution by the State. Owner-cultivators can operate the farm themselves, supervise wage labor or delegate operations to farmers.

v. *Post-harvest activities* shall refer to threshing, drying, milling, grading, storing, and handling of produce and such other activities of a similar nature such as stripping, winnowing, chipping and washing.

w. *Post-harvest facilities* shall refer to threshers, moisture meters, dryers, weighing scales, milling equipment, fish ports, fish landings, ice plants and cold storage facilities, processing plants, warehouses, buying stations, market infrastructure and transportation facilities supporting post-harvest activities.

x. *Public infrastructure* shall refer to facilities including, but not limited to, market buildings, slaughterhouses, holding pens, warehouses, market information centers, connecting roads, transport and communication, processing plants, ice plants and cold storage facilities, grain dryers, warehouses, grain silos and cold storage used by the farmers and fisherfolk in the production, processing, storage, transportation, communication, marketing of their produce and such other facilities in support of agriculture and fisheries.

y. *Settlers* shall refer to persons who range from the forest-clearing pioneers, including indigenous people, with a subsistence economy to the better equipped and more experienced farmers.

z. *Tenant farmer* shall refer to one (1) who cultivates another's land under a sharing leasehold agreement.

Qualified borrowers. Qualified borrowers for agriculture and agrarian reform credit shall refer to farmers, fisherfolk, agrarian reform beneficiaries, settlers, agricultural lessees, amortizing owners, farmworkers, fishworkers, owner-cultivators, compact farmers, tenant farmers, as well as farmer's and fisherfolk's cooperatives, organizations and associations in good standing, regardless of capitalization, based on the feasibility of the project and their paying capacity, their estimated production, and/or securities they can provide as well as such assets as may be acquired by them from the proceeds of the loan.

Required allocation for agriculture and agrarian reform credit. Banks shall set aside at least twenty-five percent (25%) of their total loanable funds for agriculture and agrarian reform credit in general, of which at least ten percent (10%) of the total loanable funds shall be made available for agrarian reform beneficiaries.

Excess compliance in the ten percent (10%) agrarian reform credit may be used to offset a deficiency, if any, in the fifteen percent (15%) other agricultural credit, in general, but not vice versa.

Direct compliance. Total loanable funds as computed under this Section shall be made available by banks for agriculture and agrarian reform credit.

a. Twenty-five percent (25%) mandatory agriculture and agrarian reform credit allocation through the following modes of compliance that are undertaken after 20 April 2010:

   (1) Actual extension of loans to qualified borrowers (gross of allowance for probable losses), for purposes of financing agriculture and agrarian reform activities under Item *"f"* of Definition of terms in this Section, other than (1) loans rediscounted with UBs/KBs, or (2) loans to the extent funded by proceeds from any of the following:

      (a) Bond issues for the exclusive purpose of on-lending to the agriculture and agrarian reform sector that have been expressly declared as eligible by the DA, or by an agency duly authorized by the DA, in the case of the DBP/LBP,

      (b) SDAs maintained for the exclusive purpose of on-lending to the agriculture and agrarian reform sector, in the case of BSP-accredited rural FIs, or

      (c) Wholesale lending of other banks for the exclusive purpose of on-lending to the agriculture, fisheries and agrarian reform sector, in the case of BSP-accredited rural FIs, or

   (2) Purchase of eligible loans listed in Item "*(1)*" above on a "*without recourse*" basis from other banks and FIs.

b. Ten percent (10%) mandatory agrarian reform credit allocation through the following modes of compliance that are undertaken after 20 April 2010:

   (1) Actual extension of loans to agrarian reform beneficiaries (gross of allowance for probable losses), for purposes of financing agriculture and agrarian reform activities under Item *"f"* of Definition of terms in this Section, other than (a) loans rediscounted with UBs/KBs, or (b) loans to the extent funded by proceeds from

bonds, in the case of DBP/LBP, and/or SDAs and/or wholesale lending of other banks, in the case of BSP-accredited rural FIs listed under Items *"a(1)(a)"* to *"a(1)(c)"* above, or

(2) Purchase of eligible loans listed in Item *"b(1)"* above on a "*without recourse*" basis from other banks and FIs.

Allowable alternative compliance. The following alternative modes of compliance to the mandatory agriculture and agrarian reform credit shall be allowed:

a. Twenty-five percent (25%) mandatory agriculture and agrarian reform credit

(1) Eligible securities (gross of allowance for probable losses but net of unamortized premium or discount) that are purchased after 20 April 2010:

(a) Investment in bonds issued by the DBP and the LBP that have been expressly declared as eligible by the DA, or by an agency duly-authorized by the DA, the proceeds of which shall be used exclusively for on-lending to the agriculture and agrarian reform sector;

(b) Investments in other debt securities that have been declared as eligible by the DA, or by an agency duly-authorized by the DA, the proceeds of which shall be used to finance activities identified under Section 23 of R.A. No. 8435, as defined under Item *"f(9)"* in this Section (*Definition of terms*); or

(c) Paid subscription of shares of stock in the following institutions, subject to existing rules and regulations governing equity investments of banks:

(i) Accredited rural financial institutions (FIs) (preferred shares only); or
(ii) Philippine Crop Insurance Corporation (PCIC).

The eligibility of securities under Item *"a(1)"* shall be subject to the following conditions:

(i) Such securities shall neither be hypothecated, encumbered, earmarked for any other purposes, sold/lent in repurchase agreement/securities lending transactions, used as additional collateral in repurchase agreements, nor used as collateral by the borrowing bank in securities borrowing transactions;

(ii) Such securities can be purchased from the primary or secondary market: *Provided,* That these are traded in a manner that allows for price discovery: *Provided, further,* That the securities are maintained in the books of a designated securities registry that is independent from the issuer;

(iii) Such securities shall be segregated from the bank's investment portfolio; and

(iv) The securities under Item Nos. *"a(1)(a)"* to *"a(1)(c)"* above shall not be funded by proceeds from the issuance of bonds under Item No. "*a(1)(a)",* in the case of DBP/LBP, and/or SDAs under Item No. *"a(2)(a)"* and/or wholesale lending of other banks under Item No. *"a(2)(b)",* in the case of BSP-accredited rural FIs.

(2) Loans and other credit (gross of allowance for probable losses) that are granted after 20 April 2010:

(a) Investments in SDAs of BSP-accredited rural FIs, the proceeds of which shall be used exclusively for on-lending to the agriculture and agrarian reform sector;

(b) Wholesale lending granted to accredited rural FIs for the exclusive purpose of on-lending to the agriculture and agrarian reform sector;

(c) Rediscounting facility granted by UBs/KBs to other banks covering eligible agricultural and agrarian reform credits, including loans covered by guarantees of the PCIC;

(d) Actual extension of loans intended for the construction and upgrading of infrastructure, including, but not limited to, farm-to-market roads, as well as the provision of post harvest facilities and other public infrastructure as defined under this Section on the Definition of terms, for the benefit of the agriculture and agrarian reform sector;

(e) Actual extension of loans to borrowers for purposes of financing activities identified under Section 23 of R.A No. 8435, as defined under Item *"f(9)"* in this Section (*Definition of terms*);

(f) Extension of loans to:

(i) NFA-registered warehousemen/millers/wholesalers for purposes of financing activities identified under Section 23 of R.A. No. 8435, as defined under Item *"f(9)"* in this Section (*Definition of terms*); or
(ii) The NFA: *Provided,* That the NFA shall not use the proceeds of said loans for relending; or

(g) Purchase of eligible loans listed under Item Nos. *"a(2)(b)" to "a(2)(f)"* on a "*without recourse*" basis from other banks and FIs after 20 April 2010:

Provided, That the loans under Item Nos. "*a(2)(d)" to "a(2)(g)"* are not rediscounted with UBs/KBs: *Provided, further*, That the activities identified under Item Nos. *"a(2)(a)"* to *"a(2)(g)"* shall not be funded by proceeds from the issuance of bonds under Item No. *"a(1)(a)*", in the case of DBP/LBP, and/or the acceptance of SDAs under Item No. *"a(2)(a)"* and/or wholesale lending of other banks under Item No. *"a(2)(b)",* in the case of BSP-accredited rural FIs.

b. Ten percent (10%) mandatory agrarian reform credit

(1) Eligible securities (gross of allowance for probable losses but net of unamortized premium or discount) that are purchased after 20 April 2010:

(a) Investments in bonds issued by the DBP and the LBP that have been expressly declared as eligible by the DA, or by an agency duly-authorized by the DA, upon due consultation and timely coordination with DAR, the proceeds of which shall be used exclusively for on-lending to agrarian reform beneficiaries; or

(b) Investment in other debt securities that have been declared as eligible by the DA, or by an agency duly-authorized by the DA, upon due consultation and timely coordination with DAR, the proceeds of which shall be used to finance activities identified under Sec. 23 of R.A No. 8435, as defined under Item no. *"f(9)"* of the Definition of terms in this Section: *Provided,* That said activities shall generally benefit agrarian reform beneficiaries.

The eligibility of securities under Item No. *"b(1*)" shall be subject to the same conditions required for securities under Item No. *"a(1)".*

(2) Loans and other credits (gross of allowance for probable losses) that are granted after 20 April 2010:

(a) Investments in SDAs of BSP-accredited rural FIs, the proceeds of which shall be used exclusively for on-lending to agrarian reform beneficiaries;

(b) Wholesale lending granted to accredited rural FIs for the exclusive purpose of on-lending to agrarian reform beneficiaries;

(c) Rediscounting facility granted by UBs/KBs to other banks covering eligible agrarian reform credits, including loans covered by guarantees of the PCIC;

(d) Actual extension of loans to borrowers, for purposes of financing activities identified under Section 23 of R.A No. 8435, as defined under Item No. "*f(9)*" of the Definition of terms in this Section: *Provided*, That said activities shall generally benefit agrarian reform beneficiaries; or

(e) Purchase of eligible loans listed under Item Nos. *"b(2)(b)"* to *"b(2)(d)"* on a *"without recourse"* basis from other banks and FIs after 20 April 2010:

Provided, That the loans under Item Nos. *"b(2)(d)"* to "*b(2)(e)"*, are not rediscounted with UBs/KBs: *Provided, further,* That the activities identified under Item Nos. *"b(2)(a)"* to *" b(2)(e)"* shall not be funded by proceeds from the issuance of bonds under Item No. *"b(1)(a)"*, in the case of DBP/LBP, and/or the acceptance of SDAs under Item No. *"b(2)(a)"* and/or wholesale lending of other banks under Item No. *"b(2)(b)",* in the case of BSP-accredited rural FIs.

For purposes of implementing the provisions of this Section, the DA, or its duly-authorized agency, shall furnish the Bangko Sentral with information on the debt securities eligible as alternative compliance with the mandatory agri-agra credit.

Computation of loanable funds. Loanable funds shall be computed, as follows:

a. The net increase from 20 April 2010 to date of the report of the individual accounts booked under the Regular Banking Unit which represent the following:

(1) Total peso deposit (demand, savings, now, time and negotiable CTD accounts) excluding:

(a) Deposits of banks,
(b) Deposits of the National Government, including its political subdivisions and instrumentalities, such as, but not limited to, the BIR, BOC, and LGUs, and
(c) Deposits of government-owned and-controlled corporations,

(2) Bills payable excluding:

(a) Borrowings from the Bangko Sentral in the form of the following:

(i) rediscounting,
(ii) emergency advances,
(iii) availment of overdraft facilities, or
(iv) other obligations,

(b) Interbank loans payable,

(c) Other deposit substitutes, in the form of the following:

(i) Repurchase agreements with the Bangko Sentral,
(ii) Repurchase agreements with banks,
(iii) Certificates of assignment/ participation with recourse with banks,
(iv) Securities lending and borrowing agreements with banks, and
(v) Other deposit substitutes with banks

(d) Proceeds from special on-lending programs to the agriculture and agrarian reform sector, including SDAs issued by Bangko Sentral-accredited rural FIs, the proceeds of which shall be exclusively used for on-lending to the agriculture and agrarian reform sector,

(e) Proceeds from special on-lending programs, other than for agriculture and agrarian reform, including Time Certificates of Deposit-Special Financing, and

(f) Other deposit substitutes in the form of emergency advances from the PDIC, and

(3) Bonds payable, net of unamortized premium or discount, other than bond issuances of the DBP and LBP, the proceeds of which shall be used exclusively for on-lending to the agriculture and agrarian reform sector,
(4) Unsecured subordinated debt, net of unamortized premium or discount,
(5) Redeemable preferred shares, net of unamortized premium or discount,
(6) Total equity accounts, as provided under this Section on Computation of total equity,

b. Less/(Add) the net increase/ (decrease) from 20 April 2010 to date of the report of the following accounts booked under the Regular Banking Unit (RBU):

(1) Debt and equity securities acquired in settlement of loans, net,
(2) Sales contract receivable, net,
(3) Accrued interest income from financial assets, net,
(4) Equity investment in subsidiaries, associates and joint ventures, net,
(5) Bank premises, furniture, fixture and equipment, net,
(6) Real and other properties acquired (ROPA), net,
(7) Non-current assets held for sale, net,
(8) Goodwill, net,
(9) Other intangible assets, net,
(10) Deferred tax assets,
(11) Other assets, net,
(12) Required reserves against a week ago level of the following accounts:

(a) deposit liabilities,
(b) deposit substitutes,
(c) trust and other fiduciary accounts- others (TOFA), and
(d) others, and

(13) Security deposit for the faithful performance of trust duties,

c. Less/(Add) provisions for liquidity equivalent to fifteen percent (15%) of the net increase/(decrease) from 20 April 2010 in total peso deposit liabilities as defined herein under Item "*a(1)*".

Computation of total equity. The computation of total equity for purposes of computing total loanable funds under this Section shall be, as follows:

Total Equity under RBU		xxx
Less:		
a. Retained Earnings - Reserves		
(1) Trust Business	xxx	

(2) Self-Insurance	xxx	
(3) Contingencies, and	xxx	
(4) Others	xxx	(xxx)
b. Other Comprehensive Income		
(1) Net Unrealized Gains/Losses on Available for Sale Financial Assets	xxx	
(2) Gains/Losses on Fair Value Adjustment of Hedging Instruments	xxx	
(3) Cumulative Foreign Currency Translation	xxx	
(4) Others	xxx	(xxx)
Total Equity, net of exclusions		xxx

In the case of foreign bank branches, the total equity for purposes of computing total loanable funds under this Section shall be, as follows:

Total Equity, exclusive of Due From/To Head Office/Branches Agencies Abroad, under RBU		xxx
Less:		
a. Retained Earnings - Reserves		
(1) Trust Business	xxx	
(2) Self-Insurance	xxx	
(3) Contingencies, and	xxx	
(4) Others.	xxx	(xxx)
b. Other Comprehensive Income		
(1) Net Unrealized Gains/Losses on Available for Sale Financial Assets	xxx	
(2) Gains/Losses on Fair Value Adjustments Of Hedging Instruments	xxx	
(3) Cumulative Foreign Currency Translation	xxx	
(4) Others	xxx	(xxx)
c. Due from Head Office/ Branches/ Agencies Abroad		(xxx)
Add: Due to Head Office/ Branches/ Agencies Abroad		xxx
Total Equity, net of exclusions		xxx

Accreditation of banks as rural financial institutions.

a. Application for accreditation. A rural FI applying for accreditation shall submit to the appropriate supervising department of the Bangko Sentral a letter stating its intent to apply for such accreditation together with the following information/documents:

(1) A notarized undertaking, signed by the president and compliance officer or equivalent, that the bank shall comply with the regulations, directives and instructions of the Bangko Sentral; and
(2) A notarized certification, signed by the president and compliance officer or equivalent, that the bank's loan portfolio is substantially agri-agra related.

b. *Qualification requirements.* A certificate of accreditation will be issued by the appropriate supervising department of the Bangko Sentral to the rural FI should the rural FI satisfy the following criteria based on the last four (4) quarters prior to application:

(1) Total loan portfolio is greater than its total investments; and
(2) Average credit exposure to agri- agra is greater than any exposure to the other economic sectors as reported in Schedule 11.d of the FRP.

c. *Certificate of accreditation.* The certificate of accreditation issued to the qualified rural FI will include an accreditation reference number specific to the rural FI, the date of accreditation and a statement that the rural FI has satisfied the above criteria and has sworn to comply with the regulations, directives and instructions of the Bangko Sentral.

(1) The rural FI, once accredited and issued with the certificate of accreditation, is required to comply with the following:

(a) Provide the lending bank with a copy of the certificate of accreditation with the relevant accompanying details (i.e., accreditation reference number and date of accreditation); and

(b) Submit on an annual basis to the appropriate supervising department of the Bangko Sentral a notarized certification, signed by its president and compliance officer or equivalent, that its loan portfolio remains substantially agri-agra related. Such notarized certification for annual submission by the rural FI shall be reckoned from the original date of accreditation and should be received by the appropriate supervising department of the Bangko Sentral within ten (10) banking days before the lapse of one (1) year. Non-compliance with the required submission of the annual certification will serve as basis for the Bangko Sentral to revoke accreditation of the rural FI.

(2) The lending bank, as part of its disclosure to the Bangko Sentral, is required to include the following in its Agri-Agra report in compliance with the reportorial requirements of the Bangko Sentral:

(a) Name of rural FI/s and corresponding aggregate amount of exposure to each rural FI; and
(b) For each rural FI in Item "*c(2)(a)*", the accreditation reference number date of accreditation.

(3) The exposure of the lending bank to the rural FI shall be eligible for purposes of determining compliance with the mandatory agri-agra credit allocation for as long as the rural FI remains accredited with the Bangko Sentral.

d. *Purpose of accreditation.* The accreditation is solely for the purpose of ascertaining that the portfolio of the rural FI is substantially agri-agra related pursuant to R.A. No. 10000 and should not serve as an endorsement by the Bangko Sentral on the soundness of the rural FI. The accreditation is not intended to take the place of the conduct of due diligence and prudent credit underwriting standards required from the lending bank in determining the credit worthiness of the rural FI.

Syndicated type of agrarian reform credit/agricultural credit. Banks may grant a syndicated type of loan for agrarian reform credit/ agricultural credit in general, either between or among themselves. The mechanics, including the recording of such syndicated type of loan transactions, shall follow existing practices and regulations applicable both to the lead bank and other participating bank(s). Accordingly, the booking of loans shall only be for the amount of actual participation of each syndicate-member bank concerned. Memorandum entries, references or notations shall be made for the other participating bank(s).

Interest and other charges. Interest, service fees and other charges shall be governed by existing rules and regulations.

Submission of reports. A quarterly report on the compliance with the mandated credit allocation for agri-agra credit under R.A. No. 10000, which shall be considered a Category A-3 report, shall be submitted to the appropriate supervising department of the Bangko Sentral within fifteen (15) banking days from the end of the reference quarter.

Consolidated compliance. The compliance with agri-agra mandatory allocation of funds under R.A. No. 10000 shall be allowed on a groupwide basis (i.e., consolidation of parent/foreign bank branch and subsidiary bank/s) so that excess compliance of any bank in the group can be used as compliance for any deficient bank in the group: *Provided*, That the subsidiary bank/s is/are at least directly or indirectly majority owned by the parent bank and/or head office, in the case of foreign bank branches: *Provided, further,* That the parent bank/foreign bank branch shall be held responsible for the compliance of the group.

The consolidated report shall be submitted by the parent bank/foreign bank branch in the prescribed form and shall be supported by the individual reports of the parent bank/foreign bank branch within the group and subsidiary bank/s duly signed by each bank's authorized signatory.

Sanctions. The following sanctions shall be applicable for any violation of this Section:

a. Penalties/sanctions applicable to banks:

(1) *Monetary fines*

(a) *For non-compliance /under- compliance*

Annual penalty of one-half of one percent (0.5%) of amount of non-compliance/undercompliance shall be computed on a quarterly basis following this formula:

Penalty = 0.00125 x amount of non- compliance/under-compliance as of the end of the reference quarter

Amount of non-compliance/ under-compliance =

(i) ten percent (10%) of total loanable funds less reported amount of compliance with the mandatory agrarian reform credit, plus

(ii) fifteen percent (15%) of total loanable funds less reported amount of compliance with the mandatory other agricultural credit in general: *Provided,* That excess compliance in the ten percent (10%) agrarian reform credit may be used to offset a deficiency, if any, in the fifteen percent (15%) other agricultural credit, in general, but not vice versa.

(b) *For erroneous/delayed/erroneous and delayed/unsubmitted reports*

A bank shall be subject to the fines for erroneous/delayed/erroneous and delayed/ unsubmitted reports on compliance with the mandated credit allocation for agri-agra credit under R.A. No. 10000 in accordance with the provisions of Sec. 171 (*Non-compliance with the Bangko Sentral Reporting*

Standards): *Provided*, That a bank which fails to submit its agri-agra quarter-end report up to the submission deadline of the succeeding quarter-end report, shall be subject to the appropriate monetary penalties for willful delay in the submission of agri-agra report under Sec. 1102, which shall be reckoned on a daily basis from the day following the due date of submission of the report until the report is filed with the Bangko Sentral.

(c) *For false/misleading statements*

A bank which has been found to have made a false or misleading statement in its required report on compliance with the mandated credit allocation for agri-agra credit shall be subject to the appropriate monetary penalties for willful making of a false or misleading statement under Sec. 1102, which shall be reckoned on a daily basis from the day following the due date of submission of the affected report until an amended report has been submitted to the Bangko Sentral.

(2) *Non-monetary fines*

In addition to the above daily monetary fines, any or all of the administrative sanctions, as provided under Section 37 of R.A. No. 7653, may be imposed upon any bank for willful delay or refusal to submit reports or willful making of a false or misleading statement to the Bangko Sentral, without prejudice to criminal sanctions against culpable persons provided under Sections 34, 35 and 36 of R.A. No. 7653.

b. *Penalties/sanctions applicable to directors/officers concerned of the bank*

Directors/officers of a bank which have been found to have willfully falsely certified/submitted misleading statements and/or willfully violated any of the provisions of this Section shall be subject to the appropriate monetary penalties under Sec. 1102 and/or the other administrative sanctions under Section 37 of R.A. No. 7653.

The imposition of the above sanctions is without prejudice to the filing of appropriate criminal charges against culpable persons as provided under Section 35 of R.A. No. 7653 for the willful making of a false/misleading statement.

c. *Disposition of penalties collected*

Ninety percent (90%) of the total penalties collected on non-compliance/ under-compliance with the mandatory agri-agra credit under Item "*a(1)(a)*" above shall be remitted by the Bangko Sentral to the Agricultural Guarantee Fund Pool (AGFP) and the PCIC, in accordance with the following percentage allocation:

Recipient	Percent Allocation
AGFP	Fifty percent (50%)
PCIC	Fifty percent (50%)

The percentage allocation may be amended by the Secretary of DA in consultation with the Agricultural Credit Policy Council (ACPC), PCIC and the Secretary of DAR, according to the needs of the agri-agra sector.

The remaining, ten percent (10%) of the total penalties collected on non-compliance/ under-compliance with the mandatory agri-agra credit under Item *"a(1)(a)"* shall be retained by the Bangko Sentral to cover its administrative expenses.

(Circular Nos.1009 dated 18 July 2018, 988 dated 20 December 2017, 963 dated 27 June 2017, and 908 dated 14 March 2016)

332 MANDATORY ALLOCATION OF CREDIT RESOURCES TO MICRO, SMALL AND MEDIUM ENTERPRISES

The following rules shall govern the mandatory allocation of credit resources to Micro, Small and Medium Enterprises (MSMEs).

Definition of terms. For purposes of this Section, the following definitions shall apply:

a. *Lending institutions* shall refer to all banks, namely: UBs, KBs, TBs and RBs/ Coop Banks, including government-owned banks.

b. *Total loan portfolio* shall include all loans and receivables, other than those booked in the FCDU/EFCDU as defined in the Manual of Accounts section of the FRP under Sec. 172, gross of allowance for credit losses, excluding the following:

(1) Interbank loans receivable, other than (a) wholesale lending of a bank to conduit banks/QBs for on-lending to MSMEs, and (b) rediscounting facility granted to another bank for loans to MSMEs;
(2) Wholesale lending of a bank to conduit non-bank FIs without quasi-banking authority, other than those for on-lending to MSMEs;

(3) Loans granted under special financing programs, other than those for MSMEs;
(4) Loans granted to MSMEs, other than to BMBEs, to the extent funded by wholesale lending of, or rediscounted with, another bank;
(5) Agrarian reform credits/other agricultural loans granted under R.A. No. 10000, other than those eligible for compliance with the mandatory allocation of credit for MSMEs; and
(6) Loans and receivables arising from repo agreements, certificates of assignment/participation with recourse and securities lending and borrowing transactions.

c. *MSMEs* shall refer to any business activity within the major sectors of the economy, namely: industry, trade, services, including the practice of one's profession, the operation of tourism-related establishments, and agri-business, which for this purpose refers to any business activity involving the manufacturing, processing, and/or production of agricultural produce, whether single proprietorship, cooperative, partnership or corporation:

(1) whose total assets, inclusive of those arising from loans but exclusive of the land on which the particular business entity's office, plant and equipment are situated, must have a value falling under the following categories:

Micro : not more than P 3,000,000
Small : more than P 3,000,000 to P 15,000,000
Medium : more than P 15,000,000 to P 100,000,000
and

(2) duly registered with the appropriate agencies as presently provided by law except in the case of microenterprises as defined above.

Period covered; prescribed portions of loan portfolio to be allocated. Banks shall for a period of ten (10) years from 17 June 2008 to 16 June 2018, allocate at least eight percent (8%) for micro and small enterprises (MSEs) and at least two percent (2%) for medium enterprises (MEs) of their total loan portfolio based on their balance sheet as of the end of previous quarter, and make it available for MSME credit.

Banks may be allowed to report compliance on a groupwide (i.e., consolidation of parent and subsidiary bank/s) basis so that excess compliance of any bank in the group can be used as compliance for any deficient bank in the group: *Provided,* That the subsidiary bank/s is/are at least majority owned by the parent bank: *Provided, further,* That the parent bank shall be held responsible for the compliance of the group.

The consolidated report shall be submitted by the parent bank in the prescribed form and shall be supported by the individual reports of the bank and its subsidiaries duly signed by each bank's authorized signatory.

For purposes of determining compliance with the mandated allocation of credit resources to MSMEs, only eligible credit exposures as enumerated in this Section, other than those booked in the FCDU/ EFCDU shall be considered.

Eligible credit exposures. Funds set aside in accordance with the foregoing requirement shall be made available for any of the following:

a. *For MSEs*

(1) Actual extension of loans to eligible MSEs, other than to BMBEs which are covered in Item "*c(3)*" hereof: *Provided, however*, That loans granted to MSEs other than BMBEs, to the extent funded by wholesale lending of, or rediscounted with, another bank shall not be eligible as compliance with the mandatory credit allocation; or

(2) Loans granted to export, import, and domestic micro and small scale traders, other than to BMBEs which are covered in Item "*c(3)*" hereof: *Provided*, *however,* That loans granted to MSEs other than BMBEs, to the extent funded by wholesale lending of, or rediscounted with another bank shall not be eligible as compliance with the mandatory credit allocation; or

(3) Purchase of eligible MSE loans listed in Items "*(1)*" and "*(2)*" above on a "without recourse" basis from other banks and FIs; or

(4) Purchase/discount on a "with or without recourse" basis of MSE receivables, other than BMBE receivables which are covered in Item "*c(3)*" hereof; or

(5) Wholesale lending or rediscounting facility granted to PFIs for on-lending to MSEs, other than to BMBEs which are covered in Item "*c(3)*" hereof; or

(6) Wholesale lending or rediscounting facility granted to PFIs for on-lending to export, import, and domestic micro and small scale traders, other than to BMBEs which are covered in Item "*c(3)*" hereof; or

(7) Commercial letters of credit outstanding, net of margin deposits, issued for the account of MSEs.

b. *For MEs*

(1) Actual extension of loans to eligible MEs: *Provided, however,* That loans granted to MEs to the extent funded by wholesale lending of, or rediscounted with, another bank shall not be eligible as compliance with the mandatory credit allocation; or

(2) Loans granted to export, import, and domestic medium scale traders: *Provided, however*, That loans granted to MEs to the extent funded by wholesale lending of, or rediscounted with, another bank shall not be eligible as compliance with the mandatory credit allocation; or

(3) Purchase of eligible ME loans listed in Items "*(1)*" and "*(2)*" above on a "without recourse" basis from other banks and FIs; or

(4) Purchase/discount on a "with or without recourse" basis of ME receivables; or

(5) Wholesale lending or rediscounting facility granted to PFIs for on-lending to MEs; or

(6) Wholesale lending or rediscounting facility granted to PFIs for on-lending to export, import, and domestic medium scale traders; or

(7) Commercial letters of credit outstanding, net of margin deposits, issued for the account of MEs.

c. *Alternative compliance for either or both MSEs or/and MEs*

(1) Paid subscription/purchase of liability instruments as may be offered by the SB Corporation; or
(2) Paid subscription of preferred shares of stock of the SB Corporation; or
(3) Loans from whatever sources granted to BMBEs as provided under Sec. 333 (*Incentives to participating financial institutions*).

Ineligible credit instruments. The purchase of government notes, securities and negotiable instruments other than the instruments offered by SB Corporation, and the granting of loans to MSMEs, other than to BMBEs, to the extent funded by wholesale lending of, or rediscounted with, another bank shall not be deemed compliance with the foregoing requirement.

Rights/remedies available to lending institutions not qualified to acquire or hold lands of public domain. Lending institutions which are not qualified to acquire or hold lands of the public domain in the Philippines shall be permitted to bid and take part in sales of mortgaged real property in case of judicial or extra-judicial foreclosure, as well as avail of receivership, enforcement and other proceedings, solely upon default of a borrower, and for a period not exceeding five (5) years from actual possession: *Provided,* That in no event shall title to the property be transferred to such lending institution. If the lending institution is the winning bidder, it may, during said five (5) year period, transfer its rights to a qualified Philippine national, without prejudice to a borrower's rights under applicable laws.

Submission of reports. Banks shall submit reports on compliance with the mandatory credit allocation on a quarterly basis within fifteen (15) banking days from the end of reference quarter to SDC of the Bangko Sentral. Said report shall be considered *Category A-3* report.

Banks shall maintain appropriate records/details of the reported loans to MSMEs and shall make these available to Bangko Sentral.

Sanctions. The following administrative sanctions shall be imposed on banks:

a. For non-compliance/under compliance with the prescribed portions of loan portfolio to be allocated to MSEs and MEs:

(1) For zero compliance for both MSEs and MEs – P500,000;
(2) For under compliance:

(a) For MSEs – percentage of undercompliance multiplied by P400,000
(b) For MEs – percentage of under- compliance multiplied by P100,000 to be computed as of end of each quarter.

(3) For willful making of a false or misleading statement to the Bangko Sentral - P500,000 per quarter-end report without prejudice to the sanctions under Section 35 of R.A. No. 7653.

The imposition of the fines in Items *"(1)"* to *"(2)"* shall be without prejudice to the other administrative sanctions under Section 37 of R.A. No. 7653.

b. For non-submission/delayed submission of reports on compliance with both the prescribed portions of loan portfolio to be allocated to MSEs and MEs, respectively:

(1)	UBs/KBs	- P1,200
(2)	TB	- 600
(3)	RBs/Coop Banks	- 180

per calendar day of delay.

Disposition of penalties collected. Ninety percent (90%) of penalties collected under this Section on Sanctions shall be remitted by the Bangko Sentral to the MSME Development Council Fund, while the remaining ten percent (10%) shall be retained by the Bangko Sentral to cover its administrative expenses.

Accreditation guidelines for Rural and Thrift Banks under the SME Unified Lending Opportunities for National Growth (SULONG). Without prejudice to the refinements as may be suggested by DTI and DOF, the Twelve (12)-Point Accreditation Guidelines for RBs and TBs, and the lending features of short and long term loans for direct or retail lending by participating government FIs under the SULONG, are shown in *Appendix 52*.

(Circular No. 858 dated 21 November 2014)

333 LOANS TO BARANGAY MICRO BUSINESS ENTERPRISES

The following are the rules and regulations to implement Section 9 and the second paragraph of Section 13 of R.A. No. 9178, otherwise known as the "Barangay Micro Business Enterprises (BMBEs) Act of 2002".

Credit delivery. The LBP, the DBP, the SBGFC, and the Peoples Credit and Finance Corporation (PCFC) shall set up a special credit window that will service the financing needs of duly registered BMBEs consistent with Bangko Sentral policies, rules and regulations. Said special credit window shall service the credit needs of BMBEs either through retail or wholesale lending, or both, as the concerned FIs may deem consistent with their corporate policies and objectives. The GSIS and the SSS shall likewise set up special credit window that will serve the financing needs of their respective members who may wish to establish a BMBE.

Said FIs are encouraged to wholesale funds to accredited private FIs including community based organizations such as cooperatives, NGOs and people's organizations engaged in granting credit, for relending to BMBEs.

Private banking and other FIs are encouraged to lend to BMBEs.

Interest on loans to Barangay Micro Business Enterprises. Interest on BMBE loans shall be just and reasonable as may be determined by management of the concerned entity to be consistent with its credit policies.

Amortization of loans to Barangay Micro Business Enterprises. The schedule of loan amortization shall take into consideration the projected cash flow of the borrowers. Thus, loans granted to BMBEs may, at the discretion of the lender, be amortized daily, weekly, monthly or at such interval as the conditions of the business of the BMBEs may warrant.

Waiver of documentary requirements. Banks and other FIs shall not require from duly registered BMBE borrowers the submission of ITR as a condition to the grant of loans considering that BMBEs are exempted from income tax for income arising from their operations. They may, at their discretion, also waive the requirement of submission of financial statements from BMBEs: *Provided,* That before granting any loan, banks shall undertake reasonable measures to determine that the borrower is capable of fulfilling his/its commitments.

Incentives to participating financial institutions. To encourage BMBE lendings, the following incentives shall be granted to banks and other FIs as may be applicable:

a. All loans from whatever sources granted to BMBEs under R.A. No. 9178 (BMBEs Act) shall be considered as part of alternative compliance to R.A. No. 6977, as amended.

For purposes of compliance with R. A. No. 6977, as amended, loans granted to BMBEs under the BMBEs Act shall be computed at twice the amount of the outstanding balance of the loans: *Provided*, That funds loaned by or rediscounted with government-owned banks and other government FIs to accredited private banking and other FIs for on-lending to BMBEs shall be eligible as part of alternative compliance for R.A. No. 6977, as amended, of the government-owned banks and the accredited private banks at the maximum amount of 100% of their outstanding balance each: *Provided, further*, That loans used as alternative compliance with R.A. No. 6977, as amended, computed at either twice their outstanding balance or their maximum amount of 100% may be used as alternative compliance for either or both the prescribed portions of loan portfolio to be allocated to MSEs and MEs, respectively, as long as the aggregate amount used does not exceed twice their outstanding balance or their maximum amount of 100%, as the case may be.

b. Any existing laws to the contrary notwithstanding, interests, commissions and discounts derived from the loans by the LBP, DBP, PCFC, SBGFC granted to BMBEs as well as loans extended by the GSIS and SSS to their respective member-employees under BMBEs Act and this Section shall be exempt from gross receipt tax (GRT).

Credit guarantee. The SBGFC and the Quedancor under the DA, in case of agri-business activities, shall set up a special guarantee window to provide credit guarantee to BMBEs under their respective guarantee programs.

Record. The LBP, DBP, PCFC and SBGFC shall maintain separate records of loans granted to BMBEs and the GSIS and SSS shall maintain records of loans extended to their respective members who wish to establish BMBEs.

Reports to Congress. The LBP, DBP, PCFC, SBGFC, SSS, GSIS and Quedancor shall report annually to the appropriate Committees of both Houses of Congress, the status of their implementation of the provisions of Section 9 of R.A. No. 9178.

Administrative sanctions. Any violation by the concerned government FI of the provisions of Section 9 of R.A. No. 9178 shall be subject to a fine of not less than P500 thousand to be imposed by the Bangko Sentral and which shall be payable to the BMBE Development Fund. In case of a banking institution, the foregoing fine shall be without prejudice to the administrative sanctions provided for under Section 37 of R.A. No. 7653.

D. LOANS AND OTHER CREDIT ACCOMMODATIONS TO DIRECTORS, OFFICERS, STOCKHOLDERS AND THEIR RELATED INTERESTS/SUBSIDIARIES/AFFILIATES

341 POLICY STATEMENT

The Bangko Sentral recognizes that transactions of its supervised financial institutions (BSFIs) with related parties, which include dealings with directors, officers, stockholders, and their related interests (DOSRI), subsidiaries, and affiliates, may be both productive and prudent. The Bangko Sentral also recognizes the need to provide BSFIs with flexibility with respect to lending to DOSRI, subsidiaries, and affiliates premised on the overarching principle that the transactions shall at all times be kept above board and conducted on an arm's length basis, and that BSFIs have adopted robust internal policies and procedures in handling related party transactions that are compliant with the minimum requirements of law and regulations.

Definitions. For purposes of these regulations, the following definitions shall apply:

a. *Directors* shall refer to bank directors as defined in Sec. 131 (*Definition of terms*, Item *"f")*.

b. *Officers* shall refer to bank officers as defined in Sec. 131 (*Definition of terms*, Item *"j")*.

c. *Stockholder* shall refer to any stockholder of record in the books of the bank, acting personally, or through an attorney-in-fact; or any other person duly authorized by him or through a trustee designated pursuant to a proxy or voting trust or other similar contracts, whose stockholdings in the lending bank, individual and/or collectively with the stockholdings of: (i) his spouse and/or relative within the first degree by consanguinity or affinity or legal adoption; (ii) a partnership in which the stockholder and/or the spouse and/or any of the aforementioned relatives is a general partner; and (iii) corporation, association or firm of which the stockholder and/or his spouse and/or the aforementioned relatives own more than fifty percent (50%) of the total subscribed capital stock of such corporation, association or firm, amount to one percent (1%) or more of the total subscribed capital stock of the bank.

d. *Substantial stockholder* shall mean a person, or group of persons whether natural or juridical, owning such number of shares that will allow such person or group to elect at least one (1) member of the board of directors of a bank or who is directly or indirectly the registered or beneficial owner of more than ten percent (10%) of any class of its equity security.

e. *Related interest* shall refer to any of the following:

(1) Spouse or relative within the first degree of consanguinity or affinity, or relative by legal adoption, of a director, officer or stockholder of the bank;

(2) Partnership of which a director, officer, or stockholder of a bank or his spouse or relative within the first degree of consanguinity or affinity, or relative by legal adoption, is a general partner;

(3) Co-owner with the director, officer, stockholder or his spouse or relative within the first degree of consanguinity or affinity, or relative by legal adoption, of the property or interest or right mortgaged, pledged or assigned to secure the loans or other credit accommodations, except when the mortgage, pledge or assignment covers only said co-owner's undivided interest;

(4) Corporation, association or firm of which any or a group of directors, officers, stockholders of the lending bank and/or their spouses or relatives within the first degree of consanguinity or affinity, or relative by legal adoption, hold or own at least twenty percent (20%) of the subscribed capital of such corporation, or of the equity of such association or firm;

(5) Corporation, association or firm wholly or majority-owned or controlled by any related entity or a group of related entities mentioned in Items "*e(2)"* and "*e(4)"* of this Section;

(6) Corporation, association or firm which owns or controls directly or indirectly whether singly or as part of a group of related interest at least twenty percent (20%) of the subscribed capital of a substantial stockholder of the lending bank or which controls majority interest of the bank pursuant to Sec. 362 (*Definition of terms*, Item *"g"*);

(7) Corporation, association or firm which has an existing management contract or any similar arrangement with the parent of the lending bank; and

(8) Non-governmental organizations (NGOs)/foundations that are engaged in retail microfinance operations which are incorporated by any of the stockholders and/or directors and/or officers of related banks.

The general principles and standards that will govern the business relationships between banks and their related NGOs/ foundations engaged in retail microfinance are found in *Appendix 23*.

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

g. *Affiliate* shall refer to an entity linked directly or indirectly to a bank by means of:

(1) Ownership, control as defined in Sec. 131 (*Definition of terms*, Item *"d")*, or power to vote of at least twenty percent (20%) of the outstanding voting stock of the borrowing entity, or vice versa;

(2) Interlocking directorship or officership, where the concerned director or officer owns; controls, as defined in Sec. 131 (*Definition of terms*, Item *"d"*); or has the power to vote of at least twenty percent (20%) of the outstanding voting stock of the borrowing entity;

(3) Common stockholders owning at least ten percent (10%) of the outstanding voting stock of the bank and at least twenty percent (20%) of the outstanding voting stock of the borrowing entity;

(4) Management contract or any arrangement granting power to the bank to direct or cause the direction of management and policies of the borrowing entity; or

(5) Permanent proxy or voting trusts in favor of the bank constituting at least twenty percent (20%) of the outstanding voting stock of the borrowing entity, or vice versa.

In cases where the borrowing entity is linked to the lending bank both as DOSRI and as a subsidiary or affiliate, the DOSRI rules shall apply.

h. *Unencumbered deposits* shall refer to savings, time and demand deposits, which are not subject to an assignment or hold-out agreement or any other encumbrance.

i. *Book value of the paid-in capital contribution* shall mean the proportional amount of the bank's total capital accounts (net of such unbooked allowance for credit losses and other capital adjustments as may be required by the Bangko Sentral) as the corresponding paid-in capital contribution of each of the bank's directors, officers, stockholders and their related interests bear to the total paid-in capital of the bank: *Provided,* That as a basis for determining the individual ceiling referred to in Sec. 344, the corresponding book value of the shares of stock of said directors, officers, stockholders and their related interests which are the subject of pledge, assignment or any other encumbrance shall be deducted therefrom.

j. *Net worth* shall mean the total of the unimpaired paid-in capital including paid-in surplus, retained earnings and undivided profit, net of allowance for credit losses and other adjustments as may be required by the Bangko Sentral.

k. *Total loan portfolio* shall refer to the sum of all loan accounts outstanding, gross of allowance for credit losses, as reflected in the bank's consolidated statement of condition, excluding outstanding loans financed by special/specific funds from the government FIs.

l. *Secured loan, borrowing or other credit accommodation* shall refer to any loan, or credit accommodation or portion thereof referred to in Sec. 342 (*Transactions Covered*) which is secured by physical collateral, financial guarantee, or other instruments, that are enforceable, realizable, and marketable and meets the standards prescribed under Secs. 143 (*Credit granting and loan evaluation/analysis process and underwriting standards*) and 303.

m. *Unsecured loan, borrowing or other credit accommodation* shall refer to any loan, or other credit accommodation or portion thereof referred in Sec. 342 (*Transactions Covered*) which is not secured in accordance with Item "*l"* above.

(Circular Nos. 969 dated 22 August 2017, 945 dated 06 February 2017, and 914 dated 23 June 2016)

342 TRANSACTIONS, COVERED AND NOT COVERED

Transactions covered. The terms *loans, other credit accommodations and guarantees* as used herein shall refer to transactions of the bank which involve the grant of any loan, advance or other credit accommodation in any form whatsoever, whether renewal, extension or increase, and shall include:

a. Any advance by means of an incidental or temporary overdraft, cash item, "vale", etc.;

b. Any advance of unearned salary or other unearned compensation for periods in excess of thirty (30) days;

c. Any advance by means of DAUDs;

d. Outstanding availments under an established credit line;

e. Drawings against an existing letter of credit;

f. The acquisition of any note, draft, bill of exchange or other evidence of indebtedness upon which the bank's DOSRIs may be liable as makers, drawers, acceptors, endorsers, guarantors or sureties;

g. Indirect lending such as loans or other credit accommodations granted by another financial intermediary to said DOSRIs from funds of the bank invested in the other institution's trust or other department when there is a clear relationship between the transactions;

h. The increase of an existing indebtedness, as well as additional availments under a credit line or additional drawings against a letter of credit;

i. The sale of assets, such as shares of stock, on credit; and

j. Any other transactions as a result of which the bank's DOSRIs become obligated or may become obligated to the lending bank, by any means whatsoever to pay money or its equivalent.

Transactions not covered. The terms *loans, other credit accommodations and guarantees* as used herein shall not refer to the following:

a. Advances against accrued compensation, or for the purpose of providing payment of authorized travel, legitimate expenses or other transactions for the account of the bank or for utilization of maternity and other leave credits;

b. The increase in the amount of outstanding credit accommodations as a result of additional charges or advances made by the bank to protect its interest such as taxes, insurance, etc.;

c. The discount of bills of exchange drawn in good faith against actually existing values, and the discount of commercial or business paper actually owned by the person negotiating the same, including, but not limited to, the acquisition by a domestic bank of export bills from any of its DOSRI which are drawn in accordance with the terms and conditions of the covering letters of credit: *Provided,* That the transaction shall automatically be subject to the ceilings as herein provided once the DOSRI who is a party to the transaction becomes directly liable to the bank;

d. Transactions with a foreign bank which has stockholdings in the local bank where the foreign bank acts as guarantor through the issuance of letters of credit or assignment of a deposit in a currency eligible as part of the international reserves and held in a bank in the Philippines to secure other credit accommodations granted to another person or entity: *Provided*, That the foreign bank stockholder shall automatically be subject to the ceilings as herein provided in the event that its contingent liability as guarantor becomes a real liability; and

e. Interbank call loan transactions.

Applicability to credit card operations. The credit card operations of banks shall not be subject to these regulations where the credit cardholders are bank's DOSRI: *Provided,* That (a) the privilege of becoming a credit cardholder is open to all qualified persons on the basis of selective criteria which are applied by the bank to all applicants thereof; and (b) the bank's DOSRIs reimburse/pay the bank for the billed amount in full on or before the payment due date in the billing or statement of account, as set by the bank for all other qualified credit card holders on availments made for the same period on their credit cards. However, the transaction shall be subject to applicable DOSRI regulations if the bank's DOSRIs:

a. fail to reimburse/pay the bank within the period mentioned herein; or
b. on the outset, opt for deferred payment scheme, and the availment is booked by the bank.

For purposes of this Section, *stockholders and related interests* refer to individual credit card holders.

Loans, other credit accommodations and guarantees granted to subsidiaries and/or affiliates.

a. *Ceilings.* The total outstanding loans, other credit accommodations and guarantees to each of the bank's subsidiaries and affiliates shall not exceed ten percent (10%) of the net worth of the lending bank: *Provided*, That the unsecured loans, other credit accommodations and guarantees to each of said subsidiaries and affiliates shall not exceed five percent (5%) of such net worth: *Provided, further*, That the total outstanding loans, other credit accommodations and guarantees to all subsidiaries and affiliates shall not exceed twenty percent (20%) of the net worth of the lending bank: *Provided*, *finally,* That these subsidiaries and affiliates are not related interest of any of the director, officer, and/or stockholder of the lending bank.

Loans, other credit accommodations and guarantees granted by a bank to an entity (often a special purpose entity or SPE) that is a subsidiary or affiliate of that bank for the purpose of project finance as defined under Section 344 (*Exclusion from the thirty percent (30%) unsecured individual ceiling for project finance*) shall be subject to a separate individual limit of twenty-five percent (25%) of the net worth of the lending bank, subject to the following conditions:

(1) That the unsecured portion thereof shall not exceed twelve and one-half percent (12.5%) of such net worth when the project is already operational;

(2) That such project finance loans are for the purpose of undertaking initiatives that are in line with the priority programs and projects of the government;

(3) That the lending bank shall ensure that the standard prudential controls in project finance loans designed to safeguard creditors' interests are in place, which may include pledge of a borrower's shares, assignment of the borrower's assets, assignment of all revenues and cash waterfall accounts, and assignment of project documents;

(4) That the lending bank shall consider its total project finance exposures in complying with Sec.361 (*Large exposures and credit risk concentrations*) and Sec. 143 (*Credit limits, large exposures, and credit risk concentrations*) on the guidelines in managing large exposures and credit risk concentrations;

(5) That the subsidiary or affiliate is not a related interest of any of the director, officer, and/or stockholder of the lending bank; and

(6) That the total outstanding loans, other credit accommodations and guarantees to all subsidiaries and affiliates shall be subject to the aggregate limits for related party transactions.

b. *Exclusions from the ceilings.* The following loans, other credit accommodations and guarantees shall be excluded in determining compliance with the ceilings prescribed in Item *"a"* above:

(1) loans, other credit accommodations and guarantees secured by assets considered as non-risk under existing Bangko Sentral regulations;

(2) Interbank call loans; and

(3) The portion of loans and other credit accommodations covered by guarantees of international/regional institutions/multilateral financial institutions where the Philippine Government is a member/shareholder, such as the International Finance Corporation and the Asian Development Bank.

c. *Procedural requirements.* The following provisions shall apply if a bank grants a loan, other credit accommodation or guarantee to any of its subsidiaries and affiliates.

(1) *Approval of the board, when to obtain.* Except with prior written approval of the majority of all the members of the board of directors, no loan, other credit accommodation and guarantee shall be granted to a subsidiary or affiliate.

(2) *Approval by the board, how manifested.* The approval shall be manifested in a resolution passed by the board of directors during a meeting and made of record.

(3) *Determination of majority of all the members of the board of directors.* The determination of the majority of all the members of the board of directors shall be based on the total number of directors of the bank as provided in its articles of incorporation and by-laws.

(4) *Contents of the resolution.* The resolution of the board of directors shall contain the following information:

(a) Name of the subsidiary or affiliate;

(b) Nature of the loan or other credit accommodation or guarantee, purpose, amount, credit basis for such

loan or other credit accommodation or guarantee, security and appraisal thereof, maturity, interest rate, schedule of repayment and other terms;

(c) Date of resolution;

(d) Names of the directors who participated in the deliberation of the meeting; and

(e) Names in print and signatures of the directors approving the resolution: *Provided,* That in instances where a director who participated in the board meeting and who approved such resolution failed to sign, the corporate secretary may issue a certification to this effect indicating the reason for the failure of the said director to sign the resolution.

(5) *Transmittal of copy of board approval; contents thereof.* A copy of the written approval of the board of directors, as herein required, shall be submitted to the appropriate supervising department of the Bangko Sentral within twenty (20) banking days from the date of approval. The copy may be a duplicate of the original, or a reproduction copy showing clearly the signatures of the approving directors: *Provided,* That if a reproduction copy is to be submitted, it shall be duly certified by the corporate secretary that it is a reproduction of the original written approval.

(Circular Nos. 1001 dated 30 April 2018, 978 dated 27 October 2017, and 914 dated 23 June 2016)

343 DIRECT OR INDIRECT BORROWINGS

Loans, other credit accommodations and guarantees to DOSRI shall be considered direct or indirect borrowings in accordance with the following criteria:

a. *Direct borrowing.* If the director, officer or stockholder of the lending bank is a party to any of the transactions enumerated in Sec. 342 (*Transactions Covered*) for himself, or as the representative or agent of others, or if he acts as a guarantor, endorser or surety for loans from the bank, or if the loan or other credit accommodation to another party is secured by a property interest or right of the director, officer or stockholder.

b. *Indirect borrowing.* If in any of the transactions in Sec. 342 (*Transactions Covered*) the borrower, guarantor, endorser or surety is a related interest as defined in Sec. 341 (*Definitions*, Item *"e"*).

Other cases of direct/indirect borrowing shall be resolved on a case-to- case basis.

It shall be the responsibility of the bank concerned to ascertain whether the borrower, guarantor, endorser or surety is related or connected with the bank or with any of the directors, officers or stockholders of the bank in any of the capacities mentioned in Sec. 341 (*Definitions*, Item *"e"*).

In determining indirect borrowings, as enumerated above, only those cases involving living relatives shall be considered.

344 INDIVIDUAL CEILINGS

The total outstanding loans, other credit accommodations and guarantees to each of the bank's DOSRI shall be limited to an amount equivalent to their respective unencumbered deposits and book value of their paid-in capital contribution in the bank: *Provided, however*, That unsecured loans, other credit accommodations and guarantees to each of the bank's DOSRI shall not exceed thirty percent (30%) of their respective total loans, other credit accommodations and guarantees.

***Exclusions from individual ceiling*.** The following loans, other credit accommodations and guarantees shall be excluded in determining compliance with the individual ceiling.

a. Loans, other credit accommodations and guarantees secured by assets considered as non-risk by the Monetary Board; Assets considered as non-risk shall refer to the following:

(1) Cash;

(2) Debt securities issued by the Bangko Sentral or the Philippine government;

(3) Deposits maintained in the lending bank and held in the Philippines;

(4) Debt securities issued by the U.S. government;

(5) Debt securities issued by central governments, central banks of foreign countries and multilateral financial institutions such as International Finance Corporation, Asian Development Bank and World Bank, with the highest credit quality given by any two (2) internationally accepted rating agencies; and

(6) Deposits of clients of related non- governmental organizations (NGOs)/ foundations, that are engaged in retail microfinance operations, and are maintained with the related lending bank and held in the Philippines: *Provided,* That all of the following conditions are met:

(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 be more than those 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.

b. Loans, other credit accommodations and advances to officers in the form of fringe benefits granted in accordance with existing regulations; and

c. Loans, other credit accommodations and guarantees extended by a Coop Bank to its cooperative shareholders.

The general principles and standards that will govern the business relationships between banks and their related NGOs/foundations engaged in retail microfinance are found in *Appendix 23*.

d. The portion of loans and other credit accommodations covered by guarantees of international/regional institutions/multilateral financial institutions where the Philippine Government is a member/shareholder, such as the International Finance Corporation and the Asian Development Bank.

Exclusions from the thirty percent (30%) unsecured individual ceiling for project finance. Loans, other credit accommodations, and guarantees granted by a bank to its DOSRI for the purpose of project finance, shall be exempted from the thirty percent (30%) unsecured individual ceiling during the project gestation phase[1]: *Provided,* That: the lending bank shall ensure that standard prudential controls in project finance loans designed to safeguard creditors' interests are in place, which may include pledge of the borrower's shares, assignment of the borrower's assets, assignment of all revenues and cash waterfall accounts, and assignment of project documents.

For this purpose, "*project finance"* is defined as a method of funding in which the lender looks primarily to the revenues generated by a single project, both as a source of repayment and as security for the exposure. It possesses all the following characteristics either in legal form or economic substance:

a. The exposure is typically to an entity (often a special purpose entity or SPE) which was created specifically to finance and/or operate physical assets;
b. The borrowing entity has little or no other material assets or activities, and therefore little or no independent capacity to repay the obligation, apart from the income that it receives from the asset(s) being financed;
c. The terms of the obligation give the lender a substantial degree of control over the asset(s) and the income that it generates; and
d. As a result of the preceding factors, the primary source of repayment of the obligation is the income generated by the asset(s) being financed, rather than the independent capacity of a broader commercial enterprise.

(Circular Nos. 914 dated 23 June 2016)

345 AGGREGATE CEILING

Except with the prior approval of the Monetary Board, the total outstanding loans, other credit accommodations and guarantees to DOSRI shall not exceed fifteen percent (15%) of the total loan portfolio of the bank or 100% of net worth whichever is lower: *Provided*, That in no case shall the total unsecured loans, other credit accommodations and guarantees to said DOSRI exceed thirty percent (30%) of the aggregate ceiling or the outstanding loans, other credit accommodations and guarantees, whichever is lower. For the purpose of determining compliance with the ceiling on unsecured loans, other credit accommodations and guarantees, banks shall be allowed to average their ceiling on unsecured loans, other credit accommodations and guarantees every week.

[1] This refers to the pre-operational phase of the project that does not yet generate cash flows.

In evaluating requests for extension of loans in excess of the aggregate ceiling, the Bangko Sentral shall consider the credit standing of the borrower, viability of the projects financed by such other credit accommodations in relation to national objectives, collateral or security and other pertinent considerations.

Exclusions from aggregate ceiling. The following loans, other credit accommodations and guarantees shall be excluded in determining compliance with the aggregate ceiling:

a. Credit accommodations or portions thereof to the extent secured by assets considered as non-risk by the Monetary Board;

b. Credit accommodations to a corporate stockholder which meets all the following conditions:

   (1) The corporation is a non-financial institution;
   (2) Its shares are listed and traded in the domestic stock exchanges; and
   (3) No person or group of persons related within the first degree of consanguinity or affinity holds/owns more than twenty percent (20%) of the subscribed capital of the corporation.

c. Credit accommodations to government-owned or controlled corporations, in cases where a director, officer or stockholder of the lending bank is a representative of the government in the borrowing corporation and does not hold any proprietary interest in such corporation: *Provided*, That other rules on loans to DOSRI, such as procedural and reportorial requirements under Sec. 346 are followed.

d. Exclusions from individual ceiling mentioned under Items *"(b)"*, *"(c)"* and *"(d)"* of Sec. 344.

346 PROCEDURAL AND REPORTORIAL REQUIREMENTS

Procedural requirements. The following provisions shall apply if the bank's DOSRI are parties to, or act as representatives or agents of others in, any of the transactions enumerated under Sec. 342 (*Transactions Covered*):

a. *Approval of the board, when to obtain*. Except with prior written approval of the majority of the directors, excluding the director concerned, no loan, other credit accommodation and guarantee shall be granted nor shall any of the transactions enumerated under Sec. 342 (*Transactions Covered*) be entered into.

b. *Approval by the board, how manifested*. The approval shall be manifested in a resolution passed by the board of directors during a meeting and made of record.

c. *Determination of majority of the directors.* The determination of the majority of the directors, excluding the director concerned, shall be based on the total number of directors of the bank as provided in its articles of incorporation and by-laws.

d. *Contents of the resolution*. The resolution of the board of directors shall contain the following information:

   (1) Name of the director or officer concerned and his involvement as regards the credit accommodation, such as principal, endorser, spouse of borrower, etc.;

   (2) Nature of the loan or other credit accommodation, purpose, amount, credit basis for such loan or other credit accommodation, security and appraisal thereof, maturity, interest rate, schedule of repayment and other terms of the loan or other credit accommodation;

   (3) Date of resolution;

   (4) Names of the directors who participated in the deliberations of the meeting; and

   (5) Names in print and signatures of the directors approving the resolution: *Provided*, That in instances where a director who participated in the board meeting and who approved such resolution failed to sign, the corporate secretary may issue a certification to this effect indicating the reason for the failure of the said director to sign the resolution.

e. *Transmittal of copy of board approval; contents thereof*. A copy of the written approval of the board of directors, as herein required, shall be submitted to the appropriate supervising department of the Bangko Sentral within twenty (20) banking days from the date of approval. The copy may be a duplicate of the original, or a reproduction copy showing clearly the signatures of the approving directors: *Provided*, That if a reproduction copy is to be submitted, it shall contain on its face or reverse side a signed certification by the secretary that it is a reproduction of the original written approval: *Provided, further,* That such written approval shall not be required for loans, other credit accommodations and advances granted to officers under a fringe benefit plan approved by the Bangko Sentral.

Reportorial requirements. Each bank shall maintain a record of loans, other credit accommodations and guarantees covered by these regulations in a manner and form that will facilitate verification of such transactions by Bangko Sentral examiners.

The appropriate supervising department of the Bangko Sentral may require banks to furnish such data or information as may be necessary for purposes of implementing the provisions of the foregoing rules.

Financing plans and amendments thereto shall be submitted to Bangko Sentral within thirty (30) calendar days from approval thereof by the bank's board of directors. The appropriate supervising department of the Bangko Sentral may require the banks concerned to submit a regular report monitoring the various transactions under the bank's financing plans for officers/employees.

All banks providing financial assistance to bank officers/employees shall submit a report on *"Availments of Financial Assistance to Officers and Employees"* to the Bangko Sentral within fifteen (15) banking days after end of reference semester.

347 WAIVER OF SECRECY OF DEPOSIT

Any director, officer or stockholder who, together with his related interest, contracts a loan or any form of financial accommodation from:

a. his bank; or
b. from a bank (illustrations shown in *Appendix 26)*

(1) which is a subsidiary of a bank holding company of which both his bank and the lending bank are subsidiaries; or

(2) in which a controlling proportion of the shares is owned by the same interest that owns a controlling proportion of the shares of his bank, in excess of five percent (5%) of the capital and surplus of the bank, or in the maximum amount permitted by law, whichever is lower;

shall be required by the lending bank to waive the secrecy of his deposits of whatever nature in all banks in the Philippines. Any information obtained from an examination of his deposits shall be held strictly confidential and may be used by the examiners only in connection with their supervisory and examination responsibility or by the Bangko Sentral in an appropriate legal action it has initiated involving the deposit account.

348 SUPERVISORY ENFORCEMENT ACTIONS

The Bangko Sentral reserves the right to deploy its range of supervisory tools to promote adherence to the requirements set forth in the foregoing rules and bring about timely corrective actions and compliance with Bangko Sentral directives. The Bangko Sentral considers abuses in credit to related parties (including credit to DOSRI, subsidiaries, and affiliates) as serious offenses and shall be dealt with severely. In this regard, *"abuse"* shall be interpreted to include extending credit to related parties without adopting appropriate internal policies.

For this purpose, the Bangko Sentral may, among others, issue directives or sanctions on the Bank and responsible persons, which may include restrictions or prohibitions of lending to related parties or from certain authorities/activities, restrictions or prohibitions on dividend declarations; and warning reprimand, suspension, removal and disqualification of concerned bank directors, officers, and/or employees. In addition, the Bangko Sentral may apply the borrowing director/officer/stockholder's share in the bank's profit sharing program against the excess of credit extended over any of the prescribed DOSRI ceilings.

In case of imposition of monetary sanction for violations of the foregoing provisions, the penalty shall be computed as follows:

a. Loans to DOSRI

For the duration of each violation, imposition of a fine of one-tenth of one percent (1/10 of 1%) of the excess over the ceilings per day but not to exceed P30,000 a day on the following:

(1) The lending bank;
(2) The director, officer or stockholder whose borrowing exceeds his individual ceiling; and
(3) Each of the directors voting for the approval of the loan or other credit accommodation in excess of any of the ceilings prescribed in Secs. 344 and 345.

The penalty for exceeding the individual ceiling, aggregate ceiling and ceiling on unsecured loans shall be computed on the average amount of loans in excess of said ceilings during the same week.

b. Loans to subsidiaries and affiliates

For the duration of each violation, imposition of a fine of one tenth (1/10) of one percent (1%) of the excess over the ceilings per day but not to exceed P30,000 a day on the following:

(1) The lending bank; and
(2) Each of the directors voting for the approval of the loan, other credit accommodation or guarantee in excess of any of the ceilings prescribed in Sec. 342 (*Loans, other credit accommodations and guarantees granted to subsidiaries and/or affiliates*).

Transitory Provisions.

a. The sanctions contained in this Section shall not apply to outstanding loans, other credit accommodations and guarantees, as well as availments of previously approved loans and committed credit lines not considered as DOSRI accounts prior to 10 April 2004, for a period of up to 09 April 2007 or until said loans, other credit accommodations and guarantees become past due, or are extended, renewed or restructured, whichever comes later.

b. Unsecured outstanding loans, other credit accommodations and guarantees, as well as availments of previously approved loans and committed credit lines not considered as DOSRI accounts prior to 10 April 2004, shall not be deducted from capital accounts for a period of up to 09 April 2007 or until such time that said loans, other credit accommodations and guarantees become past due, or are extended, renewed or restructured, whichever comes later.

c. Banks shall, however, disclose the following information in their financial statements, annual report and the reports being submitted to Bangko Sentral:

(1) DOSRI;

(a) Loans, other credit accommodations and guarantees classified as DOSRI accounts under regulations existing prior to 10 April 2004; and
(b) New DOSRI loans, other credit accommodations and guarantees granted starting 10 April 2004.

(2) Non-DOSRI prior to 10 April 2004 Loans, other credit accommodations and guarantees, as well as availments of previously approved loans and committed credit lines not considered DOSRI accounts prior to 10 April 2004 but are allowed a transition period as provided above.

(Circular No. 914 dated 23 June 2016)

349 APPLICABILITY TO BRANCHES AND SUBSIDIARIES OF FOREIGN BANKS

The individual and aggregate ceilings as well as ceilings on unsecured credit accommodations prescribed herein shall also apply to branches and subsidiaries of foreign banks in the Philippines.

350 APPLICABILITY TO GOVERNMENT BORROWINGS IN GOVERNMENT-OWNED OR -CONTROLLED BANKS

The provisions of Secs. 341 to 347 shall also apply to loans, other credit accommodations, and/or guarantees granted to the National Government or Republic of the Philippines, its political subdivisions and instrumentalities as well as GOCCs, subject to the following clarifications:

a. Loans, other credit accommodations, and/or guarantees to the Republic of the Philippines and/or its agencies/departments/ bureaus shall be considered: (1) non-risk; and (2) not subject to any ceiling;

Investments in Global Peso Notes (GPNs) shall be excluded by government financial institutions in determining compliance with DOSRI ceilings;

b. Loans, other credit accommodations, and/or guarantees to: (1) GOCCs; and (2) corporations where the Republic of the Philippines, its agencies/departments/bureaus, and/or GOCCs own at least twenty percent (20%) of the subscribed capital stock shall be considered indirect borrowings of the Republic of the Philippines and shall form part of the individual ceiling as well as the aggregate ceiling: *Provided,* That the following loans, other credit accommodations, and/or guarantees to GOCCs and corporations where the Republic of the Philippines, its agencies/departments/bureaus, and/or GOCCs own at least twenty percent (20%) of the subscribed capital stock, shall be excluded from the thirty percent (30%) ceiling on unsecured loans under Secs. 344 and 345:

(1) Loans, other credit accommodations, and/or guarantees for the purpose of undertaking infrastructure and other priority programs and projects consistent with the Philippine Development Plan/Public Investment Program of the National Government, duly certified as such by the Secretary of Socio-Economic Planning;

(2) Loans, other credit accommodations, and/or guarantees granted to PFIs in the lending programs of the government wherein the funds borrowed are intended for relending to other PFIs or end-user borrowers; and

(3) Loans, other credit accommodations, and/or guarantees granted for the purpose of providing (i) wholesale and retail loans to the agricultural sector and micro, small and medium enterprises (MSMEs); and/or (ii)

rediscounting and guarantee facilities for loans granted to the said sector or enterprises;

c. Loans, other credit accommodations, and/or guarantees granted to state universities and colleges (SUCs) shall be excluded from the thirty percent (30%) ceiling on unsecured loans under Secs. 344 and 345;

d. In view of the fiscal autonomy granted under R.A. No. 7653 and the independence prescribed under the Constitution, the Bangko Sentral shall be considered an independent entity, hence, not a related interest of the Republic of the Philippines and/or its agencies/departments/bureaus. Loans, other credit accommodations and guarantees of the Bangko Sentral shall be considered: (1) non-risk; and (2) not subject to any ceiling;

e. LGUs shall be considered separate from the Republic of the Philippines, other government entities, and from one another due to the full autonomy in the exercise of their proprietary functions and in the management of their economic enterprises granted to them under the Local Government Code of the Philippines, subject to certain limitations provided by law, hence, not a related interest of the Republic of the Philippines and/or its agencies/departments/bureaus;

f. Local Water Districts (LWDs), although GOCCs, shall be considered separate from the Republic of the Philippines, other government entities, and from one another due to their fiscal independence from the national government, hence, not a related interest of the Republic of the Philippines and/or its agencies/department/bureaus, for purposes of these regulations;

g. A director who acts as a government representative in the lending institution shall not be excluded in the deliberation as well as in the determination of majority of the directors in cases of loans, other credit accommodations, and guarantees to the Republic of the Philippines and/or its agencies/departments/bureaus; and

h. A director of the lending institution shall be excluded in the deliberation as well as in the determination of majority of the directors in cases of loans, other credit accommodations, and guarantees to the borrowing government entity other than the Republic of the Philippines, its agencies, departments or bureaus where said director is also a director, officer or stockholder under existing DOSRI regulations.

(Circular No. 914 dated 23 June 2016)

E. CREDIT CONCENTRATION AND PRUDENTIAL LIMITS

361 LARGE EXPOSURES AND CREDIT RISK CONCENTRATIONS

Definition

"Large exposures" shall refer to exposures to counterparty or a group of connected counterparties equal or greater than five percent (5%) of the FI's qualifying capital as defined under applicable and existing capital adequacy framework.

"Connected counterparties" refer to a group of counterparties that are connected through (a) direct or indirect control of one of the counterparties over the other(s) or (b) economic interdependencies, and must be treated as a single counterparty. Control shall be determined in accordance with Sec. 362 (Definition of terms, Item *"g"*).

"Economic Interdependence" refers to a situation where counterparties are reliant on each other, such that if one of the counterparties experiences financial problems in repaying its obligations, the creditworthiness of the other(s) would also likely deteriorate. FIs shall define in their credit policy criteria in determining connectedness based on economic interdependence, which shall consider, among others, significant dealings or transactions of one or more counterpart(y/ies) that impact the financial capacity or ability to repay the obligations of the other counterpart(y/ies).

In cases where the criteria do not automatically imply an economic dependence that results in two (2) or more counterparties being connected, the FI shall provide evidence to Bangko Sentral that a counterparty which is economically connected to another, still can pay its liabilities even if the latter's financial condition weakens.

Scope of application. Large exposures of FIs and their subsidiaries and affiliates to third parties across the relevant regulatory consolidation group shall be aggregated and compared with the group's qualifying capital.

Exclusions. Loans, other credit accommodations and guarantees that are excluded from the single borrower's limit (SBL) under Sec. 362 (*Exclusions from loan limit*) as well as intraday and end-of-day interbank exposures arising from interbank payment and settlement processes shall be excluded from large exposures.

Notification requirements. An FI must immediately inform the Bangko Sentral when it has concerns that its large exposures or credit risk concentrations have the potential to impact materially upon its capital adequacy, along with proposed measures to address these concerns.

Reporting. FI's records on monitoring of large exposures shall be made available to the Bangko Sentral examiners for verification at any given time. When warranted, the Bangko Sentral may impose additional reporting requirements on the FI in relation to its large exposures and credit risk concentrations.

Sanction. Any failure or delay in complying with the requirements under this Section on Notification requirements and Reporting shall be subject to penalty applicable to those involving major reports.

(Circular Nos. 890 dated 02 November 2015, 855 dated 29 October 2014 and 827 dated 28 February 2014)

362 CREDIT EXPOSURE LIMITS TO A SINGLE BORROWER

a. Consistent with national interest, the total amount of loans, credit accommodations and guarantees that may be extended by a bank to any person, partnership, association, corporation or other entity shall at no time exceed twenty-five percent (25%) of the net worth of such bank. The basis for determining compliance with the single borrower's limit (SBL) is the total credit commitment of the bank to or on behalf of the borrower.

b. The total amount of loans, credit accommodations and guarantees prescribed in the first paragraph may be increased for each of the following circumstances:

   (1) By an additional ten percent (10%) of the net worth of such bank: *Provided,* That the additional liabilities are adequately secured by trust receipts, shipping documents, warehouse receipts or other similar documents transferring or securing title covering readily marketable, non- perishable goods which must be fully covered by insurance;

   (2) By an additional twenty-five percent (25%) of the net worth of such bank: *Provided,* That the additional loans, credit accommodations and guarantees are for the purpose of undertaking infrastructure and/ or development projects under the Public- Private Partnership (PPP) Program of the government duly certified by the Secretary of Socio-Economic Planning: *Provided, further,* That the total exposures of the bank to any borrower pertaining to such infrastructure and/or development projects under the PPP Program shall not exceed twenty-five percent (25%) of the net worth of such bank: *Provided, furthermore*, That the additional twenty-five percent (25%) shall only be allowed for a period of six (6) years from 28 December 2010: *Provided, finally*, That the credit risk concentration arising from total exposures to all borrowers pertaining to such infrastructure and/or development projects under the PPP Program shall be considered by the bank in its internal assessment of capital adequacy relative to its overall risk profile and operating environment. Said loans, credit accommodations and guarantees based on the contracted amount as of the end of the 6-year period shall not be increased but may be reduced and once reduced, said exposures shall not be increased thereafter;

   (3) By an additional fifteen percent (15%) of the net worth of such bank: *Provided*, That the additional loans, credit accommodations and guarantees are granted to finance oil importation of oil companies, which are not affiliates of the lending bank, engaged in energy and power generation: *Provided, further*, That the oil companies qualify under the credit underwriting standards of the lending bank and the lending bank shall comply with Sec. 361 (Large exposures and credit risk concentrations) on the guidelines in managing large exposures and credit risk concentration: *Provided, furthermore*, That the credit risk concentration arising from total exposures to all oil companies shall be considered by the bank in its internal assessment of capital adequacy relative to its overall risk profile and operating environment and shall be incorporated in the Internal Capital Adequacy Assessment Process (ICAAP) document required to be submitted under Sec. 130: *Provided, finally*, That the additional fifteen percent (15%) shall only be allowed for a period of three (3) years from 03 March 2011 or, until 03 March 2014. Said additional loans, credit accommodations and guarantees outstanding as of the end of the 3-year period and in excess of twenty-five percent (25%) of the lending bank's net worth shall not be increased but shall be reduced and once reduced, said exposures shall not be increased thereafter; and

   (4) By an additional twenty-five percent (25%) of the net worth of such bank: *Provided,* That the additional loans, credit accommodations and guarantees are granted to entities, which act as value chain aggregators of the lending banks' clients, and/or economically-linked entities that are also actors/players in the value chain: *Provided, further,* That the additional twenty-five percent (25%) will apply only to non- DOSRI/RPT loans; *Provided, finally,* That such additional twenty-five percent (25%) shall only be for a period of three (3) years, subject to review after said period.

c. The above prescribed ceilings shall include: (1) the direct liability of the maker or acceptor of paper discounted with or sold to such bank and the liability of a general endorser, drawer or guarantor who obtains a loan or other credit accommodation from or discounts paper with or sells papers to such bank; (2) in the case of an individual who owns or controls a majority interest in a corporation, partnership, association or any other entity, the liabilities of said entities to such bank; (3) in the case of a corporation, all liabilities to such bank of all subsidiaries in which such corporation owns or controls a majority interest; and (4) in the case of a partnership, association or other entity, the liabilities of the members thereof to such bank.

d. Even if a parent corporation, partnership, association, entity or an individual who owns or controls a majority interest in such entities has no liability to the bank, the liabilities of subsidiary corporations or members of the partnership, association, entity or such individual shall be combined under certain circumstances, including but not limited to any of the following situations: (1) the parent corporation, partnership, association, entity or individual guarantees the repayment of the liabilities; (2) the liabilities were incurred for the accommodation of the parent corporation or another subsidiary or of the partnership or association or entity or such individual; or (3) the subsidiaries though separate entities operate merely as departments or divisions of a single entity.

e. Loans, credit accommodations, and guarantees granted by a bank to an entity (often a special purpose entity or SPE) for the purpose of project finance as defined under Section 344 (*Exclusion from the thirty percent (30%) unsecured individual ceiling for project finance*) shall be subject to a separate individual limit of twenty-five percent (25%) of the net worth of the lending bank: *Provided,* That such project finance loans are for the purpose of undertaking initiatives that are in line with the priority programs and projects of the government: *Provided, further,* That the lending bank shall ensure that the standard prudential controls in project finance loans designed to safeguard creditors' interests are in place, which may include pledge of a borrower's shares, assignments of the borrower's assets, assignment of all revenues and cash waterfall accounts, and assignment of project documents: *Provided, finally,* that the lending bank shall consider its total project finance exposures in complying with Sec. 361 (*Large exposures and credit risk concentrations*) and Sec. 143 (*Credit limits, large exposures and credit risk concentrations*) on the guidelines in managing large exposures and credit risk concentrations.

f. The wholesale lending activities of government banks to participating financial institutions (PFIs) for relending to end-user borrowers shall at no time exceed a separate limit of thirty-five percent (35%) of net worth, subject to the following guidelines: (1) it shall apply only to loans granted to PFIs on a wholesale basis for on-lending to end-user borrowers; (2) it shall apply only to loan programs funded by multilateral, international or local development agencies, organizations or institutions especially designed for wholesale lending activities of government banks; (3) the end-user borrowers of the PFIs shall be subject to the twenty-five percent (25%) SBL, not the increased ceiling of thirty-five percent (35%); and (4) government banks shall observe appropriate criteria for accrediting PFIs and for the grant/renewal of credit lines to accredited PFIs.

g. Loans and other credit accommodations and usual guarantees by a bank to any non-bank entity, whether locally or abroad, shall be subject to the limits as herein prescribed.

Loans and other credit accommodations as well as deposits and usual guarantees by a bank to any other bank, whether locally or abroad, shall be subject to the limits as herein prescribed or P100.0 million, whichever is higher: *Provided*, That the lending bank shall exercise proper due diligence in selecting a depository bank and shall formulate appropriate policies to address the corresponding risks involved in the transactions.

Deposits of RBs/Coop Banks with government-owned or controlled financial institutions like the LBP and the DBP shall not be covered by the SBL imposed under R.A. No. 8791.

In municipalities and cities where there are no government banks, the deposits of RBs/Coop Banks in private banks in said areas shall not be subject to the SBL imposed under R.A. No. 8791. Deposits in private banks located in municipalities/cities where there are government banks shall be subject to the limits as prescribed in the second paragraph above.

The outstanding balance of the demand deposit account in a private depository bank being used by the TBs/RBs/Coop Banks with authority to accept/create demand or current deposits, to fund checks cleared through the said private depository bank shall also be exempt from the SBL imposed under R.A. No. 8791 even if there is a government- owned or controlled financial institution in the area.

h. Loans, credit accommodations and guarantees to any person, partnership, association, corporation or other entity or group of companies in excess of the applicable SBL arising from acquisition, merger or consolidation of borrower- corporations, which loans, credit accommodations and guarantees were granted prior to and are outstanding as of date of acquisition, merger or consolidation of borrower-corporations shall not be increased, but shall be reduced and once reduced, shall not be increased beyond the applicable SBL.

It is expected that FIs would generally observe a lower internal single borrower's limit than the prescribed limit of twenty-five percent (25%) as a matter of sound practice.

Definition of terms. For purposes of this Section, the following definitions shall apply:

a. *Total credit commitment* shall include outstanding loans and other credit accommodations, deferred letters of credit less margin deposits, and guarantees. Except as specifically provided, total credit commitment shall be reckoned on credit risk-weighted basis consistent with existing regulations.

b. *Loans* shall refer to all the accounts under the loan portfolio of a bank as enumerated in the Manual of Accounts for Banks.

c. *Other credit accommodations* shall refer to credit and specific market risk exposures of banks arising from accommodations other than loans such as receivables (sales contract receivables, accounts receivables and other receivables), and debt securities booked as investments.

d. *Bank guarantee.* A bank guarantee is an irrevocable commitment of a bank binding itself to pay a sum of money in the event of non-performance of a contract by a third party. The guarantee is a commitment separate and distinct from the principal debt or contract.

e. *Net worth* shall mean the total of the unimpaired paid-in capital including paid- in surplus, retained earnings and undivided profit, net of unbooked allowance for credit losses and other adjustments as may be required by the Bangko Sentral**.**

f. *Qualifying capital* shall mean capital under applicable and existing capital adequacy framework.

g. The term *"control of majority interest"* shall be synonymous to "controlling interest" and exists when the parent owns directly or indirectly through subsidiaries more than one half of the voting power of an enterprise unless, in exceptional circumstance, it can be clearly demonstrated that such ownership does not constitute control. Control of majority interest may also exist even when the parent owns one-half or less of the voting power of an enterprise when there is:

(1) Power over more than one-half of the voting rights by virtue of an agreement with other investors; or
(2) Power to govern the financial and operating policies of the enterprise under a statute or an agreement; or
(3) Power to appoint or remove the majority members of the board of directors or equivalent governing body; or
(4) Power to cast the majority votes at meetings of the board of directors or equivalent governing body; or
(5) Any other arrangement similar to any of the above.

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

i. *Credit risk transfer* shall refer to any arrangement that allows the bank to transfer the credit risk associated with its loan or other credit accommodation to a third party.

j. *Readily marketable goods* shall mean articles of commerce, agriculture or industry of such uses as to make them the subject of constant dealings in ready markets with such frequent quotations as to make their prices easily and definitely ascertainable, or which lend themselves easily to disposal by sale at any time to pay the obligations secured by the said goods.

k. *Bill of exchange drawn in good faith against actually existing values* shall mean one (1) which is drawn by a seller on the purchaser for the purchase price of commodities sold. A bill of exchange, whether drawn against goods for exports or against goods to be sold locally, which is discounted or purchased by a bank is a bill drawn against existing values only when it is accompanied by shipping documents, warehouse receipts or other papers, securing title to the goods sold. However, bills of exchange drawn in good faith against actually existing values as defined in this paragraph, which are past due or the maturities of which have been extended, shall be considered as additional loans authorized under the second paragraph of this section and shall be subject to the ten percent (10%) limitation provided therein.

l. *Commercial or business paper actually owned by the person negotiating the same* shall mean a paper arising from an actual business transaction. A trade acceptance or promissory note actually owned by the person negotiating the same is a commercial or a business paper. However, if a bill is drawn against an agent or fictitious drawee, or if a promissory note is executed by an agent or fictitious drawee, neither is a commercial nor a business paper. Commercial or business papers actually owned and discounted by the person negotiating the same, which are past due or the maturity of which have been extended, shall be considered as money borrowed and shall be subject to the limitation of twenty-five percent (25%) provided in the first paragraph of this Section: *Provided,* That commercial or business papers purchased by banks from SMEs which became past due or the maturities of which have been extended, *s*hall be considered additional loan by the bank to the purchaser of goods or services from the SME and shall be entitled to an increased SBL equivalent to ten percent (10%) of the net worth of the concerned bank if the purchasers are companies with credit ratings of at least "AA-" or equivalent from a Bangko Sentral- recognized rating agency.

Rediscounted papers included in loan limit. The liabilities to the bank of borrowers whose papers were rediscounted by banks with the Bangko Sentral shall not be deemed as having been extinguished by the rediscount, but shall be considered as still existing and shall be included in determining the SBL until such papers are paid by the borrowers.

Credit risk transfer. Subject to prior approval of the Bangko Sentral, loans and other credit accommodations covered by a legally effective credit risk transfer arrangement such as guarantee, letter of indemnity, standby letter of credit or credit derivative, may be excluded from the total credit commitment of the bank to a borrower in reckoning compliance with the SBL.

Exclusions from loan limit. The following loans, other credit accommodations, and guarantees shall be excluded in determining compliance with the SBL:

a. Credit exposures considered as non-risk:

   (1) Loans and other credit accommodations secured by obligations of the Bangko Sentral or of the Philippine Government;

   (2) Loans and other credit accommodations fully guaranteed by the government as to the payment of principal and interest;

   (3) Loans and other credit accommodations secured by U.S. Treasury Notes and other securities issued by central governments and central banks of foreign countries with the highest credit quality given by any two (2) internationally accepted rating agencies;

   (4) Loans and other credit accommodations to the extent covered by the hold-out on or assignment of, deposits maintained in the lending bank and held in the Philippines;

   (5) Loans, credit accommodations and acceptances under letters of credit to the extent covered by margin deposits;

   (6) Loans granted to foreign embassies. These loans are considered as loans to their respective central governments and as such shall be considered non-risk; and

   (7) Other loans or credit accommodations which the Monetary Board may from time to time specify as non-risk items.

b. The discount of bills of exchange drawn in good faith against actually existing values, and the discount of commercial or business paper which are actually owned by the person, company, corporation or association negotiating the same;

c. Credit accommodations to finance the importation of rice and corn to the extent of 100% of the net worth of the bank concerned shall be excluded in determining the SBL prescribed herein, subject to the following conditions:

   (1) The importation shall be made in pursuance of a national policy duly enunciated by the National Government;

   (2) The importation shall have been approved by the National Economic Development Authority (NEDA);

   (3) The letter of credit shall specify that importation shall be made with certification from the National Food Authority (NFA), or the consular establishment of the Philippine government at the source of any such shipment to the effect that the commodity being imported is either rice or corn; and

   (4) The related bills of lading shall specify in addition to the name of the importer concerned, that the NFA shall be the consignee of the shipment;

d. The portion of loans and other credit accommodations covered by the guarantee of IGLF;

e. The total liabilities of a commercial paper issuer for commercial paper held by a UB acting as a firm underwriter of said commercial paper shall not be counted in determining compliance with the SBL within a period of ninety (90) calendar days from the issuance of the commercial paper[1]: *Provided,* That in no case shall such liabilities exceed five percent (5%) of the net worth of the UB beyond the normal applicable SBL;

f. The portion of loans and other credit accommodations covered by guarantees of international/regional institutions/multilateral FIs where the Philippine Government is a member/shareholder, such as the IFC and the ADB;

g. Loans and other credit accommodations or portion thereof, specifically provided for with allowance for credit losses: *Provided,* That the bank has no unbooked allowance for credit losses;

h. Loans and other credit accommodations as a result of an underwriting or sub-underwriting agreement of debt securities outstanding for a period not exceeding thirty (30) calendar days. Said other credit accommodations shall include, among others, inventories of debt securities such as, but not limited to, bonds and notes purchased by the UB out of its underwriting commitments[1];

i. Foreign securities lending under Section 72 (MORFXT) and other domestic securities lending programs duly recognized by the Bangko Sentral containing safeguards consistent with best international practices, to protect securities lenders' risk exposures.

j. Short-term exposures of banks to settlement banks arising from payment transactions pertaining to fund transfer

[1] It shall cover all new underwritten debt and equity securities issued from 15 February 2013.

services, check clearing, foreign exchange trades, security trades, security custody services, and other short-term payment transactions: *Provided*, That for the purpose of Exclusions from loan limit in this Section, an exposure is considered short-term if it does not extend longer than five (5) banking days after the placement of funds into the clearing and settlement account: *Provided, further*, That the following conditions are met:

(1) The payment transactions giving rise to short-term exposures are carried out through a clearing and settlement account maintained with a designated local settlement bank, or a foreign settlement bank. A designated settlement bank is a bank that is recognized or assigned by a consortium of banks and/or other financial institutions or by an appropriate body to accept funds from members of the consortium particularly for settlement of transactions among members.

(2) Banks shall enter into a formal agreement with the settlement bank, stipulating among other terms and conditions that the account is opened and maintained exclusively for short-term settlement transactions as described in this Section, and said account is not subject to a minimum balance requirement.

(3) The clearing and settlement bank shall keep the funds received from client banks separate from its own funds. The client banks shall also segregate their clearing and settlement accounts from any of their other bank accounts.

(4) Banks shall adopt an internal control mechanism appropriate to the said payment transactions.

Sanctions. Violations of the provisions of this Section shall be subject to the following:

a. *Monetary penalties* - Fines of one- tenth of one percent (1/10 of 1%) of the excess over the ceiling but not to exceed P30,000.00 a day for each SBL violation shall be assessed on the bank to be reckoned from the date the excess started up to the date when such excess was eliminated: *Provided,* That a maximum fine of P500.00 a day for each violation shall be imposed against banks with total resources of less than P50.0 million at the time of granting of loan/credit accommodation.

b. *Other sanctions*

First offense – Reprimand for the directors/officers who approved the credit availment which resulted in the excess with a warning that subsequent violations will be subject to more severe sanctions.

Subsequent offenses –

(1) Fine of P1,000.00 for directors/ officers who approved the credit availment which resulted in the excess.
(2) Suspension of the bank's branching privileges and access to Bangko Sentral rediscounting facilities until the excess is eliminated.
(3) Other penalties as the Monetary Board may impose depending on the gravity of the offense.

Limit for wholesale lending activities of government banks*.* There shall be a separate SBL of thirty-five percent (35%) of unimpaired capital and surplus for the wholesale lending activities of government banks to PFIs for relending to end-user borrowers, subject to the following guidelines:

a. Government banks' SBL of thirty-five percent (35%) of unimpaired capital and surplus shall apply only to loans granted to PFIs on a wholesale basis for on-lending to end-user borrowers;
b. The thirty-five percent (35%) SBL shall apply only to loan programs funded by multilateral, international or local developmental agencies, organizations or institutions specially designed for wholesale lending activities of government banks;
c. The end-user borrowers of the PFIs shall be subject to the twenty-five percent (25%) SBL, not to the increased ceiling of thirty-five percent (35%); and
d. Government banks shall observe the minimum criteria for accrediting PFIs and for the grant/renewal of credit lines to accredited PFIs as set forth in *Appendix 37.*

(Circular Nos. 1001 dated 30 April 2018, 965 dated 05 July 2017, 908 dated 14 March 2016, 890 dated 02 November 2015, 855 dated 29 October 2014 and 827 dated 28 February 2014)

363-A LIMITS ON REAL ESTATE EXPOSURES AND OTHER REAL ESTATE PROPERTY OF UBs/KBs.

a. *Real Estate Loan Limit*. Total real estate loans of UBs/KBs, excluding Items "*(1)*" to "*(4)*" below, shall not exceed twenty percent (20%) of the total loan portfolio, net of interbank loans:

(1) Loans extended to individual households for purposes of financing the acquisition, construction, and/or improvement of housing units and acquisition of any associated land that is or will be occupied by the borrower, regardless of amount;

(2) Loans extended to land developers/ construction companies for the purpose of development and/or construction of socialized and low-cost residential properties as defined under existing guidelines of the HUDCC for the implementation of government housing programs, which are intended for sale to individual households;

(3) Loans to the extent guaranteed by the HGC; and

(4) Loans to the extent collateralized by non-risk assets under existing regulations.

For this purpose, real estate loans shall refer to loans granted to:

(a) individual households for the acquisition, construction and/or improvement of housing units and acquisition of any associated land that is or will be occupied by the borrower, including loans granted to bank officers and employees for the same purpose which are covered by bank's fringe benefit plan and which plan was approved by the Monetary Board; and

(b) land developers/construction companies and other borrowers for the acquisition and development of land and/or construction of buildings and structures, including housing units for sale/lease and/or for use in retail/wholesale, manufacturing or other income-generating purposes, including loans for the land development and construction of residential properties.

It shall not include loans to finance the construction, rehabilitation and improvement of highways, streets, bridges, tunnels, railways, railroad, transport systems, ports, airports, power plants, hydropower projects, canals, dams, water supply, irrigation, telecommunications, land reclamation projects, industrial estates or townships, government buildings and housing projects, public markets, slaughterhouses, warehouses, civil work components of information technology networks and database infrastructure projects, solid waste management, sewerage, flood control, drainage, dredging and other infrastructure projects that are intended for public use.

Purchase by banks of receivables under Contract to Sell (CTS) executed between the real estate developers and home buyers on a with recourse basis shall be considered loans to real estate developers and shall be classified as commercial real estate loans.

Trust departments of UBs/KBs shall be exempted from the prescribed limit on real estate loans.

Under HUDCC guidelines, socialized and low-cost housing units are defined as follows:

Housing Units	Price Ceiling
Low-cost	
Level 1-A (Socialized)	450,000 and below
Level 1-B	Above 450,000 to P500,000
Level 2	Above P500,000 to 1,700,000
Level 3	Above 1,700,000 to P3,000,000

or in such other amounts which HUDCC may prescribe in the future for said housing units.

b. *Real Estate Stress Test (REST) Limits* A prudential limit is set for real estate exposures and other real estate property of UBs/KBs. Real estate exposures shall refer to:

(1) Real estate loans (RELs), which shall consist of:

(a) Residential real estate loans to individual households for occupancy categorized under the following types of housing segments:

(i) Socialized Housing;
(ii) Low-Cost Housing;
(iii) Mid-End Housing; and;
(iv) High-End Housing; and

(b) Commercial real estate loans, which shall refer to loans granted to the following:

(i) individuals (including sole proprietorships);
(ii) land developers/construction companies; and
(iii) other corporate borrowers, such as

(aa) real estate brokers;
(bb) real estate lessors;
(cc) property management companies;
(dd) holding companies; and
(ee) others;

for purposes of financing real estate activities;

(2) Investments in debt securities issued by land developers/construction companies and other corporate borrowers, such as real estate brokers, real estate lessors, property management companies, for purposes of financing real estate activities; and

(3) Investments in equity securities issued by land developers/construction companies and other corporate borrowers, such as real estate brokers, real estate lessors and property management companies, for purposes of financing real estate activities. Equity securities issued by holding companies are likewise covered, if proceeds from the issue shall be/has been invested by the holding company in its subsidiary corporation/s that is/are engaged in real estate activities.

Real estate activities shall refer to the acquisition, construction and improvement of real estate; buying and selling of real estate; rental of self-owned or leased real estate; and management of real estate/real property.

Real estate exposures shall not include loans and investments in debt and equity securities the proceeds of which are used to finance infrastructure projects for public use as defined under Item *"a"* of this Section.

Other real estate property shall include those recorded under Real and Other Properties Acquired and Non-Current Assets Held for Sale.

For this purpose, a stress test will be undertaken on a UB's/KB's REEs (Real Estate Exposures) and other real estate property under an assumed write-off of twenty- five percent (25%).

The prudential REST limits, which shall be complied with at all times by UBs/KBs, are six percent (6%) of Common Equity Tier I (CET1) capital ratio and ten percent (10%) of risk-based capital adequacy ratio, on a solo and consolidated basis, under the prescribed write-off rate.

A UB/KB which does not meet either or both the REST limits shall be directed to explain why its exposures do not warrant immediate remedial action. The Monetary Board, upon the report of the appropriate supervising department of the Bangko Sentral, shall determine whether the UB/KB has been able to render sufficient explanation, otherwise, the UB/KB shall be directed to submit an action plan, within thirty (30) calendar days from date of notification, to meet the REST limits within a reasonable time frame.

A UB/KB which fails to submit an action plan or persistently breaches the REST limits due to non-compliance with the commitments in its submitted action plan may be considered to be engaging in unsafe or unsound banking, to be determined in accordance with Section 56 of R.A. No. 8791 as implemented by Sec. 181, and shall subject the UB/KB to appropriate sanctions.

(Circular Nos. 976 dated 10 October 2017, 890 dated 02 November 2015, and 839 dated 27 June 2014)

363-B LIMITS ON REAL ESTATE EXPOSURES AND OTHER REAL ESTATE PROPERTY OF TBs

A prudential limit is set for real estate exposures as defined under Item *"b"* of Section 363-A, and other real estate property of TBs. Other real estate property shall include those recorded under Real and Other Properties Acquired and Non-Current Assets Held for Sale. For this purpose, a stress test will be undertaken on a TB's REEs and other real estate property under an assumed write-off rate of twenty-five percent (25%).

The prudential REST limits which shall be complied with at all times by TBs are:

a. six percent (6%) of CET I capital, for TBs that are subsidiaries of UBs/KBs;
b. six percent (6%) of Tier I capital, for stand-alone TBs[1]; and
c. ten percent (10%) of risk-based CAR for all TBs.

A TB which does not meet either or both the REST limits shall be directed to explain why its exposures do not warrant immediate remedial action. The Monetary Board, upon the report of the appropriate supervising department of the Bangko Sentral, shall determine whether the TB has been able to render sufficient explanation, otherwise, the TB shall be directed to submit an action plan, within thirty (30) calendar days from date of notification, to meet the REST limits within a reasonable time frame.

A TB which fails to submit an action plan or persistently breaches the REST limits due to non-compliance with the commitments in its submitted action plan may be considered to be engaging in unsafe or unsound banking, to be determined in accordance with Section 56 of R.A. No. 8791, as implemented by Sec. 181, and shall subject the TB to appropriate sanctions.

(Circular Nos. 890 dated 02 November 2015 and 839 dated 27 June 2014)

[1] TBs that are not subsidiaries of universal and commercial banks.

364 EXPANDED REPORT ON REAL ESTATE EXPOSURES OF BANKS

The Expanded Report on Real Estate Exposures is designed to measure and monitor the aggregate real estate exposures, as defined under Item *"b"* of Sec. 363-A, of the banking system. The report aims to provide the Bangko Sentral with a comprehensive view of the quality and type of real estate loans/investments financed by banks.

The Expanded Report on Real Estate Exposures (ERREE) shall be submitted in accordance with (a) the guidelines on the preparation of solo and consolidated financial statements under Sec. 172 (*Philippine Financial Reporting Standards/Philippine Accounting Standards*); and (b) the line item instructions prescribed under *Appendix 127*, attached as Annex A-2.

This report shall be considered a Category A-1 report and shall be submitted within the deadlines indicated in *Appendix 7*.

a. Bank Report

All UBs/KBs and TBs shall submit the ERREE on a solo (i.e., head office and branches) basis. UBs/KBs and TBs shall, likewise, submit the ERREE covering real estate exposures of their trust departments.

Starting quarter-ending 31 March 2018, a rural bank that is a subsidiary of a UB/KB or TB, shall also be required to submit the ERREE on a solo (head office and branches} basis. Covered RBs shall likewise submit the ERREE covering real estate exposures of its trust departments starting 31 March 2018.

b. Banking Group Report

A parent UB/KB/TB shall, likewise, submit the Expanded Report on Real Estate Exposures on a consolidated (i.e., consolidated real estate exposures of the banking group) basis, including aggregate real estate exposures of trust departments of banks/Financial Institutions (FIs) that are part of the banking group.

The schedules comprising covered banks' Revised ERREE are as follows:

Report / **Covered Banks**	**UBs**	**KBs**	**TBs**	**RBs that are subs. of UB/KB/TBs**
1. Bank Report. This shall contain the solo report of the bank's real estate exposures. Covered banks shall likewise submit the ERREE covering real estate exposure of their trust departments. a. Bank Proper and Trust Department b. Schedule 1- Bank Proper c. Schedule 2 -Trust Department	x	x	x	x
2. Banking Group Report. This shall contain the consolidated report of the banking group's real estate exposures. Covered banks shall likewise submit aggregate real estate exposures of trust departments of banks/FIs that are part of the banking group. a. Banking Group and Trust Department(s) of Banks/FIs that are part of the banking group b. Schedule 1- Banking Group c. Schedule 2 -Trust Department(s)	x	x	x	

The revised guidelines, line item instructions and reportorial templates shall take effect starting the quarter ending 30 June 2018.

A pilot run of the revised ERREE shall be conducted for the quarter ending 31 March 2018. During the pilot run, covered banks and their trust department shall submit both the original and revised ERREE (on a solo and consolidated basis} in accordance with the following submission deadlines:

Expanded Report on Real Estate Exposures	**Submission deadline**
a. ERREE template	Within thirty (30) banking days after end of the reference quarter ending as of 31 March 2018.
b. Revised ERREE template in	Within forty five (45) banking days after end of 31 March 2018

accordance with guidelines provided in this Section	

(Circular No. 976 dated 10 October 2017)

F. EQUITY INVESTMENTS

371 SCOPE OF AUTHORITY

The following rules shall govern the investment of banks in the equities of allied undertakings, whether financial or non-financial, and non-allied undertakings, as well as the establishment/acquisition of subsidiaries and affiliates abroad.

Conditions for investment in equities. A bank shall not invest in the equity of any enterprise, if the investing bank is in any of the following situations:

a. Its capital is impaired, whether by actual losses or unbooked allowance for credit losses required by the Bangko Sentral;
b. Its lending operations had been suspended on account of reserve or capital deficiency, until such suspension shall have been lifted for at least one (1) year and sufficient reserves or capital shall have been maintained;
c. It incurred losses from its operations during the preceding year;
d. It has not fully booked the allowance for credit losses and other capital adjustments required by the Bangko Sentral;
e. It has exceeded the individual and aggregate ceilings as well as the ceiling on unsecured credit accommodations to DOSRI; and
f. Its ratio of past due loans to total loan portfolio exceeds twenty percent (20%).

Guidelines for major investments. The following are the guidelines for major acquisitions or investments by a bank including corporate affiliations or structures to implement Section 50 of R.A. No. 8791.

a. *Definition.* Major investments are those investments in allied or non-allied undertakings including corporate affiliations or structures that give the bank significant interest and/or control, such as stockholdings sufficient to elect one (1) member to the acquired entity's board of directors.

b. *Criteria for major investments.* Any major investment by a bank should be approved by the bank's board of directors. In acting on such investments, the Board shall consider the following:

   (1) Such investment must be in accordance with the bank's business plan and management objectives, taking into consideration the economic developments and future prospects. The interests of the different stakeholders of the bank - shareholders, depositors and creditors - should always be considered before any investment is made.

   (2) Such investments will complement/ support the main business of the banks. Extra caution should be taken when investing in activities where the bank has no managerial or technical expertise, or businesses/industries, which are high-risk.

   (3) Bank management shall provide for an efficient and effective "exit mechanism" or contingency plan in case the investee's operations fail or do not prosper.

c. *Prior Bangko Sentral approval; information/ documents required.* Subject to prior approval of the Bangko Sentral, banks may invest in allied or non-allied undertakings, including corporate affiliations or structures. A bank intending to make such investment shall submit the following information/ documents to the appropriate supervising department of the Bangko Sentral for evaluation:

   (1) Name of the company;
   (2) Type of business activities;
   (3) Board of directors' approval on such investments;
   (4) Certification from the bank's board of directors that the criteria enumerated in Item "*b*" are complied with;
   (5) Management contract;
   (6) Financial information and other information about financial strengths, e.g., projected balance sheet and income statements for the first three (3) years;
   (7) Members of the board and senior management;
   (8) Interest to be held by the bank and the manner in which such interest will be held; and
   (9) Conformity of the investee company for Bangko Sentral to examine its books.

   The Bangko Sentral may impose conditions on any approval, including conditions to address financial, managerial, safety and soundness, compliance, or other concerns. Further, the Bangko Sentral may disapprove a proposed investment if it finds that the proposal would constitute an unsafe or unsound banking, or would

violate any law, regulation, Monetary Board directive, or any condition imposed by, or written agreement with, the Bangko Sentral.

The Bangko Sentral may prescribe other guidelines/regulations as it may consider necessary to ensure that banks' major investments do not expose the banks to undue risks or hinder effective supervision.

d. *Examination and inspection.* Whenever deemed necessary, Bangko Sentral shall have the authority to examine investee companies or to verify information provided by other supervisory authorities such as the SEC.

The Bangko Sentral shall have the authority to seek corrective action, to issue orders to terminate activities with or divest an interest in an investee company, if it believes that such action is necessary to prevent or redress unsafe or unsound banking by such company that poses a material risk to the financial safety, soundness or stability of a bank.

372 FINANCIAL ALLIED UNDERTAKINGS

With prior Bangko Sentral approval, banks may invest in equities of the following financial allied undertakings, subject to the limits prescribed under Sec. 373:

a. Leasing companies including leasing of stalls and spaces in a commercial establishment: *Provided*, That bank investment in/acquisition of shares of such leasing company shall be limited/ applicable only in cases of conversion of outstanding loan obligations into equity;

b. Banks;

c. IHs;

d. Financing companies;

e. Credit card companies;

f. FIs catering to small and medium scale industries including venture capital corporation (VCC), subject to the provisions of Sec. 374;

g. Companies engaged in stock brokerage/securities dealership; and

h. Companies engaged in foreign exchange dealership/brokerage.

In addition, UBs may invest in the following as financial allied undertakings:

a. Insurance companies; and
b. Holding company: *Provided*, That the investments of such holding company are confined to the equities of allied undertakings and/or non-allied undertakings of UBs allowed under Bangko Sentral regulations.

The Monetary Board may declare such other activities as financial allied undertakings of banks.

The determination of whether the corporation is engaged in a financial allied undertaking shall be based on its primary purpose as stated in its articles of incorporation and the volume of its principal business.

373 LIMITS ON INVESTMENT IN THE EQUITIES OF FINANCIAL ALLIED UNDERTAKINGS

The equity investment of a bank in a single financial allied undertaking shall be within the following ratios in relation to the total subscribed capital stock and to the total voting stock of the allied undertaking:

ACTIVITIES	**INVESTOR**						
Allied Enterprises	UB		KB		TB	RB	Coop Banks
Financial Allied Undertaking	Publicly-listed	Not listed	Publicly-listed	Not listed			
UBs	100%	49%	100%	49%	49%	49%	49%
KBs	100	49	100	49	49	49	49
TBs	100		100		49	49	49
RBs	100		100		49	49	100
Coop Banks	NA		NA		NA	NA	30
Insurance Companies	100		NA		NA	NA	NA
VCCs	60		60		60	49	49
Trust Corporation	100		49		40	40	40

ACTIVITIES	INVESTOR						
Allied Enterprises	UB		KB		TB	RB	Coop Banks
Financial Allied Undertaking	Publicly-listed	Not listed	Publicly-listed	Not listed			
Others	100		49		40	40	40

To promote competitive conditions, the Monetary Board may further limit the equity investments in QBs of UBs and KBs to forty percent (40%).

A publicly-listed UB or KB may own up to 100% of the voting stock of only one (1) other UB or KB. Otherwise, it shall be limited to a minority holding.

The guidelines in determining compliance with ceilings on equity investments in financial allied undertakings are shown in *Appendix 83*.

(Circular No. 858 dated 21 November 2014)

374 INVESTMENTS IN VENTURE CAPITAL CORPORATIONS

The following rules and regulations shall implement Presidential Decree No. 1688 entitled "Authorizing Banks to Invest in the Equity of Venture Capital Corporations (VCCs) to Assist Small and Medium- Scale Enterprises".

For purposes of this Section, a VCC shall refer to an entity organized jointly by private banks, the National Development Corporation and the Technology Livelihood and Resource Center and/or such other government agency as may be authorized by the appropriate authority, the primary purpose of which is to develop, promote and assist, thru debt or equity financing or any other means, any small and medium- scale enterprise in the country.

Requirements for investors. Banks may invest in a VCC organized to assist small and medium-scale enterprises, subject to the following conditions:

a. The bank shall have a minimum capital of P100.0 million as defined in Sec. 121;

b. Two (2) or more banks may own up to sixty percent (60%) of the total voting equity and of the total equity of a VCC. A bank shall not be allowed to invest in the equity of more than one VCC;

c. The initial paid-in capital of VCC shall not exceed P5.0 million. Any subsequent increase in paid-in capital of the VCC in which a bank owns equity shall be subject to prior approval of the Monetary Board;

d. Loans which the investor-bank may grant to a VCC shall be limited to such amounts as would enable the VCC to promote equity financing to viable small and medium scale enterprise: *Provided, however*, That unless otherwise authorized by the Monetary Board, the aggregate outstanding loans of such bank to a VCC shall not exceed twice the amount of its equity investment in the VCC: *Provided, further*, That loans to the VCC, or the small and medium-scale enterprises shall not be subject to the ceilings on DOSRI, except where bank DOSRI are likewise stockholders in the VCC or in the small and medium-scale enterprise;

e. The combined equity investments in, and loans of, the bank to its VCC shall not exceed fifteen percent (15%) of the bank's net worth; and

f. The aggregate investments in equities by a bank, including equity investments in a VCC, shall not exceed the prescribed ceilings under Sec. 378 on other limitations and restrictions.

The guidelines in determining compliance with ceilings on equity investments in a VCC are shown in *Appendix 84*.

Banks with acquired shares of stock of VCCs in excess of limits provided in this Section which have not been previously confirmed by the Monetary Board shall seek confirmation of the Monetary Board of such acquisition not later than ninety (90) banking days from 20 December 2009: *Provided*, That said confirmation shall be subject, among others, to the condition that such shares of stock shall be disposed of within a reasonable period not to exceed five (5) years from the date of acquisition thereof.

Equity investments of venture capital corporations. Equity investment of a VCC in small and medium-scale enterprises shall be subject to the following conditions:

a. Equity financing by a VCC may be extended to a small and medium-scale enterprise engaged in an industry certified as desirable by the Department of Trade and Industry; and

b. The total assets of the enterprises shall not exceed P4.0 million, including the VCC's equity investment. Should the total assets of the small and medium-scale enterprise subsequently exceed the prescribed P4.0 million

maximum, the VCC equity investment therein made before the total assets of the enterprise exceeded P4.0 million, may be maintained but shall not be increased.

Business name of venture capital corporations. A VCC shall be known by any name not otherwise appropriated: *Provided, however*, That the words "venture capital corporation" are made a part thereof.

Reportorial requirements; examination by Bangko Sentral. A VCC in which a bank owns equity shall be subject to Bangko Sentral reportorial requirements prescribed for non-bank financial intermediaries and may be subject to examination by the Bangko Sentral.

Interlocking directorships and/or officerships. Subject to prior approval of the Monetary Board, a person may concurrently hold the position of a director or officer in a bank and a VCC.

375 NON-FINANCIAL ALLIED UNDERTAKINGS

A bank may acquire up to 100% of the equity of a non-financial allied undertaking: *Provided*, That the equity investment of a TB/RB in any single enterprise shall remain less than fifty percent (50%) of the voting shares in that enterprise: *Provided, further*, That prior Monetary Board approval is required if the investment is in excess of forty percent (40%) of the total voting stock of such allied undertaking.

The determination of whether the corporation is engaged in a non-financial allied undertaking shall be based on the primary purpose as stated in its articles of incorporation and the volume of its principal business.

a. *UBs/KBs/TBs*

UBs/KBs and TBs may invest in equities of the following non-financial allied undertakings:

(1) Warehousing companies;

(2) Storage companies;

(3) Safe deposit box companies;

(4) Companies primarily engaged in the management of mutual funds but not in the mutual funds themselves;

(5) Management corporations engaged or to be engaged in an activity similar to the management of mutual funds;

(6) Companies engaged in providing computer services;

(7) Insurance agencies/brokerages;

(8) Companies engaged in home building and home development;

(9) Companies providing drying and/or milling facilities for agricultural crops such as rice and corn;

(10) Service bureaus, organized to perform for and in behalf of banks and NBFIs the services allowed to be outsourced enumerated in Sec. 112: *Provided*, That data processing companies may be allowed to invest up to forty percent (40%) in the equity of service bureaus;

(11) Philippine Clearing House Corporation (PCHC), Philippine Central Depository, Inc. and Fixed Income Exchange;

(12) Companies engaged in merchant acquiring business;

(13) Such other similar activities as the Monetary Board may declare as non- financial allied undertakings of banks.

UBs may further invest in health maintenance organizations (HMOs).

In addition, TBs may also invest in the equities of companies enumerated in Item *"b"* of this Section.

b. *RBs/Coop Banks*

RBs/Coop Banks may invest, as a non- financial undertaking, in the equities of companies engaged in the following:

(1) Warehousing and other postharvest facilities;
(2) Fertilizer and agricultural chemical and pesticides distribution;
(3) Farm equipment distribution;
(4) Trucking and transportation of agricultural products;

(5) Marketing of agricultural products;
(6) Leasing;
(7) Automated Teller Machine (ATM) networks; and
(8) Other undertakings as may be determined by the Monetary Board.

The guidelines in determining compliance with ceilings on equity investments in non-financial allied undertakings are shown in *Appendix 83*.

(Circular No. 896 dated 17 December 2015)

376-A INVESTMENTS IN NON-ALLIED OR NON-RELATED UNDERTAKINGS

Only UBs may invest in the equity of an enterprise engaged in non-allied or non-related activities.

The guidelines in determining compliance with ceilings on equity investments in non-allied or non-related undertakings are shown in *Appendix 83.*

Non-allied undertakings eligible for investment by universal banks. The broad category of non-allied undertakings in which a UB may invest directly or through its subsidiary shall require prior approval of the Monetary Board: *Provided,* That individual equity investments in the following broad categories shall not require prior Monetary Board approval, except as may be required in Sec. 371 (*Guidelines for major investments*):

a. Enterprises engaged in physically productive activities in agriculture, mining and quarrying, manufacturing, public utilities, construction, wholesale trade and community and social services following the industrial groupings in the Philippine Standard Industrial Classification (PSIC) as enumerated in *Appendix 19*;

b. Industrial park projects and/or industrial estate developments;

c. Financial and commercial complex projects (including land development and buildings constructed thereon) arising from or in connection with the Government's privatization program; and

d. Such other broad categories as the Monetary Board may declare as appropriate: *Provided, further*, That the bank shall submit within thirty (30) banking days after the investment, the following information/documents to the appropriate supervising department of the Bangko Sentral:

(1) The amount of investment;
(2) The name of investee company; and
(3) The nature of business, accompanied by such pertinent documents as articles of incorporation, articles of partnership or registration certificate, whichever may be applicable.

Limits on investments in non- allied enterprises.

a. The equity investment of a UB, or of its wholly or majority-owned subsidiaries, in a single non-allied enterprise shall not exceed thirty-five percent (35%) of the total equity in that enterprise nor shall it exceed thirty-five percent (35%) of the voting stock in that enterprise.

For the purpose of determining compliance with the ceiling prescribed in the preceding paragraph, (i) the equity investment of the bank; and (ii) the equity investment of the bank's subsidiaries, shall be combined.

b. In no case shall the total equity investments in a single non-allied enterprise of UBs, NBFIs performing QB functions and their subsidiaries, whether or not the parent financial intermediaries have equity investments in the enterprise, amount to fifty percent (50%) or more of the voting stock of that enterprise: *Provided, however*, That equity investments in excess of the ceilings prescribed herein as of 01 April 1980 may be maintained but may not be increased and if reduced, shall not be increased thereafter beyond the ceiling prescribed herein.

377 INVESTMENTS IN SUBSIDIARIES AND AFFILIATES ABROAD

The establishment or acquisition of subsidiaries or affiliates abroad shall require prior approval of the Bangko Sentral.

Application for authority to establish or acquire subsidiaries and affiliates abroad. The application for such authority shall be signed by the president of the bank and shall be accompanied, as a minimum, by the following information/documents:

a. Certified true copy of the resolution of the bank's board of directors authorizing the establishment or acquisition of a subsidiary or an affiliate abroad;
b. Economic justification for such establishment, indicating the services to be offered, the minimum outlay for furniture, fixture and equipment, rental and other expenses;

c. A certification that an application for such establishment has been filed with the appropriate government agency of the host country;
d. Organizational set-up of the proposed banking office showing the proposed positions and the names, qualifications and experience of the proposed manager and other officers; and
e. Certification signed by the president or the executive vice-president that the bank has complied with all the requirements enumerated below.

Requirements for establishing subsidiaries or affiliates abroad. In addition to the standard pre-qualification requirements for the grant of banking authorities in *Appendix 5*, the applicant bank shall comply with the following:

a. The citizenship, ownership ceilings and other limitations on voting stockholdings in banks under existing law and regulations; and
b. The experience and expertise in international banking operations with proof to the effect that:

    (1) It must have conducted international banking for at least three (3) years prior to the date of application; and
    (2) Its international banking operations must have contributed a substantial portion to its total earnings.

Conditions for approval of application. The approval of the application to establish or acquire a subsidiary of an affiliate abroad shall be subject to the following conditions:

a. Without prejudice to the qualification requirements of the country where the subsidiary or the affiliate is to be established, the proposed officer(s), at the time of appointment, must be at least:

    (1) Twenty-five (25) years of age;
    (2) A college graduate, preferably with training and experience abroad;
    (3) With three (3) years experience in international banking; and
    (4) Must not be disqualified as an officer under existing regulations.

b. The applicant shall also comply with the licensing requirements of the host country and the necessary license to operate shall be secured from the appropriate government agency of the host country;

c. The outward investment representing initial capital outlay and other outlays shall be subject to existing regulations;

d. All dividends earned shall be inwardly remitted to the Philippines no later than sixty (60) days after the date of payment. For purposes of this Section, re-investment of said dividend proceeds or deposits/placements thereof in accounts of the investor banks with foreign correspondent banks abroad shall be deemed compliance with the requirements of this Section;

e. The proposed subsidiary or affiliate shall submit the reports required by the Bangko Sentral;

f. The proposed subsidiary or affiliate shall not carry any of the business of a bank contemplated within the context of the Philippine banking system;

g. The proposed subsidiary or affiliate shall not engage in stock trading activity;

h. The applicant shall submit a certification from the host country that the duly authorized personnel/examiners of the Bangko Sentral will be authorized to examine the proposed subsidiary or affiliate; and

i. The applicant shall defray the necessary cost and expenses to be incurred by the appropriate supervising department of the Bangko Sentral in the examination of the foreign subsidiary.

Investment of a bank subsidiary in a foreign subsidiary. The following guidelines shall govern the investment in a foreign subsidiary by a bank subsidiary:

a. The investment of a bank subsidiary in the equity of a subsidiary located abroad shall be subject to prior Bangko Sentral approval;
b. The bank subsidiary may invest in a subsidiary if it meets the following pre-qualification requirements:

    (1) It has complied with the minimum capital requirement of the host country;
    (2) It has booked the required allowance for credit losses and other capital adjustments, if any; and
    (3) Its operations in the preceding three (3) years were profitable; otherwise, the feasibility study on the proposed subsidiary should show profits in the first two (2) years of operations.

c. The application for authority of a bank subsidiary shall be accompanied by the following:

    (1) Certified true copy of the resolution authorizing the investment by the board of directors of the parent bank and the bank subsidiary;

(2) Feasibility studies on the proposed subsidiary indicating, among others, the economic justification, the type of industry and organizational expenses to be incurred, including the capital expenditures; and
(3) Proposed organizational structures, including the proposed officers and their qualifications.

d. The applicant parent subsidiary shall comply with the licensing requirements of the host country and the necessary license to operate shall be secured from the appropriate government agency of the host country;
e. The proposed subsidiary may invest in another subsidiary with prior approval of the Bangko Sentral;
f. Any outward investment representing initial capital and other outlays shall be subject to existing regulations;
g. At least fifty percent (50%) of the yearly net profits of the proposed subsidiary shall be declared and paid as cash dividends to the parent subsidiary;
h. The proposed subsidiary shall be subject to –

(1) the applicable reportorial requirements such as the submission of quarterly Statement of Condition (SOC) and Statement of Income and Expenses (SIE); and
(2) the supervision and examination by the Bangko Sentral and the cost of such examination shall be charged against the grandparent bank; and

i. Any additional funding or advances of the parent bank in the Philippines to its subsidiaries abroad or the subsidiary will require prior Bangko Sentral approval.

378 PRUDENTIAL LIMITS AND RESTRICTIONS ON EQUITY INVESTMENTS

The following limitations and restrictions shall also apply regarding equity investments of banks.

a. *In any single enterprise*. The equity investments of UBs and KBs in any single enterprise shall not exceed at any time twenty-five percent (25%) of the net worth of the investing banks as defined in Secs. 121 and 103 (Capital requirements of foreign banks, Item *"b"*).

b. *Aggregate limits*. The total amount of investments in equities in all enterprises shall not exceed the following ratios in relation to the net worth of the investing bank:

	UB	KB	TB	RB	Coop Bank
LIMIT:	50%	35%	25%	25%	25%

c. *Exclusion of underwriting exposure from ceiling*. The exposure of a bank with UB authority arising from the firm underwriting of equity securities of enterprises shall not be counted in determining compliance with the ceilings prescribed in this Section and Sec. 376-A (*Limits on investments in non-allied enterprises*) for a period of ninety (90) calendar days from the issuance of such equity securities[1].

d. The guidelines in determining compliance with the other limitations and restrictions on equity investments of banks are shown in *Appendix 83*.

379 SANCTIONS

The following sanctions shall be imposed for equity investments made without prior Monetary Board approval:

a. *First offense* - If the investment is not allowable under existing regulations, divestment of the investment and reprimand on officer/ director who recommended/approved the investment.

b. *Subsequent offense* -

On the Bank. If the investment is not allowable under existing regulations, divestment of the investment.

On the director/officer. Fine of P20,000 for each investment to be imposed on the members of the board and the executive officers who recommended/approved the investment per investment and to be shouldered personally by the officer/ director: *Provided*, That if the subsequent offense is an investment in a non-allied enterprise, the fine shall be P40,000.

G. SUNDRY PROVISIONS

381 PURCHASE OF RECEIVABLES AND OTHER OBLIGATIONS

The following regulations shall govern the purchase of receivables and other obligations.

[1] It shall cover all new underwritten debt and equity securities issued from 15 February 2013.

Yield on purchase of receivables. The rate of yield, including commissions, premiums, fees and other charges, from the purchase of receivables and other obligations, regardless of maturity, that may be charged or received by banks shall not be subject to any regulatory ceiling.

Purchase of receivables on a "without recourse" basis. The total exposure of a bank to a maker of promissory notes resulting from the purchase of receivables on a without recourse basis shall be subject to the SBL of the bank: *Provided,* That the bank shall evaluate the credit worthiness of the maker of such promissory notes.

Purchase of commercial paper. Before purchasing registered commercial paper, banks authorized to engage in quasi-banking functions shall –

a. Require the issuing entity to submit a duly certified true copy of its Certificate of Registration and Authority to Issue Commercial Paper; and
b. Ascertain that the registration number and expiry date indicated in the commercial paper are the same as those in the certificate of registration submitted.

Any violation or failure to comply with the provisions of Purchase of commercial paper in this Section shall subject the erring bank to suspension or revocation of its authority to engage in quasi-banking functions.

Reverse repurchase agreements with Bangko Sentral. Reverse repo agreements with the Bangko Sentral shall be governed by Sec. 601.

Investment in readily marketable bonds and other debt securities. The following rules and regulations shall govern investment in readily marketable bonds and other debt securities.

a. Banks may invest in the following:

   (1) Readily marketable bonds and other debt securities which are of such use or demand as to make them the subject of constant dealings in securities markets, with such frequent quotations of price as to make the price easily and definitely ascertainable, and the security easy to realize upon sale at any time: *Provided*, That the bonds and other debt securities have complied with the rules on registration of commercial papers: *Provided, further*, That RBs/Coop Banks investing in readily marketable bonds and other debt securities shall comply with the prudential criteria enumerated under Sec. 111. In addition to said criteria, the investment shall not be held for trading purposes.

   RBs/Coop Banks shall submit a one-time notarized certification that the pre-qualification requirements under Sec. 111 (*Prudential criteria*) have been complied with to the appropriate supervising department of the Bangko Sentral within ten (10) calendar days from date of initial investment. In addition, banks shall conduct a continuous self-assessment of their compliance with said pre-qualification requirements.

   TBs may invest in evidences of indebtedness which are registered with the SEC but are not readily marketable securities: *Provided*, That these evidences of indebtedness shall be acquired with recourse against a bank or a QB.

   It shall be the responsibility of the investing bank to undertake the necessary investigation to satisfy itself with regard to the particular security.

   (2) Evidences of indebtedness of the Republic of the Philippines or the Bangko Sentral, and any other evidences of indebtedness or obligations the servicing and repayment of which are guaranteed by the Republic of the Philippines.

b. Any violation of the provision stated in Item *"a"* above shall subject the bank and its concerned officer/s to applicable enforcement action enumerated under Sec. 111 .

   Regular banking unit (RBU) of UBs/ KBs and TBs are prohibited from purchasing Philippine debt papers representing debt papers of Philippine public sector and private sector obligors which were restructured during the period of moratorium in the payment of external debt. They may, however, invest in, or purchase, other foreign currency denominated debt instruments, subject to applicable rules and regulations, particularly on risk management: *Provided*, That the RBU of TBs may invest only in readily marketable foreign currency denominated debt instrument as defined under Sec. 72 of Part V (MORFXT).

(Circular No. 960 dated 04 May 2017)

382 ACQUIRED ASSETS IN SETTLEMENT OF LOANS

The following rules shall govern assets acquired in settlement of loans.

***Posting*.** Banks shall post at all times in a conspicuous place in the premises of their head office and each of their branches and other banking offices a list of acquired assets together with the corresponding lowest price at which the bank is willing to sell such property. However, this requirement shall not relieve the bank from the requirement under Section 52 of R.A. No. 8791 to dispose of such acquired assets.

Booking.

a. ROPA in settlement of loans through foreclosure or dation in payment shall be booked under the ROPA account as follows:

(1) Upon entry of judgment in case of judicial foreclosure;
(2) Upon execution of the Sheriff's Certificate of Sale in case of extrajudicial foreclosure; and
(3) Upon notarization of the Deed of Dacion in case of dation in payment *(dacion en pago)*.

ROPA shall be booked initially at the carrying amount of the loan (i.e., outstanding loan balance adjusted for any unamortized premium or discount less allowance for credit losses computed based on PFRS 9 provisioning requirements, which take into account the fair value of the collateral) plus booked accrued interest less allowance for credit losses (computed based on PFRS 9 provisioning requirements) plus transaction costs incurred upon acquisition (such as non-refundable capital gains tax and documentary stamp tax paid in connection with the foreclosure/purchase of the acquired real estate property): *Provided,* That if the carrying amount of ROPA exceeds P5.0 million, the appraisal of the foreclosed/purchased asset shall be conducted by an independent appraiser acceptable to the Bangko Sentral.

b. The carrying amount of ROPA shall be allocated to land, building, other non-financial assets and financial assets (e.g., receivables from third party or equity interest in an entity) based on their fair values, which allocated carrying amounts shall become their initial costs.

c. The non-financial assets portion of ROPA shall remain in ROPA and shall be accounted for as follows:

(1) Land and buildings shall be accounted for using the cost model under PAS 40 "Investment Property";
(2) Other non-financial assets shall be accounted for using the cost model under PAS 16 "Property Plant and Equipment";
(3) Buildings and other non-financial assets shall be depreciated over the remaining useful life of the assets, which shall not exceed ten (10) years and three (3) years from the date of acquisition, respectively; and
(4) Land, buildings and other non-financial assets shall be subject to the impairment provisions of PAS 36 "Impairment"[1].

d. Financial assets, shall be reclassified and booked in accordance with Appendix 27, except interests in subsidiaries, associates and joint ventures, which shall be booked under Equity Investments in Subsidiaries, Associates and Joint Ventures and accounted for in accordance with Item *"b(1)"* Section 172 *(Philippine Financial Reporting Standards/ Philippine Accounting Standards)*.

e. ROPAs that comply with the provisions of PFRS 5 "Non-Current Assets Held for Sale" shall be reclassified and accounted for as such.

f. Claims arising from deficiency judgments rendered in connection with the foreclosure of mortgaged properties shall be lodged under the real account "Deficiency Judgment Receivable"; while probable claims against the borrower arising from the foreclosure of mortgaged properties shall be lodged under the contingent account "Deficiency Claims Receivable".

g. *Appraisal of properties*. Before foreclosing or acquiring any property in settlement of loans, it must be properly appraised to determine its true economic value. If the amount of ROPA to be booked exceeds P5.0 million, the appraisal must be conducted by an independent appraiser acceptable to the Bangko Sentral. An in- house appraisal of all ROPAs shall be made at least every other year: *Provided*, That immediate re-appraisal shall be conducted on ROPAs which materially decline in value.

h. *Non-cash payment for interest*. FIs that accept non-cash payments for interest on their borrowers' loans shall book the acquired assets as ROPA. The amount to be booked as ROPA shall be the booked accrued interest less allowance for credit losses (computed based on PFRS 9 provisioning requirements): *Provided*, That if the carrying amount of ROPA exceeds P5.0 million, the appraisal of the foreclosed/ purchased asset shall be conducted by an independent appraiser acceptable to the Bangko Sentral. The carrying amount of ROPA shall be allocated in accordance with Item *"b"* and shall be subsequently accounted for in accordance with Item *"c"* above.

The provisions of Booking in this Section shall be applied retroactively to all outstanding ROPAs and sales contract receivables: *Provided,* That for properties acquired before 01 January 2005, the carrying amount of the acquired properties

[1] With additional special regulatory relief in areas affected by Tropical Depression "Yolanda" as provided under *Appendix 93* (Circular No. 820 dated 06 December 2013)

when initially booked under ROPA shall be the cost subject to depreciation and impairment testing, which shall be reckoned from the time of acquisition.

Sales contract receivable

a. Sales Contract Receivable (SCR) shall be recorded based on the present value of the installments receivables discounted at the imputed rate of interest. Discount shall be accreted over the life of the SCR by crediting interest income using the effective interest method. Any difference between the present value of the SCR and the derecognized assets shall be recognized in profit or loss at the date of sale in accordance with the provisions of PAS 18 "Revenue": *Provided, furthermore*, That SCR shall be subject to impairment provision of PFRS 9.

   The provisions of Sales Contract Receivable in this Section shall be applied retroactively to all outstanding ROPAs and SCRs: *Provided*, That for properties acquired before 01 January 2005, the carrying amount of the acquired properties when initially booked under ROPA shall be the cost subject to depreciation and impairment testing, which shall be reckoned from the time of acquisition.

b. SCRs which meet all the requirements/conditions enumerated below are hereby considered performing assets and therefore, not subject to classification:

   (1) That there has been a downpayment of at least twenty percent (20%) of the agreed selling price or in the absence thereof, the installment payments on the principal had already amounted to at least twenty percent (20%) of the agreed selling price;

   (2) That payment of the principal must be in equal installments or in diminishing amounts and with maximum intervals of one (1) year;

   (3) That any grace period in the payment of principal shall not be more than two (2) years; and

   (4) That there is no installment payment in arrear either on principal or interest: *Provided*, That an SCR account shall be automatically classified "Substandard" and considered non-performing in case of non-payment of any amortization due: *Provided, further*, That an SCR which has been classified "Substandard" and considered non-performing due to non-payment of any amortization due may only be upgraded restored to unclassified and/or performing status after a satisfactory track record of at least three (3) consecutive payments of the required amortization of principal and/or interest has been established.

Joint venture of banks with real estate development companies

a. *Policy statement.* It is the policy of the Bangko Sentral to encourage banks to dispose of their ROPAs in settlement of loans and other advances either through foreclosure or *dacion en pago* as well as other properties acquired as a consequence of a merger/consolidation which are no longer necessary for their banking operations. Towards this end, banks are hereby authorized to enter into Joint Venture Agreements (JVA) with real estate development companies for the development of said properties, subject to the requirements prescribed herein.

b. For purposes of Joint venture of banks with real estate development companies in this Section, *joint venture* shall refer to a contractual arrangement/undertaking between a bank and a duly registered real estate development company (developer) for the purpose of developing the abovementioned properties of the bank. The bank contributes said properties to the undertaking while the developer contributes all the development funds, resources, technical expertise, equipment, personnel and all other requirements desired or needed for the implementation and completion of the undertaking including marketing, where applicable. The bank and the developer shall be bound by the contract that establishes joint control of the undertaking. Although the developer may be designated as operator or manager of the undertaking, it does not, however, absolutely control the undertaking but only acts in accordance with the authorities granted to him under the JVA.

c. *Forms of a joint venture.* A bank and a developer may undertake a joint venture under the following forms:

   (1) A jointly-controlled operation/ undertaking, which does not involve the establishment of a corporation, partnership or other entity, or a financial structure that is separate from the bank and the developer themselves. Under this form of joint venture, the rights and obligations of the bank and the developer shall be governed primarily by their contract that must clearly specify the following:

      (a) authority of the developer to develop/subdivide the property and subsequently, to sell the individual lots under a special power of attorney;
      (b) sharing in the sales proceeds of the developed ROPAs or in the developed lots;
      (c) sharing in taxes;
      (d) sharing in the assets of the joint venture particularly in the developed/ subdivided lots should there still be unsold lots at the time of termination of the joint venture; and
      (e) name under which the subdivided lots shall be registered pending their sale.

(2) A jointly-controlled entity, which involves the establishment of a new juridical entity, preferably a corporation that is separate and distinct from the bank and the developer. A jointly controlled corporation may be established either for the purpose of developing properties of banks for immediate sale or converting them into earning assets such as hotels and shopping malls.

d. *Requirements and limitations in a joint venture*. A bank desiring to enter into a JVA with a developer for the purpose of developing its ROPAs and/or other properties acquired as a consequence of merger/consolidation shall comply with the following:

(1) The JVA shall be approved by the board of directors of the bank.
(2) The bank's contribution to the joint venture, in whatever form undertaken, shall be limited to ROPAs and properties acquired as a consequence of the bank's merger/consolidation with another bank/ financial institution.
(3) The bank shall not recognize income out of its contribution to the joint venture, regardless of the agreed valuation of said properties.
(4) The bank shall not provide funds to the joint venture either as a loan or capital contribution.
(5) The JVA or contractual arrangement shall clearly stipulate the rights and obligations of the bank and the developer.
(6) The bank shall secure prior Monetary Board approval of the JVA.

e. *Application for authority to enter into JVA*. A bank desiring to enter into a JVA with a developer for the purpose of developing its ROPAs and other properties acquired as a consequence of its merger/ consolidation with another bank/FI shall secure prior Monetary Board approval of said agreement. For that purpose, the concerned bank shall submit an application for Monetary Board approval to the appropriate supervising department of the Bangko Sentral. The application shall be signed by the bank's president or officer of equivalent rank and shall be accompanied by the following documents/information:

(1) The name of the developer;
(2) Name of the principal stockholders and officers as well as members of the board of directors of said company;
(3) Relationship of the bank with the developer, if any;
(4) List and brief description of the properties to be contributed by the bank including their market values, book values and the valuation agreed upon under the proposed JVA;
(5) Certification by the bank's president or officer of equivalent rank that the JVA is strictly in compliance or will strictly comply with the requirements of Joint venture of banks with real estate development companies in this Section; and
(6) Such other documents/information that the concerned appropriate supervising department of the Bangko Sentral may require.

f. *Non-financial allied undertaking*. All types of banks are hereby authorized to invest in the equities of companies engaged in real estate development as a non- financial allied undertaking, subject to the following conditions:

(1) Investments shall be limited to ROPAs and other properties acquired as a consequence of a bank's merger/ consolidation with another bank/FI;

(2) Investments shall be subject to existing Bangko Sentral requirements applicable to investments in non-financial allied undertakings; and

(3) If there is already an existing subsidiary or affiliate relationship between the bank and the investee corporation prior to the investment, the bank shall not recognize income out of its invested properties. The excess of the value of the capital stock received by the bank over the book value of its invested properties shall be booked as "*Deferred Credits*".

g. *Accounting treatment*. Accounting treatment of the properties contributed by a bank to a joint venture or invested in the equities of developers.

(1) In a joint venture in the form of a jointly controlled operations/undertaking, which does not involve the establishment of a corporation or other entity, the bank shall continue to recognize in its books the properties contributed to the undertaking. However, the regular provisioning against probable losses required under existing regulations may be discontinued upon execution and implementation of the JVA.

(2) In a joint venture in which a corporation is created, the bank shall book the properties contributed to the undertaking as investment pursuant to the provisions of PAS 31. It shall also recognize its interest in the corporation using the proportionate consolidation method or the equity method as long as it continues to have joint control over the corporation: *Provided*, That the bank shall not recognize income out of its contribution to the joint venture. The excess of the value of the capital stock received by the bank over the book value of the contributed properties shall be credited to the account "*Deferred Credits*".

(3) Properties invested in equities of developers shall be booked in accordance with the PAS: *Provided,* That the bank shall not recognize income out of the properties invested if there is already an existing subsidiary or

affiliate relationship between the bank and the investee corporation prior to the investment, regardless of the agreed valuation of said properties. The excess of the agreed valuation of said properties over their book value shall be booked as "*Deferred Credits*".

h. *Coverage*. The provisions of Joint venture of banks with real estate development companies in this Section shall apply to ROPAs existing, as well as those which may be acquired by banks in settlement of non- performing or past due loans and advances outstanding, as of 09 March 2006 and to properties acquired as a consequence of merger or consolidation which are outstanding in the books of banks as of said date.

i. *Sanctions*. Any violation of the provisions of Joint venture of banks with real estate development companies in this Section and/or any misrepresentation in the certification and information required to be submitted to the Bangko Sentral shall subject the bank and the officer or officers responsible therefore, to the penalties provided under Sections 35, 36 and 37 of R. A. No. 7653.

(Circular No. 1011 dated 14 August 2018)

383 LOANS-TO-DEPOSITS RATIO

The following policies and guidelines shall govern the loans-to-deposits ratio (LDR) of head offices and branches.

Policy statement. It is the policy of the Bangko Sentral to promote healthy competition within the banking system as well as provide enhanced banking statistics necessary for informed decision- making.

Regional loans-to-deposits ratio. An individual bank's regional LDR is a measure of the extent of its lending activity vis-à-vis deposits generated in a region. On an aggregate basis, the regional LDR for the banking system is an indicator of the level of bank deposits which have been transformed into investments in a region. The latter may be used by banks as a benchmark in assessing their regional lending and deposit operations as against that of the industry and their peer group.

Computation of the regional loans-to-deposits ratio. The individual bank's regional LDR shall be computed by dividing a bank's aggregate loans by its aggregate deposit liabilities on a per region basis as of the same reporting cut-off date. A bank, in computing its regional LDR, shall be guided by the following:

a. Loans shall be reported by a bank in the region where the loan proceeds were utilized or channelled to, i.e., location of the end-users.
b. Deposits, on the other hand, shall be reported by a bank in the region wherein these were generated.

For purposes of this Section, loans shall refer to the amortized cost of a bank's total loan portfolio, excluding "Loans to Bangko Sentral", "Interbank Loans Receivable" and loans granted by a bank's FCDU/EFCDU. Deposits, on the other hand, shall refer to a bank's total deposit liabilities, excluding FCDU/EFCDU deposits.

384 CREDIT POLICIES OF GOVERNMENT- OWNED CORPORATIONS

Government-owned corporations which perform banking or credit functions shall coordinate their general credit policies with the Schedule of Credit Priorities embodied in *Appendix 20*. Within the provision of their respective charters, these corporations shall limit their credits to the economic activities falling under Priority II of said schedule to fifty percent (50%) of their outstanding loans at any time.

385 REGULATORY RELIEF FOR BANKS UNDER REHABILITATION PROGRAM APPROVED BY THE BANGKO SENTRAL

Banks may be allowed to charge their outstanding unbooked allowance for probable losses directly to retained earnings, on one-time basis, subject to the following conditions:

a. That this is in connection with a comprehensive rehabilitation program approved by the Bangko Sentral; and
b. The effects thereof, if these had been charged to profit and loss, shall be fully disclosed in the audited financial statements, annual reports and published statement of condition.

PART FOUR

TRUST, OTHER FIDUCIARY BUSINESS AND INVESTMENT MANAGEMENT ACTIVITIES

A. STATEMENT OF PRINCIPLES AND SCOPE

401 STATEMENT OF PRINCIPLES

The cardinal principle common to all trust and other fiduciary relationships is fidelity. Policies predicated upon this principle shall be directed towards observance of the following:

a. *Prudent administration*. The trust, investment management and other fiduciary accounts shall be administered in conformity with the intention and purpose of the client as manifested in the terms of the agreement, and with the skill, care, prudence and diligence necessary under the circumstance then prevailing that a prudent man acting in like capacity and familiar with such matters would exercise in the conduct of an enterprise of like character and with similar aims.

b. *Undivided loyalty and utmost care*. In the discharge of fiduciary responsibility, the interests of clients shall be placed above those of the bank. Clear policies and procedures shall be developed in dealing with conflict of interest situations. The fiduciary assets shall be objectively and fairly administered, invested and distributed giving due regard to the beneficiaries' respective interests.

c. *Non-delegation of responsibilities*. The administration of the trust, investment management, or fiduciary responsibilities or the performance of acts that should be personally performed shall not be delegated as the client's confidence is reposed on the trust entity (TE).

d. *Preserving and protecting property*. Reasonable care and diligence shall be observed to preserve and protect the property entrusted. Fiduciary assets shall be kept legally separate and distinct from proprietary assets and from one (1) fiduciary/trust/investment management account to another.

e. *Keeping and rendering accounts*. A true and accurate account or record of transactions entered into shall be kept. Reports on the trust, investment management and other fiduciary accounts shall be rendered to the trustor, principal, beneficiary, or other party in interest, or the court concerned, or any party duly designated by a court order, as the case may be, in accordance with Sec. 435. Likewise, all material facts within the knowledge or reasonably discoverable by the TE, particularly information that would enable clients to make well-informed decisions, shall be promptly transmitted/relayed to clients for them to protect their interests.

Furthermore, practices shall be carried out in accordance with the basic standards (*Appendix 86*) and Risk Management Guidelines (*Appendix 87*) for trust, other fiduciary and investment management accounts.

A bank authorized to engage in trust and fiduciary business is under no obligation, either legal or moral, to accept any such business being offered nor has it the right to accept if the same is contrary to law, rules, regulations, public order and public policy. It shall advertise its services in a dignified manner and enter such business only when demand for such service is evident, when specially equipped to render such service and upon full appreciation of the responsibilities involved. It shall be ready and willing to give full disclosure of the services being offered and shall conduct its dealing with transparency. Harmonious relationship shall likewise be pursued with other professions to achieve the common goal of mutual service to the public and protection of its interest.

Banks may not receive or hold as trustee, agent, administrator, financial manager, or other similar capacity, any fund or money from the Government and government entities, except government financial institutions. Government-owned banks may receive or hold as trustee, agent, administrator, financial manager, or other similar capacity, the following:

a. Funds of local government units (LGUs) which are expected to be available for investment purposes for a relatively long period of time: *Provided,* That the amounts held in trust or otherwise managed/advised for and in behalf of the LGUs shall be invested only in government securities, specifically, evidences of indebtedness of the National Government, the Bangko Sentral and other evidences of indebtedness or obligations of government entities, the servicing and repayment of which are fully guaranteed by the National Government; and

b. Funds of government and government entities which are authorized by special laws to be placed in trust.

(Circular No.828 dated 11 March 2014)

402 SCOPE OF REGULATIONS

These regulations shall govern the grant of authority to and the management, administration and conduct *of trust, other fiduciary business and investment management activities* (as these terms are defined in Sec. 403) of banks.

The regulations are divided into three (3) Sub-Parts where:

a. *Trust and Other Fiduciary Business* shall apply to banks authorized to engage in trust and other fiduciary business including investment management activities;
b. *Investment Management Activities* shall apply to banks without trust authority but with authority to engage in investment management activities; and
c. *General Provisions* shall apply to both.

403 DEFINITIONS

For purposes of regulating the operations of trust and other fiduciary business and investment management activities, unless the context clearly connotes otherwise, the following shall have the meaning indicated.

a. *Trust entity (TE)* shall refer to a:

(1) bank or an NBFI, through its specifically designated business unit to perform trust functions; or

(2) trust corporation, authorized by the Bangko Sentral to engage in trust and other fiduciary business under Section 79 of R.A. No. 8791 (The General Banking Law of 2000) or to perform investment management services under Section 53 of R.A. No. 8791.

b. *Trust business* shall refer to any activity resulting from a trustor-trustee relationship (trusteeship) involving the appointment of a trustee by a trustor for the administration, holding, management of funds and/or properties of the trustor by the trustee for the use, benefit or advantage of the trustor or of others called beneficiaries.

c. *Other fiduciary business* shall refer to any activity of a trust-licensed bank resulting from a contract or agreement whereby the bank binds itself to render services or to act in a representative capacity such as in an agency, guardianship, administratorship of wills, properties and estates, executorship, receivership, and other similar services which do not create or result in a trusteeship. It shall exclude collecting or paying agency arrangements and similar fiduciary services which are inherent in the use of the facilities of the other operating departments of said bank. Investment management activities, which are considered as among other fiduciary business, shall be separately defined in the succeeding item to highlight its being a major source of fiduciary business.

d. *Investment management* activity shall refer to any activity resulting from a contract or agreement primarily for financial return whereby the bank (the investment manager) binds itself to handle or manage investible funds or any investment portfolio in a representative capacity as financial or managing agent, adviser, consultant or administrator of financial or investment management, advisory, consultancy or any similar arrangement which does not create or result in a trusteeship.

e. *Trust* is a relationship or an arrangement whereby a person called a trustee is appointed by a person called a trustor to administer, hold and manage funds and/or property of the trust or for the benefit of a beneficiary.

f. *Trust agreement* is an instrument in writing covering the terms and conditions of the trust.

g. *Trustee* is any person who holds legal title to the funds and/or property of a trust.

h. *Trustor* is any person who creates a trust.

i. *Beneficiary* is any person for whose benefit a trust is created.

j. *Fiduciary* shall refer to any person or entity engaged in any of the other fiduciary business as herein defined where no trustor-trustee relation exists.

k. *Agency* shall refer to a contract whereby a person binds himself to render some service or to do something in representation or on behalf of another, with the consent or authority of the latter.

l. *Principal* shall refer to the person who grants authority to another person called an agent, under a contract to enter into transactions in his behalf.

m. *Agent* shall refer to a person who acts in representation or on behalf of another with the latter's authority.

n. *Trust department* shall refer to then department, office, unit, group, division or any aggrupation which carries out the trust and other fiduciary business of a bank.

o. *Trust officer* shall refer to the designated head or officer-in-charge of the trust department.

p. *Trust account* shall refer to an account where transactions arising from a trusteeship are kept and recorded.

q. *Fiduciary account* shall refer to an account where transactions arising from any of the other fiduciary businesses are kept and recorded.

r. *Investment Manager* shall refer to any person or entity engaged in investment management activities as herein defined.

s. *Investment Management Department* shall refer to the department, unit, group, division or any aggrupation which carries out the investment management activities of a bank that does not have an authority to engage in trust and other fiduciary business.

t. *Investment Management Officer* shall refer to the designated head or officer-in- charge of the investment management department of a bank which does not have the authority to engage in trust and other fiduciary business.

u. *Investment Management Account* shall refer to an account where transactions arising from investment management activities are kept and recorded.

v. *Personal Management* Trust shall refer to a living trust[1] created by an agreement whereby the trustor conveys property or a sum of money to be managed by the trustee, as the agreement dictates, generally for the preservation of the assets or property for future use of the beneficiaries and/or to answer for their current needs. The trustor may or may not nominate third-party beneficiary/ies. The trust agreement must specify the name/s of the beneficiary/ies.

w. *Unit Investment Trust Funds (UITFs)* shall refer to an open-ended pooled trust funds denominated in pesos or any acceptable currency, which are operated and administered by a trust entity and made available by participation. As an open-ended fund, participation or redemption is allowed as often as stated in its plan rules.

UITFs shall not include long term funds designed for the primary purpose of availing the tax incentives/exemption under Section 24(B)(1) of R.A. No. 8424 (The Tax Reform Act of 1997).

x. *Board of directors,* for UITFs purpose, shall include a trust entity's duly constituted board of directors or its functional oversight equivalent which shall include the country head in the case of foreign banks.

y. *Collective investment scheme* shall refer to an investment vehicle where funds are solicited from investors for collective investment and which are managed for the account of such investors.

z. *Feeder fund* shall refer to a UITF structure that mandates the fund to invest at least ninety percent (90%) of its assets in a single collective investment scheme.

aa. *Fund-of-funds* shall refer to a UITF structure that mandates the fund to invest at least ninety percent (90%) of its assets in more than one (1) collective investment scheme.

bb. *Target fund* shall refer to a local or foreign collective investment scheme in which the UITF invests all or a portion of its assets.

cc. *Investor fund* shall refer to a UITF created to take the form of a feeder fund or a fund- of-funds and is approved by the Bangko Sentral under existing Bangko Sentral regulations.

dd. *Multi-class fund* shall refer to a UITF structure which has more than one (1) class of units in the fund and is invested in the same pool of securities and the same portfolio, investment objectives and policies.

ee. *Related party/company,* for UITFs purpose, shall refer to another entity which is the trust entity's (a) parent or holding company or (b) subsidiary or affiliate, and wholly or majority-owned or controlled-entities of such subsidiaries.

[1] Being a living trust, PMT becomes operational during the lifetime of the trustor as soon as the agreement is accomplished.

B. TRUST AND OTHER FIDUCIARY BUSINESS

411 AUTHORITY TO PERFORM TRUST AND OTHER FIDUCIARY BUSINESS

With prior approval of the Monetary Board, banks may engage in trust and other fiduciary business under Chapter IX of R.A. No. 8791 (The General Banking Law of 2000).

If a bank is found to engage in unauthorized trust and other fiduciary business and/or investment management activities, whether as its primary, secondary or incidental business, the Monetary Board may impose administrative sanctions against such bank or its principal officers and/or majority stockholders or proceed against them in accordance with law.

The Monetary Board may take such action as it may deem proper such as, but may not be limited to, requiring the transfer or turnover of any trust and other fiduciary and/or investment management account (IMA) to duly incorporated and licensed entities of the choice of the trustor, beneficiary or client, as the case may be.

No bank shall advertise or represent itself as being engaged in trust and other fiduciary business or in investment management activities or represent itself as trustee or investment manager or use words of similar import; and/or use in connection with its business title the words *trust, trust corporation, trust company, trust plan* or words of similar import, without having obtained the required authority to do so.

Application for authority to perform trust and other fiduciary business. Banks desiring to perform trust and other fiduciary business shall file an application with the appropriate supervising department of the Bangko Sentral. The application shall be signed by the bank's president or officer of equivalent rank and shall be accompanied by the following documents:

a. Certified true copy of the resolution of the institution's board of directors authorizing the application; and
b. A certification signed by the president or the officer of equivalent rank that the institution has complied with all conditions/prerequisites for the grant of authority to perform trust and other fiduciary business.

Required capital. Banks applying for authority to perform trust and other fiduciary business must have minimum capital accounts as follows:

UBs/KBs. The amount required under Sec. 121 or such amount as may be required by the Monetary Board in the future.

Branches of foreign banks. The amount required under Sec. 103 or such amount as may be required by the Monetary Board in the future.

TBs. P650.0 million or such amounts as may be required by the Monetary Board in the future.

Prerequisites for engaging in trust and other fiduciary business. Before it may engage in trust and other fiduciary business, a bank shall comply with the following requirements:

a. The applicant has been duly licensed or incorporated as a bank or created as such by special law or charter;

b. The articles of incorporation or governing charter of the institution shall include among its powers or purposes, acting as trustee or administering any trust or holding property in trust or on deposit for the use, or in behalf of others;

c. The by-laws of the institution shall include among other things, provisions on the following;

   (1) The organization plan or structure of the department, office or unit which shall conduct the trust and other fiduciary business of the institution;
   (2) The creation of a trust committee, the appointment of a trust officer and subordinate officers of the trust department; and
   (3) A clear definition of the duties and responsibilities as well as the line and staff functional relationships of the various units, officers and staff within the organization;

d. The bank's operation during the preceding calendar year and for the period immediately preceding the date of application has been profitable;

e. The bank is well capitalized whose risk-based capital adequacy ratio is not lower than twelve percent (12%) at the time of filing the application;

f. It has not incurred net weekly reserve deficiencies during the eight (8)-week period immediately preceding the date of application;

g. It has generally complied with banking laws, rules and regulations, orders or instructions of the Monetary Board and/or Bangko Sentral Management in the last two (2) preceding examinations prior to the date of application, particularly on the following:

(1) election of at least two (2) independent directors;
(2) attendance by every member of the board of directors in a special seminar for board of directors conducted or accredited by the Bangko Sentral;
(3) the ceilings on credit accommodations to DOSRI;
(4) liquidity floor requirements for government deposits;
(5) single borrower's limit; and
(6) investment in bank premises and other fixed assets;

h. It maintains adequate provisions for probable losses commensurate to the quality of its asset portfolio but not lower than the required allowance for credit losses as determined by the Bangko Sentral;

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

j. It has no past due obligations with the Bangko Sentral or with any government financial institution;

k. It has established a risk management system appropriate to its operations characterized by clear delineation of responsibility for risk management, adequate risk measurement systems, appropriately structured risk limits, effective internal controls and complete, timely and efficient risk reporting system;

l. It has a CAMELS composite rating of at least "*3*" in the last regular examination with management rating of not lower than "*3*"; and

m. It has neither unpaid assessment due nor past due obligations with the PDIC.

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

Pre-operating requirements. A bank authorized to engage in trust and other fiduciary business shall, before engaging in actual operations, submit to the Bangko Sentral the following:

a. Government securities acceptable to the Bangko Sentral amounting to P500,000 as minimum basic security deposit for the faithful performance of trust and other fiduciary duties required under Sec. 417;

b. Organization chart of the trust department which shall carry out the trust and other fiduciary business of the bank; and

c. Names and positions of individuals designated as chairman and members of the trust committee, trust officer and other subordinate officers of the trust department with their respective bio-data and statement of duties and responsibilities.

411-B/C GRANT OF AUTHORITY TO ENGAGE IN LIMITED TRUST BUSINESS TO THRIFT BANKS/RURAL BANKS

a. *Statement of policy*. It is hereby declared the policy of the Bangko Sentral to promote healthy competition in order to improve the delivery of banking services especially in the countryside. Towards this end, authority to engage in limited trust business shall be granted to qualified thrift banks (TBs)/rural banks (RBs) which meet the minimum capital required for the grant of such authority, among others.

b. *Scope of limited trust business*. Limited trust business shall be confined to:

(1) court trusts or trusts under orders of court of competent jurisdiction, such as acting as: (a) executor or administrator of a will; and (b) guardian of the estate of a minor or incompetent; and
(2) administration of properties.

c. *Application for authority to engage in limited trust business*. A TB/RB desiring to engage in a limited trust business shall file an application with the appropriate supervising department of the Bangko Sentral. The application shall be signed by the bank president or officer of equivalent rank and shall be accompanied by the following documents:

(1) Certified true copy of the resolution of the bank's board of directors authorizing the application; and
(2) Certification signed by the bank president or officer of equivalent rank that the bank has complied with all the conditions/pre-requisites for the grant of authority to engage in a limited trust business.

d. *Required capital*. A TB/RB applying for authority to engage in limited trust business must have minimum capital accounts under existing regulations or P100.0 million, whichever is higher, or such amounts as may be required by the Monetary Board in the future.

e. *Pre-requisites for the grant of authority to engage in limited trust business*. A TB/RB applying for authority to engage in limited trust business must comply with the following requirements:

(1) The bank's operation during the preceding calendar year and for the period immediately preceding the date of application has been profitable;

(2) The bank is well capitalized whose risk-based CAR is not lower than twelve percent (12%) at the time of filing the application;

(3) It has not incurred net weekly reserve deficiencies within eight (8) weeks immediately preceding the date of application;

(4) It has generally complied with banking laws, rules and regulations, orders or instructions of the Monetary Board and/or Bangko Sentral Management in the last two (2) preceding examinations prior to the date of application, more particularly:

(a) election of at least two (2) independent directors;
(b) attendance by every member of the board of directors in a special seminar for board of directors conducted or accredited by the Bangko Sentral;
(c) the ceilings on credit accommodations to DOSRI;
(d) liquidity floor requirements for government deposits;
(e) SBL; and
(f) investment in bank premises and other fixed assets;

(5) It maintains adequate provisions for probable losses commensurate to the quality of its asset portfolio but not lower than the required allowance for credit losses as determined by the Bangko Sentral;

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

(7) It has no past due obligations with the Bangko Sentral or with any government FI;

(8) It has established a risk management system appropriate to its operations characterized by clear delineation of responsibility for risk management, adequate risk measurement systems, appropriately structured risk limits, effective internal controls and complete, timely and efficient risk reporting system;

(9) It has a CAMELS composite rating of at least "*3*" in the last regular examination with Management rating not lower than "*3*"; and

(10) It has neither unpaid assessment due nor past due obligations with the PDIC;

f. *Requirements for engaging in limited trust business.* A TB/RB authorized to engage in limited trust business shall comply with the following requirements:

(1) The articles of incorporation of the bank shall include among its powers or purposes, acting as trustee or administering trust or holding property in trust or on deposit for the use, or in behalf of others;

(2) The by-laws of the bank shall include among others, provisions on the following:

(a) The organization plan or structure of the department, office or unit which shall conduct the trust and other fiduciary business of the bank;

(b) The creation of a trust committee, to be composed of at least three (3) members who are all members of the board of directors and who are not operating officers of the bank, and at least two (2) of whom are independent directors: *Provided*, That if the bank decides to have a trust committee composed of at least five (5) members, the provisions of Sec. 412 shall apply;

(c) The appointment of a trust officer and subordinate officers of the trust department, office or unit: *Provided*, That the trust officer shall have the following:

(i) At least two (2) years of actual experience in trust operations; or
(ii) At least one (1) year of actual experience in trust operations and:

(aa) completion of a training program in trust, other fiduciary business, or investment management activities acceptable to the Bangko Sentral; or
(bb) completion of a relevant global or local professional certification program; or

(iii) At least two (2) years of actual experience as officer of a bank/NBFI or related activities; and

(aa) completion of a training program in trust, other fiduciary business, or investment management activities acceptable to the Bangko Sentral; or
(bb) completion of a relevant global or local professional certification program;

(d) A clear definition of the duties and responsibilities as well as the line and staff functional relationships of the various units, officers and staff within the organization.

g. *Administration of properties held in trust*. The properties held in trust or other fiduciary capacity shall be administered in accordance with the terms of the instrument creating the trust and/or order of the court. Unless otherwise directed in writing by the court, investments of fiduciary funds shall be limited to:

(1) Bank deposits; and

(2) Evidences of indebtedness of the Republic of the Philippines or of the Bangko Sentral, and any other evidences of indebtedness or obligations the servicing and repayment of which are fully guaranteed by the Republic of the Philippines;

h. *Applicability of the rules and regulations on trust, other fiduciary business and investment management activities*. The provision of this Part which are not inconsistent with the provisions of this Section shall apply to TBs/RBs authorized to engage in limited trust business.

(Circular No. 917 dated 08 July 2016)

412 ORGANIZATION AND MANAGEMENT

Organization. A bank authorized to engage in trust and other fiduciary business shall, pursuant to Sec. 411, include in its by-laws, provisions on the organization plan or structure of the department, office or unit which shall conduct such business. The by-laws shall also include provisions on the creation of a trust committee, the appointment of a trust officer and other subordinate officers and a clear definition of their duties and responsibilities as well as their line and staff functional relationships within the organization which shall be in accordance with the following guidelines.

a. Trust and other fiduciary business of a bank shall be carried out through a trust department which shall be organizationally, operationally, administratively and functionally separate and distinct from the other departments and/or businesses of the institution.

A bank which is also engaged in investment management activities, shall conduct the same only through its trust department and the responsibilities of the board of directors, trust committee and trust officer shall be construed to include the proper administration and management of investment management activities.

No bank shall undertake any of the trust and other fiduciary business and, whenever applicable, investment management activities outside the direct control, authority and management of the trust department or through any department or office which is involved in the other businesses of the bank, such as the Treasury, Funds Management or any similar department, otherwise, any such business shall be considered part of the bank's real liabilities.

The bank proper and the trust department may share the following activities: (1) electronic data processing; (2) credit investigation; (3) collateral appraisal; and (4) messengerial, janitorial and security services.

b. The trust department, trust officer and other subordinate officers of the trust department shall only be directly responsible to the bank's trust committee which shall, in turn, be only directly responsible to the bank's board of directors.

No director, officer or employee taking part in the management of trust and other fiduciary accounts shall perform duties in other departments or the audit committee of the bank and vice versa. However, branch managers duly authorized by the board of directors may, for or on behalf of the trust officer, sign predrawn trust instruments such as UITFs.

c. The organization structure and definition of duties and responsibilities of the trust committee, officers and employees of the trust department shall reflect adherence to the minimum internal control standards prescribed by the Bangko Sentral.

d. Provisions shall be made by the bank to have legal assistance readily available in the review of proposed and/or existing trust and fiduciary agreements and documents and in the handling of legal and tax matters related thereto.

Composition of trust committee. The Trust Committee shall be composed of at least five (5) members including the (1) president or any senior officer of the bank; and (2) the trust officer. The remaining committee members, including the chairperson, may be any of the following: (1) non-executive directors[1] or independent directors[1] who are both not part of the audit committee; or (2) those considered as qualified "*independent professionals*": *Provided*, That the Philippine branch of a foreign bank may appoint its resident manager or chief executive officer in lieu of the president while the positions allotted for members of the board may be filled up by the area manager and/or officers/ representatives from the Head Office, or affiliates or subsidiaries of the head office who are not involved in audit-related activities: *Provided, further*, That in case of more than five (5) trust committee membership, majority shall be composed of qualified non-executive members.

A qualified "*independent professional*" shall refer to a person who –

a. is not a director/officer/employee of the bank during the last twelve (12) months counted from the date of committee membership;

b. is not a relative within the fourth degree of consanguinity or affinity, legitimate or common-law of any executive director or those involved in the day to day management of institution's operations or officer of the bank; and

c. is not engaged or does not engage in any transactions with the bank whether by himself or with other persons or through a firm of which he is a partner, other than transactions which are conducted at arm's length and could not materially interfere with or influence the exercise of his judgment.

An independent professional may be appointed as a Trust Committee member of other banks that belong to the same financial conglomerate.

For purposes of this Section, the definition of officer under Sec. 131 shall apply.

Qualifications of committee members, officers and staff. The bank's trust department shall be staffed by persons of competence, integrity and honesty. Directors, committee members and officers charged with the administration of trust and other fiduciary activities shall, in addition to meeting the qualification standards prescribed for directors and officers of banks or for qualified "*independent professionals*", possess the necessary technical expertise and relevant experience in such business which may be indicated by any of the following:

a. at least one (1) year of actual experience in trust, other fiduciary business, or investment management activities;
b. at least three (3) years of professional experience in relevant field such as banking, finance, economics, law, and risk management;
c. completion of at least ninety (90) training hours on trust, other fiduciary business, or investment management activities acceptable to the Bangko Sentral; or
d. completion of a relevant global or local professional certification program.

A Trust Committee member should be familiar with Philippine laws, rules and regulations on trust business, as well as uphold at all times ethical and good governance standards.

The trust officer who shall be appointed shall possess any of the following:

a. at least five (5) years of actual experience in trust operations;
b. at least three (3) years of actual experience in trust operations and must have:

   (1) completed at least ninety (90) training hours in trust, other fiduciary business, or investment management activities acceptable to the Bangko Sentral; or
   (2) completed a relevant global or local professional certification program; or

c. at least five (5) years of actual experience as an officer of a bank and must have:

   (1) completed at least ninety (90) training hours in trust, other fiduciary business, or investment management activities acceptable to the Bangko Sentral; or
   (2) completed a relevant global or local professional certification program.

[1] As defined under Sec. 131

For the purpose of this Section, *actual experience* refers to exposures in trust operations either as officer of a trust entity or member of trust committee.

Responsibilities of administration

a. Board of directors

The responsibilities of the board of directors in relation to trust activities of a bank shall be those set forth under Sec. 132. The board of directors shall ensure an appropriate degree of independence between the activities of the bank proper and its trust department.

b. Trust Committee

The trust committee is a special committee which reports directly to the board of directors and is primarily responsible for overseeing the fiduciary activities of the bank. In discharging its function, it shall:

(1) ensure that fiduciary activities are conducted in accordance with applicable laws, rules and regulations, and prudent practices;
(2) ensure that policies and procedures that translate the board's objectives and risk tolerance into prudent operating standards are in place and continue to be relevant, comprehensive and effective;
(3) oversee the implementation of the risk management framework and ensure that internal controls are in place relative to the fiduciary activities;
(4) adopt an appropriate organizational structure/staffing pattern and operating budgets that shall enable the trust department to effectively carry out its functions;
(5) oversee and evaluate performance of the trust officer;
(6) conduct regular meetings at least once every quarter, or more frequently as necessary, depending on the size and complexity of the fiduciary business; and
(7) report regularly to the board of directors on matters arising from fiduciary activities.

c. Trust Officer

The management of day-to-day fiduciary activities shall be vested in the trust officer. In this regard, the trust officer shall:

(1) ensure adherence to the basic standards in the administration of trust, other fiduciary and investment management accounts pursuant to *Appendix 86*;
(2) develop and implement relevant policies and procedures on fiduciary activities;
(3) observe sound risk management practices and maintain necessary controls to protect assets under custody and held in trust or other fiduciary capacity;
(4) carry out investment and other fiduciary activities in accordance with agreements with clients and parameters set by the trust committee as approved by the board of directors;
(5) report regularly to the trust committee on business performance and other matters requiring its attention;
(6) maintain adequate books, records and files for each trust or other fiduciary account and provide timely and regular disclosure to clients on the status of their accounts; and
(7) submit periodic reports to regulatory agencies on the conduct of the trust operations.

Confirmation of the appointment/designation of trust officer and independent professional. An independent professional and trust officer must be fit and proper to discharge their respective functions. In determining whether a person is fit and proper for the position, regard shall be given to the following: Integrity/probity, physical/mental fitness, competence, relevant education/financial literacy/training, diligence and knowledge/experience.

The appointment or designation of independent professional and trust officer shall be subject to confirmation by the supervising department committee of the Bangko Sentral. The bio-data of the proposed independent professional and trust officer shall be submitted to the Bangko Sentral, in a prescribed form indicated in *Appendix 7*, within seven (7) banking days from approval of the board of directors or its functional oversight equivalent which shall include the country head in case of foreign banks. Moreover, the independent professional shall certify that he/she possesses the qualifications as herein prescribed and that all the information thereby supplied are true and correct.

If after evaluation, the Monetary Board shall find grounds for disqualification, the concerned bank shall be informed thereof and the independent professional and trust officer so appointed or delegated shall be removed from office even if he/she has assumed the position to which he/she was appointed or delegated.

(Circular No. 969 dated 22 August 2017)

413 TRUST AND OTHER FIDUCIARY BUSINESS

The conduct of trust and other fiduciary business shall be subject to the following regulations.

Minimum documentary requirements. Each trust or fiduciary account shall be covered by a written document establishing such account, as follows:

a. In the case of accounts created by an order of the court or other competent authority, the written order of said court or authority.

b. In the case of accounts created by corporations, business firms, organizations or institutions, the voluntary written agreement or indenture entered into by the parties, accompanied by a copy of the board resolution or other evidence authorizing the establishment of, and designating the signatories to, the trust or other fiduciary account.

c. In the case of accounts created by individuals, the voluntary written agreement or indenture entered into by the parties.

The voluntary written agreement or indenture shall include the following minimum provisions:

(1) Title or nature of contractual agreement in noticeable print;
(2) Legal capacities, in noticeable print, of parties sought to be covered;
(3) Purposes and objectives;
(4) Funds and/or properties subject of the arrangement;
(5) Distribution of the funds and/or properties;
(6) Duties and powers of trustee or fiduciary;
(7) Liabilities of the trustee or fiduciary;
(8) Reports to the client;
(9) Termination of contractual arrangement and, in appropriate cases, provision for successor-trustee or fiduciary;
(10) The amount or rate of the compensation of trustee or fiduciary;
(11) A statement in noticeable print to the effect that trust and other fiduciary business are not covered by the PDIC and that losses, if any, shall be for the account of the client; and
(12) Disclosure requirements for transactions requiring prior authority and/or specific written investment directive from the client, court of competent jurisdiction or other competent authority.

Lending and investment disposition[1]. Assets received in trust or in other fiduciary capacity shall be administered in accordance with the terms of the instrument creating the trust or other fiduciary relationship.

When a trustee or fiduciary is granted discretionary powers in the investment disposition of trust or other fiduciary funds and unless otherwise specifically enumerated in the agreement or indenture and directed in writing by the client, court of competent jurisdiction or other competent authority, loans and investments of the fund shall be limited to:

a. Traditional deposit products of UBs and KBs in the Philippines with long- term credit rating of at least AA- or its equivalent by a third party credit assessment agency recognized by the Bangko Sentral;

b. Evidences of indebtedness of the Republic of the Philippines and of the Bangko Sentral, and any other evidences of indebtedness or obligations where the servicing and repayment of which are fully guaranteed by the Republic of the Philippines or loans against such government securities;

c. Loans fully guaranteed by the Republic of the Philippines as to the payment of principal and interest;

d. Tradable securities issued by the government of a foreign country or any supranational entity with long-term credit rating of at least AA- or its equivalent by a third party credit assessment agency recognized by the Bangko Sentral;

e. Loans fully secured by a hold-out on, assignment or pledge of deposits maintained either with the bank proper or other banks, or of deposit substitutes of the bank, or of mortgage and chattel mortgage bonds issued by the trustee or fiduciary; and

f. Loans fully secured by real estate or chattels in accordance with Secs. 303, 143 (*Credit granting and loan evaluation/analysis process and underwriting standards)* and 301 (*Additional requirements).*

The specific directives required under this Section shall consist of the following information:

(1) The transaction to be entered into;
(2) Name of the issuer or borrower;

[1] Trust entities shall be given six (6) months from 01 August 2017 to make appropriate changes in their policies, processes, and procedures in order to comply with the above requirements.[2] Example: "Fixed income securities" does not really mean a guarantee of fixed earnings on the investor's participation; "Risk-free" government securities which may be sovereign "risk-free" but not interest rate "risk-free

(3) Amount involved; and
(4) Terms of the security, including collateral, if any.

Trust entities with composite rating of at least "3" under the Revised Trust Rating System in the latest Bangko Sentral examination will not be subject to the investment limitations provided under this Section.

Transactions requiring prior authority. A trustee or fiduciary shall not undertake any of the following transactions for the account of a client, unless prior to its execution, such transaction has been fully disclosed and specifically authorized in writing by the client, beneficiary, other party-in-interest, court of competent jurisdiction or other competent authority:

a. Lend, sell, transfer or assign money or property to any of the departments, directors, officers, stockholders or employees of the trustee or fiduciary, or relatives within the first degree of consanguinity or affinity, or the related interest of such directors, officers and stockholders; or to any corporation where the trustee or fiduciary owns at least fifty percent (50%) of the subscribed capital or voting stock in its own right and not as trustee nor in a representative capacity;

b. Purchase or acquire property or debt instruments from any of the departments, directors, officers, stockholders, or employees of the trustee or fiduciary, or relatives within the first degree of consanguinity or affinity, or the related interest of such directors, officers and stockholders; or from any corporation where the trustee or fiduciary owns at least fifty percent (50%) of the subscribed capital or voting stock in its own right and not as trustee nor in a representative capacity;

c. Invest in equities of, or in securities underwritten by, the trustee or fiduciary or a corporation in which the trustee or fiduciary owns at least fifty percent (50%) of the subscribed capital or voting stock in its own right and not as trustee nor in a representative capacity; and

d. Sell, transfer, assign, or lend money or property from one trust or fiduciary account to another trust or fiduciary account except where the investment is in any of those enumerated in Items "a" to "d" of this Section (*Lending and investment disposition*).

DOSRIs covered by this Section shall be those considered as such under existing regulations on loans to DOSRI in Part III - D of this Manual. The procedural and reportorial requirements in said regulations shall also apply.

The disclosure required under this Section shall consist of the following minimum information:

a. The transactions to be entered into;
b. Identities of the parties involved in the transactions and their relationships (shall not apply to Item *"d"* of this Section under *Transactions requiring prior authority*);
c. Amount involved; and
d. Collateral security(ies), if any.

The above information shall be made known to clients in a separate instrument or in the very instrument creating the trust or fiduciary relationship.

Ceilings on loans. Loans funded by trust accounts shall be subject to the SBL and DOSRI ceilings imposed on banks under Secs. 362, 344 and 345. For purposes of determining compliance with said ceilings, the total amount of said loans granted by the trust department and the bank to the same person, firm or corporation shall be combined.

Funds awaiting investment or distribution. Funds held by the trustee or fiduciary awaiting investment or distribution shall not be held uninvested or undistributed any longer than is reasonable for the proper management of the account.

Other applicable regulations on loans and investments. The loans and investments of trust and other fiduciary accounts shall be subject to pertinent laws, rules and regulations for banks that shall include but need not be limited to the following:

a. Requirements of Sections 39 and 40 of R.A. No. 8791 (The General Banking Law of 2000);

b. Criteria for past due accounts; and

c. Qualitative appraisal of loans, investments and other assets that may require provision for probable losses which shall be booked in accordance with the Financial Reporting Package for Trust Institutions (FRPTI);

d. Requirements of Sections 3 and 8 of the Securities and Regulation Code (SRC); and

e. Provisions of Section 44 - Investments by Philippine residents - of the Bangko Sentral Manual of Regulations on Foreign Exchange Transactions (MORFXT), such that the cross-currency investments of peso trust and other fiduciary accounts, including peso unit UITFs, shall be subject to the following conditions:

(1) All cash flows of the trustee or fiduciary shall only be in pesos. In case the foreign exchange acquired or received by the trustee or fiduciary as dividends/earnings or divestment proceeds on such investment are intended for reinvestment abroad, the same proceeds are not required to be inwardly remitted and sold for pesos through authorized agent banks: *Provided*, That such proceeds are reinvested abroad within two (2) banking days from receipt of the funds abroad;

(2) The trustee or fiduciary shall purchase, invest, reinvest, sell, transfer or dispose foreign currency-denominated financial instruments, including securities as defined in Section 3 of the SRC, through a distributor or underwriter duly authorized or licensed by the government of the issuer of such instruments, or a counterparty FI (seller or buyer) accredited by the trustee or fiduciary: *Provided*, That, the conduct, documentation, and settlement of any of these transactions shall be outside Philippine jurisdiction;

(3) The trustee of fiduciary shall record cross-currency investment transactions in the peso regular books at their foreign currency amounts and their local currency equivalent using the Philippine Dealing System peso/US dollar closing rate and the New York US dollar/third currencies closing rate; and

(4) The trustee or fiduciary shall comply with the reportorial requirements that may be prescribed by the Bangko Sentral, which shall include as a minimum, the foreign currency amount and the local currency equivalent of the total cross currency investments with details on: (a) type of investments; and (b) amount of cash flow converted.

For purposes of this Section, "resident", as defined under Section 1 of the FX Manual, shall refer to the (a) trustee or fiduciary that administers the assets received in trust or in other fiduciary capacity; or (b) principal that engages the services of the investment manager under an investment management agreement.

Operating and accounting methodology. Trust and other fiduciary accounts shall be operated and accounted for in accordance with the following:

a. The trustee or fiduciary shall administer, hold or manage the fund or property in accordance with the instrument creating the trust or other fiduciary relationship; and
b. Funds or property of each client shall be accounted separately and distinctly from those of other clients herein referred to as individual account accounting.

Tax-exempt individual trust accounts. The following shall be the features/requirements of individual trust accounts which may be exempted from the twenty percent (20%) final tax under Section 24(B)(1) of R.A. No. 8424 (The Tax Reform Act of 1997):

a. The trust indenture/agreement shall only be between individuals who are Filipino citizens or resident aliens and banks acting as trustee. The trust indenture/agreement shall be non-negotiable and non-transferable;

b. The trust indenture/agreement shall indicate that pursuant to Section 24(B)(1) of R.A. No. 8424, interest income of the trust fund derived from investments in interest-bearing instruments (e.g., time deposits, government securities, loans and other debt instruments) which are otherwise subject to the twenty percent (20%) final tax shall be exempt from said final tax provided the fund was held by the trustee-bank for at least five (5) years. If said fund was held for a period less than five (5) years, interest income shall be subject to a final tax based on the following schedule –

Holding Period	Rate of Tax
Four (4) years to less than five (5) years	5%
Three (3) years to less than four (4) years	12%
Less than three (3) years	20%

Necessarily, the trust indenture/agreement shall clearly indicate the date when the trustee-bank actually received the trust funds which shall serve as basis for determining the holding period of the funds.

c. A trustee may accept additional funds for inclusion in trust accounts which have been established as tax-exempt under R.A. No. 8424. However, the receipt of additional funds shall be properly documented by indicating that they are part of existing tax-exempt trust accounts and that the interest income of the additional funds derived from investments in interest- bearing instruments shall be exempt from the twenty percent (20%) final tax under the same conditions mentioned in the preceding item. The document shall also indicate the date when the funds were received by the trustee-bank to serve as basis for determining the minimum five (5)- year holding period for tax exemption purposes of the additional funds; and

d. Tax-exempt individual trust accounts established under this Section shall be subject to the provisions of this Section under item *"c"* of *Minimum documentary requirements and Lending and investment disposition up to Operating and accounting methodology*.

Personal management trust. The guidelines on personal management trust (PMT) accounts are as follows:

a. *Minimum criteria*. A PMT account shall meet the following criteria:

(1) The minimum entry amount and maintaining balance shall be equivalent to at least P100,000: *Provided*, That PMT with balances of up to P500,000 shall only be invested in deposits and government securities;

(2) The agreement shall clearly state the specific purpose(s) for which the account was established which shall be consistent with the general objectives of the PMT which is the preservation of the assets or property for the future use of the beneficiaries and/or to answer for their current needs;

The distribution clause shall clearly and specifically define the manner and conditions under which the assets (including income thereof) will be distributed. Any distribution/withdrawal of assets (including income thereof) shall be consistent with the purpose of the PMT, strictly in accordance with the distribution clause, and made only to the designated beneficiary/ies. Consequently, the trustee is expected to obtain adequate documentation to ensure the propriety of distribution/withdrawal of assets (including income thereof).

Pre-printed PMT agreements may be allowed for expediency: *Provided*, That the section for the trust purpose and the distribution clause shall not be pre-printed and shall be filled up only upon signing thereof by the trustor;

(3) The length of PMT's existence should be consistent with the purpose of the trustor. Any termination for causes that are inconsistent with the purpose/distribution clause shall render the trustor ineligible from opening a new PMT within a period of one year from termination date; and

(4) Management of the trust assets shall be aligned with the investment objective/s and risk parameters set forth by the trustor.

PMT accounts that do not meet any of the above criteria shall be considered as other fiduciary accounts subject to applicable reserves.

b. *Marketing*. Officers and personnel of the Bank proper, including branch managers, shall not be allowed to market PMT products and sign pre-printed PMT agreements. However, branch managers/officers may refer clients to the Trust Department and give a short introduction on the PMT product to prospective clients.

c. *Reserve requirement*. The PMT shall be subject to zero-percent (0%) reserve requirement.

Qualification and accreditation of private banks acting as trustee on any mortgage or bond issuance by any municipality, government-owned or controlled corporation, or any body politic

a. *Applicability.* Private banks duly accredited by the Bangko Sentral may act as trustee on any mortgage or bond issued by any municipality, GOCC, or any body politic.

b. *Application for accreditation.* A private bank desiring to act as trustee on any mortgage or bond issued by any municipality, GOCC, or any body politic shall file an application for accreditation with the appropriate supervising department of the Bangko Sentral. The application shall be signed by the president or officer of equivalent rank of the bank and shall be accompanied by the following documents:

(1) certified true copy of the resolution of the institution's board of directors authorizing the application;
(2) a certification signed by the president or officer of equivalent rank that the institution has complied with all the qualification requirements for accreditation.

c. *Qualification requirements.* A bank applying for accreditation to act as trustee on any mortgage or bond issued by any municipality, government-owned or controlled corporation, or any body politic must comply with the requirements in *Appendix 6.*

d. *Independence of the trustee.* A bank is prohibited from acting as trustee of a mortgage or bond issuance if any elective or appointive official of the LGU, GOCC, or body politic which issued said mortgage or bond and/or his related interests own such number of shares of the bank that will allow him or his related interests to elect at least one (1) member of the board of directors of such bank or is directly or indirectly the registered or beneficial owner of more than ten percent (10%) of any class of its equity security.

e. *Investment and management of the funds.* A domestic bank designated as trustee of a mortgage or bond issuance may hold and manage, in accordance with the provisions of the trust indenture or agreement, the proceeds of the mortgage or bond issuance and such assets and funds of the issuing municipality, corporation, or body politic as may be required to be delivered to the trustee under the trust indenture/agreement, subject to the following conditions/restrictions:

(1) Pending the utilization of such funds pursuant to the provisions of the trust indenture/agreement, the same shall only be deposited in any bank, other than the trustee/bank proper, its subsidiary or affiliate authorized to accept deposits from the Government or government entities, or invested in peso-denominated treasury bills acquired/purchased from any securities dealer/entity, other than the trustee or any of its unit/department, its subsidiary or affiliate.

(2) Investments of funds constituting or forming part of the sinking fund created as the primary source for the payment of the principal and interests due the mortgage or bonds shall also be limited to deposits in any bank, other than the trustee/bank proper, its subsidiary or affiliate, authorized to accept deposits from the Government or government entities and investments in government securities that are consistent with such purpose which must be acquired/purchased from any securities dealer/entity, other than the trustee or any of its unit/department, its subsidiary or affiliate.

f. *Waiver of confidentiality.* A bank designated as trustee of any mortgage or bond issued by any municipality, GOCC, or any body politic shall submit to the appropriate supervising department of the Bangko Sentral a waiver of the confidentiality of information under Sections 2 and 3 of R.A. No. 1405, as amended, duly executed by the issuer of the mortgage or bond in favor of the Bangko Sentral.

g. *Reportorial requirements.* A bank authorized by the Bangko Sentral to act as trustee of the proceeds of mortgage or bond issuance of a municipality, GOCC or controlled corporation, or body politic shall comply with reportorial requirements that may be prescribed by the Bangko Sentral.

h. *Applicability of the rules and Regulations on Trust, Other Fiduciary Business and Investment Management Activities.* The provisions of the Rules and Regulations on Trust, Other Fiduciary Business and Investment Management Activities not inconsistent with the provisions of this Section shall form part of these rules.

i. *Sanctions.* Without prejudice to the penal and administrative sanctions provided for under Sections 36 and 37, respectively, of the R.A. No. 7653, violation of any provision of this Section shall be subject to the following sanctions/penalties depending on the gravity of the offense:

(1) First offense –

(a) Fine of up to P10,000 a day for the institution for each violation reckoned from the date the violation was committed up to the date it was corrected; and
(b) Reprimand for the directors/officers responsible for the violation.

(2) Second offense –

(a) Fine of up to P20,000 a day for the institution for each violation reckoned from the date the violation was committed up to the date it was corrected;
(b) Suspension for ninety (90) days without pay for directors/officers responsible for the violation; and
(c) Revocation of the authority to act as trustees on any mortgage or bond issuance by any municipality, GOCCs, or body politic.

(3) Subsequent offense –

(a) Fine of up to P30,000 a day for the institution for each violation reckoned from the date the violation was committed up to the date it was corrected;
(b) Suspension or revocation of the trust license; and
(c) Suspension for one hundred twenty days without pay of the directors/ officers responsible for the violation.

Trust fund of pre-need companies. The following rules and regulations shall govern the acceptance, management and administration of the trust funds of pre-need companies by banks and other entities authorized to perform trust and other fiduciary functions.

a. *Administration of trust fund.* In line with the policy of providing greater protection to pre-need plan holders, prudential measures are hereby laid out in the administration of trust funds of preneed companies. The trust fund, inclusive of earnings, shall be administered and managed by the trustee with the skill, care, prudence and diligence necessary under the circumstances then prevailing that a prudent man, acting in the same capacity and familiar with such matters, would exercise in the conduct of an enterprise of a like character and similar aims.

The trustee shall have exclusive management and control over the trust fund and the right at any time to sell, convert, invest, change, transfer or otherwise dispose of the assets comprising the funds.

b. *Trustee.* No trust entity shall act as a trustee or administer or hold a trust fund established by a pre-need company, which is a subsidiary or affiliate, as defined under existing Bangko Sentral regulations, of such trust entity. Trust entities currently holding or administering trust funds of an affiliate pre-need company may continue to act as trustee of such funds after the transition period provided under Item "g" only upon prior approval of the Monetary Board on the basis of a clear showing that no potential conflict of interest will arise. An absence of any exception or finding on conflicts of interest during an examination of the trust entity shall be deemed as prima facie evidence that no potential conflict of interest will arise.

c. *Investment of the trust fund.* Unless otherwise allowed under existing laws or regulations issued by the agency having jurisdiction and supervision over pre-need companies, or with prior written approval by said agency, loans and investments of the trust funds shall be limited to:

(1) Evidences of indebtedness of the Republic of the Philippines and of the Bangko Sentral, and any other evidences of indebtedness or obligations wherein the servicing and repayment of which are fully guaranteed by the Republic of the Philippines or loans against such government securities;

(2) Commercial papers duly registered with the SEC with a credit rating of one (1) for short term and "AAA" for long-term or their equivalent;

(3) Loans fully guaranteed by the Republic of the Philippines, as to the payment of principal and interest;

(4) Loans fully secured by a hold-out on, assignment or pledge of deposits maintained either with the bank proper or other banks, and/or of deposit substitutes or of mortgage and chattel mortgage bonds issued by the trustee/fiduciary or by other banks;

(5) Loans fully secured by real estate in accordance with Section 37 and subject to the requirements of Sections 39 and 40 of R.A. No. 8791 and their implementing regulations; and

(6) Loans fully secured by unconditional payment guarantees (such as standby letters of credit and letter of indemnity) issued by banks/multilateral financial institutions.

d. *Transactions with DOSRI*. The trustee shall not, for the account of the trustor or the beneficiary of the trust, purchase or acquire property from, or sell, transfer, assign or lend money or property to, or purchase debt instruments of, any of the departments, directors, officers, stockholders, employees, subsidiaries and affiliates of the trustee and/or the trustor, and relatives within the first degree of consanguinity or affinity, or the related interests, of such directors, officers and stockholders, without prejudice to any rule that may be issued by the agency having jurisdiction and supervision over such preneed company allowing such transaction with the prior written approval of such agency. Such written approval shall clearly specify the amount of the loan and/or investment including the name of the concerned director, officer, stockholder and their related interests.

e. *Applicability of the Rules and Regulations on Trust, Other Fiduciary Business and Investment Management Activities (Trust Rules).* The provisions of the Trust Rules consistent with the provisions of this Section shall supplementarily apply to trust funds of pre-need companies.

f. *Penalties and sanctions.* Any violation of the provisions of this Section on *Trust fund of pre-need companies* shall be a ground for prohibiting the concerned entity from accepting, managing and administering trust funds of pre-need companies without prejudice to the imposition of the applicable sanctions prescribed or allowed under the Trust Rules.

(Circular Nos. 966 dated 11 July 2017, 961 dated 02 June 2017, M-2016-016 dated 18 November 2016, Circular Nos. 920 dated 18 August 2016, and 913 dated 02 June 2016)

414 UNIT INVESTMENT TRUST FUNDS

The following rules and regulations shall govern the creation, administration and investment/s of Unit Investment Trust Funds (UITFs).

Establishment of a UITF. Any trust entity authorized to perform trust functions may establish, administer and maintain one (1) or more UITFs subject to applicable provisions under this Section. A UITF may be allowed to operate as a 1) feeder fund, 2) fund-of-funds and/or 3) multi-class fund: *Provided*, That the plan rules and related documents shall state that the UITF is a feeder fund or a fund-of-funds, and/or multi-class fund, and provide an explanation or illustration of such structures. A UITF may also be allowed to have a unit-paying feature where the income of the fund is distributed in the form of units called unit income.

Administration of a UITF. The trustee shall have exclusive management and control of each UITF under its administration, and the sole right at any time to sell, convert, reinvest, exchange, transfer or otherwise change or dispose of the assets comprising the fund: *Provided*, That no participant in a UITF shall have or be deemed to have any ownership or interest in any particular account or investment in the UITF but shall have only its proportionate beneficial interest in the fund as a whole.

Relationship of trustee with UITF. A trustee administering a UITF shall not have any other relationship with such fund other than its capacity as trustee of the UITF: *Provided*, *however*, That a trustee which simultaneously administers other trust, fiduciary or investment management funds may invest such funds in the trustee's UITF, if allowed under a policy approved by the board of directors.

Operating and accounting methodology. A UITF shall be operated and accounted for in accordance with the following:

a. The total assets and accountabilities of each fund shall be accounted for as a single account referred to as pooled-fund accounting method. The investments of a multi-class fund shall remain as one (1) pool and are not separately allocated to classes.

b. Contributions to each fund by clients shall always be through participation in units of the fund and each unit shall have uniform rights and privileges, as any other unit; in the case of multi-class fund, units shall be issued as units in a class of a fund.

c. All such participations shall be pooled and invested as one (1) account (referred to as collective investments).

d. The beneficial interest of each participation unit shall be determined under a unitized net asset value per unit (NAVPu) valuation methodology defined in the written plan of the UITF, and no participation shall be admitted to, or redeemed from, the fund or class of a fund, except on the basis of such valuation. To arrive at a fund's NAVPu, the fund's total Net Assets is divided by the total outstanding units. Total Net Assets is a summation of the market value of each investment less fees, taxes, and other qualified expenses, as defined under the plan rules.

   When there is a different fee structure for each class, the NAVPu of each class shall be computed by dividing total net assets of a class by the total outstanding units of such class; where the net assets of each class shall represent its proportionate share on the net assets of the multi-class fund less the trustee fee and expenses attributable to that class. The net assets of the multi-class fund is the summation of the market value of each investment less fees, taxes, and other qualified expenses, but gross of trustee fees and expenses attributable to a particular class, as defined under the plan rules.

e. For a UITF with unit-paying feature, the trustee may distribute the income of the Fund subject to the minimum conditions enumerated hereunder.

   (1) Distribution of income shall be made only from cash received from interest income earned and cash dividends;

   (2) Distribution of income shall be made after the trust entity has taken into consideration the following:

      (a) Income for the period; and
      (b) The investment objective and distribution policy of the fund;

   (3) Distribution of income to participants shall be after deduction of taxes and expenses (net distribution);

   (4) Distribution of income shall be effected through conversion of the income for distribution into its equivalent units based on the NAVPu as at the first business day when units in the fund are quoted ex-distribution. Participants shall be entitled to his/her pro-rata share of said units which, on distribution date, shall be automatically considered redeemed;

   (5) The Plan rules shall state the distribution policy, including the sources of income to be distributed and the intended frequency of distribution

   (6) For monitoring purposes, the trustee shall separately account for the fund's income due for distribution;

   (7) Where a distribution is made, a notice to each participant on his/her unit income shall be made available containing information on the total amount of income for distribution by the trustee, NAVPu ex-distribution and its basis, total number of units for distribution, and unit income. Unit income refers to the number of units for every unit held by the participant entitled for distribution.

Plan rules. Each UITF shall be established, administered and maintained in accordance with a written trust agreement drawn by the trustee, referred to as the "Plan" which shall be approved by the board of directors of the trustee and a copy of which shall be submitted to the Bangko Sentral for processing and approval prior to its implementation. Each new UITF Plan filed for approval shall be charged a processing fee of P10,000.00.

The *Plan* shall contain the following minimum elements:

a. *Title of the Plan*. This shall correspond to the product/brand name by which the UITF is proposed to be known and made available to its clients. The Plan rules shall state the classification of the UITF (e. g., money market fund, bond fund, balanced fund and equity fund).

b. *Manner by which the fund is to be operated*. A statement of the fund's investment objectives, policies and limitations, and, if applicable, income distribution policies, distinctive features of the different classes of units such as the level of trustee fees and expenses for each class and other peculiarities which the Bangko Sentral may allow.

c. *Risk disclosure*. The Plan rules shall state both the general risks and risks specific to the type of fund.

d. *Investment powers of the trustee with respect to the fund, including the character and kind of investments, which may be purchased, by the fund*. There must be an unequivocal statement of the full discretionary powers of the trustee as far as the fund's investments are concerned. These powers shall be limited only by the duly stated investment objective and policies of the fund.

e. The unitized NAVPu valuation methodology as prescribed under this Section on *Operating and accounting methodology* shall be employed. The plan rules shall also provide the method of determining the proportionate share of the classes of units to the value of the assets of the fund.

f. *Terms and conditions governing the admission or redemption of units of participation in the fund*. The Plan rules shall state that the trustee, prior to admission of a client's initial participation in the UITF, shall conduct a client suitability assessment to profile the risk-return orientation and suitability of the client to the specific type of fund. If the frequency of admission or redemption is other than daily; that is, any business day, the same should be explicitly stated in the Plan rules: *Provided*, That the admission and redemption prices shall be based on the end of day NAVPu of the fund or of the class of a fund, if applicable, computed after the cut-off time for fund participation and redemption for that reference day, in accordance with existing Bangko Sentral regulations on mark to market valuation of investment securities.

g. Aside from the regular audit requirement applicable to all trust accounts, an external audit of each UITF shall be conducted annually by an independent auditor acceptable to the Bangko Sentral and the results thereof made available to participants. The external audit shall be conducted by the same external auditor engaged for the audit of the trust entity.

h. *Basis upon which the fund may be terminated*. The Plan rules shall state the rights of participants in case of termination of the fund. Termination of the fund shall be duly approved by the trustee's board of directors and a copy of the resolution submitted to the appropriate department of the Bangko Sentral.

i. *Liability clause of the trustee*. There must be a clear and prominent statement adjacent to where a client is required to sign the participating trust agreement that (1) the UITF is a trust product and not a deposit account or an obligation of, or guaranteed, or insured by the trust entity or its affiliates or subsidiaries; (2) the UITF is not insured or governed by the PDIC; (3) due to the nature of the investment, yields and potential yields cannot be guaranteed; (4) any loss/income arising from market fluctuations and price volatility of the securities held by the UITF, even if invested in government securities, is for the account of the client/participant; (5) as such, the units of participation of the investor in the UITF, when redeemed, may be worth more or be worth less than his/her initial investment/ contributions; (6) historical performance, when presented, is purely for reference purposes and is not a guarantee of similar future result; and (7) the trustee is not liable for losses unless upon willful default, bad faith or gross negligence.

j. *Amount of fees/commission and other charges to be deducted from the fund*. The amount of fees that shall be charged to a fund shall cover the fund's fair and equitable share of the routine administrative expenses of the trustee such as salaries and wages, stationery and supplies, credit investigation, collateral appraisal, security, messengerial and janitorial services, EDP expenses, Bangko Sentral supervision fees and internal audit fees. However, the trustee may charge a UITF for special expenses in case such expenses are (1) necessary to preserve or enhance the value of the fund, (2) payable to a third party covered by a separate contract, and (3) disclosed to participants. The trustee shall secure prior Bangko Sentral approval for outsourcing services provided under existing regulations. No other fees shall be charged to the fund.

Sales, distribution, marketing and/or other promotional related expenses shall be for the account of the trustee and shall be presumed covered by the trust fee.

In the case of a multi-class fund that have different level of trustee fees and expenses, there shall be a policy on the equitable allocation of any costs, charges, and expenses payable out of the multi-class fund, which are not attributable to any particular class.

k. Such other matters as may be necessary or proper to define clearly the rights of participants in the UITF. The provisions of the Plan shall govern participation in the fund including the rights and benefits of persons having interest in such participation, as beneficiaries or otherwise. The Plan may be amended by a resolution of the board of directors of the trustee: *Provided, however*, That participants in the fund shall be immediately notified of such amendments and shall be allowed to withdraw their participations within a reasonable time but in no case less than thirty (30) calendar days after the amendments are approved, if they are not in conformity with the amendments made thereto: *Provided, further*, That amendments to the Plan shall be submitted to the Bangko Sentral within ten (10) business days from approval of the amendments by the board of directors. For purposes of imposing monetary penalties provided under Sec. 171 for Delayed/Unsubmitted reports, the amendments to the Plan shall be considered as "Category A-3" report. The amendments shall be deemed approved after thirty (30) business days from date of completion of requirements.

A copy of the Plan shall be available at the principal office of the trustee during regular office hours, for inspection by any person having an interest in the fund or by his authorized representative. Upon request, a copy of the Plan shall be furnished such interested person.

Minimum disclosure requirements

a. *Key Information and Investment Disclosure Statement (KIIDS)*. This document shall contain the key features and the prospective and outstanding investments of a UITF. It shall use plain language presented in a concise manner, and shall comply substantially with the format prescribed in *Appendix 56*. This document shall be updated and made available to participants at least every calendar quarter thereof.

For investments of feeder funds/fund of-funds, the trustee shall likewise make available to all UITF clients all relevant information on the target fund/s.

For a UITF with unit-paying feature, the KIIDS shall include the intended frequency of income distribution and the last five distribution dates, with information on the unit income and the distribution yield: *Provided,* That the KIIDS shall disclose that distributions are not guaranteed and are determined by the trustee in accordance with the plan rules; and that income distribution may result in an immediate decrease in NAVPu by the amount of the distribution.

b. *Distribution of investment units*. The trustee may issue such conditions or rules, as may affect the distribution of investment units, subject to the minimum conditions enumerated hereunder.

(1) *Marketing materials*. All marketing materials related to the sale of a UITF shall clearly state:

(a) The designated name and classification of the fund, the fund's trustee, and the classes of a UITF, if any

(b) Minimum information regarding:

(i) The general investment policy and applicable risk profile. There shall be a clear description/explanation of the general risks attendant with investing in a UITF, including risk specific to a type of fund. Technical terms should likewise be defined in laymen's terms.[1]

(ii) Particulars including administrative and marketing details, such as but not limited to, pricing, cut-off time for participation and redemption, early redemption penalty/ies, and any special features of the UITF, as applicable. For a UITF with unit-paying feature, the marketing materials shall provide relevant information on this feature including, but not limited to, disclosures that distributions are not guaranteed and shall be determined by the trustee in accordance with the plan rules; and that income distribution may result in an immediate decrease in NAVPu by the amount of distribution.

(iii) All charges made/to be made against the fund or class of a UITF, including trust fees and other related charges.

[1] Example: "Fixed income securities" does not really mean a guarantee of fixed earnings on the investor's participation; "Risk-free" government securities which may be sovereign "risk-free" but not interest rate "risk-free

(iv) The availability of the Plan Rules governing the fund, upon the client's request and the contact details of the trustee.

(v) Client and Product Suitability Standards. Prior to admission, the trustee shall perform a client profiling process for all UITF participants under the general principles on client suitability assessment to guide the client in choosing investment outlets that are best suited to his objectives, risk tolerance, preferences and experience. The profiling process shall, at the minimum, require the trustee to obtain client information through the Client Suitability Assessment (CSA) form, classify the client according to his financial sophistication and communicate the CSA results to the subject client. The general principles on CSA shall also require the trustee to adopt a notice mechanism whereby clients are advised and/or reminded of the explicit requirement to notify the trustee or its UITF marketing personnel of any change in their characteristics, preferences or circumstances to enable the trustee to update client's profile at least every three (3) years.

(c) The participation is not a "deposit account" but a trust product; and that any loss/income is for the account of the participant; that the trustee is not liable for losses unless upon willful default, bad faith or gross negligence.

(d) A balanced assessment of the possible gains and losses of the UITF and that the participation does not carry any guaranteed rate of return, and is not insured by the PDIC.

(e) An advisory that the investor must read the complete details of the fund in the Plan Rules, make his/her own risk assessment, and when necessary, he/she must seek independent/professional opinion, before making an investment.

(2) Evidence of participation. Every UITF participant shall be given –

(a) A participating trust agreement. Such agreement shall clearly indicate that (1) the UITF is a trust product and not a deposit account or an obligation of, or guaranteed, or insured by the trust entity or its affiliates or subsidiaries; (2) the UITF is not insured or governed by the PDIC; due to the nature of the investment, yields and potential yields cannot be guaranteed; any loss/income arising from market fluctuations and price volatility of the securities held by the UITF, even if invested in government securities, is for the account of the client/participant; (5) as such, the units of participation of the investor in the UITF, when redeemed, may be worth more or be worth less than his/her initial investment/contributions; (6) historical performance, when presented, is purely for reference purposes and is not a guarantee of similar future result; and (7) the trustee is not liable for losses unless upon willful default, bad faith or gross negligence.

In addition to the agreement, every UITF participant shall be provided with –

(i) CSA form to be accomplished during the profiling process required under the general principles on CSA. This is designed to ensure that based on relevant information about the client, his investment profile is matched against the investment parameters of the UITF. At the minimum, client information shall include personal or institutional data, investment objective, investment horizon, investment experience, and risk tolerance; and

(ii) Risk disclosure statement, which in reference to this Section *under Plan Rules*, shall describe the attendant general and specific risks that may arise from investing in the UITF. This statement shall be accomplished by the client every time he participates in a different fund and shall be substantially in the form as shown in *Appendix 57*.

Both documents shall be signed by the client/participant and the UITF marketing personnel who assessed and explained to the concerned client his/her ability to bear the risks and potential losses.

(b) A confirmation of participation and redemption made to/from the fund that shall contain the following information:

(i) NAVPu of the fund on day of purchase/redemption;
(ii) Number of units purchased/ redeemed; and
(iii) Absolute peso or foreign currency value.

(3) A participating trust agreement or confirmation of contribution/redemption need not be manually signed by the trustee or his authorized representative if the same is in the form of an electronic document that conforms with the implementing rules and regulations of R.A. No. 8792, otherwise known as the E-Commerce Act.

c. Regular computation and availability of NAVPu and other information. The trustee managing a UITF shall:

(1) Compute the NAVPu daily;

(2) Publish at least weekly the NAVPu in one (1) or more newspapers of national circulation: *Provided, That* a pooled weekly publication of such NAVPu shall be considered as substantial compliance with this requirement. The said publication, at the minimum, shall clearly state the name of the fund, its general classification, the fund's NAVPu and the moving return on investment (ROI) of the fund on a year-to- date (YTD) and year-on-year (YOY) basis; and

(3) Make available the historical net asset value per unit, declaration of trust or its equivalent document, disclosure documents, and other pertinent information about a UITF via its website or the Trust Officers Association of the Philippines (TOAP)-administered website. For a UITF with unit-paying feature, it shall also disclose when there is an income declaration, the total amount of income for distribution, NAVPu ex-distribution and its basis, total number of units for distribution, unit income and historical distributions, if any.

d. Marketing personnel. The trustee shall ensure that there are board-approved policies and procedures covering the following:

(1) Duties and responsibilities of all UITF marketing personnel;
(2) Conduct of due diligence check on the fitness and propriety of all UITF marketing personnel which includes monitoring and reviewing on an ongoing basis their performance; and
(3) Conduct of continuing training and education especially on updates relative to the fund products.

For purposes of this Section, a UITF may be sold by a bank employee belonging to the same financial conglomerate as the trustee, subject to the provision of the cross-selling framework.

To ensure the competence and integrity of all duly designated UITF Marketing Personnel, all personnel involved in the sales of UITF must be certified as a UITF Marketing Personnel through a UITF Certification Program (UCP) administered by a reputable financial services industry association/organization acceptable to the Bangko Sentral. The certification program, at a minimum, should have a qualifying examination, a requirement for continuing education, and a requirement for registration of the Certified UITF Marketing Personnel. The Guidelines for the Administration of the UCP are provided in *Appendix 134*.

It shall be the responsibility of the Trust Entity (TE) to ensure that its UITF Marketing Personnel continuously comply with the qualification requirements prescribed by the Bangko Sentral, and that they conduct themselves with integrity, honesty and with proper representation to the clients of the TE.

Exposure limits. The combined exposure of the UITF to any entity and its related parties shall not exceed fifteen percent (15%) of the market value of the UITF: *Provided, That*, a UITF invested, partially or substantially, in exchange traded equity securities shall be subject to the fifteen percent (15%) exposure limit to a single entity/issuer: *Provided, further*, That, in the case of an exchange traded equity security which is included in an index and tracked by the UITF shall be the actual benchmark weighting of the issuer or fifteen percent (15%), whichever is higher.

This limitation shall not apply to non-risk assets as defined by the Bangko Sentral.

In the case of feeder fund/fund-of-funds, the exposure limit shall be applied on the target fund's underlying investments. Notwithstanding said limit, if the target fund is allowed by its respective regulatory authority to invest in units/shares of other open-ended CIS, the exposure limit prescribed by said regulatory authority shall instead apply. Furthermore, the investments in any one (1) target fund shall not exceed ten percent (10%) of the total net asset value of the target fund.

In case the limits prescribed above are breached due to the marking-to-market of certain investment/s or any extraordinary circumstances, e.g., abnormal redemptions which are beyond the control of the trustee, the trustee shall be given thirty (30) days from the time the limit is breached, or in case of investor funds thirty (30) days from date of receipt of report indicating the net asset value of the fund, to correct the same.

Allowable investments and valuation. UITF investments shall be limited to bank deposits and the following financial instruments:

a. Securities issued by or guaranteed by the Philippine government, or the Bangko Sentral;

b. Tradable securities issued by the government of a foreign country, any political subdivision of a foreign country or any supranational entity;

c. Exchange-listed securities;

d. Marketable instruments that are traded in an organized exchange;

e. Loans traded in an organized market;

f. Loans arising from repo agreements which are transacted through an exchange recognized by the SEC, subject to the condition that the repo contracts may be pre-terminated lawfully by the trust entity administering the UITF and acting as lender, with due notice to its counterparty and the market operator;

g. Units/shares in collective investment schemes (CIS), i.e., target fund, shall include exchange traded fund (ETF) and other CIS, subject to the following:

(1) The investment objectives of the target fund are aligned with that of the investor fund;
(2) The underlying investments of target funds are limited to the allowable investment outlets set forth in this Section;
(3) The target fund is neither structured nor similarly structured as a feeder fund or fund-of-funds; and
(4) The target fund is supervised by a regulatory authority, as follows:

(a) a local target fund shall either be approved by the Bangko Sentral or registered with the SEC.

(b) a target fund constituted in another jurisdiction shall be registered/authorized/ approved, as the case may be, and is recognized as a collective investment scheme in its home jurisdiction by a regulatory authority that is a member of the International Organization of Securities Commissions (IOSCO); or any regulatory authority acceptable to the Bangko Sentral to supervise the CIS; and

h. Such other tradable investment outlets/categories as the Bangko Sentral may allow:

Provided, That the investment of the peso UITF in tradable foreign currency denominated financial instruments shall be subject to Items "e" and "f" of *Other applicable regulations on loans and investments* under Sec. 413.

Provided, further, That a financial instrument is regarded as tradable if quoted two-way prices are *readily* and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis: *Provided, finally,* That the financial instrument is easy to realize upon sale at any time.

The UITF may avail itself of financial derivatives instruments solely for the purpose of hedging risk exposures of the existing investments of the Fund, provided these are accounted for in accordance with existing Bangko Sentral hedging guidelines as well as the trust entity's risk management and hedging policies duly approved by the Trust Committee and disclosed to participants.

The use of hedging instruments shall also be disclosed in the *"Plan"* as provided in Item *"c"* of the *Plan rules* and specified in the key information and investment disclosure statement as provided in Item "*a*" on *Minimum disclosure requirements* of this Section.

In the case of Feeder Fund or Fund-of-Funds, offshore/global funds which use financial derivatives for efficient portfolio management (EPM) may be allowed as target fund: *Provided,* That financial derivatives shall not be extensively or primarily used as an investment strategy of the target fund and that the risk level of the target fund remain consistent with the objective and risk profile of the investor fund. For this purpose, the use of financial derivatives is deemed to be for EPM if:

a. it is economically appropriate in that it is realized in a cost effective manner;
b. the exposure is fully covered to meet any obligation to pay or deliver;
c. it has at least one of the following aims:

(1) reduction of risk;
(2) reduction of cost with no increase or a minimal increase in risk; or
(3) generation of additional capital or income for the scheme with no increase or a minimal increase in risk.

Alternatively, the target fund should comply with the relevant regulatory requirements of its home jurisdiction as regards the use of financial derivatives for EPM.

Other related guidelines on valuation of allowable investments.

a. In marking to market debt securities, the provisions of *Appendix 28* shall apply.

b. In case outstanding UITF investments may deteriorate in quality, i.e., no longer tradable as defined under *allowable investments and valuation of* this Section, the trustee shall immediately provision to reflect fair value in accordance with generally accepted accounting principles or as may be prescribed by the Bangko Sentral. If no fair value is available, the instrument shall be assumed to be of no market value.

Unit Investment Trust Fund administration support.

a. *Backroom operations.* Administrative rules on backroom under Sec. 435 shall be applicable to UITF. Adequate systems to support the daily marking-to- market of the fund's financial instruments shall be in place at all times. In this respect, a daily reconcilement of the fund's resultant marked-to-market value with the unrealized market losses and gains (respective contra asset balance) versus the book value of the fund for investments in financial instruments shall be done and all differences resolved within the day.

b. *Custody of securities.* Investments in securities of a UITF shall be held for safekeeping by Bangko Sentral accredited third party custodians which shall perform independent marking-to- market of such securities.

Investments in target funds of a UITF structured as an investor fund shall be held for safekeeping by an institution registered/authorized/approved by a relevant regulatory authority in its home jurisdiction to act as third party custodian.

Counterparties.

a. *Dealings with related interests/bank proper/holding company/subsidiaries/affiliates and related companies.* A trustee of a UITF shall be transparent at all times and maintain an audit trail for all transactions with related parties or entities. The trustee shall observe the principle of best execution and no purchase/sale shall be made with related counterparties without considering at least two (2) competitive quotes from other sources.

Consistent with the provisions of this Section on *Relationship of trustee with UITF*, a trustee may invest the funds of a UITF structured as an investor fund in a target fund that is administered by the trustee or its related party/company: *Provided*, That:

(1) there shall be no cross-holding between the investor fund and the target fund, where cross-holding refers to the holding of shares/units of participation in one another by two (2) or more funds;
(2) all initial charges on the target fund are waived; and
(3) the trust/management fee shall be charged only once, either at the level of the investor fund or at level of the target fund.

b. *Accreditation of counterparties.* The Fund shall only invest with approved counterparties qualified in accordance with the policy duly approved by the Trust Committee. Counterparties shall be subject to appropriate limits in accordance with sound risk management principles.

Foreign currency-denominated unit investment trust funds. UITF denominated in any acceptable foreign currency provided under existing Bangko Sentral rules and regulations may be established. Such fund may only be invested in allowable investments denominated in pesos or any acceptable foreign currency as expressly allowed under the fund's plan rules and properly disclosed to fund participants.

Exemptions from statutory and liquidity reserves, single borrower's limit, director, officers, stockholders and their related interests. The provisions on reserves, single borrower's limit and DOSRI ceilings under Sec. 418, and Secs. 362, 344 and 345, respectively, applicable to trust funds in general shall not be made applicable to UITFs.

(Circular Nos. 1021 dated 15 November 2018, 1018 dated 26 October 2018, 999 dated 14 March 2018, 963 dated 27 June 2017, 907 dated 10 March 2016, 876 dated 20 April 2015, 852 dated 21 October 2014, 853 dated 21 October 2014)

415 INVESTMENT MANAGEMENT ACTIVITIES

The conduct of investment management activities shall be subject to the following regulations.

Minimum documentary requirements. An investment management account shall be covered by a written document establishing such account, as follows:

a. In the case of accounts created by corporations, business firms, organizations or institutions, the voluntary written agreement or indenture entered into by the parties, accompanied by a copy of the board resolution or other evidence authorizing the establishment of and designating the signatories to, the investment management account.

b. In the case of accounts created by individuals, the voluntary written agreement or indenture entered into by the parties.

The voluntary written agreement or contract shall include the following minimum provisions:

(1) Pre-numbered contractual agreement form;
(2) Title or nature of contractual agreement in noticeable print;
(3) Legal capacities, in noticeable print, of parties sought to be covered;
(4) Purposes and objectives;
(5) The initial amount of funds and/or value of securities subject of the arrangement delivered to the investment manager;
(6) Statement in underlined noticeable print that:

    (a) The agreement is an agency and not a trust agreement. As such, the client shall at all times retain legal title to funds and properties subject of the arrangement;

    (b) The arrangement does not guaranty a yield, return or income by the investment manager. As such, past performance of the account is not a guaranty of future performance and the income of investments can fall as well as rise depending on prevailing market conditions; and

    (c) The investment management agreement is not covered by the PDIC and that losses, if any, shall be for the account of the client;

(7) Duties and powers of the investment manager;
(8) Liabilities of the investment manager;
(9) Reports to the client;
(10) The amount or rate of the compensation of the investment manager;
(11) Terms and conditions governing withdrawals from the account;
(12) Termination of contractual arrangement; and
(13) Disclosure requirements for transactions requiring prior authority and/ or specific written investment directives from the client.

A sample investment management agreement which conforms to the foregoing requirements is shown as *Appendix 21*.

Minimum size of each investment management account. No investment management account shall be accepted or maintained for an amount less than P1.0 million. An investment management account reduced to less than P1.0 million due to investment losses shall be exempt from this requirement.

Commingling of funds. Two (2) or more individual investment management accounts shall not be commingled except for the purpose of investing in government securities or in duly registered commercial papers: *Provided*, That the participation of each of the aforementioned accounts in the commingled account shall not be less than P1.0 million: *Provided, further*, That such commingling has been duly disclosed and specifically agreed in writing by the clients.

Lending and investment disposition. Assets received in investment management capacity shall be administered in accordance with the terms of the instrument creating the investment management relationship.

When an investment manager is granted discretionary powers in the investment disposition of investment management funds and unless otherwise specifically enumerated in the agreement or indenture and directed in writing by the client, loans and investments of the fund shall be limited to:

a. Traditional deposit products of UBs/KBs in the Philippines with long-term credit rating of at least AA- or its equivalent by a third party credit assessment agency recognized by the Bangko Sentral;

b. Evidences of indebtedness of the Republic of the Philippines and of the Bangko Sentral, and any other evidences of indebtedness or obligations where the servicing and repayment of which are fully guaranteed by the Republic of the Philippines or loans against such government securities;

c. Loans fully guaranteed by the Republic of the Philippines as to the payment of principal and interest;

d. Tradable securities issued by the government of a foreign country or any supranational entity with long-term credit rating of at least AA- or its equivalent by a third party credit assessment agency recognized by the Bangko Sentral;

e. Loans fully secured by a hold-out on, assignment or pledge of deposits maintained either with the bank proper or other banks, or of deposit substitutes of the bank, or of mortgage and chattel mortgage bonds issued by the investment manager; and

f. Loans fully secured by real estate or chattels in accordance with Sec. 303 and Secs. 143 (*Credit classification and provisioning*) and 301 (*Additional requirements*).

The specific directives required under this Section on *Lending and investment disposition* shall consist of the following information:

a. The transaction to be entered into;
b. Name of the issuer or borrower;
c. Amount involved; and
d. Terms of the security, including collateral, if any.

Trust entities with composite rating of at least "3" under the Revised Trust Rating System in the latest Bangko Sentral examination will not be subject to the investment limitations provided under this Section on *Lending and investment disposition*.

Transactions requiring prior authority. An investment manager shall not undertake any of the following transactions for the account of a client, unless prior to its execution, such transaction has been fully disclosed and specifically authorized in writing by the client:

a. Lend, sell, transfer or assign money or property to any of the departments, directors, officers, stockholders, or employees of the investment manager, or relatives within the first degree of consanguinity or affinity, or the related interests of such directors, officers and stockholders; or to any corporation where the investment manager owns at least fifty percent (50%) of the subscribed capital or voting stock in its own right and not as trustee nor in a representative capacity;

b. Purchase or acquire property or debt instruments from any of the departments, directors, officers, stockholders, or employees of the investment manager, or relatives within the first degree of consanguinity or affinity, or the related interests of such directors, officers and stockholders; or from any corporation where the investment manager owns at least fifty percent (50%) of the subscribed capital or voting stock in its own right and not as trustee nor in a representative capacity;

c. Invest in equities of, or in securities underwritten by, the investment manager or a corporation in which the investment manager owns at least fifty percent (50%) of the subscribed capital or voting stock in its own right and not as trustee nor in a representative capacity; and

d. Sell, transfer, assign or lend money or property from one trust, fiduciary or investment management account to another trust, fiduciary or IMA except where the investment is in any of those enumerated in Items "a" to "d" of lending and investment disposition under this Section.

Directors, officers, stockholders, and their related interests covered by this Section shall be those considered as such under existing regulations on loans to DOSRI in Part III-D of this Manual. The procedural and reportorial requirements in said regulations shall also apply.

The disclosure required under this Section shall consist of the following minimum information:

a. The transaction to be entered into;
b. Identities of the parties involved in the transaction and their relationships (shall not apply to Item "d" of this Section on *Transactions requiring prior authority*);
c. Amount involved; and
d. Collateral security(ies), if any.

The above information shall be made known to clients in a separate instrument or in the very instrument creating the investment management relationship.

Title to securities and other properties. Securities such as promissory notes, shares of stocks, bonds and other properties of the portfolio shall be issued or registered in the name of the principal or of the investment manager: *Provided*, That in case of the latter, the instrument shall indicate that the investment manager is acting in a representative capacity and that the principal's name is disclosed thereat.

Ceilings on loans. Loans funded by IMAs shall be subject to the DOSRI ceilings imposed on banks and IHs under Secs. 344 and 345. For purposes of determining compliance with said ceilings, the total amount of said loans granted by the trust department and the bank proper to the same person, firm or corporation shall be combined.

Other applicable regulations on loans and investments. The loans and investments of IMAs shall be subject to pertinent laws, rules and regulations for banks that shall include, but need not be limited to, the following:

a. Requirements of Sections 39 and 40 of R.A. No. 8791 (The General Banking Law of 2000);
b. Criteria for past due accounts;
c. Qualitative appraisal of loans, investments and other assets that may require provision for probable losses which shall be booked in accordance with the FRPTI;

d. Requirements of Sections 3 and 8 of the SRC; and
e. Provisions of Section 44 – Investments by Philippine Residents – of the FX Manual, such that the cross-currency investments of peso IMAs, shall be subject to the following conditions:

(1) All cash flows of the investment manager shall only be in pesos. In case the foreign exchange acquired or received by the principal as dividends/earnings or divestment proceeds on such investment are intended for reinvestment abroad, the same proceeds are not required to be inwardly remitted and sold for pesos through authorized agent banks: *Provided,* That such proceeds are reinvested abroad within two banking days from receipt of the funds abroad;

(2) The investment manager shall purchase, invest, reinvest, sell, transfer or dispose foreign currency-denominated financial instruments, including securities as defined in Section 3 of the SRC, through a distributor or underwriter duly authorized or licensed by the government of the issuer of such instruments, or a counterparty financial institution (seller or buyer) authorized in writing by the principal and/or accredited by the investment manager: *Provided*, That, the conduct, documentation, and settlement of any of these transactions shall be outside Philippine jurisdiction;

(3) The investment manager shall record cross-currency investment transactions in the peso regular books at their foreign currency amounts and their local currency equivalent using the Philippine Dealing System peso/US dollar closing rate and the New York US dollar/third currencies closing rate; and

(4) The investment manager shall comply with the reportorial requirements that may be prescribed by the Bangko Sentral, which shall include as a minimum, the foreign currency amount and the local currency equivalent of the total cross currency investments with details on: (a) type of investments; and (b) amount of cash flow converted.

For purposes of this Section *(Other applicable regulations on loans and investments),* "resident", as defined under Section 1 of the FX Manual, shall refer to the principal that engages the services of the investment manager under an investment management agreement.

Operating and accounting methodology. IMAs shall be operated and accounted for in accordance with the following:

a. The investment manager shall administer, hold, or manage the fund or property in accordance with the instrument creating the investment management relationship; and
b. Funds or property of each client shall be accounted separately and distinctly from those of other clients herein referred to as individual account accounting.

Tax-exempt individual investment management accounts. The following shall be the features/requirements of IMAs of individuals which may be exempted from the twenty percent (20%) final tax under Section 24(B)(1) of R.A. No. 8424 (The Tax Reform Act of 1997):

a. The investment management agreement shall only be between individuals who are Filipino citizens or resident aliens and investment manager-banks. The agreement shall be non-negotiable and non-transferable;

b. The minimum amount of investment for an IMA shall be P1.0 million;

c. The investment management agreement shall indicate that pursuant to Section 24(B)(1) of R.A. No. 8424, interest income of the investment management funds derived from investments in interest-bearing instruments (e.g., time deposits, government securities, loans and other debt instruments) which are otherwise subject to the twenty percent (20%) final tax, shall be exempt from said final tax provided the funds are held under investment management by the investment manager for at least five (5) years. If said funds are held by the investment manager for a period less than five (5) years, interest income shall be subject to a final tax which shall be deducted and withheld from the proceeds of the IMA based on the following schedule–

Holding Period	Rate of Tax
Four (4) years to less than five (5) years	5%
Three (3) years to less than four (4) years	12%
Less than three (3) years	20%

Necessarily, the investment management agreement shall clearly indicate the date when the investment manager actually received the funds which shall serve as basis for determining the holding period of the funds;

d. The investment manager may accept additional funds for inclusion in IMAs which have been established as tax-exempt under R.A. No. 8424. However, the receipt of additional funds shall be properly documented by

indicating that they are part of existing tax-exempt IMAs and that the interest income of the additional funds derived from investments in interest-bearing instruments shall be exempt from the twenty percent (20%) final tax under the same conditions mentioned in the preceding item. The document shall also indicate the date when the additional funds were received by the investment manager-bank to serve as basis for determining the minimum five (5)-year holding period for tax exemption purposes of the additional funds; and

e. Tax-exempt individual IMAs established under this Section shall be subject to the provisions of this Section under Item *"b"* of *Minimum documentary requirements and Minimum size of each investment management account* up to *Other applicable regulations on loans and investments.*

416 FOREIGN CURRENCY DEPOSIT UNIT/EXPANDED FOREIGN CURRENCY DEPOSIT UNIT TRUST ACCOUNTS; OTHER FIDUCIARY OR INVESTMENT MANAGEMENT ACCOUNTS

Only a bank with authority to operate a foreign currency deposit unit (FCDU) or an expanded foreign currency deposit unit (EFCDU) under R.A. No. 6426, as amended, may accept foreign currency-denominated trust, other fiduciary or IMAs.

Banks with trust authority or investment management authority. A bank authorized to engage in trust business under Section 79 of R.A. No. 8791, or in investment management activities only under Subsection 53.4 of R.A. No. 8791, which is also authorized to operate an FCDU or EFCDU under R.A. No. 6426, as amended, shall include FCDU/EFCDU trust other fiduciary or IMAs among those managed or administered by its trust/investment management department under the responsibility of the board of directors, the trust/investment management committee and the trust/investment management officer.

Additional deposit for the faithful performance of trust duties or investment management activities. A bank authorized to engage in trust business or investment management activities that accepts FCDU/EFCDU trust other fiduciary or IMAs shall deposit with the Bangko Sentral additional eligible government securities under Sec. 417 as security for the faithful performance of trust duties or investment management activities equivalent to at least one percent (1%) of the value of the FCDU/EFCDU trust or investment management assets based on the average of the month-end balances of such assets during the immediately preceding quarter as converted in the local currency at the prevailing foreign exchange rate. Such securities shall be deposited within thirty (30) banking days after the end of every calendar quarter.

Applicability of rules and regulations. Unless otherwise revised by the provisions of this Section, the rules and regulations governing the administration of trust, other fiduciary or IMAs, including UITFs, shall be observed. Also applicable are rules and regulations on the operations of FCDUs/EFCDUs that include, among other things, regulations on acceptable foreign currencies, eligible and ineligible foreign currency sources; foreign currency cover requirements; and allowable loans and investments.

(Circular No. 966 dated 11 July 2017)

417 SECURITY FOR THE FAITHFUL PERFORMANCE OF TRUST AND OTHER FIDUCIARY BUSINESS

Basic security deposit. Bangko Sentral-supervised financial institutions (BSFIs) authorized to engage in trust and other fiduciary business shall deposit with the Bangko Sentral eligible government securities, pursuant to Sec. 417 (*Eligible Securities*), as security for the faithful performance of its trust and other fiduciary duties equivalent to at least one percent (1%) of the book value of the total trust, other fiduciary and investment management assets: *Provided*, That at no time shall such deposit be less than P500 thousand.

Scripless securities under the Registry of Scripless Securities (RoSS) System of the Bureau of Treasury (BTr) may be used as basic security deposit for trust and other fiduciary duties using the Guidelines enumerated in *Appendix 29*.

The security for the faithful performance of PERA Administrator shall be separately accounted for and calculated as prescribed under Sec. 1121 and *Appendix 30*.

Eligible securities. Government securities which shall be deposited in compliance with the above basic security deposit shall consist of evidence of indebtedness of the Republic of the Philippines or of the Bangko Sentral or any other evidence of indebtedness or obligations the servicing and repayment of which are fully guaranteed by the Republic of the Philippines; or such other kinds of securities which may be declared eligible by the Monetary Board: *Provided*, That such securities shall be free, unencumbered, and not utilized for any other purpose: *Provided, further*, That such government securities shall have remaining maturity of not more than three (3) years from the date of deposit with the Bangko Sentral.

The requirement for the abovementioned government securities to have remaining maturity of not more than three (3) years from the date of deposit with the Bangko Sentral shall no longer apply starting 31 March 2018.

Valuation of securities and basis of computation of the basic security deposit requirement.

For purposes of determining compliance with the basic security deposit under this Section:

a. Prior to 31 March 2018:

(1) The amount of securities so deposited shall be based on their book value, that is, cost as increased or decreased by the corresponding discount or premium amortization.
(2) The base amount for the basic security deposit shall be the average of the month-end balances of total trust, investment management and other fiduciary assets of the immediately preceding calendar quarter.

Effective 31 March 2018, the provisions under Items *"a.(1)*" and *"a.(2)*" shall no longer apply.

b. The following provisions on the valuation of eligible assets and computation of the basic security deposit requirement shall be adopted starting 31 March 2018:

(1) Government securities deposited with the Bangko Sentral shall be measured at fair value according to the marking-to-market guidelines for government securities prescribed under *Appendix 28*, subject to applicable haircuts.

The haircuts that shall be applied to the government securities shall be, as follows:

Residual Maturity of Government Security	Minimum Haircut (in Percent) for Basic Security Deposit
3 years and below	0.0
>3 years up to 5 years	2.0
>5 years	4.0

(2) The base amount for the basic security deposit shall be the total trust, investment management and other fiduciary assets reported as of the end of the calendar quarter."

Compliance period; sanctions. The trustee or fiduciary shall have thirty (30) calendar days after the end of every calendar quarter or a thirty (30)-calendar day grace period within which to deposit with the Bangko Sentral, the securities required under this Section.

Effective 31 March 2018, the trustee or fiduciary shall also comply with the basic security deposit requirement in the following manner:

a. *Quarterly compliance.* The trustee or fiduciary shall comply with the basic security deposit requirement on a quarterly basis. In determining quarterly compliance, the fair value of government securities used as compliance with the basic security deposit requirement shall be reckoned as of the end of the calendar quarter and the base amount for the basic security deposit requirement provided under this Section (*Valuation of securities and basis of computation of the basic security deposit requirement*) shall be applied.

Haircuts for government securities prescribed under this Section (*Valuation of securities and basis of computation of the basic security deposit requirement*) shall be applied on the fair value of the government securities used as compliance with the basic security deposit.

The trustee or fiduciary shall have a thirty (30)-calendar day grace period after the end of every quarter within which to deposit with the Bangko Sentral, government securities pursuant to existing regulations to comply with the basic security deposit requirement as of the preceding quarter-end.

b. *Compliance upon withdrawal, replacement or redemption.* The trustee or fiduciary shall ensure that it will continue to comply with the basic security deposit requirement after every withdrawal, replacement or redemption of government securities within the quarter period. In determining compliance, the basic security deposit requirement shall be the amount computed as of the quarter-end preceding the date of withdrawal, replacement or redemption under this Section (*Valuation of securities and basis of computation of the basic security deposit requirement*). The fair value of the remaining government securities, adjusted for relevant haircuts, shall also be based on amounts reported as of the quarter-end preceding the date of withdrawal, replacement or redemption, under this Section (*Valuation of securities and basis of computation of the basic security deposit requirement*).

Banks shall develop and maintain systems to ensure compliance with the required basic security deposit as prescribed under existing regulations.

The following sanctions shall be imposed for any deficiency in the basic security deposit for the faithful performance of trust, investment management and other fiduciary duties:

a. On the bank:

(1) Monetary penalty/ies:

	Offense/Trust Asset Size		First	Second	Third and subsequent offense
Penalty per calendar day	TBs/RBs with Limited Trust Authority		P300.00	P400.00	P500.00
	UBs/KBs/TBs with Full Trust Authority and with Trust Assets of	Up to P500 million	P600.00	P700.00	P800.00
		Above P500 million but not exceeding P1 billion	P1,000.00	P1,250.00	P1,500.00
		Above P1 billion but not exceeding P10 billion	P2,000.00	P3,000.00	P4,000.00
		Above P10 billion but not exceeding P50 billion	P5,000.00	P6,000.00	P7,000.00
		Above P50 billion	P8,000.00	P9,000.00	P10,000.00

A bank which incurs a deficiency with the basic security deposit within the quarter, or reports a deficiency with the basic security deposit as of the end of the quarter and fails to deposit government securities to comply with the said requirement within the thirty (30)-calendar day grace period, shall be considered deficient with the basic security deposit requirement from the date the deficiency is incurred up to date the deficiency is corrected or the succeeding quarter-end, whichever comes earlier.

(2) Non-monetary penalty beginning with the third offense (all banks) - Prohibition against the acceptance of new trust and other fiduciary accounts and from renewing expiring trust and other fiduciary contracts up to the time the violation is corrected.

b. On the trust officer and/or other officer(s) responsible for the deficiency/non- compliance:

(1) *First offense* - warning that subsequent violations shall be dealt with more severely;
(2) *Second offense* - written reprimand with a stern warning that subsequent violations shall be subject to suspension;
(3) *Third offense* - thirty (30) calendar day-suspension without pay; and
(4) *Subsequent offense(s)* - sixty (60) calendar day-suspension without pay.

For purposes of determining the frequency of the violation, the bank's compliance profile for the immediately preceding three (3) years or twelve (12) quarters will be reviewed: *Provided*, That for purposes of determining appropriate penalty on the trust officer and/or other responsible officer(s), any offense committed outside the preceding three (3) year or twelve (12) quarter- period shall be considered as the first offense: *Provided, further,* That in the case of trust officer, all offenses committed by him in the past as trust officer of other institution(s) shall also be considered: *Provided, finally,* That if the offense cannot be attributed to any other officer of the bank, the trust officer shall be automatically held responsible since the ultimate responsibility for ensuring compliance with the regulation rests upon him, as evidence may warrant.

(Circular No. 998 dated 1 March 2018)

418 RESERVES AGAINST TRUST AND OTHER FIDUCIARY ACCOUNTS (TOFA) – OTHERS

In addition to the basic security deposit, banks/ institutions authorized to engage in trust and other fiduciary business shall maintain reserves on TOFA - Others, except accounts held under *(1) Administratorship; (2) Trust Under Indenture; (3) Custodianship and Safekeeping; (4) Depository and Reorganization; (5) Employee Benefit Plans Under Trust; (6) Escrow; (7) Personal Trust (testamentary or living trust); (8) Executorship; (9) Guardianship; (10) Life Insurance Trust; (11) Pre-need Plans (institutional/ individual); (12) Personal Equity and Retirement Account (PERA); and (13) Legislated and Quasi-Judicial Trust; and (14) Specialized Institutional Accounts under Trust.*

a. *Reserves against peso-denominated CTFs.*

The required reserves against peso-denominated CTFs and such other managed peso funds which partake of the nature of a collective investment of peso-denominated CTFs shall be as follows:

UBs/KBs	19%
TBs	9%

RBs	4%

Starting reserve week 2 March 2018.

b. *Reserves against TOFA – Others*

The required reserves against TOFA- Others shall be as follows:

UBs/KBs	17%
TBs	9%
RBs	4%

Composition of reserves. The provisions of Sec. 252 shall govern the composition of reserves against TOFA- Others of banks authorized to engage in trust and other fiduciary business.

For purposes of this Section, a separate deposit account shall be maintained by banks with the Bangko Sentral exclusively for trust reserves. Deposits maintained by banks authorized to engage in trust and other fiduciary business with the Bangko Sentral in compliance with the reserve requirement shall not earned interest.

Computation of reserve position. A bank authorized to engage in trust and other fiduciary business shall calculate daily the required and available reserves on the value per books of its TOFA-Others based on the seven-day week, starting Friday and ending Thursday including Saturdays, Sundays, holidays, non-banking days or days when there is no clearing: *Provided,* That with reference to holidays, non-banking days and days where there is no clearing, the reserve position at the close of banking day immediately preceding such holidays, non-banking days or days where there is no clearing, shall apply. For the purpose of computing reserve position, the principal office in the Philippines and all branches and agencies located therein shall be treated as a single unit.

The required reserves in the current period (reference reserve week) shall be computed based on the corresponding levels of TOFA-Others of the prior week.

For purposes of computing the required and available statutory and liquidity reserves for TOFA- Others the term value per books shall refer to the total volume of TOFA-Others less booked "*Allowance for Probable Losses*".

Reserve deficiencies; sanctions. The provisions of Sec. 255 shall govern the computation of reserve deficiencies for TOFA-Others of banks authorized to engage in trust and other fiduciary business, including the sanctions provided in said Section.

Report of compliance. Every bank shall submit a report to the Bangko Sentral of its daily required and available reserves on TOFA- Others in such frequency and within the deadline stated in *Appendix 7*.

(Circular Nos. 1025 dated 13 December 2018, 1004 dated 24 May 2018, 997 dated 15 February 2018, 906 dated 10 March 2016, 890 dated 02 November 2015, 878 dated 22 May 2015, 832 dated 27 May 2014, and 830 dated 03 April 2014)

419 REQUIRED RETAINED EARNINGS RESERVED

A bank authorized to engage in trust and other fiduciary business shall, before the declaration of dividends, carry to retained earnings at least ten percent (10%) of its net profits realized out of its trust, investment management and other fiduciary business since the last preceding dividend declaration until the retained earnings shall amount to twenty percent (20%) of its authorized capital stock and no part of such retained earnings shall at any time be paid out in dividends but losses accruing in the course of its business may be charged against retained earnings.

420 UNSAFE OR UNSOUND MANNER

Whether a particular activity may be considered as conducting business in an unsafe or unsound manner all relevant facts must be considered. An analysis of the impact thereof on the bank's operations and financial conditions must be undertaken, including evaluation of capital position, asset condition, management, earnings posture and liquidity position.

In determining whether a particular act or omission, which is not otherwise prohibited by any law, rule or regulation affecting banks, may be deemed as conducting business in an unsafe or unsound manner, the Monetary Board, upon report of the head of the supervising or examining department based on findings in an examination or a complaint, shall consider any of the following circumstances:

a. The act or omission has resulted or may result in material loss or damage, or abnormal risk or danger to the safety, stability, liquidity or solvency of the bank;
b. The act or omission has resulted or may result in material loss or damage or abnormal risk to the bank's depositors, creditors, investors, stockholders or to the Bangko Sentral or to the public in general;

c. The act or omission has caused any undue injury, or has given unwarranted benefits, advantage or preference to the bank or any party in the discharge by the director or officer of his duties and responsibilities through manifest partiality, evident bad faith or gross inexcusable negligence; or

d. The act or omission involves entering into any contract or transaction manifestly and grossly disadvantageous to the bank, whether or not the director or officer profited or will profit thereby.

The list of activities which may be considered unsafe or unsound is shown in *Appendix 49.*

In line with the statement of principles governing trust and other fiduciary business under Sec. 401, the trustee, fiduciary or investment manager shall desist from the following unsound manner:

a. Entering in an arrangement whereby the client is at the same time the borrower of his own fund placement, or whereby the trustor or principal is a borrower of other trust, fiduciary or investment management funds belonging to the same family or business group of such trustor or principal;

b. Granting loans or accommodations to any trust committee member, officer and employee of the trust department except where such loans are obtained by said persons as members of an employee benefit fund of the trustee's own institution;

c. Borrowing from, or selling trust, other fiduciary and/or investment management assets to, the bank proper to cover portfolio losses and/or to guarantee the return of principal or income;

d. Granting new loans to any borrower who has a past due and/or classified loan account with the bank proper or the trust department; and

e. Requiring clients to sign documents in blank.

Sanctions. The Monetary Board may, at its discretion and based on the seriousness and materiality of the acts or omissions, impose any or all of the following sanctions provided under Section 37 of R.A. No. 7653 and Section 56 of R.A. No. 8791, whenever a bank conducts business in an unsafe or unsound manner:

a. Issue an order requiring the bank to cease and desist from conducting business in an unsafe or unsound manner and may further order that immediate action be taken to correct the conditions resulting from such unsafe or unsound manner;

b. Fines in amounts as may be determined by the Monetary Board to be appropriate, but in no case to exceed P30,000 a day on a per transaction basis taking into consideration the attendant circumstances, such as the gravity of the act or omission and the size of the bank, to be imposed on the bank, their directors and/or responsible officers;

c. Suspension of interbank clearing privileges/immediate exclusion from clearing;

d. Suspension of rediscounting privileges or access to Bangko Sentral credit facilities;

e. Suspension of lending or foreign exchange operations or authority to accept new deposits or make new investments;

f. Suspension of responsible directors and/or officers;

g. Revocation of quasi-banking license; and/or

h. Receivership and liquidation under Section 30 of R.A. No. 7653.

All other provisions of Sections 30 and 37 of R.A. No. 7653, whenever appropriate, shall also be applicable on the conduct of business in an unsafe or unsound manner.

The imposition of the above sanctions is without prejudice to the filing of appropriate criminal charges against culpable persons as provided in Sections 34, 35 and 36 of R.A. No. 7653

C. INVESTMENT MANAGEMENT ACTIVITIES

421 AUTHORITY TO PERFORM INVESTMENT MANAGEMENT

Banks may be authorized by the Monetary Board to act as managing agent, adviser, consultant or administrator of investment management/advisory/consultancy account under Section 53.4 of R.A. No. 8791. However, such authority shall not be construed to include the authority to engage in trust and other fiduciary business under Chapter IX of R.A. No. 8791.

If a bank is found to engage in unauthorized investment management activities, the Monetary Board may impose administrative sanctions against such bank or its principal officers and/or majority stockholders or proceed against them in accordance with law.

The Monetary Board may take such action as it may deem proper such as, but may not be limited to, requiring the transfer or turnover of any IMA to duly incorporated and licensed entities of the choice of the client.

A bank not authorized to engage in investment management activities shall not advertise or represent itself as being engaged in investment management activities or represent itself as investment manager or use words of similar import.

Required capital. Banks applying for authority to perform investment management activities must have minimum capital accounts of not less than P300 million or such amount as may be required by the Monetary Board or other regulatory agency.

Prerequisites for engaging in investment management activities. A bank before it may engage in investment management activities shall comply with the following requirements:

a. The bank has been duly licensed by the Bangko Sentral or created by special law or charter.
b. The articles of incorporation or charter of the bank shall include among its powers or purposes the authority to engage in investment management activities.
c. The by-laws of the bank shall include, among other things:

    (1) The organization plan or structure of the department, office or unit which shall conduct the investment management activities of the institution;
    (2) The creation of an investment management committee, the appointment of an investment management officer and subordinate officers of the investment management department; and
    (3) A clear definition of the duties and responsibilities as well as the line and staff functional relationships of the various units, officers and staff within the organization.

d. The applicant shall also meet the additional requirements under Sec. 411 (*Prerequisites in trust and other fiduciary business* Item *"d"* to *"m"*).

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

Pre-operating requirements. A bank authorized to engage in investment management activities shall, before engaging in actual operations, submit to the Bangko Sentral the following:

a. Government securities acceptable to the Bangko Sentral amounting to P500,000 as minimum basic security deposit for the faithful performance of investment management duties required under Sec. 424;
b. Organization chart of the investment management department which shall carry out the investment management activities of the bank; and
c. Names and positions of individuals designated as chairman and members of the investment management committee, investment management officer and other subordinate officers of the investment management department.

422 ORGANIZATION AND MANAGEMENT

The provisions of Sec. 412 (except *Confirmation of the appointment/designation of trust officer and independent professional)* shall govern the organization and management of banks without trust license which are engaged in investment management activities only. The following terms shall, however, be used:

a. *Investment management activities*, in lieu of trust and other fiduciary business;
b. *Investment management accounts*, in lieu of trust and other fiduciary accounts;
c. *Investment management committee*, in lieu of trust committee;
d. *Investment management officer*, in lieu of trust officer; and
e. *Investment management department*, in lieu of trust department.

423 CONDUCT OF INVESTMENT MANAGEMENT ACTIVITIES

The provisions of Secs. 415 and 416 shall govern the conduct of investment management activities of a bank without a trust license.

424 SECURITY FOR THE FAITHFUL PERFORMANCE OF INVESTMENT MANAGEMENT ACTIVITIES

Basic security deposit. Bangko Sentral-supervised financial institutions (BSFIs) authorized to engage in investment management activities shall deposit with the Bangko Sentral eligible government securities, pursuant to Sec. 417 (*Eligible securities*), as security for the faithful performance of its investment management activities equivalent to at least one percent (1%) of the book value of the total investment management assets: *Provided*, That at no time shall such deposit be less than P500 Thousand.

Scripless securities under the RoSS system of the BTr may be used as basic security deposit for the faithful performance of investment management activities using the guidelines enumerated in *Appendix 29*.

Eligible securities. The provisions of Sec. 417 (*Eligible securities*) shall govern the basic security deposit requirement for faithful performance of investment management activities.

Valuation of securities and basis of computation of the basic security deposit requirement.

For purposes of determining compliance with the basic security deposit under this Section:

a. Prior to 31 March 2018:

   (1) The amount of securities so deposited shall be based on their book value, that is, cost as increased or decreased by the corresponding discount or premium amortization.
   (2) The base amount for the basic security deposit shall be the average of the month-end balances of the total assets of the investment management funds of the immediately preceding calendar quarter.

   Effective 31 March 2018, the provisions under Items "*a.(1)*" and "*a.(2)*" shall no longer apply.

b. The following provisions on the valuation of eligible assets and computation of the basic security deposit requirement shall be adopted starting 31 March 2018:

   (1) Government securities deposited with the Bangko Sentral shall be measured at fair value according to the marking-to-market guidelines for government securities under *Appendix 28*, subject to applicable haircuts.

   The haircuts that shall be applied to the government securities shall be as follows:

Residual Maturity of Government Security	Minimum Haircut (in percent) for Basic Security Deposit
3 years and below	0.0
>3 years up to 5 years	2.0
>5 years	4.0

   (2) The base amount for the basic security deposit shall be the total investment management assets reported as of the end of the calendar quarter.

Compliance period; sanctions. The investment manager shall have thirty (30) calendar days after the end of every calendar quarter or a thirty (30)-calendar day grace period within which to deposit with the Bangko Sentral, the securities required under this Section.

Effective 31 March 2018, the investment manager shall also comply with the basic security deposit requirement in the following manner:

a. *Quarterly compliance.* The investment manager shall comply with the basic security deposit requirement on a quarterly basis. In determining quarterly compliance, the fair value of government securities used as compliance with the basic security deposit requirement shall be reckoned as of the end of the calendar quarter and the base amount for the basic security deposit requirement provided under this Section (*Valuation of securities and basis of computation of the basic security deposit requirement*) shall be applied.

   Haircuts for government securities prescribed under this Section (*Valuation of securities and basis of computation of the basic security deposit requirement*) shall be applied on the fair value of the government securities used as compliance with the basic security deposit.

The investment manager shall have a thirty (30)-calendar day grace period after the end of every quarter within which to deposit with the Bangko Sentral, securities pursuant to existing regulations to comply with the basic security deposit requirement as of the preceding quarter-end.

b. *Compliance upon withdrawal, replacement or redemption.* The investment manager shall ensure that it will continue to comply with the basic security deposit requirement after every withdrawal, replacement or redemption of government securities within the quarter period. In determining compliance, the basic security deposit requirement shall be the amount computed as of the quarter-end preceding the date of withdrawal, replacement or redemption under this Section (*Valuation of securities and basis of computation of the basic security deposit requirement*). The fair value of the remaining government securities, adjusted for relevant haircuts, shall also be based on amounts reported as of the quarter-end preceding the date of withdrawal, replacement or redemption, under this Section (*Valuation of securities and basis of computation of the basic security deposit requirement*).

Banks shall develop and maintain systems to ensure compliance with the required basic security deposit as prescribed under existing regulations.

The following sanctions shall be imposed for any deficiency in the basic security deposit for the faithful performance of investment management activity:

a. On the bank:

(1) Monetary penalty/ies:

	Offense/Trust Asset Size		First	Second	Third and subsequent offense
Penalty per calendar day	TBs/RBs with Limited Trust Authority		P300.00	P400.00	P500.00
	UBs/KBs/TBs with Full Trust Authority and with Trust Assets of	Up to P500 million	P600.00	P700.00	P800.00
		Above P500 million but not exceeding P1 billion	P1,000.00	P1,250.00	P1,500.00
		Above P1 billion but not exceeding P10 billion	P2,000.00	P3,000.00	P4,000.00
		Above P10 billion but not exceeding P50 billion	P5,000.00	P6,000.00	P7,000.00
		Above P50 billion	P8,000.00	P9,000.00	P10,000.00

An investment manager which incurs a deficiency with the basic security deposit within the quarter, or reports a deficiency with the basic security deposit as of the end of the quarter and fails to deposit securities to comply with the said requirement within the thirty (30)-calendar day grace period, shall be considered deficient with the basic security deposit requirement from the date the deficiency is incurred up to the date the deficiency is corrected or the succeeding quarter-end, whichever comes earlier.

(2) Non-monetary penalty beginning with the third offense (all banks) - Prohibition against the acceptance of new IMAs and from renewing expiring investment management contracts up to the time the violation is corrected.

b. On the Head of the Investment Management Department and/or other officers responsible for the deficiency/non-compliance:

(1) *First offense* - warning that subsequent violations shall be dealt with more severely;
(2) *Second offense* - written reprimand with a stern warning that subsequent violations shall be subject to suspension;
(3) *Third offense* - thirty (30) calendar day-suspension without pay; and
(4) *Subsequent offense(s)* - sixty (60) calendar day-suspension without pay.

For purposes of determining the frequency of the violation, the bank's compliance profile for the immediately preceding three (3) years or twelve (12) quarters will be reviewed: *Provided*, That for purposes of determining appropriate penalty on the head of the Investment Management Department and/or other responsible officer(s), any offense committed outside the preceding three (3) year or twelve (12) quarter - period shall be considered as the first offense: *Provided, further*, That in the case of the head of the Investment Management Department, all offenses committed by him in the past as the head of the Investment Management Department of other institution(s) shall also be considered: *Provided, finally*, That if the offense cannot be attributed to any other officer of the bank, the head of the Investment Management Department shall be automatically held responsible since the ultimate responsibility for ensuring

compliance with the regulation rests upon him, as evidence may warrant.

(Circular No. 998 dated 01 March 2018)

425 REQUIRED RETAINED EARNINGS RESERVED

A bank authorized to engage in investment management activities shall, before the declaration of dividends, carry to retained earnings at least ten percent (10%) of its net profits realized out of its investment management activities since the last preceding dividend declaration until the retained earnings shall amount to twenty percent (20%) of its authorized capital stock and no part of such retained earnings shall at any time be paid out in dividends, but losses accruing in the course of its business may be charged against retained earnings.

426 UNSOUND MANNER

The provisions of Sec. 420 shall govern the unsound manner for IMAs.

D. GENERAL PROVISIONS

431 SECURITIES CUSTODIANSHIP AND SECURITIES REGISTRY OPERATIONS

The following rules and regulations shall govern securities custodianship and securities registry operations of banks under Bangko Sentral regulations.

The guidelines to implement the delivery of securities are provided in *Appendix 66.*

Violation of any provision of the guidelines in *Appendix 66* shall be subject to the sanctions/penalties under Sec. 431.

Statement of policy. It is the policy of the Bangko Sentral to promote the protection of investors in order to gain their confidence and encourage their participation in the development of the domestic capital market. Therefore, the following rules and regulations are promulgated to enhance transparency of securities transactions with the end in view of protecting investors.

Applicability of this regulation. This regulation shall govern securities custodianship and securities registry operations of banks and NBFIs under Bangko Sentral supervision. It shall cover all their transactions in securities as defined in Section 3 of the Securities Regulation Code (SRC), whether exempt or required to be registered with the SEC, that are sold, borrowed, purchased, traded, held under custody or otherwise transacted in the Philippines where at least one (1) of the parties is a bank or an NBFI under Bangko Sentral supervision. However, this regulation shall not cover the operations of stock and transfer agents duly registered with the SEC pursuant to the provisions of SRC Rule 36-4.1 and whose only function is to maintain the stock and transfer book for shares of stock.

Prior Bangko Sentral approval. Banks may act as securities custodian and/or registry only upon prior Monetary Board approval.

Application for authority. A bank desiring to act as securities custodian and/or registry shall file an application with the appropriate supervising and examining department of the Bangko Sentral. The application shall be signed by the highest ranking officer of the bank and shall be accompanied by a certified true copy of the resolution of the bank's board of directors authorizing the bank to engage in securities custodianship and/or registry and, in the case of a branch of a foreign bank, approval by its highest ranking regional officer with proof of delegated authority from the bank's board of directors.

Pre-qualification requirements for a securities custodian/registry.

a. The securities custodian must be a bank that is authorized to engage in investment management or trust business. The securities registry must be a bank.

b. It must have complied with the minimum capital accounts required under existing regulations, as follows:

   (1) *Domestic banks*. The minimum capital required under Sec. 121 or the minimum capital required for TBs operating in Metro Manila, whichever is higher.
   (2) *Branches of foreign banks*. The minimum capital required under Sec. 103.

c. Its risk-based capital adequacy ratio is not lower than twelve percent (12%) at the time of filing the application;

d. It must have a CAMELS composite rating of at least "4" (as rounded off) in the last regular examination;

e. It must have in place a comprehensive risk management system approved by its board of directors (or

equivalent management committee in the case of foreign bank branches) appropriate to its operations characterized by a clear delineation of responsibility for risk management, adequate risk measurement systems, appropriately structured risk limits, effective internal control and complete, timely and efficient risk reporting systems. In this connection, a manual of operations (which includes custody and/or registry operations) and other related documents embodying the risk management system must be submitted to the appropriate supervising and examining department at the time of application for authority and within thirty (30) days from updates therefrom;

f. It must have adequate technological capabilities and the necessary technical expertise to ensure the protection, safety and integrity of client assets, such as:

   (1) It can maintain an electronic registry dedicated to recording of accountabilities to its clients; and
   (2) It has an updated and comprehensive computer security system, covering system network and telecommunication facilities that will:

      (a) limit access only to authorized users;
      (b) preserve data integrity; and
      (c) provide for audit trail of transactions.

g. It has complied, during the period immediately preceding the date of application, with the following:

   (1) ceilings on credit accommodation to DOSRI; and
   (2) single borrower's limit.

h. It has no reserve deficiencies during the eight (8) weeks immediately preceding the date of application;

i. It has set up the prescribed allowances for probable losses, both general and specific, as of date of application;

j. It has not been found engaging in unsafe or unsound manner during the last six (6) months preceding the date of application;

k. It has generally complied with laws, rules and regulations, orders or instructions of the Monetary Board and/or Bangko Sentral Management;

l. It has submitted additional documents/information which may be requested by the appropriate supervision and examination department, such as, but not limited to:

   (1) Standard custody/registry agreement and other standard documents;
   (2) Organizational structure of the custody/registry business;
   (3) Transaction flow; and
   (4) For those already in the custody or registry business, a historical background for the past three (3) years;

m. It shall be conducted in a separate unit headed by a qualified person with at least two (2) years experience in custody/registry operations;

n. It can interface with the clearing and settlement system of any recognized exchange in the country capable of achieving a real time gross settlement of trades; and

o. A securities custodian which provides the value-added service of securities lending involving securities that are sold, offered for sale or distributed within the Philippines must be a duly-licensed lending agent registered with the SEC.

Functions and responsibilities of a securities custodian. A securities custodian shall have the following basic functions and responsibilities:

a. Safekeeps the securities of the client;

b. Holds title to the securities in a nominee capacity;

c. Executes purchase, sale and other instructions;

d. Performs at least a monthly reconciliation to ensure that all positions are properly recorded and accounted for;

e. Confirms tax withheld;

f. Represents clients in corporate actions in accordance with the direction provided by the securities owner;

g. Conducts mark-to-market valuation and statement rendition;

h. Does earmarking of encumbrances or liens such as, but not limited to, Deeds of Assignment and court orders;

i. Acts as a collecting and paying agent in respect of dividends, interest earnings or proceeds from the sale/redemption/maturity of securities held under custodianship: *Provided*, That the custodian shall immediately make known to the securities owner all collections received and payments made with respect to the securities under custody; and

j. In addition to the above basic functions, it may perform the value-added service of securities lending as agent: *Provided*, That it complies with Item *"o"* of the pre-qualification requirements under Sec. 431: *Provided, further*, That the securities lending service shall be covered by a Securities Lending Authorization Agreement (SLAA) which shall be attached to the custody contract.

A securities custodian which renders the value-added service of securities lending involving securities that are sold, offered and distributed within the Philippines shall comply with all other pertinent rules and regulations of the SEC on securities lending and borrowing operations.

Functions and responsibilities of a securities registry.

a. Maintains an electronic registry book;
b. Delivers confirmation of transactions and other documents within agreed trading periods;
c. Issues registry confirmations for transfers of ownership as it occurs;
d. Prepares regular statement of securities balances at such frequency as may be required by the owner on record but not less frequent than every quarter; and
e. Follows appropriate legal documentation to govern its relationship with the Issuer.

Protection of securities of the customer. A custodian must incorporate the following procedures in the discharge of its functions in order to protect the securities of the customer:

a. *Administration of securities custodianship accounts of banks.* Securities custodianship accounts shall be administered in the Trust Unit of a bank.

As an exception, however, a custodian bank may be allowed to administer custodianship accounts in the Bank Proper: *Provided,* That this is limited to custodianship accounts wherein the securities custodian performs the basic functions and responsibilities provided under Sec. 431: *Provided, further*, That the custodian bank secures prior MB approval on this arrangement: *Provided, finally*, That a custodian bank that is seeking exemption from the general requirement should be able to demonstrate that it has instituted adequate risk management systems and prudential controls in the Bank Proper to ensure the protection of client assets, maintain proper segregation of functions and prevent conflict of interest situations that may arise in the administration of securities custodianship accounts.

b. *Accounting and recording for securities.* Custodians must employ accounting and safekeeping procedures that fully protect customer securities. It is essential that custodians segregate customer securities from one another and from its proprietary holdings to protect the same from the claims of its general creditors.

Securities held under custodianship shall be recorded in the books of the custodian at the face value of said securities in the off-balance sheet account "*Securities Held Under Custodianship by Bank Proper*", if booked in the Bank Proper, or the other fiduciary sub-account "*Custodianship*", if booked in the Trust Department.

Securities held under custodianship where the custodian performs the value-added service of securities lending as agent shall be booked in the Trust Department.

c. *Documentation.* The appropriate documentation for custodianship shall be made and it shall clearly define, among others, the authority, role, responsibilities, fees and provision for succession in the event the custodian can no longer discharge its functions. It shall be accepted in writing by the counterparties.

The governing custodianship agreement shall be pre-numbered and this number shall be referred to in all amendments and supplements thereto.

d. *Confirmation of custody.* The custodian shall issue a custody confirmation to the purchaser or borrower of securities to evidence receipt or transfer of securities as they occur. It shall contain, as a minimum, the following information on the securities under custody:
(1) Owner of securities;

(2) Issuer;
(3) Securities type;
(4) Identification or serial numbers;
(5) Quantity;
(6) Face value; and
(7) Other information, which may be requested by the parties.

e. *Periodic reporting.* The custodian shall prepare at least quarterly (or as frequent as the owner of securities will require) securities statements delivered to the registered owner's address on record. Said statement shall present detailed information such as, but not limited to, inventory of securities, outstanding balances, and market values.

Independence of the registry and securities custodian. A Bangko Sentral- accredited securities 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 Bangko Sentral-accredited securities custodian must be a third party that does not belong to the same financial conglomerate or banking group as that of the issuer and seller of securities held under custody. A bank accredited by Bangko Sentral as securities custodian may, however, continue holding securities it sold under the following cases:

a. where the purchaser is a related entity acting in its own behalf and not as agent or representative of another;

b. where the purchaser is a non-resident with existing global custody agreement governed by foreign laws and conventions wherein the bank is designated as custodian or sub-custodian; and

c. upon approval by the Bangko Sentral, where the purchaser is an insurance company whose custody arrangement is either governed by a global custody agreement where the bank is designated as custodian or sub-custodian or by a direct custody agreement with features at par with the standards set under this Section drawn or prepared by the parent company owning more than fifty percent (50%) of the capital stock of the purchaser and executed by the purchaser itself and its custodian.

Purchases by non-residents and insurance companies that are exempted from the independence requirement of this Section shall, however, be subject to all other provisions of this Section.

Registry of Scripless Securities of the Bureau of the Treasury. The Registry of Scripless Securities (RoSS), operated by the Bureau of the Treasury, which is acting as a registry for government securities is deemed to be automatically accredited for purposes of this Section and is likewise exempted from the independence requirement under Sec. 431 (*Independence of the registry and custodian*). Securities registered under the RoSS shall be delivered in accordance with the guidelines set forth in *Appendices 66 and 67*.

Confidentiality. A Bangko Sentral-accredited securities custodian/registry shall not disclose to any unauthorized person any information relative to the securities under its custodianship/registry. The Management shall likewise ensure the confidentiality of client accounts of the custody or registry unit from other units within the same organization.

Compliance with Anti- Money Laundering laws/regulations. For purposes of compliance with the requirements of R.A. No. 9160, otherwise known as the "Anti-Money Laundering Act of 2001," as amended, particularly the provisions regarding customer identification, record keeping and reporting of suspicious transactions, a Bangko Sentral- accredited custodian may rely on referral by the seller issuer of securities: *Provided*, That it maintains a record of such referral together with the minimum identification, information/documents required under the law and its implementing rules and regulations.

A Bangko Sentral-accredited custodian must maintain accounts only in the true and full name of the owners of the security. However, said securities owners may be identified by number or code in reports and correspondences to keep his identity confidential.

Basic security deposit. Securities held under custodianship whether booked in the Trust Department or carried in the regular books of the bank shall be subject to a security deposit for faithful performance of duties at the rate of 1/25 of one percent (1%) of the total face value of securities held under custodianship, or P500 thousand whichever is higher.

However, securities held under custodianship where the custodian also performs securities lending as agent shall be subject to a higher basic security deposit of one percent (1%) of the total face value of securities held under custodianship.

Compliance shall be in the form of eligible government securities deposited with the Bangko Sentral, pursuant to existing regulations governing security for the faithful performance of trust and other fiduciary business under Section 417 (*Eligible securities to Compliance period; sanctions*).

Reportorial requirements. An accredited securities custodian shall comply with reportorial requirements that may be prescribed by the Bangko Sentral, which shall include as a minimum, the face and market value of securities held under custodianship.

Sanctions. Without prejudice to the penal and administrative sanctions provided for under Sections 36 and 37, respectively, of the R.A. No. 7653, violation of any provision of this Section shall be subject to the following sanctions/ penalties:

a. *First offense* –

(1) Fine of up to P10,000 a day for the institution for each violation reckoned from the date the violation was committed up to the date it was corrected; and
(2) Reprimand for the directors/officers responsible for the violation.

b. *Second offense* –

(1) Fine of up to P20,000 a day for the institution for each violation reckoned from the date the violation was committed up to the date it was corrected; and
(2) Suspension for ninety (90) days without pay of directors/officer responsible for the violation.

c. *Subsequent offenses* –

(1) Fine of up to P30,000 a day for the institution for each violation from the date the violation was committed up to the date it was corrected;
(2) Suspension or revocation of the authority to act as securities custodian and/ or registry; and
(3) Suspension for one hundred twenty (120) days without pay of the directors/ officers responsible for the violation.

(Circular Nos. 998 dated 01 March 2018, 873 dated 25 March 2015, and 822 dated 13 December 2013)

432 CUSTODY OF ASSETS

All moneys, properties or securities received by a bank in its capacity as trustee, fiduciary, or investment manager shall be kept physically separate and distinct from the assets of its other businesses and shall be under the joint custody of at least two (2) persons, one of whom shall be an officer of the trust or investment management department, designated for that purpose by the board of directors.

The investment of each trust, other fiduciary or investment management account shall be kept physically separated from those of other trust, other fiduciary or IMAs, and adequately identified as the assets or property of the relevant account.

433 FEES AND COMMISSIONS

A bank acting as trustee, fiduciary or investment manager shall be entitled to reasonable fees and commissions which shall be determined on the basis of the cost of services rendered and the responsibilities assumed: *Provided*, That where the trustee, fiduciary or investment manager is acting as such under appointment by a court, the compensation shall be that allowed or approved by the court: *Provided, further*, That in the case of UITFs, the fee which a trustee may charge each participant shall be fully disclosed by the trustee in the UITF plan, prospectus, flyers, posters and in all forms of advertising materials to market the funds and in the documents given to clients as proof of participation in the fund. In no case shall such fees and commissions be based on the excess of the income of the trust, other fiduciary or investment management funds over a certain amount or percentage.

No trustee, fiduciary or investment manager shall solicit or receive rebates on commissions, fees and other payments for the services rendered to the trust, other fiduciary or IMA or beneficiaries of the trust, other fiduciary or IMA by stockbrokers, real estate brokers, insurance agents and similar persons or entities unless the rebates, fees and other payments shall accrue to the benefit of the trust, other fiduciary or IMA or the beneficiaries thereof.

Officers and employees of the trust department or investment management department of banks, while serving as such, shall be prohibited from retaining any compensation for acting as co-trustee or fiduciary in the administration of a trust, other fiduciary or IMA.

No bank shall collect, for its own account, referral and/or arrangement fees, or any other fees that take the nature of payment to the bank from whatever source, in connection with loans sourced from trust funds managed by its trust department: *Provided,* That if such fees are collected, the same shall be properly disclosed to the trustor, and shall accrue to the benefit of the trust, in accordance with the provisions of Secs. 401 and 438.

434 TAXES

The terms and conditions of trust, other fiduciary or investment management agreements including UITF plans shall contain provisions regarding the applicability of regulations governing taxation on the income of trust, other fiduciary or IMAs. For this purpose, the trustee, fiduciary or investment manager shall maintain adequate records and shall include information such as the amount of final income tax withheld at source and the amount withheld by the trustee, fiduciary or investment manager in the periodic reports submitted to trustors, beneficiaries, principals and other parties in interest.

With respect to tax-exempt UITFs, individual trust and IMAs established under Section 24(B)(1) of R.A. No. 8424, the bank's trust department or investment management department shall be responsible for obtaining the tax-exemption certifications which may be required by the BIR for the interest-bearing instruments where the UITFs, individual trust funds and investment management funds will be invested. Likewise, the banks shall ensure that the correct amount of final tax on the interest income on the interest-bearing instruments is withheld/deducted from the proceeds from the UITF participation, trust or IMA and remitted to the BIR in the event said tax becomes due such as when funds are withdrawn before the required five (5)-year holding period or when corporations happen to invest in the tax-exempt trust instruments created within the purview of R.A. No. 8424.

435 BOOKS, RECORDS, AND REPORTS REQUIRED

Books and Records. The bank's trust department or investment management department shall keep books and records on trust, other fiduciary and IMAs separate and distinct from the books and records of its other businesses and shall follow the FRPTI prescribed by the Bangko Sentral.

Each trust, other fiduciary or IMA shall have a record separate from all other accounts except only in the case of UITFs where the trustee can maintain common records utilizing pooled fund accounting method for each fund: *Provided*, That the trustee shall clearly indicate in the records the trustors owning participation in the UITF and the extent of the interest of such trustors. Books and records shall contain full information relative to each trust, other fiduciary or IMA and shall be supported by duplicate signed copies of related documents. Said records and duplicate signed copies of related documents shall be compiled and kept as to allow inspection by Bangko Sentral examiners and submission of information or reports as may be required by competent authorities.

The bank's trust department or investment management department shall maintain separate general ledger accounts and other relevant sub-accounts for tax- exempt individual trust accounts and individual management accounts established under Section 24(B)(1) of R.A. No. 8424 and Secs. 413 (for *tax-exempt individual trust accounts*), 415 (under *operating and accounting methodology*). The bank's trust department or investment management department shall also adopt appropriate systems, internal control procedures and audit trail mechanisms to ensure that the correct amount of final tax is withheld or exempted from such accounts.

Reports required to trustor, beneficiary, principal[1]. An entity acting as trustee, fiduciary or investment manager shall render reports on the trust, other fiduciary or IMAs to the trustor, beneficiary, principal or other party in interest or the court concerned or any party duly designated by the court order, as the case may be. The reports shall be in such forms as to apprise the party concerned of the significant developments in the administration of the account and shall comply with the following guidelines:

a. All clients shall be provided with a schedule of earning assets which contains the following information:

   (1) Borrower's or issuer's name;
   (2) Type of instrument;
   (3) Collateral, if any;
   (4) Principal amount or Acquisition cost;
   (5) Market value;
   (6) Marking-to-market gains or losses;
   (7) Earning rate or yield;
   (8) Amount of earnings/Accrued interest;
   (9) Transaction date; and
   (10) Maturity date, if any.

b. Additional reports shall be required depending on the investment discretion as follows:

   (1) For Discretionary accounts, the reports shall also consist of balance sheet, income statement; investment activity report; and Return on Investment report.
   (2) For Non-discretionary accounts, a confirmation of transaction shall be required covering every purchase and sale instructions. It shall contain the following information:
      (a) Transaction entered into;
      (b) Borrower's or issuer's name;
      (c) Amount involved;
      (d) Terms of the security, including collateral, if any;
      (e) Settlement price;
      (f) Value date and settlement date; and
      (g) Fees and charges related to the transaction.

[1] Trust entities shall be given six (6) months from 01 August 2017 to make appropriate changes in their policies, processes, and procedures in order to comply with the above requirements.

c. The reports, except for Item *"b.(2)"*, shall be prepared in such frequency as required under the agreement but shall not in any case be longer than once every quarter; and
d. The reports shall be made available to clients not later than twenty (20) calendar days from the end of the reference date/ period in Item *"c"* above.

Reports required to the Bangko Sentral. A bank acting as trustee, fiduciary or investment manager shall submit periodic reports prescribed by the appropriate supervising department of the Banko Senral on the bank's trust and other fiduciary business and investment management activities within the deadlines indicated in *Appendix 7.*

Audited financial statements. The trust/investment management department shall adopt the provisions of the PFRS/PAS in all respect, for purposes of preparing the AFS of its trust and other fiduciary and investment management activities. The following guidelines shall likewise be observed in the preparation of the AFS:

a. The provisions of PFRS/PAS shall be adopted effective the annual financial statements beginning 1 January 2008;

b. A complete set of financial statements shall comprise of the following:

(1) Balance sheet as of the end of the period;
(2) Income statement for the period;
(3) Statement of changes in accountabilities, which shall show a reconciliation of the net carrying amount at the beginning and end of the period of the following accounts:

(a) principal;
(b) accumulated income; and
(c) net unrealized gains/(losses) on available for sale financial assets, separately disclosing the changes in each of the foregoing accounts;

(4) Notes, which shall comprise of a summary of significant accounting policies and other disclosure requirements provided under PFRS/PAS: *Provided*, That for purposes of complying with the disclosure of the nature and extent of risks arising from financial instruments as required under PFRS 7, disclosure statements may be made based on the general categories of contractual relationships (i.e., UITF-trust, institutional- trust, and individual-trust; other fiduciary; institutional-agency, and individual-agency; and special purpose trust) of the trust/investment management department of a bank with its clients; and

(5) Balance sheet as of the beginning of the earliest comparative period when a trust/ investment management department applies an accounting policy retrospectively or when it makes a retrospective restatement of items in the financial statements, or when it reclassifies items in the financial statements.

c. The balance sheet, income statement and statement of changes in accountabilities shall be presented for each of the general categories of contractual relationships (i.e., UITF-trust, institutional-trust, and individual-trust; other fiduciary; institutional-agency, and individual-agency; and special purpose trust) of the trust/investment management department of a bank with its clients;

d. Comparative information for periods before 01 January 2008 need not be presented in the AFS for the financial reporting period beginning 01 January 2008: *Provided*, That disclosure statements on the end-2007 balances of total assets of the general categories of contractual relationships of the trust/investment management department of a bank with its clients prepared based on the Generally Accepted Accounting Principles (GAAP) previously applied, shall be presented in the notes to financial statements: *Provided, further*, That comparative periods shall be presented in the AFS for the financial reporting period beginning 01 January 2009 and thereafter.

e. The following transitory rules and regulations shall govern the accounting treatment of specific items for purposes of preparing the AFS for the financial reporting period beginning 01 January 2008:

(1) The provisions of PFRS/PAS shall only be applied to accounts outstanding as of end-December 2008;
(2) Reclassification of previously recognized financial instruments shall no longer be allowed except as allowed under existing regulations;

(3) The fair value of ROPA and Investment Properties as of the date of transition to PFRS/PAS may be used as the deemed cost of said properties as of that date: *Provided*, That said ROPA and Investment Properties shall be subsequently accounted for in accordance with the provisions of the FRPTI.

(Circular Nos. 966 dated 11 July 2017 and 880 dated 22 May 2015)

436 AUDITS

Internal audit. The bank's internal auditor shall include among his functions, the conduct of annual audit of the trust

department or investment management department. However, should the board of directors, in a resolution entered in its minutes, require the internal auditor to adopt a suitable continuous audit system to supplement and/or to replace the performance of the annual audit, the audit may be conducted in intervals commensurate with the assessed levels of risk in trust and investment management operations: *Provided,* That such intervals shall be supported and reassessed regularly to ensure appropriateness given the current risk and volume of the trust and investment management operations. In any case, the audit shall ascertain whether the institution's trust and other fiduciary business and investment management activities have been administered in accordance with laws, Bangko Sentral rules and regulations, and sound trust or fiduciary principles.

External audit. The trust and other fiduciary business and investment management activities of a bank shall be included in the annual financial audit by independent external auditors required under Sec. 174 (*Financial Audit*).

The audit of the assets and accountabilities of the trust department/ investment management department of a bank authorized to engage in trust and other fiduciary business, investment management activities, which shall cover at the minimum a review of the trust investment management operations, practices and policies, including audit and internal control system, shall be subject to auditing standards to the extent necessary to express an opinion on the financial statements.

The audit of the trust/investment management department of a bank authorized to engage in trust and other fiduciary business/investment management activities shall be covered by a separate supplemental audit report to be submitted to the bank's board of directors and to the Bangko Sentral within the prescribed period containing, among other things, the complete set of financial statements of the trust/ investment management department of a bank prepared in accordance with the provisions of Sec. 435 (*Audited financial statement*) together with the other information required by the Bangko Sentral to be submitted under Sec. 174 (*Financial Audit*): *Provided*, That a reconciliation statement of the balance sheet in the AFS and the FRPTI shall be prepared for each of the general categories of contractual relationships (i.e., UITF-trust, institutional-trust, and individual trust; other fiduciary; institutional-agency, and individual-agency; and special purpose trust) of the trust/investment management department of a bank with its clients following the format in *Appendix 90*.

Board action. A report of the foregoing audits, together with the actions thereon, shall be noted in the minutes of the board of directors of the bank.

(Circular No. 871 dated 05 March 2015)

437 AUTHORITY RESULTING FROM MERGER OR CONSOLIDATION

In merger of FIs, the authority to engage in trust and other fiduciary business and in investment management activities shall continue to be in effect if the surviving institution has such authority and the same has not been withdrawn by the Bangko Sentral. In case the surviving institution does not have previous authority but desires to engage in trust and other fiduciary business and in investment management activities, it shall secure the prior approval of the Monetary Board to engage in such business as part of its application for merger to enable it to incorporate such among its powers or purpose clause in its articles of incorporation, articles of merger, by-laws and such other pertinent documents.

In the consolidation of FIs where the resulting entity is an entirely new one, it shall secure from the Monetary Board an authority to engage in trust and other fiduciary business or in investment management activities before it may engage in such business.

438 NON-TRUST, NON-FIDUCIARY AND/OR NON-INVESTMENT MANAGEMENT ACTIVITIES

The basic characteristic of trust, other fiduciary and investment management relationship is the absolute non-existence of a debtor-creditor relationship, thus, there is no obligation on the part of the trustee, fiduciary or investment manager to guarantee returns on the funds or properties regardless of the results of the investment. The trustee, fiduciary or investment manager is entitled to fees/commissions which shall be stipulated and fixed in the contract or indenture and the trustor or principal is entitled to all the funds or properties and earnings less fees/commissions, losses and other charges. Any agreement/arrangement that does not conform to these shall not be considered as trust, other fiduciary and/or investment management relationship.

The following shall not constitute a trust, other fiduciary and/or investment management relationship:

a. When there is a preponderance of purpose or of intent that the arrangement creates or establishes a relationship: other than a trust, fiduciary and/or investment management;

b. When the agreement or contract is itself used as a certificate of indebtedness in exchange for money placement from clients and/or as the medium for confirming placements and investment thereof;

c. When the agreement or contract of an account is accepted under the signature(s) of those other than the trust officer or subordinate officer of the trust department or those authorized by the board of directors to represent the trust officer;

d. Where there is a fixed rate or guaranty of interest, income or return in favor of its client or beneficiary: *Provided, however*, That where funds are placed in fixed income-generating investments, a quotation of income expectation or like terms, shall neither be considered as arrangements with a fixed rate nor a guaranty of interest, income or return when the agreement or indenture categorically states in bold letters that the quoted income expectation or like terms is neither assured nor guaranteed by the trustee or fiduciary and it does not, therefore, entitle the client to a fixed interest or return on his investments: Provided, *further*, That any of the following practices or practices similar and/or tantamount thereto shall be construed as fixing or guaranteeing the rate of interest, income or return:

(1) Issuance of certificates, side agreements, letters of undertaking or other similar documents providing for fixed rates or guaranteeing interest, income or return;
(2) Paying trust earnings based on indicated or expected yield regardless of the actual investment results;
(3) Increasing or reducing fees in order to meet a quoted or expected yield;
(4) Entering into any arrangement, scheme or practice which results in the payment of fixed rates or yield on trust investments or in the payment of the indicated or expected yield regardless of the actual investment results; and

e. Where the risk or responsibility is exclusively with the trustee, fiduciary or investment manager in case of loss in the investment of trust, fiduciary or investment management funds, when such loss is not due to the failure of the trustee or fiduciary to exercise the skill, care, prudence and diligence required by law.

Trust, other fiduciary and investment management activities involving any of the foregoing shall be reported as deposit substitutes and shall be subject to the reserve requirement for deposit substitutes from the time of inception, without prejudice to the imposition of the applicable sanctions provided for in Sections 36 and 37 of R.A. No. 7653.

439 RECEIVERSHIP

Whenever a receiver is appointed by the Monetary Board for a bank which is authorized to engage in trust and other fiduciary business or in investment management activities, the receiver shall, pursuant to the instructions of the Monetary Board, proceed to close the trust, other fiduciary and IMAs promptly and/or transfer all other accounts to substitute trustees, fiduciaries or investment managers acceptable to the trustors, beneficiaries, principals or other parties in interest: *Provided*, That where the trustee, fiduciary or investment manager is acting as such under appointment by a court, the receiver shall proceed pursuant to the instructions of said court.

440 SURRENDER OF TRUST OR INVESTMENT MANAGEMENT LICENSE

Any bank which has been authorized to engage in trust and other fiduciary business or in investment management activities and which intends to surrender said authority shall file with the Bangko Sentral a certified copy of the resolution of its board of directors manifesting such intention. The appropriate supervising department of the Bangko Sentral shall then conduct an examination of the bank's trust, other fiduciary business and investment management activities. If the bank is found to have satisfactorily discharged its duties and responsibilities as trustee, fiduciary or investment manager, and has provided for the orderly closure or transfer of its trust, fiduciary or investment management accounts, the Monetary Board, on the basis of the recommendation of the examining department, shall order the withdrawal of the bank's authority to engage in trust and other fiduciary management activities.

E. GENERAL PROVISION ON SANCTIONS

499 SANCTIONS

Any violation of the provisions of this Part shall be subject to Sections 36 and 37 of R.A. No. 7653 without prejudice to the imposition of other sanctions as the Monetary Board may consider warranted under the circumstances that may include the suspension or revocation of a bank's authority to engage in trust and other fiduciary business or in investment management activities, and such other sanctions as may be provided by law.

In the case of non-compliance with the requirements of Secs. 401, 411-B/C Items f(2)(c)"(i) – (iii)" and Sec. 412 (specifically on *composition of trust committee, qualifications of committee members, officers and staff, and responsibilities of administration, and confirmation of the appointment/designation of trust officer and independent professional*) additional sanction may be imposed, which may include but not limited to, curtailment of fiduciary activities and/or introduction of new business.

The guidelines for the imposition of monetary penalty for violations/offenses with sanctions falling under Section 37 of R.A. No. 7653 on banks, their directors and/or officers are shown under Section 1102 (*Guidelines on the imposition of monetary penalties*).

(Circular No. 988 dated 20 December 2017)

PART FIVE

MANUAL OF REGULATIONS ON FOREIGN EXHANGE TRANSACTIONS

(Please refer to separate Manual on Foreign Exchange Transactions)

PART SIX

TREASURY AND MONEY MARKET OPERATIONS

A. MONETARY OPERATIONS OF THE BANGKO SENTRAL

601 MONETARY OPERATIONS

Monetary operations refer to the buying/selling of government securities, lending/ borrowing against underlying assets as collateral, acceptance of fixed-term deposits, foreign exchange swaps, and other monetary instruments of the Bangko Sentral aimed at influencing the underlying demand and supply conditions for money.

The following rules and regulations shall govern the buying and selling of government securities in the open market, pursuant to Section 91 of R.A. No. 7653:

a. The Bangko Sentral may buy and sell in the open market for its own account:

(1) Evidences of indebtedness issued directly by the Government of the Philippines or its political subdivisions; and
(2) Evidences of indebtedness issued by government instrumentalities and fully guaranteed by the Government.

The above evidences of indebtedness must be freely negotiable and regularly serviced. Purchases and sales in the open market shall be made through banks, QBs and accredited government securities dealers.

b. Outright purchases and sales of government securities shall be effected at prevailing market prices.

c. Repo agreements shall be open to banks (except RBs), QBs, and accredited government securities dealers and shall be made under the terms provided for under this Section on Repurchase agreements with Bangko Sentral and the following:

(1) The repo agreement may be paid at any time before maturity, subject to mutual agreement of both parties;

(2) In the event the securities covered by the repo agreement are not repurchased by the issuer of such agreement, the same may be sold in the open market or transferred to the Bangko Sentral portfolio; and

(3) Should an issuer of a repo agreement become no longer qualified as such, its outstanding repo agreement shall immediately become due and payable. If settlement of the amount due is not made within three (3) days from the date of its disqualification, the Bangko Sentral shall proceed to collect said amount in accordance with the preceding paragraph.

d. Reverse repo agreements covering the sale of portion of the security holdings of the Bangko Sentral portfolio may be made under the terms provided for under this Section on Reverse repurchase agreements with Bangko Sentral.

e. The purchase and sale of government securities by the National Treasury and government-owned or controlled corporations shall be made only with (a) the Bangko Sentral; (b) the DBP, the LBP, the SSS, the GSIS, the Al-Amanah Islamic Investment Bank of the Philippines and banks that are wholly-owned or controlled by these institutions; and (c) the Philippine Veterans Bank. Transactions shall be done with the bank proper and not through its trust department.

Repurchase agreements with Bangko Sentral.

a. Repo agreements may be entered into with the Bangko Sentral subject to the following terms and conditions:

(1) *Rate.* The rates on repo transactions shall be determined by auction, based on guidelines as prescribed by the Bangko Sentral.

(2) *Term.* The tenor of the repo agreement shall be set by the Bangko Sentral.

(3) *Security.* Only direct obligations of the National Government and its instrumentalities and political subdivisions, which are fully guaranteed by the Government, with a remaining maturity of at least six (6) days and longer than the tenor of the Repo Agreement and which are freely negotiable, unencumbered, and regularly serviced, shall be eligible as underlying instruments for repo agreements subject to the collateral requirement prescribed by the Bangko Sentral.

(4) *Delivery.* Delivery of the underlying instruments shall be made to the Bangko Sentral at the prescribed time based on guidelines as prescribed by the Bangko Sentral.

(5) At the maturity of the repo agreement, the Bangko Sentral Treasury Department shall return the underlying instruments to the issuer of such agreement.

b. US dollar (USD) denominated repo agreement facility may likewise be entered into with the Bangko Sentral, subject to the following terms and conditions, and as may be provided under the repo agreement facility:

(1) *Eligible borrowers.* The USD denominated repo facility shall only be available to banks with legitimate foreign currency denominated funding needs as may be provided under the repo facility: *Provided,* That the borrowing shall be for the account of the applicant bank and shall not be used to fund liquidity requirements of foreign branches, affiliates, or subsidiaries.

(2) *Security.* Only USD denominated obligations of the National Government of the Republic of the Philippines shall be eligible as collateral.

(3) The guidelines on the availment of USD repo agreement with the Bangko Sentral are shown in *Appendix 89.*

The Monetary Board may, at its discretion, impose any or all of the following sanctions to a bank and/or its director/s or officer/s found to be responsible for violation of the provisions on the terms and conditions of the USD-denominated repo agreement with the Bangko Sentral:

(1) Termination of eligibility and pre-termination of any outstanding balance through repayment and/or sale of the collateral;
(2) Fine of up to P30,000 per transaction per day of violation reckoned from the time the violation was committed up to the date it is corrected;
(3) Suspension of interbank clearing privileges/immediate exclusion from clearing;
(4) Suspension of access to Bangko Sentral rediscounting facilities;
(5) Suspension of lending or foreign exchange operations or authority to accept new deposits or make new investments;
(6) Revocation of authority to perform trust operations;
(7) Revocation of quasi-banking license;
(8) Suspension for 120 days without pay of the officers and/or directors responsible for the violation; and
(9) Other sanctions as may be provided by law.

Reverse repurchase agreements with the Bangko Sentral. *Reverse Repurchase Agreement* (RRP) refers to the Bangko Sentral's monetary instrument where the Bangko Sentral sells government securities with a commitment to buy them back at a later date. RRPs shall be open to banks (UBs/KBs and TBs) and NBQBs. These counterparties may enter into RRP transactions with the Bangko Sentral by participating in the RRP auction operation and said transactions with the Bangko Sentral shall be subject to the following terms and conditions:

a. *Rate.* The interest rate on the RRP facility shall be set by the Bangko Sentral in accordance with its monetary policy decision making.

b. *Term.* Tenors shall be set at a minimum of one (1) day (overnight) and a maximum of 364 days, or as determined by the Bangko Sentral.

c. *Auction schedule.* RRP auctions will be held regularly based on a schedule prescribed by the Bangko Sentral.

d. *Volume.* The auction size will be determined by the Bangko Sentral based on its assessment of liquidity conditions.

e. *Eligible security*. The underlying securities shall consist of securities representing obligations of the National Government. Such securities shall be valued at 100%. The Bangko Sentral shall prescribe the rules for the constructive delivery of securities.

f. Access to the RRP facility shall be governed by guidelines issued by the Bangko Sentral.

RRPs entered into by the Bangko Sentral with any AAB are included in the definition of the term "deposit substitutes" under Sec. 22 (y) Chapter 1 of the National Internal Revenue Code of 1997.

The Bangko Sentral shall withhold twenty percent (20%) Final Withholding Tax (FWT) and five percent (5%) Gross Receipt Tax on its RRPs, under the following guidelines:

(1) All overnight RRPs with the Bangko Sentral shall be subject to the twenty percent (20%) FWT and five percent (5%) Gross Receipts Tax (GRT) in the same manner as term RRPs, which tax is deducted on each maturity date and remitted to the BIR. These taxes shall be automatically withheld; and

(2) Concerned banks shall issue the corresponding debit authority to the Bangko Sentral to cover the twenty percent (20%) FWT on their RRPs with the Bangko Sentral.

Settlement procedures on the purchase and sale of government securities under repurchase agreements with the Bangko Sentral. Purchase and sale of government securities under repo agreements (GS/repo agreements) between and among banks and QBs and Bangko Sentral in connection with the latter's open market operations shall be settled in accordance with the provisions of the agreement for the PhilPaSS executed on 12 December 2002 between the Bangko Sentral and BAP/CTB/RBAP and any subsequent amendments thereto.

Borrowings from the Overnight Lending Facility (OLF) of the Bangko Sentral. The OLF is a Bangko Sentral standing facility which allows counterparties to obtain overnight liquidity from the Bangko Sentral on an open-volume basis against eligible collateral in order to cover short-term liquidity requirements. The OLF shall be open to banks (UBs/KBs and TBs) and NBQBs.

Counterparties may avail of borrowings from the Bangko Sentral's OLF subject to the following terms and conditions:

a. *Rate.* The interest rate on borrowings from the OLF shall be set by the Bangko Sentral in relation to the policy interest rate.

b. *Term.* Tenor shall be for one (1) day only.

c. *Volume.* Open volume, limited only by the eligible collateral offered by the availing counterparties.

d. *Eligible collateral.* Only direct obligations of the National Government or of its instrumentalities and political subdivisions which are fully guaranteed by the Government, with a remaining maturity of not less than six (6) days and which are freely negotiable and are unencumbered, shall be eligible as collateral. The Bangko Sentral shall prescribe rules for the delivery of collateral.

e. *Operating hours.* The OLF is available on demand to eligible counterparties during trading hours as prescribed by the Bangko Sentral.

Overnight deposits with Bangko Sentral. The Overnight Deposit Facility (ODF) is a Bangko Sentral standing facility which allows banks (UBs/KBs and TBs), and NBQBs to place overnight deposits with the Bangko Sentral, subject to the following terms and conditions:

a. *Rate*. The interest rate on the overnight deposit facility shall be set by the Bangko Sentral in relation to the policy interest rate.
b. *Term*. Tenor shall be one (1) day only.
c. *Volume.* No limit.
d. *Operating hours.* The ODF is available on demand to eligible counterparties during trading hours as prescribed by the Bangko Sentral.
e. Access to the ODF shall be governed by guidelines issued by the Bangko Sentral.

The Bangko Sentral shall withhold the twenty percent (20%) FWT and the five percent (5%) GRT on its overnight deposit transactions, under the following guidelines:

(1) All overnight deposit transactions with the Bangko Sentral shall be subject to the twenty percent (20%) FWT and the five percent (5%) GRT which tax is deducted on each maturity date and remitted to the BIR; and
(2) The Bangko Sentral Treasury Department shall automatically withhold the twenty percent (20%) FWT and the five percent (5%) GRT on the overnight deposit of eligible counterparties with the Bangko Sentral.

The Bangko Sentral Term Deposit Facility (TDF). The *TDF* is a key liquidity absorption facility of the Bangko Sentral used to withdraw liquidity from the system in bulk. Term deposit transactions shall be open to banks (UBs/KBs and TBs), and NBQBs and may be effected with the Bangko Sentral subject to the following terms and conditions:

a. *Rate*. The interest rates shall be determined by auction, based on guidelines as prescribed by the Bangko Sentral.
b. *Term*. The tenor of term deposits shall be set by the Bangko Sentral.
c. *Auction Schedule*. TDF auctions will be held on a weekly basis or as determined by the Bangko Sentral.
d. *Volume*. The auction size will be determined by the Bangko Sentral and announced with an appropriate lead time ahead of the auction date.
e. Placements in the TDF shall be governed by guidelines issued by the Treasury Department of the Bangko Sentral.

The Bangko Sentral shall withhold the twenty percent (20%) FWT and the five percent (5%) GRT on its term deposit transactions, under the following guidelines:

(1) All term deposit transactions with the Bangko Sentral shall be subject to the twenty percent (20%) FWT and the five percent (5%) GRT which tax is deducted on each maturity date and remitted to the BIR; and
(2) The Bangko Sentral Treasury Department shall automatically withhold the twenty percent (20%) FWT and the five percent (5%) GRT on the term deposit of eligible counterparties with the Bangko Sentral.

Bangko Sentral trading windows and services during Philippine Holidays. The guidelines on Bangko Sentral's trading windows and services during Philippine Holidays are shown in *Appendix 88.*

Prohibition against funds from non-residents from being accepted in the TDF and ODF. The TDF and ODF are monetary instruments deployed by the Bangko Sentral for the purpose of managing domestic liquidity in the financial system. These facilities should not be made available for opportunistic investment activities funded from non-resident sources. In the case of funds inwardly remitted by a foreign bank intended as capital of its branch or subsidiary in the Philippines, the same funds shall be eligible to be accepted in the TDF and the ODF of the Bangko Sentral. Further, 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 these facilities, counterparties of the Bangko Sentral, shall comply with the Guidelines on the Prohibition Against the Use of Funds from Non-Resident Sources for Placements in the Bangko Sentral's TDF and the ODF shown in *Appendix 82.*

(Circular Nos. 995 dated 5 February 2018, 961 dated 02 June 2017, M-2016-016 dated 18 November 2016, Circular Nos. 921 dated 22 August 2016, and 913 dated 02 June 2016)

602 THE JAPANESE YEN/PHILIPPINE PESO (JPY/PHP) SWAP FACILITY UNDER THE CROSS-BORDER LIQUIDITY ARRANGEMENT (CBLA) BETWEEN THE BANGKO SENTRAL AND THE BANK OF JAPAN (BOJ)

Policy statement. Financial crises and other emergency situations may lead to severe shortage in PHP liquidity that may curtail financing activities in the Philippines and affect the Philippine economy. The establishment of the JPY/PHP Swap Facility in the Philippines allows banks operating in the Philippines to access PHP liquidity against said banks' JPY holdings.

Availment of the JPY/PHP Swap Facility. Banks may avail of the JPY/ PHP Swap Facility from the Bangko Sentral during emergency situations.

For purposes of this facility, an "*emergency situation*" arises when a bank is under a state of severe shortage of PHP liquidity or under serious financial pressures brought about by unforeseen events or events which though foreseeable, cannot be prevented by the bank concerned.

Eligibility requirements. A bank can avail of the JPY/PHP Swap Facility provided it has met the following eligibility requirements:

a. Has established the presence of an *"emergency situation"* as defined under this Section on Availment of the JPY/PHP Swap Facility;
b. Has JPY holdings which can be delivered and deposited to the Bangko Sentral's account at the BOJ;
c. Has a CAMELS/ROCA composite rating of at least "3" and a Management/Risk Management component rating of at least "3" in the latest Report of Examination;
d. Has no unsafe or unsound banking cited in the latest Report of Examination; and
e. Has complied with the minimum capital requirement and risk-based CAR as provided under applicable and existing capital adequacy framework.

The bank shall submit an application letter to the appropriate supervising department of the Bangko Sentral, copy furnished the Treasury Department (TD), along with the following documents:

a. A certification under oath that the applicant bank meets the eligibility requirements and a declaration that there is an emergency situation in the bank as defined under this Section on Availment of the JPY/PHP Swap Facility.

b. A duly notarized secretary's certificate together with a copy of the resolution of the board of directors of the bank (or its equivalent in the case of foreign bank branches):

(1) Authorizing the application for the JPY/PHP Swap Facility of the Bangko Sentral;

(2) Indicating the bank's purpose for the availment and amount to be availed of under the JPY/PHP Swap Facility with supporting documents that indicate the existence of an emergency situation as defined under this Section Availment of the JPY/PHP Swap Facility and certifying that the PHP proceeds of the JPY/PHP Swap Facility shall be utilized by the bank to address PHP liquidity needs specified in its application as approved by the Bangko Sentral;

(3) Committing to deposit the JPY currencies to the account of the Bangko Sentral at the BOJ in exchange for the PHP liquidity that it will receive from the Bangko Sentral;

(4) Committing to comply with the guidelines set forth under this Section and other terms and conditions that may be imposed by the Bangko Sentral; and

(5) Designating authorized officers to sign and execute an agreement and other relevant documents in connection with the availment of the JPY/PHP Swap Facility.

The bank shall execute with TD a Master Swap Agreement (MSA) which TD will provide containing the following provisions, among others:

a. *Valuation of JPY.* A haircut on the JPY shall be determined by the TD. The TD may make margin calls, as necessary, to cover changes in the value of the JPY against the PHP.

b. *Pricing and terms.* The price of the JPY/PHP swap transaction shall be determined by the TD, taking into account prevailing liquidity/market conditions. A maximum tenor of thirty (30) days shall apply. Trading time shall be set from 10:00 AM to 12:00 NN, then from 2:00 PM to 3:00 PM.

c. *Pretermination.* Bangko Sentral shall have the right to terminate any transaction in any of the following events:

(1) Funds from the transaction are found to have been used by the bank for purposes other than those they were originally approved for and specified in its application; or
(2) Any misrepresentation by the bank.

In addition, any outstanding transaction may be terminated at any time before maturity, subject to mutual agreement of both parties.

Delivery of the JPY to the BOJ. In exchange for the PHP liquidity, banks shall deliver the required amount of JPY to the BOJ. The Bangko Sentral will hold the JPY in its JPY account at BOJ for the term of the JPY/PHP swap transaction.

Allowable amounts. The amount of PHP that may be availed of by the bank will be determined by the Bangko Sentral taking into account, among others, the amount applied for and the bank's JPY holdings.

Execution. The TD will advise the bank of the approval of the swap transaction and execute it in accordance with the MSA referred in Sec. 602 (*Eligibility Requirements*).

Enforcement actions. Consistent with Sec. 002, the Bangko Sentral may employ the appropriate enforcement tools to ensure compliance with the rules and regulations for the operation of the JPY/PHP Swap Facility, including the imposition of sanctions on the bank and/or its directors, officers and/or employees.

The imposition of sanctions shall be without prejudice to the application of administrative sanctions under Section 37 of R.A. No. 7653 (The New Central Bank Act) and/or to the filing of appropriate criminal charges against culpable persons as provided under Sections 34, 35, and 36 of R.A. No. 7653 for refusing to make reports or permit examination, making a false/misleading statement or for willfully violating banking laws or any order, instruction, rule or regulation issued by the Monetary Board.

(Circular No. 919 dated 02 August 2016)

B. TREASURY OPERATIONS OF BANKS

611 TREASURY OPERATIONS

Policy statement. The Bangko Sentral is cognizant that treasury activities may expose BSFIs to significant risks along with profitable opportunities. These regulations are being issued to set out minimum expectations on BSFIs' treasury activities pursuant to Section 4 of R.A. No. 8791 or the General Banking Law of 2000, which recognizes the authority of the Bangko Sentral to issue rules of conduct and establish standards of operation for its supervised financial institutions. These regulations, which cover the governance and operation of the trading function, among others, are aligned with the thrust of the Bangko Sentral to ensure that the activities of BSFIs are undertaken with prudence and integrity, and that these are supported by commensurate risk management systems and internal controls.

Treasury operations.[1] A BSFI's treasury activities may be a significant source of operational risk,[2] apart from giving rise to market, liquidity and credit risks.[3] Losses to the institution may arise from the failure to meet professional obligations to clients, faulty product design, unethical business practices, and the failure to execute transactional processes. The institution must likewise be cognizant of the increased exposure to reputational risk in the presence of such factors.

[1] This section should be read in conjunction with existing regulations on Operational Risk Management.
[2] *Operational risk* refers to the risk of loss resulting from inadequate or failed internal processes, people and systems; or from external events. This definition includes legal and compliance risks.
[3] BSFIs should refer to Sec. 144 for the Guidelines on Market Risk Management, Sec. 145 for the Guidelines on Liquidity Risk Management and Sec. 143 for the Guidelines on Sound Credit Risk Management Practices.

In this regard, the operational risk management framework for treasury activities shall include the following elements: a strong governance structure that safeguards the integrity of the Treasury unit, especially the trading function; comprehensive policies and procedures; effective internal controls; a reliable management information system that facilitates the comprehensive monitoring and timely reporting of exposures; and a robust process for dealing with clients.

The BSFI shall:

a. Conduct its treasury activities with a high degree of integrity. Consistent with the principles embodied in Sec. 132 (Specific duties and responsibilities of the board of directors), the board of directors shall be primarily responsible for establishing the tone of good governance from the top and setting standards of appropriate and ethical behavior for itself, senior management, and other employees. The board shall ensure compliance with market conduct rules, and the relevant requirements and standards of any regulatory body, professional body, clearing house or exchange, or government and any of its instrumentalities/agencies.

   In accordance with the board's duty to articulate acceptable and unacceptable activities, transactions and behaviors, it must adopt a code of conduct and standards of practice that are binding on the Treasury unit, especially personnel involved in risk-taking. The code and standards should highlight and provide specific guidance on upholding market integrity and professionalism. Practices which undermine market integrity include engaging in trading transactions which have the effect, of creating a false or misleading appearance of active trading in any security, currency or commodity, or with respect to the market for, or the price of, any security, currency or commodity. The code and standards should likewise include safeguards to prevent conflict of interest or self-dealing in any form when allowing personnel to deal for their own account.

   The code and standards shall be complementary to any codes adopted by the entire institution, as well as those promulgated by the industry. It is likewise the responsibility of the board to institute mechanisms to ensure compliance with the provisions of the code of conduct and the standards of practice, as well as to mete out appropriate sanctions for violations thereof.

b. Conduct treasury activities within a board-approved structure that is designed to meet the BSFI's objectives while enabling the strict enforcement of controls. The structure shall clearly distinguish between different functions (e.g., between asset-liability management, trading/leadership, underwriting, and brokering) and recognize the need for effective separation between operational units. The scope of authority and responsibility of each personnel shall be adequately defined, documented, and clearly communicated.

c. Appoint personnel who possess a high degree of integrity and sufficient expertise to understand the financial instruments dealt and transactions entered into by the Treasury unit. These qualifications shall not only apply to personnel who originate and process the transactions but also to those who are responsible for reviewing the transactions' conformity to the BSFI's accepted trading practices. There shall likewise be manpower adept at operating and maintaining the management information system (MIS).

d. Segregate the duties of the front, risk control and back office functions. The dealers in the front office are primarily responsible for transacting and managing positions. In this regard, the settlement and confirmation of transactions, the recording of contracts in the accounting system, the revaluation of positions, the reconciliations and procedures required to avoid errors, and other related processes in the back office shall be performed outside the dealing room to ensure objectivity and to prevent manipulation or fraud. There should be comprehensive and well-documented policies and procedures that describe the activities performed by each function.

e. Provide for the prompt evaluation and escalation of suspicious trading trends and patterns, and unusual gains or losses. While the primary responsibility for ensuring that transactions are undertaken with integrity lies with front office personnel, there should be units tasked to perform reviews of treasury activities. The unit responsible for executing such reviews shall be independent from the risk-taking function and accorded sufficient resources and stature in the institution. In this way, it shall be empowered to quickly escalate any activity that seems unusual or inconsistent with compliance, the financial and operational controls to the appropriate authorities. "*Appropriate authorities*" shall refer to persons, units, or committees that are independent of the Treasury function and its management but possess equivalent or higher stature, such as the chief executive officer, the chief compliance officer, or the board-level committee. Personnel tasked to perform reviews shall have, among others, sufficient understanding of the strategies engaged in by trading desks to allow them to evaluate whether trading activities are aligned with the risk appetite of the financial institution.

f. Regularly and actively engage the control functions namely, risk management, internal audit and compliance, in the oversight of treasury activities. Owing to their inherent responsibilities and stature within the BSFI, the control functions are well placed to perform reviews and render assessment of the Treasury unit and its activities. The operational risk management framework shall include tools and mechanisms to identify, measure, monitor and control risks in all aspects of treasury operations. As an example, risk and performance indicators may consist of those that identify errors in deal entry, track the cancellation of deals, analyze unusual trading activity, and flag limit

exceptions, among others. Meanwhile, the compliance function/ system referred to in Sec. 161 is responsible for the regular conduct of reviews to ensure that the BSFI's activities conform to applicable laws, rules, and regulations, including securities laws, as well as its obligations as a market participant. Lastly, internal audit shall be tasked with evaluating the Treasury unit's compliance with the BSFI's own policies and procedures, especially in the conduct of trading activities, in accordance with Sec. 163 (*Duties and responsibilities of the internal audit function or the chief audit executive*). The scope of internal audit shall likewise include the review of the performance of risk management and compliance duties in respect of treasury activities.

g. Employ treasury systems that are able to support the volume and complexity of the treasury transactions in the areas of deal entry, confirmation, settlement and accounting. Institutions that engage in heavy trading should endeavor to move to the use of straight-through processing to minimize input errors. On the other hand, institutions whose processes involve manual intervention should ensure that the integrity of data is preserved through proper controls.

h. Ensure that the MIS is able to serve the needs of its users. The MIS should enable the accumulation and production of accurate and timely financial, regulatory, and management reports. At a minimum, management reports should highlight trading positions, profits/losses, and limit utilization. If the institution uses more than one (1) system for its information needs, it should establish controls and perform reconciliations to minimize the likelihood of producing corrupted consolidated data.

i. Subject new products to a rigorous approval process. The handling of new products shall be embodied in an internal policy that, among others, defines the circumstances under which a product shall be considered "new". The policy shall likewise contain guidelines for the review of the product, including the conduct of an analysis of its risks, costs and benefits to the institution; the identification of product features, uses, and target markets, as applicable; potential risks and mitigants to such risks; and the procedures involved in operationalizing the product. The policy shall identify the stages within the product development process at which approvals shall be obtained and from whom. All relevant units should sign off on the product program as part of the new product approval process.

j. Act with honesty, fairness, and professionalism, and pursue the best interests of its clients. Due to the increasingly sophisticated products being introduced in the market, a BSFI acting as a dealer or broker shall have a clearly articulated strategy for the sale and marketing of financial products. The BSFI is expected to manage the risks arising from such activities and protect the interest of its clients. In this regard, a BSFI shall have appropriate policies, procedures and controls in place to ensure the suitability of products being offered to its clients. It shall ensure that (1) the client understands the nature of the transaction and the risks involved and (2) the transaction meets the client's financial objectives and is aligned with his/its risk tolerance. It shall also provide sufficient, accurate and comprehensible information about the products, including inherent risks, in a clear and balanced manner to enable its clients to make informed financial decisions. The BSFI shall likewise use reasonable diligence to ascertain the best market for the products offered to customers and buy and sell in such market so that the result to the customer is as favorable as possible under prevailing market conditions.

   Management should refer to the existing Consumer Protection Framework and Sales and Marketing Guidelines under Section 612.

k. Uphold accountability in its treasury activities by retaining reliable, accurate, and complete records of transactions. In accordance with Sec. 001, deals or transactions that are consummated orally or in written form should be coursed through official recorded media. It shall be the responsibility of the BSFI to ensure that other parties to the transaction are aware that a record of the same is being made and shall be deemed part of the formal documentation of the BSFI's transactions. Moreover, it shall also be the responsibility of the BSFI to inform its counterparties that the records of such transactions may be disclosed to regulators. To ensure effective compliance with these requirements, the official telephone lines used by the BSFI to consummate deals or transactions should have an automatic voice-prompted announcement at the start of the conversation/transaction between the BSFI and its counterparties stating that: (1) said conversation/transaction will be recorded; and (2) the recording and/or contents thereof may be disclosed to regulators. The recordings of the conversations and any other records of the exchanges pertaining to the said deals or transactions should be placed under custody of an independent unit and stored in a manner that is practicable to retrieve.

The failure of an institution covered by these guidelines to consistently observe the same may be considered by the Bangko Sentral as conducting business in an unsafe or unsound manner, subject to applicable provisions of laws and regulations.

Supervisory enforcement actions. The Bangko Sentral reserves the right to deploy its range of supervisory tools to promote adherence to the requirements set forth in these guidelines and bring about timely corrective actions and compliance with Bangko Sentral directives. In this regard, the Bangko Sentral may, among others, issue directives to refrain from engaging in treasury activities with serious supervisory issues. Sanctions may likewise be imposed on the BSFI and responsible persons, which may include restrictions or prohibitions from certain authorities/activities; and warning, reprimand, suspension, removal and disqualification of concerned directors, officers and employees.

(Circular No. 972 dated 22 August 2017, 969 dated 22 August 2017, 957 dated 17 April 2017, and 889 dated 02 November 2015)

612 SALES AND MARKETING GUIDELINES FOR FINANCIAL PRODUCTS[1]

General principles. A BSFI shall always act with honesty, fairness, and professionalism, and pursue the best interests of its clients. Due to the increasingly sophisticated products being introduced in the market, a BSFI acting as a dealer or broker shall have a clearly articulated strategy for the sale and marketing of financial products. The BSFI is expected to manage the risks arising from such activities and protect the interest of its clients. In this regard, a BSFI shall have appropriate policies, procedures and controls in place to ensure the suitability of the products being offered to its clients. It shall ensure that (1) the client understands the nature of the transaction and the risks involved and (2) the transaction meets the client's financial objectives and is aligned with the client's risk tolerance. It shall also provide sufficient, accurate and comprehensible information about the products, including inherent risks, in a clear and balanced manner to enable its clients to make informed financial decisions.

The BSFI shall be guided by the principle of proportionality in setting policies and procedures for its sales and marketing activities. It shall differentiate between less and more sophisticated clients, and tailor the manner by which they are engaged in accordance with such sophistication. Controls shall be in place to ensure that the BSFI complies with its internal policies and procedures, as well as relevant rules and regulations. At the minimum, BSFIs must satisfy the expectations set out in these guidelines.

The BSFI's sales and marketing policies, procedures and controls shall form part of its consumer protection risk management system, consistent with the regulations on financial consumer protection set forth under Part Ten.

Scope of application. These guidelines prescribe the minimum standards for sales and marketing activities of BSFIs acting as dealers or brokers of financial products.

These shall apply to all banks and non- bank financial institutions performing quasi- banking functions. Trust departments shall not be covered by these regulations; they shall continue to be governed by the provisions of Part IV as applicable. Likewise, cross-selling activities shall not be covered by these guidelines; they shall be governed by the provisions of Sec. 113.

Definition of terms. For purposes of this Section, the following terms shall have the meanings set forth below:

a. *Financial products* – refer to debt and equity securities, hybrid securities, derivatives as defined under Sec. 613, securitization structures, and similar products with substantial investment characteristics.

b. *Broker* - a person engaged in the business of buying and selling securities for the account of others.

c. *Dealer* - a person who buys and sells securities for own account in the ordinary course of business.

d. *Complex products* - refer to financial products whose terms, features and risks are not reasonably likely to be understood by a non-sophisticated client because of their complex structure, and which are also difficult to value, particularly when there is a very limited or no secondary market.

Client suitability guidelines. A BSFI shall ensure that the financial products it recommends to a client are appropriate for that client through a client suitability process, which involves obtaining client information, classifying a client according to financial sophistication and risk tolerance, and conducting a suitability review.

a. *Client Information*

The BSFI shall obtain necessary and sufficient information about the client that will serve as bases for its suitability assessment. At a minimum, the following information shall be obtained in addition to the basic account information:

(1) Investment amount/ investible funds or amount of exposure to be hedged;

(2) Financial situation - the client's financial standing, which includes information on assets, net worth, financial commitments, regular income, and capacity to withstand losses arising from financial transactions;

(3) Knowledge of financial products - the client's knowledge and understanding of the financial markets and products and the risks involved therein;

(4) Investment/hedging experience - the nature of investments and/or derivatives transactions undertaken by the client, including the length of time, frequency of dealings, and the extent to which he/it has relied on the advice of a bank or a financial advisor, if any;

[1] BSFIs shall be given three (3) months from 28 November 2015 to make appropriate changes in their sales and marketing policies, processes and materials in order to comply with the requirements of this Section.

(5) Financial objectives - the client's goal or purpose for entering into a transaction, whether it be for regular income, capital appreciation, capital preservation, maintenance of purchasing power, hedging as against investment, and/ or long-term buy and hold as opposed to short-term active trading;

(6) Risk appetite – the level of risk a client is willing to take;

(7) Holding period or investment horizon – the length of time over which the position or exposure to be hedged will be held by the client;

(8) Regulatory and legal constraints – prohibitions or limitations imposed on the activity of the client by existing laws, rules, and regulations, and;

(9) Liquidity needs – the client's need to convert positions into cash and the timing of such requirement.

To foster cooperation from the client, the BSFI shall explain the reason for assessing suitability. If the BSFI is unable to obtain sufficient information, it shall refrain from offering or recommending any financial product.

A BSFI may design and use its own system for obtaining client information, which may include questionnaires and interviews. However, pre-formatted questions and responses shall be fit for the purpose and presented in a clear and understandable manner. Likewise, technical or unfamiliar terms shall be explained as needed, in order to prevent different interpretations and/or erroneous responses.

While the client is responsible for providing accurate and updated information, BSFI personnel shall exercise diligence in reviewing the consistency of the responses and reliability of the information provided based on available documents, such as publicly disclosed information and those obtained from the client's existing contractual relationships with the BSFI. It is highly recommended that the BSFI requests for documents to support the client's representations, particularly where the client wishes to transact in complex products. Subsequent changes to client information, if any, shall be adequately documented and concurred with by the client along with the discussions and/or clarifications made.

For a legal entity or a group of two (2) or more natural persons, the BSFI shall obtain evidence that: (1) the client is specifically authorized to enter into all or specific kinds of financial transactions, and (2) the client's representative/s is/are authorized to carry out transactions on behalf of the entity/other parties, in accordance with the applicable legal framework.

When gathering information from a representative, the BSFI should be able to demonstrate that it has taken steps to ascertain that the information obtained is reflective of the entity or group's situation. In addition, it shall determine if the client has competent/qualified personnel to handle the proposed activities.

If a corporate client seeks to participate in complex products, the BSFI shall require the client to incorporate in the document authorizing the latter's activities that it likewise has appropriate risk management systems sufficient to manage and monitor the risks it will take.

At a minimum, client information, including client classification, shall be reviewed and updated prior to transacting in a product that is new to the client, or earlier in case of material changes in the client's financial situation or goals. Adequate controls shall be implemented to ensure the confidentiality and security of client information.

b. *Client Classification*

Based on the information obtained from a client, a BSFI should be able to classify a client into one of the following categories according to financial sophistication:

(1) *Market counterparty* - refers to any financial institution, only with respect to the instruments in which it is authorized to engage as a broker dealer;
(2) *Sophisticated institutional client* - refers to an institution that is not a market counterparty but has the level of net worth, knowledge, expertise, and experience to deal with financial products;
(3) *Sophisticated individual client* - refers to an individual who has demonstrated to the BSFI that he has the level of net worth, knowledge and experience to deal with financial products; or
(4) *Other clients* – refer to all other institutional or individual clients not categorized as market counterparty, sophisticated institutional client or sophisticated individual client.

BSFIs are encouraged to adopt a more granular categorization according to financial sophistication, provided that the categories can be mapped into the broad classifications above and the differences between categories are clearly set out.

In addition, a BSFI shall classify a client according to risk tolerance. This entails assessing the client's preferences, willingness to take on the risks associated with a product, and ability or capacity to absorb the losses that may arise from such product, as well as whether such losses will have a detrimental impact on the client's financial condition. At a minimum, a BSFI's classification of a client according to risk tolerance shall include, but need not be limited to, the following categories:

(1) *Conservative* - Client prefers an investment and/or hedging strategy where the primary goal is to prevent the loss of principal;
(2) *Moderate* - Client is willing and able to expose funds to a moderate level of risk in consideration for higher returns or to meet certain objectives; and
(3) *Aggressive* - Client is willing and able to accept higher risks involving volatility of returns and even possible loss of investment in return for potentially higher long-term results.

Whenever a scoring system is used for client profiling, the BSFI shall ensure that the system is robust, fit for the purpose, and adequately tested. Any limitation in the system shall be mitigated through client discussions and the suitability review process. The system shall be calibrated as necessary to reflect appropriate results.

The BSFI shall make a record of the classification under which each client is categorized, including sufficient information to support the categorization. The classifications of the client according to sophistication and risk tolerance shall serve as bases for the BSFI's product offerings and the level of disclosures required.

c. *Suitability Review*

Before proposing or recommending a particular product to a client, a BSFI shall determine that the product is:

(1) Suitable to the client's needs, financial situation, and objectives;
(2) Consistent with the client's mandate, risk tolerance, and constraints; and
(3) Aligned with the client's knowledge and experience, such that he/it understands the nature of and risks associated with the product.

Likewise, the BSFI shall inform its client of alternative products that are suitable to his/its circumstances.

A BSFI shall maintain a record of the assessment as well as all information used as bases of its suitability review. This includes written documentation to the extent that such was created to evidence interviews and analyses made in the performance of its due diligence process. The BSFI is expected to conduct a more in-depth assessment before offering complex products. It is highly recommended that a BSFI requires a client to sign his/its conformity to the suitability assessment (including the information on which it is based) in order to avoid disputes with the client.

A client who is classified as conservative may only transact in plain vanilla financial products as follows: (i) peso-denominated Government Securities representing direct obligations of the Government of the Republic of the Philippines; (ii) foreign currency- denominated Government Securities representing direct obligations of the Government of the Republic of the Philippines; (iii) highly liquid sovereign bonds, corporate bonds, and commercial papers issued off-shore rated at least "AA-" or its equivalent by a reputable international credit rating agency; (iv) highly liquid domestic corporate bonds and commercial papers rated at least "AAA" or its equivalent by a reputable credit rating agency; and/or (v) foreign exchange derivatives solely for hedging, subject to the results of the suitability review.[1]

In cases where the client is classified as a market counterparty, the BSFI does not need to comply with the required suitability review, considering the client's recognized sophistication. However, a BSFI should be able to provide sufficient support for its classification.

Appropriate controls shall be in place to deter unauthorized overriding of the results of the suitability assessment. A BSFI shall only offer the range of products that is viewed as suitable for the client. Nevertheless, it is recognized that, in certain instances, a client may insist on transacting in a particular product that has previously been assessed as unsuitable for his/its profile. In such cases, the BSFI shall obtain the client's confirmation in writing that:

(1) The BSFI has informed the client of the protections he/it may lose and conversely, of the risks that he/it is exposed to,
(2) The client still wishes to proceed with the transaction despite the BSFI's assessment, and
(3) The client fully understands and is willing to take the risks attendant to the product to be availed of.

[1] The BSFI is expected to have an internal policy for the identification of reputable credit rating agencies and prudent use of external credit assessment.

However, in no case shall the BSFI offer to its clients the option to automatically and comprehensively waive the outcome of the client classification process and the resulting protections offered by the rules on client suitability.

Disclosures. A BSFI shall always be mindful of its statements regarding its products/services, whether the statements pertain to promotion, marketing or sale thereof or in the course of making the required disclosures. It shall institute measures to ensure that its clients understand the nature of and risks in a financial transaction. Although a BSFI can tailor-fit information, marketing and sales presentations/materials depending upon the sophistication of its client, it shall institute measures to ensure that its clients understand the nature of the financial transaction. The BSFI shall also take further steps to adequately disclose the attendant risks of the financial transactions when dealing with an unsophisticated client, either generally or with respect to a particular product being offered. A BSFI shall adopt standards for its publications/materials/disclosure statements and regularly review the aforementioned documents to ensure that they meet the standards.

A BSFI shall not misrepresent or give a false impression of the financial products it offers in any of its advertisements, electronic communications, written materials (whether publicly disseminated or not) or oral representations. A misrepresentation is any statement that deviates from the truth or omits a material fact or even tends to mislead the recipients.

a. *Financial promotion* (marketing and sales)

A BSFI embarking on a financial promotion, whether through a direct offer or information/sales publications, shall ensure that it gives sufficient information on the entire transaction, including the underlying financial instruments, if any, to enable a client to make an informed decision. A BSFI shall prominently indicate its name in all its promotional materials and specify its role or capacity in the transaction (e.g., issuer, dealer, broker).

A financial promotion is considered clear, fair and not misleading if all of the following requisites are present:

(1) The information provided does not only emphasize the potential benefits of the product but also presents a fair and prominent description of the relevant risks and assumptions;

(2) It draws the customer's attention to the warnings, exclusions and disclaimers in all documents relating to the financial product;

(3) The design, content or format of the presentation does not disguise, obscure or diminish the significance of any statement, warning or other matters that the customer should be aware of;

(4) A client, by himself, can discern from the presentation whether a statement is a fact, promise or forecast;

(5) The accuracy of all material statements of fact can be substantiated;

(6) Any comparison or contrast of a product offered is made with another product that is intended to meet the same needs or to serve the same purpose. The comparison or contrast shall include all relevant factors. The facts presented shall be verifiable; alternatively, the relevant assumptions shall be disclosed;

(7) No reference to an approval by a regulatory body or its officials is made, unless a written approval was actually obtained;

(8) A recommendation to consult/refer to a financial advisor is made; and

(9) It does not omit any information, the omission of which causes a material fact to be misleading, unclear, or unfair.

A BSFI shall consider the client's knowledge of the transaction to which the given information relates. However, it shall not assume that clients/recipients necessarily have an understanding of the product being promoted. It shall also assess its usage of terms, especially those which are technical in nature. If promotional or marketing materials are specially designed for a targeted client base that is reasonably believed to have particular knowledge of the investment, this fact shall be made clear in the materials.

b. *Product disclosures*

A BSFI shall endeavor to explain the financial products it offers to its clients to enable the latter to make an informed decision. Product disclosures shall present an adequate description of (a) the nature and features of the financial product, including any underlying instrument(s), (b) the amount of outlay required, (c) the costs involved, and (d) the risks related to the product. In general, disclosures shall always be presented in a balanced manner whereby the potential benefits of a product are tempered by a fair indication of the risks involved.

Disclosure statements shall be presented in a clear, concise and effective manner to promote the client's understanding of the product. The use of industry and legal jargon shall be minimized to the extent possible. If

such cannot be avoided, these terms shall be clearly defined and explained to the client. A greater level of disclosure shall be provided if a product is not generally understood by clients, for instance, in the case of new or complex products.

Should the BSFI make use of materials provided by the issuer of a particular instrument, the client shall be made aware that the issuer is responsible for the representations contained therein. However, the BSFI is responsible for communicating the relevance of said materials to the client.

A product disclosure that includes an illustration of past or future performance shall comply with the following:

(1) When the product's past performance is used to illustrate possible future returns, the disclosure shall state that past performance is not necessarily indicative of future performance. This shall be presented in the main text of the presentation material. Past performance shall be culled from a reasonable time frame to provide a fair and balanced indication of a product's performance;

(2) When using any forecast on the economy or financial markets, the disclosure shall state that such forecast is not necessarily indicative of the future performance of the product; and

(3) Illustrations of returns shall include worst-case scenarios (i.e., not just the likely or best scenarios). Benefits shown in headline rates (pro-forma returns highlighted) should be realistic and achievable, and not based on unreasonably optimistic views of events.

Disclosures for products with some form of guarantee or protection should highlight which benefits are guaranteed/ protected and those which are not. In instances where the guarantee or protection involves a cost to the client, the BSFI shall disclose the fees or charges for the same. A BSFI shall also disclose to the client the counterparty (e.g., issuer/guarantor) risk involved so that he/it is not misled about the product's capital security/principal protection. When applicable, a BSFI shall state if the guaranteed or protected amount is payable only at the end of the term.

Product disclosures for leveraged transactions[1] should emphasize that while these types of products/strategies amplify the potential gain from an investment, they also increase the potential loss thereof. A client who intends to engage in margin buying, a means of applying leverage in investing, shall be cautioned on possible loss exceeding the margin or initial cash outlay.

c. *Minimum required disclosures*

The minimum required disclosures shall always be in writing. A BSFI shall require its client to sign or initial the disclosure statement as affirmation of the client's receipt and understanding of the disclosure statement, unless the client is a market counterparty. A BSFI may opt to draft an individual or separate disclosure statement for its client or incorporate the same in the main transaction agreement/ contract.

Product-specific minimum disclosures shall include:

(1) The nature of the financial product, including the underlying financial instruments, and how these products work;
(2) Investment horizon or tenor of the financial product;
(3) Fees and charges, if any;
(4) Details on the issuing entity in case the dealing BSFI is not the issuing institution (i.e., the BSFI acts as a broker/dealer or market maker);
(5) Returns or benefits likely to be derived from the instrument, the amount and timing thereof and whether the benefits are guaranteed or not;
(6) All risk factors that may result in the client receiving returns less than the illustrated returns and factors affecting the recoverable amount by the client;
(7) Details of conflicts of interest, if any;
(8) Information on the handling of complaints related to the product;
(9) All termination clauses, when appropriate, including charges and restrictions;
(10) Any warning, exclusion or disclaimer in relation to the risk and rewards of the product, including, but not limited, to the following:

    (a) The product carries higher risks than those associated with ordinary bank savings or time deposits;
    (b) The product is risky and may not be appropriate if the client is not willing and able to accept the risk of adverse movements in the underlying securities or reference rates;
    (c) Past performance of the product is not a guarantee of its future performance;

[1] Leverage or gearing can be employed in a structured product in order to offer higher yields.

(11) Other disclosures that may be required by existing laws, rules and regulations.

Where applicable, a BSFI shall draw the attention of the client to the following:

(1) The effect of early redemption of a product on the return (e.g., penalties and/or a poor returns);
(2) The availability of maximum benefit advertised after a specified period; and
(3) The required conditions for the advertised growth rate of income to materialize.

Complex products should carry a standard warning that they are not suitable for all clients, and are intended for experienced and sophisticated clients. They should likewise carry appropriate warnings on the high economic risks of the transaction, such as:

(1) Loss of all or a substantial portion of the investment due to leveraging or other sophisticated practices;
(2) Mismatch between the change in the price of a hedge versus the change in the price of the exposure it hedges;
(3) Volatility of returns;
(4) Lack of liquidity considering that there may be no secondary market for the instrument;
(5) Restrictions on transferring interests; and
(6) Absence of information regarding valuation and pricing.

Sales and marketing personnel. Any informational or promotional presentation regarding financial products shall be undertaken only by personnel who are knowledgeable on the products involved. In assessing the knowledge of its personnel, a BSFI may consider their educational background; relevant training; certification; and professional experience in rendering investment advice, making presentations regarding financial products and/or assessing the propriety of financial products for a client. The personnel involved in the transactions shall likewise be familiar with all relevant laws and applicable rules and regulations and shall ensure compliance therewith.

At a minimum, a BSFI shall establish qualification standards for personnel involved in sales and marketing activities and require compliance with the registration requirements prescribed by existing securities laws, rules and regulations. In addition, a BSFI shall implement, and maintain a reasonably comprehensive system of training geared at enhancing the technical knowledge of its personnel to enable them to understand, and explain the nature and risks of a BSFI's financial products, and ensure client suitability.

Management shall regularly review the BSFI's compensation and incentive programs and ensure that such remuneration schemes do not place the interests of the sales and marketing personnel in conflict with those of their clients.

The BSFI's board of directors and senior management shall be liable for the acts performed and representations made by sales and marketing personnel in their official capacity. Notwithstanding the foregoing, a BSFI's board of directors and senior management are not precluded from filing the necessary action against the erring sales and marketing personnel.

***Role of control functions*.** The control functions shall periodically monitor and evaluate the continuing effectiveness and adequacy of the sales and marketing policies and procedures. They shall regularly provide senior management or the Board, as appropriate, with written reports on the results of their review.

A BSFI's operational risk management framework shall take into account sales and marketing activities in the identification and assessment, monitoring and reporting, and control and mitigation of risks.[1] The compliance function referred to in Sec. 161 shall be responsible for monitoring and assessing the BSFI's compliance with applicable laws, rules and regulations in the conduct of sales and marketing activities. The internal audit function shall include in its scope the review and evaluation of the BSFI's compliance with internal policies and procedures for the sales and marketing of financial products, issuance of recommendations based on the results of the audits conducted, and the verification of compliance with those recommendations, in accordance with Sec. 163 (*Duties and responsibilities of the head of the internal audit function and the chief audit executive*).

Record retention. Documents evidencing compliance with this Section shall be retained for a period of not less than five (5) years unless an investigation is being conducted, or a criminal, civil, or administrative case has been filed in a competent judicial or administrative body where a client is involved or impleaded as a party to the case or investigation. In such cases, the above documents shall be preserved beyond the five (5)-year period until such time that a final judgment has been reached by the judicial or administrative body.

Enforcement actions. The Bangko Sentral may deploy its range of supervisory tools to promote adherence to the requirements set forth in these guidelines and bring about timely corrective actions and compliance with Bangko Sentral directives. Sanctions may likewise be imposed on the BSFI and responsible persons, which may include restrictions or prohibitions from certain authorities/activities; and warning, reprimand, suspension, removal and disqualification of concerned directors, officers and employees.

(Circular No. 972 dated 22 August 2017, 917 dated 08 July 2016, and. 891 dated 09 November 2015)

[1] BSFIs should refer to existing Guidelines on Operational Risk Management.

613 DERIVATIVES ACTIVITIES

A bank may engage in authorized derivatives activities: *Provided,* That the bank:

a. Understands, measures, monitors and controls the risks assumed from its derivatives activities;
b. Adopts effective risk management practices whose sophistication are commensurate to the risks being monitored and controlled; and
c. Maintains capital commensurate with the risk exposures assumed.

Further, a bank may likewise engage in financial derivatives activities in accordance with these guidelines. The transacting bank shall have the responsibility to comply with the guidelines set out in this Section, including the relevant appendices, and other applicable laws, rules and regulations governing derivatives transaction. In case of derivatives instruments involving foreign currencies and/or other foreign currency- denominated assets, the transacting bank shall observe the pertinent FX rules and regulations. For purposes of these guidelines, a bank that transacts (i.e., transacting bank) whether as end-user, broker or dealer, in derivatives instruments is considered to be engaging in a derivatives activity.

Derivative is broadly defined as a financial instrument that primarily derives its value from the performance of an underlying variable. For purposes of these guidelines, a *financial derivative* is any financial instrument or contract with all of the following characteristics:

a. Its value changes in response to a change in a specified interest rate, financial instrument price, commodity price, FX rate, index of prices or rates, credit spread, credit rating or credit index or other variables not prohibited under existing laws, rules and regulations (the "underlying");

b. It requires either no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and

c. It is settled at a future date.

Financial derivatives activities shall also include transactions in cash instruments with embedded derivatives that reshape the risk-return profile of the host instrument, such as credit-linked notes ("CLNs") and other structured products ("SPs").

A market participant may take any of the following roles in a derivatives transaction:

a. An *end-user* is defined as a financial market participant that enters, for its own account, in a derivatives transaction for legitimate economic purposes. These purposes may include, but are not limited to, the following: hedging, proprietary trading, managing capital or funding costs, obtaining indirect exposures to desired market factors, investment, yield- enhancement, and/or altering the risk-reward profile of a particular item or an entire balance sheet.

   An end-user may be classified according to its financial sophistication:

   (1) *Market counterparty* - refers to any UB or KB, only with respect to the instruments for which it is authorized to engage in as a dealer.

   (2) *Institutional counterparty* - refers to an institution which is not a market counterparty and has the level of net worth, knowledge, expertise, and experience to deal with financial derivatives.

   (3) *Sophisticated individual end-user* - refers to an individual who has demonstrated to the bank as having the level of net worth, knowledge and experience in dealing with financial products, including financial derivatives. An individual may register as a sophisticated individual end-user with the appropriate supervising department of the Bangko Sentral.

   (4) *Other end-user* - This refers to all other institutional or individual clients not categorized as market counterparty, institutional counterparty or sophisticated individual end-user.

b. A *broker* is a financial market participant that facilitates a derivatives transaction between a dealer and its client, for a fee or commission. The counterparties to the derivatives contract are the client and an authorized dealer.

c. A *dealer* is defined as a financial market participant that engages in a derivatives activity as an originator of derivatives products or as market-maker in derivatives products. A dealer can distribute its own derivatives products, including those of others. A dealer can also act as broker and/or end-user of derivatives instruments.

Definition of terms.

a. *Credit default swaps* (CDS) - refers to a financial contract between two (2) parties, the protection buyer and protection seller, with reference to a certain notional value of a reference credit or a basket of reference credits, whereby the former pays a premium to the latter, and in return the latter agrees to make certain protection payments to the former contingent upon the occurrence of a credit event with respect to the reference entity(ies)/asset(s).

b. *Credit-linked note* (CLN) - refers to a pre-funded credit derivative instrument under which the note holder effectively accepts the transfer of credit risk pertaining to a reference asset or basket of assets issued by a reference entity/ies. The repayment of the principal to the note holder is contingent upon the occurrence of a defined credit event. In consideration thereof, the note holder receives an economic return reflecting the underlying credit risk of the reference assets. For purposes of this Section, the term shall generically include similar instruments such as credit-linked deposits (CLDs) and credit-linked loans (CLLs). Unless otherwise stated, the term shall refer only to plain vanilla CLNs. Plain vanilla CLNs are composed of a debt or deposit instrument and a CDS. Non-plain vanilla CLNs are those that are leveraged and/or include features of other SPs (e.g., coupon payments linked to interest or FX rate movements) and/or contains more than one (1) embedded derivative.

c. *Currency swaps* - refers to an arrangement in which two parties exchange a series of cash flows in one (1) currency for a series of cash flows in another currency, at specified exchange and/or interest rates and at agreed intervals over an agreed period.

d. *Forward FX contracts* - refers to an agreement for delayed delivery of a foreign currency in which the buyer agrees to purchase and the seller agrees to deliver at a specified future date a specified amount at a specified exchange rate.

e. *Forward rate agreement (FRA)* - refers to an agreement fixing the interest rates for a specified period whereby the buyer receives (or pays) and the seller pays (or receives) the interest rate differential if the reference rate rises above (or falls below) the contract rate, respectively.

f. *FX exposure* - refers to an FX risk arising from an existing commitment to or from a non-resident or AAB which leads to payment of an FX obligation or receipt of an FX asset based on verifiable documents on deal date.

g. *FX obligation* - refers to an actual FX commitment to a non-resident or any AAB where the amount, payment tenor and party have been determined.

h. *FX options* - refers to option contracts which convey the right or the obligation depending upon whether the bank is the purchaser or the writer, respectively to buy or sell at a specified price by a specified future date, for a fee or a premium, two (2) different currencies at a specified exchange rate.

i. *FX swaps* - refers to an agreement involving an initial exchange of two (2) currencies, usually at the prevailing spot rate, and a simultaneous commitment to reverse the exchange of the same two (2) currencies at a date further in the future at a rate (different from the rate applied to the initial exchange) agreed on deal date.

j. *Interest rate swaps (IRS)* - refers to an agreement in which the parties agree to exchange interest cash flows on a principal amount at certain times in the future according to an agreed upon formula.

k. *Non-deliverable forward (NDF)* - refers to a forward FX contract where only the net difference between the contracted forward rate and the market rate shall be settled at maturity.

l. *Non-resident* - refers to an individual, a corporation or other juridical person not included in the definition of resident.

m. *Resident* - refers to:

(1) An individual citizen of the Philippines residing therein; or
(2) An individual who is not a citizen of the Philippines but is permanently residing therein; or
(3) A corporation or other juridical person organized under the laws of the Philippines; or
(4) A branch, subsidiary, affiliate, extension office or any other unit of corporations or juridical persons which are organized under the laws of any country and operating in the Philippines, except OBUs.

n. *Structured product (SP)* - refers to a financial instrument where the total return is a function of one (1) or more underlying indices, such as interest rates, equities and exchange rates. It is composed of a host contract (e.g., plain vanilla debt or equity securities) and an embedded derivative (e.g., swaps, forwards or options) that re-shape the risk-return pattern of the hybrid instrument. For purposes of guidelines under this Section, the term SP does not include asset-backed securities. Provisions under Sec. 627-A shall continue to apply for securities overlying securitization structures.

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

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

(1) *As a dealer.* A UB or KB may originate and distribute the following "organized market"-traded financial derivatives:

(a) FX forwards, FX swaps, currency swaps and analogous financial futures with a tenor of three (3) years or less; and

(b) Interest rate swaps, forward rate agreements and analogous financial futures with a tenor of ten (10) years or less: *Provided,* That the issuance of sub- participation in any derivatives held as an end-user shall be deemed as undertaking the role of a dealer: *Provided, further,* That the dealer UB or KB observes the provisions of *Section 612* and other pertinent securities laws, rules and regulations.

For purposes of this Subsection, an *organized market* refers to an exchange or a Bangko Sentral-recognized over-the-counter market governed by transparent and binding market conventions on price transparency, trade reporting, market surveillance and orderly conduct/operations of the market.

(2) *As end-user*[1].

(a) A UB or KB, including its trust department, may enter in any financial derivatives transaction for the purpose of hedging its own risks: *Provided,* That it observes all the requirements for hedging transactions under PAS.

(b) A UB or KB may trade with counterparties in order to take positions for its own account in "organized market" - traded financial instruments enumerated under Item *"1"* above. It can also take long positions in naked FX options with a tenor of three (3) years or less.

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

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

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

Provided, That the bank or trust entity shall comply with the following conditions:

(aa) Total carrying value of all investments in SPs shall not exceed 100% of the bank's qualifying Tier 1 capital or fifty percent (50%) of a trust entity's trust assets; and

(bb) For investments in SPs under the EFCDU, total carrying value of SPs as defined herein shall also not exceed twenty percent (20%) of the total FCDU assets: *Provided,* That SPs which are not booked in an investment account (e.g., booked as inter-bank loans), for this purpose, shall be considered as part of the EFCDU assets.

An SP is considered principal-protected if the minimum all-in return for such investment is at least zero and such minimum all-in return is guaranteed by an entity (i.e., issuer or a third party) rated at least "A" or its equivalent by an international rating agency acceptable to the Bangko Sentral or fully collateralized by an asset with equivalent credit quality.

(3) *As a broker.* A UB or KB may facilitate derivatives transactions between dealers and market and/or institutional counterparties and/or sophisticated individual end-users: *Provided,* That the UB/ KB, acting as broker, ensures that its client fully understands its limited responsibility as a broker: *Provided*, further, That the bank adheres to procedures for evaluating client suitability, including risk disclosures, as prescribed in *Section 612: Provided, finally,* That the bank complies with other pertinent securities laws, rules and regulations.

b. TBs, RBs and Coop Banks may enter in derivatives transactions as end-user with Bangko Sentral - authorized dealers and brokers solely for hedging purposes: *Provided,* That they observe all the requirements for hedging

[1] All transactions involving warrants issued under the ROP's "Paired Warrants Program" shall be considered as among the generally authorized derivatives activities that banks (including TBs and RBs/Coop Banks) may engage in as end-user, without need for additional derivatives authority required under this Section: *Provided,* That banks holding such instruments shall comply with the requirements of *Appendix 22*, where applicable.

transactions under PAS[1]. A TB, RB or Coop Bank may apply for a Type 3 authority to enter into derivatives transactions as end-user for purposes other than hedging: *Provided*, That the applicant bank agrees to be covered by all regulations prescribing capital for market risk, notwithstanding any provision to the contrary; and

c. A trust department of a UB or KB may transact, as an institutional counterparty, with financial derivatives instruments enumerated under item *"(a)(2)"* above on behalf of its trustor/principal/s as may be authorized by such trustor/principal/s: *Provided,* That the trust department observes the relevant provisions of *Appendix 22* and Sec. 612. Trust entities other than that within a UB or KB may apply for a Type 3 authority to enter on behalf of its trustor/principal/s in derivatives transactions under item *"(a)(2)"* above. Any trust entity may also apply for Type 3 authority in order to transact as end-user on behalf of its trustor/principal/s with derivatives instrument outside those enumerated under item *"(a)(2)"* above.

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

a. *Classification of additional derivatives authority*

(1) Type 1 - *Expanded dealer authority*

A UB or KB may apply for a Type 1 authority. A bank with Type 1 authority may transact in any financial derivatives as a dealer: *Provided*, That a bank with Type 1 authority shall comply with the sales and marketing guidelines prescribed in Section 612. A bank with Type 1 authority may likewise transact in any financial derivatives as a broker and an end-user.

The Bangko Sentral expects banks applying for Type 1 authority to institutionalize a (a) comprehensive and integrated risk management system; and (b) sales and marketing practices that are deemed appropriate and adequate for the different derivatives activities it expects to engage in. It must be rated at least CAMELS (or ROCA for branches of foreign banks) of "4" or better over-all, notwithstanding any provision to the contrary.

(2) Type 2 - *Limited dealer authority*

A UB or KB may apply for a Type 2 authority. A bank with Type 2 authority may operate as a dealer in specific types of derivatives products with specific underlying reference, as applied for by the bank, outside those financial derivatives instruments under item *"(a)(1)"* of this Section on Generally authorized derivatives activities: *Provided,* That a bank with Type 2 authority shall comply with the sales and marketing guidelines prescribed in Section 612. The Type 2 authority also carries authority to transact as broker and end-user of the said specific derivatives instruments.

A TB with an existing authority to issue foreign letters of credit and pay/accept/ negotiate import/export drafts/ bills of exchange under Sec. 101-B may apply for a Type 2 authority to operate as a dealer of deliverable FX forwards in order to service the trade-related hedging requirements of its clients: *Provided,* That the tenor of the FX forwards dealt shall match the term of the underlying trade transaction: *Provided, further,* That the applicant bank shall be covered by all regulations prescribing capital for market risk, notwithstanding any provision to the contrary: *Provided, furthermore,* That the TB shall comply with the sales and marketing guidelines prescribed in Section 612. The Type 2 authority also carries the authority to transact as a broker and an end-user of deliverable FX forwards.

(3) Type 3 - *Limited user authority*

Any bank may apply for a Type 3 authority. A bank with Type 3 authority may transact, as an end-user, in specific types of derivatives products, with specific underlying reference, as applied for by the bank, outside of those instruments under Item "*(a)(2)*" of this Section on Generally authorized derivatives activities. However, as regards a TB, RB or Coop Bank and trust entity other than that within a UB or KB, a Type 3 authority will enable said bank/entity to transact as end-user of a derivative instrument as may be applied for by the bank/entity.

[1] All transactions involving warrants issued under the ROP's "Paired Warrants Program" shall be considered as among the generally authorized derivatives activities that banks (including TBs and RBs/Coop Banks) may engage in as end-user, without need for additional derivatives authority required under this Section: *Provided,* That banks holding such instruments shall comply with the requirements of *Appendix 22*, where applicable.

(4) Type 4 - *Special broker authority*

A bank, other than a UB or KB, may apply for a Type 4 authority. A bank with Type 4 authority may facilitate a derivatives transaction between a UB or KB, as dealer, and market and institutional counterparties and sophisticated individual end-users: *Provided,* That the bank, acting as broker, ensures that its client fully understands its limited responsibility as a broker and observes the provisions of Section 612.

A UB or KB may likewise apply for a Type 4 authority to enable itself to broker a derivatives transaction for or with other end-users.

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

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

b. *Qualification requirements.* A bank applying for additional authority to engage in expanded derivatives activities shall:

(1) Demonstrate adequate competence in its general operations as evidenced by:

(a) CAMELS (or ROCA for branches of foreign banks) composite rating of at least *"3"* with a similar rating for Management;
(b) No unresolved major safety and soundness issues that threaten liquidity or solvency; and
(c) Substantial compliance with regulations on anti-money laundering, corporate governance and risk management.

(2) Hold capital commensurate to the risks assumed or to be assumed from the derivatives activities. The Bangko Sentral expects a bank applying for or holding additional derivatives authority to have adequate capital to accommodate existing and future risks from additional and generally authorized derivatives activities as well as risks arising from the bank's other business activities. For this purpose, the Bangko Sentral may require capital higher than the minimum required under prudential regulations.

(3) Have and maintain a risk management system that conforms to the principles and complies with the minimum standards prescribed in *Appendix 22.*

c. *Applicability to trust entities.* Trust entities may apply for Type 3 authority: *Provided*, That they comply with the requirements prescribed and observe the provisions of Section 612.

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

(1) A copy of the board resolution (or equivalent management review body in the case of branches of foreign banks or trust committee, in case of trust entities) approving the application for a specific type of derivatives authority;

(2) A notarized certification signed jointly by the president, treasurer and compliance officer of the applicant-bank (or two (2) authorized signatories of equivalent rank of the trust committee in case of trust entities), stating that the bank complies with all the requirements for the authority being applied for specified under this Section on Activities requiring additional derivatives authorities; and

(3) A list of the types of derivatives and underlying reference the bank intends to engage in, including the following information for each derivatives class or type:

(a) Target customers for such derivatives;
(b) The capacity in which the bank intends to engage in such derivatives;
(c) Description of each type of derivatives and underlying reference with which it will deal;
(d) Analysis of the risks involved in transacting in each type of derivatives;
(e) Procedures/methodologies that the bank will implement to measure, monitor (including risk management reports) and control the risks inherent in the types of derivatives;
(f) Relevant accounting guidelines, including pro-forma accounting entries;
(g) Analysis of any actual or potential legal/regulatory restrictions; and
(h) Process flow chart, from deal initiation to risk reporting, indicating the departments and personnel involved in identified processes.

(4) Payment of a non-refundable processing fee amounting to:

Authority	Amount	
Type 1	P 200,000	(UBs and KBs)
Type 2	100,000	
Type 3	50,000	
	25,000	(other applicants)
Type 4	25,000	(all banks)

(5) The Bangko Sentral will not accept applications lacking any of the above-stated requirements. The Bangko Sentral, however, may require additional documents to aid its evaluation of the application. By virtue of the application, the applicant automatically authorizes the Bangko Sentral to conduct an on-site evaluation of the applicant's risk management capabilities, if this is deemed necessary.

(6) Type 1 authority shall be subject to approval by the Governor, upon recommendation of the Deputy Governor of the appropriate sector of the Bangko Sentral. All other applications for additional authority/ies shall be subject to approval by the Deputy Governor of the appropriate sector of the Bangko Sentral.

(7) A bank whose application for additional derivatives authority/ies or an upgrade thereof (e.g., from Type 2 to Type 1 authority) has been denied cannot submit a new application for additional derivatives authorities until after six (6) months from receipt of denial. The same rule applies for a bank whose authorities have been limited or downgraded.

(8) A bank that holds an additional derivatives authority may apply for additional derivatives authorities (e.g., currently holding Type 3 authority who wish to apply for Type 4 authority) or an upgrade thereof only after the lapse of six (6) months from the grant of the previous additional derivatives authority.

Intra-group transactions. All derivatives transactions between a bank and any of its subsidiaries and affiliates shall comply with minimum risk management standards for related-party transactions outlined in *Appendix 22*, as part of the bank's internal control procedures. The Bangko Sentral expects banks to establish internal reporting and monitoring system for derivatives activities for related-party transactions. Failure to comply with minimum standards shall be a ground for citing non-compliance with under this Section on Generally authorized derivatives activities, and Activities requiring additional derivatives authority without prejudice to other Bangko Sentral rules and regulations such as those related to corporate governance and unsafe or unsound banking.

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

Reporting requirements. A bank or trust department/ entity engaged in any derivatives transaction shall submit, in addition to the derivatives reports enumerated under the Bangko Sentral FRP, a monthly report on derivatives transactions/outstanding derivatives within fifteen (15) banking days from end of the reference month. The reports shall be certified by the treasurer.

Sanctions.

a. *Unauthorized transactions.* Sanctions prescribed under Sections 36 and 37 of R.A. No. 7653 shall be imposed on any bank (including its directors and officers) found to have engaged in an unauthorized derivatives activity.

A bank undertaking unauthorized derivatives activities may be considered as conducting its business in an unsafe or unsound manner under Section 56 of R.A. No. 8791.

b. *Delayed/erroneous/inaccurate reporting.* Banks failing to submit the reports required under this Section on Reporting requirements within the prescribed deadline shall be subject to monetary penalties applicable for delayed reporting under existing regulations. Moreover, submission of incomplete, uncertified or improperly certified or otherwise erroneous reports shall be considered non-reporting, subject to applicable penalties for amended/ delayed reports. For purposes of imposing monetary penalties, the reports shall be classified as a *Category A-1* report. Habitual delayed or erroneous reporting may be a ground for further sanction, including limitation of generally authorized activities and/or additional authorities and/or suspension of authority to engage in such derivatives activities.

c. *Non-compliance with the provisions of this Section and Sec. 612 and Appendix 22.* Any bank/trust entity found violating any of the provisions of this Section, Sec. 612 and Appendix 22 shall be sanctioned with the penalties prescribed under Sections 36 and 37 of R.A. No. 7653 in accordance with the gravity/seriousness of the offense taking into consideration the number of times the offense was committed, possible consequent losses on the clients, effect on the financial markets and other relevant factors.

d. *Curtailment of derivatives authority*. The Bangko Sentral reserves the right to suspend, modify, downgrade, limit or revoke any bank's derivatives authority (including any or all of those generally authorized activities) for prudential reasons as may be evidenced by any or all of the following:

(1) The bank is assigned a CAMELS (or ROCA in the case of branches of foreign banks) composite rating or component management rating of lower than that prescribed under this Section on Activities requiring additional derivatives authority, in the most recent regular examination.

(2) The bank has not maintained adequate risk management systems given the level and type of derivatives activities it has engaged in as may be determined by the Bangko Sentral in any on-site evaluation and confirmed by the Monetary Board.

(3) The Monetary Board has confirmed a finding of the appropriate supervising department of the Bangko Sentral that the bank has conducted business in an unsafe or unsound manner.

An erring bank may apply for reinstatement of its derivatives authority only after six (6) months from lapse of the implementation of the sanction: *Provided*, That the bank has satisfactorily addressed all Bangko Sentral concerns.

(Circular Nos. 917 dated 08 July 2016, and*. 864 dated 22 December 2014)*

C. FINANCIAL INSTRUMENTS

621 GLOBAL PESO NOTES

The following are the guidelines on the regulatory treatment of investments of banks in Global Peso Notes (GPNs) issued by the Republic of the Philippines:

a. Investments in GPNs shall be recorded in the RBU books of a bank as a foreign currency-denominated asset in accordance with the provisions of the Philippine Financial Reporting Standards/ Philippine Accounting Standards at their foreign currency amount and local currency equivalent;

b. Investments in GPNs that are classified at fair value shall be subject to mark-to-market valuation and shall be valued similar to other foreign currency-denominated securities traded abroad;

c. Investments in GPNs shall be subject to a credit risk weight of twenty percent (20%) for purposes of computing a bank's risk-based CAR;

d. Investments in GPNs shall be excluded in the computation of a bank's daily net foreign exchange position;

e. Trading of GPNs shall be subject to pertinent securities laws and provisions, including the appropriate licensing of dealers;

f. Pursuant to Sec. 350, investments in GPNs shall be excluded by government FIs in determining compliance with DOSRI ceilings; and

g. Risks attendant to investments in GPNs shall be captured under a bank's Internal Capital Adequacy Assessment Process such that investing institutions must manifest their approach in handling the risks attendant to holding/trading GPNs.

622 FORWARD AND SWAP TRANSACTIONS

The guidelines governing the forward and swap transactions in Philippine peso are covered under the Manual of Regulations on Foreign Exchange Transactions.

Non-deliverable forward contracts involving the Philippine peso. NDF contracts involving the Philippines peso shall be covered by the provisions of *Appendix 104.*

Any violation of the provisions of *Appendix 104* shall constitute grounds for the imposition on the bank/director(s)/ officer(s) of the following:

a. *First Offense*

(1) Reprimand for the directors/officers responsible for the violation with a warning that subsequent violations will be subject to more severe sanctions.
(2) Banks in breach of the limits shall be required to submit 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 appropriate supervising department of the Bangko Sentral to the Monetary Board:

(1) Restriction or prohibition on the bank from requesting new authority and/or licenses of any sort;

(2) Restriction or prohibition on the bank from declaring dividends; and

(3) Issuance of an order requiring the bank to cease and desist from conducting business in an unsafe or unsound manner and may further order that immediate action be taken to correct the conditions resulting from such unsafe or unsound banking.

623-A GUIDELINES ON THE INVESTMENTS OF UNIVERSAL BANKS AND COMMERCIAL BANKS IN CREDIT-LINKED NOTES (CLNS), STRUCTURED PRODUCTS AND SECURITIES OVERLYING SECURITIZATION STRUCTURES

In line with the policy of encouraging banks to diversify their investment portfolios and to foster the development of a market for new financial products, the Bangko Sentral has issued guidelines on the investment of UBs and KBs in (1) CLNs and similar products (Sec. 624-A), (2) foreign currency denominated structured products (Secs. 625-A and 626-A) and (3) securities overlying securitization structures (Sec. 627-A).

No prior Bangko Sentral approval is required to enter into authorized transactions. However, it shall be the responsibility of UBs/KBs to fully comply with appropriate risk management standards including, as a minimum, those prescribed under relevant Sections. The regulatory requirements enumerated in *Appendix 64* shall be fully complied with by UBs/KBs investing in products allowed under Secs. 624-A, 625-A and 125 (*Capital treatment of exposures/investments in certain products)*.

The guidelines on the accounting for investments in CLNs and other SPs are provided in Appendix 27. The guidelines on the reclassification of CLNs and other similar instruments that are linked to the ROP shall no longer apply to financial assets that are accounted for in accordance with PFRS 9.

(Circular No. 1011 dated 14 August 2018)

624-A CREDIT-LINKED NOTES AND SIMILAR CREDIT DERIVATIVES PRODUCTS

The following are the guidelines for the capital treatment of investments in CLNs and similar credit derivative products such as credit-linked deposits (CLDs) and credit linked loans (CLLs).

Definitions.

a. A *CLN* pertains to a pre-funded credit derivative instrument under which the note holder effectively accepts the transfer of credit risk pertaining to a reference asset or basket of assets issued by a reference entity/ies. The repayment of the principal to the note holder is contingent upon the occurrence of a defined credit event. In consideration, the note holder receives an economic return reflecting the underlying credit risk of the reference asset/s.

All references to CLNs in this Section shall be taken to generically include similar instruments, such CLDs and CLLs.

b. A *special purpose vehicle* (SPV), for purposes of this Section, refers to an entity specifically established to issue CLNs of a single, homogeneous risk class that are fully collateralized as to principal by high-grade securities purchased out of the proceeds of the note issuance. Collateral shall be limited to securities with an assignable risk weight of not more than twenty percent (20%) under existing regulations.

Qualified banks. In general, only banks with expanded derivatives authority may invest in CLNs as defined above on the principle that such banks have already demonstrated a more sophisticated ability to manage risks. Subject to the provisions in Sec. 627-A, they may also invest in SPV-issued CLNs that co-exist with other CLNs of different seniority of claims against the reference asset pool. As an exception to the general rule, a UB/KB without expanded derivatives authority may invest in single name CLNs where the reference asset is a direct ROP obligation or an obligation fully guaranteed by the ROP.

Capital treatment of investments in CLNs.

a. *Banking book*. Positions in CLNs in the banking book shall be reported in the computation of the risk-based capital adequacy ratio covering credit risks under applicable and existing capital adequacy framework.

Through holding a CLN, a bank acquires credit exposure on two (2) fronts - to the reference entity of the note and also to the note issuer. The on-balance sheet exposure arising from the CLN should be weighted by the higher of the risk weight of the reference entity or the risk weight of the note issuer. The amount of exposure is the book value of the note. If the CLN principal is fully collateralized by securities that are acceptable as credit

risk mitigant under applicable and existing capital adequacy framework and provided such collateral is constituted in a legally effective manner as to give priority to the note holders' interest in the event of bankruptcy of the note issuer, the risk weight of the note issuer is substituted with the risk weight associated with the relevant security.

When the CLN is referenced to a basket of reference entities and the contract terminates and pays out on the first entity to default in the basket, capital should be held to consider the cumulative risk of all the reference entities in the basket. This means that the risk weights of all the reference entities are added up and the sum compared with the risk weight of the note issuer. If the sum of the risk weights of all the reference entities in the basket is higher than the risk weight of the note issuer, then this sum is adopted. The resultant risk-weighted exposure to the basket is, however, capped at ten (10) times the book value of the note. Accordingly, the maximum capital charge is 100% of the book value of the note. The multiplier ten (10) is the reciprocal of the Bangko Sentral-required minimum capital adequacy ratio of ten percent (10%).

If, on the other hand, the risk weight of the note issuer is still higher than the sum of the risk weights of all the reference entities in the basket, then the risk weight of the note issuer is adopted.

When the contract terminates and pays out on the n^{th} (other than the first) entity to default in the basket, the treatment above shall apply except that in aggregating the risk weights of reference entities, the risk weight/s of n–1 entity/ies is/are excluded from the computation. The bank may choose which entity/ies to exclude.

If a CLN that pays out on the n^{th} entity to default is rated such that it meets the criteria of a security with the "highest credit quality" as defined under *Appendix 42*, only the highest risk weight in the basket of reference entities is compared with the risk weight of the note issuer.

If the CLN is issued by an SPV, the bank is exposed to both the reference entity and the collateral held by the SPV. Thus, the risk weight/s of the reference entity/ies should be compared with the risk weight of the riskiest eligible collateral for purposes of computing the risk-weighted exposure of the note and the corresponding capital charge.

Subject to prior Bangko Sentral clearance, a bank may disapply the additive rule when a very strong correlation among the reference entities in the basket can be demonstrated.

A CLN which is referenced to entities in the basket proportionately should be risk-weighted according to each reference entity's share of protection under the contract. Thus, if there are two (2) reference entities in a P100.0 million contract, one (1) with a 100% risk weight and a twenty percent (20%) share and the other with a twenty percent (20%) risk weight and an eighty percent (80%) share, the risk weighted exposure is P36.0 million, i.e., P100.0 million x 20% x 100% + P100.0 million x 80% x 20%. The corresponding capital charge is P3.6 million (P36.0 million x 10%).

b. *Trading book.* Positions in CLNs taken up in the trading book should be reported in the computation of the adjusted risk-based capital adequacy ratio covering combined credit risk and market risk under *Appendix 42*.

(1) *Standardized approach*

The following describes the positions to be reported for investments in CLNs for purposes of calculating specific risk and general market risk charges under the standardized approach.

A CLN investment is treated as a position in the note itself, with an embedded credit default product. The CLN is subject to the specific risk associated with the issuer or the collateral when the issuer is an SPV. In addition, it is subject to general market risk that is a function of the maturity and coupon or interest rate of the note. The embedded credit default product creates a notional position in the specific risk of the reference obligation (with no additional general market risk position created).

Specific risk

A CLN investment should be reported as a long position on the reference obligation and a long position on the note itself.

When a CLN is referenced to multiple obligations in a basket, the positions reported shall depend on the structure of the contract. When the contract terminates and pays out on the first obligation to default in the basket, the note should be reported as long positions in each of the reference obligations in the basket, with the total capital charge for the product capped at the book value of the note.

When the contract terminates and pays out on the n^{th} (other than the first) entity to default in the basket, the treatment above shall apply except that in aggregating the risk weights of the reference obligations, the risk weight/s of n-1 obligations is/are excluded from the computation. The bank may choose which obligations to exclude.

Subject to prior Bangko Sentral clearance, a bank may disapply the additive rule when a very strong correlation among the reference obligations in the basket can be demonstrated.

The additive treatment may also be disapplied when an n^{th}-to-default CLN is rated such that it meets the criteria of a security with the *"highest credit quality"* as defined under *Appendix 42.* Positions in the reference obligations can be reported as a single long position in a debt security with the *"highest credit quality"*. A long position on the note should also be reported whether or not the CLN meets the criteria of a security with the *"highest credit quality".*

When the CLN is referenced to multiple obligations under a proportionate structure, positions in the reference obligations should be reported according to their respective proportions in the contract.

General market risk

A CLN investment creates a long position in the note itself.

(2) Internal models approach

Banks may seek the Bangko Sentral's approval to include CLNs in their recognized models for calculating capital charges. The detailed requirements relating to the use of internal models are set out in *Annex A* of *Appendix 42.*

While some banks may not be able to run full internal models to calculate market risk capital charges, they may, with the necessary expertise and systems, use preprocessing techniques to calculate capital charge for CLNs. Banks wishing to adopt these techniques should seek Bangko Sentral's prior consent. The preprocessing models are subject to verification by the Bangko Sentral.

Risk management. CLN structures are considered to be exposed to greater risks than comparable investments in direct obligations. In particular, investing banks should be aware of the potential legal risk arising from an unenforceable contract. They should consult their legal advisors about these and related legal issues before engaging in such transactions. In addition, all investments in CLNs must be duly approved by a bank's board of directors and subjected to appropriate risk management procedures.

Bangko Sentral approval not required*.* No prior Bangko Sentral approval is required to invest in CLNs and similar products. However, it shall be the responsibility of UBs/KBs to fully comply with appropriate risk management standards including, as a minimum, those prescribed under this Section. The regulatory requirements enumerated in *Appendix 64* shall be fully complied with by UBs/KBs investing in products allowed under this Section.

Investment in credit-linked notes (CLNs) and similar structured products with embedded credit derivatives, as defined under this Section, including those that were reclassified from HFT to Available for Sale (AFS)/Held to Maturity (HTM)/Unquoted Debt Securities Classified as Loans (UDSCL) or from AFS to HTM/UDSCL in accordance with the reclassification rules under Circular No. 626 dated 23 October 2008 and Circular No. 628 dated 31 October 2008, shall be classified and measured at FVPL upon initial application of PFRS 9.

The accounting treatment for investments in CLNs and other structured products under Bangko-Sentral Memorandum M-2008-10 dated 07 March 2008 and the guidelines on reclassification of CLNs and other similar instruments that are linked to the ROP under Memorandum M-2009-12 dated 16 April 2009 shall no longer apply to financial assets that are accounted for in accordance with PFRS 9.

(Circular Nos. 890 dated 02 November and 827 dated 28 February 2014)

625-A BANK'S EXPOSURES TO STRUCTURED PRODUCTS

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

Policy statement. The Bangko Sentral aims to foster the development of a market for new financial products in the country, while at the same time ensure that banks hold sufficient capital commensurate to the risks inherent in these products.

Definition. A *structured product* refers to a financial instrument where the return is a function of one (1) or more underlying indices, such as interest rates, equities and exchange rates. There may also be embedded derivatives such as

swaps, forwards, options, caps, and floors that reshape the risk-return pattern. For purposes of this Subsection, structured products do not include asset-backed securities, credit-linked notes and other similar instruments.

Qualified banks. As a general rule, only UBs and KBs with expanded derivatives license may obtain exposures in structured products. Banks without expanded derivatives license may only invest in structured products duly approved by the Bangko Sentral.

Capital treatment of banks' exposures to structured products.

a. *Banking book*

(1) Risk weights. Capital charge for structured products held in the banking book shall depend on the rating of the issuing entity, or rating of the collateral in case of structured products issued by special purpose vehicles (SPVs), given by the following Bangko Sentral-recognized international credit rating agencies:

(a) Moody's;
(b) Standard & Poor's;
(c) Fitch Ratings; and
(d) Such other international rating agencies as may be approved by the Monetary Board.

In cases where there are two (2) or more types of collateral, capital charge shall depend on the lowest rated collateral.

The mapping of ratings to the corresponding risk weights shall be a follows:

Risk Weight	Moody's	Standard & Poor's	Fitch Ratings
50%	Aaa to Aa3	AAA to AA-	AAA to AA-
100%	A1 to A3	A+ to A-	A+ to A-
150%	Baa1 to Baa3	BBB+ to BBB-	BBB+ to BBB-
Deduction from total of Tier 1 and Tier 2 Capital	Below Baa3	Below BBB-	Below BBB-
	Unrated		

(2) *Use of ratings.* If an issuer of a structured product has only one (1) rating by any of the Bangko Sentral-recognized international rating agencies, that rating shall be used to determine the risk weight of the product; in cases where there are two (2) or more ratings which map into different risk weights, the higher of the lowest two (2) risk weights should be used.

b. *Trading book*. Capital charge for structured products held in the trading book shall be determined in accordance with *Appendix 42*.

Bangko Sentral approval not required. No prior Bangko Sentral approval is required to enter into authorized transactions. However, it shall be the responsibility of UBs/KBs to fully comply with appropriate risk management standards including, as a minimum, those prescribed under this Section. The regulatory requirements enumerated in *Appendix 64* shall be fully complied with by UBs/KBs investing in products allowed under this Section.

626-A EXPANDED FOREIGN CURRENCY DEPOSIT UNIT INVESTMENTS IN FOREIGN CURRENCY DENOMINATED STRUCTURED PRODUCTS

The following guidelines allow UBs and KBs without expanded derivatives authority to invest in certain specified structured products.

Policy statement. The Bangko Sentral encourages banks to diversify their EFCDU investment portfolios in order to stabilize earnings, control maturity mismatches and minimize over concentration of exposures.

Scope. EFCDUs of UBs and KBs without expanded derivatives authority may invest, for their own account, in foreign currency-denominated structured products issued by banks and SPVs of high credit quality: *Provided*, That the revenue streams of such products may only be linked to interest rate indices and/or foreign exchange rates other than those that involve the Philippine Peso: *Provided, further*, That the minimum all-in return of such investments may not be lower than zero. For purposes of this Section, structured products do not include asset backed securities, credit-linked notes and other similar instruments.

Other conditions.

a. *Maturity* - The maximum contractual maturity of any investment in structured products shall be five (5) years.

b. *Credit quality of issuer* - Acceptable issuers are banks and SPVs collateralized by securities rated at least "A" or its equivalent by an international rating agency acceptable to the Monetary Board.

c. *Booking* - Investments in structured products as herein defined shall be booked in accordance with *Appendix 33.*

d. *Prudential limits* - The total carrying value of all investments in structured products as defined herein at any given point in time must not exceed twenty percent (20%) of the total investment portfolio of the EFCDU.

e. *Risk management* - Investing banks must have established internal processes to identify, evaluate, monitor and manage the risk exposures, e.g., credit risk, market risk, liquidity risk, operational risk, legal risk, compliance risk, created by their investments in structured products. As a minimum:

(1) Such investments must be specifically approved by the board of directors and be subject to appropriate internal limits and periodic reporting to the Board.

(2) Banks must comply with generally accepted accounting and disclosure standards and/or rules and regulations prescribed by the Bangko Sentral.

(3) An independent risk management function must be in place.

(4) Banks should have the ability to value their investments on a continuing and consistent basis and to measure their sensitivity to market movements. This should include performing, at regular intervals, stress tests that reflect extreme market conditions. As part of the valuation exercise, banks should be able to obtain bid prices from the issuers of the investment instruments on a monthly basis.

(5) Management should ensure that the risks of the investments are accurately aggregated in risk reports on a timely basis.

Capital treatment of structured products. The capital treatment shall be in accordance with existing rules and regulations as modified for structured instruments.

Bangko Sentral approval not required. No prior Bangko Sentral approval is required to enter into authorized transactions. However, it shall be the responsibility of UBs/KBs to fully comply with appropriate risk management standards including, as a minimum, those prescribed under this Section. The regulatory requirements enumerated in *Appendix 64* shall be fully complied with by UBs/KBs investing in products allowed under this Section.

Sanctions. Non-compliance with the provisions of this Section shall subject the bank to a fine of one-tenth of one percent (1/10 of 1%) of the outstanding investment per day, but not to exceed P30,000 per day, to be reckoned from the day the bank is deemed in violation of regulations, until the day the bank has complied with the requirements. Banks may also be temporarily or permanently prohibited from such investments as circumstances may warrant.

(Circular No. 1011 dated 14 August 2018)

627-A INVESTMENTS IN SECURITIES OVERLYING SECURITIZATION STRUCTURES

The following rules shall govern banks' investments in securities overlying securitization structures.

Policy statement. The Bangko Sentral aims to foster the development of a market for new financial products in the country and provide banks with expanded opportunities for investment diversification, while at the same time ensure that they hold sufficient capital commensurate to the risks inherent in these products.

Definition. *Securitization structures* refer to:

a. structures where the cash flow from an underlying pool of exposures is used to service at least two (2) different stratified risk positions or tranches reflecting different degrees of credit risk (also known as traditional securitization); or

b. structures with at least two (2) different stratified risk positions or tranches that reflect different degrees of credit risk, where credit risk of an underlying pool of exposures is transferred, in whole or in part, through the use of credit derivatives or guarantees that serve to hedge the credit risk of the portfolio (also known as synthetic securitization).

Qualified banks. UBs/KBs with expanded derivatives authority may invest in securities overlying any tranches of securitization structures. UBs/KBs without expanded derivatives authority may also invest but only in securities overlying tranches of securitization structures that are rated at least "A", or its equivalent, by a Bangko Sentral- recognized credit rating agency.

Capital treatment of investments in securities overlying securitization structures.

a. Credit risk

(1) *Risk weights.* Capital charge for investments in securitization structures held in the banking book shall be based on the latest rating given by any of the following Bangko Sentral-recognized credit rating agencies:

(a) International rating agencies:

(i) Moody's;
(ii) Standard & Poor's;
(iii) Fitch IBCA; and
(iv) Other international rating agencies as may be approved by the Monetary Board

(b) Domestic rating agencies:

(i) PhilRatings; and
(ii) Other domestic rating agencies as may be approved by the Monetary Board

The assignment of risk weights corresponding to agency ratings shall be as follows:

Risk Weight	Moody's	Standard & Poor's	Fitch IBCA	PhilRatings
20%	Aaa to Aa3	AAA to AA-	AAA to AA-	Aaa to Aa
50%	A1 to A3	A+ to A-	A+ to A-	A
100%	Baa1+ to Baa3	BBB+ to BBB-	BBB+ to BBB-	Baa
Deduction from total of Tier 1 and Tier 2 Capital	Below Baa3	Below BBB-	Below BBB-	Below Baa
	Unrated			

(2) *Use of ratings.* Ratings of Bangko Sentral recognized credit rating agencies shall be used as follows:

(a) Securities overlying securitization structures created within the Philippines may be rated by any Bangko Sentral-recognized international or domestic credit rating agency, while securities overlying securitization structures created outside of the Philippines may only be rated by any of the international credit rating agencies that are recognized by the Bangko Sentral; and

(b) In cases when overlying securities have split ratings which map into different risk weights, the higher risk weight should be used.

b. Market risk. Capital charge for securities overlying securitization structures held in the trading book shall be determined in accordance with *Appendix 46* and the use of agency ratings for such purpose shall be consistent with the above principles.

Bangko Sentral approval not required. No prior Bangko Sentral approval is required to invest in securities overlying securitization structures. However, it shall be the responsibility of UBs/KBs to fully comply with appropriate risk management standards including, as a minimum, those prescribed under this Section. The regulatory requirements enumerated in *Appendix 64* shall be fully complied with by UBs/KBs investing in products allowed under this Section.

628 ASSET-BACKED SECURITIES

The following regulations shall govern the origination, issuance, sale, servicing and administration of asset-backed securities (ABS) by any bank including its subsidiaries and affiliates engaged in allied activities, which are domiciled in the Philippines.

Definition of terms.

a. *Assets* shall mean loans or receivables existing in the books of the originator prior to securitization. Such assets are generated in the ordinary course of business of the originator and may include mortgage loans, consumption loans, trade receivables, lease receivables, credit card receivables and other similar financial assets.

b. *Asset-backed securities* shall refer to the certificates issued by a Special Purpose Trust (SPT) representing undivided ownership interest in the asset pool.

c. *Asset pool* shall mean a group of identified, self-amortizing assets that is conveyed the SPT issuing the ABS and such other assets acquired as a consequence of the securitization.

d. *Clean-up call* shall refer to an option granted to the seller to purchase the remaining assets in the asset pool.

e. *Credit enhancement* shall refer to any legally enforceable scheme that is intended to enhance the marketability of the ABS and increase the probability that investors receive payment of amounts due them.

f. *Guarantor* shall refer to an entity that guarantees the repayment of principal and interest on loans or receivables included in the asset pool in the event of default by the borrower.

g. *Investible funds* shall refer to the proceeds of collection of loans or receivables included in the asset pool which are not yet due for distribution to investors.

h. *Issuer* shall refer to the SPT that issues the ABS.

i. *Originator* shall refer to a bank and/or its subsidiary or affiliate engaged in allied activities that grants or purchases loans or receivables and assembles them into a pool for securitization.

j. *Residual certificates* shall refer to certificates issued representing claims on the remaining value of the asset pool after all ABS holders are paid.

k. *Seller* shall refer to the entity which conveys to the SPT the assets that constitute the asset pool.

l. *Servicer* shall refer to the entity designated by the Issuer primarily to collect and record payment received on the Assets, to remit such collections to the Issuer and perform such other services as may be specifically required by the issuer excluding asset management or administration.

m. *Special purpose trust* shall refer to a trust administered by a trustee and created solely for the purpose of issuing and administering an ABS.

n. *Trustee* shall refer to the entity designated to administer the SPT.

o. *Underwriter* shall refer to the entity engaged in the act or process of distributing and selling of the ABS either on guaranteed or best effort basis.

Prior Bangko Sentral approval. Any bank including its subsidiaries and affiliates engaged in allied activities, may securitize its assets upon prior approval of the Bangko Sentral.

Board approval requirement. The originator/seller shall have the securitization program approved by its board of directors. The originator/seller shall integrate such securitization program into its corporate strategic plan. The board of directors shall ensure that the securitization of assets is consistent with such program.

Minimum documents required. The application to securitize must be accompanied by the following documents as a minimum requirement:

a. *Trust indenture* evidencing the conveyance of the assets from the seller to the Issuer or SPT, the features of which shall include the following:

(1) Title or nature of the contract in noticeable print;
(2) The parties involved, indicating in noticeable print, their respective legal capacities, responsibilities and functions;
(3) Features and amount of ABS;
(4) Purposes and objectives;
(5) Description and amount of assets comprising the asset pool;
(6) Representations and warranties;
(7) Credit enhancements;
(8) Distribution of funds;
(9) Authorized investment of investible funds;
(10) Rights of the investor;
(11) Reports to investors; and
(12) Termination and final settlement.

The trust indenture shall include as annexes the servicing agreement between the trustee and the servicer and the underwriting agreement between the seller and the underwriter.

b. *Prospectus*. As a minimum requirement, it shall contain the following:

(1) Summary of the contents of the prospectus;

(2) Description of each class of certificate, including such matters as probable yields, payment dates and priority of payments;
(3) Description of the assets comprising the Asset Pool as well as the representations and warranties set forth by the originator and/or seller;
(4) Assumptions underlying the cash flow projections for each class of certificate;
(5) Description of any credit enhancements;
(6) Identity of the servicer; and
(7) Disclosure statements as required under this Section on Disclosure requirements.

c. Specimen of application to purchase ABS. It shall include the terms and conditions of the purchase and the disclosures required under this Section on Disclosure requirements.

d. Specimen of certificate. It shall indicate the features of the ABS and the disclosures required under this Section on Disclosure requirements.

Minimum features of asset- backed securities. The ABS shall be pre-numbered and printed on security paper. The ABS shall be signed and authenticated by the trustee. They are transferable by endorsement of the certificate. The transfer shall be recorded in the books of the trustee, indicating the names of the parties to the transaction, the date of the transfer and the number of the certificate transferred.

The minimum denomination of any ABS shall be P10,000.

***Disclosure requirements*.** The following disclosures must be provided in a conspicuous manner in any document inviting investment, application to purchase ABS and the certificate itself:

a. The ABS do not represent deposits or liabilities of the originator, servicer or trustee and that they are not insured with PDIC;
b. The investor has an investment risk;
c. The trustee does not guarantee the capital value of the ABS or the collectibility of the asset pool; and
d. The right of an investor.

The investors shall be required to sign an acknowledgment indicating that they have read and understood the disclosures.

***Conveyance of assets*.**

a. The conveyance of the assets comprising the asset pool shall be done within the context of a true sale and, for this purpose, the seller may not retain in its books the ABS, except the residual certificate, if any.

b. The seller shall have no obligation to repurchase or substitute an asset or any part of the asset pool at any time, except in cases of a breach of representation or warranty, or under a revolving structure, to replace performing assets which have been paid out in part or full.

c. The seller shall be under no obligation to provide additional assets to the SPT to maintain a "coverage ratio" of collateral to outstanding ABS. A breach of this requirement will be considered a credit enhancement and should be charged against capital. However, this will not apply to an asset pool conveyed under a revolving structure such as the securitization of credit card receivables.

d. Securitized assets shall be considered the subject to a true sale between the seller and the SPT. Sold assets shall be taken off the books of the seller and shall be transferred to the books of the SPT.

For accounting purposes, the transfer shall only be considered a true sale if the following three (3) conditions have been satisfied:

(1) the transferred assets have been isolated and put beyond the reach of the seller and its creditor;
(2) the SPT has the right to pledge or exchange its interest in the assets; and
(3) the seller does not effectively maintain control over the transferred assets by any concurrent agreement.

e. All expenses incidental to underwriting, conveyance of the asset pool including expenses for credit enhancement may be paid by the originator/seller: *Provided*, That no further expenses shall be borne by the originator/seller after the asset pool has been conveyed to the SPT.

***Representations and warranties*.**

a. *Standard representations and warranties* refer to an existing state of facts that the originator, seller or servicer can either control or verify with reasonable due diligence at the time the assets are sold. Any breach of representation or warranty may give rise to legal recourse.

b. The representations or warranties shall be clear and explicit and, in particular, shall not relate to the future creditworthiness of the assets in the asset pool or the performance of the SPT or the securities issued.

c. Any agreement to pay damages as a result of breach of warranties and representations shall hold only where:

(1) there is a well-documented negotiation of the agreement in good faith;
(2) the burden of proof for a breach of representation or warranty rests with the other party;
(3) damages are limited to the loss incurred as a result of the breach; and
(4) there is a written notice of claim specifying the basis for the claim.

The Bangko Sentral shall be notified of any instance where a bank or its subsidiaries/affiliates has agreed to pay damages arising out of any breach of representation or warranty.

Third party review. A due diligence review by an independent entity mutually agreed upon by the seller and the Issuer shall be done before the assets are sold.

***Originator and seller*.**

a. The seller may itself be the originator, and may likewise be designated as the servicer.
b. The seller or originator shall deliver to the trustee all original documents or instruments with respect to each asset sold.

***Trustee and issuer*.**

a. The trustee shall be the trust department of a bank licensed to do business in the Philippines.

b. The trustee shall have the right to manage or administer the asset pool. The trustee shall see to it that necessary measures are taken to protect the asset pool.

c. The trustee shall undertake a performance review of the asset pool at least quarterly and shall prepare a report to investors indicating, among others, collections, fees and other expenses as well as defaults, which report shall be made available to the investors at anytime after thirty (30) days from end of the reference quarter.

d. The trustee shall initiate all civil actions including foreclosure of mortgaged properties to effect collection of receivables in the asset pool. The servicer or any other party may be designated by the trustee to perform such function on a case-by-case basis.

e. The trustee may invest the Investible funds only in obligations issued and/or fully guaranteed by the government of the Republic of the Philippines or by the Bangko Sentral and such other high-grade readily marketable debt securities as the Bangko Sentral may approve.

f. The trustee shall designate a replacement of the servicer if the latter fails to satisfactorily perform its duties and responsibilities according to the terms and conditions of the servicing agreement.

Servicer.

a. The servicer shall perform its duties according to the terms and conditions of the servicing agreement and such other written instructions as the trustee may issue on a case-by-case basis. Collections made by the servicer shall be remitted promptly to the trustee or as may be agreed upon by the parties in the servicing agreement, but in no case shall the remittance period be longer than one (1) month.

b. The servicer shall prepare periodic reports as may be required by the trustee.

c. The servicer shall report to the trustee within thirty (30) days, any borrower which fails to pay its debt at maturity date or any adverse development that may affect the collectibility of any loan account or receivable comprising the asset pool.

d. The servicer shall have no authority to waive penalties and charges except with a written authority from the trustee.

***Underwriter*.**

a. A UB or IH shall have written policies and procedures on underwriting of ABS.

b. The underwriter shall perform its functions according to the terms and conditions of the underwriting agreement.

c. An underwriter may deal in ABS, except those administered by its trust department, the trust departments of its subsidiaries/affiliates, the trust department of its parent bank or the trust department of its parent bank's subsidiaries/affiliates.

d. A UB/IH may act as underwriter, on a firm basis, of ABS except those administered by its trust department, the trust departments of its subsidiaries/ affiliates, the trust department of its parent bank or the trust department of its parent bank's subsidiaries/affiliates.

e. The underwriter may not extend credit for the purpose of purchasing the ABS which such UB/IH underwrites or that which is underwritten by its subsidiaries/ affiliates, its parent bank or its parent bank's subsidiaries/affiliates.

***Guarantor*.**

a. Only an entity the regular business of which includes the issuance of guarantees or similar undertaking may act as guarantor.

b. The guarantor must have the financial capacity to perform its responsibilities in accordance with the terms and conditions of the guarantee agreement. It shall submit to the trustee at least once in every six (6) months such financial reports as the trustee may require.

c. The originator or seller may not issue a counter-guarantee in favor of the guarantor.

***Credit enhancement*.** Credit enhancement may be provided in any of the following manner:

a. Standby letter of credit issued by a UB/KB other than the originator/seller or its subsidiary/affiliate, its parent bank or the parent bank's subsidiary/affiliate, and trustee or its subsidiary/affiliate;

b. Surety bond issued by any insurance company other than the originator's/seller's subsidiary or affiliate, the subsidiary or affiliate of the originator's/seller's parent bank and the trustee or its subsidiary/affiliate;

c. Guarantee issued by any entity other than the originator/seller or its subsidiary/affiliate, its parent bank or the parent bank's subsidiary/affiliate, and trustee or its subsidiary/affiliate;

d. Overcollateralization provided by the originator/seller wherein the assets conveyed to the SPT exceed the amount of securities to be issued.

Losses arising from overcollateralization shall be recognized by the originator/seller upfront. Such losses shall be treated as capital charges.

e. Spread account wherein the income from the underlying pool of receivables is made available to cover any shortfall in the repayment of ABS. The spread account shall be handled by the trustee which shall account for it separately. If not needed, this "spread" generally reverts to the holder of the residual certificate.

f. Subordinated securities that are lower ranking, or junior to other obligations and are paid after claims to holders of senior securities are satisfied.

g. Other credit enhancements as may be approved by the Monetary Board.

To be consistent with the concept of true sale, subordinated securities shall be sold to third party investors other than originator's/seller's parent company or its subsidiary/affiliate and the trustee or its subsidiary/affiliate or, if held by the seller, capital charges should be booked upfront. Otherwise, the subordinated securities shall be treated as deposit substitute subject to legal reserves.

Clean-up call. A *clean-up call* may be exercised by the seller once the outstanding principal balance of the receivable component of the asset pool falls to ten percent (10%) or less of the original principal balance of the asset pool. Where the asset pool includes foreclosed and other assets, such assets shall be included in the clean-up call and the consideration thereof shall be at current market value. Such a *clean-up call* shall not be considered recourse or in violation of this Section on conveyance of assets.

***Prohibited activities*.**

a. The seller may not, under any circumstance, designate its trust department, the trust department of its subsidiaries/ affiliates, the trust department of its parent bank or the trust department of its parent bank's subsidiaries/affiliates as trustee.

b. Any director, officer or employee of the originator, seller or servicer may not serve as a member of the board of directors or trust committee of the trustee or vice versa for the duration of the securitization.

c. The trust indenture shall not contain any stipulation whereby the seller, its subsidiaries/affiliates, its parent bank or the parent bank's subsidiaries/affiliates shall commit to extend any credit facility to the issuer and/or trustee.

d. The ABS shall not be eligible as collateral for a loan extended by a bank which originated/sold the underlying assets of such ABS.

e. The trust department of a bank that has discretion in the management of any trust or investment management account may not purchase for said trust/investment management account ABS administered by the trust department of the same bank, the trust department of such trustee's subsidiaries/affiliates, the trust department of such trustee's parent bank and the trust department of the parent bank's subsidiaries/affiliates.

f. The trustee may not designate its subsidiary/affiliate, its parent or the parent's subsidiaries/affiliates as servicer or vice versa.

Amendment of trust indenture. Any amendment to the trust indenture shall require the prior approval of the Bangko Sentral.

Trustee or servicer in securitization. Without prior approval of the Bangko Sentral, a bank or any entity supervised by the Bangko Sentral may act as trustee or servicer in a securitization scheme originated by an entity not supervised by the Bangko Sentral: *Provided*, That the assets which are the subject of such securitization are existing in the books of the entity prior to securitization: *Provided, further,* That such entity acting as trustee or servicer is not a subsidiary/affiliate of the originator/seller, its parent bank or the parent bank's subsidiaries/affiliates or vice versa: *Provided, finally,* That such entity acting as trustee may not designate its subsidiaries/affiliates, its parent or the parent's subsidiaries/affiliates as servicer or vice versa.

Report to Bangko Sentral. The trustee bank shall submit a report of every securitization scheme in formats to be prescribed by the Bangko Sentral. The report shall be submitted to the appropriate supervising department of the Bangko Sentral, within fifteen (15) banking days after end of every reference quarter. Such report shall be considered a *Category A* report for purposes of implementing fines in the submission of required reports pursuant to existing regulations.

629 THE CURRENCY RATE RISK PROTECTION PROGRAM (CRPP) FACILITY

The CRPP Facility is a non-deliverable USD/PHP forward contract (NDF) between the Bangko Sentral and a UB/KB (the "Bank") in response to the request of bank clients desiring to hedge their eligible foreign currency obligations. Transactions under the CRPP facility are considered part of banks' Generally Authorized Derivatives Activities (GADA).

Banks' exposures arising from NDF transactions under the CRPP facility shall not be included in the computation of total gross NDF exposures for the purpose of determining compliance with the limit prescribed in *Appendix 104*. In addition, the market risk capital charge for the net open position for NDFs under this facility shall be calculated by applying the standard 125 percent multiplication factor instead of the 187.5 percent factor prescribed for other NDFs under *Appendix 42*.

Under the CRPP Facility, only the net difference between the contracted forward rate and the prevailing spot rate shall be settled in pesos at maturity of the contract. Should the eligible obligation be denominated in a foreign currency other than the US dollar, the CRPP contract shall be denominated in the US dollar equivalent using the exchange rate indicated in the Bangko Sentral Reference Exchange Rate Bulletin on deal date.

Coverage. Eligible obligations under the CRPP Facility shall refer to *unhedged* foreign currency obligations in amounts of not less than US$50,000.00 which are current and outstanding as of date of application. Past due foreign currency obligations are not eligible. The maximum tenor of the CRPP contracts is ninety (90) days.

For this purpose, *unhedged obligations* shall refer to those without outstanding hedge either through forward contracts, options or matched foreign currency assets.

Partially hedged foreign exchange obligations shall be evaluated on a case-to-case basis.

The following are considered eligible foreign exchange obligations:

a. BSP-reported short-term (ST) trade-related loans from banks operating in the Philippines [Foreign Currency Deposit Unit/Expanded Foreign Currency Deposit Unit (FCDU/EFCDU) and Regular Banking Unit (RBU)];

b. BSP-reported medium/long-term trade-related FCDU/RBU loans with payments maturing within ninety (90) days as of date of application;

c. BSP-reported/registered ST trade-related borrowings of oil companies from offshore banking units (OBUs) and offshore banks/sources;

d. US dollar trust receipts;

e. Foreign currency import bill/customers' liabilities under acceptances; and

f. Documents against acceptance (DA)/open account (OA) import obligations duly reported by an AAB to Bangko Sentral under Schedule 10 – Import Letters of Credit (L/Cs) and DA-OA Import Availments and Extensions of FX Form 1.

Implementing Guidelines. The implementing guidelines covering the mechanics, documentary requirements and detailed procedural rules of the Facility are provided in *Appendix 132.*

Supervisory enforcement actions. The Bangko Sentral reserves the right to deploy its range of supervisory tools to promote adherence to the requirements set forth in the guidelines under this Section and bring about timely corrective actions and compliance with the Bangko Sentral directives.

In the performance by the Bangko Sentral of the post-verification of the CRPP contracts through on-site examination or off-site verification to ascertain the eligibility of the underlying foreign currency obligation with the CRPP Facility, the following enforcement actions and procedures shall be employed:

a. Pre-termination Requested by the Bank

(1) Should the post-verification by Bangko Sentral of pre-termination by the Bank show no proof of actual payment of the foreign exchange (FX) obligation, or the manner of payment was through the renewal of the loan under a new promissory note or by another form of FX obligation, the Bangko Sentral shall debit the Bank's regular demand deposit account with the Bangko Sentral for the amount received by the Bank from Bangko Sentral as a result of the pre-termination of the CRPP contract, if any, plus interest calculated using Bangko Sentral's overnight lending rate from the date the amount was received from the Bangko Sentral to the date the amount is returned to the Bangko Sentraal.

In addition, the Bank shall be liable to pay a monetary penalty of ₱30,000.00 per calendar day covering the period from the date of pre-termination up to the date the Bangko Sentral completed its post-verification of pre-termination or maturity of the contract, whichever comes earlier.

(2) Should the post-verification by Bangko Sentral show that the underlying FX obligation of a CRPP contract pre-terminated by the Bank is ineligible, the Bangko Sentral shall debit the Bank's regular demand deposit account with the Bangko Sentral for the amount received by the Bank from Bangko Sentral as a result of the pre-termination of the CRPP contract, if any, plus interest calculated using Bangko Sentral's overnight lending rate from the date the amount was received from the Bangko Sentral to the date the amount is returned to the Bangko Sentral.

A monetary penalty of ₱30,000.00 per calendar day shall be imposed from contract date up to pre-termination date.

b. Pre-termination by the Bangko Sentral

(1) The Bangko Sentral shall pre-terminate existing CRPP contracts when the underlying FX obligation is found ineligible during post-verification by the Bangko Sentral. A monetary penalty of ₱30,000.00 per calendar day shall be imposed on the Bank from the contract date up to pre-termination date.

(2) The Bangko Sentral shall also pre-terminate CRPP contracts when the underlying FX obligation is paid before the maturity of the CRPP contract and the client failed to request for pre-termination. A monetary penalty of ₱30,000.00 per calendar day shall be imposed from the date of payment of the underlying FX obligation up to pre-termination date.

c. Post-verification of Matured Contracts

Should the post-verification of matured contracts show proof that the supporting FX obligation is fictitious or ineligible under the CRPP Facility, a monetary penalty of ₱30,000.00 per calendar day shall be imposed on the Bank for the whole duration of the contract. In addition, the Bangko Sentral shall debit the Bank's regular demand deposit account with the Bangko Sentral for any gains received by the Bank from the Bangko Sentral, if any, plus interest calculated using Bangko Sentral's overnight lending rate from the date the contract matured to the date the amount is returned to the Bangko Sentral.

d. Other Sanctions

In addition to the foregoing prescribed penalties, and subject to the confirmation by the Monetary Board, any violation of the provisions of this Section, including willful delay in the submission, non-submission and/or willful making of a false or misleading statement in the notarized certification required to be submitted to the Bangko Sentral under Sections A.3 and F.4 of *Appendix 135*, shall constitute grounds for the imposition on the Bank of the following:

(1) First Offense – Reprimand for the director/officers responsible for the violation with a warning that subsequent violations will be subject to more severe sanctions.
(2) Subsequent Offense – The Bank will be subject to any or all of the following, as may be recommended by the appropriate sector of the Bangko Sentral to the Monetary Board:

(a) Restriction or prohibition on the bank from requesting new authority and/or licenses within one year period reckoned from the date of offense; and

(b) Restriction or prohibition on the bank from declaring dividends for one year period reckoned from the date of offense; and

(c) Issuance of an order requiring the Bank to cease and desist from performing and continuing to perform the acts, practices or transactions which is in violation of banking laws, rules and regulations, as well as an order directing the Bank to immediately stop the violation and take action to correct the conditions resulting from such act, practice or transaction.

(Circular Nos.1015 dated 5 October 2018 and 1014 dated 24 September 2018)

PART SEVEN

ELECTRONIC BANKING SERVICES AND OPERATIONS

701 ELECTRONIC BANKING SERVICES

The following are the guidelines concerning electronic banking activities.

Application. Banks wishing to provide and/or enhance existing electronic banking services shall submit to the Bangko Sentral an application describing the services to be offered/enhanced and how it fits the bank's overall strategy. This shall be accompanied by a certification signed by its president or any officer of equivalent rank and function to the effect that the bank has complied with the following minimum pre-conditions:

a. An adequate risk management process is in place to assess, control, monitor and respond to potential risks arising from the proposed electronic banking activities;
b. A manual on corporate security policy and procedures exists that shall address all security issues affecting its electronic banking system, particularly the following:

    (1) *Authentication* - establishes the identity of both the sender and the receiver; uses trusted third parties that verify identities in cyberspace;

    (2) *Non-repudiation* - ensures that transactions cannot be repudiated or presents undeniable proof of participation by both the sender and the receiver in a transaction;

    (3) *Authorization* - establishes and enforces the access rights of entities (both persons and/or devices) to specified computing resources and application functions; also locks out unauthorized entities from physical and logical access to the secured systems;

    (4) *Integrity* - assures that data have not been altered; and

    (5) *Confidentiality* - assures that no one except the sender and the receiver of the data can actually understand the data.

c. The system had been tested prior to its implementation and that the test results are satisfactory. As a minimum standard, appropriate systems testing and user acceptance testing should have been conducted; and
d. A business continuity planning process and manuals have been adopted which should include a section on electronic banking channels and systems.

Pre-screening of applicants.

a. The Bangko Sentral, thru the Technical Working Group on Electronic Banking, shall pre-screen the overall financial condition as well as the applicant-bank's compliance with Bangko Sentral rules and regulations based on the latest available Bank Performance Rating (BPR) and Report of Examination (ROE) including CAMELS Rating.

b. The Working Group shall ensure that the applicant bank's overall financial condition can adequately support its electronic banking activities and that it shall have complied with certain comprehensive prudential requirements such as, but not limited to, the following:

    (1) Minimum capital requirement and net worth to risk assets ratio;
    (2) Satisfactory solvency, liquidity and profitability positions;
    (3) CAMELS composite rating of at least 3, (this number, however can be flexible depending on other circumstances prevailing), and with at least a moderate risk assessment system (RAS) based on the latest regular examination; and
    (4) There are no uncorrected major findings/exceptions noted in the latest Bangko Sentral examination.

Approval in principle.

a. Based on the recommendation of the Technical Working Group on Electronic Banking, the Deputy Governor of the appropriate sector of the Bangko Sentral, shall approve in principle the application so that banks may immediately launch and/or enhance their existing electronic banking services.

b. Banks shall be informed of the conditional approval of the Deputy Governor of the appropriate sector of the Bangko Sentral and they shall in turn notify the Bangko Sentral on the actual date of its launching/enhancement.

Documentary requirements.

a. Within thirty (30) calendar days from such launching/enhancement, banks shall submit to the appropriate supervising department of the Bangko Sentral for evaluation, the following documentary requirements:

   (1) A discussion on the banking services to be offered/enhanced, the business objectives for such services and the corresponding procedures, both automated and manual, offered through the electronic banking channels;

   (2) A description or diagram of the configuration of the bank's electronic banking system and its capabilities showing:

      (i) how the electronic banking system is linked to other host systems or the network infrastructure in the bank;
      (ii) how transaction and data flow through the network;
      (iii) what types of telecommunications channels and remote access capabilities (e.g., direct modem dial-in, internet access, or both) exist; and
      (iv) what security controls/measures are installed;

   (3) A list of software and hardware components indicating the purpose of the software and hardware in the electronic banking infrastructure;

   (4) A description of the security policies and procedures manual containing:

      (i) description of the bank's security organization;
      (ii) definition of responsibilities for designing, implementing, and monitoring information security measures; and
      (iii) established procedures for evaluating policy compliance, enforcing disciplinary measures and reporting security violations;

   (5) A brief description of the contingency and disaster recovery plans for electronic banking facilities and event scenario/problem management plan/ program to resolve or address problems, such as complaints, errors and intrusions and the availability of back-up facilities;

   (6) Copy of contract with the communications carrier, arrangements for any liability arising from breaches in the security of the system or from unauthorized/fraudulent transactions;

   (7) Copy of the maintenance agreements with the software/hardware provider/s; and

   (8) Latest report on the periodic review of the system, if applicable.

b. If after the evaluation of the submitted documents, the Working Group has still some unresolved issues and gray areas, the bank may be required to make a presentation of its electronic banking transactions to the Bangko Sentral.

Conditions for Monetary Board approval. Upon completion of evaluation, the appropriate recommendation shall be made to the Monetary Board. The following shall be the standard conditions for approval:

a. Existence at all times of appropriate top-level risk management oversight;

b. Operation of electronic banking system outsourced to a third party service provider taking into consideration the existence of adequate security controls and the observance of confidentiality [as required in R.A. No. 1405 (Bank Secrecy Law)] of customer information;

c. Adoption of measures to properly educate customers on safeguarding of user ID, PIN and/or password, use of bank's products/services, actual fees/bank charges thereon and problem/error resolution procedures;

d. Clear communication with its customers in connection with the terms and condition which would highlight how any losses from security breaches, systems failure or human error will be settled between the bank and its customers;

e. Customer's acknowledgement in writing that they have understood the terms and conditions and the corresponding risks that entail in availing electronic banking service;

f. The bank's oversight process shall ensure that business expansion shall not put undue strains on its systems and risk management capability;

g. The establishment of procedures for the regular review of the bank's security arrangements to ensure that such arrangements remain appropriate having regard to the continuing developments in security technology;

h. Strict adherence to Bangko Sentral regulations on fund transfers in cases where clients use the electronic banking services to transfer funds;

i. The electronic banking service shall not be used for money laundering or other illegal activities that will undermine the confidence of the public; and

j. The Bangko Sentral shall be notified in writing thirty (30) days in advance of any enhancements that may be made to the online electronic banking service.

Requirements for banks with pending applications. The same procedure and requirements stated in the foregoing shall apply to all banks with pending applications with the Bangko Sentral, except on the submission of the documents enumerated in in this Section. Banks which have already submitted all the required information/documents need not comply with this requirement.

Exemption. Electronic banking services that are purely informational in nature are exempted from these regulations: *Provided, however,* That should such services be upgraded to transactional service, then prior Bangko Sentral approval shall be required.

Sanctions. For failure to seek Bangko Sentral approval before launching/enhancing/implementing electronic banking services, and/or submit within the prescribed deadline the required information/documents, the following monetary penalties and/or suspension of electronic banking activities or both, shall be imposed on erring banks and/or its officers:

Monetary penalties	Amount
a. *For responsible officer/s and/or director/s* – for failure to seek prior Bangko Sentral approval and/or for non-submission, delayed submission of required information/documents	a onetime penalty of P200,000
b. *On the bank* – for failure to seek prior Bangko Sentral and/or for non-submission/delayed submission of required information/documents	P30,000 per day starting from the day the offense was committed up to the time the same was corrected

702 ISSUANCE AND OPERATIONS OF ELECTRONIC MONEY

The following guidelines shall govern the issuance of electronic money (e-money) and the operations of electronic money issuers.

Declaration of policy. It is the policy of the Bangko Sentral to foster the development of efficient and convenient retail payment and fund transfer mechanisms in the Philippines. The availability and acceptance of e-money as a retail payment medium will be promoted by providing the necessary safeguards and controls to mitigate the risks associated in an e-money business.

Definitions.

E-money shall mean monetary value as represented by a claim on its issuer, that is –

a. electronically stored in an instrument or device;
b. issued against receipt of funds of an amount not lesser in value than the monetary value issued;
c. accepted as a means of payment by persons or entities other than the issuer;
d. withdrawable in cash or cash equivalent; and
e. issued in accordance with this Section.

Electronic money issuer (EMI) shall be classified as follows:

a. Banks (hereinafter called EMI-Bank);
b. NBFI supervised by the Bangko Sentral (hereinafter called EMI-NBFI); and
c. Non-bank institutions registered with the Bangko Sentral as a monetary transfer agent under Sec. 4511N of the MORNBFI (hereinafter called EMI-Others).

For purposes of this Section:

a. *Electronic instruments or devices* shall mean cash cards, e-wallets accessible via mobile phones or other access device, stored value cards, and other similar products.
b. E-money issued by banks shall not be considered as deposits.

Prior Bangko Sentral approval. Banks planning to be an EMI-Bank shall apply in accordance with Sec. 701 relating to the guidelines on electronic banking services and with Sec. 112 on outsourcing of banking functions, when applicable.

Common provisions. The following provisions are applicable to all EMIs:

a. E-money instrument issued shall be subject to aggregate monthly load limit of P100,000 unless a higher amount has been approved by the Bangko Sentral. In case an EMI issues several e-money instruments to a person (e-money holder), the total amount loaded in all the e-money instruments shall be consolidated in determining compliance with the aggregate monthly load limit;

b. EMIs shall put in place a system to maintain accurate and complete record of e-money instruments issued, the identity of e-money holders, and the individual and consolidated balances thereof. The system must have the capability to monitor the movement of e-money transactions and link e-money instruments issued to common e-money holders. The susceptibility of a system to intentional or unintentional misreporting of transactions and balances shall be sufficient ground for imposition by the Bangko Sentral of sanctions, as may be applicable.

c. E-money may only be redeemed at face value. It shall not earn interest nor rewards and other similar incentives convertible to cash, nor be purchased at a discount. E-money is not considered a deposit, hence, it is not insured with the PDIC.

d. EMIs shall ensure that e-money instruments clearly identify the issuer who is ultimately responsible to the e-money holders. This shall be communicated to the client who shall acknowledge the same in writing.

e. It is the responsibility of EMIs to ensure that their distributors/e-money agents comply with all applicable requirements of the Anti-Money Laundering Law, rules and regulations.

f. EMIs shall provide an acceptable redress mechanism to address the complaints of its customers.

g. EMIs shall disclose in writing and its customers shall signify agreement to the information embodied in Item *"c"* above upon their participation in the e-money system. In addition, it shall provide clear guidance in English and Filipino on consumers' right of redemption, including conditions and fees for redemption, if any. Information on available redress procedures for complaints together with the address and contact information of the issuer shall also be provided.

h. Prior to the issuance of e-money, EMIs should ensure that the following minimum systems and controls are in place:

   (1) Sound and prudent management, administrative and accounting procedures and adequate internal control mechanisms;
   (2) Properly-designed computer systems which are thoroughly tested prior to implementation;
   (3) Appropriate security policies and measures intended to safeguard the integrity, authenticity and confidentiality of data and operating processes;
   (4) Adequate business continuity and disaster recovery plan; and
   (5) Effective audit function to provide periodic review of the security control environment and critical systems.

i. EMIs shall provide the appropriate supervising department of the Bangko Sentral quarterly statements containing, among others, information on investments, volume of transactions, total outstanding e-money balances, and liquid assets in such forms as may be prescribed later on.

j. EMIs shall notify the Bangko Sentral in writing of any change or enhancement in the e-money facility thirty (30) days prior to implementation. If said change or enhancement requires prior Bangko Sentral approval, the same shall be evaluated accordingly. Any change or enhancement that shall expand the scope or change the nature of the e-money instrument shall be subject to prior approval of the Deputy Governor of the appropriate sector of the Bangko Sentral. These changes or enhancements may include the following:

   (1) Additional capabilities of the e-money instrument/s, like access to new channels (e.g. inclusion of internet channel in addition to merchant Point of Sale terminals);
   (2) Change in technology service providers and other major partners in the e-money business (excluding partner merchants), if any; and
   (3) Other changes or enhancements.

Sanctions. Monetary penalties and other sanctions for the following violations committed by EMI-Banks shall be imposed:

Nature of Violation/Exception	Sanction/Penalties
1. Issuing e-money without prior Bangko Sentral approval	Applicable penalties under Sections 36 & 37 of R.A. No. 7653; Watchlisting of owners/partners/principal officers
2. Violation of any of the provisions of R.A. No. 9160 (Anti-Money Laundering Law of 2001 as amended by R.A. No. 9194) and its implementing rules and regulations	Applicable penalties prescribed under the Act
3. Violation/s of this Section	Penalties and sanctions under the abovementioned laws and other applicable laws, rules and regulations

In addition, the susceptibility of a system to intentional or unintentional misreporting of transactions and balances shall be sufficient ground for appropriate Bangko Sentral action or imposition of sanctions, whenever applicable.

Outsourcing of services by Electronic Money Issuers (EMIs) to Electronic Money Network Service Providers (EMNSP). The guidelines on outsourcing of services by EMIs to EMNSP are shown in *Appendix 98*.

Sanctions. Violations committed by EMIs pertaining to outsourcing activities to EMNSP shall be subject to monetary penalties as graduated under Sec. 1102 and/or other non-monetary sanctions under Section 37 of RA No. 7653.

PART EIGHT

REGULATIONS ON PAYMENT SYSTEMS

801 AUTOMATED TELLER MACHINES

a. *Off-site ATMs*. Banks may establish off-site ATMs, subject to the following conditions:

(1) Banks shall submit a report to the appropriate department of the Bangko Sentral on ATMs which they establish;

(2) The off-site ATMs shall be installed only in centers of activity like shopping centers, supermarkets, hospitals, university campuses: *Provided*, That adequate internal control and security measures shall be adopted and submitted to the Bangko Sentral; and

(3) Only banks which have shown general compliance with laws, rules and regulations shall be allowed to open off-site ATMs.

b. *Mobile ATMs*. Banks may also establish mobile ATMs, subject to the following conditions:

(1) The mobile ATMs should be allowed to visit only centers of activity as mentioned in Item *"a(2)"* above;
(2) The bank shall secure insurance coverage or adopt a self-insurance scheme to protect itself against losses of whatever nature in its mobile ATM operations; and
(3) The bank shall notify the appropriate department of the Bangko Sentral of the actual date a mobile ATM becomes operational and when no longer in operation.

802 CHECK CLEARING OPERATIONS

The PCHC was appointed and designated by the Bangko Sentral as a processing agency and exclusive provider of nationwide Magnetic Ink Character Recognition (MICR)/Automated Clearing Facility. It shall implement Clearing of Checks via Electronic Presentment through its Check Image and Clearing System (CICS) upon receipt by the Bangko Sentral of a written notice from the PCHC that CICS is operational[1].

Banks shall observe the clearing procedures in accordance with the PCHC Clearing House rules and regulations for the clearing of checks including the Banks' responsibility to verify the accuracy of reports and directly communicate with the concerned party regarding any clearing discrepancy or error noted in the course of proving their incoming/outgoing clearing items.

Check Clearing Rules for Banks Authorized to Accept Demand Deposits.[2] The following are the check clearing rules for banks authorized to accept demand deposits:

a. Banks authorized to accept demand deposits may participate in the clearing process conducted by the PCHC, subject to the latter's accreditation rules, either through (1) direct participation in clearing operations; or (2) indirect participation through conduit arrangements with UBs/KBs. Other banks may indirectly participate through maintenance of DDAs with UBs/KBs as settlement account for demand deposit or NOW accounts of TBs/RBs.

b. Banks authorized to participate directly in the clearing in PCHC shall be subject to the following measures to manage the settlement risks:

(1) Settlement of both inward and outward items shall be value dated on the day the checks are originally presented to PCHC or RCC, net of AM returns. For this purpose, the *value date or settlement date* referred to herein shall be defined uniformly as the date of original presentation of the COCI to PCHC for the Integrated GM LX and to the RCC for the RLX. For the Integrated GM Outward to Region, Integrated GM Inward from Region and Region to Region clearing, the value date or settlement date shall be on the day the COCIs are received and processed at PCHC.

(2) A ceiling shall be set on the amount of overdraft a bank may incur due to failure to cover clearing losses through interbank borrowings and/or repurchase agreements with the Bangko Sentral. The *ceiling* is defined as the sum of clean Overdraft Credit Line (OCL) equivalent to fifteen percent (15%) of rediscounting line with the Bangko Sentral, and the collateralized OCL that will be extended by Bangko Sentral. A bank not meeting the following criteria:

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[1] The new check clearing process shall be implemented on 20 January 2017. For participant banks which will not be compliant with the CICS standard on 20 January 2017, they shall execute a Letter of Commitment stating, among others, the actions that they will be taking to be compliant with the CICS standard until 21 April 2017.

[2] See schedule of revised clearing and settlement process shown as footnote of Sec. 203.

(a) CAMELS composite rating of at least "3";

(b) CAR of at least ten percent (10%); or

(c) No chronic reserve deficiencies for the immediately preceding one (1) year, or other measures as may be defined by the Bangko Sentral for this purpose, should apply for collateralized OCL in an amount equivalent to at least five percent (5%) of their demand deposit liabilities as of end of month, two (2) months prior to the date of application with the 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.

(3) Provided the overdraft does not exceed the ceiling as defined in Item *"2"* hereof, the bank may avail of the clean/collateralized OCL. The availments against the approved clean/collateralized OCL shall bear interest at a rate equivalent to one-tenth of one percent (1/10 of 1%) per day or the 91-day T-Bill rate of the last auction immediately preceding the availment, plus three percentage (3%) points, whichever is higher.

(4) The availment shall be for a maximum period of five (5) consecutive clearing days or five (5) clearing days within any 30-day rolling calendar period, after which the OCL shall be suspended.

(5) Should the overdraft exceed the ceiling, as defined in Item *"2"* hereof, no availment of the clean/collateralized OCL shall be allowed.

(a) In the case of end-of-day overdraft, the Payments and Settlements Office (PSO) shall advise the PCHC of the amount available for settlement of the drawee bank's net clearing loss, beyond which amount inward clearing items will be unwound in accordance with the PCHC Clearing House Rules and Regulations.

(b) In the case of final overdraft, i.e., after AM returns, where unwinding is no longer possible, the bank shall be excluded from next clearing. The PSO shall advise the PCHC of such exclusion upon prior Monetary Board approval.

(6) The collateralized OCL may be converted into an emergency loan provided the bank complies with the guidelines governing the grant of emergency loans under Sec. 285 (*When an emergency loan or advance may be availed of*) or may be subject to foreclosure of collateral. The guidelines implementing Item *"b"* of this Section are in *Appendix 26*.

c. In indirect participation through conduit arrangement, where the clearing results of participating TBs/RBs are consolidated with those of the conduit UBs/KBs, caps shall be set on the net clearing losses to be passed on to the conduit UB/KB by the TB/RB.

The cap is defined as the combined value of the following amounts:

(1) the TB/RB's DDA with the Bangko Sentral; and
(2) the value of clean/collateralized overdraft credit line that may be extended by the conduit UB/KB to the TB/RB.

The conduit arrangement should include provisions setting aforementioned cap on the net clearing losses.

Clearing of Negotiable Order of Withdrawal Accounts. Any NOW account which may be deposited with a bank other than the drawee bank may be cleared through the PCHC in accordance with the PCHC Clearing House Rules and Regulations.[1] Nothing in this Section shall prevent direct settlement between the parties concerned. The provision of Sec. 203 shall also apply for withdrawals on NOW accounts.

Check Clearing Operations During Public Sector Holidays. The guidelines on check clearing operations during public sector holidays are shown in *Appendix 88*.

(Circular No. 974 dated 29 September 2017, M-2017-010 dated 15 March 2017, Circular No. 948 dated 01 March 2017, M-2017-001 dated 17 January 2017, Circular No. 924 dated 07 September 2016 and M-2016-012 dated 08 September 2016)

803 NATIONAL RETAIL PAYMENT SYSTEM (NRPS)

Adoption of the NRPS Framework. It is the policy of the Bangko Sentral to promote the establishment of a safe, efficient, and reliable retail payment system in the Philippines. Towards this end, the Bangko Sentral adopts the NRPS Framework consistent with Bangko Sentral regulations on risk management in light of the complex interplay of different

[1] See schedule of revised clearing and settlement process shown as footnote of Sec. 203.

types of risk arising from the rapid evolution of retail payment activities of the BSFIs. The NRPS vision will help achieve higher economic growth and enhance the overall competitiveness of our economy.

In carrying out retail payment-related activities, BSFIs shall adhere to the NRPS Framework as set forth in this Section and *Appendix 126*. This framework requires BSFIs to ensure that the retail payment systems they participate in demonstrate sound risk management, and effective and efficient interoperability. BSFIs shall comply with Bangko Sentral rules and regulations, particularly on information technology, consumer protection, and AML/CFT.

Definition of terms. For purposes of this Section, the following definitions shall apply:

a. *Automated Clearing House (ACH)* - a multilateral agreement among ACH participants governing the clearing and settlement of payment orders for a specific payment stream.

b. *ACH Participant*- a financial institution duly licensed by the Bangko Sentral that is a Payment System Management Body (PSMB) member, and undertakes clearing in and is a signatory to at least one (1) ACH.

c. *ACH Participant Group (ACH-PG)* - a group organized by ACH participants for a payment stream or a group of similar payment streams for the purpose of approving and implementing the clearing rules and agreements applicable to a specific payment stream. It also liaises and consults with other parties in relation to clearing.

d. *Channel* - the means by which an electronic financial product or service is delivered, e.g., internet, phone, ATM.

e. *Clearing* - the process of transmitting, reconciling and, in some cases, confirming payment orders prior to settlement, and the establishment of the final obligations for settlement.

f. *Clearing Switch Operator (CSO)* - provides clearing switch services.

g. *Direct clearing participant*- a financial institution that is: (a) duly licensed by the Bangko Sentral and is authorized to provide electronic financial and payment services; (b) engaged in holding of funds of customers in the form of accounts (bank account or electronic money account); (c) clears transactions through an ACH and is the participant ultimately responsible for obligations generated from cleared transactions; and (d) has a demand deposit account with the Bangko Sentral and a PhilPaSS member, or is sponsored into settlement by a qualified sponsor which is a member of PhilPaSS and maintains a DDA with the Bangko Sentral, to settle its clearing obligations.

h. *Electronic payment*- synonymous to electronic fund transfer (EFT); refers to transfers of funds between two transaction accounts in the same or different BSFIs which are initiated and received using electronic devices and channels to transmit payment instructions. This excludes domestic remittance transaction under existing Bangko Sentral regulations.

i. *Fund*- any unit of value that forms the consideration or object of transactions.

j. *Interoperability* - enables financial products and services belonging to a particular scheme or business model to be used or interoperated between other schemes or business models usually of another institution. While interoperability often times require technical compatibility between systems, it can only take effect once commercial/business interconnectivity agreements have been completed.

k. *NRPS* - a policy and regulatory framework that aims to establish a safe, efficient, and reliable retail payment system in the Philippines.

l. *Payment instrument* - any instrument, whether tangible or intangible, that enables a person to transfer funds.

m. *Payment order* - an order or message requesting the transfer of funds to the order of the payee.

n. *Payment system* - the set of payment instruments, processes, procedures and participants that ensures the circulation of money or movement/transfer of funds.

o. *PSMB*– a private industry-led self-governing body that is duly recognized and overseen by the Bangko Sentral to develop and enforce rules and agreements pertaining to members' clearing and settlement activities in accordance with the NRPS Framework and applicable Bangko Sentral regulations. The body shall be comprised of retail payment industry participants which are direct clearing participants. This body shall be a juridical entity that is not-for-profit and with the power to set and implement rules pertaining to members' clearing activities.

p. *Point of Interaction (POI)* - a hardware and/or software whereby a customer or user is able to query or initiate a transaction from his account. Examples of POI include kiosk, smart device, etc.

q. *Retail payments* - payments that meet at least one of the following characteristics: (i) the payment is not directly related to a financial market transaction; (ii) the settlement is not time-critical; (iii) the payer, the payee, or both are individuals or non-financial organizations; and (iv) either the payer, the payee, or both are not direct participants in the payment system that is processing the payment. This definition of retail payment includes person-to-person, person-to-business, business-to-person, business-to-business, person/business-to-government, and government-to-person/business payments.[1]

r. *Settlement* - an act that discharges obligations in respect of fund transfers between two (2) or more parties.

s. *Sponsored into Settlement Member* - PSMB members who undertake settlement in at least one (1) ACH by engaging the settlement services of an ACH participant that can directly settle transactions through PhilPASS.

t. *Settlement sponsor bank or Sponsoring bank* - PSMB members who undertake settlement directly through PhilPASS.

u. *Working Group* - In the context of an ACH, it is a group organized for a specific payment stream under an ACH Participant Group. The ACH Working Group is responsible for drawing up, reviewing or revising the rules and agreements applicable to a specific ACH.

Purpose and scope. The NRPS Framework shall apply to all BSFIs which meet regulatory requirements and the criteria set on a per ACH basis under the NRPS framework.

The NRPS framework covers all retail payment-related activities, mechanisms, institutions and users. It applies to all domestic payments which are denominated in Philippine Peso (Php), and which may be for payments of goods and services, domestic remittances or fund transfers.

Retail payments under the NRPS Framework are payments that meet at least one (1) of the following characteristics:

a. the payment is not directly related to a financial market transaction;
b. the settlement is not time-critical;
c. the payer, the payee, or both are individuals or non-financial organizations; and
d. either the payer, the payee, or both are not direct participants in the payment system that is processing the payment.

NRPS key principles. Under the NRPS framework, sound governance shall be performed by a PSMB, an industry-led self-governing body that is duly recognized and overseen by the Bangko Sentral. In the absence of a PSMB which conforms to the NRPS principles in *Appendix 126*, the functions of providing sound governance to the retail payment system participated in by BSFIs shall be discharged by the Bangko Sentral. The CSOs shall not participate in the governance of the payment system.

All clearing shall be done within the NRPS governance structure, wherein exclusive bilateral clearing arrangements are not allowed.

Non-discriminatory participation shall be espoused in the retail payment system. Hence, all BSFIs are highly encouraged to join the NRPS governance structure provided they meet the qualification criteria.

A reasonable market-based and transparent pricing mechanism shall be adopted by all BSFIs participating in the NRPS governance structure.

Further details on the key principles are embodied in the NRPS Framework shown in *Appendix 126*.

Specific rules applicable to transactions performed under the NRPS framework. The following rules shall apply to retail payment transactions which are cleared and settled in accordance with the NRPS framework:

a. Minimum requirements to offer Electronic Financial and Payments Service (EFPS). *EFPS*, which shall require Bangko Sentral approval in accordance with Sec. 701, refer to BSFI products and/or services that enable consumers to carry out or initiate payments electronically, financial transactions and other related services through a point of interaction. To offer EFPS, BSFIs shall conform to the following requirements:

   (1) BSFIs shall make electronic payments available in all its delivery channels whenever applicable;
   (2) BSFIs shall enable its clients to move/receive funds to/from accounts with other BSFIs, or, at a minimum, receive funds. Movement of funds between BSFIs shall be carried out through participation in an ACH;
   (3) BSFIs shall immediately credit the account of its clients after receipt of clearing advice; and

[1] Developing a comprehensive National Retail Payments Strategy, Financial Infrastructure Service line Payment Systems Policy and Research, World Bank, October 2012, available at http://siteresources.worldbank.org/FINANCIALSECTOR/Resources/Developing_a_ comprehensive_national_retail_payments_strategy_for_GPW_10_20%28vl%29.pdf.

(4) BSFIs shall conform to Sec. 701 the IT Risk Management Standards and Guidelines on electronic banking, electronic payment, electronic money and other electronic products and services provided in *Appendix 79*.

b. Fees on transactions. The BSFI's board of directors shall adopt a policy on the imposition of any fee on electronic payment transactions. The policy shall include the basis and quantitative support for the setting of fees and rationalization of the fee structure or amount. Imposition of fees for transactions performed by BSFIs that meet the requirements in Item *"a"* of the specific rules applicable to transactions performed under the NRPS Framework shall be consistent with the following:

(1) On consumer pricing -

(a) BSFIs shall adopt reasonable and fair market-based pricing models, which do not arise from agreements with other BSFIs to fix the price of product or service delivery.

(b) The service fees for electronic payments are expected to be lower than the fees collected from transactions made manually or over-the-counter (OTC) as electronic payments are considered to provide more efficient and cost-effective means of delivering service.

(c) The recipient shall not pay for electronic crediting to recipient's account and the recipient shall receive the amount in full. Such account to account fund transfers shall not be considered as domestic remittance transactions under Sec. 298.

(2) The BSFI shall disclose to the Bangko Sentral the details of all fees that will be charged to the client. This will be posted in an electronic bulletin board of fees for transactions performed under the NRPS framework. The bulletin board shall be maintained by the Bangko Sentral in its website for enhanced transparency and competitiveness.

c. Anti-Money Laundering Requirements. All BSFIs shall observe applicable AML/CFT requirements under Part Nine for all transactions performed under the NRPS framework. As part of on-going monitoring of customers and their transactions, the following rules shall apply to transactions performed under the NRPS framework by BSFIs that meet the requirements in Item *"a"* of the specific rules applicable to transactions performed under the NRPS Framework:

(1) The originating institution (OI) shall be responsible for monitoring, including appropriate watchlist screening or monitoring, its own client's transactions. It is the responsibility of the OI to ensure that the account name of the source account and the amount are consistent with the Sender Name and the amount indicated in the Payment Instruction sent by the OI.

(2) The receiving institution (RI) shall be responsible for monitoring, including appropriate watchlist screening or monitoring, its own client's transactions. It is the responsibility of the RI to ensure that the actual account number credited and the amount are consistent with the Beneficiary Account Number and the amount indicated in the Payment Instruction received by the RI.

(3) On the basis of the above, account number matching will suffice for domestic account-to-account electronic payments. OIs and RIs shall ensure that customers are informed that account number matching will suffice to implement a transaction, and OIs and RIs shall be held free and harmless from liability for their reliance on account number matching.

(4) Nothing in the above rules shall prevent an OI or RI from instituting or implementing additional procedures to comply with AML laws and regulations, and other applicable laws and regulations, prior to executing a transaction performed under the NRPS framework, or debiting/crediting a client's account.

d. BSFIs participating in the NRPS governance structure are required to comply with existing regulations of the Bangko Sentral.

Reports. BSFIs participating in the NRPS governance structure shall comply with regular reporting requirements, which will be covered by a separate issuance.

Examination of BSFIs. BSFIs shall make available all policies, procedures and other documents/information related to this Section during the on-site examination, as well as provide copies thereof when a written request is made by the Bangko Sentral.

Sanctions. Consistent with Sec. 002, the Bangko Sentral may deploy enforcement actions to promote adherence to the requirements set forth in this Section and bring about timely corrective actions. The Bangko Sentral may issue directives to enforce compliance with the NRPS Framework or impose sanctions to limit the level of or suspend any business activity that has adverse effects on the safety and soundness of the BSFI, among others.

Any violation of this Section shall subject the BSFI and/or its directors, officers and/or employees to the monetary and non-monetary sanctions under Section 37 of Republic Act (R.A.) No.7653, including but not limited to the following depending on the gravity of the violation committed and the circumstances attendant thereto:

a. Suspension of offering new electronic financial products and services;
b. Suspension/revocation of authority to provide electronic financial products and services; and
c. Suspension/revocation of authority to settle through the Philippine Payments and Settlements System.

(Circular No. 980 dated 06 November 2017)

804 SETTLEMENT OF INSTANT RETAIL PAYMENTS

Policy statement. It is the thrust of the Bangko Sentral to ensure efficiency of payment systems in the country. In line with this thrust, the Bangko Sentral requires the BSFIs participating in an ACH for instant retail payments to ensure that this ACH provides for certainty of settlement of the multilateral clearing obligations of the clearing participants. The settlement scheme agreed upon by the clearing participants shall form an integral part of the comprehensive credit risk management for instant retail payment services.

For the purpose of this Section, an instant retail payment, otherwise known as fast payment, is defined as an electronic payment in which the transmission of the payment message and the availability of "final" funds to the payee occur in real time or near-real time on as near to a 24-hour and seven-day (24/7) basis as possible[1]. Moreover, as used in this Section, clearing participants shall refer to direct clearing participants.

Minimum requirements for the operation of a settlement mechanism for instant retail payments. The settlement mechanism for instant payments shall meet the following minimum requirements:

a. A clearing participant or its settlement sponsor shall maintain with the Bangko Sentral a demand deposit account (DDA) which shall be used specifically for the settlement of the clearing participant's net clearing obligations arising from instant retail payments;

b. The clearing participant or its settlement sponsor shall prefund the settlement of its net clearing obligation through the DDA stated above, ensuring that such account can sufficiently cover said obligation at any point during a settlement cycle. When prefunding, the clearing participant/settlement sponsor shall consider increasing the fund in its account for longer settlement cycles such as during weekends and holidays;

c. The clearing participants shall agree on thresholds which shall be the bases of the CSO to execute a notification process that enables the clearing participants to efficiently monitor movements in their instant retail payment positions, and at the same time alerts them to place additional funds in their DDAs particularly when the ultimate threshold is breached;

d. The service contract between the clearing participants and the CSO shall include, at a minimum, the following provisions:

   (1) The CSO shall record the clearing participants' DDA balances obtained from the Bangko Sentral at the start of every settlement cycle and monitor the clearing participants' net clearing obligations against their respective account balances;

   (2) Should the instant retail payments position (Funds in the DDA minus net clearing obligation/withdrawal from the DDA) of any of the clearing participants breach their agreed-upon thresholds, the CSO shall immediately send an electronic notification to the concerned clearing participant; and

   (3) Any instant retail payment which is not fully covered by the corresponding DDA or which will result in a negative instant retail payments position shall be rejected by the CSO. A clearing participant with an instant retail payments position of zero shall be suspended from carrying out further outgoing instant payment transactions until said participant registers a positive position on account of its incoming payment transactions and/or subsequent deposits into its DDA;

e. Should the clearing participants determine that the funds in their DDAs for instant retail payments are excessive after taking into account their highest potential clearing obligations, the clearing participants shall be allowed to withdraw from their DDAs to enable them to make optimal use of their funds; and

f. The Bangko Sentral shall not be precluded from deploying applicable regulatory enforcement actions to concerned clearing participants notwithstanding the inclusion of sanctions in the ACH for non-compliance with the clearing participants' agreed-upon settlement mechanism.

[1] Based on the paper *"Fast payments – Enhancing the speed and availability of retail payments"* of the Committee on Payments and Market Infrastructures, Bank for International Settlements

Risk Management. In view of the risks involved in the prescribed settlement mechanism for instant retail payments, including the possibility that a rejected payment transaction of a client due to prefunding issues may give rise to serious reputational damages to the concerned clearing participant, the BSFIs participating in the instant retail payment ACH shall ensure that they have the necessary operational and liquidity risk management measures in place. Such measures shall be designed in accordance with the guidelines provided under Section 146 on Operational Risk Management, and Section 145 on Liquidity Risk Management.

Demand deposits for instant payments as eligible reserves. The DDAs maintained with the Bangko Sentral for the settlement of net clearing obligations arising from instant retail payment transactions shall form part of the banks' reserves against deposit and deposit substitute liabilities pursuant to Section 252.

Supervisory enforcement action. Consistent with Section 002, the Bangko Sentral may deploy enforcement actions to promote compliance with the requirements set forth in this Section and ensure timely implementation of preventive or corrective measures as needed. As part of its enforcement actions, the Bangko Sentral may issue directives or impose sanctions which limit the level of or suspend any business activity that adversely affects the safety and soundness of a BSFI.

(Circular No. 1000 dated 23 April 2018)

PART NINE

ANTI-MONEY LAUNDERING (AMLA) AND COMBATTING THE FINANCING OF TERRORISM REGULATIONS

901 BANGKO SENTRAL AUTHORITY TO CHECK COMPLIANCE WITH THE ANTI-MONEY LAUNDERING (AMLA) ACT, AS AMENDED

In the course of a periodic or special examination, the Bangko Sentral may inquire into or examine bank accounts or investments, including customer identification, account opening, and transaction documents, for the purpose of checking compliance by covered persons under its supervision or regulation with the requirements of these rules, the AMLA, as amended, and the Terrorism Financing Prevention and Suppression Act (TFPSA), their respective Revised Implementing Rules and Regulations (RIRR), other Anti-Money Laundering Council (AMLC) and Bangko Sentral issuances.

The Bangko Sentral may likewise conduct annual testing solely limited to the determination of the existence and true identity of the owners of numbered and similar accounts.

In the course of the periodic and special examination for purposes of complying with the provisions of the AMLA, as amended, its RIRR, and this Part, the covered person, their officers and employees, and the Bangko Sentral, shall not be deemed to have violated the provisions of R. A. No. 1405, as amended, R.A. No. 6426, as amended, R.A. No. 8791 and other similar laws, and Sec. 922 (*Confidentiality provision*) when disclosing information to Bangko Sentral relative to covered and suspicious transaction reports filed with the AMLC.

(Circular No. 1022 dated 26 November 2018 and 950 dated 15 March 2017)

902 POLICY STATEMENT

The Bangko Sentral adopts the policies of the State to (a) protect and preserve the integrity of the Philippine financial system, including the confidentiality of bank accounts; (b) ensure that the Philippines, in general, and the covered persons, in particular, shall not be used, as money laundering sites and conduit for the proceeds of unlawful activities as herein defined; (c) protect life, liberty and property from acts of terrorism and to condemn terrorism and those who support and finance it and reinforce the fight against terrorism by criminalizing the financing of terrorism and related offenses; (d) recognize terrorism and terrorist financing as inimical and dangerous to national security and the welfare of the people; and make the financing of terrorism a crime against the Filipino people, against humanity and against the law of nations; and (e) adhere to international commitments to combat financing of terrorism, specifically the International Convention for the Suppression of the Financing of Terrorism, as well as other binding terrorism related resolutions of the United Nations Security Council, pursuant to Chapter 7 of the United Nations Charter.

(Circular Nos. 1022 dated 26 November 2018 and 950 dated 15 March 2017)

903 SCOPE OF REGULATIONS

These regulations shall apply to all covered persons supervised and regulated by the Bangko Sentral. The term "covered persons" shall refer to banks, non-banks, QBs, trust entities, NSSLAs, pawnshops, foreign exchange dealers, money changers, remittance and transfer companies, EMIs and other financial institutions which under special laws are subject to Bangko Sentral supervision and/or regulation, including their subsidiaries and affiliates, which are also covered persons, wherever they may be located. For this purpose, subsidiary and affiliate shall be defined as:

a. A *subsidiary* means an entity more than fifty percent (50%) of the outstanding voting stock of which is owned by a covered person.
b. An *affiliate* means an entity the voting stock of which, at least twenty percent (20%) to not more than fifty percent (50%), is owned by a covered person.

Pursuant to Section 20 of the General Banking Law of 2000, a bank authorized by Bangko Sentral to establish branches or other offices within or outside the Philippines shall be responsible for all business conducted in such branches and offices to the same extent and in the same manner as though such business had all been conducted in the head office. A bank and its branches and offices shall be treated as one (1) unit.

If the host country does not permit the proper implementation of this Part or any of the provisions of the AMLA, as amended, the TFPSA, or their IRR, and other AMLC and Bangko Sentral issuances by reason of local laws, regulations or a supervisory directive, the covered person shall (1) formally notify the Bangko Sentral of this situation and furnish a copy of the applicable laws and/or regulations or the supervising authority's directive, as the case may be; and (2) apply appropriate additional measures or mitigating controls to manage the ML and TF risks.

In cases where the minimum AML/CFT requirements of the host country are less strict, covered persons, including their foreign branches and majority-owned subsidiaries abroad, shall apply AML/CFT measures consistent with the AMLA and the TFPSA and their respective RIRR, and other AMLC and Bangko Sentral issuances, to the extent that the laws and regulations of the host country permit.

(Circular Nos. 1022 dated 26 November 2018 and 950 dated 15 March 2017)

904 DEFINITION OF TERMS

Except as otherwise defined herein, all terms used shall have the same meaning as those terms that are defined in the AMLA, as amended, and its RIRR.

a. *Money laundering* is committed by any person who, knowing that any monetary instrument or property represents, involves, or relates to the proceeds of any unlawful activity:

(1) transacts said monetary instrument or property;
(2) converts, transfers, disposes of, moves, acquires, possesses or uses said monetary instrument or property;
(3) conceals or disguises the true nature, source, location, disposition, movement or ownership of or rights with respect to said monetary instrument or property;
(4) attempts or conspires to commit money laundering offenses referred to in Items *"(1)", "(2)" or "(3)"* above;
(5) aids, abets, assists in or counsels the commission of the money laundering offenses referred to in Items *"(1)", "(2)" or "(3)"* above; and
(6) performs or fails to perform any act as a result of which he facilitates the offense of money laundering referred to in Items *"(1)", "(2)" or "(3)"* above.

Money laundering is also committed by any covered person who, knowing that a covered or suspicious transaction is required to be reported to the AMLC under any of the provisions of the AMLA, as amended, its RIRR, or this Part, fails to do so.

b. *Financing of terrorism* is a crime committed by a person who, directly or indirectly, willfully and without lawful excuse, possesses, provides, collects or uses property or funds or makes available property, funds or financial service or other related services, by any means, with the unlawful and willful intention that they should be used or with the knowledge that they are to be used, in full or in part: (1) to carry out or facilitate the commission of any terrorist act; (2) by a terrorist organization, association or group; or (3) by an individual terrorist.

c. *Covered transaction* (CT) refers to a transaction in cash or other equivalent monetary instrument exceeding P500,000.

d. *Suspicious transaction* (ST) refers to a transaction with a covered person, regardless of the amount involved, where any of the following circumstances exists:

(1) There is no underlying legal or trade obligation, purpose or economic justification;
(2) The client is not properly identified;
(3) The amount involved is not commensurate with the business or financial capacity of the client;
(4) Taking into account all known circumstances, it may be perceived that the client's transaction is structured in order to avoid being the subject of reporting requirements under the AMLA, as amended;
(5) Any circumstance relating to the transaction which is observed to deviate from the profile of the client and/or the client's past transactions with the covered person;
(6) The transaction is in any way related to an unlawful activity or any money laundering activity or offense, that is about to be committed, is being or has been committed; or
(7) Any transaction that is similar, analogous or identical to any of the foregoing.

Any unsuccessful attempt to transact with a covered person, the denial of which is based on any of the foregoing circumstances, shall likewise be considered as ST.

e. *Monetary instrument* shall include, but is not limited to the following:

(1) Coins or currency of legal tender of the Philippines, or of any other country;

(2) Credit instruments, including bank deposits, financial interest, royalties, commissions and other intangible property;

(3) Drafts, checks, and notes;

(4) Stocks or shares, participation or interest in a corporation or in a commercial enterprise or profit-making venture and evidenced by a certificate, contract, instrument, whether written or electronic in character including those enumerated in Section 3 of the Securities Regulation Code;

(5) A participation or interest in any non-stock, non-profit corporation;

(6) Securities or negotiable instruments, bonds, commercial papers, deposit certificates, trust certificates, custodial receipts or deposit substitute instruments, trading orders, transaction tickets and confirmations of sale or investments and money market instruments;

(7) Contracts or policies of insurance, life or non-life, contracts of suretyship, pre-need plans and member certificates issued by mutual benefit association; and

(8) Other similar instruments where title thereto passes to another by endorsement, assignment or delivery.

f. *Unlawful activity* refers to any act or omission or series or combination thereof involving or having direct relation to the following:

(1) Kidnapping for ransom under Article 267 of Act No. 3815, otherwise known as the Revised Penal Code (RPC), as amended;
(2) Sections 4, 5, 6, 8, 9, 10, 11, 12, 13, 14, 15 and 16 of R.A. No. 9165, otherwise known as the Comprehensive Dangerous Drugs Act of 2002;
(3) Section 3 paragraphs *"B", "C", "E", "G", "H"* and *"I"* of R.A. No. 3019, as amended, otherwise known as the Anti-Graft and Corrupt Practices Act;
(4) Plunder under R.A. No. 7080, as amended;
(5) Robbery and extortion under Articles 294, 295, 296, 299, 300, 301 and 302 of the RPC, as amended;
(6) Jueteng and masiao punished as illegal gambling under P.D. No. 1602;
(7) Piracy on the high seas under the RPC, as amended, and P.D. No. 532;
(8) Qualified theft under Article 310 of the RPC, as amended;
(9) Swindling under Article 315 and "Other Forms of Swindling" under Article 316 of the RPC, as amended;
(10) Smuggling under R.A. Nos. 455 and 1937, as amended, otherwise known as the Tariff and Customs Code of the Philippines;
(11) Violations under R.A. No. 8792, otherwise known as the Electronic Commerce Act of 2000;
(12) Hijacking and other violations under R.A. No. 6235, otherwise known as the "Anti-Hijacking Law"; "Destructive Arson"; and "Murder", as defined under the RPC, as amended;
(13) Terrorism and conspiracy to commit terrorism as defined and penalized under Sections 3 and 4 of R.A. 9372;
(14) Financing of terrorism under Section 4 and offenses punishable under Sections 5, 6, 7 and 8 of R.A. No. 10168, otherwise known as the Terrorism Financing Prevention and Suppression Act of 2012;
(15) Bribery under Articles 210, 211 and 211-a of the RPC, as amended, and Corruption of Public Officers under Article 212 of the RPC, as amended;
(16) Frauds and illegal exactions and transactions under Articles 213, 214, 215 and 216 of the RPC, as amended;
(17) Malversation of public funds and property under Articles 217 and 222 of the RPC, as amended;
(18) Forgeries and counterfeiting under Articles 163, 166, 167, 168, 169 and 176 of the RPC, as amended;
(19) Violations of Sections 4 to 6 of R.A. No. 9208, otherwise known as the Anti-trafficking in Persons Act of 2003, as amended;
(20) Violations of Sections 78 to 79 of Chapter IV, of Presidential Decree No. 705, otherwise known as the Revised Forestry Code of the Philippines, as amended;
(21) Violations of Sections 86 to 106 of Chapter IV, of R.A. No. 8550, otherwise known as the Philippine Fisheries Code of 1998;
(22) Violations of Sections 101 to 107, and 110 of R.A. No. 7942, otherwise known as the Philippine Mining Act of 1995;
(23) Violations of Section 27(C), (E), (F), (G) and (I), of R.A. No. 9147, otherwise known as the Wildlife Resources Conservation and Protection Act;
(24) Violation of Section 7(B) of R.A. No. 9072, otherwise known as the National Caves and Cave Resources Management Protection Act;
(25) Violation of R.A. No. 6539, otherwise known as the Anti-Carnapping Act of 2002, as amended;
(26) Violations of Sections 1, 3 and 5 of P.D. No. 1866, as amended, otherwise known as the Decree Codifying the Laws on Illegal/Unlawful Possession, Manufacture, Dealing in, Acquisition or Disposition of Firearms, Ammunition or Explosives;
(27) Violation of P.D. No. 1612, otherwise known as the Anti-Fencing Law;
(28) Violation of Section 6 of R.A. No. 8042, otherwise known as the Migrant Workers and Overseas Filipinos Act of 1995, as amended by R.A. No. 10022;
(29) Violation of R.A. No. 8293, otherwise known as the Intellectual Property Code of the Philippines, as amended;
(30) Violation of Section 4 of R.A. No. 9995, otherwise known as the Anti-photo and Video Voyeurism Act of 2009;
(31) Violation of Section 4 R.A. No. 9775, otherwise known as the Anti-child Pornography Act of 2009;
(32) Violations of Sections 5, 7, 8, 9, 10 (C), (D) and (E), 11, 12 and 14 of R.A. No. 7610, otherwise known as the Special Protection of Children against Abuse, Exploitation and Discrimination;

(33) Fraudulent practices and other violations under R.A. No. 8799, otherwise known as the Securities Regulation Code of 2000; and
(34) Felonies or offenses of a nature similar to the aforementioned unlawful activities that are punishable under the penal laws of other countries.

In determining whether or not a felony or offense punishable under the penal laws of other countries is "of similar nature", as to constitute an unlawful activity under the AMLA, the nomenclature of said felony or offense need not be identical to any of the unlawful activities listed above.

g. *Transaction* refers to any act establishing any right or obligation or giving rise to any contractual or legal relationship between the parties thereto. It also includes any movement of funds by any means with a covered person.

h. *Proceed* refers to an amount derived or realized from any unlawful activity.

i. *Monetary instrument or property related to an unlawful activity* refers to:

(1) All proceeds of an unlawful activity;
(2) All monetary, financial or economic means, devices, accounts, documents, papers, items or things used in or having any relation to any unlawful activity;
(3) All moneys, expenditures, payments, disbursements, costs, outlays, charges, accounts, refunds and other similar items for the financing, operations, and maintenance of any unlawful activity; and
(4) For purposes of freeze order and bank inquiry: related and materially-linked accounts.

(a) *"Related accounts"* refer to those accounts, the funds and sources of which originated from and/or are materially-linked to the monetary instruments or properties subject of the freeze order or an order of inquiry.
(b) *"Materially-linked accounts"* shall include the following:

(i) All accounts or monetary instruments under the name of the person whose accounts, monetary instruments, or properties are the subject of the freeze order or an order of inquiry;

(ii) All accounts or monetary instruments held, owned, or controlled by the owner or holder of the accounts, monetary instruments, or properties subject of the freeze order or order of inquiry, whether such accounts are held, owned or controlled singly or jointly with another person;

(iii) All "In Trust For" accounts where either the trustee or the trustor pertains to a person whose accounts, monetary instruments, or properties are the subject of the freeze order or order of inquiry;

(iv) All accounts held for the benefit or in the interest of the person whose accounts, monetary instruments, or properties are the subject of the freeze order or order of inquiry; and

(v) All other accounts, shares, units, or monetary instruments that are similar, analogous, or identical to any of the foregoing.

j. *Client/Customer* refers to any person or entity who keeps an account, or otherwise transacts business with a covered person. It includes the following: (1) any person or entity on whose behalf an account is maintained or a transaction is conducted, as well as the beneficiary of said transactions; (2) beneficiary of a trust, an investment fund or a pension fund; (3) a company or person whose assets are managed by an asset manager; (4) a grantor of a trust; and (5) any insurance policy holder, whether actual or prospective.

k. *Shell company* refers to a legal entity which has no business substance in its own right but through which financial transactions may be conducted.

l. *Shell bank* refers to a shell company incorporated as a bank or made to appear to be incorporated as a bank but has no physical presence and no affiliation with a regulated financial group. It can also be a bank that (a) does not conduct business at a fixed address in a jurisdiction in which the shell bank is authorized to engage; (b) does not employ one (1) or more individuals on a full time basis at this fixed address; (c) does not maintain operating records at this address, and (d) is not subject to inspection by the authority that licensed it to conduct banking activities.

m. *Beneficial Owner* refers to any natural person(s) who ultimately owns or controls a customer and/or on whose behalf a transaction is being conducted; or those who have ultimate effective control over a juridical person or legal arrangement.

Ultimate effective control refers to situation in which ownership/control is exercised through actual or a chain of ownership or by means other than direct control.

Beneficial owner shall be:

(1) The natural persons, if any, who ultimately have controlling ownership interest in a juridical person.

A shareholding or ownership interest of at least twenty percent (20%) in the customer held by a natural person shall be an indication of direct ownership. A shareholding or ownership interest of at least twenty percent (20%) in the customer held by a corporate entity, which is under the control of a natural person(s), or by multiple corporate entities, which are under the control of the same natural person(s), shall be an indication of indirect ownership.

(2) The natural persons, if any, exercising control over the juridical person through other means, to the extent that there is a doubt under Item *"(1)"* above, as to whether the persons with the controlling ownership interest are the beneficial owners or where no natural person exerts control through ownership interests.

Control through other means, includes control exerted by means of trusts, agreements, arrangements, understandings, or practices, or when an individual can exercise control through making decisions about financial and operating policies. In addition, control also includes: (a) power to govern the financial and operating policies of the enterprise under statute or an agreement; (b) power to appoint or remove the majority of the members of the board of directors or equivalent governing body; (c) power to cast the majority votes at a meeting of the board of directors or equivalent governing body; or (d) any other arrangements similar to any of the above.

(3) The natural person(s) who hold the position of senior managing official(s) or equivalent ranks, where no person under Items "*(1)*" and "*(2)*" is identified, or if there is any doubt that the person(s) identified are the beneficial owners(s).

n. *Politically exposed person or PEP* refers to an individual who is or has been entrusted with prominent public position in (1) the Philippines with substantial authority over policy, operations or the use or allocation of government-owned resources; (2) a foreign state, or (3) an international organization.

The term *PEP* shall include immediate family members, and close relationships and associates that are reputedly known to have:

(1) Joint beneficial ownership of a legal entity or legal arrangement with the main/principal PEP; or
(2) Sole beneficial ownership of a legal entity or legal arrangement that is known to exist for the benefit of the main/principal PEP.

Immediate family members of PEPs refer to individuals who are related to a PEP within the second degree of affinity or consanguinity.

Close associates of PEPs refer to persons who are widely and publicly known to maintain a particularly close relationship with the PEP, and include persons who are in a position to conduct substantial domestic and international financial transactions on behalf of the PEP.

o. *Correspondent banking* refers to the provision of banking services by one (1) bank (the "correspondent bank") to another bank (the "respondent bank").

p. *Payable-through account* refers to a correspondent account that is used directly by third parties to transact business on their own behalf.

q. *Fund/wire transfer* refers to any transaction carried out on behalf of an originator (both natural and juridical) through an FI (originating institution) by electronic means with a view to making an amount of money available to a beneficiary at another FI (beneficiary institution). The originator person and the beneficiary person may be the same person.

r. *Cross border transfer* refers to any wire transfer where the originating and beneficiary institutions are located in different countries. It shall also refer to any chain of wire transfer that has at least one (1) cross border element.

s. *Domestic transfer* refers to any wire transfer where the originating and beneficiary institutions are located in the same country. It shall refer to any chain of wire transfers that takes place entirely within the borders of a single country, even though the system used to effect the fund/wire transfer may be located in another country.

t. *Originating financial institution* refers to the financial institution which initiates the wire transfer and transfers the funds upon receiving the request for a wire transfer on behalf of the originator.

u. *Beneficiary financial institution* refers to the financial institution which receives the wire transfer from the originating financial institution, directly or through an intermediary financial institution, and makes the funds available to the beneficiary.

v. *Intermediary financial institution* refers to a financial institution in a serial or cover payment chain that receives and transmits a wire transfer on behalf of the originating financial institution and the beneficiary financial institution, or another intermediary financial institution.

w. *Official document* refers to any of the following identification documents:

(1) For Filipino citizens: Those issued by any of the following official authorities:

(a) Government of the Republic of the Philippines, including its political subdivisions, agencies, and instrumentalities;
(b) Government-Owned or -Controlled Corporations (GOCCs);
(c) Covered persons registered with and supervised or regulated by the Bangko Sentral, SEC or IC; or
(d) Philippine Statistics Authority (PSA) under the Philippine Identification System (PhilSys)

(2) For foreign nationals: Passport or Alien Certificate of Registration;
(3) For Filipino students: School ID signed by the school principal or head of the educational institution;
(4) For low risk customers: Any document or information reduced in writing which the covered person deems sufficient to establish the client's identity; and
(5) Other identification document that can be verified using reliable, independent source documents, data or information.

x. *Juridical person* refers to an entity other than a natural person as defined under Chapter 3 of the Civil Code of the Philippines, that can establish a permanent customer relationship with any financial institution or otherwise own property.

y. *Money or Value Transfer Service (MVTS) or Money Service Business (MSB)* refers to financial services that involve the acceptance of cash, checks, other monetary instruments or other stores of value, and the payment of a corresponding sum in cash or other form to a beneficiary by means of a communication, message, transfer, or through a clearing network to which the service provider belongs.

z. *Originator* refers to the account holder who allows the wire transfer from an account, or where there is no account, the person that places an order with the originating financial institution to perform a wire transfer.

aa. *Philippine Identification Card* (PhilID) refers to the non-transferrable identification card issued by the PSA to all citizens and resident aliens registered under the PhilSys, which serves as the official government-issued identification document of cardholders in dealing with all government agencies, local government units, government and controlled corporations, government financial institutions, and all private sector entities.

bb. *Cover payment* refers to a wire transfer that combines a payment message sent directly by the originating financial institution to the beneficiary financial institution with the routing of the funding instruction (the cover), from the originating financial institution to the beneficiary financial institution through one or more intermediary financial institutions.

cc. *Serial Payment* refers to a direct sequential chain of payment where the wire transfer and accompanying payment message travel together from the originating financial institution to the beneficiary financial institution, directly or through one (1) or more intermediary financial institutions.

dd. *Settlor/Grantor/Trustor* refers to a person who transfers ownership of his assets to trustees by means of a trust deed or similar arrangement.

ee. *Source of Fund* refers to the origin of the funds or other monetary instrument that is the subject of the transaction or business or professional relationship between a covered person and its customer, such as cash on hand, safety deposit box with a covered person, and a particular bank or investment account.

ff. *Source of Wealth* refers to the resource from which the customer's wealth including all monetary instruments and properties, came, comes, or will come from, such as employment, business, investments, foreign remittance, inheritance and donation

gg. *Straight-through Processing* refers to payment transactions that are conducted electronically without the need for manual intervention.

(*Circular Nos. 1022 dated 26 November 2018 and 950 dated 15 March 2017)*

905 BASIC PRINCIPLES AND POLICIES TO COMBAT MONEY LAUNDERING

In line with the declaration of policy, covered persons shall apply the following principles:

a. Conduct business in conformity with high ethical standards in order to protect its safety and soundness as well as the integrity of the national banking and financial system;

b. Know sufficiently your customer at all times and ensure that the financially or socially disadvantaged are not denied access to financial services while at the same time prevent suspicious individuals or entities from opening or maintaining an account or transacting with the covered person by himself or otherwise;

c. Adopt and effectively implement a sound AML and terrorist financing prevention risk management system that identifies, assesses, monitors and controls risks associated with money laundering and terrorist financing;

d. Comply fully with this Part and existing laws aimed at combating money laundering and terrorist financing by making sure that officers and employees are aware of their respective responsibilities and carry them out in accordance with superior and principled culture of compliance; and

e. Fully cooperate with AMLC for the effective implementation and enforcement of the AMLA, as amended, and its RIRR.

(Circular No. 950 dated 15 March 2017)

A. RISK MANAGEMENT

911 RISK MANAGEMENT

All covered persons shall develop sound risk management policies and practices to ensure that risks associated with ML/TF such as reputational, operational, and compliance risks are identified, assessed, monitored, mitigated and controlled, as well as to ensure effective implementation of this Part, to the end that covered persons shall not be used as a vehicle to legitimize proceeds of unlawful activity or to facilitate or finance terrorism.

The four (4) areas of sound risk management practices are adequate and active board and senior management oversight, acceptable policies and procedures embodied in a money laundering and terrorist financing prevention compliance program, appropriate monitoring and Management Information System and comprehensive internal controls and audit.

Board and senior management oversight. Notwithstanding the provisions specifying the duties and responsibilities of the compliance office and internal audit, it shall be the ultimate responsibility of the board of directors to fully comply with these rules, the AMLA, as amended, the TFPSA and their RIRR. It shall ensure that ML/TF risks are effectively managed and that this forms part of the covered person's enterprise risk management system.

Senior management shall oversee the day-to-day management of the covered person, ensure effective implementation of AML/CFT policies approved by the board and alignment of activities with the strategic objectives, risk profile and corporate values set by the board. Senior management shall establish a management structure that promotes accountability and transparency and upholds checks and balances.

a. *Compliance office.* Management of the implementation of the covered person's Money Laundering and Terrorist Financing Prevention Program (MTPP) shall be a primary task of the compliance office. To ensure the independence of the office, it shall have a direct reporting line to the board of directors or any board-level or approved committee on all matters related to AML and CTF compliance and their risk management. It shall be principally responsible for the following functions among other functions that may be delegated by senior management and the board, to wit:

   (1) Ensure compliance by all responsible officers and employees with this Part, the AMLA, as amended, the RIRR and its own MTPP. It shall conduct periodic compliance checking which covers, among others, evaluation of existing processes, policies and procedures including on-going monitoring of performance by staff and officers involved in ML and TF prevention, reporting channels, effectiveness of the electronic money laundering transaction monitoring system and record retention system through sample testing and review of audit or examination reports. It shall also report compliance findings to the board or any board-level committee;

   (2) Ensure that infractions, discovered either by internally initiated audits, or by special or regular examination conducted by the Bangko Sentral, or other applicable regulators, are immediately corrected;

   (3) Inform all responsible officers and employees of all resolutions, circulars and other issuances by the Bangko Sentral and the AMLC in relation to matters aimed at preventing ML and TF;

(4) Alert senior management, the board of directors, or the board-level or approved committee if it believes that the covered person is failing to appropriately address AML/CFT issues; and

(5) Organize the timing and content of AML training of officers and employees including regular refresher trainings as stated in Sec. 932.

b. *Group-wide Money Laundering and Terrorist Financing Prevention Program (MTPP).* Financial groups shall implement group-wide MTPP, which shall be applied to their branches and majority-owned subsidiaries as provided under Sec. 903 (*Scope of regulations*). The group-wide MTPP shall include the measures set out under this Section (*Money laundering and terrorist financing prevention program (MTPP)*).

The group-wide compliance officer or in his absence, the compliance officer of the parent entity, shall oversee the AML/CFT compliance of the entire group with reasonable authority over the compliance officers of said branches, subsidiaries or offices.

Money Laundering and Terrorist Financing Prevention Program (MTPP). All covered persons shall adopt a comprehensive and risk-based MTPP geared toward the promotion of high ethical and professional standards and prevention of the covered person from being used, intentionally or unintentionally, for ML/TF activities. The MTPP shall include policies, controls and procedures to enable the covered persons to manage and mitigate the risks that have been identified in their risk assessment, including taking enhanced measures for those classified as posing higher risks. The MTPP shall also be consistent with the AMLA, as amended, the TFPSA, their respective RIRR and the provisions set out in this Part. It shall be in writing, approved by the board of directors or by the country/regional head or its equivalent for local branches of foreign banks, and well disseminated to all officers and staff who are obligated by law and by their program to implement the same. Where a covered person has branches, subsidiaries, affiliates or offices located within and/or outside the Philippines, there shall be a consolidated ML/TF risk management system to ensure the coordination and implementation of policies and procedures on a group-wide basis, taking into account local business considerations, the requirements of the host jurisdiction and the level of country risk.

The MTPP shall also be readily available in user-friendly form, whether in hard or soft copy. The covered person must put up a procedure to ensure an audit trail evidencing dissemination process for new and amended policies and procedures. The program shall embody the following at a minimum:

a. Detailed procedures of the covered person's compliance and implementation of the following major requirements of the AMLA, as amended, its RIRR, and this Part, to wit:

(1) Customer identification process including acceptance policies and on-going monitoring processes;

(2) Record keeping and retention;

(3) Covered transaction reporting; and

(4) ST reporting including the adoption of a system, electronic or manual, of flagging, monitoring and reporting of transactions that qualify as suspicious transactions, regardless of amount or that will raise a *"red flag*" for purposes of conducting further verification or investigation, or transactions involving amounts below the threshold to facilitate the process of aggregating them for purposes of future reporting of such transactions to the AMLC when their aggregated amounts breach the threshold. The ST reporting shall include a reporting chain under which a ST will be processed and the designation of a board-level or approved committee who will ultimately decide whether or not the covered person should file a report to the AMLC. If the resources of the covered person do not permit the designation of a committee, it may designate the compliance officer to perform this function instead: *Provided,* That the board of directors is informed of his decision.

b. An effective and continuous AML/CFT training program for all directors, and responsible officers and employees, to enable them to fully comply with their obligations and responsibilities under this Part, the AMLA, as amended, its RIRR and their internal policies and procedures as embodied in the MTPP. The training program shall also include refresher trainings to remind these individuals of their obligations and responsibilities as well as update them of any changes in AML laws, rules and internal policies and procedures.

c. An adequate screening and recruitment process to ensure that only qualified personnel who have no criminal record/s are employed to assume sensitive banking functions;

d. An internal audit system in accordance with this Section;

e. An independent audit program with written scope of audit that will ensure the completeness and accuracy of the information and identification documents obtained from clients, the covered and suspicious transactions reports submitted to the AMLC, and the records retained in compliance with this Part as well as adequacy and effectiveness of the training program on the prevention of money laundering and terrorism financing;

f. A mechanism that ensures all deficiencies noted during the audit and/or Bangko Sentral regular or special examination or other applicable regulator's examination are immediately corrected and acted upon;

g. Cooperation with the AMLC and Bangko Sentral;

h. Designation of an AML compliance officer, who shall at least be at senior officer level, as the lead implementor of the program within an adequately staffed compliance office. The AML compliance officer may also be the liaison between the covered person, the Bangko Sentral and the AMLC in matters relating to the covered person's AML/CFT compliance. Where resources of the covered person do not permit the hiring of an AML compliance officer, the compliance officer shall also assume the responsibility of the former; and

i. Policies and procedures for sharing information required for the purposes of customer due diligence (CDD) and risk management;

j. A provision that the group-level compliance, audit, and/or AML/CFT functions should be provided with customer, account, and transaction information from branches and subsidiaries when necessary for AML/CFT purposes. This should include information on analysis of transactions or activities which appear unusual, if such analysis was done. Similarly, branches and subsidiaries should receive such information from these group-level functions when relevant and appropriate to risk management. The MTPP may require a potential and/or existing customer to sign a waiver on the disclosure of information within the group;

k. Adequate safeguards on the confidentiality and use of information exchanged, including safeguards to prevent tipping-off;

l. A mechanism to comply with freeze, bank inquiry and asset preservation orders, and all directives of the AMLC; and

m. A mechanism to comply with the prohibitions from conducting transactions with designated persons and entities, as set out in the relevant United Nations Security Council Resolutions (UNSCRs) relating to the prevention and suppression of terrorism and terrorist financing and financing of proliferation of weapons of mass destruction.

Submission of the revised and updated MTPP. Approval by the board of directors or country head. Within six (6) months from 05 April 2017, all covered persons shall prepare and have available for inspection an updated MTPP, approved by the board of directors, embodying the principles and provisions stated in this Part.

Henceforth, each MTPP shall be regularly updated at least once every two (2) years to incorporate changes in AML policies and procedures, latest trends in ML and TF typologies, and latest pertinent Bangko Sentral issuances. Any revision or update in the MTPP shall likewise be approved by board of directors or the country/regional head or its equivalent for local branches of foreign banks.

Monitoring and reporting tools. All covered persons shall adopt an AML/CFT monitoring system that is appropriate for their risk profile and business complexity and in accordance with this Part. The system should be capable of generating timely, accurate and complete reports to lessen the likelihood of any reputational and compliance risks, and to regularly apprise the board of directors and senior management on AML/CFT compliance.

a. *Electronic monitoring and reporting systems for AML/CFT*. UBs and KBs and such covered persons that are considered complex pursuant to Sec. 131 (*Definition of terms*) shall adopt an electronic AML system capable of monitoring risks associated with ML/TF as well as generating timely reports for the guidance and information of its board of directors and senior management, in addition to the functionalities mentioned in Sec. 922 (*Electronic monitoring systems for AML/CFT*).

b. *Manual monitoring.* Covered persons not required to adopt an AML/CFT electronic system must ensure that they have the means of complying with this Section.

Internal audit. The internal audit function associated with money laundering and terrorist financing should be conducted by qualified personnel who are independent of the office being audited. It must have the support of the board of directors and senior management and have a direct reporting line to the board or a board-level audit committee.

The internal audit shall, in addition to those specified by this Part, be responsible for the periodic and independent evaluation of the risk management, degree of adherence to internal control mechanisms related to the customer identification process, such as the determination of the existence of customers and the completeness of the minimum information and/or documents establishing the true and full identity of, and the extent and standard of due diligence applied to, customers, CT and ST reporting and record keeping and retention, as well as the adequacy and effectiveness of other existing internal controls associated with money laundering and terrorist financing.

For covered persons with electronic AML/CFT transaction monitoring system, in addition to the above, the internal audit shall include determination of the efficiency of the system's functionalities as required by this Section and Sec. 922 (*Electronic monitoring systems for AML/CFT*).

The results of the internal audit shall be timely communicated to the board of directors and shall be open for scrutiny by Bangko Sentral examiners in the course of the regular or special examination without prejudice to the conduct of its own evaluation whenever necessary. Results of the audit shall likewise be promptly communicated to the Compliance Office for appropriate monitoring of corrective actions taken by the different business units concerned. The Compliance Office shall regularly submit reports to the board to inform them of management's action to address deficiencies noted in the audit.

Risk assessment. Consistent with risk-based approach, covered persons are required to identify, understand and assess their ML/TF risks, arising from customers, countries or geographic areas of operations and customers, products, services, transactions or delivery channels. The assessment methodology shall be appropriate to the nature of operations and complexity of the business of the covered person. The institutional risk assessment shall (a) consider all relevant risk factors, including the results of national and sectoral risk assessments; (b) adequately document results and findings; and (c) be updated periodically or as necessary. The institutional risk assessment shall be conducted, at least once every two (2) years, or as often as the Board or senior management may direct, depending on the level of risks identified in the previous risk assessment, or other relevant AML/CFT developments that may have an impact on the covered person's operations.

Based on the risk assessment, the covered person shall take appropriate measures to manage and mitigate ML/TF risks and take enhanced measures on identified high risks areas, which should be incorporated in its MTPP. The risk assessment shall be made available to the Bangko Sentral during examination or in other circumstances deemed necessary as part of continuous supervision.

New products and business practices risk assessment. Covered persons are also required to identify and assess the ML/TF risks that may arise in relation to the development of new products and new business practices, including new delivery mechanisms, and the use of new or developing technologies for both new and pre-existing products. Such risk assessment should be an integral part of product or service development process and should take place prior to the launch of the new products, business practices or the use of new or developing technologies. Covered persons should take appropriate measures to manage and mitigate the identified risks.

(Circular Nos. 1022 dated 26 November 2018 and 950 dated 15 March 2017)

B. PREVENTIVE MEASURES

921 CUSTOMER DUE DILIGENCE

a. In conducting customer due diligence, a risk-based approach shall be undertaken depending on the type of customer, business relationship or nature of the product, transaction or activity. In this regard, a covered person shall maintain a system that will ensure the conduct of customer due diligence which shall include:

(1) Identifying the customer and verifying the true identity of the customer based on official documents or other reliable, independent source documents, data or information. In case of corporate and juridical entities, verifying their legal existence and organizational structure, as well as the authority and identification of all persons purporting to act on their behalf;

(2) Identifying the beneficial owner and taking reasonable measures to verify the identity of the beneficial owner based on official documents, or using relevant information or data obtained from reliable sources, such that the covered person is satisfied that it knows who is the beneficial owner. The covered person should have a system to understand the nature of the customer's business and its ownership and control structure, in case of juridical persons or legal arrangements;

Where the customer, or the owner of the controlling interest is a company listed in a stock exchange and subject to disclosure requirements (either by stock exchange rules or through law or enforceable means) to ensure adequate transparency of beneficial ownership, or is a majority-owned subsidiary of such a company, the covered person is not required to verify the identity of any shareholder or beneficial owner of such companies. The relevant identification data may be obtained from a public register, from the customer or from other reliable sources.

The covered person shall keep records of the actions taken in order to identify the beneficial owner.

(3) Understanding and, as appropriate, obtaining information on the purpose and intended nature of the business relationship; and

(4) Conducting ongoing due diligence on the business relationship and scrutiny of transactions undertaken throughout the course of the relationship to ensure that the transactions being conducted are consistent with the covered person's knowledge of the customer, their business and risk profile, including, where necessary, the source of funds.

Where a covered person is unable to comply with the relevant CDD measures, it shall (a) refuse to open an account, commence business relations or terminate the business relationship or refuse to perform the transaction; and (b) consider filing a suspicious transaction report (STR) in relation to the customer.

In cases where a covered person forms a suspicion of ML/TF and associated unlawful activities, and reasonably believes that performing the CDD process will tip-off the customer, the covered person need not pursue the CDD process, but should file an STR, closely monitor the account, and review the business relationship.

b. A covered person shall be required to undertake customer due diligence when:

(1) It establishes business relations with any customer;
(2) It undertakes any occasional but relevant business transaction for any customer who has not otherwise established relations with the covered person;
(3) There is a suspicion of ML or TF; or
(4) There is doubt about the veracity or adequacy of previously obtained customer identification data.

c. *"Business relations"* means the opening or maintenance of an account or the provision of financial advice by the covered person to a customer.

d. *"Relevant business transaction"* shall refer to:

(1) A transaction with a value exceeding P100,000, except money changing or remittance transactions;
(2) Two (2) or more transactions believed to be linked and with an aggregate value exceeding P100,000; or
(3) In relation to remittance and money changing transactions, any transaction or two (2) or more transactions believed to be linked, with an aggregate value exceeding P5,000.00.

For this purpose, covered persons should have appropriate system to identify and determine occasional customer or transaction.

e. *For existing customers.* Covered persons shall apply CDD requirements to existing customers on the basis of materiality and risk, and conduct due diligence on existing relationships at appropriate times, taking into account CDD measures previously undertaken as well as the adequacy of information and documents obtained.

Customer acceptance and identification policy. Every covered person shall develop clear, written and graduated customer acceptance and identification policies and procedures, which shall include sanctions screening. Covered persons shall ensure that the financially or socially disadvantaged are not denied access to financial services while at the same time prevent suspicious individuals or entities from opening an account or establishing a relationship. A covered person shall formulate a risk-based and tiered customer acceptance, identification and retention policy that involves reduced CDD for potentially low risk clients and enhanced CDD for higher risk accounts.

a. *Criteria for type of customers: low, normal and high risk; Standards for applying reduced, average and enhanced due diligence.* Covered persons shall specify the criteria and description of the types of customers that are likely to pose low, normal or high ML/TF risk to their operations, as well as the standards in applying reduced, average and enhanced due diligence, including a set of conditions for the denial of account opening or services.

Enhanced due diligence shall be applied to customers that are assessed by the covered person or under this Part as high risk for ML/TF. For customers assessed to be of low risk such as small account balance and transactions, a covered person may apply reduced due diligence. Some entities may likewise be considered as low risk clients, e.g., banking institutions, trust entities and QBs authorized by the Bangko Sentral to operate as such and publicly listed companies subject to regulatory disclosure requirements.

In designing a customer acceptance and risk profiling policy, the following criteria relating to the product or service, the customer, and geographical location, at a minimum, shall be taken into account:

(1) The nature of the service or product to be availed of by the customers and the purpose of the account or transaction;

(2) Source of funds, source of wealth/nature of business, employment;

(3) Public or high profile position of the customer or its directors/trustees, stockholders, officers and/or authorized signatory;

(4) Country of origin and residence of operations or the fact that a customer came from a high risk jurisdiction;

(5) The existence of ST indicators;

(6) Watchlist of individuals and entities engaged in illegal activities or terrorist-related activities as circularized by the Bangko Sentral, AMLC, and other international entities or organizations, such as the Office of Foreign Assets Control (OFAC) of the U.S. Department of the Treasury and United Nations Security Council; and

(7) Such other factors, e.g., the amount of funds to be deposited by a customer or the size of transactions, and regularity or duration of the transaction, as the covered person may deem reasonable or necessary to consider in assessing the risk of a customer to ML/TF.

In assessing the risk profile of customers which are juridical entities, the covered person should also consider the financial profile and other relevant information of the active authorized signatories.

The covered person shall document the risk profiling results as well as how a specific customer was profiled and what standard of CDD (reduced average or enhanced) was applied.

b. *Enhanced due diligence (EDD).* Whenever EDD is applied as required by this Part, or by the covered person's customer acceptance policy, or where the risk of ML/TF are higher, the covered person shall do all of the following, in addition to profiling of customers and monitoring of their transactions:

(1) Gather additional customer information and/or identification documents, other than the minimum information and/or documents required for the conduct of average due diligence as enumerated in this Section and Sec. 924.

(a) In case of individual customers:

(i) supporting information on the intended nature of the business relationship/source of funds/ source of wealth (such as financial profile, ITR, Loan Application, Deed of Donation, Deed of Sale, etc.);
(ii) reasons for intended or performed transactions;
(iii) list of companies where he is a stockholder, director, officer, or authorized signatory;
(iv) other relevant information available through public databases or internet; and
(v) a list of banks where the individual has maintained or is maintaining an account.

(b) In case of entities:

(i) prior or existing bank references;

(ii) the name, present address, nationality, date of birth, nature of work, contact number and source of funds of each of the primary officers (e.g., President, Treasurer);

(iii) volume of assets, other information available through public databases or internet and supporting information on the intended nature of the business relationship, source of funds or source of wealth of the customer (ITR, Audited Financial Statement, Loan Application, Deed of Donation, Deed of Sale, etc.); and

(iv) reasons for intended or performed transactions.

(2) Conduct validation procedures in accordance with this Section on any or all of the information provided;

(3) Secure senior management approval to commence or continue business relationship/transacting with the customer;

(4) Conduct enhanced ongoing monitoring of the business relationship, by, among others, increasing the number and timing of controls applied, and selecting patterns of transactions that need further examination;

(5) Require the first payment to be carried out through an account in the customer's name with a bank subject to similar CDD standards, where applicable; and

(6) Perform such other measures as the covered person may deem reasonable or necessary.

Where additional information cannot be obtained, or any information or document provided is false or falsified, or result of the validation process is unsatisfactory, the covered person shall deny banking relationship with the customer without prejudice to the reporting of a suspicious transaction to the AMLC when circumstances warrant.

c. *Minimum validation procedures for EDD.* The procedures performed must enable the covered person to achieve a reasonable confidence and assurance that the information obtained are true and reliable.

Validation procedures for individual customers shall include, but are not limited to, the following:

(1) Confirming the date of birth from a duly authenticated official document;
(2) Verifying the address through evaluation of utility bills, bank or credit card statement, sending thank you letters, or other documents showing address or through on-site visitation;
(3) Contacting the customer by phone or e-mail;
(4) Determining the authenticity of the identification documents through validation of its issuance by requesting a certification from the issuing authority or by any other effective and reliable means; or
(5) Determining the veracity of the declared source of funds.

For corporate or juridical entities, verification procedures shall include, but are not limited to, the following:

(1) Validating source of funds or source of wealth from reliable documents such as audited financial statements, ITR, bank references, etc.;
(2) Inquiring from the supervising authority the status of the entity;
(3) Verifying the address through on-site visitation of the company, sending thank you letters, or other documents showing address; or
(4) Contacting the entity by phone or e-mail.

d. *Reduced due diligence.* Where lower risks of ML/TF have been identified, through an adequate analysis of risk by the covered person and based on the results of the institutional risk assessment, reduced due diligence procedures may be applied commensurate with the lower risk factors. The reduced due diligence procedures shall not be applied in cases of suspicion of higher ML/TF risk scenarios.

Whenever reduced due diligence is applied as provided in this Part or in the covered person's customer acceptance policy, the following rules shall apply:

(1) For individual customers, a covered person may open an account/establish relationship under the true and full name of the account owner/s or customers upon presentation of an acceptable identification card (ID) or official document as defined in this Part or other reliable, independent source documents, data or information: *Provided*, That, for accounts used purely for digital or electronic payments, the covered person may define appropriate reduced due diligence procedures provided that ML/TF risks are effectively managed.

(2) For corporate, partnership, and sole proprietorship entities, a covered person may open an account under the official name of these entities by presenting a Board Resolution duly certified by the Corporate Secretary, or equivalent document, authorizing the signatory to sign on behalf of the entity, obtained at the time of account opening.

Verification of the identity of the customer, beneficial owner or authorized signatory can be made after the establishment of the business relationship.

e. *Restricted account*. To promote financial inclusion and to ensure that the micro-business owners and the low-income households are able to manage their finances through the financial system, customers who may not be able to provide any of the required information or valid reasons or any valid identification document under this Section on Customer identification may be allowed to open a restricted account with a covered person, provided:

(1) the aggregate credits in a year shall not exceed P100,000; and
(2) the account shall not be allowed to receive/send foreign remittances.

In lieu of a valid ID, the covered person shall obtain the customer's complete name, birth date, address and nationality and ensure that it has in its records a clear photograph and signature or biometric of the customer.

The account opening shall be subject to the condition that the customer shall obtain a valid ID within twelve (12) months; otherwise the account shall be closed and the remaining balance therein shall be returned to the customer. An extension of another twelve (12) months may be allowed: *Provided*, That the customer is able to show to the covered person a proof of application for a valid ID.

The covered person shall ensure that the above conditions are not breached; otherwise complete information and valid ID shall immediately be required or the account shall be closed accordingly.

Customer identification. Covered persons shall establish and verify the true identity of their customers based on official document as defined in this Part or other reliable, independent source documents, data or information.

a. Minimum information/documents required:

(1) *New individual customers.* Covered persons shall develop a systematic procedure for establishing the true and full identity of new individual customers, and shall open and maintain the account/relationship only in the true and full name of the account/relationship owner/s.

Unless otherwise stated in this Part, average CDD requires that the covered person obtain from individual customers, at the time of account opening/establishing the relationship, the following minimum information and confirming these information with the official or valid identification documents:

(a) name of customer and/or PhilSys Number (when available);
(b) date and place of birth;
(c) address;
(d) contact number or information;
(e) citizenship or nationality;
(f) specimen signature or biometric of the customer; and
(g) name, address, date and place of birth, contact number or information and citizenship or nationality of beneficiary or beneficial owner, whenever applicable;

(2) *New juridical persons.* A covered person shall develop a systematic procedure for identifying corporate, partnership and sole proprietorship entities, as well as their stockholders/partners/owners, directors, officers and authorized signatories. It shall open and maintain accounts only in the true and full name of the entity and shall have primary responsibility to ensure that the entity has not been, or is not in the process of being dissolved, struck-off, wound-up, terminated, or otherwise placed under receivership or liquidation.

Unless otherwise stated in this Part, average due diligence requires that the covered person obtain the following minimum information and/or documents before establishing business relationships:

(a) Customer information

(i) Name of juridical person;
(ii) Name, address, citizenship or nationality of beneficial owner, if applicable, and authorized signatories;
(iii) Official address;
(iv) Contact numbers or information;
(v) Nature of business; and
(vi) Specimen signatures or biometrics of the authorized signatory.

(b) Identification documents

(i) Certificates of Registration issued by the Department of Trade and Industry (DTI) for single proprietors, or by the Securities and Exchange Commission (SEC) for corporations and partnerships, and by the Bangko Sentral for money changers/foreign exchange dealers and remittance agents and transfer companies;

(ii) Secondary license or certificate of authority issued by the supervising authority or other government agency;

(iii) Articles of incorporation/partnership;

(iv) Latest General Information Sheet;

(v) Board or Partners' resolution duly certified by the corporate/partners' secretary, or other equivalent document, authorizing the signatory to sign on behalf of the entity; and

(vi) For entities registered outside of the Philippines, similar documents and/or information shall be obtained, duly authenticated by a senior officer or the designated officer of the covered person assigned in the country of registration; in the absence of said officer, the documents should be authenticated by the Philippine Consulate, company register or notary public, where said entities are registered.

(3) For legal arrangement (e.g., Trust). the following must be obtained:

(a) Name of legal arrangement and proof of existence;
(b) Address and country of establishment;
(c) Nature, purpose and objects of the legal arrangement;

(d) The names of the settlor, the trustee, the trustor, the protector, if any, the beneficiary and any other natural person exercising ultimate effective control over the legal arrangement;
(e) Description of the purpose/activities of the legal arrangement;
(f) Expected use of the account; and
(g) Amount, number, type, purpose and frequency of the transaction expected.

In addition, the following rules shall apply for trustees:

(a) *trustees of any express trust* shall obtain and hold adequate, accurate, and current information on the identity of the trustor/settlor/grantor, the trustee, the beneficiary or class of beneficiaries, and any other natural person exercising ultimate effective control over the trust.

Covered persons shall likewise obtain sufficient information, such as the full name, place and date of birth or date of registration of the beneficiary/ies of these trusts, or of similar legal arrangements. This is to ensure that covered persons will be able to identify and verify the identity of the beneficiary at the time of the payout or at the time of the exercise by the beneficiary of its vested rights.

(b) *trustees of any trust* shall hold basic information on other regulated agents of, and service providers to, the trust, including investment advisors or managers, accountants, and tax advisors;

(c) trustees shall disclose their status when forming a business or professional relationship, or in carrying out an occasional transaction above the threshold under "*d*" of Sec. 921 (*Customer due diligence*); and

(d) trustees shall make available to competent authorities, to the extent allowed by law, information on the beneficial ownership and the assets of the trust to be held or managed under the terms of the business or professional relationship.

(4) *Identification and Verification of Agents and Authorized Representatives*. Covered persons shall verify that any person purporting to act on behalf of a customer is so authorized and shall identify and verify the identity of that person.

For this purpose, the covered person shall obtain the name, address and citizenship or nationality of agents and authorized representatives.

b. Customer verification process. Covered persons shall verify the identity of the customer before or during the course of establishing a business relationship, or conducting transactions for occasional customers. They may complete the verification process after the establishment of the business relationship: *Provided*, That:

(1) this occurs as soon as reasonably practicable;
(2) this is essential not to interrupt the normal conduct of business; and
(3) the ML/TF risks are effectively managed, taking into consideration risk and materiality.

c. Valid identification documents.

(1) Customers and the authorized signatory/ies of a corporate or juridical entity who engage in a financial transaction with covered person for the first time shall be required to present official identification document which shall include any of the official documents as defined in this Part or other identification information which can be verified from reliable, independent source, documents, data or information, such as third-party verified customer information database.

(2) A covered person may classify identification documents based on its reliability and ability to validate the information indicated in the identification document with that provided by the customer. Whenever it deems necessary, a covered person may accept other IDs not provided herein: *Provided,* That it shall not be the sole means of identification.

In case the identification document presented does not bear any photo of the customer or authorized signatory, or the photo-bearing ID or a copy thereof does not clearly show the face of the customer or authorized signatory, a covered person may utilize its own technology to take the photo of the customer or authorized signatory.

Relief in case of calamity. In case of a disastrous calamity and subject to a declaration by the Bangko Sentral on the applicability of this relief, any requirement for the presentation of valid ID shall be relaxed, subject to the following conditions:

(a) The amount of transactions shall not exceed P50,000.00 per day;

(b) The customer is either a permanent or temporary resident or who conducts business in a severely affected area which has been declared to be under a state of calamity by a competent authority;

(c) The customer shall submit a written certification, which need not be notarized, that he/she is a victim of the subject disastrous calamity and has lost his/her valid IDs; and

(d) The customer's account activities shall be subject to strict monitoring by the covered person to identify potential abuse of the relaxed requirement and any STs shall be reported to the AMLC within the prescribed period.

In customer identification process, covered persons shall implement appropriate systems of data collection and recording, such as: (1) photocopying/scanning of identification document presented; (2) using Information and Communication Technology (ICT) to capture and record the biometric and other personal information of customers; and/or (3) manual recording of identification information.

d. *Face-to-Face contact.* Covered persons shall conduct face-to-face contact and/or personal interview at the commencement of the relationship. Face-to-face contact may likewise be conducted as soon as reasonably practicable so as not to interrupt the normal conduct of business, taking into account the nature of the product, type of business and the risks involved: *Provided,* That, there are policies and procedures to address any specific risk associated with the same including a clear definition of instances when it will be allowed.

The use of ICT in the conduct of face-to-face contact and/or interview may be allowed: *Provided,* That the covered person has measures in place to mitigate the ML/TF risks and that the entire procedure is documented.

e. *Outsourcing of the customer identification and verification procedures. Subject* to existing rules on outsourcing of specified banking activities, a covered person may, without prior Monetary Board approval, outsource to a counterparty, which may or may not be a covered person as herein defined, the customer identification and verification procedures under Items "*a*", "*b*" and "*d*" above: *Provided*, That the ultimate responsibility for knowing the customer, keeping the identification documents, and managing attendant risks shall rest with the covered person and the following conditions are complied with.

For covered person counterparty:

(1) There is a written service level agreement approved by the board of directors or senior management of the covered persons and its counterparty;
(2) The counterparty has a reliable and acceptable customer identification system and training program in place.

For non-covered person counterparty:

(1) All conditions required for covered person counterparty;

(2) The covered person outsourcing the activity shall ensure that the employees or representatives of the counterparty gathering the required information/documents of, and/ or conducting face-to-face contact with, the customer undergo equivalent training program as that of the covered person's own employees undertaking a similar activity; and

(3) The covered person shall monitor and conduct annual review of the performance of the counterparty to determine whether or not to continue with the arrangement.

All identification information and/or documents shall be turned over within a period not exceeding ninety (90) calendar days to the covered person, which shall carefully review the documents or information and conduct the necessary risk assessment of the customer. The covered person may, however, include in the coverage of the outsourcing agreement the safekeeping of the documents gathered subject to the condition that customer identification documents shall be made available to the covered person or to the competent authorities within three (3) banking days from the date of request.

f. *Third party reliance.* A covered person may rely on third parties to perform the CDD procedures under Item "*(a) 1 to 3*" of Sec. 921 (*Customer due diligence*) subject to the following rules:

(1) *Where the third party is a covered person specifically defined by this Part and as generally defined by AMLA, as amended, and its RIRR* - The covered person shall obtain from the third party a written sworn certification containing the following:

(a) The third party has conducted the prescribed customer identification procedures in accordance with this Part and its own MTPP, including the face-to-face contact requirement, to establish the existence of the ultimate customer and has in its custody all the minimum information and/or documents required to be obtained from the customer; and

(b) The relying covered person shall have the ability to obtain identification documents from the third party upon request without delay.

(2) *Where the third party is a financial institution operating outside the Philippines that is other than covered persons referred to in Item "1" above but conducts business operations and activities similar to them.* All the contents required in the sworn certification mentioned in Item "*1*" above shall apply, with the additional requirement that the laws of the country where the third party is operating has equal or more stringent customer identification process requirement and that it has not been cited in violation thereof.

When determining in which countries the third party that meets the requirements above can be based, covered persons should consider available information on the level of country risk.

(3) For both Items "*(1)*" and "*(2)*" above, it shall, in addition to performing normal due diligence measures, do the following:

(a) Gather sufficient information about the third party and the group to which it belongs to understand fully the nature of its business and determine from publicly available information the reputation of the institution and the quality of supervision, including whether or not it has been subject to ML or TF investigation or regulatory action. Satisfy itself that the third party is regulated, and supervised or monitored for, and has measures in place for compliance with CDD and record-keeping requirements;

(b) Document the respective responsibilities of each institution; and

(c) Obtain approval from senior management at inception of relationship before relying on the third party.

(4) Covered persons may rely on a third party that is part of the same financial group under the following circumstances:

(a) the group applies CDD, record-keeping and MTPP requirements;
(b) the implementation of CDD and record-keeping requirements, and the MTPP is supervised at a group level by a competent authority, such as a Group Compliance Officer; and
(c) any higher country risk is adequately mitigated by the group's AML/CFT policies.

A Bangko Sentral-accredited custodian may likewise rely, in accordance with this Part, on the face-to-face contact and gathering of minimum information performed by the seller or issuer of securities or by the global custodian to establish the existence and full identity of the customer: *Provided,* That the said third party has an equivalent customer identification requirement.

Notwithstanding the foregoing, the ultimate responsibility for identifying the customer still lies with the covered person relying on the third party.

In cases where the customer is assessed as high risk by the third party, the covered person shall conduct its separate enhanced due diligence procedure.

g. *Trustee, nominee, agent or intermediary account.* Where (1) an account is opened by; (2) relationship is established through; or (3) any transaction is conducted by, a trustee, nominee, agent or intermediary, either as an individual or through a fiduciary relationship or similar arrangements, the covered person shall establish and record the true and full identity and existence of both the (1) trustee, nominee, agent or intermediary; and (2) trustor, principal, beneficial owner or person on whose behalf the account/relationship/transaction is being opened/established/conducted. The covered person shall determine the true nature of the parties' capacities and duties by obtaining a copy of the written document evidencing their relationship and apply the same standards for assessing the risk profile and determining the standard of due diligence to be applied to both.

In case of several trustors, principals, beneficial owners, or persons on whose behalf the account is being opened/ relationship is being established, where the trustee, nominee, agent or intermediary opens a single account but keeps therein sub-accounts that may be attributable to each trustor, principal, or beneficial owner, the covered person shall, at the minimum, obtain the true and full name, place and date of birth or date of registration, as the case may be, present address, nature of work or business and source of funds as if the account was opened by them separately. Where the covered person is required to report a CT or circumstances warrant the filing of an ST, it shall obtain such information on every trustor, principal, beneficial owner, or person on whose behalf the account is being opened in order that a complete and accurate report may be filed with the AMLC.

In case a covered person entertains doubts as to whether the trustee, nominee, agent, or intermediary is being used as a dummy in circumvention of existing laws, it shall apply enhanced due diligence in accordance with this Section on *Customer acceptance and identification policy* and file an ST report, if warranted.

h. *Prohibited accounts.* A covered person shall maintain accounts only in the true and full name of the account owner. The provisions of existing law to the contrary notwithstanding, anonymous accounts, accounts under fictitious names, numbered checking accounts and all other similar accounts shall be absolutely prohibited.

On-going monitoring of customers, accounts and transactions.

a. Covered persons shall, on the basis of materiality and risk, ensure that pertinent identification information and documents collected under the CDD process are kept up-to-date and relevant, by undertaking reviews of existing records, particularly for higher risk categories of customers. The covered person shall document the actions taken in connection with updating of customer's records/information, and accordingly update customer's risk profile.

Covered persons shall establish a system that will enable them to understand the normal and reasonable account or business activity of customers to ensure that the customers' accounts and transactions are consistent with their knowledge of the customers, and the latter's commercial activities, risk profile, and source of funds and detect unusual or suspicious patterns of account activity. Thus, a risk-and-materiality-based on-going monitoring of customer's accounts and transactions, including periodic sanction screening, should be part of a covered person's customer due diligence.

b. Enhanced due diligence. Covered persons shall examine the background and purpose of all complex, unusually large transactions, all unusual patterns of transactions, which have no apparent economic or lawful purpose, and other transactions that may be considered suspicious. Covered persons shall apply enhanced due diligence on the customer in accordance with this Section on *Customer acceptance and identification policy* if they acquire information in the course of customer account or transaction monitoring that:

(1) Raises doubt as to the accuracy of any information or document provided or the ownership of the entity;
(2) Justifies reclassification of the customer from low or normal risk to high risk pursuant to this Part or by their own criteria; or
(3) Indicates that any of the circumstances for the filing of an ST report exists such as, but not limited to, the following:

(a) Transacting without any underlying legal or trade obligation, purpose or economic justification;
(b) Transacting an amount that is not commensurate with the business or financial capacity of the customer or deviates from his profile;
(c) Structuring of transactions in order to avoid being the subject of covered transaction reporting; or
(d) Knowing that a customer was or is engaged in any unlawful activity as herein defined.

If the covered person:

(1) fails to satisfactorily complete the enhanced due diligence procedures; or
(2) reasonably believes that performing the enhanced due diligence process will tip-off the customer,

it shall file a ST report, and closely monitor the account and review the business relationship.

Non-discrimination against certain types of customers. The provisions of this Part shall not be construed or implemented in a manner that will discriminate against certain customer types, such as PEPs, as well as their relatives, or against a certain religion, race or ethnic origin, or such other attributes or profiles when used as the only basis to deny these persons access to the covered person's services. In this regard, covered persons shall have appropriate policies and procedures to ensure non-discrimination against certain customer types when implementing AML/CFT regulations. Covered persons who will commit said discriminatory act shall be subject to appropriate sanctions provided under existing laws and regulations.

(Circular Nos. 1022 dated 26 November 2018 and 950 dated 15 March 2017)

922 COVERED AND SUSPICIOUS TRANSACTION REPORTING

Covered persons shall report to the AMLC all covered and STs within five (5) working days, unless the AMLC prescribes a different period not exceeding fifteen (15) working days, from the occurrence thereof.

For STs, *"occurrence"* refers to the date of determination of the suspicious nature of the transaction, which determination should be made not exceeding ten (10) calendar days from the date of transaction. However, if the transaction is in any way related to, or the person transacting is involved in or connected to, an unlawful activity or money laundering offense, the 10-day period for determination shall be reckoned from the date the covered person knew or should have known the suspicious transaction indicator.

Should a transaction be determined to be both a covered and suspicious transaction, the covered person shall be required to report the same as an ST.

Covered persons shall ensure the accuracy and completeness of covered and ST report, which shall be filed in the forms prescribed by the AMLC and submitted in a secured manner to the AMLC in electronic form.

Deferred reporting of certain covered transactions. Covered persons shall refer to the issuances of the AMLC from time to time on transactions that are considered as "non-cash, no/low risk covered transactions", hence subject to deferred reporting.

The Bangko Sentral may consider other transactions as "no/low risk covered transactions" and propose to the AMLC that they be likewise subject to deferred reporting by covered persons.

Electronic monitoring systems for AML/CFT. Covered persons required under Sec. 911 (*Monitoring and reporting tools*) to have an electronic monitoring system for AML/CFT should ensure that the system, at a minimum, shall detect and raise to the covered person's attention, transaction and/or accounts that qualify either as CT or ST as herein defined. The covered person shall endeavor to interface the electronic monitoring system with the systems of its branches, subsidiaries and affiliates, if any, for group-wide AML/CFT monitoring.

The system must have at least the following automated functionalities:

a. Covered and suspicious transaction monitoring – performs statistical analysis, profiling and able to detect unusual patterns of account activity;
b. Watch list monitoring – checks transfer parties (originator, beneficiary, and narrative fields) and the existing customer database for any listed undesirable individual or corporation;
c. Investigation – checks for given names throughout the history of payment stored in the system;
d. Can generate all the CTRs of the covered person accurately and completely with all the mandatory field properly filled up;
e. Must provide a complete audit trail;
f. Capable of aggregating activities of a customer with multiple accounts on a consolidated basis for monitoring and reporting purposes; and
g. Has the capability to record all STs and support the investigation of alerts generated by the system and brought to the attention of senior management whether or not a report was filed with the AMLC.

Covered persons with existing electronic system of flagging and monitoring transactions already in place shall ensure that their existing system is updated to be fully compliant with functionalities as those required herein.

Manual monitoring. Covered persons which are not required, under this Part, to have an electronic system of flagging and monitoring transactions shall ensure that they have the means of flagging and monitoring the transactions mentioned in this Section on Electronic monitoring systems for AML/CFT. They shall maintain a register of all STs that have been brought to the attention of senior management whether or not the same was reported to the AMLC.

Electronic submission of reports. The CTR and STR shall be submitted to the AMLC in a secured manner, in electronic form and in accordance with the reporting procedures prescribed by the AMLC. The covered persons shall provide complete and accurate information of all the mandatory fields required in the report. In order to provide accurate information, the covered person shall regularly update customer identification information at least once every three (3) years.

For the purpose of reporting in a secured manner, all covered persons shall register with the AMLC within ninety (90) days from 27 January 2011 by directly coordinating with that office for the proper assignment of their institution code and facilitation of the reporting process. All covered institutions that have previously registered need not re-register.

Only their respective compliance officers shall electronically sign their CTRs and STRs.

Electronic copies of CTRs and STRs shall be preserved and safely stored for at least five (5) years from the dates the same were reported to the AMLC.

Exemption from bank secrecy laws. When reporting covered or suspicious transactions to the AMLC, covered persons and their officers and employees shall not be deemed to have violated R.A. No. 1405, as amended, R.A. No. 6426, as amended, R.A. No. 8791 and other similar laws, but are prohibited from communicating, directly or indirectly, in any manner or by any means, to any person, the fact that a covered or suspicious transaction report was made, the contents thereof, or any other information in relation thereto. In case of violation thereof, the concerned officer and employee of the covered person shall be criminally liable in accordance with the provision of the AMLA, as amended.

Confidentiality provision. When reporting CTs and STs to the AMLC, covered persons, their directors, officers and employees, are prohibited from communicating, directly or indirectly, in any manner or by any means, to any person or entity, or the media, the fact that a covered or suspicious transaction report was made, the contents thereof, or any other

information in relation thereto. Any information about such reporting shall not be published or aired, in any manner or form, by the mass media, or through electronic mail, or other similar devices. In case of violation thereof, the concerned director, officer and employee of the covered person shall be criminally liable.

Safe harbor provision. No administrative, criminal or civil proceedings shall lie against any person for having made a CTR or an STR in the regular performance of his duties in good faith, whether or not such reporting results in any criminal prosecution under the AMLA, as amended, its RIRR or any other law.

(Circular No. 950 dated 15 March 2017)

923 ADDITIONAL PREVENTIVE MEASURES FOR SPECIFIC CUSTOMERS AND ACTIVITIES

Private banking/wealth management operations. These services, which by their nature involve high measure of client confidentiality, are more open to the elements of reputational risk especially if the customer identification process is not diligently followed. Covered persons shall therefore establish and record the true and full identify and take reasonable measures to establish the source of wealth and source of funds, of the customer and beneficial owners, if any, and establish a policy on what standard of due diligence will apply to them. They shall also require approval by a senior officer other than the private banking/wealth management/similar activity relationship officer or the like for acceptance of customers of private banking, wealth management and similar activities.

PEP. Covered persons shall establish and record the true and full identity of PEPs, as well as their immediate family members and entities related to them.

a. In case of domestic PEPs or persons who have been entrusted with a prominent function by an international organization, or their immediate family members or close associates, in addition to performing the applicable due diligence measures, covered persons shall:

   (1) Take reasonable measures to determine whether a customer or the beneficial owner is a PEP; and
   (2) In cases when there is a higher risk business relationship, adopt measures under paragraphs "*b(2)*" to "*b(4)*" below.

b. In relation to foreign PEPs or their immediate family members or close associates, in addition to performing the applicable customer due diligence measures, covered persons shall:

   (1) Put in place risk management systems to determine whether a customer or the beneficial owner is a PEP;
   (2) Obtain senior management approval before establishing (or continuing, for existing customers) such business relationship;
   (3) Take reasonable measures to establish the source of wealth and the source of funds of customers and beneficial owners identified as PEPs; and
   (4) Conduct enhanced ongoing monitoring on that relationship.

Correspondent banking. Covered persons shall adopt policies and procedures to prevent correspondent banking activities from being utilized for ML/TF activities, and designate an officer responsible in ensuring compliance with these regulations and the covered person's policies and procedures.

A covered person may rely on the customer identification process undertaken by the respondent bank and apply the rules on third party reliance under Sec. 921 (*Customer identification*), treating the respondent bank as the third party. The correspondent bank shall:

a. In relation to cross border correspondent banking and other similar relationship:

   (1) Gather sufficient information about the respondent institution to understand fully the nature of the respondent's business, and to determine from publicly available information the reputation of the institution and the quality of supervision, including whether it has been subject to ML/TF investigation or regulatory action;

   (2) Assess the respondent institution's AML/CFT controls;

   (3) Obtain approval from senior management before establishing new correspondent relationships; and

   (4) Clearly understand and document the respective AML/CFT responsibilities of each institution.

b. With respect to *"payable-through accounts,"* satisfy themselves that the respondent bank:

   (1) Has performed customer due diligence obligations on its customers that have direct access to the accounts of the correspondent bank; and
   (2) Is able to provide relevant customer due diligence information upon request to the correspondent bank.

Covered persons are prohibited from entering into, or continuing, correspondent banking relationships with shell banks and should have measures to satisfy themselves that respondent financial institutions do not permit their accounts to be used by shell banks.

Fund/Wire transfer. Because of the risk associated with dealing with fund/wire transfers, where a covered person may unknowingly transmit proceeds of unlawful activities or funds intended to finance terrorist activities, it shall establish policies and procedures designed to prevent it from being utilized for that purpose which shall include, but not limited to, the following:

a. Originating financial institution:

(1) Shall not accept instructions to fund/wire transfer from a non-customer originator, for occasional transactions exceeding the set threshold as defined in this Part, unless it has conducted the necessary CDD to establish the true and full identity and existence of said originator;

(2) Shall ensure that all wire transfers are always accompanied by the required information such that:

(a) Cross border and domestic fund/wire transfers and related message not exceeding P50,000.00 or its equivalent in foreign currency, shall include accurate and meaningful originator and beneficiary information. The following information shall remain with the transfer or related message through the payment chain:

(i) Name of the originator;
(ii) Name of the beneficiary; and
(iii) Account number of the originator and beneficiary, or in its absence, a unique reference number.

(b) For cross border and domestic fund/wire transfers and related message amounting to ₱50,000.00 or more, or its equivalent in foreign currency, the following information shall be obtained and accompany the wire transfer:

(i) Name of the originator;
(ii) Originator account number where such an account is used to process the transaction or a unique transaction reference number which permits traceability of the transaction;
(iii) Originator's address, or national identity number, or customer identification number, or date and place of birth;
(iv) Name of the beneficiary; and
(v) Beneficiary account number where such an account is used to process the transaction, or unique transaction reference number which permits traceability of the transaction.

For domestic wire transfers, the originating institution should ensure that the required information accompanies the wire transfers, unless this information can be made available to the beneficiary institution and relevant authorities by other effective means. In the latter case, the originating institution shall include only the account number or a unique identifier within the message or payment form which will allow the transaction to be traced back to the originator or beneficiary. Originating institutions are required to provide the information within three (3) working days from receiving the request either from the beneficiary institution or from relevant authorities or agencies.

(3) May be exempted from the requirements of Item "*(2)*" above in respect of originator information, where several individual cross-border wire transfers from a single originator are bundled in a batch file for transmission to beneficiaries: *Provided*, That it includes the originator's account number or unique transaction reference number and that the batch file contains the required and accurate originator information, and full beneficiary information, that is fully traceable within the beneficiary country;

(4) Need not verify for accuracy the information mentioned in Item "*(2)(a)*" hereof. However, the originating financial institution shall verify the information pertaining to its customer where there is a suspicion of ML/TF;

(5) Shall ensure that, for domestic wire transfers, the information accompanying the wire transfer includes originator information as indicated for cross-border wire transfers, unless this information can be made available to the beneficiary financial institution and relevant authorities by other effective means;

(6) Shall only include the account number or a unique transaction reference number, where the information accompanying the domestic wire transfer can be made available to the beneficiary financial institution and appropriate authorities by other effective means: *Provided*, That this number or identifier will permit the transaction to be traced back to the originator or the beneficiary. The information shall be made available within three (3) working days from receipt of the request either from the beneficiary financial institution or from appropriate authorities;

(7) Shall maintain all originator and beneficiary information collected, in accordance with Sec. 924; and

(8) Should not execute the wire transfer if the requirements under Item "*a*" of this Section (*Fund/wire Transfer*), as applicable, are not complied with.

b. Intermediary financial Institution shall:

(1) Ensure that, for cross-border wire transfers, all originator and beneficiary information that accompany a wire transfer are retained in the payment message.

Where technical limitations prevent the required originator or beneficiary information accompanying a cross-border wire transfer from remaining with a related domestic wire transfer, intermediary financial institution should keep a record of all the information received from the originating financial institution or another intermediary financial institution for at least five (5) years;

(2) Take reasonable measures, which are consistent with straight-through processing, to identify cross-border wire transfers that lack required originator information or required beneficiary information;
(3) Conduct transactional sanction screening on the payment parties, both for the originator and beneficiary;
(4) Adopt risk-based policies and procedures for determining: (a) when to execute, reject, or suspend a wire transfer lacking required originator or required beneficiary information; and (b) the appropriate follow-up action.

c. Beneficiary financial institution shall:

(1) Verify the identity of the beneficiary, if the identity has not been previously verified and maintain this information in accordance with Sec. 924 (*Record Keeping*). Should the originator and beneficiary be the same person, the beneficiary institution may rely on the customer due diligence conducted by the originating institution provided the rules on third party reliance under Sec. 921 (*Customer identification*) are met, treating the originating institution as third party as therein defined;

(2) Take reasonable measures, which may include post-event monitoring or real-time monitoring where feasible, to identify cross-border wire transfers that lack required originator or beneficiary information, as applicable; and

(3) Adopt risk-based policies and procedures for determining: (a) when to execute, reject, or suspend a wire transfer lacking required originator or beneficiary information, as applicable; and (b) the appropriate follow-up action.

d. In case a Money or Value Transfer Service (MVTS) provider controls both the originating and the beneficiary side of a wire transfer, it shall;

(1) consider all the information from both the originating and beneficiary sides in order to determine whether an STR has to be filed; and
(2) file an STR in any country affected by the suspicious wire transfer, and make relevant transaction information available to the AMLC.

Buyers of cashier's, manager's or certified checks. A covered person may sell cashier's, manager's or certified checks only to its existing customers and shall maintain a register of said checks indicating the following information:

a. True and full name of the buyer or the applicant if buying on behalf of an entity;
b. Account number;
c. Date of issuance and the number of the check;
d. Name of the payee;
e. Amount; and
f. Purpose of such transaction.

Buyers of cashier's, manager's or certified checks other than its existing customer. Where an individual or an entity other than an existing customer applies for the issuance of cashier's, manager's or certified checks, the covered person shall, in addition to the information required in Sec. 921 (*Customer identification*), obtain all the identification documents and minimum information required under this Part to establish the true and full identity and existence of the applicant. In no case shall reduced due diligence be applied to the applicant and, where circumstances warrant, enhanced due diligence should be applied.

Buyers of cashier's, manager's or certified checks in blank or payable to cash, bearer or numbered account. A covered person may issue cashier's, manager's or certified checks or other similar instruments in blank or payable to cash, bearer or numbered account subject to the following conditions:

a. The amount of each check shall not exceed P10,000;

b. The buyer of the check is properly identified in accordance with its customer acceptance and identification policies and as required under. Sec. 921;

c. A register of said checks indicating all the information required under Sec. 921;

d. A covered person which issues as well as those which accepts as deposits, said cashier's, manager's or certified checks or other similar instruments issued in blank or payable to cash, bearer or numbered account shall take such measure(s) as may be necessary to ensure that said instruments are not being used/resorted to by the buyer or depositor in furtherance of an ML activity;

e. The deposit of said instruments shall be subject to the same requirements of scrutiny applicable to cash deposits; and

f. Transactions involving said instruments should be accordingly reported to the AMLC if there is reasonable ground to suspect that said transactions are being used to launder funds of illegitimate origin.

Second-endorsed checks. A covered person shall enforce stricter guidelines in the acceptance of second-endorsed checks including the application of enhanced due diligence to ensure that they are not being used as instruments for money laundering or other illegal activities.

For this purpose, a covered person shall limit the acceptance of second-endorsed checks from properly identified customers and only after establishing that the nature of the business of said customer justifies, or at least makes practical, the deposit of second-endorsed check. In case of isolated transactions involving deposits of second-endorsed checks by customer who are not engaged in trade or business, the true and full identity of the first endorser shall be established and the record of the identification shall also be kept for five (5) years.

***Foreign exchange dealers/money changers/remittance and transfer companies*.** A covered person shall require its customers who are remittance and transfer companies, foreign exchange dealers and money changers to submit proof of registration with the Bangko Sentral as part of their customer identification document, and shall only deal with these entities if they are duly registered as such. Also, these customers shall be required to use company accounts for their remitting, foreign exchange dealing and money changing business.

Remittance and transfer companies, foreign exchange dealers and money changers presenting greater risk shall be subject to enhanced due diligence, which includes, among others, requiring proof of registration with the AMLC, reviewing and assessing their AML/CFT program to have reasonable assurance on their AML compliance, obtaining additional information and securing senior management approval for establishing business relationship.

Other high risk customer, jurisdiction or geographic location. A customer from a foreign jurisdiction that is recognized as having inadequate internationally accepted AML standards, or presents greater risk for ML/TF or its associated unlawful activities, shall be subject to enhanced customer due diligence. Information relative to these are available from publicly available information such as the websites of FATF, FATF Style Regional Bodies (FSRB) like the Asia Pacific Group on Money Laundering and the Egmont Group, national authorities like the OFAC of the U.S. Department of the Treasury, or other reliable third parties such as regulators or exchanges, which shall be a component of a covered person's customer identification process.

Covered persons shall apply countermeasures (such as conduct of enhanced due diligence, limit business relationship or financial transactions with the identified country or persons in that country) proportionate to the risks when called upon to do so by the FATF, or independently of any call by the FATF to do so, when warranted.

Shell company/shell bank/bearer share entities. A covered person shall undertake banking relationship with a shell company with extreme caution and always apply enhanced due diligence on both the entity and its beneficial owner/s.

No shell bank shall be allowed to operate or be established in the Philippines. Covered persons shall refuse to deal, enter into, or continue, correspondent banking relationship with shell banks. They shall likewise guard against establishing relations with foreign financial institutions that permit their accounts to be used by shell banks.

Bearer share entities refer to those juridical entities where the ownership is accorded to those who possess the bearer share certificate. A covered person dealing with bearer share entities shall conduct enhanced due diligence on said entities and their existing stockholders and/or beneficial owners at the time of opening of the account. These entities shall be subject to ongoing monitoring at all times and the list of stockholders and/or beneficial owners shall be updated within thirty (30) days after every transfer of ownership and the appropriate enhanced due diligence shall be applied to the new stockholders and/or beneficial owners.

***Numbered accounts*.** No peso and foreign currency non-checking numbered accounts shall be allowed without establishing the true and full identity and existence of customers and applying enhanced due diligence in accordance with Sec. 921 (*Customer acceptance and identification policy*).

Peso and foreign currency non-checking numbered accounts existing prior to 17 October 2001 shall continue to exist but the covered person shall establish the true and full identity and existence of the beneficial owners of such accounts and apply enhanced due diligence in accordance with Sec. 921 (*Customer acceptance and identification policy*).

Compliance with United Nations Security Council Resolutions (UNSCR): As part of CDD process, covered persons shall adopt appropriate policies and procedures:

a. To implement targeted financial sanctions without delay to comply with UNSCR, adopted under Chapter VII of the Charter of the United Nations, relating to the prevention, suppression and disruption of proliferation of weapons of mass destruction and its financing;

b. To ensure that individuals/entities be prohibited from making any types of transactions or services for the benefit of designated persons and entities owned or controlled, directly or indirectly, by designated persons or entities; and persons and entities acting on behalf of, or at the direction of, designated persons or entities pursuant to relevant UNSCR such as 1267 (1999) and its successor resolutions, and 1373 (2001); and

c. To report to AMLC the actions taken in compliance with the prohibition requirements of the relevant UNSCRs, including attempted transactions.

(Circular Nos. 1022 dated 26 November 2018 and 950 dated 15 March 2017)

924 RECORD KEEPING

All customer identification records of covered persons shall be maintained and safely stored as long as the account exists. All transaction records and documents of covered persons shall be maintained and safely stored for five (5) years from the date of transaction.

Said records and files shall contain the full and true identity of the owners or holders of the accounts involved in the transactions such as the ID card and photo of individual customers and the documents mentioned in Sec. 921 (*Customer identification*) for entities, customer information file, signature card of authorized signatory/ies, and all other pertinent customer identification documents as well as all factual circumstances and records involved in the transaction. Covered persons shall undertake the necessary adequate security measures to ensure the confidentiality of such file, including all information shared by the group-wide compliance. Covered persons shall prepare and maintain documentation, in accordance with the aforementioned client identification requirements, on their customer accounts relationships and transactions such that any account, relationship or transaction can be reconstructed as to enable the AMLC, and/ or the courts to establish an audit trail for money laundering.

Closed accounts and terminated relationships. Covered persons shall maintain and safely store all records of customer identification, and transactions documents, including the results of any analysis undertaken, for at least five (5) years following the closure of the account, termination of the business relationship or after the date of the occasional transaction.

Retention of records where the account or customer is the subject of a case. If a money laundering case has been filed in court involving the account or customer, records must be retained and safely kept beyond the 5-year retention period, until it is officially confirmed by the AMLC Secretariat that the case has been resolved, decided or terminated with finality.

***Safekeeping of records and documents*.** The covered person shall designate at least two (2) officers who will be jointly responsible and accountable in the safekeeping of all records and documents required to be retained by the AMLA, as amended, its RIRR and this Part. They shall have the obligation to make these documents and records readily available without delay during Bangko Sentral regular or special examinations.

Form of records. Covered persons shall retain all records as originals or in such forms as are admissible in court pursuant to existing laws, such as the E-Commerce Act and its implementing rules and regulations, and the applicable rules promulgated by the Supreme Court.

Covered persons shall, likewise, keep the electronic copies of all CTRs and STRs for at least five (5) years from the dates of submission to the AMLC.

For low risk customers, it is sufficient that covered persons shall maintain and store, in any form, a record of customer information and transactions, but should be sufficient to permit reconstruction of individual transactions so as to provide, if necessary, evidence for prosecution of criminal activity.

(Circular Nos. 1022 dated 26 November 2018 and 950 dated 15 March 2017)

C. TRAINING PROGRAM

931 AML TRAINING PROGRAM

Covered persons shall formulate an annual AML training program aimed at providing all their responsible officers and personnel with efficient, adequate and continuous education program to enable them to fully and consistently comply with all their obligations under this Part, the AMLA, as amended, and its RIRR.

Trainings of officers and employees shall include awareness of their respective duties and responsibilities under the MTPP particularly in relation to the customer identification process, record keeping requirements and CT and ST reporting and ample understanding of the internal processes including the chain of command for the reporting and investigation of suspicious and money laundering activities.

The program shall be designed in a manner that will comprise of various focuses for new staff, front-line staff, compliance office staff, internal audit staff, officers, senior management, directors and stockholders. Regular refresher trainings shall likewise be provided in order to guarantee that officers and staff are informed of new developments and issuances related to the prevention of money laundering and terrorism financing as well as reminded of their respective responsibilities vis-à-vis the covered person's processes, policies and procedures.

Covered person's annual AML training program and records of all AML seminars and trainings conducted by the covered institution and/or attended by its personnel (internal or external), including copies of AML seminar/training materials, shall be appropriately kept by the compliance office/unit/department, and should be made available during periodic or special Bangko Sentral examination.

(Circular No. 950 dated 15 March 2017)

D. ENFORCEMENT ACTIONS

941 SANCTIONS AND PENALTIES

In line with the objective of ensuring that covered persons maintain high AML/CFT standards in order to protect its safety and soundness as well as protecting the integrity of the national banking and financial system, violation of this Part shall constitute a major violation subject to the following enforcement actions against the board of directors, senior management and line officers, not necessarily according to priority and whenever applicable:

a. Written reprimand;
b. Restriction on certain licenses/product, as appropriate;
c. Suspension or removal from the office they are currently holding; and/or
d. Disqualification from holding any position in any covered institution.

In addition to the non-monetary sanctions stated above, the Bangko Sentral may also impose monetary penalties computed in accordance with existing regulations and in coordination with the AMLC.

Enforcement action shall be imposed on the basis of the overall assessment of the covered person's AML risk management system. Whenever a covered person's AML compliance system is found to be grossly inadequate, this may be considered as unsafe and unsound banking that may warrant initiation of prompt corrective action.

To implement the enforcement action provision of this Part along with the AML Risk Rating System (ARRS), the following rules shall apply:

a. An AML Composite rating of 4 and 3 will require no enforcement action.

b. An AML Composite rating of 2 or 1 will require submission by the covered person to the appropriate department of the Bangko Sentral, of a written action plan duly approved by the BOD aimed at correcting the noted inefficiency in BOD and SM oversight, inadequacy in AML and TF policies and procedures, weakness in internal controls and audit, and/or ineffective implementation within a reasonable period of time.

   The appropriate department of the Bangko Sentral shall assess the viability of the plan and shall monitor the covered person's performance.

   In the event of non-submission of an acceptable plan within the deadline or failure to implement its action plan, the appropriate department of the Bangko Sentral shall recommend appropriate enforcement action on the covered person and its responsible officers including monetary penalties to be computed on a daily basis until improvements are satisfactorily implemented.

c. An AML rating of 1 shall also be considered as an unsafe and unsound banking. For this reason, prompt corrective action shall be initiated on the covered person.

Escalation of enforcement action. In cases of heightened AML/CFT supervisory concern as reflected in the overall AML risk rating over a certain period of time, the Bangko Sentral shall impose escalated enforcement action which shall include corrective action, sanction and/or additional supervisory enforcement action, consistent with Sec. 002 on supervisory enforcement policy.

Monetary penalty guidelines. These guidelines are divided into three (3) parts.

Part I – *Monetary penalty matrices*. The monetary penalty matrices, where monetary penalties are categorized based on the (1) Composite rating and (2) Asset size of the Bangko Sentral covered institution.

Part II – *Guiding principles*.

a. The first step is to determine the over-all risk rating of the Bangko Sentral covered institution for purposes of identifying which penalty matrix will be used. If the Composite rating is "1" or "2", penalty matrix A or B, respectively shall be used. If the over-all rating is "3" and "4", no monetary penalty shall be imposed.

b. Second step is to establish the asset size of the Bangko Sentral covered institution as of the cut-off period of examination;

c. Third step is to identify the aggravating and mitigating factors. If the aggravating factors are more than the mitigating factors, then the maximum range shall be used. On the other hand, if the mitigating factors are more than the aggravating factors, then the minimum range shall be applied. In case there are no aggravating and mitigating factors or there is a tie, the medium range shall be used.

d. For Composite ratings of 1 and 2 where the covered institution concerned was required to submit within a reasonable period of time an acceptance plan, non-submission of the plan within the deadline or failure to implement the action plan shall be a basis for imposition of monetary penalties computed on a daily and continuing basis from the time the covered institutions is notified until corrective measures are satisfactorily effected. The penalty may be imposed on the covered institution itself or directly on the Board of Directors as a body, or the individual directors who have direct oversight, or the line officers involved in the management of money laundering and terrorist financing prevention.

Part III – *Aggravating and mitigating factors.*

a. *Aggravating factors*

(1) *Frequency of the commissions or omissions of specific violation*- Majority of the following violations were noted:

(a) Deficient Know Your Customer process
(b) Unsatisfactory Covered Transaction reporting system
(c) Non-reporting of and Improper Suspicious Transaction reporting
(d) Non-compliance with the Record keeping requirement
(e) Inadequate AML Training Program
(f) Deficient AML Electronic system

(2) *Duration of violations prior to notification*- This pertains to the length of time prior to the latest notification on the violation. Violations that have been existing for a long time before it was revealed/discovered in the examination or are under the evaluation for a long time due to pending requests or correspondences from covered institutions on whether a violation has actually occurred shall be dealt with through this criterion. Violations outstanding for more than one (1) year prior to notification, at the minimum, will qualify as violations outstanding for a long time.

(3) *Continuation of offense or omission after notification*- This pertains to the persistence of an act or omission after the latest notification on the existence of the violation, either from the appropriate department of the Bangko Sentral or from the Monetary Board and/or Deputy Governor, in cases where the violation has been elevated accordingly. This covers the period after the final notification of the existence of the violation until such time that the violation has been corrected and/or remedied. The corrective action shall be reckoned with from the date of notification.

(4) *Concealment*- This factor pertains to the cover up of a violation. In evaluating this factor, one shall consider the intention of the party/ies involved and whether pecuniary benefit may accrue accordingly. The act of concealing an act or omission constituting the violation carries with it the intention to defraud regulators. Moreover, the amount of pecuniary benefit, which may or may not accrue from the offense or omission, shall also be considered under this factor.

Concealment may be apparent when a covered institution's personnel purposely complicate the transaction to make it difficult to uncover or refuse to provide information and/or document that would support the violation/offense committed.

(5) *Loss or risk of loss to bank*- In asserting this factor, "*potential loss*" refers to any time at which the covered institution was in danger of sustaining a loss.

b. *Mitigating factors*

(1) *Good faith* - is the absence of intention to violate on the part of the erring individual/entity.
(2) *Full cooperation - covered person's* personnel or the covered institution immediately took action to correct the violation after it is brought to its attention either verbally or in writing.
(3) *With positive measures* - covered person's personnel or the covered institution commits to undertake concrete action to correct the violation but is being restrained by valid reasons to take immediate action.
(4) *Voluntary disclosure of offense* - covered person's personnel or the covered person disclosed the violation before it is discovered in the course of a regular or special examination or off-site monitoring.

(Circular No. 950 dated 15 March 2017)

942 SEPARABILITY CLAUSE

If any provision, sections of this Part, or its application to any person or circumstance is held invalid, the other provisions or sections of this Part, and the application of such provision or section to other persons or circumstance shall not be affected thereby.

(Circular No. 950 dated 15 March 2017)

PART TEN

BANGKO SENTRAL REGULATIONS ON FINANCIAL CONSUMER PROTECTION

1001 CONSUMER PROTECTION OVERSIGHT FUNCTION

The Board of BSFI is ultimately responsible in ensuring that consumer protection practices are embedded in the BSFI's business operations. BSFIs must adhere to the highest service standards and embrace a culture of fair and responsible dealings in the conduct of their business through the adoption of a BSFIs financial consumer protection framework that is appropriate to the BSFI's corporate structure, operations, and risk profile. The BSFI's financial consumer protection framework shall be embodied in its board-approved financial consumer protection manual.

Role and responsibility of the board and senior management. The board and senior management are responsible for developing the BSFI's consumer protection strategy and establishing an effective oversight over the BSFI's consumer protection programs. The board shall be primarily responsible for approving and overseeing the implementation of the BSFI's consumer protection policies as well as the mechanism to ensure compliance with said policies. While senior management is responsible for the implementation of the consumer protection policies approved by the board, the latter shall be responsible for monitoring and overseeing the performance of senior management in managing the day to day consumer protection activities of the BSFI. The board may also delegate other duties and responsibilities to senior management and/or committees created for the purpose but not the function of overseeing compliance with the Bangko Sentral-prescribed consumer protection framework and the BSFI's own consumer protection framework.

Consumer protection risk management system (CPRMS). All BSFIs, regardless of size, should have a CPRMS that is part of the corporate-wide risk management system. The CPRMS is a means by which a BSFI identifies, measures, monitors, and controls consumer protection risks inherent in its operations. These include both risks to the financial consumer and the BSFI. The CPRMS should be directly proportionate to the BSFI's asset size, structure, and complexity of operation. A carefully devised, implemented, and monitored CPRMS provides the foundation for ensuring a BSFI's adherence to consumer protection standards of conduct and compliance with consumer protection laws, rules and regulations, thus ensuring that the BSFI's consumer protection practices address and prevent identified risks to the BSFI and associated risk of financial harm or loss to consumers.

a. *Board and senior management oversight.* The board is responsible for developing and maintaining a sound CPRMS that is integrated into the overall framework for the entire product and service life-cycle. The board and senior management should periodically review the effectiveness of the CPRMS, including how findings are reported and whether the audit mechanisms in place enable adequate oversight. The quality and timeliness of the information provided to the board and senior management regarding the BSFI's CPRMS are especially important for assessing the program's effectiveness. The board and senior management must also ensure that sufficient resources have been devoted to the program. The ability to achieve the consumer protection objectives depends, in large part, on the authority and independence of the individuals directly responsible for implementing the CPRMS and for performing audit/review activities, and the support provided by the board and senior management. The board and senior management must also make certain that CPRMS weaknesses are addressed and corrective actions are taken in a timely manner.

b. *Compliance program.* A consumer protection program is an essential component of the CPRMS. The BSFIs should establish a formal, written Consumer Protection Compliance Program that is part of the over-all Compliance System and should be in accordance with the Revised Compliance Framework for Banks under Sec. 161. A well planned, implemented, and maintained consumer protection compliance program should prevent or reduce regulatory violations and protect consumers from non-compliance and associated harms and loss.

c. *Policies and procedures.* An effective CPRMS should have consumer protection policies and procedures in place, approved by the board. A comprehensive and fully implemented policies help to communicate the board's and senior management's commitment to compliance as well as expectations. Overall, policies and procedures should:

   (1) be consistent with consumer protection policies approved by the board;
   (2) ensure that consumer protection practices are embedded in the BSFI's business operations;
   (3) address compliance with consumer protection laws, rules, and regulations; and
   (4) reviewed periodically and kept-to-date as it serve as reference for employees in their day-to-day activities.

d. *Internal audit function.* Independent of the compliance function, the BSFI's audit function should review its consumer protection practices, adherence to internal policies and procedures, and compliance with existing laws, rules and regulations. The BSFI's internal audit of the different business units/functions should include the consumer protection audit program. A well-designed and implemented consumer protection audit program ensures that the board or its designated committee shall be able to make an assessment on the effectiveness of implementation as well as adequacy of approved policies and standards in meeting the established consumer protection objectives.

e. *Training.* Continuing education of personnel about consumer protection laws, rules and regulations as well as related BSFI policies and procedures is essential to maintaining a sound consumer protection compliance program. BSFIs should ensure that all relevant personnel specifically those whose roles and responsibilities have customer interface, receive specific and comprehensive training that reinforces and helps implement written policies and procedures on consumer protection. The BSFI should institute a consumer protection training program that is appropriate to its organization structure and the activities it engages. The training program should be able to address changes in consumer protection laws, rules and regulations and to policies and procedures and should be provided in a timely manner.

(Circular Nos. 890 dated 02 November 2015 and 857 dated 21 November 2014)

1002 CONSUMER PROTECTION STANDARDS

The following consumer protection standards reflect the core principles, which BSFIs are expected to observe at all times in their dealings with financial consumers. These should be embedded into the corporate culture of the BSFI, enhancing further its defined governance framework while addressing conflicts that are inimical to the interests of the financial consumer.

Disclosure and transparency. BSFIs must take affirmative action to ensure that their consumers have a reasonable holistic understanding of the products and services, which they may be acquiring or availing. In this context, full disclosure and utmost transparency are the critical elements that empower the consumer to make informed financial decisions. This is made possible by providing the consumer with ready access to information that accurately represents the nature and structure of the product or service, its terms and conditions, as well as its fundamental benefits and risks.

The BSFI demonstrates the competencies required of this principle if it complies with the following:

a. *Key information*

(1) Ensures that offering documents of products and services contain the information necessary for customers to be able to make an informed judgment of the product or service and, in particular, meet the full disclosure requirements specified under existing laws or regulations. All key features and risks of the products should be highlighted prominently in a succinct manner. Where a product is being offered on a continuous basis, its offering documents should be updated in accordance with the requirements set out in the regulations.

(2) Readily and consistently makes available to the customer a written copy of the terms and conditions (T&C) that apply to a product or service. The contents of the T&C must be fully disclosed and explained to financial customers before initiating a transaction. Where and when warranted, reference to the T&C should be made while transacting with the consumer and before consummating the transaction, if such reference is material to the understanding of the consumer of the nature of the product or service, as well as its benefits and risks.

As a written document, the T&C must be complete but concise, easily understandable, accurate, and presented in a manner that facilitates the consumer's comprehension. The latter is taken to mean that the text of the document should be according to Sec. 312 (*Information to be disclosed*).

The T&C should include at least the following:

(a) The full price or cost to the customer including all interest, fees, charges, and penalties. The T&C must clearly state whether interest, fees, charges, and penalties can change over time. The method for computing said interest, fees, charges, and penalties shall be presented in accordance with Sec. 305.

(b) General information about the operation of the products or services including the customer's obligations and liabilities;

(c) Cooling-off period, if applicable.

(d) Cancellation, return and exchange policies, and any related cost;

(e) The actions and remedies which the BSFI may take in the event of a default by the customer;

(f) Procedures to report unauthorized transactions and other contingencies, as well as the liabilities of parties in such case; and

(g) A summary of the BSFI's complaints handling procedure.

(3) Advises customers to read and understand the applicable T&C, when considering a product or service.

(4) Ensures that its staff communicates in such a manner that clients can understand the terms of the contract, their rights and obligations. Staff should communicate with techniques that address literacy limitations (e.g., materials are available in local language).

(5) Provides customers adequate time to review the T&C of the product or service, asks questions and receives additional information prior to signing contracts or executing the transaction. The staff of the BSFI should be available to answer the questions and clarifications from the financial customer.

(6) Ensures that staff assigned to deal directly with customers, or who prepare advertisement materials (or other material of the BSFI for external distribution) or who markets any product or service should be fully knowledgeable about these products and services, including statutory and regulatory requirements, and are able to explain the nuances to the consumer.

(7) Uses a variety of communication channels to disclose clear and accurate information. Such communication channels should be available to the public without need for special access requirements, which may entail additional expense. Communication channels should be sufficiently responsive to address the literacy limitations of the financial consumer. Said channels may be written and/or verbal as may be warranted.

(8) Discloses pricing information in public domains (e.g., websites).

(9) Updates customers with relevant information, free of charge in a clear, understandable, comprehensive, and transparent manner, for the duration of the contract. Such information covers the characteristics and the risks of the products sold by the BSFI and their authorized agents.

(10) Imparts targeted information to the specific groups of clients to whom specific products are being marketed, with a particular consideration for vulnerable customers. Communication channels employed for such targeted marketing initiatives may be accordingly calibrated.

(11) Offers enhanced disclosure for more complex products, highlighting the costs and risks involved for the customer. For structured investment products, a Product Highlight Sheet (PHS) is required. The PHS should be clear, concise, and easily understandable by individual customers. It should contain information that empowers the customer to appreciate the key features of the product and its risks. It is prepared in a format that facilitates comparison with other products. The PHS should be available at no cost to the public and made available to consumers upon request. Before signing any contract, the BSFI should ensure that the customer has freely signed a statement to the effect that the customer has duly received, read, and understood the PHS.

(12) Notifies the customer in writing of any change in:

(a) Interest rate to be paid or charged on any account of the customer as soon as possible; and

(b) A non-interest charge on any account of the customer within a number of days as provided under existing regulations prior to the effective date of the change.

If the revised terms are not acceptable to the customer, he or she should have the right to exit the contract without penalty, provided such right is exercised within a reasonable period. The customer should be informed of this right whenever a notice of change is made.

(13) Provides customers with a proof of the transaction immediately after the transaction has been completed. The customer should be given a hard copy of each of the documents signed by the clients (including, but not limited to the contract) with all terms and conditions. The BSFI ensures that documents signed by the customer are completely filled and that there are no blank terms.

(14) Regularly provides customers with clear and accurate information regarding their accounts (e.g., Statement of accounts that includes, among others, covering period, opening balance/value of transactions, all kinds of interest, fees and charges, closing balance, inquiries for outstanding balances, proof of payments for loans).

(15) Informs customers of their rights and responsibilities including their right to complain and the manner of its submission.

b. *Advertising and promotional materials*

(1) Ensures that advertising and marketing materials do not make false, misleading, or deceptive statements that may materially and/or adversely affect the decision of the customer to avail of a service or acquire a product.

(2) Ensures that advertising and promotional materials are easily readable and understandable by the general public. It should disclose clear, accurate, updated, and relevant information about the product or service. It should be balanced/proportional (reflecting both advantages and risks of the product or service); visible/audible; key information is prominent and not obscured; print is of sufficient size and clearly legible.

(3) Ensures that promotional materials are targeted according to the specific groups of consumers to whom products are marketed and the communication channels employed for marketing financial services.

(4) Ensures that all advertising and promotional materials disclose the fact that it is a regulated entity and that the name and contact details of the regulator are indicated.

c. *Conflict of interest*

(1) Discloses properly to the consumer prior to the execution of the transaction that the BSFI or its staff has an interest in a direct/cross transaction with a consumer.

(2) Discloses the limited availability of products to consumers when the BSFI only recommends products which are issued by their related companies, particularly when commissions or rebates are the primary basis for recommending the particular product to consumers.

(3) Discloses the basis on which the BSFI is remunerated at the pre-contractual stage.

(4) Ensures that adequate systems and controls are in place to promptly identify issues and matters that may be detrimental to a customer's interest (e.g., cases in which advice may have been given merely to meet sales targets, or may be driven by financial or other incentives).

Protection of client information. Financial consumers have the right to expect that their financial transactions, as well as relevant personal information disclosed in the course of a transaction, are kept confidential. Towards this end, BSFIs must ensure that they have well-articulated information security guidelines, well-defined protocols, a secure database, and periodically re-validated procedures in handling the personal information of their financial consumers. This should be an end-to-end process that should cover, among others, the array of information that will be pre-identified and collected, the purpose of gathering each information, how these will be sourced from the client, the IT-security infrastructure of the BSFI, and the protocols for disclosure, both within the BSFI and especially to third parties.

The BSFI demonstrates the ability to protect client information if it is able to:

a. *Confidentiality and security of client information*

(1) Have a written privacy policy to safeguard its customers' personal information. This policy should govern the gathering, processing, use, distribution, storage, and eventual disposal of client information. The BSFI should ensure that privacy policies and sanctions for violations are implemented and strictly enforced.

(2) Ensure that privacy policies are regularly communicated throughout the organization. Opportunities include employees' initial training sessions, regular organization-wide training programs, employee handbooks, posters and posted signs, company intranet and internet websites, and brochures available to clients.

(3) Have appropriate systems in place to protect the confidentiality and security of the personal data of its customers against any threat or hazard to the security or integrity of the information and against unauthorized access. This includes a written information security plan that describes its program to protect customer personal information. The plan must be appropriate to its size and complexity, nature and scope of its activities, and the sensitivity of customer information it handles. As part of its plan, the BSFI must:

(a) Designate employee accountable to coordinate its Information Security Program.
(b) Identify and assess the risks to customer information in each relevant area of the BSFI operation, and evaluate the effectiveness of the current safeguards for controlling these risks.
(c) Design and implement a safeguards program, and regularly monitor and test it.
(d) Select service providers that can maintain appropriate safeguards.
(e) Evaluate and adjust the program in light of relevant circumstances, including changes in the firm's business or operations, or the results of security testing and monitoring.

(4) Have appropriate policies and practices for employee management and training to assess and address the risks to customer information. These include:

(a) Checking references and doing background checks before hiring employees who will have access to customer information.

(b) Asking new employees to sign an agreement to follow BSFI confidentiality and security standards for handling customer information.

(c) Limiting access to customer information to employees who have a business reason to see it.

(d) Controlling access to sensitive information by requiring employees to use "strong" passwords that must be changed on a regular basis.

(e) Using automatic time-out or log-off controls to lock employee computers after a period of inactivity.

(f) Training employees to take basic steps to maintain the security, confidentiality, and integrity of customer information. These may include locking rooms and file cabinets where records are kept; ensuring that employee passwords are not posted in work areas; encrypting sensitive customer information when transmitted electronically via public networks; referring calls or other requests for customer information to designated individuals who have been trained in how BSFI safeguards personal data; and reporting suspicious attempts to obtain customer information to designated personnel.

(g) Regularly reminding all employees of company policy to keep customer information secure and confidential.

(h) Imposing strong disciplinary measures for security policy violations.

(i) Preventing terminated employees from accessing customer information by immediately deactivating their passwords and user names and taking other measures.

(5) Have a strong IT System in place to protect the confidentiality, security, accuracy, and integrity of customer's personal information. This includes network and software design, and information processing, storage, transmission, retrieval, and disposal. Maintaining security throughout the life-cycle of customer information, from data entry to disposal, includes:

(a) Knowing where sensitive customer information is stored and storing it securely. Make sure only authorized employees have access.
(b) Taking steps to ensure the secure transmission of customer information.
(c) Disposing customer information in a secure way.
(d) Maintaining up-to-date and appropriate programs and controls to prevent unauthorized access.
(e) Using appropriate oversight or audit procedures to detect the improper disclosure or theft of customer information.
(f) Having a security breach response plan in the event the BSFI experiences a data breach.

b. *Sharing of customer information*

(1) Inform its customers in writing and explain clearly to customers as to how it will use and share the customer's personal information.

(2) Obtain the customers' written consent, unless in situations allowed as an exception by law or BSP-issued regulations on confidentiality of customer's information, before sharing customers' personal information with third parties such as credit bureau, collection agencies, marketing and promotional partners, and other relevant external parties.

(3) Provide access to customers to the information shared and should allow customers to challenge the accuracy and completeness of the information and have these amended as appropriate.

(4) Appropriate penalties should be imposed by the BSFI to erring employees for exposing or revealing client data to third parties without prior written consent from client.

Fair treatment. Fair treatment ensures that financial consumers are treated fairly, honestly, professionally and are not sold inappropriate and harmful financial products and services. BSFIs should ensure they have the necessary resources and procedures in place, internal monitoring, and control mechanisms, for safeguarding the best interest of their customers. These include general rules, such as those addressing ethical staff behavior, acceptable selling practices as well as regulating products and practices where customers are more likely to be offered services that are inappropriate for their circumstances.

The BSFI demonstrates the principle of fair treatment towards financial consumers if it is able to:

a. *Affordability and suitability of product or service*

(1) When making a recommendation to a consumer:

(a) Gather, file, and record sufficient information from the customer to enable the BSFI to offer an appropriate product or service to the customer. The information gathered should be commensurate to the nature and complexity of the product or service either being proposed to or sought by the customer and should enable the BSFI to provide an appropriate level of professional service. As a minimum, information includes the customers' financial knowledge and experience, financial capabilities, investment objectives, time horizons, needs, priorities, risk affordability, and risk profile.

(b) Offer products or services that are in line with the needs/risk profile of the consumer. The BSFI should provide for and allow the customer to choose from a range of available products and services that can meet his needs and requirements. Sufficient and right information on the product or service should enable the customer to select the most suitable and affordable product or service.

(2) Inform or warn the customers that if they do not provide sufficient information regarding their financial knowledge and experience, the BSFI is not in a position to accurately determine whether the product or service is appropriate to them, given the limited information available. This information or warning may be provided in a standardized format.

(3) Ensure that the customer certifies in writing the accuracy of the personal information provided.

(4) Ensure to offer market-based pricing.

(5) Design products that are appropriate to the varying needs and interests of different types of consumers, particularly the more vulnerable consumers. Adequate product approval should be in place. Processes should be proper to ensure that products and services are fit for the targeted consumer.

(6) Do not engage in abusive or deceptive acts or practices.

(7) Seek customer feedback for product design and delivery and use this feedback to enhance product development and improve existing products. Likewise, investigate reasons for client drop out.

(8) Do not use high pressure/aggressive sales techniques and do not force clients to sign contracts.

(9) Have a system in place for approval when selling high-risk instruments to consumers.

b. *Prevention of over-indebtedness*

(1) Have appropriate policies for good repayment capacity analysis. The loan approval does not rely solely on guarantees (co-signers or collateral) as a substitute for good capacity analysis.

(2) Properly assess the creditworthiness and conduct appropriate client repayment capacity analysis when offering a new credit product or service significantly increasing the amount of debt assumed by the customer.

(3) Ensure to have an appropriate system in place for credit analysis and decisions including appropriate criteria to limit the amount of credit.

(4) Monitor enforcement of policies to prevent over-indebtedness. The board and senior management of the BSFIs should be aware of and concerned about the risks of over-indebtedness of its customers.

(5) Draw the customer's attention to the consequences of signing a contract that may affect his financial position and his collateral in case of default in payment of a loan/ obligation.

(6) Prepare and submit appropriate reports (e.g., loan quality, write-offs, restructured loans) to management.

(7) Ensure that corrective measures are in place for poor long-term quality of loan portfolio linked to over-indebtedness.

(8) Have specific procedures to actively work out solutions (i.e., through workout plan) for restructured loans/ refinancing/writing-off on exceptional basis for clients in default who have the "willingness" but without the capacity to repay, prior to seizing the assets.

c. *Cooling-off period*

(1) As may be appropriate, provide the customer with a "cooling-off" period of a reasonable number of days [at least two (2) banking days] immediately following the signing of any agreement or contract, particularly for financial products or services with a long-term savings component or those subject to high pressure sales contract.

Cooling-off shall be applicable to a customer who is a natural person and to financial instruments whose remaining term is equal to or beyond one (1) year.

(2) Permit the customer to cancel the agreement without penalty to the customer of any kind on his or her written notice to the BSFI during the cooling-off period. The BSFI may however collect or recover reasonable amount of processing fees. It is further recognized that there may be a need for some qualification to an automatic right of cooling off. For example, the right shall not apply where there has been a drawdown of a credit facility and a BSFI shall be able to recover any loss arising from an early withdrawal of a fixed rate term deposit which loss arises because of a difference in interest rates. This would be in addition to any reasonable administrative fees associated with closure of the term deposit.

d. *Objectivity*

(1) Deal fairly, honestly, and in good faith with customers and avoid making statements that are untrue or omitting information which are necessary to prevent the statement from being false or misleading.

(2) Present a balanced view when selling a product or service. While the BSFI highlights the advantages of a product/service, the customer's attention should also be drawn to its disadvantages and downside risks.

(3) Ensure that recommendations made to customer are clearly justified and explained to the customer and are properly documented. If the requested products are of higher risk rating than a customer's risk tolerance assessment results, the BSFI should draw to the customer's attention that the product may not be suitable for him in view of the risk mismatch. In such instances, there should be a written disclosure of consequences which is accepted by the client.

(4) Ensure that the customer's suitability and affordability are assessed against specific risks of the investment products:

(a) Financial Needs Analysis (FNA) and Client Suitability - to assess the customer's risk profile and suitability of the product.
(b) Customer's Declaration Form - to confirm his acceptance and understanding of the highlighted features of the product.
(c) FNA, Client Suitability and Declaration Form should be duly completed to make sure that the product sold is suitable and affordable for the customer.

e. *Institutional culture of fair and responsible treatment of clients*

(1) There should be a Code of Conduct (Code) applicable to all staff, spelling out the organizational values and standards of professional conduct that uphold protection of customers. This Code should be reviewed and approved by the Board. The staff signs a document by which they acknowledge that they will abide by the Code and not engage in the behaviors prohibited as provided for in the Code. To ensure adherence to the Code, the BSFI is required to implement measures to determine whether the principles of consumer protection are observed, the clients' concerns are appropriately addressed and problems are resolved in a timely manner. These may include among others, the regular conduct of customer satisfaction survey.

(2) Ensure that recruitment and training policies are aligned around fair and responsible treatment of clients.

(3) Ensure that staff, specifically those who interact directly with customers, receive adequate training suitable for the complexity of the products or services they sell.

(4) Ensure that collection practices are covered during the initial training of all staff involved in collections (loan officers, collections staff, and branch managers). In particular, collection staff should receive training in acceptable debt collection practices and loan recovery procedures.

(5) Strictly comply with Bangko Sentral's existing regulation on what constitutes unfair debt collection practices. The BSFI's Code of Conduct should clearly spell out the specific standards of professional conduct that are expected of all staff involved in collection (including outsourced staff).

(6) Institute policy that guarantees that clients receive a fair price for any foreclosed assets and has procedures to ensure that collateral seizing is respectful of clients' rights.

(7) Ensure that managers and supervisors review ethical behavior, professional conduct, and quality of interaction with customers as part of staff performance evaluations.

(8) Have a system or internal processes in place to detect and respond to customer mistreatment as well as serious infractions. In case of violation of Code of Conduct (e.g., harassment), sanctions shall be enforced.

(9) Inform staff of penalties for non- compliance with Code of Conduct.

(10) Perform appropriate due diligence before selecting the authorized agents/outsourced parties (such as taking into account the agents' integrity, professionalism, financial soundness, operational capability and capacity, and compatibility with the FI's corporate culture) and implement controls to monitor the agents' performance on a continuous basis. The BSFI retains ultimate accountability for outsourced activities.

(11) Disseminate the main aspect of the Code of Conduct to clients through printed media or other appropriate means.

f. *Remuneration structure*

(1) Design remuneration structure for staff of BSFI and authorized agents in a manner that encourages responsible business conduct, fair treatment and avoidance/mitigation of conflicts of interest.

(2) Disclose to the customers the remuneration structure where appropriate, such as when potential conflicts of interest cannot be managed or avoided.

(3) Ensure adequate procedures and controls so that sales staff are not remunerated based solely on sales performance but that other factors, including customer's satisfaction (in terms of number of customer complaints served/settled) and compliance with regulatory requirements, best practices guidelines, and Code of Conduct in which certain principles are related to best interest of customers, satisfactory audit/compliance review results and complaint investigation results, are taken into account.

Effective recourse. Financial consumers should be provided with accessible, affordable, independent, fair, accountable, timely, and efficient means for resolving complaints with their financial transactions. BSFIs should have in place mechanisms for complaint handling and redress.

The BSFI demonstrates the ability to provide effective recourse if it is able to:

a. Establish an effective Consumer Assistance Management System (CAMS). *Appendix 115* provides for the minimum requirements of an effective CAMS.

b. Develop internal policies and practices, including time for processing, complaint response, and customer access.

c. Maintain an up-to-date log and records of all complaints from customers subject to the complaints procedure. This log must contain the following:

(1) Details of each complaint;
(2) The date the complaint was received;
(3) A summary of the BSFI's response;
(4) Details of any other relevant correspondence or records;
(5) The action taken to resolve each complaint; and
(6) The date the complaint was resolved.

d. Ensure that information on how to make a complaint is clearly visible in the BSFI's premises and on their websites.

e. Undertake an analysis of the patterns of complaints from customers on a regular basis including investigating whether complaints indicate an isolated issue or a more widespread issue for consumers. This analysis of consumer complaints must be escalated to the BSFI's compliance/risk management function and senior management.

f. Provide for adequate resources to handle financial consumer complaints efficiently and effectively. Staff handling complaints should have appropriate experience, knowledge, and expertise. Depending on the BSFI's size and complexity of operation, a senior staff member should be appointed to be in charge of the complaint handling process.

Financial education and awareness. Financial education initiatives give consumers the knowledge, skills, and confidence to understand and evaluate the information they receive and empower them to make informed financial decisions. Because BSFIs deal directly with financial consumers, they have the reach, expertise, and established relationships necessary to deliver financial education. Financial education should be integral to the good governance of the BSFIs.

The BSFI demonstrates this principle through various means and in particular:

a. Have a clear and defined financial education and awareness program as part of a wider financial consumer protection and education strategy and corporate governance. It is an integral component of the BSFI's ongoing interaction and relationship with clients. Dedicated and adequate resources should be provided for the financial education initiatives.

b. Develop financial education and awareness programs, either on their own or in partnership or collaboration with industry associations, which contribute to the improvement of their clients' knowledge and understanding of their rights and responsibilities, basic information and risks of financial products and services, and ability to make informed financial decisions and participate in economic activities. Financial education programs should be designed to meet the needs and financial literacy level of target audiences, as well as those that will reflect how target audience prefers to receive financial information. These may include:

(1) Delivering public awareness campaigns and information resources that would teach consumers on certain aspects of their financial lives particularly, budgeting, financial planning, saving, investing, borrowing, retirement planning, and self- protection against fraud.

(2) Developing financial education tools or information materials that are updated and readily understood and transparent such as customized advice and guidance (face to face training); printed brochures, flyers, posters, training videos (e.g., about money management, debt management, saving), and newsletters; websites, and interactive calculators that deliver key messages and "call to action" concerning better money management (e.g., protect your money, know your product, read and understand the T&C, check your statements, pay credit card bills on time, safeguard your Personal Identification Number, understand fees and charges) and consumer responsibility to ask the right questions.

(3) Distributing to customers, at the point of sale, a pamphlet on questions, which customers need to ask before accepting a financial product or service.

c. Clearly distinguish between financial education from commercial advice. Any financial advice for business purposes should be transparent. Disclose clearly any commercial nature where it is also being promoted as a financial education initiative. It should train staff on financial education and develop codes of conduct for the provision of general advice about investments and borrowings, not linked to the supply of a specific product.

d. Provide via the internet or through printed publications unbiased and independent information to consumers through comparative information about the price and other key features, benefits and risks, and associated fees and charges of products and services.

e. Regularly track, monitor, and assess campaigns and programs and use the results of the evaluation for continuous improvement.

(Circular Nos. 1003 dated 16 May 2018, 930 dated 18 November 2016, 898 dated 14 January 2016, 890 dated 02 November 2015, and 857 dated 21 November 2014)

1003 ENFORCEMENT ACTIONS

a. Enforcement is the implementation of corrective measures and imposition of sanctions to BSFIs to:

(1) Ensure compliance with the Bangko Sentral regulations on consumer protection and consumer protection laws and regulations;
(2) Inform the management of the BSFIs of the consequences of their decisions and actions;
(3) Instill discipline to the BSFIs; and
(4) Serve as deterrent to the commission of violations.

b. The bases for enforcement actions are the results of the:

(1) On-site consumer protection framework assessment;
(2) Off-site surveillance;
(3) Market monitoring; and
(4) Bangko Sentral consumer assistance mechanism.

c. The following enforcement action may be taken depending on:

(1) *Rating-based enforcement actions for on-site periodic assessment.* To implement the foregoing enforcement actions, the following rules shall apply:

(a) A Consumer Protection Rating (CPR) of four (4) will require no enforcement action.

(b) A CPR of three (3) will require issuance of a written reminder on consumer protection areas that may lead to weaknesses in the BSFI's Consumer Protection Framework.

(c) A CPR of two (2) will require a written Action Plan in response to the written reminder issued by the Bangko Sentral. The written Action Plan shall be duly approved by the board. It shall aim to correct the

identified weaknesses in the BSFI's Consumer Protection Framework or the noted violations of the Bangko Sentral Regulations on Consumer Protection. The appropriate supervising department of the Bangko Sentral shall assess the viability of the plan and shall monitor the BSFI's performance.

(d) A CPR of one (1) shall also be considered as poor/grossly inadequate Financial Consumer Protection Framework. For this reason, a written action plan fully executable within ninety (90) days shall be prepared. The action plan shall be duly approved by the board aimed at instituting immediate and strong measures to restore the BSFI to acceptable consumer protection operating condition, where it does not pose any risk of financial loss or harm to the financial consumers.

In the event of non-submission of the written Action Plan within the deadline or failure to implement its action plan, the appropriate supervising department of the Bangko Sentral shall recommend appropriate enforcement actions on the BSFI and its responsible officers including monetary penalties to be computed on a daily basis until improvements are satisfactorily implemented.

Composite Rating				
Numerical Rating	**4**	**3**	**2**	**1**
Adjectival Rating	**Strong**	**Acceptable**	**Marginal**	**Poor**
Supervisory Approach	No cause for supervisory concern	Minimal supervisory concern	More than normal supervisory concern	Immediate and close supervisory attention and monitoring
Enforcement Action	None	Written reminder	Written action plan	Written action plan suspension of introduction of new products and services or suspension of existing products/services that poses a consumer protection concern or suspension of

Table No. 1. Enforcement Actions for Consumer Protection Ratings

d. Enforcement actions for violations of consumer protection regulations.

Depending on the seriousness and impact of the breaches of Bangko Sentral Regulations on consumer protection and specific consumer protection rules and regulations, the following administrative sanctions shall be imposed:

(1) Fines in amount as may be determined by the Monetary Board to be appropriate;
(2) Stopping/suspending operations/products or restricting approval of new operations/products;
(3) Requiring the withdrawal/modification of advertising/marketing materials; and
(4) Requiring submission of additional reports for monitoring.

(Circular Nos. 890 dated 02 November 2015 and 857 dated 21 November 2014)

PART ELEVEN

OTHER BANKING REGULATIONS

A. BANKING FEES/CHARGES

1101 ASSESSMENT FEES ON BANKS

Banks shall contribute to the Bangko Sentral an annual fee to help defray the cost of maintaining the appropriate supervising department of the Bangko Sentral in accordance with the following guidelines.

Annual fees on banks. For purposes of computing the annual fees chargeable against banks, the term "Total Assessable Assets" shall be the amount referred to as the total assets under Section 28 of R. A. No. 7653 (end- of-month total assets per balance sheet, after deducting cash on hand and amounts due from banks, including the Bangko Sentral and banks abroad), plus Trust Department accounts and personal equity and retirement accounts (PERA) administered by the bank.

Average Assessable Assets shall be the summation of the end-of-month total assessable assets divided by the number of months in operation during a particular assessment period. Beginning assessable year 2013, the rates of annual fees for banks for the current year shall be, as follows:

a.	UBs/KBs	- 1/28 of 1%
b.	TBs	- 1/28 of 1%
c.	RBs/Coop Banks	- 1/40 of 1%

multiplied by the Average Assessable Assets of the preceding year: *Provided,* That the applicable rates for future assessable years shall be subject to review.[1]

Securities held under custodianship shall be exempt from annual fees.

Annual fees to be collected from banks shall be debited from their respective deposit accounts with the Bangko Sentral by the Comptrollership Department upon receipt of the notice of the assessment from the appropriate supervising department of the Bangko Sentral.

Where the deposit account is insufficient to cover the assessment fee, the Comptrollership Department shall bill the bank for the full amount of the annual fee or for the balance thereof not covered by its deposit account, as the case may be.

Within thirty (30) calendar days from receipt of the bill, the bank shall make the corresponding remittance to the Bangko Sentral Accounting Department. Failure to pay the bill within the prescribed period shall subject the bank to administrative sanctions.

The guidelines in the collection of the annual supervisory fees are provided in *Appendix 91.*

(Circular No. 903 dated 29 February 2016, M-2016-001 dated 24 February 2016, Circular Nos. 890 dated 02 November 2015, 878 dated 22 May 2015, M-2015-022 dated 06 May 2015, M-2014-014 dated 20 March 2014)

1102 COLLECTION OF FINES AND OTHER CHARGES FROM BANKS

The following regulations shall govern the payment of monetary penalties and other charges by banks, and/or their directors and/or officers.

Guidelines on the imposition of monetary penalties.

a. Statement of Policy

The Bangko Sentral recognizes the need to impose monetary penalties as one of the possible sanctions to hold banks, and/or their directors and/or officers accountable for their conduct and to deter the future commission of violations.

This Subsection sets forth the guidelines in the imposition of monetary penalties as may be warranted under the circumstances based on the following general principles laid down in the Bangko Sentral Supervisory Enforcement Policy provided under Sec. 002 taking into consideration their impact on the bank's financial condition:

[1] With additional special regulatory relief in areas affected by Tropical Depression "Yolanda" as provided under *Appendix 93.* (Circular No. 820 dated 06 December 2013).

(1) Root cause diagnosis;
(2) Consistently matching the severity of enforcement action to the supervisory issue;
(3) Successive or simultaneous deployment of enforcement actions;
(4) Monitorability and follow-through; and
(5) Escalation of enforcement actions.

Accordingly, the Bangko Sentral may impose monetary penalties, singly or together with non-monetary sanctions, if applicable, even at the outset or as an escalated sanction.

b. The following are the guidelines on the imposition of monetary penalties on banks, and/or their directors and/or officers and the payment of such monetary penalties and other charges:

(1) Banks, and/or their directors and/or officers shall be imposed the monetary penalties prescribed under applicable laws or other Bangko Sentral rules and regulations.

In the absence of provision on monetary penalty for the violation/ offense, banks and/or their directors and/or officers may be imposed a maximum monetary penalty of P30,000.00 per calendar day for each violation/ offense in accordance with the following schedule:

Asset Size / Penalty Level[1]	High	Low
Up to P200 million	5,000	2,500
Above P200 million but not exceeding P500 million	10,000	5,000
Above P500 million but not exceeding P1 billion	15,000	7,500
Above P1 billion but not exceeding P10 billion	20,000	10,000
Above 10 billion but not exceeding P50 billion	25,000	12,500
Above P50 billion	30,000	15,000

The Bangko Sentral may use a penalty rate prescribed under the next higher range of asset size after considering the following attendant circumstances: (a) the harm caused or potential harm caused to the bank and/or its stakeholders; (b) the seriousness of the violation or irregularity; and (c) the intentionality and frequency; *Provided,* That the resulting penalty will have no adverse impact on the BSFI's operations, liquidity and/or capitalization.

If the monetary penalty is less than the gain derived or loss avoided by the bank and/or director and/or officer in committing the violation/s, the Bangko Sentral may assess total monetary penalties equivalent to the gain derived or loss avoided.

The appropriate supervising department of the Bangko Sentral shall notify the bank/director or officer concerned of the violation and the corresponding amount of monetary penalty, together with a directive for the bank/director or officer concerned to explain within fifteen {15} banking/business days from receipt of the letter why the assessed monetary penalty should not be imposed against it/him/her. The recommendation to impose monetary penalties shall be approved by the Governor or the Monetary Board, as the case may be. The decision of the Governor/Monetary Board shall be communicated to the bank/ director or officer concerned.

However, the Bangko Sentral is not precluded from imposing non-monetary sanctions along with monetary penalties if circumstances so warrant.

(2) *Basis for the computation of the period or duration of penalty.* The computation of the period or duration of all penalties shall be based on calendar days. For this purpose the terms *"per banking day", "per business day", "per day" and/or "a day"* as used in this Manual, and other Bangko Sentral rules and regulations shall mean *"per calendar day"* and/or *"calendar day"* as the case may be.
(3) *Request for reconsideration or appeal.* A request for reconsideration on the monetary penalty approved by the Governor/Monetary Board is allowed. The bank/director or officer concerned shall be notified of the

[1] "High" penalty level is generally imposed on serious offenses/ violations such as unsafe or unsound practices; fraudulent acts; and major acts or omissions defined as the bank's/individual's failure to comply with the requirements of banking laws, rules and regulations, as well as Monetary Board directives/instructions which have/may have a material adverse impact on bank's solvency, liquidity or profitability. This penalty level may also be imposed as an escalated monetary penalty to violations previously meted with "low" penalty level.

"Low" penalty level is imposed on all other acts or omissions that cannot be classified under serious offenses/violations as described above.

decision of the Governor/Monetary Board thereon. An appeal from the decision of the Governor on the request for reconsideration may be made to the Monetary Board.

A request for reconsideration or appeal shall be filed within fifteen (15) calendar days from receipt of the notice of the decision of the Governor/Monetary Board.

(4) *Payment of monetary penalties.* Banks, and/or their directors and/or officers shall pay the monetary penalties within fifteen (15) calendar days from receipt of the notice of the decision of the Governor/Monetary Board or receipt of the notice of the decision denying the appeal or request for reconsideration, where applicable.

In the case of banks, penalties which remain unpaid after due date shall be automatically debited against their corresponding demand deposit account (DDA) with the Bangko Sentral. In the case of directors and/or officers, their employer bank shall advance the payment of the penalty to the Bangko Sentral in their behalf on or before due date through automatic debit of its DDA with the Bangko Sentral. In case the director and/or officer is no longer connected with the bank, payment thereof shall be for the account of the director and/or officer who shall pay directly to the Bangko Sentral in the form of cash or check or such other acceptable means of payment and in accordance with the provisions of Sec. 1102 .

For uniform implementation of the above regulations, the procedural guidelines embodied in *Appendix 24,* shall be observed.

(5) *Additional charge for late payment of monetary penalty.* Late payment or monetary penalty shall be subject to an additional charge of six percent (6%) per annum to be computed from the time said penalty becomes due and payable up to the time of actual payment.

Cost of checks and documentary stamps. Banks are given fifteen (15) days from receipt of invoice to settle their accounts with the Bangko Sentral Security Printing Plant for transactions representing the cost of printed checks and documentary stamps. Accounts not settled within fifteen (15) days will be debited against the bank's corresponding demand deposit account with the Bangko Sentral. A debit advice showing invoices paid shall be sent to the head office of the bank concerned.

Check/demand draft payments to the Bangko Sentral of thrift, cooperative and rural banks. TBs, Coop Banks and RBs shall make all check and demand draft payments for transactions other than those required to be paid through the banks DDA either to the Bangko Sentral Cash Department or to Bangko Sentral Regional Offices and Braches. Such payments shall be accompanied by an appropriate payment form as shown in *Appendix 31*. Payments not accompanied by the required payment forms shall be presumed to be additions to reserves and shall be credited to the demand deposit account of the paying bank.

(Circular No. 988 dated 20 December 2017)

1103 SERVICE FEE FOR TRANSACTIONS WITH THE BANGKO SENTRAL

The succeeding Subsections provide the guidelines on the imposition of service fee on transactions of banks with the Cash Department (CD), Currency Management Sub-Sector (CMSS) and the Regional Offices and Branches, Regional Monetary Affairs Sub-Sector (RMASS). The guidelines and procedures governing currency deposits and withdrawals of banks are provided in *Appendix 84.*

***Fee structure under the Enhanced Cash Management (ECM) services offered by the CD, CMSS*.** The following shall govern the transactions of banks with the CD, CMSS, covered under the ECM services:

a. Service fees applicable to cash transactions are, as follows:

Type of Transaction	**Applicable Service Fees (per bundle)**
New/Fit banknote deposits	P100.00
Unfit banknote deposits	None
Mixed banknote deposits	P120.00
Fit banknotes found inserted in unfit banknote deposits verified	P100.00
Withdrawals (new/verified[1]/unverified fit banknotes)	None

[1] As a matter of policy, the Bangko Sentral verifies deposits of banks. In certain instances, the Bangko Sentral allows withdrawals by bank of unverified fit notes.

Deposits classified as fit banknotes but found to include unfit banknotes shall be reclassified as mixed banknotes and accordingly charged a fee of P120.00 per bundle.

b. Banks shall issue a letter of authority in favor of the Bangko Sentral, through the CMSS, to debit their respective DDA maintained with the Bangko Sentral, for the service fee on their transactions on the day of deposit based on the deposit slip/s.

c. Banks shall continue to prepare separate deposit slip/s for new/fit, mixed and unfit notes which will serve as basis for the imposition of applicable service fees for new/fit and mixed notes.

Fee structure for transactions with the Bangko Sentral regional offices and branches, RMASS. The following shall govern the transaction of banks with the Bangko Sentral Regional Offices and Branches, RMASS:

a. Service fees applicable to cash transactions are as follows:

Type of transaction	Applicable Service Fees (per bundle)
Fit banknote deposits	₱100.00
Unfit banknote deposits	None
Fit banknotes inserted/mixed-in with unfit banknote deposits	₱100.00
Withdrawals (new/verified/unverified[1] fit banknotes)	None

b. Banks shall issue a letter of authority in favor of the Bangko Sentral, through RMASS, to debit their respective DDA maintained with the Bangko Sentral for the service fee on their transactions on the day of deposit based on the deposit slip/s.

c. Banks shall continue to prepare separate deposit slip/s for fit and unfit notes, which will serve as the basis for the imposition of applicable service fees for fit notes.

d. The Bangko Sentral Regional Offices and Branches shall accept deposit of bundled fit notes packed in sealed plastic containers in uniform quantity of twenty (20) bundles of one (1) or various denominations.

(Circular Nos. 931 dated 09 December 2016, 890 dated 02 November 2015 and M-2014-021 dated 03 May 2014)

B. PHILIPPINE & FOREIGN CURRENCY NOTES & COINS

1111 PHILIPPINE AND FOREIGN CURRENCY NOTES AND COINS

The following rules and regulations shall govern the treatment and disposition of counterfeit Philippine and foreign currency notes and coins, the reproduction and/or use of facsimiles of legal tender Philippine currency notes and coins, the replacement and redemption of legal tender Philippine currency notes and coins considered mutilated or unfit for circulation, and the treatment and disposition of Philippine currency notes and coins called in for replacement.

The guidelines and procedures governing currency deposits and withdrawals of banks for credit to and debit from their DDAs with the Bangko Sentral is provided in *Appendix 84*.

Definition of terms. For purposes of this Section, the following terms are defined:

a. *Legal tender Philippine currency* – Notes and coins issued and circulating in accordance with R.A. No. 7653, which when offered for the payment of public or private debt must be accepted.

b. *Counterfeit note* - An imitation of a legal and genuine note intended to deceive or to be taken for that which is original, legal and genuine.

c. *Counterfeit coin* - An imitation or forged design of a genuine and legal coin regardless of its intrinsic value or metallic composition, intended to deceive or pass for the genuine coin.

d. *Unauthorized reproduction of legal tender Philippine note* – A reproduction of a facsimile or any illustration or object bearing the likeness or similitude of legal tender Philippine currency note or any part thereof, without prior authority from the Governor of Bangko Sentral or his duly authorized representative.

e. *Unauthorized reproduction of legal tender Philippine coin* - A reproduction of a facsimile or any object in metal form bearing the likeness or similitude of legal tender Philippine currency coin or any part thereof, without prior authority from the Governor of Bangko Sentral or his duly authorized representative.

Treatment and disposition of counterfeit Philippine and foreign currency notes and coins. Any person or entity, public or private, who receives or takes hold of a note or coin which is counterfeit or whose genuineness is questionable, whether Philippine or foreign currency, shall issue a temporary receipt to its owner/holder and must indicate therein his name, address and community tax certificate number of a reference number sourced from any Philippine government-issued ID or passport number, or in case of a foreigner, the date of receipt, the denomination, serial number of the note or the coin series as the case may be. The owner/holder shall be required to countersign the receipt and in case of refusal, the reason shall be stated in the receipt.

THE CURRENCY ISSUE AND INTEGRITY OFFICE
Security Plant Complex Bangko Sentral ng Pilipinas East Avenue,
Diliman 1101 Quezon City

In cases where personal delivery to the Currency Issue and Integrity Office (CIIO), Bangko Sentral ng Pilipinas, Quezon City, is not feasible, delivery of the afore stated notes or coins may be made through any of the following agencies:

a. The Bangko Sentral Regional Offices/Branches; or
b. Any banking institution under the supervision of the Bangko Sentral.

Any law enforcement agency which conducted any seizure of notes and coins, whether Philippine or foreign, which are counterfeits or suspected to be counterfeit currency, shall within five (5) working days from date of seizure, advise in writing the CIIO, Bangko Sentral ng Pilipinas, Quezon City of said seizure enclosing therewith a copy of the receipt and inventory taken on the seized items. All seized notes or coins which are not or no longer needed as evidence in any investigation/legal proceedings shall be immediately turned over to the CIIO, Bangko Sentral ng Pilipinas, for proper disposition.

The CIIO, Bangko Sentral ng Pilipinas, after examining all notes and coins, whether Philippine or foreign, submitted to it for examination and/or determination as to its genuineness, shall:

(1) Issue a corresponding certification for the currency examined, if needed;
(2) Stamp the word "COUNTERFEIT" on both the front and the back of each note found to be counterfeit; and
(3) Return to the owner/holder, and/or sender the Philippine or foreign currency notes or coins found to be genuine in accordance with existing accounting and auditing regulations.

All notes and coins, whether Philippine or foreign, determined by the CIIO, Bangko Sentral ng Pilipinas, to be counterfeit currency, shall not be returned to the owner/holder, but shall be retained and later disposed of in accordance with such guidelines as may be adopted by the Bangko Sentral, except those which will be used as evidence in an investigation or legal proceedings, in which case, the same shall be retained and preserved by the Bangko Sentral for evidentiary purposes.

The Bangko Sentral shall extend assistance as may be requested of it in the investigation, apprehension and/or prosecution of person/s responsible for counterfeiting of notes and coins, both Philippine and foreign.

Reproduction and/or use of facsimiles of legal tender Philippine currency notes. No person or entity, public or private, shall design, engrave, print, make or execute in any other manner, or utter, issue, distribute, circulate or use any handbill, advertisement, placard, circular, card, or any other object whatsoever bearing the facsimile, likeness or similitude of any legal tender Philippine currency note, or any part thereof, whether in black and white or any color or combination of colors, without prior authority therefor having been secured from the Governor, Bangko Sentral or his duly authorized representative.

The reproduction and/or use of facsimiles or any illustration bearing the likeness or similitude of legal tender Philippine currency notes referred to above may be authorized by the Governor, Bangko Sentral, or his duly authorized representative, for printed illustrations in articles, books, journals, newspapers, or other similar materials and strictly for numismatic, educational, historical, newsworthy or other purposes which will maintain, promote or enhance the integrity and dignity of said note: *Provided, however*, That any such facsimile or illustration shall be of a size less than three-fifths (3/5) or more than one and one-half (1-1/2) times in size of the currency note being illustrated and that there will be no deviation from the purpose for which the notes will be used.

Reproduction and/or use of facsimiles of legal tender Philippine currency coins. No person or entity, public or private, shall design, engrave, print, make or execute in any other manner, or utter, issue, distribute, circulate or use any handbill, advertisement, placard, circular, card, or any other object whatsoever bearing the facsimile, likeness or similitude of any legal tender Philippine currency coin or any part thereof, in metal form, irrespective of size and metallic composition, without prior authority from the Governor, Bangko Sentral or his duly authorized representative.

The reproduction and/or use of facsimiles or of any object bearing the likeness or similitude of legal tender Philippine currency coins referred to above may be authorized by the Governor, Bangko Sentral, or his duly authorized

representative, strictly for numismatic, educational, historical and other purposes which will maintain, promote or enhance the integrity and dignity of said coins.

Clean note and coin policy. As part of banks' duties to effect an expeditious withdrawal from circulation of unfit Philippine currency notes classified under Sec.1111 (*Replacement and redemption of legal tender Philippine currency notes and coins considered mutilated or unfit for circulation*), banks and their branches shall observe the guidelines and procedures governing currency deposits and withdrawals of banks provided in *Appendix 84.*

Provincial branches of banks may make direct deposits of currency notes, duly identified and sorted, with the nearest Bangko Sentral Regional Office/Branch. In areas where there are no Bangko Sentral Regional Offices/Branches, provincial branches of banks shall arrange with their respective Head Offices the shipment of their unfit or dirty notes for deposit with the CD, Bangko Sentral in Quezon City. Cost of shipment and other related expenses to be incurred shall be solely for the account of the bank concerned.

Coins submitted by banks to Bangko Sentral for deposit determination of redemption value shall be packed/bagged in accordance with the following procedure:

a. Coins shall be free from adhesive tapes;
b. Coins shall be sorted into fit, unfit or mutilated, per denomination and per series;
c. Each bag of coins shall contain the following standard number of pieces and amount per denomination:

Denomination	Pieces Per Bag	Amount Per Bag
10-piso	1,200	12,000.00
5-piso	1,500	7,500.00
1-piso	2,000	2,000.00
25-sentimo	3,000	750.00
10-sentimo	4,500	450.00
5-sentimo	5,000	250.00
1-sentimo	5,000	50.00

Provided, however, That in the case of unfit or mutilated coins, these could be packed in amounts of One Thousand Pesos (P1,000.00) for denomination 10-,5-, and 1-piso; and fifty pesos (P50.00) for 25-, 10-, 5-, and 1-sentimo.

The CD and the Regional Offices/Branches of Bangko Sentral may refuse acceptance of cash deposits that do not conform to these guidelines and procedures.

Replacement and redemption of legal tender Philippine currency notes and coins considered mutilated or unfit for circulation.

a. *Unfit currency note*. A currency note shall be considered unfit for circulation when:

(1) It contains heavy creases which break the fiber of the paper and indicate that disintegration has begun; or
(2) It is badly soiled/contaminated and/ or with writings even if it has proper life or sizing; or
(3) It presents a limp or rag like appearance and/or it cannot sustain its upright position when held at the mid portion of one of the shorter borders.

b. *Mutilated currency note*. A currency note shall be considered mutilated when:

(1) Torn parts of banknote are joined together with adhesive tape aimed at preserving as nearly as possible the original design and size of the note; or

(2) The original size of the note has been reduced/lost through wear and tear or has been otherwise torn, damaged, defaced or perforated through action of insects, chemicals or other causes; or

(3) It is scorched or burned to such an extent that although recognizable as such, it has become frail and brittle as to render further handling thereof impossible without disintegration or breaking; or

(4) It is split edgewise; or
(5) It has lost all the signatures inscribed thereon*;* or

(6) The Embedded Security Thread or Windowed Security Thread placed on the banknote is lost.

c. *Unfit currency coin*. A currency coin shall be considered unfit for circulation when:

(1) It is bent or twisted out of shape or defaced, but its genuineness and/or denomination can still be readily and clearly determined/identified; or

(2) It has been considerably reduced in weight by natural abrasion/wear and tear.

d. *Mutilated currency coin*. A currency coin shall be considered mutilated when:

(1) It shows signs of filing, clipping or perforation; or
(2) It shows signs of having been burned or has been so defaced, that its genuineness and/or denomination cannot be readily and clearly identified.

e. Currency notes and coins considered unfit for circulation shall not be re-circulated, but may be presented for exchange to or deposited with any bank.

f. Banks shall accept from the public mutilated notes and coins for referral/transmittal to CIIO, Bangko Sentral – Quezon City or any of the Bangko Sentral Regional Offices/Branches for determination of redemption value. Banks may charge reasonable handling fees from clients and/or the general public relative to the handling/ transporting to Bangko Sentral of mutilated notes and coins.

g. The Bangko Sentral shall replace or redeem notes and coins considered unfit for circulation or mutilated except under the following conditions:

(1) Identification of notes and coins is impossible; or

(2) Coins that show signs of filing, clipping or perforations; or

(3) Notes which have lost more than two-fifths (2/5) of their surface or all of the signatures inscribed thereon; or

(4) Notes which are split edgewise resulting in the loss of the whole of or part of, either the face or back portion of the banknote paper; or

(5) Notes where the Embedded Security Thread or Windowed Security Thread placed thereon is completely lost except when the damage appears to be caused by wear and tear, accidental burning, action of water or chemical or bites of rodents/insects and the likes.

Notes and coins falling under any of the classifications mentioned under Item *"g"* above shall be withdrawn from circulation and demonetized without compensation to the owner/bearer.

Treatment and disposition of Philippine currency notes and coins called in for replacement. Any person or entity, public or private, who receives, takes, holds or has in his possession Philippine currency notes and coins called in for replacement shall forward the same during the redemption period to:

a. Any authorized agent banks of the Bangko Sentral when the notes are still considered legal tender, within one (1) year from the date of call; or
b. The CD or Regional Offices/Branches of the Bangko Sentral, within the redemption period as may be determined by the Monetary Board.

The CD or Regional Offices/Branches of the Bangko Sentral shall exchange the notes/coins called in for replacement if presented to the Bangko Sentral within the redemption period as determined by the Monetary Board and subsequently dispose the same in accordance with Bangko Sentral procedures for disposal.

Enforcement action. Consistent with Sec. 002, the Bangko Sentral may deploy enforcement actions to promote adherence to the requirements set forth in Sec. 1111 and its Subsections, and bring about timely corrective actions. The Bangko Sentral may issue directives or impose sanctions on the bank, for violation of the provisions of Sec. 1111 and its Subsections, which may include, among others, restrictions or prohibitions from certain authorities/activities. Sanctions may likewise be imposed on bank directors, officers and employees concerned.

Further, any violation of the provisions of Sec. 1111, shall subject the offender to imprisonment of not less than five (5) years, but not more than ten (10) years. In case the Revised Penal Code provides for a greater penalty, then that penalty shall be imposed.
(Circular Nos. 931 dated 09 December 2016, 930 dated 18 November 2016, 897 dated 06 January 2016 and 829 dated 13 March 2014)

1112 ADOPTION OF CLEAN NOTE AND COIN POLICY

The board of directors shall adopt a Clean Note and Coin Policy consistent with the principles and guidelines issued by the Bangko Sentral. The board of directors shall ensure that the policy takes a holistic approach to avoid biases in implementation in favor of certain areas or regions.

The Clean Note and Coin Policy shall include, among others, the following:

a. *Coverage*. This shall emphasize that the policy shall be implemented bank-wide covering all branches.

b. *Criteria to determine when a note/coin is to be pulled out of circulation.* This shall provide the conditions under which a currency is to be withdrawn from circulation as well as the system for properly segregating fit notes/coins from unfit notes/coins. This shall also cover the quality of notes to be loaded in automated teller machines.

c. *Guidelines in ensuring that the life of currency notes/coins is extended.* This shall identify measures that deter unacceptable practices, such as, among others, stapling and writing on currencies, and excessive folding.

d. *Deposit and/or exchange on a regular basis of unfit notes/coins with the Bangko Sentral.* This shall include safeguards that will ensure compliance with the guidelines set by the Bangko Sentral when making cash deposits with the Cash Department or any of the Regional Offices/Branches. Said policy shall include guidelines that aim to facilitate regular deposit and/or exchange with the various Bangko Sentral cash units of unfit notes/coins.

The board of directors shall ensure that on a periodic basis, consistent adherence to the clean note and coin policy is assessed, and that the continuing relevance and effectiveness of said policy is reviewed.

Compliance program. The clean note and coin policy shall be included in the Compliance Program. In this regard, the compliance function shall conduct periodic compliance testing to assess compliance with internal policies as well as with the principles and guidelines issued by the Bangko Sentral. Coverage of such testing shall include the head office and branches. Further, the compliance function shall periodically assess the risk of non- compliance with the said policy.

Internal audit. The internal audit function shall provide an independent assurance on the effectiveness of governance, risk management, and internal controls with respect to the bank's compliance with the clean note and coin policy. It shall conduct an independent review of operations to assess whether policies, procedures, and control processes are being effectively implemented or are still relevant considering the size, risk profile, and complexity of operations of the bank. The internal audit function shall ensure that the scope of audit shall cover the head office and the branches.

Supervisory enforcement action. The Bangko Sentral reserves the right to deploy its range of supervisory tools to promote adherence to the requirements set forth in this Section and bring about timely corrective actions and compliance with the Bangko Sentral directives. The Bangko Sentral may issue directives or impose sanctions on the bank, for violation of the provisions of this Section, which may include, among others, restrictions or prohibitions from certain authorities/activities. Sanctions may likewise be imposed on bank directors, officers, and employees concerned.

(Circular No. 931 dated 09 December 2016)

C. PERSONAL EQUITY AND RETIREMENT ACCOUNT (PERA)

1121 PERSONAL EQUITY AND RETIREMENT ACCOUNT (PERA) MARKET PARTICIPANTS AND PERA INVESTMENT PRODUCTS

The following are the guidelines on the qualification/accreditation of PERA Market Participants and PERA Investment Products which are being issued pursuant to R.A. No. 9505, also known as the PERA Act of 2008 (PERA Act), and its implementing Rules and Regulations (the PERA Rules).

The operational guidelines on the administration of the PERA are found in *Appendix 114.*

***Applicability*.** These guidelines apply to banks, trust entities[1] and other entities determined by the Bangko Sentral as eligible that seek to be qualified/accredited and are qualified/accredited as PERA Market Participants, and to PERA Investment Products that are considered eligible by the Bangko Sentral for PERA purposes.

Eligibility criteria.

a. *PERA investment products.* The following PERA investment products are considered to be Bangko Sentral-eligible PERA investment products: *Provided,* That, with respect to Items *"(1)"* and *"(2)"* below, they are issued by Bangko Sentral-supervised entities with CAMELS rating of not lower that *"3"* or its equivalent, to wit:

   (1) Unit investment trust fund (UITF);
   (2) Debt-instruments such as, but not limited to, long term negotiable certificate of deposits and unsecured subordinated debt;

[1] Trust entity shall refer to a (a) bank or non-bank financial institution, through its specifically designated business unit to perform trust functions, or (b) trust corporation, authorized by the Bangko Sentral ng Pilipinas to engage in trust and other fiduciary business under Section 79 of R.A. No. 8791 (General Banking Law of 2000) or to perform investment management services under Section 53 of R.A. No. 8791.

(3) Deposits; and
(4) Government-issued securities.

In the case of UITF, the existing approval process shall be observed. The Bangko Sentral may allow other category of investment products or outlets for PERA purposes: *Provided,* That the product is non- speculative, readily marketable, and with a track record of regular income payments to investors.

b. *PERA market participants*

PERA Market Participants	Eligible Entities
Administrator	Banks, trust entities and other entities as may be determined by the Bangko Sentral as eligible to act as PERA Administrator
Investment Manager	Trust entities and other entities as may be determined by the Bangko Sentral as having the qualifications to be accredited as PERA Investment Manager
Cash Custodian	Banks
Securities Custodian	Banks and trust entities
Investment Product Provider	Any Bangko Sentral-supervised entity that wishes to offer PERA Investment Product to Contributors

Qualification/Accreditation requirements.

a. *As an Administrator*. The Bangko Sentral shall issue a Qualification Certificate as Administrator to an entity upon compliance with the following requirements:

(1) The applicant maintains a net worth of at least Php100 million at all times.

Net worth shall refer to the combined capital accounts of the Administrator which shall mean the total of the unimpaired paid- in capital, surplus and undivided profits, less:

(a) The one percent (1%) of the book value of the total volume of PERA assets administered and other capital adjustments as may be required by the Bangko Sentral;
(b) Total outstanding unsecured credit accommodations, both direct and indirect, extended by the Administrator to DOSRI; and
(c) Appraisal surplus or appreciation credit as a result of appreciation or an increase in the book value of the assets of the Administrator.

DOSRI cited in Item *"1(b)"* above shall refer to that provided in Sec. 341 (*Definitions*): *Provided,* That for purposes of this provision, references to a bank as an entity shall be understood to include references to any other type of entity acting as Administrator.

(2) It has adopted a Manual of Corporate Governance approved by the Bangko Sentral, and is in full compliance therewith.

(3) It has a clear and sufficient organization plan or structure of its personnel who will perform the PERA administration functions, stating the definition of the duties and responsibilities as well as the line and staff functional relationships.

(4) It possesses adequate systems and technological capabilities, and the necessary technical expertise and personnel to administer all types of PERA investment products, ensure the proper recording and tracking of a contributor's PERA, and perform the other required functions of an Administrator.

(5) It has sufficient personnel who have undergone the requisite training prescribed by the Bangko Sentral to educate the contributor on:

(a) The nature of a PERA;
(b) Privileges, conditions and requirements of a PERA;
(c) The risks and benefits of each type of PERA investment products; and
(d) Respective roles of the Administrator, Investment Manager and Custodian.

(6) It has adopted the following forms that the Administrator shall use in dealing with the Contributor and his PERA:

(a) Pre-Acceptance Disclosure Policy described in PERA Rule 6.A.2.a;
(b) Client Suitability Assessment Questionnaire referred to in PERA Rule 6.A.2.b(i);
(c) Risk Disclosure Statement, which shall include the standard minimum information referred to in PERA Rule 6.A.2.d; and
(d) Contract between the Contributor and the Administrator referred to in PERA Rule 6.A.2.c.

(7) It has a board-approved policy on fees and charges to be imposed for its services as Administrator which shall be subject to Bangko Sentral approval.

Failure to satisfy any of the above requirements shall be a ground for the denial of the application, without prejudice to the re-filing of an application.

An Administrator who has been issued with a "Qualification Certificate" shall then file an application for accreditation with the PERA Processing Office of the BIR to complete its application process to become a PERA Administrator.

b. *As an Investment Manager*. The Bangko Sentral shall accredit an entity as an Investment Manager upon submission of a written application certified by the Chief Executive Officer (CEO) together with the following documentary requirements:

(1) Written supervision and control procedures for the conduct of the investment management functions;
(2) Proof of at least five (5) years of experience in professional investment management;
(3) Certified true copy of educational, professional/technical or other academic qualifications of its principal officers;
(4) Copy of its form contract to be utilized. The agreement between the contributor and the Investment Manager shall contain the following minimum contents:

(a) Overall investment philosophy, standards and practices of the Investment Manager; and
(b) Validation of contributor's Client Suitability Assessment and Investment Policy Statement made by contributor's Administrator referred to in PERA Rule 6.A.2.b (i) and (ii); and

(5) A schedule of commission charges and/or other fees it will charge for its services.

c. *As a custodian*

Cash custodian. In addition to the standard pre-qualification requirements for the grant of banking authorities enumerated in *Appendix 5*, banks applying for authority to act as cash custodian for PERA shall also comply with the following conditions:

(1) The applicant bank must have complied with the minimum capital required under Sec. 121 (*Minimum Capitalization*); and
(2) The Bank's CAMELS composite rating in its latest examination is not lower than "3" with Management component score of not lower than "3".

Securities custodian. Only banks and other entities with trust license which have complied with the requirements under Sec. 431 (*Pre-qualification requirements for a securities custodian/registry*) may be accredited as securities custodian.

For purposes of this Section, the Bangko Sentral may provide for such other requirements or qualifications as it may deem necessary for the qualification/accreditation of a supervised entity as a PERA Market Participant.

Application for qualification/accreditation. An eligible supervised entity seeking qualification/accreditation as PERA Market Participant (Administrator, Investment Manager, Cash Custodian or Securities Custodian) shall file an application for qualification/accreditation with the appropriate supervising department of the Bangko Sentral. The application shall be signed by the CEO and shall be accompanied by the following documents:

a. Certified true copy of the resolution of the entity's board of directors authorizing the application;
b. Certification signed by the CEO that the entity has complied with all the relevant qualification/accreditation requirements enumerated under this Section and an undertaking to comply with the aforementioned requirements while it acts as an Administrator, Investment Manager, Cash Custodian and/or Securities Custodian; and

c. Relevant PERA forms, Board-approved policy on fees and charges, and proof of compliance with this Section insofar as the application of the Administrator is concerned.

The qualification/accreditation of PERA Market Participants and accreditation of PERA Investment Products granted by the Bangko Sentral shall be valid until revoked.

Security for the faithful performance of administrators. As a security for the faithful performance of its duties under the PERA Act, an administrator shall hold eligible government securities, equivalent to at least one percent (1%) of the book value of the total volume of PERA assets administered, earmarked in favor of the Bangko Sentral: *Provided*, That the administrator shall issue an authorization in favor of the Bangko Sentral to withdraw, dispose and disburse the proceeds thereof to settle any claims arising from the breach of its duties as evidenced by a final and executory court order: *Provided, further*, That the administrator shall not withdraw, transfer or replace such earmarked securities without prior written instruction from the Bangko Sentral. The security for the faithful performance of the administrator's duties shall be in addition to and shall be treated separately from the capital, surplus, and undivided profits of the administrator.

For this purpose, eligible government securities shall consist of evidence of indebtedness of the Republic of the Philippines or of the Bangko Sentral or any other evidence of indebtedness or obligations the servicing and repayment of which are fully guaranteed by the Republic of the Philippines or such other kinds of securities which may be declared eligible by the Monetary Board: *Provided,* That, such securities shall be free, unencumbered, and not utilized for any other purpose: *Provided, further*, That such government securities shall have remaining maturities of not more than three (3) years from the date the securities have been earmarked in favor of the Bangko Sentral.

The requirement for the above-mentioned government securities to have remaining maturity of not more than three (3) years from date of deposit with the Bangko Sentral shall no longer apply starting 31 March 2018.

a. *Valuation of securities and basis of computation of the basic security deposit requirement.*

Prior to 31 March 2018:

(1) For purposes of determining compliance with the security for the faithful performance of administrators under the PERA Act, the amount of securities so earmarked shall be based on their book value, that is, cost as increased or decreased by the corresponding discount or premium amortization.

(2) The base amount for the basic security deposit shall be the average of the month-end balances of administered assets for the immediately preceding calendar quarter.

Effective 31 March 2018, the provisions under Item "*a (1)*" above shall no longer apply. The following provisions on the valuation of government securities shall be adopted starting 31 March 2018:

Government securities deposited with the Bangko Sentral shall be measured at fair value according to the marking-to-market guidelines for government securities under *Appendix 28*, subject to applicable haircuts.

The haircuts that shall be applied to the government securities shall be as follows:

Residual Maturity	Minimum Haircut (in Percent) for Basic Security Deposit
3 years and below	0.0
>3 years up to 5 years	2.0
>5 years	4.0

b. *Compliance period; sanctions.* The administrator shall have one (1) week from the end of every calendar quarter within which to replenish any deficiency in the security requirements as abovementioned, by depositing with the Bangko Sentral, government securities pursuant to existing regulations to comply with the basic security deposit requirement.

Effective 31 March 2018, the administrator shall also comply with the basic security deposit requirement in the following manner:

(1) *Quarterly compliance.* The administrator shall comply with the basic security deposit requirement on a quarterly basis. In determining quarterly compliance, the fair value of government securities used as compliance with the basic security deposit requirement shall be reckoned as of the end of the calendar quarter and the base amount for the basic security deposit requirement provided under Item "*a*" of this Section (*Security for the faithful performance of administrators*) shall be applied.

Haircuts for government securities as provided under Item "*a*" of this Section (*Security for the faithful performance of administrators*) shall be applied on the fair value of the government securities used as compliance with the basic security deposit.

(2) *Compliance upon withdrawal, replacement or redemption.* The administrator shall ensure that it will continue to comply with the basic security deposit requirement after every withdrawal, replacement or redemption of government securities within the quarter period. In determining compliance, the basic

security deposit requirement shall be the amount computed as of the quarter-end preceding the date of withdrawal, replacement or redemption pursuant to Item "*a*" of this Section (*Security for the faithful performance of administrators*). The fair value of the remaining government securities, adjusted for the relevant haircuts, shall also be based on amounts reported as of the quarter-end preceding the date of withdrawal, replacement or redemption pursuant to Item "*a*" of this Section (*Security for the faithful performance of administrators*).

Administrators shall develop and maintain systems to ensure compliance with the required basic security deposit as prescribed under existing regulations.

An administrator which incurs a deficiency with the basic security deposit within the quarter, or reports a deficiency with the basic security deposit as of the end of the quarter and fails to deposit securities to comply with the said requirement within the one (1)-week grace period, shall be considered deficient with the basic security deposit requirement from the date the deficiency is incurred up to the date the deficiency is corrected or the succeeding quarter-end, whichever comes earlier.

Any non-compliance with the security requirements shall be subject to Sections 36 and 37 of R.A. No. 7653 also known as the New Central Bank Act without prejudice to the imposition of other sanctions as the Monetary Board may consider warranted under the circumstances that may include the suspension or revocation of the entity's authority to engage in PERA administration, and such other sanctions as may be provided by law.

Grounds for suspension or revocation of qualification/accreditation of administrator, investment manager of custodian. The qualification of an Administrator, and the accreditation of an Investment Manager and Custodian may be refused, restricted, suspended or revoked by the Bangko Sentral if, after due notice and hearing, the Bangko Sentral determines that the applicant or licensee has:

a. Willfully violated any provision of the PERA Act, the PERA Rules or any regulations and issuances by the Bangko Sentral made pursuant thereto, or any other law administered by the Bangko Sentral relevant to its function as a PERA Market Participant, or not providing prudential standards for asset management or has aided, abetted, counseled, commanded, induced or procured such violation;

b. Failed to supervise, with a view to preventing such violation, a person associated to the applicant or licensee by virtue of an arrangement or other types of arrangement and who commits such violation;

c. Willfully made or caused to be made a materially false or misleading statement in the application for qualification/accreditation or report filed with the Bangko Sentral, or has willfully omitted to state any material fact that is required to be stated therein or necessary to make the statement therein not misleading;

d. Failed to maintain the qualifications or requirements for accreditation prescribed under the PERA Rules, these guidelines or has failed to maintain compliance with any of them;

e. Failed to carry on and manage its PERA-related business and activities in a proper, diligent and efficient manner to the prejudice of the Contributor;

f. Been subject to regulatory sanctions for (a) violations, which the Bangko Sentral determines to affect its operation conditions and ability as a PERA Market Participant, such as but not limited to violations affecting required capitalization and/or solvency, or (b) any act or behavior prejudicial to the PERA Contributors;

g. Been enjoined or restrained by a competent body from engaging in securities, banking or insurance activities;

h. Failed to enforce or monitor PERA contribution limits entitled to tax incentives; or

i. Failed to manage or adequately address conflicts of interest in the performance of its functions, which may be identified by the Bangko Sentral as prejudicial to the interests of the PERA Contributor.

For purposes of this Subsection, the term *"competent body"* shall include a foreign court of competent jurisdiction and a foreign financial regulator.

Penalty**.** A fine of not less than Php50 thousand nor more than P200 thousand or imprisonment of not less than six (6) years and one (1) day to not more than twelve (12) years or both, such fine and imprisonment at the discretion of the court, shall be imposed upon any person, association, partnership or corporation, its officer, employee or agent, who, acting alone or in connivance with others, shall:

a. Act as administrator, custodian or investment manager without being properly qualified or without being granted prior accreditation by the Bangko Sentral;

b. Invest the contribution without written or electronically authenticated authority from the Contributor, or invest the contribution in contravention of the instructions of the Contributor;
c. Knowingly and willfully make any statement in any application, report, or document required to be filed under the PERA Act, which statement is false or misleading with respect to any material fact;
d. Misappropriate or convert, to the prejudice of the Contributor, contributions to and investments or income from the PERA;
e. By gross negligence, cause any loss, conversion, or misappropriation of the contributions to, or investments from the PERA; or
f. Violate any provision of the PERA Act or rules and regulations issued pursuant to the PERA Act.

Notwithstanding the foregoing, any willful violation by the accredited administrator, custodian or investment manager of any of the provisions of the PERA Act, the PERA Rules, relevant rules and regulations issued by the Bangko Sentral or other terms and conditions of the authority to act as administrator, custodian or investment manager may be subject to the administrative sanctions provided for in applicable laws such as those set forth in Section 37 of R.A. No. 7653.

The above penalties shall be without prejudice to whatever civil and criminal liability provided for under applicable laws for the same act or omission such as those set forth in Sections 35 and 36 of R.A. No. 7653.

Reportorial requirements. An entity qualified/accredited by the Bangko Sentral to be a PERA Market Participant shall comply with the reportorial requirements that may be prescribed by the Bangko Sentral.

(*Circular Nos. 998 dated 1 March 2018, 890 dated 02 November 2015, M-2014-045 dated 2 December 2014, and Circular No. 860 dated 28 November 2014)*

D. CREDIT RATING AGENCIES

1131 RECOGNITION AND DERECOGNITION OF DOMESTIC CREDIT RATING AGENCIES FOR BANK SUPERVISORY PURPOSES

The following regulations shall govern the recognition and derecognition of domestic credit rating agencies (CRAs) for bank supervisory purposes.

Statement of policy. The introduction in the financial market of new and innovative products create increasing demand for and reliance on CRAs by the industry players and regulators as well. As a matter of policy, the Bangko Sentral wants to ensure that the reliance on credit ratings is not misplaced. The following rules and regulations that shall govern the recognition/derecognition of domestic CRAs for bank supervisory purposes.

Minimum eligibility criteria. Only ratings issued by CRAs recognized by the Bangko Sentral shall be considered for Bangko Sentral bank supervisory purposes. The Bangko Sentral, through the Monetary Board, may officially recognize a credit rating agency upon satisfaction of the following requirements:

a. *Organizational structure*

(1) A domestic CRA must be a duly registered company under the Securities and Exchange Commission (SEC); and

(2) A domestic CRA must have at least five (5) years track record in the issuance of reliable and credible ratings. In the case of new entrants, a probationary status may be granted: *Provided,* That the CRA employs professional analytical staff with experience in the credit rating business.

b. *Resources*

(1) Human Resources

(a) The size and quality of the CRA's professional analytical staff must have the capability to thoroughly and competently evaluate the assessed/rated entity's creditworthiness;

(b) The size of the CRA's professional analytical staff must be sufficient to allow substantial on-going contact with senior management and operational levels of assessed/rated entities as a routine component of the surveillance process;

(c) The CRA shall establish a Rating Committee composed of adequately qualified and knowledgeable individuals in the rating business, majority of whom must have at least five (5) years experience in credit rating business;

(d) The directors of the CRA must possess a high degree of competency equipped with the appropriate education and relevant experience in the rating business;

(e) The directors, officers, members of the rating committee and professional analytical staff of the CRA have not at any time been convicted of any offense involving moral turpitude or violation of the Securities Regulation Code; and

(f) The directors, officers, members of the rating committee and professional analytical staff of the CRA are not currently involved as a defendant in any litigation connected with violations of the SRC nor included in the Bangko Sentral watchlist.

(2) Financial Resources

(a) The CRA must have the financial capability to invest in the necessary technological infrastructure to ensure speedy acquisition and processing of data/information and timely release of reliable and credible ratings; and

(b) The CRA must have financial independence that will allow it to operate free from economic and political pressures.

c. *Objectivity*

(1) The CRA may use a rigorous and systematic assessment methodology that has been established for at least one (1) year; however, a three (3)-year period is preferable;
(2) The assessment methodology of the CRA must be based both on qualitative and quantitative approaches; and
(3) The CRA must use an assessment methodology that is subject to on-going review and is responsive to changes in the operations of assessed/rated entities.

d. *Independence*

(1) The CRA must be free from control of and undue influence by the entities it assesses/rates;
(2) The assessment process must be free from ownership pressures to allow management to exercise independent professional judgment;
(3) Persons directly involved in the assessment process of the CRA are free from conflicts of interest with assessed/rated entities; and
(4) The CRA does not assess/rate an associate entity.

e. *Transparency*

(1) A general statement of the assessment methodology used by the CRA should be publicly available;
(2) The CRA shall disseminate to the public thru a well-circularized publication, all assigned ratings disclosing whether the rating issued is solicited or unsolicited;
(3) The rationale of ratings issued and risk factors considered in the assessment should be made available to the public;
(4) The ratings issued by the CRA should be available both to domestic and foreign institutions with legitimate interest; and
(5) Publication of changes in ratings together with the basis for the change should be done on a timely basis.

f. *Disclosure requirements*

(1) Quantitative disclosures

(a) Definition of ratings along with corresponding symbols;

(b) Definition of what constitutes a default, time horizon within which a default is considered and measure of loss given a default; and

(c) Material changes within the CRA (i.e., changes in management or organizational structure, rating personnel, modifications of rating practices, financial deterioration) that may affect its ability to provide reliable and credible ratings.

(2) Quantitative disclosures

(a) Actual default rates experienced in each rating category; and
(b) Rating transitions of assessed/rated entities over time (i.e., likelihood of an AAA credit rating transiting to AA etc. over time).

g. *Credibility*

(1) The CRA must have a general reputation of high standards of integrity and fairness in dealing with its clients and conducts its business in an ethical manner;
(2) The CRA is generally accepted by predominant users in the market (i.e., issuers, investors, bankers, financial institutions, securities traders); and
(3) The CRA must carry out its rating activities with due diligence to ensure ratings are fair and appropriate.

For purposes of this Section, a *subsidiary* refers to a corporation, more than fifty percent (50%) of the voting stock of which is owned or controlled directly or indirectly by the CRA while an affiliate refers to a corporation, not more than fifty percent (50%) but not less than ten percent (10%) of the voting stock of which is owned or controlled directly or indirectly by the CRA.

"Control" exists when the parent owns directly or indirectly through subsidiaries more than a half (1/2) of the voting power of an enterprise unless, in exceptional circumstance, it can be clearly demonstrated that such ownership do not have constitute control. Control may also exist even when ownership is a half (1/2) or less of the voting power of an enterprise when there is:

(a) power over more than a half (1/2) of the voting rights by virtue of an agreement with other stockholders;
(b) power to govern the financial and operating policies of the enterprise under a statute or an agreement;
(c) power to appoint or remove the majority of the members of the board of directors or equivalent governing body;
(d) power to cast the majority votes at meetings of the board of directors or equivalent governing body; or
(e) any other arrangement similar to any of the above.

h. *Internal compliance procedures*

(1) The CRA must have the necessary internal procedures to prevent misuse or unauthorized disclosure of confidential/non-public information; and
(2) The CRA must have rules and regulations that prevent insider trading and other conflict of interest situations.

Pre-qualification requirements. The application of a domestic CRA for Bangko Sentral recognition shall be submitted to the appropriate supervising department of the Bangko Sentral together with the following information/documents:

a. *An undertaking*

(1) That the CRA shall comply with regulations, directives and instructions which the Bangko Sentral or other regulatory agency/body may issue from time to time; and

(2) That the CRA shall notify the Bangko Sentral in writing of any material changes within the organization (i.e., changes in management or organizational structure, rating personnel, modifications of its rating practices, financial deterioration) that may affect its ability to provide reliable and credible ratings.

b. *Other documents/information*

(1) Brief history of the CRA, major rating activities handled including information on the name of the name of the client, type of instruments rated, size and year of issue;

(2) Audited financial statements for the past three (3) years and such other information as the Monetary Board may consider necessary for selection purposes;

(3) For new entrants, employment of professional analytical staff with experience in the credit rating business;

(4) List of major stockholders/partners (owning at least ten percent (10%) of the voting stocks of the CRA directly or along with relatives within the 1st degree of consanguinity or affinity);

(5) List of directors, officers, members of the rating committee and professional analytical staff of the CRA, including their qualifications, experience related to rating activities, directorship and shareholdings in the CRA and in other companies, if any;

(6) List of subsidiaries and affiliates including their line of business and the nature of interest of the CRA in these companies;

(7) Details of the denial of a previous request for recognition, if any (i.e., application date, date of denial, reason for denial etc.); and

(8) Details of all settled and pending litigations connected with the securities market against the CRA, its directors, officers, stockholders, members of the rating committee and professional analytical staff, if any.

Inclusion in Bangko Sentral list. The Bangko Sentral will regularly circularize to all banks and NBFIs an updated list of recognized CRAs. The Bangko Sentral, however, shall not be liable for any damage or loss that may arise from its recognition of CRAs to be engaged by users.

Derecognition of credit rating agencies.

a. *Grounds for derecognition.* Credit rating agencies may be derecognized from the list of the Bangko Sentral recognized CRAs under the following circumstances:

(1) Failure to maintain compliance with the requirements under Sec. 1131; (*Minimum eligibility criteria*) or any willful misrepresentation in the information/documents required under Sec. 1131 (*Prequalification requirements*);

(2) Involvement in illegal activities such as ratings blackmail; creation of a false marker or insider trading; divulging any confidential information about a client without prior consent to a third party without legitimate interest; indulging in unfair competition (i.e., luring clients of another rating agency by assuring higher ratings etc.); and

(3) Any violations of applicable laws, rules and regulations.

b. *Procedure for derecognition.* A CRA shall only be derecognized upon prior notice and after being given the opportunity to defend itself.

Recognition of PhilRatings as domestic credit rating agency for bank supervisory purposes. Credit ratings assigned by Philippine Ratings Service Corporation (PhilRatings) may be used, among others, for determining appropriate risk weights in ascertaining compliance with existing rules and regulations on risk-based capital requirements.

1132 INTERNATIONALLY ACCEPTED CREDIT RATING AGENCIES

Internationally accepted CRAs are recognized for bank supervisory purposes to undertake local and national ratings: *Provided,* That said CRAs shall have at least a representative office in the Philippines. Accordingly, credit ratings assigned by said CRAs may be used, among others, as basis for determining appropriate risk weights in ascertaining compliance with existing rules and regulations on risk-based capital requirements.

***Recognition of Fitch Singapore Pte., Ltd. as International credit rating agency for bank supervisory purposes*.** The national or domestic credit ratings of Fitch Singapore Pte. Ltd., a BSP-recognized international CRA with representative office in the Philippines, is hereby recognized by the Bangko Sentral for bank supervisory purposes. Accordingly, national or domestic credit ratings assigned by Fitch Singapore Pte. Ltd. may be used, among others, as basis for determining appropriate risk weights in ascertaining compliance with existing rules and regulations on risk- based capital requirements.

1133 RECOGNITION AND DERECOGNITION OF MICROFINANCE INSTITUTION RATING AGENCIES

The following regulations shall govern the recognition and derecognition of Microfinance Institution Rating Agencies (MIRA) that provide ratings for banks with microfinance operation.

Statement of policy. Third-party ratings of FIs provide an independent assessment which will ultimately benefit stakeholders, including the management of the covered FI. For microfinance institutions, the enhanced transparency and independent assessment can materially improve access to capital of qualified institutions and generate a useful benchmark vis-à-vis other microfinance institutions. As a matter of policy, the Bangko Sentral supports an enabling environment for the appropriate use of objective, credible and competent third-party ratings of microfinance institutions.

Pre-qualification requirements. The application of a MIRA for Bangko Sentral recognition shall be submitted to the appropriate supervising department of the Bangko Sentral together with the following information/documents:

a. An undertaking that:

(1) the MIRA shall comply with regulations, directives and instructions which the Bangko Sentral may issue from time to time; and

(2) the MIRA shall notify the Bangko Sentral in writing of any material changes within the organization (such as but not limited to changes in management or organizational structure, rating personnel, modifications of its rating practices and financial deterioration) that may affect its ability to provide reliable and credible ratings.

b. Other documents/information:

(1) Brief history of the MIRA, major rating activities handled including information on the name of the client, type of instruments rated, size and year of issue;

(2) Audited financial statements for the past three (3) years and such other information that may be considered relevant for selection purposes;

(3) List of major stockholders/partners (owning at least ten percent (10%) of the voting stocks of the MIRA directly or together with relatives within the 1st degree of consanguinity or affinity);

(4) List of directors, officers, members of the rating committee and professional analytical staff of the MIRA; including their qualifications, experience related to rating activities, directorship and shareholdings in the MIRA and in other companies, if any;

(5) List of subsidiaries and affiliates including their line of business and the nature of interest of the MIRA in these companies;

(6) Details of the denial of a previous request for recognition, if any (such as application data, date of denial, reason for denial, etc.); and

(7) Details of all previous and pending litigations connected with the securities market against the MIRA, its directors, officers, stockholders, members of the rating committee and professional analytical staff, if any.

Minimum eligibility criteria. The Bangko Sentral will review the application based on the following basic principles:

a. The proposed rating framework that will be used by the applicant-MIRA reflects all the material facets of microfinance operations, its attendant risks and operational challenges; and

b. The applicant-MIRA demonstrates the technical capability, experience and organization to provide microfinance ratings that are objective, credible and transparent.

Based on the above principles, the Bangko Sentral, through the Monetary Board, may officially recognize a MIRA upon satisfaction of the following requirements. The official recognition shall be valid for a period of three (3) years and may be renewed upon assessment that the following requirements are satisfied.

c. Organizational structure

(1) A MIRA must be duly registered with the SEC and have the necessary permits to operate;
(2) A MIRA must have at least five (5) years track record in the issuance of reliable and credible ratings with particular experience in microfinance; and
(3) An international MIRA that will undertake local ratings shall have a representative office in the Philippines.

d. Resources

(1) Human resources

(a) A MIRA must be staffed by full-time analysts who have the demonstrated capability to competently assess the credit- worthiness of a microfinance institution (MFI). The analysts referred herein preclude support staff engaged in other functions such as, but not limited to, marketing and administration;

(b) A MIRA must have a sufficient number of analyst so as to allow substantive interaction with the senior management and operating units of the assessed/rated entities as a routine component of the surveillance process;

(c) The MIRA shall establish a Rating Committee, independent of its analysts, whose members have unquestionable expertise in the rating business, majority of whom must have at least five (5) years direct professional experience in rating institutions;

(d) The directors of the MIRA must possess a high degree of competency equipped with the appropriate education and relevant experience in the rating business;

(e) The directors, officers, members of the Rating Committee and professional analytical staff of the MIRA have not at any time been convicted of any offense involving moral turpitude or violation of the Securities Regulation Code; and

(f) The directors, officers, members of the Rating Committee and professional analytical staff of the MIRA are not currently involved as a defendant in any litigation connected with violations of the Securities Regulation Code nor included in the Bangko Sentral watchlist.

(2) Financial resources

(a) The MIRA must have financial capability to support viable operations such as, but not limited to, the necessary technology and infrastructure to ensure the effective processing of data/information and the timely release of reliable and credible ratings; and

(b) The MIRA must have financial independence that will allow it to operate free from economic and political pressures.

e. Objectivity

(1) The MIRA must employ an assessment methodology which is accepted as a global standard. Where the MIRA uses its own proprietary framework, said methodology must have been in market use for at least three (3) years with demonstrable credibility;

(2) The assessment methodology used by the MIRA must be based both on qualitative and quantitative approaches; and

(3) Said assessment methodology must be subjected to periodic review to ensure that it is responsive to changes in the operations of assessed/rated entities.

f. Independence

(1) The MIRA must be free from control of and undue influence by the entities it assesses/rates;
(2) The assessment process must be free from ownership pressures to allow the management of the MIRA to exercise independent professional judgment;
(3) Persons directly involved in the assessment process of the MIRA are free from conflicts of interest with assessed/rated entities; and
(4) The MIRA cannot assess/rate its affiliate or subsidiary or any other entity in which the MIRA has control.

For purposes of this section, a *subsidiary* refers to a corporation, more than fifty percent (50%) of the voting stock of which is owned or controlled directly or indirectly by the MIRA, while an *affiliate* refers to a corporation, not more than fifty percent (50%) but not less than ten percent (10%) of the voting stock of which is owned or controlled directly or indirectly by the MIRA. "*Control*" exists when the parent owns directly or indirectly through subsidiaries more than one half (1/2) of the voting power of an enterprise unless, in exceptional circumstance. It can be clearly demonstrated that such ownership does not constitute control. Control may also exist even when ownership is one half (1/2) or less of the voting power of an enterprise when there is:

(a) power over more than one half (1/2) of the voting rights by virtue of an agreement with other stockholders;
(b) power to govern the financial and operating policies of the enterprise under a statute or an agreement;
(c) power to appoint or remove the majority of the members of the board of directors or equivalent governing body;
(d) power to cast the majority votes at meeting of the board of directors or equivalent governing body; or
(e) any other arrangement similar to any of the above.

g. Transparency

(1) A general statement of the assessment methodology used by the MIRA should be publicly available;
(2) The rationale of ratings issued and risk factors considered in the assessment should be made available to the public; and
(3) The ratings issued by the MIRA should be available both to domestic and foreign institutions with legitimate interest.

h. Disclosure requirements

(1) Qualitative disclosures

(a) Definition of ratings along with corresponding symbols; and

(b) Material changes within the MIRA (such as but not limited to changes in management or organizational structure, rating personnel, modification of rating practices, financial deterioration) that may affect its ability to provide reliable and credible ratings.

(2) Quantitative Disclosures. Rating transitions of assessed/rated entities over time, i.e., the likelihood that the current rating of an entity will change to another rating (either higher or lower) over time.

i. Credibility

(1) The MIRA must have a general reputation of high standards of integrity and fairness in dealing with its clients and conducts its business in ethical manner;
(2) The MIRA is generally accepted by predominant users in the market (i.e., issuers, investors, bankers, FIs, securities traders); and
(3) The MIRA must carry out its rating activities with due diligence to ensure ratings are fair and appropriate.

j. Internal compliance procedures

(1) The MIRA must have the necessary internal procedures to prevent misuse or unauthorized disclosure of confidential/non- public information; and
(2) The MIRA must have rules and regulations that prevent insider trading and other conflict of interest situations.

Derecognition of MIRA.

a. Grounds for derecognition. MIRAs may be derecognized, upon evaluation of the appropriate supervising department of the Bangko Sentral, under the following circumstances:

(1) Any willful misrepresentation and/ or falsification of information/documents required under this Section.

(2) Failure to maintain compliance with the requirements under this Section.

(3) Involvement in illegal activities such as ratings blackmail; creation of a false market or insider trading; divulging any confidential information about a client without prior consent to a third party without legitimate interest; indulging in unfair competition (such as luring clients of another rating agency by assuring higher ratings, etc.)

(4) Failure to deliver credible, objective and transparent ratings as prescribed in this Section; and

(5) Any violation of applicable laws, rules and regulations.

b. Procedure for derecognition. A MIRA shall only be derecognized upon prior notice and after being given the opportunity to defend itself.

E. PRODUCT OFFERING OF PARENT OF FOREIGN BANK BRANCHES

1141-A OFFERING IN THE PHILIPPINES OF PRODUCTS BY PARENT BANK AND BRANCHES ABROAD OF THE PARENT BANK

Philippine branches and subsidiaries of foreign banks shall:

a. Inform/notify the Bangko Sentral if their parent bank and/or branches abroad of their parent bank offer or market products in the Philippines, either through electronic means (website) or through its local desks (within bank premises); and

b. In cases when there are products being offered, to submit to the appropriate supervising department of the Bangko Sentral within ten (10) banking days from receipt of Circular Letter dated 12 April 2005, the list of products offered/marketed, the corresponding manuals containing the policies and procedures, the flow chart of transaction and the risk management system for each particular product.

F. FRAMEWORK ON THE GRANT OF REGULATORY RELIEF TO BANKS

1151 REGULATORY RELIEF POLICY

The Policy sets forth the guidelines on the grant of regulatory relief measures to banks affected by calamities. The Bangko Sentral recognizes that the Philippines is vulnerable to calamities, whether caused by natural or human-induced hazards, that may adversely affect certain areas/localities, and result in declaration thereof under state of calamity. The damages brought about by calamities to people's resources and livelihood may affect the paying capacity and risk profile of the borrowers/clients of banks. This may translate to higher past due ratios and inability to meet the legal reserve requirements.

Nothing in this Section shall be construed as superseding the previously granted temporary regulatory relief to banks under *Appendix 92.*

a. *Objectives*

The Bangko Sentral's regulatory relief policy aims to achieve the following:

(1) Set a uniform and systematic approach in granting regulatory relief to banks affected by calamities; and
(2) Provide an adequate support to the recovery efforts of banks.

b. *Definition of terms*[1]

(1) *Hazard* - a dangerous phenomenon, substance, human activity or condition that may cause loss of life, injury or other health impacts, property damage, loss of livelihood and services, social and economic disruption, or environmental damage.

(2) *Local Disaster Risk Reduction and Management Council (LDRRMC)* – is a working group responsible for ensuring the integration of disaster risk reduction and climate change adaptation into local development plans, programs and budgets as a strategy in sustainable development and poverty reduction.

(3) *National Disaster Risk Reduction and Management Council (NDRRMC)* – also known as the National Council, is composed of various government agencies, non-government, civil sector and private sector organizations in the Philippines, which is responsible for advising the President on the status of disaster preparedness, prevention, mitigation, response, and rehabilitation operations being undertaken by the government, civil society organizations, private sector, and volunteers; recommending to the President the declaration of a state of calamity in areas extensively damaged; and submitting proposals to restore normalcy in the affected areas, to include calamity fund allocation.

(4) *Regional Disaster Risk Reduction and Management Council (RDRRMC)* – is a working group responsible in ensuring disaster sensitive regional development plans, and in case of emergencies shall convene the different regional line agencies and concerned institutions and authorities.

(5) *State of Calamity* - a condition involving mass casualty and/or major damages to property, disruption of means of livelihoods, roads and normal way of life of people in the affected areas as a result of the occurrence of natural or human-induced hazard.

c. *Declaration of State of Calamity*

Section 16 of R.A. No. 10121 or the Philippine Disaster Risk Reduction and Management Act of 2010, states that the NDRRMC shall recommend to the President of the Philippines the declaration of a cluster of barangays, municipalities, cities, provinces, and regions under a state of calamity, and the lifting thereof, based on the criteria set by the NDRRMC. It further provides that the declaration and lifting of the state of calamity may also be issued by the local sanggunian, upon the recommendation of the R/LDRRMC, based on the results of the damage assessment and needs analysis.

d. *Regulatory relief package*

For a period of one (1) year from the date of declaration of state of calamity, banks may avail of the following:

<u>For All Banks</u>

(1) Allowing banks to provide financial assistance under Sec. 135 (*Loans, advances, and other credit accommodations to officers*) to officers who are affected by the calamity even in the absence of Bangko Sentral-approved purposes or even if not within the scope of the existing Bangko Sentral-approved purposes, for the grant of loans, advances, or any other forms of credit accommodations to officers, subject to subsequent submission of request for approval of the purpose for the grant of loans, advances, or any other forms of credit accommodations to officers affected by calamities, within thirty (30) calendar days from the approval thereof of the bank's Board of Directors, to the appropriate supervising department of the Bangko Sentral for regularization.

[1] *Sources: Republic Act (R.A.) No. 10121 or the Philippine Disaster Risk Reduction and Management Act of 2010 and its Implementing Rules and Regulations*

For Thrift Banks (TBs)/Rural Banks (RBs)/Cooperative Banks (Coop Banks)

(1) Upon grant by TBs/RBs/Coop Banks of a temporary grace period for payment or upon approval of the restructuring, but subject to reporting to Bangko Sentral, exclusion from the computation of past due ratio of the loans of borrowers in affected areas which should have been reclassified as past due under Section 304 beginning on the date of declaration of state of calamity, including those loans becoming past due six (6) months thereafter: *Provided*, That the exclusion shall be for a period of one (1) year from declaration date of state of calamity. For this purpose, Bangko Sentral documentary requirements for restructuring of loans may be waived: *Provided*, That the bank will adopt appropriate and prudent operational control measures.

(2) Non-imposition of monetary penalties for delays incurred in the submission of all supervisory reports due to be submitted from date of declaration of state of calamity up to six (6) months thereafter.

(3) Subject to prior approval of the Bangko Sentral, staggered booking of allowance for credit losses computed under Sec. 143 (*Credit classification and Provisioning*), over a maximum period of five (5) years for all types of credits extended to individuals and businesses directly affected by calamities as of the date of declaration of state of calamity.

(4) Moratorium, without penalty, on monthly payments due to the Bangko Sentral, for a period of six (6) months from the date of declaration of state of calamity, for banks with ongoing rehabilitation upon filing of application for extension/rescheduling with the Department of Loans and Credit.

(5) Subject to prior approval of the Bangko Sentral, non-imposition of penalties on legal reserve deficiencies computed under Sec. 255, starting from reserve week following the date of declaration of state of calamity up to six (6) months thereafter.

For All Rediscounting Banks[1]

(1) Upon application, grant of a 60-day grace period to settle the outstanding rediscounting obligations with the Bangko Sentral as of the date of declaration of state of calamity of all rediscounting banks except those with serious violations or findings as may be determined by the Bangko Sentral; *Provided*, That interest shall be charged, but no penalty shall be imposed for the 60-day grace period.

(2) In addition to the above, allowing the rediscounting banks to restructure with the Bangko Sentral, on a case-to-case basis, the outstanding rediscounted loans as of date of declaration of state of calamity of their end-user borrowers affected by the calamity, subject to the terms and conditions stated in the implementing guidelines (*Appendix 133*).

(3) Allowing the relaxation of eligibility requirements by excluding the criteria on reserve requirement for the renewal of rediscounting line and for the availment of rediscounting loans from the date of declaration of state of calamity up to six (6) months thereafter.

e. *Eligibility*

All banks with head offices and/or branches/branch-lite units or with end-user borrowers located in areas under state of calamity as declared by the President or the local sanggunian, upon the recommendation of the NDRRMC or R/LDRRMC, may avail of the relief package specified in Item *"d"*; *Provided*, That the banks shall notify the Bangko Sentral, through the appropriate supervising department of the Bangko Sentral, of their intention to avail said regulatory relief package within a period of one (1) year from the date of declaration of state of calamity.

For banks with head office and/or branches/branch-lite units or with end-user borrowers located in areas declared as under state of calamity beginning year 2018 for which no regulatory relief packages were approved yet, the relief package under this policy may be availed of within a period of one (1) year reckoned from the date of declaration of state of calamity.

f. *Reportorial requirements*

Banks which opt to avail of the regulatory relief shall submit the following:

(1) Letter-notification stating the bank's intention to avail of the relief package, signed by the President of the bank or officer of equivalent rank, provided that the notice shall specify, at a minimum, the specific relief

[1] *As governed by Section 282*

measures to be availed and the affected branches/branch-lite units located in areas declared as under a state of calamity;

(2) Resolution of the board of directors authorizing the bank to avail of the relief package; and

(3) Memorandum Order/Proclamation/Resolution approving the declaration of state of calamity of the area where the affected head office/branches/branch-lite units of bank are located.

g. *Supervisory Enforcement Action.* Consistent with Sec. 002, the Bangko Sentral may deploy enforcement actions to promote adherence to the requirements set forth in this Section and bring about timely corrective actions. As part of its enforcement actions, the Bangko Sentral may issue directives or impose sanctions on any misrepresentation in the document and information required to be submitted to the Bangko Sentral in relation to the availment of regulatory relief measures.

(Circular No. 1017 dated 10 October 2018)

LIST OF APPENDICES

No.	Subject Matter
1	Guidelines for the Issuance of a Universal Banking Authority
2	Application Requirements for the Entry of Foreign Banks
3	Guidelines for the Issuance of a Universal Banking Authority for Branches of Foreign Banks
4	Format of Affidavit on Transactions Involving Voting Shares of Stocks
5	Standard Pre-Qualification Requirements for the Grant of Banking Authorities
6	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
7	Reports Required of Banks
8	Certain Information Required from Banks
9	Documents/Information on Organizational Structure and Operational Policies
10	Format of Self-Assessment and Certification on Compliance with Rules and Regulations on Bank Protection
11	Pro-Forma Order of Withdrawal for "NOW" Accounts
12	Samples of Standardized Instruments Evidencing Deposit Substitute Instruments
13	Implementing Guidelines of the Countryside Financial Institutions Enhancement Program (CFIEP)
14	Rules Governing Issuance of Mortgage/Chattel Mortgage Certificate by Thrift Banks
15	Basic Guidelines in Setting Up of Allowance for Credit Losses
16	Format of Disclosure Statement on Small Business/Retail/Consumer Credit
17	Abstract of "Truth in Lending Act" (Republic Act No. 3765)
18	Enhanced Intraday Liquidity Facility (ICF)
19	List of Non-Allied Undertaking Where UBs may Invest in Equities
20	Credit Priority Classification
21	Sample Investment Management Agreement
22	Risk Management Guidelines For Derivatives
23	General Governance Principles and Standards on Relationships Between Banks and their Related Non-Governmental Organizations (NGO)/Foundations
24	Procedures on Collection of Fines/Penalties from Banks and/or Directors/Officers of Banks
25	Implementing Guidelines for Banks Participating Directly in the Clearing Operations of the Philippine Clearing House Corporation
26	Illustrations When a Director, Officer and Stockholder (DOS) Shall Waive the Secrecy Of Deposits
27	Guidelines on the Adoption of Philippine Financial Reposting Standards (PFRS 9) – Classification and Measurement
28	Marking to Market Guidelines for Investment in Debt and Equity Securities
29	Guidelines on the Use of Scripless (Ross) Securities as Security Deposit for the Faithful Performance of Trust Duties
30	Guidelines on the Use of Scripless Securities as Security Deposit for the Faithful Performance of Personal Equity and Retirement Account (PERA) Administrator
31	Pro-Forma Payment Form
32	Suggested Gestation/Grace Periods for Agriculture and Fisheries Projects
33	Basic Guidelines in Establishing Domestic Banks
34	Rules And Regulations for Cooperative Banks

No.	Subject Matter
35	Settlement of Interbank Transactions Vis-A-Vis Covering Reserve Requirement/Deficiency of Banks' Demand Deposit Account with the Bangko Sentral
36	Guidelines Governing the Rediscounting of Housing Loan Papers of Qualified Banks Under HUDCC Program
37	Minimum Criteria for Accreditation of Participating Financial Institutions in Government Banks Wholesale Lending Program
38	Deed of Undertaking for the Issuance of Redeemable Preferred Shares
39	Guidelines to Govern the Selection, Appointment, Reporting Requirements and Delisting of External Auditors and/or Auditing Firm of Covered Entities
40	Implementing Rules and Regulations of Republic Act No. 6848 (The Islamic Bank Charter)
41	Notes on Microfinance
42	Guidelines to Incorporate Market Risk in the Risk-Based Capital Adequacy Framework
43	Market Risk Capital Treatment for Dollar-Linked Peso Notes
44	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)
45	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 Derivatives Authority but Without Options Transactions)
46	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)
47	Procedures to be Observed by Universal and Commercial Banks Applying for Bangko Sentral Recognition of their Own Internal Models for Calculating Market Risk Capital
48	Guidelines for the Establishment and Administration/Management of Sinking Fund for the Redemption of Redeemable Private Preferred Shares
49	Activities which may be Considered Unsafe and Unsound Banking
50	Certification of Compliance with Section 55.4 of Republic Act No. 8791
51	Guidelines on Retention and Disposal of Records of Rural and Cooperative Banks
52	Small And Medium Enterprise Unified Lending Opportunities for National Growth Bank Accreditation Application for Rural and Thrift Banks Eligibility and Documentary Requirements
53	Guidelines on Requests for Monetary Board Opinion on the Monetary and Balance of Payments Implications of Proposed Domestic Borrowings by Local Government Units (LGUs) Pursuant to Section 123 of R.A. No. 7653
54	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
55	Checklist of Bangko Sentral Requirements in the Submission of Financial Audit Report, Annual Audit Report and Reports Required Under Appendix 39
56	Guide in Preparing the Key Information and Investment Disclosure Statement for Unit Investment Trust Funds
57	Format of Risk Disclosure Statement
58	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

No.	Subject Matter
59	Risk-Based Capital Adequacy Framework for the Philippine Banking System
60	Guidelines on the Capital Treatment of Banks' Holdings of Republic of the Philippines Global Bonds Paired with Warrants
61	Guidelines on the Use of the Standardized Approach in Computing the Capital Charge for Operational Risks
62	Risk Based Capital Adequacy Framework for Stand-Alone Thrift Banks, Rural Banks and Cooperative Banks
63	Bangko Sentral Rules of Procedure on Administrative Cases Involving Directors and Officers of Banks
64	Regulatory Requirements in Investing in Credit-Linked Notes, Structured Products and Securities Overlying Securitization Structures by Universal and Commercial Banks
65	Guidelines on the Accounting Treatment for Investments in Credit-Linked Notes (CLNs) and Other Structured Products (SPs)
66	Implementation of the Delivery by the Seller of Securities Directly to the Buyer or to his Designated Securities Custodian/Central Securities Depository
67	Delivery of Government Securities to the Investor's Principal Securities Account with the Registry of Scripless Securities
68	Prompt Corrective Action Framework
69	Guidelines on Supervision By Risk
70	Guidelines on Market Risk Management
71	Guidelines on Liquidity Risk Management
72	Basel III Framework on Liquidity Standards-Liquidity Coverage Ratio
73	Format of Sworn Certification of Compliance with Liquidity Coverage Ratio (LCR) Requirements
74	IT Risk Management Standards and Guidelines Area: IT Audit
75	IT Risk Management Standards and Guidelines Area: Information Security
76	IT Risk Management Standards and Guidelines Area: Project Management/Development, Acquisition and Change Management
77	IT Risk Management Standards and Guidelines Area: IT Operations
78	IT Risk Management Standards and Guidelines Area: IT Outsourcing/Vendor Management
79	IT Risk Management Standards and Guidelines Area: Electronic Banking, Electronic Payment, Electronic Money and Other Electronic Products and Services
80	Authorization Form for Querying the Bangko Sentral Watchlist Files for Screening Applicants and Confirming Appointments of Directors and Officials
81	Financial Reporting Package
82	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)
83	Guidelines in Determining Compliance with Ceilings on Equity Investments
84	Guidelines and Procedures Governing Currency Deposits and Withdrawals of Banks for Credit to and Debit from their Demand Deposit Accounts with the Bangko Sentral
85	Appraisal and Loan Valuation Framework for Rights-Based Secure Tenure Arrangements as Collateral Substitutes

No.	Subject Matter
86	Basic Standards in the Administration of Trust, Other Fiduciary and Investment Management Accounts
87	Risk Management Guidelines for Trust and other Fiduciary Business and Investment Management Activities
88	Guidelines for Days Declared as Public Sector Holidays
89	Guidelines on the Availment of US Dollar Denominated Repurchase Agreement Facility with the Bangko Sentral
90	Guidelines on the Submission of Application for Merger And Consolidation
91	Guidelines on the Collection of the Annual Supervisory Fees
92	Regulatory Relief for Banks Affected by Calamities
93	Additional Special Regulatory Relief to Banks in Areas Severely Affected by Tropical Depression "Yolanda"
94	Guidelines on Banks' Internal Capital Adequacy Assessment Process
95	Guidelines on the Bangko Sentral's Supervisory Review Process
96	Supplemental Guidelines on the Internal Capital Adequacy Assessment Process (ICAAP) and Supervisory Review Process (SRP) for Foreign Bank Branches
97	Effective Interest Calculation Model
98	Guidelines on Outsourcing of Services by Electronic Money Issuers (EMIs) to Electronic Money Network Service Providers (EMNSP)
99	Format of Certification on Compliance with Rules and Regulations on the Reclassification of Real and other Properties Acquired (ROPA) to Bank Premises, Furniture, Fixture and Equipment
100	Guidelines on the Adoption of Philippine Financial Reporting Standards 9 (PFRS 9) Financial Instruments – Impairment
101	Required Certifications and Examples of Supporting Documents for the Confirmation of the Election/Appointment Of Directors/Officers of BSFIs
102	List of Members of the Board or Directors and Officers
103	Documents Required under the Revised Outsourcing Framework for Banks
104	Guidelines for the Treatment of Non-Deliverable Forwards Involving the Philippine Peso
105	Certificate of Compliance on the Provisions of Housing Microfinance Loan
106	Acts Tantamount to the Act of Issuing Pre-Approved Credit Cards
107	Bangko Sentral Issuances on Minimum Capitalization of Banks
108	Guidelines on Reportorial Requirements for Bank Interest Rates
109	Guidelines on the Completion of the Report on Cross-Border Financial Positions
110	Framework for Dealing with Domestically Systemically Important Banks
111	Guidelines on Recovery Plan of a Domestic Systemically Important Bank (DSIB)
112	Guidelines on Europay, Mastercard and Visa (EMV) Implementation
113	EMV Card Fraud Liability Shift Framework (ECFLSF)
114	Operational Guidelines on the Administration of the Personal Equity and Retirement Account (PERA)
115	Guidelines and Procedures Governing the Consumer Assistance Management System (CAMS) of Bangko Sentral-Supervised Financial Institutions
116	Guidelines on the Implementation of the Basel III Leverage Ratio Framework
117	Examples of Minimum Internal Control Measures
118	Framework on the Consolidation Program for Rural Banks (CPRB)

No.	Subject Matter
119	Consolidation Program for Rural Banks Implementing Guidelines
120	Format Certification on Compliance with Requirements on Dividend Declaration
121	Agricultural Value Chain-Business Models
122	Reporting Guidelines and Instructions on Reportorial Template on Repurchase Agreements (REPOs)
123	Guidelines on the Handling of Returned Checks under the Micr/Automated Check Clearing System
124	Guidelines on Granting of a License/Authority
125	Disclosure Requirements in the Annual Report
126	National Retail Payment System (NRPS) Framework
127	Expanded Report on Real Estate Exposures Revised Guidelines and Line Item Instructions
128	Report on Project Finance Exposures Line Item Instructions on the Coverage of Project Finance Exposures
129	Sworn Certification of Compliance with the Minimum Liquidity Ratio Requirement
130	Guidelines on the Bangko Sentra Implementation of the Net Stable Funding Ratio (NSFR)
131	Sworn Certification of Compliance with the Net Stable Funding Ratio (NSFR) Requirements
132	Implementing Guidelines of the Currency Rate Risk Protection Program (CRPP) Facility
133	Implementing Guidelines on the Restructuring Scheme Covering the Rediscounting Obligations with the Bangko Sentral of Rediscounting Banks in the Areas affected by Calamities
134	Guidelines for the Administration of the Unit Investment Trust Fund (UITF) Certification Program
135	Rules of Procedures on Administrative Cases Involving Directors and Officers of BSFI

GUIDELINES FOR THE ISSUANCE OF A UNIVERSAL BANKING AUTHORITY
(Appendix to Sec. 102 on Prerequisites for the Grant of a Universal Banking Authority)

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. 121 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. 104.

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 Bangko Sentral 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. 121 and, if applicable, the merger or consolidation scheme to meet the capitalization requirement as allowed under Sec. 104.

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.

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.

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;

   (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 Bangko Sentral, 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 Sec. 103 on Modes of entry of foreign banks)

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 Republic Act (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. The following documents should be presented: (1) Latest annual report; (2) Basic corporate background: (a) Date and place of incorporation; (b) Number of branches and agencies in the home country; (c) List of foreign branches, agencies, other offices parent (if any), subsidiaries and affiliates, and their location and line of business (if different from banking); and (d) 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;	✓	✓	✓

Entry Criteria	Acquisition of Existing Domestic Bank	Establishment of	
		New Domestic Subsidiary	Branch with Full Banking Authority
(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.	✓	✓	**X**
e. Head Office Guarantee (with sample guarantee)	**X**	**X**	✓
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]	✓	**X**	**X**
i. Other Documentation Requirements			
(1) Agreement between investor and investee domestic bank/Agreement to organize a bank (with sample);	✓	✓	**X**
(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[2,3], and	✓	✓	✓
(8) Payment of franchise fee of P25 million upon approval of application[1].	✓	✓	✓

[1] Also applicable for change in mode of entry (i.e., from subsidiary to branch)
[2] Also applicable for conversion of mode of entry
[3] 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 the legal interest rate 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:

Name	Residence	Citizenship

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:

Name	Residence	Citizenship

4. That the capital stock of said corporation is _____ pesos (P_____) 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:

Name	Residence	Citizenship	Amount to be Subscribed	Paid-In
		Total	_____	_____

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

(Circular No. 858 dated 21 November 2014)

GUIDELINES FOR THE ISSUANCE OF A UNIVERSAL BANKING AUTHORITY FOR BRANCHES OF FOREIGN BANKS
(Appendix to Sec. 103)

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 combined requirement for the Capital Conservation Buffer and Countercyclical Capital Buffer) under Section 34 of R.A. No. 8791, Sec. 103 (*Risk-based capital for foreign bank branch*) and *Appendix 59*, 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 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.

(Circular Nos. 1024 dated 06 December 2018 and 858 dated 21 November 2014)

FORMAT OF AFFIDAVIT ON TRANSACTIONS INVOLVING VOTING SHARES OF STOCKS
[Appendix to Sec. 122]

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 recipent 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 Sec. 122 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 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.

   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 Sections Indicated Below)

A. Banks Applying for Authority to –

a. Establish offices abroad (*Sec. 105 on Requirements for establishing an office abroad*);
b. Accept or create demand deposits (*Sec. 201 on Prerequisites to accept or create demand deposits for thrift banks/ rural banks/cooperative banks*);
c. Accept NOW accounts (*Sec. 221 on Prerequisites to accept negotiable order of withdrawal accounts for thrift banks/ rural banks/cooperative banks*);
d. Issue NCTDs (*Sec. 217 on Prerequisites to issue negotiable certificates of time deposits for thrift banks/rural banks/cooperative banks*);
e. Accept government deposits (*Sec. 231 on Prerequisites for the grant of authority to accept deposits from the Government and government entities*);
f. Engage in quasi-banking operations (*Sec. 241 on Definition of terms and phrases*);
g. Operate an EFCDU/FCDU; and
h. Engage in derivatives transactions *(Sec. 613 on Generally authorized derivatives activities)*

B. Standard Pre-Qualification Requirements	**Banking Authorities** • To establish offices abroad; • To accept demand, NOW, NCTDs; • To accept government deposits; and • To engage in quasi-banking, EFCDU/ FCDU and derivatives transactions
a. The bank has complied, during the period indicated immediately preceding the date of application, with the following:	
(1) Risk-based capital adequacy ratio;	60 days
(2) Ceilings on credit accommodation to DOSRI; and	continuing
(3) Liquidity floor on government deposits;	continuing
b. The bank has not incurred net weekly reserve deficiencies;	8 weeks
c. The bank has generally complied with banking laws, rules and regulations, orders or instructions of the Monetary Board and/or Bangko Sentral Management;	applicable
d. The bank's past due loans do not exceed twenty percent (20%) of its total loan portfolio as of the date of application;	applicable
e. The bank has corrected as of date of application the major violations noted in its latest examination particularly relating to –	
(1) single borrower's limit; and	applicable
(2) 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;	applicable
f. The bank's accounting records, systems, procedures and internal control systems are satisfactorily maintained;	applicable

g.	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;	applicable
h.	The bank has no past due obligation with the Bangko Sentral or with any FI as of date of application;	applicable
i.	The bank's facilities pertinent to the authority applied for are adequate;	applicable
j.	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;	applicable
k.	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;	applicable
l.	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;	applicable
m.	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;	not applicable
n.	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);	not applicable
o.	The bank has set up the prescribed allowances for probable losses, both general and specific, as of date of application;	not applicable
p.	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)	not applicable

(Circular Nos. 987 dated 28 December 2017))

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 Sec. 413)

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 Bangko Sentral 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 Bank	The amount required under Foreign Bank existing regulations
Thrift Banks	₱650.0 million or such amounts as may be required by the Monetary Board in the future
NBFIs	Adjusted capital of at least ₱300.0 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 Bangko Sentral Management in the last two (2) preceding examinations prior to the date of application, particularly on the following:

(1) election of at least two (2) independent directors;
(2) attendance by every member of the board of directors in a special seminar for board of directors conducted or accredited by the Bangko Sentral;
(3) the ceilings on credit accommodations to DOSRI;
(4) liquidity floor requirements for government deposits;
(5) single borrower's 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 Bangko Sentral;

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 Bangko Sentral" 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
PRIMARY REPORTS						
A. UBs/KBs						
A-1	Form 2B/2B.1 (BSP-7-16-03)	Section 175 (M-020 dated 04.22.14, M-026 dated 06.23.14 as amended by Cir. Nos. 890 dated 11.02.15, 963 dated 06.27.17, M-028 dated 09.11.17, and 976 dated 10.10.17)	Balance Sheet (BS)/Consolidated Balance Sheet (CBS)	Quarterly	12th banking day from date of Call Letter	sdckb-pbs@bsp.gov.ph or CD to SDC
			Published BS/CBS		20 banking days from the date of the Call Letter	
A-1	Unnumbered	Section 172 M-015 dated 03.24.14, 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, M-008 dated 06.23.16, Cir. No. 963 dated 06.27.17 and M-028 dated 09.11.17)	Financial Reporting Package (FRP)			sdckb-frp@bsp.gov.ph
			Balance Sheet (FRP)			
			-Solo basis (Head Office and Branches)	Monthly	15th banking day after end of reference month	SDC[2] sdckb-frp@bsp.gov.ph
			-Consolidated basis[1]	Quarterly	30 banking days after end of reference quarter	do
			-Control Prooflist			do
			Income Statement (FRP):			
			-Solo basis (Head Office and branches)	Monthly	15 banking days after end of reference month	do
			-Consolidated basis[1]	Quarterly	30 banking days after end of reference quarter	do
			-Control Prooflist			
			Schedules (Solo Report):			
			1 - Checks and Other Cash Items (COCI)	Monthly	15 banking days after end of reference month	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	15 banking days 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	15 banking days 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

[1] Applicable to parent banks with subsidiary banks and other financial allied undertakings excluding insurance companies

[2] Control Prooflist duly signed by the authorized official of the reporting bank and a Notary Public, shall be electronically submitted within the prescribed deadline to sdckb-frp@bsp.gov.ph

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure/ e-mail Address
			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	15 banking days after end of reference quarter	sdckb-frp@bsp.gov.ph
			6b to 6b4 - Available-for-Sale Financial Assets- Classified as to Status	do	15 banking days after end of reference quarter	do
			6c to 6c4 - Available-for-Sale Financial Assets Movements in Allowances for Credit Losses	Annually	15 banking days after end of reference year	do
			7 - Held to Maturity (HTM) Financial Assets	Monthly	15 banking days 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	15 banking days after end of reference quarter	do
			7b - Fair Value of Held to Maturity (HTM) Financial Assets	Annually	15 banking days after end of reference year	do
			7c to 7c4 - Held to Maturity Financial Assets Classified as to Status	Quarterly	15 banking days after end of reference quarter	do
			7d to 7d4 - Held to Maturity Financial Assets Movements in Allowances for Credit Losses	Annually	15 banking days after end of reference year	do
			8 - Unquoted Debt Securities Classified as Loans	Monthly	15 banking days after end of reference month	do
			8a - Fair Value of Unquoted Debt Securities Classified as Loans	Annually	15 banking days after end of reference year	do
			8b to 8b4 - Unquoted Debt Securities Classified as Loans Classified as to Status	Quarterly	15 banking days after end of reference quarter	do
			8c to 8c4 - Unquoted Debt Securities Classified as Loans-Movements in Allowances for Credit Losses	Quarterly	15 banking days after end of reference quarter	sdckb-frp@bsp.gov.ph
			9 - Investment in Non-Marketable Equity Securities	Monthly	15 banking days 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	15 banking days after end of reference quarter	do
			11d to 11d4 - Gross Loans and Receivables – Others Classified as to Type of Business/ Industry of Counterparty	Monthly	15 banking days after end of reference month	do
			11e to 11e4 - Loans and Receivables – Others Classified as to Status per PAS 39	Annually	15 banking days after end of reference year	do

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure/ e-mail Address
			11f - Schedule of Agri/Agra, Microfinance and SME Loans and Receivables Classified as to Counterparty	Monthly	15 banking days after end of reference month	do
			11g1 - Real Estate Exposure[1]	Quarterly	15th banking day after end of reference quarter	SDC[2] sdctb-frp@bsp.gov.ph
			11g2 - Investment in Debt and Equity Securities Issued by Real Estate Companies[1]	do	do	do
			11g3 - Original Maturity and Earliest Repricing of Real Estate Exposure[1]	do	do	do
			12 - Loans and Receivables Arising from Repurchase Agreements, Certificates of Assignment/Participation with Recourse and Securities Lending and Borrowing Transactions	Monthly	15 banking days 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	15 banking days after end of reference quarter	do
			13 - Fair Value Adjustments in Hedge Accounting	do	do	do
			13a - Derivatives Held for Fair Value Hedge	do	do	do
			13b - Derivatives Held for Cash Flow Hedge	do	do	do
			13c - Derivatives Held for Hedges of Net Investment in Foreign Operations	do	do	do
			13d - Financial Derivatives Held for Portfolio Hedge of Interest Rate Risk (Market to Market Amount)	do	do	do
			14 - Accrued Interest Income/Expense from Financial Assets and Liabilities	Quarterly	15 banking days after end of reference quarter	sdckb-frp@bsp.gov.ph
			15 - Equity Investment in Subsidiaries, Associates and Joint Ventures	Monthly	15 banking days after end of reference month	do
			15a - Equity Investment in Subsidiaries, Associates and Joint Ventures – Classified as to Nature of Business	Quarterly	15 banking days 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	15 banking days 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	15 banking days after end of reference month	do

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure/ e-mail Address
			20 - Breakdown of Due from and Due to Head Office/Branches/Agencies Abroad - Philippine Branch of Foreign Banks	Monthly	15 banking days after end of reference month	sdckb-frp@bsp.gov.ph
			21 - Liability for Short Position	Quarterly	15 banking days after end of reference quarter	do
			22 - Deposit Liabilities Classified as to Type of Deposit	Monthly	15 banking days after end of reference month	do
			22a - Deposit Liabilities by Size of Accounts Excluding Deposits in Foreign Offices/Branches	Quarterly	15 banking days after end of reference quarter	do
			23 - Due to Other Banks	Monthly	15 banking days after end of reference month	do
			24 - Bills Payable	do	do	do
			25 - Bonds Payable, Unsecured Subordinated Debt and Redeemable Preferred Shares	Quarterly	15 banking days after end of reference quarter	do
			26 - Fair Value of Financial Liabilities	Annually	15 banking days after end of reference year	do
			27 - Financial Liabilities Associated with Transferred Assets	Quarterly	15 banking days after end of reference quarter	do
			28 - Other Liabilities	Monthly	15 banking days after end of reference month	do
			29 - Interest Income/Expense from Financial Instruments	Quarterly	15 banking days after end of reference quarter	do
			29a - Interest Income from Due from Other Banks Classified as to Type of Deposits	Quarterly	15 banking days after end of reference quarter	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

[1] Schedules 11g1 up to 11g3 of the Financial Reporting Package for Banks shall no longer be submited starting quarter-ending 30 June 2018.

[2] Control Prooflist duly signed by the authorized official of the reporting bank and a Notary Public, shall be electronically submitted within the prescribed deadline to sdckb-frp@bsp.gov.ph

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure/ e-mail Address
			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	Quarterly	15 banking days after end of reference quarter	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	Quarterly	30 banking days after end of reference quarter	sdckb-frp@bsp.gov.ph
			1 - Checks and Other Cash Items	do	do	do
			2 - Due from Other Banks	do	do	do
			3 - Financial Assets Held for Trading	do	do	do
			3a - Breakdown of Held for Trading (HFT) Financial Assets Purchased/Sold/Lent Under Repurchase Agreements, Certificates of Assignment/Participation with Recourse, Securities Lending and Borrowing Agreements	do	do	do
			4 - Derivatives Held for Trading (HFT)	do	do	do
			4a - Derivatives Held for Trading-Matrix of Counterparty and Type of Derivative Contracts	do	do	do
			5 - Financial Assets Designated at Fair Value through Profit or Loss	do	do	do
			6 - Available-for-Sale Financial Assets	do	do	do

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure/ e-mail Address
			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
			6c - Available-for-Sale Financial Assets Movements in allowances for credit losses	Annually	30 banking days after end of reference year	sdckb-frp@bsp.gov.ph
			7 - Held to Maturity (HTM) Financial Assets	Quarterly	30 banking days 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	30 banking days after end of reference year	do
			7c - Held to Maturity Financial Assets Classified as to Status	Quarterly	30 banking days after end of reference quarter	do
			7d - Held to Maturity Financial Assets Movements in Allowances for Credit Losses	Annually	30 banking days after end of reference year	do
			8 - Unquoted Debt Securities Classified as Loans	Quarterly	30 banking days after end of reference quarter	do
			8a - Fair Value of Unquoted Debt Securities Classified as to Status	Annually	30 banking days after end of reference year	do
			8b - Unquoted Debt Securities Classified as Loans Classified as to Status	Quarterly	30 banking days after end of reference quarter	do
			8c - Unquoted Debt Securities Classified as Loans Movements in allowances for Credit Losses	Annually	30 banking days after end of reference year	do
			9 - Investment in Non-Marketable Equity Securities	Annually	30 banking days after end of reference year	sdckb-frp@bsp.gov.ph
			10 - Interbank Loans Receivables	Quarterly	30 banking days 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

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure/ e-mail Address
			11e - Loans and Receivables – Others Classified as to status per PAS 39	Annually	30 banking days 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	30 banking days after end of reference quarter	do
			11g1 - Report on Real Estate Exposure[1]	Quarterly	30th banking day after end of the reference quarter	SDC[2] sdckb-frp@bsp.gov.ph
			11g2 - Investment in Debt and Equity Securities Issued by Real Estate Companies[1]	do	do	do
			11g3 - Original Maturity and Earliest Repricing of Real Estate Exposure[1]	Quarterly	30 banking days after end of reference quarter	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
			15 - Equity Investment in Subsidiaries, Associates and Joint Ventures	Quarterly	30 banking days after end of reference quarter	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

[1] Schedules 11g1 up to 11g3 of the Financial Reporting Package for Banks shall no longer be submited starting quarter-ending 30 June 2018.

[2] Control Prooflist duly signed by the authorized official of the reporting bank and a Notary Public, shall be electronically submitted within the prescribed deadline to sdckb-frp@bsp.gov.ph

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure/ e-mail Address
			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	30 banking days 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	30 banking days 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
			22 - Deposit Liabilities Classified as to Type of Deposit	Quarterly	15 banking days after end of reference quarter	sdckb-frp@bsp.gov.ph
			22a - Deposit Liabilities by Size of Accounts Excluding Deposits in Foreign Offices/ Branches	do	30 banking days 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	30 banking days after end of reference year	do
			27 - Financial Liabilities Associated with Transferred Assets	Quarterly	30 banking days 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
			29c - Interest Income from Interbank Loans Receivables	Quarterly	30 banking days after end of reference quarter	sdckb-frp@bsp.gov.ph

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure/ e-mail Address
			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
			36 - Depreciation/Amortization Expense	Quarterly	30 banking days after end of reference quarter	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

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure/ e-mail Address
A-1	Unnumbered	Section 107 (Cir. No. 842 dated 07.25.14, as amended by M-2016-024 dated 12.28.16, Cir. No. 963 dated 06.27.17, M-028 dated 09.11.17, Cir. No. 976 dated 10.10.17 and M-038 dated 12.28.17)	Basel III Capital Adequacy Ratio (CAR) Report and Control Prooflist			sdckb-Basel3CAR@bsp.gov.ph
			Basel III CAR Summary Report			sdckb-CARsummary@bsp.gov.ph
			- solo basis (head office and branches)	do	15 banking days after end of reference quarter	
		Section 123 (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, Cir. Nos. 903 dated 02.29.16, 963 dated 06.27.17 and M-028 dated 09.11.17)	- consolidated basis (applicable to parent banks and other financial allied undertakings excluding insurance companies)	do	30 banking days after end of reference quarter	
A-1		Section 363 (M-020 dated 04.22.14, Cir. Nos. 890 dated 11.02.15, 963 dated 06.27.17, M-028 dated 09.11.17 and 976 dated 10.10.17)	Expanded Report on Real Estate Exposures (solo and consolidated) - Consolidated (Parent banks with subsidiary banks and other financial allied undertakings excluding insurance companies)	Quarterly[1]	Within 30 banking days after end of the reference quarter	sdckb-ree@bsp.gov.ph
A-1		Section 363 (Cir. No. 976 dated 10.10.17, M-19 dated 6.11.18, M-20 dated 6.22.18)	Revised Expanded Report on Real Estate Exposures (solo and consolidated) - Bank Report (solo report of the bank proper and trust departments of covered banks) Schedules (Bank Report): • Bank Proper and Trust Department • Schedule 1 - Bank Proper • Schedule 2 - Trust Department	One-time	Within 45 banking days from 31 March 2018	sdckb-ree@bsp.gov.ph
			- Bank Group Report (consolidated report of the banking group and their trust departments) Schedules (Banking Group Report): Consolidated real estate exposures of the Banking Group and aggregate real estate exposures of their trust departments • Banking Group and its Trust Department(s) • Schedule 1 - Banking Group • Schedule 2 - Trust Department(s)	Quarterly[1]	Within 30 banking days after the end of the reference quarter	sdckb-ree@bsp.gov.ph

[1] Submission of the ERREE shall be discontinued starting 30 June 2018.

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure/ e-mail Address
A-1		Section 173 (Cir. No. 976 dated 10.10.17 M-19 dated 6.11.18, M-20 dated 6.22.18)	Report on Project Finance Exposures (solo and consolidated basis)	One-time	Within 45 banking days from 31 March 2018	
			- Bank Report (solo report of the bank proper and trust departments of covered banks) Schedules (Bank Report): • Bank Proper and Trust Department • Schedule 1 - Bank Proper • Schedule 2 - Trust Department	Quarterly[1]	Within 30 banking days from the end of the reference quarter	
			- Bank Group Report (consolidated report of the banking group and their trust departments) Schedules (Banking Group Report): Consolidated project finance exposures of the Banking Group and aggregate real estate exposures of their trust departments • Banking Group and its Trust Department(s) • Schedule 1 - Banking Group • Schedule 2 - Trust Department(s)			
A-1	Unnumbered	Section 613	Derivatives Report Schedules: Report on Outstanding Derivatives Contracts (Stand - Alone - RBU, Stand - Alone - FCDU, Hybrid) Report on Trading (Gains/Losses) on Financial Derivatives	Monthly	15th banking day after end of reference month	CMSG cc: SDC at cmsg@bsp.gov.ph
			Certification (Hard Copy)	do	do	CMSG cc mail: SDC sdckb-pfrs@bsp.gov.ph
A-1	Unnumbered	Section 122 (Cir. No. 888 dated 10.09.15)	Report on Dividends Declared		10th banking/business day after date of dividend declaration	Appropriate supervicing department of the Bangko Sentral
A-1	Unnumbered	Sections 172 and 381 (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
A-1	Unnumbered	(M-020 dated 04.22.14 as amended by Cir. No. 890 dated 11.02.15, Cir. No. 963 dated 06.27.17 and M-028 dated 09.11.17)	Supplementary Report on Early Adoption of PFRS 9			
			- Solo (applicable to early adopter BSFIs)	Monthly	15 banking days after end of reference month	sdckb-pfrs@bsp.gov.ph
			- Consolidated (applicable to early adopter BSFIs)	Quarterly	30 banking days after end of reference quarter	do

[1] Effective starting quarter ending 30 June 2018.

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure/ e-mail Address
A-1	Unnumbered	Section 136 (Cir. Nos. 895 dated 12.14.15, 917 dated 07.08.16 and 969 dated 08.22.17)	Report on Conglomerate Structures[1]	Annually	30 calendar days after the end of calendar year	Hardcopy to the appropriate supervising department of the Bangko Sentral
A-1	Unnumbered	Section 132 (Cir. No. 969 dated 08.22.17	Appointment of the Chief Risk Officer	As changes occur	5 calendar days from the time of approval of the board of directors	Appropriate supervising department of the Bangko Sentral
A-1	Unnumbered	Section 136 (Cir. Nos. 895 dated 12.14.15, 917 dated 07.08.16 and 969 dated 08.22.17)	Report on Material Related Party Transactions	Quarterly	20 calendar days after end of reference quarter	Hard copy to the appropriate supervising department of the Bangko Sentral
A-1		Section 127 (Cir. No. 881 dated 06.09.15 and M-026 dated 07.16.15 as amended by Cir. No. 890 dated 11.02.15, Cir. Nos. 903 dated 02.29.16, 963 dated 06.27.17 and M-028 dated 09.11.17)	Basel III Leverage Ratio (BLR) Report			
			- Solo basis (head office and branches)	Semestral	15 banking days after end of reference semester	sdckb-leverage@bsp.gov.ph
			- Consolidated basis (applicable to parent UBs/KBs with subsidiary banks and other financial allied undertakings excluding insurance companies)	do	30 banking days after end of reference semester	do
A-1	Unnumbered	Section 126 (Cir. No. 856 dated 10.25.14, as amended by M-004 dated 01.12.15, Cir. No. 963 dated 06.27.17 and M-028 dated 09.11.17)	Report on Selected Accounts and Activities for the Identification of Domestic Systemically Importatnt Banks[1]	Semestral	30 banking days after end of reference semester	sdckb-dsib@bsp.gov.ph
A-1	Unnumbered	Section 145-A (Circular No. 905 dated 03.10.16, as amended by M-010 dated 06.27.16, Cir. No. 963 dated 06.27.17, M-028 dated 09.11.17, Cir. No. 996 dated 2.8.18 and M-006 dated 2.7.18 and M-008 dated 2.11.18)	Basel III Liquidity Coverage Ratio Report (LCR)[2]			
			Solo	Monthly[3]	15 banking days from measurement date	sdkb-lcr@bsp.gov.ph
			Consolidated	Quarterly	30 banking days from measurement date	-do-
A-1		Section 299 (Circular No. 885 dated 08.14.15, as amended by Cir. No. 963 dated 06.27.17 and M-028 dated 09.11.17)	Broker Customer Accounts for Settlement of Customer Trades - Cash Accounts / Securities Accounts [4] - End-of-week balance	Monthly	15 banking days after end of reference month	sdckb-brokering@bsp.gov.ph
A-1		Section 145 (Circular No. 1007 dated 6.6.18, M-28 dated 10.5.18)	Basel III Net Stable Funding Ratio Report			
			Solo	Monthly	15 banking days from measument date	sdckb-nsfr@bsp.gov.ph
			Consolidated	Quarterly	30 banking days from measument date	

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

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure/ e-mail Address
A-2	DCB I/II Form 1 (Revised June 2001)	Sections 256 and 173 (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, Cir. Nos. 903 dated 02.29.16, 963 dated 06.27.17 and M-028 dated 09.11.17, M-005 dated 02.7.18)	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	3 banking days after end of reference week	sdckb-cdrc@bsp.gov.ph
A-2	Unnumbered	Section 418 (As amended by M-020 dated 04.22.14, Cir. No. 890 dated 11.02.15, 963 dated 06.27.17 and M-028 dated 09.11.17,)	Report on Peso-Denominated Common Trust Fund and Other Similarly Managed Funds (CTF)	Weekly	3 banking days after end of reference week	sdckb-trust@bsp.gov.ph
A-2	Unnumbered	Section 418 (M-020 dated 04.22.14, Cir. Nos. 890 dated 11.02.15, 963 dated 06.27.17 and M-028 dated 09.11.17)	Reserve Required on Trust and Other Fiduciary Accounts (TOFA)	do	3 banking days after end of reference week	do
A-2	Unnumbered	Section 436 (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, Cir. Nos. 920 dated 08.18.16, 963 dated 06.27.17 and M-028 dated 09.11.17)	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 do	20 banking days after the end of reference quarter do	sdckb-frpti@bsp.gov.ph do
A-2	Unnumbered (no prescribed form)	Section 132 (As amended by Cir. Nos. 887 dated 10.07.15 and 969 dated 08.22.17)	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 supervising department of the Bangko Sentral
A-2	Unnumbered	(M-020 dated 04.22.14, Cir. No. 836 dated 06.13.14, M-024 dated 06.23.14, Cir. Nos. 890 dated 11.02.15, 963 dated 06.27.17 and M-028 dated 09.11.17)	Income Statement on Retail Microfinance Operations	Quarterly	15 banking days after end of the reference quarter	sdckb-micro@bsp.gov.ph

[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] Monthly reporting beginning measurement date 01 January 2018 pursuant to Circular No. 905 dated 10 March 2016.

[4] Beginning with the reporting period ending 30 September 2015.

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure/ e-mail Address
			Control Prooflist	do	do	
A-2	Unnumbered	Section 147	Self-Assesment and Certification of Compliance with Rules and Regulations on Bank Protection/Updated Security Program	Annually	On or before 30 January	Appropriate supervising department of the Bangko Sentral
A-2	DCB I/II Form 4 (BSP 7-16-11)	Section 173	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 supervising department of the Bangko Sentral
A-2	BSP-7-16-32 A (Rev. August 2003)	Section 173 (M-020 dated 04.22.14 as amended by Cir. Nos. 890 dated 11.02.15, 963 dated 06.27.17 and M-028 dated 09.11.17)	Report on Credit and Equity Exposures to Individuals/Companies/Groups aggregating P1.0 million and above (CREDEX)	Quarterly	15 banking days after end of reference quarter	srso-credex@bsp.gov.ph
A-2	Unnumbered	Section 173 (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 supervising department of the Bangko Sentral
			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	
		Section 173 (Cir. No. 866 dated 01.07.15)	List of bank personnel performing underwriting functions	do	do	Appropriate supervising department of the Bangko Sentral
			Notarized Certification	do	do	
A-2	Unnumbered	Section 383 (M-020 dated 04.22.14, M-035 dated 09.16.14, Cir. Nos. 890 dated 11.02.15, 963 dated 06.27.17 and M-028 dated 09.11.17)	Notice to Bangko Sentral on BOD's approval of the bond issue	Quarterly	20 banking days after end of reference quarter	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			
		Section 181 (Cir. No. 848 dated 09.08.14)	Bank Deposit Interest Rate	Semestral	20th banking day after end of reference quarter	
A-2	Unnumbered	1603.2	Copy of the qualified client's Application for the BSP currency Rate Risk Protection Program (The "CRPP Facility"	Per Availment	Not later than 5:00 PM the banking day following the date of availment	crpp@bsp.gov.ph
			Certification and Deed of undertaking on the Availment of CRPP Transactions with the Bangko Sentral	do	do	do
			Details of Availments of CRPP Transactions with Clients	do	do	do
			Certfication on the Pre-termination of CRPP Transactions with the Bangko Sentral	Per Pre-termination	Not later than 5:00 PM the banking day following the date of pre-termination	do

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure/ e-mail Address
			Details of Pre-terminated CRPP Contracts with Clients	do	do	do
A-3	DES-RREPI (Form I)	Section 173 (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)	Sections 345 and 413	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 supervising department of the Bangko Sentral, as combined report w/ Form 5 above
A-3	DCB I/II Form 5A (BSP-7-16-07-B)	Sections 344 and 413	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 supervising department of the Bangko Sentral, as supporting schedules to Form 5A above
A-3	SES I/VI Form 5A.1 (BSP-716-07B.1)	Sections 344 and 413	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 supervising department of the Bangko Sentral
A-3	DCB I/II Form 5B (BSP-7-16-13)	Sections 346 and 413	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)	Section 346	Report on Compliance with Section 36 of 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
			Transmittal of Board resolution/Written approval on credit Accommodation to DOSRI in compliance with Sec. 36 R.A. No. 8791			
A-3	Unnumbered	Section 342	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
A-3	DCB I/II Form 2E	Section 173	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 supervising department of the Bangko Sentral
			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	Section 173	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 supervising department of the Bangko Sentral

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure/ e-mail Address
DES/IOD Reports:						
A-3	Unnumbered		Report on Borrowings of BSP Personnel	do	do	Hard Copy to SDC
A-2	Unnumbered	Appendix 57 (Cir. No. 926 dated 09.13.16, as amended by Cir. No. 948 dated 03.01.17)	Sworn Certification on Lending to Local Government Units	Semestral	15 banking days after end of reference semester	Hardcopy to the appropriate supervising department of the Bangko Sentral
A-2	Unnumbered	Appendix 57a (Cir. No. 926 dated 09.13.16, as amended by Cir. No. 948 dated 03.01.17)	Sworn Certification on Lending to Borrowing Government Entities	Semestral	15 banking days after end of reference semester	Hardcopy to the appropriate supervising department of the Bangko Sentral
A-3	FX Form 1 Sch. 1 (Formerly FED Form I, Sch.16)	Section 173	Consolidated Foreign Exchange Assets and Liabilities in Original Currency - RBU & FCDU	Monthly	15th banking day after end of reference month	cc: Mail to appropriate supervising department of the Bangko Sentral/DES/ID
SECONDARY REPORTS						
A. UBs/KBs						
	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 supervising department of the Bangko Sentral)
A-2	Unnumbered	(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, Cir. No. 963 dated 06.27.17 and M-028 dated 09.11.17)	Report on Microfinance Products	Monthly	15 banking days after end of the reference month	sdckb-micro@bsp.gov.ph
			Control Prooflist	do	do	
A-3	BSP 7-16-27	Section 173 (M-020 dated 04.22.14, M-036 dated 10.09.15, Cir. No. 890 dated 11.02.15, Cir. No. 903 dated 02.29.16, 963 dated 06.27.17 and M-028 dated 09.11.17)	Report on Compliance with the Mandatory Agri-Agra Credit (Agri-Agra)	Quarterly	15 banking days after end of reference quarter	sdckb-agra@bsp.gov.ph
			Control Prooflist	do	do	do
A-3	Unnumbered	Section 312 (M-020 dated 04.22.14, Cir. No. 890 dated 11.02.15, M-002 dated 03.10.16 and, Cir. No. 963 dated 06.27.17 and M-028 dated 09.11.17)	Credit Card Business Activity Report (applicable to FIs with Credit Card Operations)	do	do	sdc-ccbar@bsp.gov.ph

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure/ e-mail Address
A-3	DCB I/II Form 6	Section 332 (As amended by Cir. Nos. 890 dated 11.02.15, 963 dated 06.27.17 and M-028 dated 09.11.17, M-22 dated 8.10.2018)	Report on Compliance with Mandatory Credit Allocation Required by R.A. No. 6977 (as amended by R.A. Nos. 8289 and 9501) (MSME) (Solo and Consolidated Reports) Schedules: 1A - Computation of Total Loan Portfolio for Purposes of Determining Amount of Mandatory Credit Allocation for MSMEs 1A-1 - Wholesale Lending of a Bank to Conduit NBFIs w/o QB Authority other than those for On-Lending to MSMEs 1A-2 - Loans Granted under Special Financing Program other than for MSMEs 1A-3 - Loans Granted to MSMEs other than to BMBEs which are Funded by Wholesale Lending of or Rediscounted with Another Bank 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	Quarterly	15 banking days after end of reference quarter	sdckb-sme@bsp.gov.ph
			Control Prooflist, duly notarized and signed by the authorized official	do	do	Via Fax at (632) 5233461 or 5230230
B	SES Form 6G	Section 173 (As amended by Cir. No. 1019 dated 10.31.18, 963 dated 06.27.17 and M-028 dated 09.11.17)	Report on Crimes and/or Losses (RCL) Initial Report	As crimes or incident occur	Not later than ten (10) calendar days from knowledge of crime/incident	sdckb-rcl@bsp.gov.ph
		Section 148	Complete/Final Report	do	Not later than twenty (20) calendar days from termination of investigation	do
B	DCB I/II Form 6C (BSP 7-16-20)		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 supervising department of the Bangko Sentral
B	DCB I/II Form 6E (BSP 7-16-16)	Section 108	Report on New Schedule of Banking Days/Hours	As changes occur	7th banking day before the intended effectivity of the change	do
B	DCB I/II Form 6F (BSP 7-16-18)	Section 137 (As amended by Cir. Nos. 887 dated 10.07.15, 890 dated 11.02.15 and 969 dated 08.22.17)	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	Upon every election/re-election or appointment/ promotion or if change in name occurs or if requesting	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 supervising department of the Bangko Sentral

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure/ e-mail Address
			If sent by electronic mail - Notarized first page of Biographical Data or Notarized list of names of Directors/Officers whose Biographical Data were submitted thru electoric mail to be faxed to SDC	for approval of interlocks	20th banking day from the date change of name occurred	do
		Section 137 (As amended by Cir. Nos. 887 dated 10.07.15 and 969 dated 08.22.17)	Certification under oath of the independent director that he/she is an independent director as defined under Subsec. X141.1g and that all the information thereby supplied are true and correct	Upon election	20th banking day from date of election	do
		Section 137 (As amended by Cir. Nos. 887 dated 10.07.15 and 969 dated 08.22.17)	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)	Section 132 (As amended by Cir. Nos. 887 dated 10.07.15 and 969 dated 08.22.17)	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	
		Section 138 (As amended by Cir. No. 969 dated 08.22.17)	Verified statement of director/officer that he/she has all the qualifications and none of the disqualifications	After election or appointment and as changes occur	7th banking day as changes occur or after election/appointment	Hard copy to appropriate supervising department of the Bangko Sentral
B	Unnumbered	Section 137 (As amended by Cir. No. 969 dated 08.22.17)	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	Unnumbered (no prescribed form)	Section 138 (As amended by Cir. No. 969 dated 08.22.17)	Report on Disqualification of Director/Officer	As disqualification occurs	Within 72 hours from receipt of report by the BOD	Appropriate supervising department of the Bangko Sentral
B	DCB I/II Form 6H (BSP-7-16-21)	Section 143 (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 supervising department of the Bangko Sentral
B	Unnumbered	Section 173	Report on Consolidated Financial Statements of Banks and their Subsidiaries Engaged in Allied Financial Undertakings together with audited financial reports of such subsidiaries	Annually	120th calendar day after the end of reference year or adopted fiscal period	do
B	Unnumbered	Section 175 (Cir. No. 956 dated 04.17.17)	Annual Report of Management to Stockholders Covering Results of Operations for the Past Year	Annually	Non-government banks - 180th calendar day after the close of the calendar/fiscal year elected by the bank	Soft copy in Portable Document Format (PDF) with covering transmittal letter - Appropriate supervising department of the Bangko Sentral
					Government banks - 100th calendar day after the close of the calendar/fiscal year elected by the bank	do
B	Unnumbered	Section 175 (Cir. No. 956 dated 04.17.17)	Annual Report Assessment Checklist (ARAC)	do	Non-government banks - 180th calendar day after the close of the calendar/fiscal year elected by the bank	Hard copy to appropriate supervising department of the Bangko Sentral
					Government banks - 100th calendar day after the close of the calendar/fiscal year elected by the bank	do
B	Unnumbered	Section 174	Financial Audit Report - Bank Proper	do	120th calendar day after the	do

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure/ e-mail Address
			a. Audited Financial Statements[1] b. Opinion of the Auditor Together with attachments listed in Appendix 61		close of the calendar or fiscal year	
B		Section 437	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	Section 174	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	Section 437	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	Section 173	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
B	Unnumbered	Section 173	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 supervising department of the Bangko Sentral
			Report on Change of Required Information on Bank's Profiles, Organizational Structure and Operating Policies	do	do	do
B	Unnumbered	Section 173 (Circular No. 923 dated 08.31.16, as amended by M-2016-025 dated 12.28.16, M-020 dated 06.28.17.17 and M-021 dated 07.12.17)	Report on Repurchase Agreements (REPO Report)	Monthly[1]	30 banking days after end of reference month	sdckb-repo@bsp.gov.ph
B	Unnumbered	Section 217	Registry Bank Report of Compliance with Prohibition on Holdings of LTNCTDs	Monthly	10th banking day after end of reference month	Original – Appropriate supervising department of the Bangko Sentral
B	Unnumbered	Section 278	Certification of Compliance with Section 55.4 of R.A. No. 8791(prohibits banks from employing casual, non-regular personnel)	Monthly	7th banking day after end of June and Dec.	Original and duplicate-Appropriate supervising department of the Bangko Sentral
B	Unnumbered		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 supervising department of the Bangko Sentral
B		Section 413	Waiver of the Confidentiality of Information under Sections 2 and 3 of R.A. No. 1405, as amended	As transaction occurs		Appropriate supervising department of the Bangko Sentral
B			Disclosure Statement on SPV Transactions	Quarterly	15th banking day after end of reference quarter	Hard Copy to SDC
B	Form 1 Schedule 1	Section 702 (M-020 dated 04.22.14 as amended by Cir. Nos. 890 dated 11.02.15, 963 dated 06.27.17 and M-028 dated 09.11.17)	Report on Electronic Money Transactions (applicable to Electonic Money Issuers) Statement of E-Money Balances and Activity - Volume of Amount of E-Money Transactions Schedule	do	15 banking days after end of reference quarter	sdckb-emoney@bsp.gov.ph

1 - E - Money Balances

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure/ e-mail Address
B		Section 173 (Cir. 850 dated 09.08.14, as amended by M-021 dated 04.22.15, Cir. No. 890 dated 11.02.15, Cir. Nos. 903 dated 02.29.16, 963 dated 06.27.17 and M-028 dated 09.11.17)	Report on Cross-Border Financial Positions	do	30 banking days after end of reference quarter	sdckb-rcbp@bsp.gov.ph
B		(Cir. 857 dated 11.21.14, M-17 dated 5.10.18)	Complaints Report	Quarterly	Not later than one (1) month after the end of every quarter	SDC sdctb-bccr@bsp.gov.ph
	Unnumbered	Section 184 (Cir. 1019 dated 10.31.18, M-020 dated 04.22.14 as amended by Cir. Nos. 890 dated 11.02.15, 963 dated 06.27.17 and M-028 dated 09.11.17, Cir. No. 1019 dated 10.31.18)	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. Nos. 890 dated 11.02.15, 963 dated 06.27.17 and M-026 dated 09.11.17)	Registration Form (E-correspondences)	As changes occur		sdckb-rf@bsp.gov.ph
	Unnumbered	Sec. 105 (M-17 dated 17 May 2018)	BSP-Supervised Institutions (BSFIs)Consolidated Complaints Report (BCCR)	Quarterly	20 banking days after end of each reference quarter	sdckb-bccr@bsp.gov.ph
DES/IOD Reports:						
B	RS Form 1A (CBP 5-17-30 (Revised July 2001)	Section 173	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)	Section 173	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)	Section 173	Daily Report on Volume of Money Market Transactions	Daily	Not later than 3:00 p.m. on reference day	do
B	RS Form 2A (BSP 5-17-33) (Revised July 2001)	Section 173	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

[1] Solo and Consolidated Basis

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

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

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure/ e-mail Address
B	TCRKB.dbf		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
	Unnumbered	Section 316	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	(As amended by M-020 dated 04.22.14, Cir. Nos. 890 dated 11.02.15, 963 dated 06.27.17 and M-028 dated 09.11.17)	Report on Non-Deliverable Forward Transactions against Philippine Peso Control Prooflist	do	2 banking days after end of reference date	sdc-ndf@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
	Unnumbered		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 sdcfxkbfor@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 supervising department of the Bangko Sentral
B	Unnumbered		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-020 dated 04.22.14 as amended by Cir. Nos. 890 dated 11.02.15, 963 dated 06.27.17 and M-028 dated 09.11.17, Cir. 987 dated 12.18.17 and M-016 dated 4.17.18)	Report on the Inventory of Banking Network Affidavit	Quarterly	20 banking days after the end of the reference quarter	sdckb-ibn@bsp.gov.ph
B	Unnumbered	(M-002 dated 01.27,14, M-032[2] dated 08.11.14 as amended by Cir. Nos. 890 dated 11.02.15, 963 dated 06.27.17 and M-028 dated 09.11.17)	Stress Testing Report Covering Credit and Market Risk	Semestral	30 banking days from end of reference semester	sdckb-stresstesting@bsp.gov.ph
			- UB/KB and Subsidiary TBs - Control Prooflist			
B	Unnumbered	Sec. 148	Reportable Major Cyber-Related Incidents	As Incidents occur	Within two (2) hours upon discovery Within twenty-four (24) hours from discovery	citsg@bsp.gov.ph citsg@bsp.gov.ph
B	Unnumbered	Sec. 148	Disruptions of financial services and operations.	As disruptions occur	Within two (2) hours upon discovery Within twenty-four (24) hours from discovery	citsg@bsp.gov.ph citsg@bsp.gov.ph

[1] Effective 30 June 2017 reference period.

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure/ e-mail Address
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
			Quarterly monthly report for medium and long-term loans	Quarterly	30th day of the month following the end of the quarter	do

[1] Excluding cross country swaps

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure/ e-mail Address
PRIMARY REPORTS						
B. TBs						
	Unnumbered	Section 172 (M-015 dated 03.24.14, Cir. No. 836 dated 06.13.14, Cir. No. 837 dated 06.18.14, M-020 dated 04.22.14, M-025 dated 06.23.14, Cir. 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. 886 dated 09.08.15, M-29 dated 09.14.15, M-30 dated 09.14.15, M-31 dated 09.14.15, M-32 dated 09.14.15, M-33 dated 09.14.15, M-34 dated 09.14.15, Cir. No. 890 dated 11.02.15, Cir. No. 903 dated 02.29.16, M-008 dated 06.23.16, Cir. No. 963 dated 06.27.17, M-028 dated 09.11.17 and Cir. No. 976 dated 10.10.17)	Financial Reporting Package (FRP)			
			Balance Sheet (FRP):			
			Solo basis (Head Office and Branches)	Monthly	15th banking day after end of reference month	SDC[2] sdctb-frp@bsp.gov.ph
			Consolidated basis[1]	Quarterly	30 banking days after end of reference quarter	
			Income Statement (FRP):			
			- Solo basis (head office and branches)	Monthly	15 banking days after end of reference month	do
			- Consolidated basis [1]	Quarterly	30 banking days after end of reference quarter	do
			Schedules (Solo Report):			
			1 - Checks and Other Cash Items (COCI)	Monthly	15 banking days after end of reference month	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	Quarterly	15 banking days after end of the reference quarter	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	15 banking days after end of the reference monthly	do

[1] Applicable to parent banks with subsidiary banks and other financial allied undertakings excluding insurance companies

[2] Control Prooflist duly signed by the authorized official of the reporting bank and a Notary Public, shall be electronically submitted within the prescribed submission deadline to sdckb-frp@bsp.gov.ph

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

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure/ e-mail Address
			9 - Investment in Non-Marketable Equity Securities	Monthly	15 banking days 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
			11a to 11a3 - Loans and Receivables – Others Classified as to Status	Monthly	15 banking days after end of the reference month	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	15 banking days 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	15 banking days after end of the reference month	do
			11e to 11e3 - Loans and Receivables – Others Classified as to Status per PAS 39	Annually	15 banking days after end of the reference year	do
			11f - Schedule of Agri/Agra, Microfinance and SME Loans and Receivables as to Counterparty	Monthly	15 banking days after end of the reference month	do
			11g1 - Real Estate Exposure[1]	Quarterly	15th banking day after end of the reference quarter	SDC[2] sdctb-frp@bsp.gov.ph
			11g2 - Investment in Debt and Equity Securities Issued by Real Estate Companies[1]	do	do	do
			11g3 - Original Maturity and Earliest Repricing of Real Estate Exposure[1]	do	do	do
			12 - Loans and Receivables Arising from Repurchase Agreements, Certificates of Assignment/Participation with Recourse and Securities Lending and Borrowing Transactions	Monthly	15 banking days after end of the reference month	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	Quarterly	15 banking days after end of the reference quarter	sdctb-frp@bsp.gov.ph

[1] Schedules 11g1 up to 11g3 of the Financial Reporting Package for Banks shall no longer be submitted starting quarter-ending 30 June 2018.

[2] Control Prooflist duly signed by the authorized official of the reporting bank and a Notary Public, shall be electronically submitted within the prescribed submission deadline to sdckb-frp@bsp.gov.ph

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure/ e-mail Address
			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	15 banking days after end of the reference month	do
			15a - Equity Investment in Subsidiaries, Associates and Joint Ventures - Classified as to Nature of Business	Quarterly	15 banking days after end of the reference quarter	do
			15b - Details of Equity Investment in Subsidiaries, Associates and Joint Ventures	do	do	do
			16 - Bank Premises, Furniture, Fixture and Equipment	Quarterly	15 banking days after end of the reference quarter	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	15 banking days 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	15 banking days 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	15 banking days after end of the reference quarter	do

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure/ e-mail Address
			22 - Deposit Liabilities Classified as to Type of Deposit	Monthly	15 banking days after end of the reference month	do
			22a - Deposit Liabilities by Size of Accounts Excluding Deposits in Foreign Offices Branches	Quarterly	15 banking days after end of the reference quarter	do
			23 - Due to Other Banks	Monthly	15 banking days after end of the reference month	do
			24 - Bills Payable	Monthly	15 banking days after end of the reference month	sdctb-frp@bsp.gov.ph
			25 - Bonds Payable, Unsecured Subordinated Debt and Redeemable Preferred Shares	Quarterly	15 banking days after end of the reference quarter	do
			26 - Fair Value of Financial Liabilities	Annually	15 banking days after end of the reference year	do
			27 - Financial Liabilities Associated with Transferred Assets	Quarterly	15 banking days after end of the reference quarter	do
			28 - Other Liabilities	Monthly	15 banking days after end of the reference month	do
			29 - Interest Income/Expense from Financial Instruments	Quarterly	15 banking days 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
			30a - Interest Expense on Deposit Liabilities - Classified as to Type of Deposit	Quarterly	15 banking days after end of the reference quarter	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

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure/ e-mail Address
			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
			40 and 40a - Repricing- Performing Financial Assets and Financial Liabilities	Quarterly	15 banking days after end of the reference quarter	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

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure/ e-mail Address
			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
			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	15 banking day after end of the reference quarter	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	30 banking days after end of the reference year	do
			8 - Unquoted Debt Securities Classified as Loans	Quarterly	30 banking days after end of the reference quarter	do
			8a - Fair Value of Unquoted Debt Securities Classified as to Status	Annually	30 banking days after end of the reference year	do

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure/ e-mail Address
			8b - Unquoted Debt Securities Classified as Loans Classified as to Status	Quarterly	30 banking days after end of the reference quarter	do
			8c - Unquoted Debt Securities Classified as Loans Movements in allowances for Credit Losses	Annually	30 banking days after end of the reference year	sdctb-frp@bsp.gov.ph
			9 - Investment in Non-Marketable Equity Securities	Quarterly	30 banking days 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	30 banking days 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	30 banking days after end of the reference quarter	do
			11g1 - Report on Real Estate Exposure[1]	do	30th banking day after end of the reference quarter	SDC[2] sdctb-frp@bsp.gov.ph
			11g2 - Investment in Debt and Equity Securities issued by Real Estate Companies[1]	Quarterly	30 banking days after end of the reference quarter	sdctb-frp@bsp.gov.ph
			11g3 - Original Maturity and Earliest repricing of the Real Estate Exposure[1]	do	do	do
			12 - Loans and Receivables Arising from Repurchase Agreements, Certificates of Assignment/Participation with Recourse and	do	do	do

[1] Submission of the EREE shall be discontinued starting quarter ending 30 June 2018.

[2] Control Prooflist duly signed by the authorized official of the reporting bank and a Notary Public, shall be electronically submitted within the prescribed submission deadline to sdckb-frp@bsp.gov.ph

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure/ e-mail Address
			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	Quarterly	30 banking days after end of the reference quarter	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 Equiity Investment in Subsidiaries, Associates and Joint Ventures	do	do	do
			16 - Bank Premises, Furniture, Fixture and Equipment	do	do	do
			17 - Real and Other Properties Acquired/ Non-Current Assets Held for Sale	do	do	do
			17a - Aging of ROPA and NCAHS Accounts	Annually	30 banking days after end of the reference year	

[1] Submission of the EREE shall be discontinued starting quarter ending 30 June 2018.

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure/ e-mail Address
			17b - Movement in ROPA and NCAHS Accounts	do	do	do
			18 - Schedule of Tax Assets and Liabilities	do	do	do
			19 - Other Assets	Quarterly	30 banking days 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	Quarterly	30 banking days after end of the reference quarter	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	30 banking days after end of the reference year	do
			27 - Financial Liabilities Associated with Transferred Assets	Quarterly	30 banking days 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

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure/ e-mail Address
			29c - Interest Income from Interbank Loans Receivables	Quarterly	30 banking days after end of the reference quarter	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
			35 - Other Administrative Expenses	Quarterly	30 banking days after end of the reference quarter	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	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

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure/ e-mail Address
			42 - Disclosure of Due from FCDU/RBU and Due to FCDU/RBU	do	do	do
A-1	Unnumbered	Section 125 (M-2016-024 dated 12.28.16, Cir. No. 963 dated 06.27.17, M-028 dated 09.11.17 and M-038 dated 12.28.17) Section 125 (M-019 dated 04.10.14, M-020 dated 04.22.14 Cir. 842 dated 07.25.14, M-044 dated 11.24.14, M-001 dated 01.07.15, Cir. No. 890 dated 11.02.15, Cir. Nos. 903 dated 02.29.16, 963 dated 06.27.17 and M-028 dated 09.11.17)	Basel III Capital Adequacy Ratio (CAR) Report and Control Prooflist	Quarterly		sdctb-Basel3CAR@bsp.gov.ph
			Basel III Capital Adequacy Summary Report			
			- Solo basis (head office and branches)	do	15 banking days after end of the reference quarter	
			- Consolidated basis (applicable to parent banks/subsidiary NBQBs with financial allied undertaking excluding insurance companies)	do	30 banking days after end of the reference quarter	
A-1	Unnumbered	Section 613	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			

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure/ e-mail Address
		Certification (Hard Copy)		do	do	Receiving Section, appropriate supervising department of the Bangko Sentral
A-1	Unnumbered	Section 122 (Cir. No. 888 dated 10.09.15)	Report on Dividends Declared		10th banking/business day after date of dividend declaration	Appropriate supervising department of the Bangko Sentral
A-1	Unnumbered	Sections 172 and 381 (As amended by Cir. No. 963 dated 06.27.17 and M-028 dated 09.11.17)	Supplementary Report on Early Adoption of PFRS 9 - solo (applicable to early adopter of BSFIs)	Monthly	15 banking days after end of reference month	sdctb-pfrs@bsp.gov.ph
			Supplementary Report on Early Adoption of PFRS 9 - consolidated (applicable to early adopter of BSFIs)	Quarterly	30 banking days after end of reference quarter	do
A-1	Unnumbered	Section 136 (As amended by Cir. Nos. 969 dated 08.22.17, 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 supervising department of the Bangko Sentral
A-1	Unnumbered	Section 132 (As amended by Cir. Nos. 969 dated 08.22.17 and 976 dated 10.10.17)	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	Unnumbered	(As amended by Cir. No. 963 dated 06.27.17, M-028 dated 09.11.17 and Cir. No. 976 dated 10.10.17)	Expanded Report on Real Estate Exposures (solo and consolidated)	Quarterly1	30 banking days after end of reference quarter	email to sdctb-ree@bsp.gov.ph
A-1		Section 363 (Cir. No. 976 dated 10.10.17, M-19 dated 6.11.18)	Revised Expanded Report on Real Estate Exposures (solo and consolidated) - Bank Report (solo report of the bank proper and trust departments of covered banks)	One-time	Within 45 banking days from 31 March 2018	sdctb-ree@bsp.gov.ph

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure/ e-mail Address
			Schedules (Bank Report): • Bank Proper and Trust Department • Schedule 1 - Bank Proper • Schedule 2 - Trust Department - Bank Group Report (consolidated report of the banking group and their trust departments) Schedules (Banking Group Report): Consolidated real estate exposures of the Banking Group and aggregate real estate exposures of their trust departments • Banking Group and its Trust Department(s) • Schedule 1 - Banking Group • Schedule 2 - Trust Department(s)	Quarterly[2]	Within 30 banking days after the end of the reference quarter	sdctb-ree@bsp.gov.ph
A-1		Section 127 (Cir. No. 881 dated 06.09.15, M-026 dated 07.16.15, Cir. Nos. 903 dated 02.29.16, 963 dated 06.27.17 and M-028 dated 09.11.17)	Basel III Leverage Ratio (BLR) Report	Semi-annually		sdctb-leverage@bsp.gov.ph
			- Solo basis		15 banking days after end of reference semester	
			- Consolidated basis (applicable to parent UBs/KBs/Subsidiary NBQBS with financial allied undertaking excluding insurance companies)		30 banking days after end of reference semester	
A-1		Section 299 (Circular No. 885 dated 08.14.15, as amended by Cir. No. 963 dated 06.27.17 and M-028 dated 09.11.17)	Broker Customer Accounts for Settlement of Customer Trades - Cash Accounts / Securities Accounts [1] - End-of-week balance	Monthly	15 banking days after end of reference month	sdctb-brokering@bsp.gov.ph
		Section 145 (Cir no. 1007 dated 6.6.18, M-28 dated 10.5.18)	Basel Net Stable Funding Ratio Report			
			Solo	Monthly	15 banking days from measurement date	sdctb-nsfr@bsp.gov.ph
			Consolidated	Quarterly	30 banking days from measurement date	
A-1		Section 145 (M-07 dated 2.22.18, Circular No. 996 dated 2.8.18)	MLR Report			
			Solo	Quarterly	30 banking days from measurement date	sdctb-mlr@bsp.gov.ph

[1] Submission of the EREE shall be discontinued starting quarter ending 30 June 2018.

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure/ e-mail Address
A-2	Unnumbered	Section 125 (M-017 dated 03.21.14, M-014 dated 03.10.15, Cir. No. 890 dated 11.02.1, Cir. No. 903 dated 02.29.16 and M-039 dated 12.28.17)	Basel 1.5 Capital Adequacy Ratio			sdctb-car@bsp.gov.ph
			- Solo basis (head office and branches)	Quarterly	15th banking day after end of reference month	sdcrb-car@bsp.gov.ph
			- Consolidated basis (parent bank plus subsidiary financial allied undertakings, but excluding insurance companies)	Quarterly	30th banking day after end of reference quarter	
			- Control Prooflist			
Category	**Form No.**	**MOR Ref.**	**Report Title**	**Frequency**	**Submission Deadline**	**Submission Procedure/ e-mail Address**
A-2	TB Form 1	Sections 256 and 173 (As amended by M-010 dated 03.10.14, Circular No. 870 dated 02.20.15, M-015 dated 03.16.15, Cir. Nos. 903 dated 02.29.16, 963 dated 06.27.17 and M-028 dated 09.11.17, M-005 dated 2.7.18)	Consolidated Daily Report of Condition (CDRC) (SES01000.CSV)	Weekly	6 banking days after end of reference week	sdctb-cdrc@bsp.gov.ph
			and Control Prooflist (CDRC-CP.PDF) Notarized and signed by authorized bank officials	do		
			Control Prooflist, together with the cover page of the report	Weekly	6th banking day after end of reference week	Appropriate supervising department of the Bangko Sentral
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	Section 125 (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, Cir. Nos. 903 dated 02.29.16, 963 dated 06.27.17 and M-028 dated 09.11.17)	Computation of the Risk-Based Capital Adequacy Ratio Covering Combined Credit Market and Operational Risks (for stand alone TBs)			
			- Solo basis	Quarterly	15 banking days after end of reference quarter	sdctb-car@bsp.gov. ph

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure/ e-mail Address
			- Consolidated basis (applicable to parent banks with subsidiary banks and other financial allied undertakings excluding insurance companies)	do	30 banking days after the end of reference quarter	sdctb-car@bsp.gov.ph
			- Control Prooflist			
A-2	Unnumbered (no prescribed form)	Section 132 (As amended by Cir. No. 969 dated 08.22.17)	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	Annually or as directors are elected	30th banking day after the date of election	Appropriate supervising department of the Bangko Sentral
A-2	Form 2B/2B.1	Section 175 (M-026 dated 06.23.14 as amended by Cir. No. 890 dated 11.02.15, Cir. No. 963 dated 06.27.17 and M-028 dated 09.11.17)	Published Balance Sheet/Consolidated Balance Sheet (Before Publication) For TBs (consolidated reports are applicable to parent banks with subsidiary banks and other financial allied undertakings excluding insurance companies)	Quarterly	12 banking days from date of Call Letter	sdctb-pbs@bsp.gov.ph
			Control Prooflist duly notarized and signed by the authorized official of the reporting bank	do	do	
			Published Balance Sheet/Consolidated Balance Sheet (together with the publisher's certificate)	do	20 banking days from the date of the Call Letter	
			TBs with resources of less than P1.0 billion			
A-2	Form 2B/2B.1		Balance Sheet/Consolidated Balance Sheet	Quarterly	20th banking day after end of the reference quarter	sdctb-pbs@bsp.gov.ph hard copy to SDC
			Control Prooflist duly notarized and signed by the authorized official of the reporting bank	do	do	Fax to 523-3461 or 523-0230 or via postal/messengerial services to SDC
			Published/Posted Balance Sheet/Consolidated Balance Sheet (together with publisher's certificate, if applicable)	do	do	do

[1] Beginning with the reporting period ending 30 September 2015.

[2] Effective starting 30 June 2018

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure/ e-mail Address
A-2	Unnumbered	Section 436 (As amended byM-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, Cir. No. 920 dated 08.18.16, 963 dated 06.27.17 and M-028 dated 09.11.17)	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	Quarterly	20 banking days after the end of reference quarter	sdctb-frpti@bsp.gov.ph
			Control Prooflist	do	do	do
A-2	Unnumbered (no prescribed form)	Section 132 (As amended by Cir. 969 dated 08.22.17)	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 directors within a bank or banking group	20th banking day after the end of reference quarter	Hard copy to appropriate supervising department of the Bangko Sentral
A-2	Unnumbered	(Cir. No. 836 dated 06.13.14, M-024 dated 06.23.14, Cir. Nos. 890 dated 11.02.15, 963 dated 06.27.17 and M-2028 dated 09.11.17)	Income Statement on Retail Microfinance Operations Control Prooflist	Quarterly	15 banking days after end of the reference quarter	sdctb-micro@bsp.gov.ph
A-2	Unnumbered	Section 147	Self-Assessment and Certification of Compliance with Rules and Regulations on Bank Protection/Updated Security Program	Annually	On or before 30 January	Appropriate supervising department of the Bangko Sentral
A-2	TB Form 20A	Section 418 (Cir. No. 963 dated 06.27.17 and M-028 dated 09.11.17)	Report on Peso-Denominated Common Trust Funds and Other Similarly Managed Funds (CTF)	Weekly	3 banking days after end of reference week	sdctb-trust @bsp.gov.ph

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure/ e-mail Address
			Control Prooflist		Immediately after receipt of Bangko Sentral 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 20B	Section 418 (As amended by Cir. No. 963 dated 06.27.17 and M-028 dated 09.11.17)	Report on Trust and Other Fiduciary Accounts (TOFA)	Weekly	3 banking days after end of reference week	sdctb-trust @bsp.gov.ph
			Control Prooflist	do	Immediately after receipt of Bangko Sentral 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)	Section 173	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 supervising department of the Bangko Sentral
A-2	BSP-7-16-32 A (Rev. August 2003)	Section 173 (M-020 dated 04.22.14, as amended by Cir. No. 963 dated 06.27.17)	Report on Credit and Equity Exposures to Individuals/ Companies/Groups aggregating P1.0 million and above (CREDEX)	Quarterly	15 banking days after end of reference quarter	srso-credex@bsp.gov.ph
A-3	Unnumbered	Section 383 (As amended by Cir. No. 848 dated 09.08.14, Cir. Nos. 890 dated 11.02.15, 963 dated 06.27.17 and M-028 dated 09.11.17)	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	Quarterly	20 banking days after end of reference quarter	sdctb-bris@bsp.gov.ph

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure/ e-mail Address
			Bank Deposit Interest Rate	do	do	
A-3	TB Form 8	Sections 346 and 413	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 supervising department of the Bangko Sentral
A-3	TB Form 9 Page 1	Sections 346 and 413	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	Section 346	Availments of Financial Assistance to Officers and Employees under Bangko Sentral Approved Plan	do	do	do
A-3	Unnumbered	Section 173	Report on Borrowings of BSP Personnel	Quarterly	15th banking day after end of reference quarter	Original to SDC
A-3	DES-RREPI (Form I)	Section 173 (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
DES/IOD Reports:						
A-2	Unnumbered	Appendix 57 (Cir. No. 926 dated 09.13.16, as amended by Cir. No. 948 dated 03.01.17)	Sworn Certification on Lending to Local Government Units	Semestral	15 banking days after end of reference semester	Hardcopy to the appropriate supervising department of the Bangko Sentral
A-2	Unnumbered	Appendix 57a (Cir. No. 926 dated 09.13.16, as amended by Cir. No. 948 dated 03.01.17)	Sworn Certification on Lending to Borrowing Government Entities	Semestral	15 banking days after end of reference semester	Hardcopy to the appropriate supervising department of the Bangko Sentral
A-3	FX Form 1 Sch. 1 (Formely 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 supervising department of the Bangko Sentral/DES/ ID

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure/ e-mail Address
SECONDARY REPORTS						
B. TBs						
A-2	Unnumbered	(As amended by Cir. No. 836 dated 06.13.14, M-024 dated 06.23.14, Cir. Nos. 890 dated 11.02.15, 963 dated 06.27.17 and M-028 dated 09.11.17)	Report on Microfinance Products	Monthly	15 banking days after the end of reference month	sdctb-micro@bsp.gov.ph
			Control Prooflist			
A-3	BSP 7-16-27	Section 173 (As amended by M-036 dated 10.09.15, Cir. Nos. 903 dated 02.29.16, 963 dated 06.27.17 and M-028 dated 09.11.17)	Report on Compliance with the Mandatory Agri-Agra Credit (Agri-Agra)	Quarterly	15 banking days after end of reference quarter	sdctb-agra@bsp.gov.ph
			Control Prooflist	do	do	do
A-3	Unnumbered	Section 312 (M-020 dated 04.22.14, Cir. No. 890 dated 11.02.15, M-002 dated 03.10.16, as amended by Cir. No. 963 dated 06.27.17 and M-028 dated 09.11.17)	Credit Card Business Activity Report (applicable to FIs with Credit Card Operations)	do	15 banking days after end of reference quarter	sdc-ccbar@bsp.gov.ph
A-3	TB Form 11	Section 332 (As amended by Cir. No. 963 dated 06.27.17 and M-028 dated 09.11.17, M-22 dated 8.10.2018)	Report on Compliance with Mandatory Credit Allocation Required under R.A. No. 6977 (As amended by R.A. Nos. 8289 and 9501) (MSME)	Quarterly	15 banking days after end of reference quarter	sdctb-sme@bsp.gov.ph
			Schedules:			
			1A - Computation of Total Loan Portfolio for Purposes of Determining Amount of Mandatory Credit Allocation for MSMEs	do	do	do

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure/ e-mail Address
			1A-1 - Wholesale Lending of a Bank to Conduit NBFIs w/o QB Authority Other Than Those for On-Lending to MSMEs	do	do	do
			1A-2 - Loans Granted Under Special Financing Program Other Than for MSMEs	do	do	do
			1A-3 - Loans Granted to MSMEs Other Than to BMBEs Which are Funded by Wholesale Lending of or Rediscounted with Another Bank	do	do	do
			1B - Details of Eligible Investments for Compliance with the Required Credit Allocation for MSMEs	do	do	do
			1B-1 - Loans Granted to MSMEs Other Than to BMBEs Which are Funded by Wholesale Lending of or Rediscounted with Another Bank	do	do	do
			1B-2 - Wholesale Lending or Rediscounting Facility Granted to Participating Financial Institutions for On-Lending to MSMEs other than to BMBEs	do	do	do
			2 - Loans Granted to BMBEs	do	do	do
			3 - Reconciliation of Loans Granted to MSMEs as Reported Under Schedules 1B, 1B-1 and 2 and FRP Balance of Microfinance and SME Loans	do	do	do
			Control Prooflist	do	do	do
B	SES Form6G	Section 173 (As amended by Cir. No. 1019, dated 10.31.18, 963 dated 06.27.17 and M-028 dated 09.11.17)	Report on Crimes and/or Losses (RCL)			
			- Initial Report	As crime/incident occurs	Not later than ten (10) calendar days from knowledge of crime/incident	sdctb-rcl@bsp.gov.ph
		Section 148	- Complete/Final Report	do	Not later than twenty (20) calendar days from termination of investigation	do
B	TB Form 15	Section 173 (As amended by Cir. No. 963 dated 06.27.17 and M-028 dated 09.11.17)	Report on Credit and Equity Exposures to Individuals/Groups/Companies Aggregating P1M and above (CREDEX)	Quarterly	15 banking days after end of reference quarter	srso-credex@bsp.gov.ph

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure/ e-mail Address
			Control Prooflist, notarized and signed by the authorized officer of the bank	do	20th banking day from reference quarter	do
B	Unnumbered	Sections 174 and 437	Financial Audit Report - Bank Proper	Annually	120th calendar day after the close of the calendar or fiscal year	Original and duplicate - Appropriate supervising department of the Bangko Sentral
			a. Audited Financial Statements[1]			
			b. Opinion of the Auditor together with attachments listed in Appendix 61			
			Financial Audit Report - Trust Department	do	do	do
			a. Audited Financial Statements[1]			
			b. Opinion of the Auditor together with attachments listed in Appendix 61			
B	Unnumbered	Section 174	Annual Audit Report[1] - Bank Proper	Annually	30th banking day after receipt of the report	Original and duplicate - Appropriate supervising department of the Bangko Sentral
B	Unnumbered		a. Audited Financial Statements	do	do	do
			b. Opinion of the Auditior together with attachments listed in Appendix 61	do	do	do
		Section 437	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	Section 278	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 - ppropriate supervising department of the Bangko Sentral
	Unnumbered		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

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure/ e-mail Address
B	Unnumbered	Section 175 (Circular No. 956 dated 04.17.17)	Annual Report of Management to Stockholders Covering Results of Operations for the Past Year	Annually	Non-government banks - 180th calendar day after the close of the calendar/fiscal year elected by the bank	Soft copy in Portable Document Format (PDF) with covering transmittal letter - Appropriate supervising department of the Bangko Sentral
					Government banks - 100th calendar day after the close of the calendar/fiscal year elected by the bank	do
B	Unnumbered	Section 175 (Circular No. 956 dated 04.17.17)	Annual Report Assessment Checklist (ARAC)	do	Non-government banks - 180th calendar day after the close of the calendar/fiscal year elected by the bank	Hard copy to appropriate supervising department of the Bangko Sentral
					Government banks - 100th calendar day after the close of the calendar/fiscal year elected by the bank	do
B	SES II Form 10	Section 346	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 supervising department of the Bangko Sentral
B	Unnumbered	Section 342	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 supervising department of the Bangko Sentral
B	SES II Form 14 (NP04-TB)	Section 108	New Schedule of Banking Days/Hours	As changes occur	7th banking day prior to effectivity of the change	Appropriate supervising department of the Bangko Sentral
B	SES II Form 15 (NP04-TB)	Section 137 (As amended by Cir. No. 969 dated 08.22.17)	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	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 supervising department of the Bangko Sentral

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

[1] Solo and consolidated basis

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

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure/ e-mail Address
			- 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			
		(As amended by Cir. No. 969 dated 08.22.17)	Certification under oath of the independent directors that he/she is an independent director as defined under Sec. 131 (*Definition of Terms*) and that all the information thereby supplied are true and correct	Upon election	20th banking day from date of election	Hard copy to appropriate supervising department of the Bangko Sentral
B		Section 137 (As amended by Cir. Nos. 887 dated 10.07.15 and 969 dated 08.22.17)	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		Section 137 (Cir. No. 758 dated 05.11.12 as amended by Cir. 969 dated 08.22.17)	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	Section 143 (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	Appropriate supervising department of the Bangko Sentral
B	Unnumbered	Section 136 (As amended by Cir. Nos. 895 dated 12.14.15, 917 dated 07.08.16 and 969 dated 08.22.17)	Report on Material Related Party Transaction	Quarterly	20 calendar days after end of reference quarter	Hard copy to appropriate supervising department of the Bangko Sentral
			Verified statement of director/officer that he/she has all the aforesaid qualifications and none of the disqualifications			
B	Unnumbered (no prescribed form)	Section 138 (As amended by Cir. No. 969 dated 08.22.17)	Report on Disqualification of Director/Officer	As disqualification occurs	Within 72 hours from receipt of report by the BOD	Appropriate supervising department of the Bangko Sentral

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure/ e-mail Address
B	SES II Form 26	Section 173	Information/Documents Required under Appendices 8 & 9 (MOR)	Only once; as change occurs	15th banking day from date of change	do
B	Unnumbered (NP09-TB)	Section 137 (As amended by Cir. Nos. 887 dated 10.07.15 and 969 dated 08.22.17)	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 supervising department of the Bangko Sentral
B		Section 105	Notice of transfer of branches/voluntary closure of branches	As transfer occurs	5th banking day from date of transfer	do
B		Section 106	Notice of Actual Date of Opening a Branch	As it occurs	10th banking day after opening	do
		Section 413	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
			Disclosure Statement on SPV Transactions	Quarterly	15 banking day after end of reference quarter	SDC
B	Form No. 1	Section 702 Schedule 1 (As amended by Cir. No. 963 dated 06.27.17 and M-028 dated 09.11.17)	Report on Electronic Money Transactions (applicable to Electronic Money Issuers) Statement of E-Money Balances and Activity - Volume and Amount of E-Money Transactions Schedule 1 - E-Money Balances	Quarterly	15 banking days after end of reference quarter	sdctb-emoney@ bsp.gov.ph
	Unnumbered	Section 148 (As amended by Cir. No. 1019 dated 10.31.18, 963 dated 06.27.17 and M-028 dated 09.11.17)	IT Profile Report	Annual	25 calendar days after end of reference year	sdctb-itprofile@bsp.gov.ph
B		Section 173 (Cir. 850 dated 09.08.14, M-021 dated 04.22.15, Cir. No. 890 dated 11.02.15, Cir. Nos. 903 dated 02.29.16, 963 dated 06.27.17 and M-028 dated 09.11.17)	Report on Cross-Border Financial Positions	Quarterly[1]	30 banking days after end of reference quarter	sdckb-rcbp@bsp.gov.ph
	Unnumbered	(M-020 dated 04.22.14 as amended by Cir. Nos. 890 dated 11.02.15, 963 dated 06.27.17 and M-026 dated 09.11.17)	Registration Form (E-Correspondences)	As changes occur		sdctb-rf@bsp.gov.ph

[1] Report is not required when no transfers were effected during the month.

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure/ e-mail Address
	Unnumbered	Section 173 (Circular No. 923 dated 08.31.16, as amended by M-2016-024 dated 12.28.16, M-021 dated 07.12.17, M-020 dated 09.11.17 and M-028 dateb 09.11.17)	Report on Repurchase Agreements (REPO Report)	Monthly[2]	30 banking days after end of reference month	sdctb-repo@bsp.gov.ph
B	Unnumbered	(M-002 dated 01.27.14, M-032[3] dated 08.11.14 as amended by Cir. Nos. 890 dated 11.02.15, 963 dated 06.27.17 and M-028 dated 09.11.17)	Stress testing Reports Covering Credit and Market Risks 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	Semestral	30 banking days from end of reference semester	sdctb-stresstesting@bsp.gov.ph
DES/IOD						
B	RS Form 1A (CBP 5-17-30) (Revised July 2001)	Section 173	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)	Section 173	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)	Section 173	Daily Report on Volume of Money Market Transactions	Daily	Not later than 3:00 P.M. on reference day	Appropriate supervising department of the Bangko Sentral
B	RS Form 2A (BSP-5-17-33) (Revised July 2001)	Section 173	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

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure/ e-mail Address
	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	Section 316	Post Borrowing Report	do	30 days after the final disbursement of the loan proceeds	do
	Unnumbered	Section 316	Post Bond Flotation Report	do	30th day after bond issuance	DER
	Unnumbered	Section 316	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	(As amended by M-020 dated 04.22.14, Cir. Nos. 890 dated 11.02.15, 963 dated 06.27.17 and M-028 dated 09.11.17)	Report on Non-Deliverable Forward Transactions against Philippine Peso Control Prooflist	do	2 banking days after end of reference date	sdc-ndf@bsp.gov.ph
	Unnumbered		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	sdcfxtbdom@bsp.gov.ph sdcfxtbfor@bsp.gov.ph
B	IOS Form 4 (BSP 6-22-01)		Consolidated Report on Loans Granted by FCDUs/EFCDUs	do	15th banking day after end of reference month	Original – Appropriate supervising department of the Bangko Sentral Duplicate – ID
			Report on FX Swaps with Customers1/ 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 sdcfxkbdom@bsp.gov.ph sdcfxkbfor@bsp.gov.ph
B	Unnumbered	(As amended by Cir. No. 963 dated 06.27.17 and M-028 dated 09.11.17, Cir. 987 dated 12.18.17 and M-016 dated 4.17.18)	Report on the Inventory of Banking Network	Quarterly	20 banking days after the end of the reference quarter	sdctb-ibn@bsp.gov.ph
	Unnumbered	Section 189 (Cir. No. 848 dated 09.08.14)	Schedule of Bank Deposit Interest Rates	Quarterly	do	
B		(Cir. No. 857 dated 11.21.14, M-17 dated 5.10.18)	Complaints Report	Quarterly	Not later than one (1) month after the end of every quarter	SDC sdctb-bccr@bsp.gove.ph

[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

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure/ e-mail Address
B	Unnumbered	Sec. 148	Reportable Major Cyber-Related Incidents	As Incidents occur	Within two (2) hours upon discovery Within twenty-four (24) hours from discovery	citsg@bsp.gov.ph citsg@bsp.gov.ph
B	Unnumbered	Sec. 148	Disruptions of financial services and operations.	As disruptions occur	Within two (2) hours upon discovery Within twenty-four (24) hours from discovery	citsg@bsp.gov.ph citsg@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				

[1] Excluding cross country swaps

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure/ e-mail Address
PRIMARY REPORTS						
C. RBs/Coop Banks						
A-1	Unnumbered	Section 172 (M-015 dated 03.24.14, Cir. 836 dated 06.13.14, Cir. No. 837 dated 06.18.14, M-025 dated 06.23.14, Cir. 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, M-008 dated 06.23.16, Cir. No. 963 dated 06.27.17, M-028 dated 09.11.17 and Cir. No. 976 dated 10.10.17)	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	15 banking days 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	15 banking days after end of reference quarter	do
			2 - Due from Other Banks	do	do	do
			3 - Financial Assets Held for Trading	do	do	do
			3a - Breakdown of Held for Trading (HFT) Financial Assets Purchased/Sold/Lent Under Repurchase Agreements, Certificates of Assignment/Participation with Recourse, Securities Lending and Borrowing Agreements	Quarterly	15 banking days after end of reference quarter	sdcrb-frp@bsp.gov.ph
			4 - Derivatives Held for Trading (HFT)	do	do	do

[1] Applicable to parent banks with subsidiary banks and other financial allied undertakings excluding insurance companies

[2] Control Prooflist duly signed by the authorized official of the reporting bank and a Notary Pubkic, shall be electronically submitted within the prescribed submission deadline to sdckb-frp@bsp.gov.ph

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure/ e-mail Address
			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	15 banking days after end of the reference year	
			7 - Held to Maturity (HTM) Financial Asset	Quarterly	15 banking days after end of the reference quarter	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	15 banking days after end of the reference year	do
			7c to 7c3- Held to Maturity Financial Assets Classified as to Status	Quarterly	15 banking days after end of the reference quarter	do
			7d to 7d3 - Held to Maturity Financial Assets Movements in Allowances for Credit Losses	Annually	15 banking days after end of the reference year	do
			8 - Unquoted Debt Securities Classified as Loans	Quarterly	15 banking days after end of the reference quarter	do

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure/ e-mail Address
			8a - Fair Value of Unquoted Debt Securities Classified as Loans	Annually	15 banking days after end of the reference year	do
			8b to 8b3 - Unquoted Debt Securities Classified as Loans Classified as to Status	Quarterly	15 banking days after end of the reference quarter	do
			8c to 8c3 - Unquoted Debt Securities Classified as Loans Movements in Allowances for Credit Losses	Annually	15 banking days after end of the reference year	do
			9 - Investment in Non-Marketable Equity Securities	Quarterly	15 banking days after end of the reference quarter	do
			10 - Interbank Loans Receivables	Quarterly	15 banking days after end of the reference quarter	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	15 banking days after end of the reference month	do
			11e to 11e3- Loans and Receivables – Others Classified as to Status Per PAS 39	Annually	15 banking days 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	15 banking days 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

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure/ e-mail Address
			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
			13 - Fair Value Adjustments in Hedge Accounting	Quarterly	15 banking days after end of the reference quarter	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
			17 - Real and Other Properties Acquired/Non-Current Assets Held for Sale	Quarterly	15 banking days after end of the reference quarter	sdcrb-frp@bsp.gov.ph
			17a - Aging of ROPA and NCAHS Accounts	Annually	15 banking days after end of the reference year	do

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure/ e-mail Address
			17b - Movement in ROPA and NCAHS	do	do	do
			18 - Schedule of Tax Assets and Liabilities	do	do	do
			19 - Other Assets	Quarterly	15 banking days 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
			26 - Fair Value of Financial Liabilities	Annually	15 banking days after end of the reference year	sdcrb-frp@bsp.gov.ph
			27 - Financial Liabilities Associated with Transferred Assets	Quarterly	15 banking days 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

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure/ e-mail Address
			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
			30b - Interest Expense on Bills Payable	Quarterly	15 banking days after end of the reference quarter	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

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure/ e-mail Address
			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	Quarterly	15 banking days after end of the reference quarter	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

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure/ e-mail Address
			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	Quarterly	30th banking day after end of the reference quarter	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	30 banking days 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
			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	sdcrb-frp@bsp.gov.ph

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure/ e-mail Address
			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
			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	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

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure/ e-mail Address
			13 - Fair Value Adjustments in Hedge Accounting	do	do	do
			13a - Derivatives Held for Fair Value Hedge	do	do	do
			13b - Derivatives Held for Cash Flow Hedge	do	do	do
			13c - Derivatives Held for Hedges of Net Investment in Foreign Operations	do	do	do
			13d - Derivatives Held for Portfolio Hedge of Interest Rate Risk (Marked to Market Amount)	do	do	do
			14 - Accrued Interest Income/Expense from Financial Assets and Liabilities	do	do	do
			15 - Equity Investment in Subsidiaries, Associates and Joint Ventures	do	do	do
			15a - Equity Investment in Subsidiaries, Associates and Joint Arrangements- Classified as to Nature of Business	Quarterly	30th banking day after end of the reference quarter	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

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure/ e-mail Address
			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	Quarterly	30th banking day after end of the reference quarter	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

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure/ e-mail Address
			29c - Interest Income from Interbank Loans Receivables	do	do	do
			29d - Interest Income from Loans and Receivables - Others - Classified as to Status	do	do	do
			29e - Interest Income from Loans and Receivables Arising from Repurchase Agreements, Certificates of Assignment/ Participation with Recourse and Securities Lending and Borrowing transactions	do	do	do
			30a - Interest Expense on Deposit Liabilities	Quarterly	30th banking day after end of the reference quarter	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

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure/ e-mail Address
			38a, 38a1, 38a3 & 38a4 - 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
			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):	Quarterly	15th banking day from end of reference quarter	cc: Mail-SDC
			- Solo basis (head office and branches)			
			Income Statement (FRP):	do	do	do
			- Solo basis (head office and branches)			
			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

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure/ e-mail Address
			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
			11 - Loans and Receivables – Others	Quarterly	15 banking days from end of reference quarter	sdcrb-frp@bsp.gov.ph
			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	15 banking days from end of reference year	do

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure/ e-mail Address
			11f - Schedule of Agri/Agra, SME, DIL and Microfinance Loans and Receivables under Schedule 11 - Classified as to Counterparty	Quarterly	15 banking days 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
			15 - Equity Investment in Subsidiaries, Associates and Joint Ventures	Quarterly	15 banking days from end of reference quarter	sdcrb-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 Assels Held for Sale	do	do	do
			17a - Aging of ROPA and NCAHS Accounts	Annually	15 banking days from end of reference year	sdcrb-frp@bsp.gov.ph

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure/ e-mail Address
			17b - Movement in ROPA and NCAHS Accounts	do	do	do
			19 - Other Assets	Quarterly	15 banking days 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
			29a - Interest Income from Due from Other Banks - Classified as to Type of Deposit	Quarterly	15 banking days from end of reference quarter	sdcrb-frp@bsp.gov.ph
			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

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure/ e-mail Address
			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
			37 - Impairment Loss	Quarterly	15 banking days from end of reference quarter	sdcrb-frp@bsp.gov.ph
			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

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure/ e-mail Address
A-1		Section 363 (Cir. No. 976 dated 10.10.17 M-19 dated 6.11.18)	Revised Expanded Report on Real Estate Exposures (solo and consolidated)[1]	One-time	Within 45 banking days from 31 March 2018	sdcrb-ree@bsp.gov.ph
			- Bank Report (solo report of the bank proper and trust departments of covered banks) Schedules (Bank Report): • Bank Proper and Trust Department • Schedule 1 - Bank Proper • Schedule 2 - Trust Department	Quarterly[2]	Within 30 banking days after the end of the reference quarter	sdcrb-ree@bsp.gov.ph
A-1	Unnumbered	Section 613	Derivatives Report Schedules: Report on Outstanding Derivatives Contracts (Stand - Alone - RBU, Stand - Alone - FCDU, Hybrid) Report on Trading (Gains/Losses) on Financial Derivatives Certification (Hard Copy) Control Prooflist	Monthly	15th banking day after the end of the reference month	CMSG cc: SDC cmsg@bsp.gov.ph sdcderivatives@bsp.gov.ph. Receiving Section, appropriate supervising department of the Bangko Sentral
		(As amended by Cir. No. 963 dated 06.27.17 and M-028 dated 09.11.17)	Supplementary Report on Early Adoption of PFRS 9 - solo (applicable to early adopters BSFIs)	Quarterly	15 banking days after the end of the reference quarter	sdcrb-pfrs@bsp.gov.ph
A-1	Unnumbered	Section 136 (As amended by Cir. Nos. 895 dated 12.14.15, 917 dated 07.08.16 and 969 dated 08.22.17)	Report on Conglomerate Structures	Annually	30 calendar days after the end of the calendar year	Appropriate supervising department of the Bangko Sentral

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure/ e-mail Address
A-1	Unnumbered	Section 132 (As amended by Cir. 969 dated 08.22.17)	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	Section 123 As amended by M-2016-024 dated 12.28.16, Cir. No. 963 dated 06.27.17, M-028 dated	Basel III Capital Adequacy Ratio (CAR) Report and Control Prooflist			sdcrb-Basel3CAR@bsp.gov.ph
			CAR Summary Report			
			- Solo basis	Quarterly	15 banking days after end of reference quarter	
			- Consolidated basis (applicable to parent banks with subsidiary banks and other financial allied undertakings excluding insurance companies)	do	30 banking days after end of reference quarter	
A-1		Section 127 (Cir. No. 881 dated 06.09.15, M-026 dated 07.16.15 and Cir. Nos. 903 dated	Basel lll Leverage Ratio (BLR) Report	Semestral		sdcrb-leverage@bsp.gov.ph
			- Solo basis		15 banking days after end	
A-1	Unnumbered	Section 122 (Cir. No. 888 dated 10.09.15)	Report on Dividends Declared		10th banking/business day after date of dividend declaration	Appropriate supervising department of the Bangko Sentral
A-1		Section 299 (Circular No. 885 dated 08.14.15, as amended by Cir. No. 963 dated 06.27.17 and M-028 dated 09.11.17)	Broker Customer Accounts for Settlement of Customer Trades - Cash Accounts / Securities Accounts [1] - End-of -week balance	Monthly	15 banking days after end of reference month	sdcrb-brokering@bsp.gov.ph
A-1		Section 145 (Circular No. 1007 dated 6.6.18, M-28 dated 10.5.18)	Basel III Net Stable Funding Ratio Report			
			Solo	Monthly	15 banking days from measument date	sdcrb-nsfr@bsp.gov.ph
			Consolidated	Quarterly	30 banking days from measument date	
A-1		Section 145 (M-07 dated 2.22.18,	MLR Report			

[1] For Rural banks/Cooperative banks that are subsidiaries of a universal/commercial or thrift bank

[2] Effective starting 30 June 2018.

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure/ e-mail Address
			Solo	Quarterly	30 banking days from measument date	sdcrb-mlr@bsp.gov.ph
A-2	Unnumbered	Section 125 (M-017 dated 03.21.14, M-014 dated 03.10.15, Cir. No. 890 dated 11.02.1, Cir. No. 903 dated 02.29.16 and M-039 dated 12.28.17)	Basel 1.5 Capital Adequacy Ratio			sdcrb-car@bsp.gov.ph
			- Solo basis (head office and branches)	Quarterly	15th banking day after end of reference month	sdcrb-car@bsp.gov.ph
			- Consolidated basis (parent bank plus subsidiary financial allied undertakings, but excluding insurance companies)	Quarterly	30th banking day after end of reference quarter	
			- Control Prooflist			
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)	Section 132 (As amended by Cir. No. 969 dated 08.22.17)	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 supervising department of the Bangko Sentral
A-2	Unnumbered (no prescribed form)	Section 132 (Cir. No. 887 dated 10.07.15, as amended by Cir. No. 969 dated 08.22.17)	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 supervising department of the Bangko Sentral
A-2	Form 2B/2B.1	Section 175 (M-026 dated 06.23.14 as amended by Cir. Nos. 890 dated 11.02.15, 963 dated 06.27.17 and M-028 dated 09.11.17)	Published Balance Sheet/Consolidated Balance Sheet (Before Publication) For Banks (consolidated reports are applicable to parent banks with subsidiary banks and other financial allied undertakings excluding insurance companies)	Quarterly	12 banking days from date of Call Letter	sdcrb-pbs@bsp.gov.ph
			Control Prooflist duly notarized and signed by the authorized official of the reporting bank			do
			Published Balance Sheet/Consolidated Balance Sheet (together with the publisher's certificate)		20 banking days from the date of the Call Letter	do

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure/ e-mail Address
A-2	Unnumbered	Section 436 (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, Cir. Nos. 920 dated 08.18.16, 963 dated 06.27.17 and M-028 dated 09.11.17)	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 <

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure/ e-mail Address
A-2	BSP 7-16-11	Section 173	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 supervising department of the Bangko Sentral
A-2	RB/COB Form 7	Section 256 (M-020 dated 04.22.14, Cir. Nos. 890 dated 11.02.15, 963 dated 06.27.17, M-028 dated 09.11.17, M-003 dated 2.7.18)	Weekly Report on Required and Available Reserves Against Deposit Liabilities (WRRAR)	Weekly	4 banking days after end of reference week	sdcrb-wrrar@bsp.gov.ph
A-2	Unnumbered	Section 383 (Cir. No. 848 dated 09.08.14, as amended by Cir. No. 963 dated 06.27.17 and M-028 dated 09.11.17)	Report of Selected Branch Accounts	Quarterly	20 banking days after end of reference quarter	sdcrb-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			
			Bank Deposit Interest Rate	do	do	
A-2	Unnumbered	Section 125 (Cir. No. 963 dated 06.27.17, as amended by M-028 dated 09.11.17)	Computation of the Risk-Based Capital Adequacy Ratio Covering Combined Credit Market and Operational Risks (for stand alone RCBs)			
			- Solo basis	Quarterly	15 banking days after end of reference quarter	sdcrb-car@bsp.gov. ph

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

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure/ e-mail Address
A-3	RB/COB Form 4A	Sections 346 and 413	Consolidated Report on Compliance with Individual Ceiling on Direct Credit Accommodations to Schedule:	Quarterly	15th banking day after end of reference quarter	Original – Appropriate supervising department of the Bangko Sentral
			1 - Compliance with Individual Ceiling on Credit Accommodations to DOSRI	do	do	do
A-3	RB/COB Form 4B	Sections 346 and 413	Consolidated Report on the Compliance with Aggregate Ceiling on Credit Accommodations to DOSRI			
			Schedules:			
			1 - Secured and Unsecured DOSRI Loans			
A-3	Unnumbered	Section 289	Summary of Loans Granted	Annually	15th banking day after end of reference year	Original – SDC
A-3	Unnumbered	Section 173	Report on Borrowings of BSP Personnel	Quarterly	15th banking day after end of reference quarter	do
A-2	Unnumbered	Appendix 57 (Cir. No. 926 dated 09.13.16, as amended by Cir. No. 948 dated 03.01.17)	Sworn Certification on Lending to Local Government Units	Semestral	15 banking days after end of reference semester	Hardcopy to the appropriate supervising department of the Bangko Sentral
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 57a (Cir. No. 926 dated 09.13.16, as amended by Cir. No. 948 dated 03.01.17)	Sworn Certification on Lending to Borrowing Government Entities	Semestral	15 banking days after end of reference semester	Hardcopy to the appropriate supervising department of the Bangko Sentral
	Unnumbered	Section 278	Post Borrowing Report	As transaction occurs	Within 30 calendar days from the date of the full release of proceeds	DER

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure/ e-mail Address
SECONDARY REPORTS						
A-2	Unnumbered	Sections 173 and 314 (Cir. 836 dated 06.13.14 and M-024 dated 06.23.14, as amended by Cir. Nos. 890 dated 11.02.15, 963 dated 06.27.17 and M-028 dated 09.11.17)	Report on Microfinance Products			
A-3	RB/COB Form 5B	Section 332 (M-020 dated 04.22.14 as amended by Cir. Nos. 890 dated 11.02.15, 963 dated 06.27.17 and M-028 dated 09.11.17, M-22 dated 8.10.2018)	Report on Compliance with Mandatory Credit Allocation Required under R.A. 6977 (as amended by R.A. Nos. 8289 and 9501) (MSME)			
			Schedules:	Monthly	15 banking days after end of the reference month	sdcrb-micro@bsp.gov.ph
			1A - Computation of Total Loan Portfolio for Purposes of Determining Amount of Mandatory Credit Allocation for MSMEs	Quarterly	15 banking days after end of reference quarter	sdcrb-sme@bsp.gov.ph
			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			

[1] Starting with the 30 September 2014 quarterly report

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure/ e-mail Address
			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			
			Control Prooflist	Quarterly	15th banking day after end of reference quarter	SDC
A-3	Unnumbered	Section 173 (As amended by M-036 dated 10.09.15 and Cir. Nos. 903 dated 02.29.16, 963 dated 06.27.17 and M-028 dated 09.11.17)	Report on Compliance with the Mandatory Agri-Agra Credit (Agri-Agra)	Quarterly	15th banking day after end of reference quarter	SDC
			Control Prooflist	Quarterly	15 banking days after end of reference quarter	sdcrb-agra@bsp.gov.ph
A-3	Unnumbered	Section 312 (M-020 dated 04.22.14, Cir. No. 890 dated 11.02.15, M-002 dated 03.10.16, Cir. No. 963 dated 06.27.17 and M-028 dated 09.11.17)	Credit Card Business Activity Report (Applicable to Fis with credit card operations)	do	do	sdc-ccbar@bsp.gov.ph
B	SES Form6G	Section 173 (As amended by Cir. No. 963 dated 06.27.17 and M-028 dated 09.11.17) Section 148	Report on Crimes and/or Losses (RCL) - Initial Report	As crime/ incident occurs	Not later than ten (10) calendar days from knowledge of crime/incident	sdcrb-rcl@bsp.gov.ph
			- Complete/Final Report	do	Not later than twenty (20) calendar days from termination of investigation	do

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure/ e-mail Address
B	RB/COB Form 13	Section 346	Report on Availment of Financial Assistance to Officers and Employees under an Approved Plan	As crime/ incident occurs	Not later than ten (10) calendar days from knowledge of crime/incident	sdcrb-rcl@bsp.gov.ph
				do	Not later than twenty (20) calendar days from termination of investigation	do
B		Section 137 (Cir. No. 887 dated 10.07.15 as amended by Cir. 969 dated 08.22.17)	Duly accomplished and notarized authorization form for querying the Bangko Sentral watchlist files	Semestral	15 banking days after end of reference semester	Hard copy to appropriate supervising department of the Bangko Sentral
B		Section 137 (Cir. No. 887 dated 10.07.15 as amended by Cir. 969 dated 08.22.17)	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 supervising department of the Bangko Sentral
B	RB/COB Form 18	Section 137 (Cir. Nos. 887 dated 10.07.15 and 969 dated 08.22.17)	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)	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 supervising department of the Bangko Sentral
B		section 137 (Cir. No. 887 dated 10.07.15 as amended by Cir. 969 dated 08.22.17)	Certification under oath of the independent directors that he/she is an independent director as defined under Sec. 132 (*Definition of Terms*) and that all the information thereby supplied are true and correct	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 apponted/promoted	Hard copy to appropriate supervising department of the Bangko Sentral

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure/ e-mail Address
B		Section 132 (As amended by Cir. No.887 dated 10.07.15 and 969 dated 08.22.17)	Certification under oath of director/officer that he/she has all the qualifications and none of the disqualifications	Upon election	20th banking day from date of election	Hard copy to appropriate supervising department of the Bangko Sentral
			Verified statement of directors/officers that he/she has all the aforesaid 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 supervising department of the Bangko Sentral
B	RB/COB Form 19	Section 108	New Schedule of Banking Days/Hours			
B	Unnumbered (no prescribed form)	Section 138 (As amended by Cir. No. 969 dated 08.22.17)	Report on Disqualification of Directors/Officers	As Necessary	7th banking day prior to effectivity of change	Original-Appropriate supervising department of the Bangko Sentral
B	RB/COB Form 23	Section 143 (As amended by Cir. No. 895 dated 10.29.14)	Notice/Application for Write-off Loans, Other Credit Accommodations, advances and Other Assets	As disqualification occurs	Within 72 hours from receipt of report by the BOD	Original-Appropriate supervising department of the Bangko Sentral
B	RB/COB Form 23	Section 143 (As amended by Cir. No. 895 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 supervising department of the Bangko Sentral
B	RB/COB Form 25	Section 137 (As amended by Cir. Nos. 887 dated 10.07.15 and 969 dated 08.22.17)	List of Members of the Board of Directors and Officers	As write-off occurs	Within 30 days after every write-off	Original and duplicate-Appropriate supervising department of the Bangko Sentral
B	RB/COB Form 26	Section 346	Transmittal of Board Resolution/Written Approval on Credit Accommodation to DOSRI in compliance with Sec. 36, R.A. 8791, as amended	Annually	20th banking day from the annual election of the board of directors	Hard copy to appropriate supervising department of the Bangko Sentral
B	Unnumbered	Section 342	Transmittal of Board Resolution/Written Approval On Credit Accommodations to Subsidiaries and/or Affiliates in Compliance with Sec. 342 (*Loans, other credit accommodations and guarantees granted to subsidiaries and/or affiliates*)	As transaction occurs	20th banking day from date of approval	do

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure/ e-mail Address
B		Section 175	Annual Report of Management to Stockholders Covering Results of Operation for the Previous Year	As loan to subsidiaries and/or affiliates is approved	do	Original and duplicate- Appropriate supervising department of the Bangko Sentral
B	Unnumbered	Section 278	Certification of Compliance with Section 55.4 of R.A. No. 8791	Annually	180 days after close of calendar or fiscal year	Original – Appropriate supervising department of the Bangko Sentral
		Section 413	Waiver of the Confidentiality of Information under Sections 2 and 3 of R.A. No. 1405, as amended	Semestral	Within 7 banking days after end of June and December	do
B	Unnumbered	Section 136 (As amended by Cir. Nos. 895 dated 12.14.15, 917 dated 07.08.16 and 969 dated 08.22.17)	Report on Material Related Party Transactions	As transaction occurs		Appropriate supervising department of the Bangko Sentral
			Disclosure Statement on SPV Transactions	Quarterly	20 calendar days after the reference quarter	Appropriate supervising department of the Bangko Sentral
B	Unnumbered	(As amended by Cir. No. 963 dated 06.27.17 and M-028 dated 09.11.17, Cir. 987 dated 12.18.17 and M-016 dated 4.17.18)	Report on the Inventory of Banking Network	Quarterly	15th banking day after end of reference quarter	SDC
	Unnumbered	Section 181 (Circular No. 848 dated 09.08.14)	Schedule of Bank Deposit Interest Rates[1]	Quarterly	20 banking days after the end of the reference quarter	sdcrb-ibn@bsp.gov.ph
	Unnumbered	(As amended by M-020 dated 04.22.14, Cir. Nos. 890 dated 11.02.15, 963 dated 06.27.17 and M-028 dated 09.11.17)	Report on Non-Deliverable Forward Transactions against Philippine Peso Control Prooflist	do	do	
	Unnumbered	(M-020 dated 04.22.14 as amended by Cir. Nos. 890 dated 11.02.15, 963 dated 06.27.17 and M-2017-026 dated 09.11.17)	Registration Form (E-correspondences)	Daily	2 banking days after end of reference date	sdc-ndf@bsp.gov.ph

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure/ e-mail Address
B		(Cir. No. 857 dated 11.21.14, M-17 dated 5.10.18)	Complaints Report	Quarterly	Not later than one (1) month after the end of every quarter	sdcrb_rf@bsp.gov.ph sdcrb-bccr@bsp.gov.ph
B	Form No. 1	Section 702 Schedule 1 (Cir. No. 963 dated 06.27.17, as amended by M-028 dated 09.11.17)	Report on Electronic Money Transactions (applicable to Electronic Money Issuers)	Quarterly	Not later than one (1) month after the end of every quarter	SDC
		Section 148 (Cir. No. 1019 dated 10.31.18, 963 dated 06.27.17, as amended by M-028 dated 09.11.17)	IT Profile Report	Annually	25 calendar days from the end of reference year	sdcrb-itprofile@bsp.gov.ph
B	Unnumbered	Sec. 148	Reportable Major Cyber-Related Incidents	As Incidents occur	Within two (2) hours upon discovery	citsg@bsp.gov.ph
					Within twenty-four (24) hours from discovery	citsg@bsp.gov.ph
B	Unnumbered	Sec. 148	Disruptions of financial services and operations.	As disruptions occur	Within two (2) hours upon discovery	citsg@bsp.gov.ph
					Within twenty-four (24) hours from discovery	citsg@bsp.gov.ph

CERTAIN INFORMATION REQUIRED FROM BANKS
(Appendix to Sec. 173 on Submission of certain required information)

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 branch-lite unit/s:

    a. Name of branch, agency or branch-lite unit/s, 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 branch-lite unit/s, indicate name of mother branch.

(Circular No. 987 dated 28 December 2017)

DOCUMENTS/INFORMATION ON ORGANIZATIONAL STRUCTURE AND OPERATIONAL POLICIES
(Appendix to Sec. 173 on Submission of certain required information)

1. Chart of the firm's organizational structure or any substitute therefore;
2. Name of departments/units/offices with their respective functions and responsibilities;
3. Designations of positions in each department/unit/office with the respective duties and responsibilities;
4. Manual of Instructions or the like embodying the operational policies/procedures of each department/unit/office, covering such areas as:

    a. Signing/delegated authority;
    b. Procedure/flow of paper work; and
    c. Other matters;

5. Memoranda-Circulars or the like issued covering organizational and operational policies;
6. Sample copies of each of the forms/ reports used by each office/unit/department other than those submitted to the Bangko Sentral; and
7. Such other documents/information that may be required from time to time by the supervisory/regulatory department concerned.

FORMAT OF SELF-ASSESSMENT AND CERTIFICATION ON COMPLIANCE WITH RULES AND REGULATIONS ON BANK PROTECTION
(Appendix to Sec. 147 on Minimum security measures)

_____
(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 Bangko Sentral 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 implementation thereof is substantially compliant with the requirements on bank protection prescribed under Section 147 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 Bangko Sentral 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 Bangko Sentral for the determination of the program's adequacy and effectiveness.

_____
Security Officer

_____
Date

Noted by:

President

Date

PRO-FORMA ORDER OF WITHDRAWAL FOR "NOW" ACCOUNTS
(Appendix to Sec. 222)

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

FRONT

Acct No. _____ No. _____

ORDER OF WITHDRAWAL
"NOW" ACCOUNTS

_____, 20__

Pay to _____ the amount of PESOS _____ (P _____)

NAME OF DRAWEE BANK
Address

_____
Drawer/Depositor

BACK

Important:

1. This order of withdrawal shall be payable only to a specific person, natural or juridical, and not to bearer nor to the order of a specific person.

2. Only the payee can encash this order of withdrawal with the drawee bank, or deposit it in his account with the drawee bank or with any other bank.

SAMPLES OF STANDARDIZED INSTRUMENTS EVIDENCING DEPOSIT SUBSTITUTE INSTRUMENTS
(Appendix to Sec. 242 on Minimum Features)

Serial No._____ **Original**

_____
(Name of Bank)

PROMISSORY NOTE

Issue Date : _____, 20__
Maturity Date : _____, 20__

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

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

or order, the sum of PESOS _____ (₱ _____),
(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 collateral
   ( ) 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 _____ (₱ _____)

Vendor, _____, hereby sells, transfers and conveys in favour of
(Name of Issuer/Vendor)

Vendee, _____ , the security(ies) described below, it being
(Name of Vendee)

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 _____ (₱_____), 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 ₱
		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 _____ (₱_____),

_____ 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 ₱
		TOTAL	₱	₱

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

CONFORME:

_____ _____
(Signature of Vendee) 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 payee
   ( ) 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 ASSIGNMENT WITH RECOURSE

Issue Date : _____, 20__

FOR AND IN CONSIDERATION OF PESOS _____(₱_____),

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

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
			₱	₱
		T O T A L	₱	₱

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

CONFORME:

_____ _____
(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 (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 of _____
(Name of Participant)

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
			₱	₱
		T O T A L	₱	₱

The issuer shall pay, jointly and severally with the Principal Debtor, _____ share of
(fraction or %)

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 AND 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 of _____
(Name of Participant)

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
			₱	₱
		T O T A L	₱	₱

In case of default of the Principal debtor, the issuer shall pay the _____ share of the face value
(fraction or %)

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)

5. *No Pretermination*

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

6. *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.

7. *Delivery/Custody of Securities*

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

8. *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.

IMPLEMENTING GUIDELINES OF THE COUNTRYSIDE FINANCIAL INSTITUTIONS ENHANCEMENT PROGRAM (CFIEP)
(Appendix to Sec. 287 B/C)

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;
b. The term CFIs shall refer to all RBs, Coop banks and TBs, which have their main operations in the countryside;
c. TBs as may be determined by the Task Force which have their main operations in the countryside; and
d. 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.

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. 138 and other criteria that the Task Force may set.

CFIs investing in undercapitalized CFIs should have a minimum unimpaired capital as defined under Sec. 121 and under applicable and existing risk-based capital adequacy framework and a history of sustained profitability for a period of at least five (5) years

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

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. 969 dated 22 August 2017, 890 dated 02 November 2015 and 827 dated 28 February 2014)

RULES GOVERNING ISSUANCE OF MORTGAGE/CHATTEL MORTGAGE CERTIFICATE BY THRIFT BANKS
(Appendix to Sec. 293-B/C)

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, acquisition, 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; (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 thirteen (13) inches in length and eight and a half (8.5) inches in width, and shall be serially pre-numbered and printed on security paper with safeguards against alterations and/or falsifications;
   (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 supervising department of the Bangko Sentral 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 supervising department of the Bangko Sentral may deem necessary for the proper evaluation of the bank's application.

BASIC GUIDELINES IN SETTING UP OF ALLOWANCE FOR CREDIT LOSSES
(Appendix to Sec. 143 on Credit Classification and Provisioning)

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

As a general rule, Especially Mentioned and Substandard – Underperforming [e.g., substandard accounts that are unpaid or with missed payment of less than ninety (90) days] shall be considered as Stage 2 accounts, while Substandard Non-performing, Doubtful, and Loss accounts shall be considered as Stage 3 accounts.

I. Individually Assessed Loans and Other Credit Exposures[1]

1. Loans and other credit exposures 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 exposures:

No. of Days Unpaid/with Missed Payment	Classification	Minimum ACL	Stage
31 – 90 days	Substandard (underperforming)	10%	2
91 – 120 days	Substandard (non-performing)	25%	3
121 – 180 days	Doubtful	50%	3
181 days and over	Loss	100%	3

   For secured loans and other credit exposures:

No. of Days Unpaid/with Missed Payment	Classification	Minimum ACL	Stage
31 – 90 days*	Substandard (underperforming)	10%	2
91-180 days*	Substandard (non-performing)	10%	3
181-365 days	Substandard (non-performing)	25%	3
Over a year – 5 years	Doubtful	50%	3
Over 5 years	Loss	100%	3
**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 exposures that exhibit the characteristics for classified accounts described under Sec. 143 (*Credit Classification and Provisioning*) shall be provided with ACL, as follows:

Classification	Minimum ACL	Stage
Especially Mentioned	5%	2
Substandard - Secured	10%	2 or 3[2]
Substandard - Unsecured	25%	2 or 3[3]
Doubtful	50%	3
Loss	100%	3

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-five percent (25%) allowance for credit losses.

[1] Other credit exposures include exposures under the scope of PFRS 9, such as investments in debt securities measured at fair value through other comprehensive income and amortized cost, loan commitments, sales contract receivables, accounts receivables, accrued interest receivables and advances.
[2] The stage depends on whether the accounts are classified as non-performing (Stage 3) or underperforming (Stage 2)
[3] The stage depends on whether the accounts are classified as non-performing (Stage 3) or underperforming (Stage 2)

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

II. Collectively Assessed Loans[1] and Other Credit Exposures

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 exposures 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 exposures:

No. of Days Unpaid/with Missed Payment*	Classification	Minimum ACL	Stage
1 – 30 days	Especially Mentioned	2%	2
31 – 60 days/1st restructuring	Substandard	25%	2 or 3[2]
61 – 90 days	Doubtful	50%	3[3]
91 days and over/2nd restructuring	Loss	100%	3

** PAR for microfinance loans*

   For secured loans and other credit accommodations:

No. of Days Unpaid/with Missed Payment	Classification	ACL (%)		Stage
		Other types of collateral	Secured by real estate	
31 – 90 days	Substandard (underperforming)	10	10	2
91 – 120 days	Substandard (non-performing)	25	15	3
121 – 360 days	Doubtful	50	25	3
361 days – 5 years	Loss	100	50	3
Over 5 years	Loss	100	100	3

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

(Circular Nos. 1011 dated 14 August 2018, 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)

[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] The stage depends on whether the accounts are classified as non-performing (Stage 3) or underperforming (Stage 2)

[3] Sec. 304 (*Accounts considered non-performing*) provides that doubtful accounts are considered as non-performing hence, shall be classified under Stage 3 notwithstanding the number of missed amortizations.

FORMAT OF DISCLOSURE STATEMENT ON SMALL BUSINESS/RETAIL/CONSUMER CREDIT
(Appendix to Sec. 306 on "Truth in Lending Act" Disclosure Requirement)

_____
(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 | **₱ XXX**

2. OTHER BANK CHARGES/DEDUCTIONS COLLECTED[1] | **₱ XXX**

a. Documentary/Science Stamps ₱ _____
b. Mandatory Credit Insurance _____
c. Others (Specify) _____ _____

3. NET PROCEEDS OF LOAN (Item 1 less Items 2 and 3) | **₱ XXX**

4. SCHEDULE OF PAYMENTS

a. Single payment due on | **date** | **₱ 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 ₱ _____
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

[1] **Notes**
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

ABSTRACT OF "TRUTH IN LENDING ACT" (Republic Act No. 3765)
(Appendix to Sec. 306)

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 ₱100 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 ₱2,000 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 ₱1,000 nor more than ₱5,000 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 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.

ENHANCED INTRADAY LIQUIDITY FACILITY (ILF)
(Appendix to Sec. 290)

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 the Bangko Sentral 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 Bangko Sentral or an Overnight Repurchase (O/N-RP) transaction with the Bangko Sentral 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 Bangko Sentral shall sell back to the Eligible Participant bank the GS at the same price as the original Bangko Sentral 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 Bangko Sentral and the participating bank may agree on the following:

   a. Bangko Sentral shall extend to the Eligible participant bank an O/N-RP at 600 basis points over the Bangko Sentral'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 Bangko Sentral of the subject GS earlier delivered/transferred to the CSA-ILF, pursuant to an ILF availment by the Eligible Participant bank, in which case, Bangko Sentral shall issue an instruction to BTr to deliver/transfer the subject GS from the BSP-ILF Securities Account to the Bangko Sentral 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 Bangko Sentral Treasury Department (Annex 3), or,

b. Only in extreme cases, the Bangko Sentral shall sell back to the participating bank GS up to the extent of the PhilPaSS Account balance. The Bangko Sentral 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 Bangko Sentral's Regular Principal Securities Account.

At the end of the day and after Bangko Sentral's sell-back of the GS to ILF participants, normally by 5:45PM, the Bangko Sentral 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 Bangko Sentral'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:

Original Booking of GS	**To be reclassified to**
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 Bangko Sentral.

e. ***Margins***. Margins shall be applied based on prevailing policies of the Bangko Sentral Treasury Department.

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 Bangko Sentral for the above-mentioned monthly maintenance fee. The BTr will inform the Eligible Participant banks of any change in fee at least fifteen (15) days prior to implementation.

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.

AVAILABILITY OF SERVICES

The ILF is covered by a Memorandum of Agreement (MOA) dated 25 March 2008 by and among the Bangko Sentral, 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 Bangko Sentral 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 Bangko Sentral.

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 Bangko Sentral 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 Bangko Sentral 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:	_____

Annex 1

(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 Bangko Sentral for the payment of said monthly fee.

_____ Manila, Philippines
(Date)

_____
(Name of Applicant)

_____
_(Signature of Authorized Signatory)

_____
(Designation)

Annex 2

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)

Annex 3

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 EQUITIES[1]
(Appendix to Sec.376-A)

PSIC CODE		DESCRIPTION
MAJOR GROUP	GROUP	
	I.	**Agriculture (Major Division 1)**
	A.	*Agricultural crops production (Division 11)*
111		Palay production
112		Corn production
113		Vegetable production, including root and tuber crops
114		Fruits and nuts (excluding coconut) production
115		Coconut production, including copra making in the farm
116		Sugarcane production, including muscovado sugar in the farm
118		Fiber crops production
119		Other agricultural crops production
	B.	*Production of livestock, poultry and other animals (Division 12)*
121		Livestock and livestock products
122		Poultry and poultry products
123		Raising of other animals, including their products
	C.	*Agricultural services (Division 13)*
130		Agricultural services
	II.	**Fishery and Forestry (Major Division 2)**
	A.	*Fishery (Division 14)*
141		Ocean (offshore) and coastal fishing
142		Inland fishing
143		Operation of fish farms
149		Other fishery activities
	B.	*Forestry (Division 15)*
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.	*Metallic ore mining (Division 21)*
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.	*Non-metallic mining and quarrying (Division 22)*
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

[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	
	IV. Manufacturing (Major Division 4)	
	A.	*Manufacture of food (Division 31)*
311-312		Food manufacturing
	B.	*Textile, wearing apparel and leather industries (Division 32)*
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
	C.	*Manufacture of paper and paper products; printing and publishing (Division 34)*
341		Manufacture of paper and paper products
342		Printing, publishing and allied industries
	D.	*Manufacture of chemicals and chemical, petroleum, coal rubber and plastic products (Division 35)*
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.	*Manufacture of non-metallic mineral products, except products of petroleum and coal (Division 36)*
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.	*Basic metal industries (Division 37)*
371		Iron and steel basic industries
372		Non-ferrous metal basic industries
	G.	*Manufacture of fabricated metal products, machinery and equipment (Division 38)*
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
	H.	*Other manufacturing industries (Division 39)*
390		Other manufacturing industries
	V. Electricity, Gas and Water (Major Division 5)	
	A.	*Electricity (Division 41)*
411		Generating and distributing electricity
412		Distributing electricity to consumers
	B.	*Gas and steam (Division 42)*
421		Gas manufacture and distribution through systems

PSIC CODE		DESCRIPTION
MAJOR GROUP	GROUP	
422		Steam heat and power plants
	C.	*Waterworks and supply (Division 43)*
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.	*Wholesale trade (Division 61)*
619		Wholesale trade not elsewhere classified Merchandise brokers, general merchants, importers and exporters
	VIII.	**Transport, Storage and Communication (Major Division 8)**
	A.	*Transportation services (Division 71)*
711		Railway transport
712		Road passenger and freight transport
713		Water transport
714		Air transport
719		Services allied to transport
	B.	*Communication (Division 73)*
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.	*Other social and related community services (Division 95)*
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. 384 on Credit Policies of Government- Owned Corporations)

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 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

a. *Agriculture, Fisheries and Forestry*

(1) Agricultural
  (a) Abaca
  (b) Cassava
  (c) Cattle and dairy farms
  (d) Coconut
  (e) Coffee and cocoa
  (f) Corn
  (g) Palay or rice
  (h) Piggery
  (i) Poultry
  (j) Ramie
  (k) Rubber plantation
  (l) Other fruits and vegetables

(2) Fisheries
  (a) Fishponds and inland fishing
  (b) Marine fishing

(3) Forestry
  (a) Forest nurseries and reforestation project

b. *Mining and quarrying*

(1) Metal mining
  (a) Chromite
  (b) Copper
  (c) Iron
  (d) Lead
  (e) Manganese
  (f) Mercury and quicksilver
  (g) Nickel
  (i) Zinc

(2) Non-metallic mining
  (a) Asbestos
  (b) Sulphur
  (c) Coal
  (d) Gypsum

c. *Manufacturing*

(1) Basic metal industries
  (a) Blast furnaces, steel works and rolling mills
  (b) Iron and steel basic industries
  (c) Iron and steel foundries
  (d) Non-ferrous metal basic industries

(2) Chemical and chemical products
  (a) Basic chemicals
  (b) Drugs
  (c) Fertilizer

(3) Coconut products and their preparation
  (a) Coconut oil, edible
  (b) Coconut oil, inedible
  (c) Copra meal and cake

(4) Electrical machinery, apparatus and appliances
  (a) Transmissions and distribution equipment

(5) Food manufacturing
  (a) Canning and preserving of fish and other sea foods
    (i) Fish canning
  (b) Canning and preserving of fruits and vegetables
    (i) Canning, drying, brining, pickling or otherwise preserving or preparing vegetables
    (ii) Canning, drying or otherwise preparing and preserving fruits
  (c) Slaughtering, preparation and preserving of meat
  (d) Miscellaneous food preparation
    (i) Prepared feeds for animals and fowls
(6) Furniture and fixtures manufacture
  (a) Rattan and bamboo furniture
(7) Leather and leather products
  (a) Tanning and finishing
(8) Lumber and wood products
  (a) Veneer, plywood and prefabricated products
(9) Machinery, equipment, accessories and parts
  (a) Agricultural machinery
  (b) Engines and turbines
  (c) Industrial, construction and mining machinery
(10) Non-metallic products
  (a) Cement

(11) Paper and paper products
  (a) Pulp, paper and paperboard
(12) Petroleum and coal products
  (a) Coke
(13) Textile, cordage and twines manufactures
  (a) Cordage, rope, twines and nets
  (b) Hemp milling, abaca stripping and baling establishments
  (c) Knitting mills
  (d) Spinning, weaving and finishing of textiles
(14) Transportation equipment and parts
  (a) Aircrafts and parts
  (b) Motor vehicles, equipment and parts
  (c) Motorcycles, bicycles and parts
  (d) Railroad equipment
  (e) Ships and boats
(15) Miscellaneous manufacturing industries
  (a) Laboratory, engineering and medical

d. *Construction*

(1) Contract
  (a) Building construction
    (i) Commercial and industrial projects[1]

e. Public Utilities

(1) Ice and ice refrigeration plants
(2) Operation of wharves, dry docks etc.
(3) Warehousing
(4) Water supply and sanitary services
  (a) Irrigation systems
  (b) Water supply systems

f. Commerce

(1) Export products[1]
(2) Importation of capital goods and raw materials[1]
(3) 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 [2]

a. *Agriculture, fisheries and forestry*
(1) Agricultural
  (a) Citrus
  (b) Cotton
  (c) Salt farming
  (d) Soybean
  (e) Other root crops

b. *Mining and quarrying*
(1) Metal mining
  (a) Gold
  (b) Silver
(2) Non-metallic mining
  (a) Asphalt
  (b) Marble

[1] To follow rating of economic activities included in the list.
[2] For updated loans values, see Sec 292

c. *Manufacturing*
   (1) Chemical and chemical products
      (a) Dyeing and tanning materials
      (b) Explosives (excluding firecrackers)
   (2) Coconut products and their preparations
      (a) Desiccated coconut
   (3) Electrical machinery, apparatus and appliances
      (a) Communication equipment
      (b) Dry cells and storage batteries
   (4) Food manufacturing
      (a) Canning and preserving of fruits and vegetables
         (i) Fruits and vegetables, sauces and seasoning
      (b) Dairy products
         (i) Milk processing
      (c) Miscellaneous food preparations
         (i) Coffee roasting, grinding and/or processing
   (5) Furniture and fixture manufacture
      (a) Wood furniture
   (6) Lumber and wood products
      (a) Cork
      (b) Sashes and doors
      (c) Sawn and planed lumber
      (d) Wooden box
      (e) Wood chips
   (7) Machinery, equipment, accessories and parts
      (a) Office and store machines and devices
   (8) Metal industries
      (a) Cutlery, handtools and general products
      (b) Fabricated structural and metal products
      (c) Tin and aluminum ware
   (9) Non-metallic products
      (a) Glass and glass products
      (b) Structural clay products
   (10) Textile, cordage and twines manufactures
      (a) Jute bags and sacks
   (11) Miscellaneous manufacturing industries
      (a) Cottage native handicraft industries
      (b) Footwear (other than rubber)
      (c) Photographic and optical goods

d. *Construction*

   (1) Contract
      (a) Building construction
      (b) Commercial and industrial projects[1]
      (c) Highway and street construction (including road building)

e. *Public utilities*

   (1) Common carriers
      (a) Airlines and other air transportation
      (b) Motor vehicles
      (c) Railroad and railway companies
      (d) Steamboats and steamship lines
   (2) Communication
      (a) Telecommunication (cable, mail and express, telegraph, telephone)
   (3) Electricity, gas and steam
      (a) Electric, light, heat and power
   (4) Water supply and sanitary services
      (a) Garbage, sewerage and disposal system

[1] To follow rating of economic activities included in the list.

f. *Services*

(1) Business and professional services
  (a) Engineering and technical services
(2) Educational services
  (a) Private vocational and trade schools
  (b) Public universities and higher educational institutions
  (c) Public vocational and trade schools
(3) Medical and other health services
  (a) Public health services
(4) Recreation services
  (a) Theatrical production (i.e., all performing arts)
(5) Research and scientific institutions

g. *Financial*

(1) Banks
  (a) Private development banks
  (b) Rural banks/Cooperative banks

h. *Commerce*

(1) Export products[1]
(2) Importation of capital goods and raw materials[1]
(3) Domestic trade (Filipino only) wholesale and retail[1]

i. Other activities

(1) 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]

a. *Agriculture, Fisheries and Forestry*

(1) Agricultural
  (a) Pineapple
  (b) Tobacco, native
(2) Fisheries
  (a) Fishery services
  (b) Pearl fishing and culture, shell gathering and other marine products
(3) Forestry
  (a) Forest services
  (b) Timber tracts

b. *Mining and quarrying*

(1) Non-metallic mining
  (a) Mineral salt
  (b) Silica

c. *Manufacturing*

(1) Apparel and other finished products made from fabrics and similar materials
  (a) Embroidery shops
  (b) Wearing apparel
(2) Chemicals and chemical products
  (a) Paints, varnishes and lacquers
  (b) Soaps and other cleansing preparations
(3) Coconut products and their preparations
  (a) Copra

[1] For updated loans values, see Sec 292

(4) Electrical machinery, apparatus and appliances
  (a) Electric lamp
  (b) Household appliances
  (c) Radio, television, telephone receiving sets, electronic tubes and components
(5) Food manufacturing
  (a) Canning and preserving of fish and other sea foods
    (i) Fish sauce (patis) manufacture
    (ii) Shellfish curing, smoking, salting or pickling
  (b) Cocoa and chocolate and sugar confectionery
    (i) Cocoa and chocolate processing factories
  (c) Grain mill products
    (i) Corn mills
    (ii) Rice mills
    (iii) Tuber flour mills
    (iv) Wheat flour
  (d) Miscellaneous food preparations
    (i) Salt manufacture
    (ii) Starch and its products
    (iii) Vegetable lard and margarine manufacture
    (iv) Vermicelli and noodles manufacture
(6) Lumber and wood products
  (a) Creosoting and other wood treating
(7) Metal industries
  (a) Fabricated wire products
  (b) Metal stamping, coating and engraving
(8) Non-metallic products
  (a) Private vocational and trade schools
  (b) Public universities and higher educational institutions
  (c) Public vocational and trade schools
(9) Medical and other health services
  (a) Public health services
(10) Recreation services
  (a) Theatrical production (i.e., all performing arts)
(11) Research and scientific institutions

d. *Financial*

(1) Banks
  (a) Private development banks
  (b) Rural banks/Cooperative banks

e. *Commerce*

(1) Export products[1]
(2) Importation of capital goods and raw materials[1]
(3) Domestic trade (Filipino only) wholesale and retail[1]

f. Other activities

(1) 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[2]

a. *Agriculture, Fisheries and Forestry*

(1) Agricultural
  (a) Pineapple
  (b) Tobacco, native
(2) Fisheries
  (a) Fishery services
  (b) Pearl fishing and culture, shell gathering and other marine products

(3) Forestry
  (a) Forest services
  (b) Timber tracts

b. *Mining and quarrying*

(1) Non-metallic mining
  (a) Mineral salt
  (b) Silica

c. *Manufacturing*
(1) Apparel and other finished products made from fabrics and similar materials
  (a) Embroidery shops
  (b) Wearing apparel
(2) Chemicals and chemical products
  (a) Paints, varnishes and lacquers
  (b) Soaps and other cleansing preparations
(3) Coconut products and their preparation
  (a) Copra
(4) Electrical machinery, apparatus and appliances
  (a) Electric lamp
  (b) Household appliances
  (c) Radio, television, telephone receiving sets, electronic tubes and components
(5) Food manufacturing
  (a) Canning and preserving of fish and other sea foods
    (i) Fish sauce (patis) manufacture
    (ii) Shellfish curing, smoking, salting or picking
  (b) Cocoa and chocolate and sugar confectionary
    (i) Cocoa and chocolate processing factories
  (c) Grain mill products
    (i) Corn mills
    (ii) Rice mills
    (iii) Tuber flour mills
    (iv) Wheat flour
  (d) Miscellaneous food preparations
    (i) Salt manufacture
    (ii) Starch and its products
    (iii) Vegetable lard and margarine manufacture
    (iv) Vermicelli and noodles manufacture
(6) Lumber and wood products
  (a) Creosoting and other wood treating
(7) Metal industries
  (a) Fabricated wire products
  (b) Metal stamping, coating and engraving
(8) Non-metallic products
  (a) Plastic products
  (b) Pottery, china, earthenware
  (c) Concrete aggregates
  (d) Concrete products
    (i) Cement products light weight aggregate
    (ii) Pre-mold concrete light aggregate
(9) Paper and paper products
  (a) Coated and glazed paper products
(10) Printing, publishing and allied industries
  (a) Book publishing and printing
  (b) Newspaper and periodical publishing
(11) Tobacco
  (a) Cigar and cigarette factories (native)
(12) Miscellaneous manufacturing industries
  (a) Oxygen, acetylene and similar products
  (b) Silver and gold work without precious stones
  (c) Musical instruments and parts
    (i) Blank recording discs
    (ii) Metal stampers

d. *Construction*

(1) Contract
  (a) Building construction
    (i) Government projects
    (ii) Commercial and industrial projects[1]
  (b) Heavy construction (including bridges and irrigation projects)
(2) Personal
  (a) Construction
  (b) Reconstruction

e. *Public utilities*

(a) Electricity, gas and steam
  (i) Gas manufacture and distribution
  (ii) Steam heat and power
(b) Water supply and sanitary services
  (i) Drainage system

f. *Services*

(a) Medical and other health services
  (i) Private health services
(b) Recreation services
  (i) Motion picture production

g. *Financial*

(a) Banks
  (i) Commercial banks
  (ii) Savings and mortgage banks

h. *Commerce*

(a) Export products[1]
(b) Importation of capital goods and raw materials[1]
(c) Domestic trade (Filipino only) wholesale and retail[1]

[1] To follow rating of economic activities included in the list.

SAMPLE INVESTMENT MANAGEMENT AGREEMENT
(Appendix to Sec. 415 on Minimum documentary requirements)

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:

_____

(Here in after 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: _____(₱_____).

(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.

ACCOUNTING AND REPORTING

(7) 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.

(8) 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

(9) 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

(10) 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.

(11) 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

(12) 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.

(13) 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**.

(14) 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.

(15) 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 Sec. 613 on Generally Authorized Derivatives Activities]

I. Introduction

This Appendix, together with the Guidelines on Supervision by Risk *(Appendix 69)*, Market Risk Management under Sec. 144, Liquidity Risk Management under Sec. 145, 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 directors[1] 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 69*. These categories are not mutually exclusive of each other. Hence, derivatives activities must be managed with consideration of all these risks.

III. Risk management process for derivatives

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

At a minimum, the risk management process for derivatives should be able to:

a. **Identify** the risks arising from its derivatives activities in whatever capacity 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

[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.

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 70 and 71*, 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 board[1] and senior management oversight

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

The board of directors must review and pre-approve new derivatives products as 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

[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.

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 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 Financial Reporting Standards (PFRS 9).

New measurement models whether developed internally or purchased from vendors, should be subject to an initial validation before it is used. Internally developed models require more intensive evaluation where they have not been market-tested by external parties. The validation process should consist of a review of the logic, mathematical or statistical theories, assumptions, internal processes and overall reliability of a bank's measurement models, including the compatibility of the measurement model with the bank's technology and systems. The validation must be undertaken by a technical expert independent from the unit that developed the model. For example, pricing systems developed by a trader is required to be independently validated by a corresponding technical expert from the bank's risk management unit. If no such personnel from the risk management unit exists, an independent validation may be performed by internal audit provided that internal audit has the necessary expertise. A bank may also avail of the services of an independent outside expert. Thereafter, the frequency and extent to which models are validated depends on changes that affect pricing, risk presentation or the existing control environment. Changes in market conditions that affect pricing and risk conventions, which model performance, should trigger additional validation review.

Risk management policies should clearly address the scope of the validation process, the frequency of validations, documentation requirements, and management responses. At a minimum, policies should require the evaluation of significant underlying algorithms and assumptions before the model is put in regular use, and as market conditions warrant thereafter. Such internal evaluations should be conducted by parties who, where practicable, are independent of the business sector using or developing the model. The evaluation may, if necessary, be conducted or supplemented with reviews by qualified outside parties, such as experts in highly technical models and risk management techniques.

(2) Limits structure

A bank must specify individual limits for all types of risks involved in a bank's derivatives activities. A bank should use a variety of limits to adequately capture the range of risks or to address risks that the measurement system does not capture. These limits should be integrated into the bank-wide limit structure to ensure consistency with the board of director- approved risk appetite and business strategy.

The limit structure should be realistic taking into consideration the target budget, level of earnings and capital. Limits must be documented and promptly communicated to all relevant personnel. Limits must be reviewed at least annually or more frequently, if circumstances warrant, in order to ensure that limits reflect the bank's past performance and current position.

Limits should be continually analyzed as regards its impact on target income, earnings and capital. These analyses should be submitted/reported to the board of directors. Any excess over the limit must be approved only by authorized personnel and immediately reported to senior management and depending on the seriousness, also to the board of directors. The seriousness of limit exceptions depends upon management's approach towards setting limits and on the actual size of individual and organizational limits relative to the bank's capacity to take risks. A bank with relatively conservative limits may encounter more exceptions to those limits than that with less restrictive limits. There must also be mechanisms for the correction of breach of these limits.

A bank's limit structure should address the following:

(a) Definition of a credit exposure;
(b) Maximum credit exposure to an individual counterparty;
(c) Credit concentrations;
(d) Maximum nominal exposure:
    (i) per trader and per transaction; and
    (ii) position limits.
(e) Approved credit risk mitigation techniques;
(f) Appropriate loss exposure triggers:

(i) loss alert;
(ii) stop loss;
(iii) value-at-risk; and
(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., 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.

(Circular No. 903 dated 29 February 2016)

GENERAL GOVERNANCE PRINCIPLES AND STANDARDS ON RELATIONSHIPS BETWEEN BANKS AND THEIR RELATED NON-GOVERNMENTAL ORGANIZATIONS (NGOs)/FOUNDATIONS
(Appendix to Sec. 341 on Definition of Related Interest)

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 of 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

   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 deposit 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 Sec. 132 duties and responsibilities of bank directors include, among other, 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 Bangko Sentral department/group for review and evaluation.

(Circular No. 969 dated 22 August 2017)

PROCEDURES ON COLLECTION OF FINES/PENALTIES FROM BANKS AND/OR DIRECTORS/OFFICERS OF BANKS
(Appendix to Sec. 1102 on Guidelines on the imposition of monetary penalties and Payment of monetary penalties)

For uniform implementation of the regulations payment of monetary 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 DDA with Bangko Sentral, the amount of the penalty/ies shall be automatically debited from the bank's DDA with the Bangko Sentral 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 Bangko Sentral 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 Bangko Sentral Cash Department or to Bangko Sentral Regional Cash Units in accordance with the provisions of Sec. 1102.

6. In the case of penalty/ies imposed on bank directors and/or officers, the employers bank and said directors and/or officers shall be advised by the appropriate supervising department concerned that the employer bank's DDA with the Bangko Sentral shall be debited for the amount of the penalty as advance payment in behalf of the director and/or officer within fifteen (15) calendar days from receipt of the notice of the decision of the Governor/Monetary Board. In case the director and/or officer is no longer connected with the bank, payment thereof shall be for the account of the director and/or officer who shall pay directly to the Bangko Sentral in the form of cash or check or such other acceptable means of payment and in accordance with the provisions of Sec. 1102. The procedures under Items *"2", "3"* and *"4"* hereof shall likewise apply.

(As amended by Circular Nos.988 dated 20 December 2017)

IMPLEMENTING GUIDELINES FOR BANKS PARTICIPATING DIRECTLY IN THE CLEARING OPERATIONS[1] OF THE PHILIPPINE CLEARING HOUSE CORPORATION (PCHC)
(Appendix to Sec. 802)

Sec. 1. Definition 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 exchanges (RLX)	On date of original presentation of COCI to PCHC or Regional Clearing Center (RCHC)
Integrated GM Outward to Region Integrated GM Inward from Region Region to Region	On the date the COCIs are received and processed at PCHC
PM Returns (for returned COCIs due to technical reasons only)	On date of return
Outward Items	
Integrated GM LX and RLX	On date of original presentation of COCI to PCHC or RCC, net of AM returns
Integrated GM Outward to Region Integrated GM Inward from Region Region to Region	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 Bangko Sentral. The ceiling is defined as the sum of clean Overdraft Credit Line (OCL) equivalent to fifteen percent (15%) of rediscounting line with the Bangko Sentral, and the collateralized OCL that will be extended by Bangko Sentral. A bank not meeting the following criteria:

a. CAMELS composite rating of at least "3";

b. CAR of at least ten percent (10%); or

c. No chronic reserve deficiencies for the immediately preceding one (1) year or other measures as may be defined by the Bangko Sentral for this purpose, should apply for collateralized OCL in an amount equivalent to at least five percent (5%) of their demand deposit liabilities as of end of month, two (2) months prior to the date of application with the 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.

[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 of Circular No. 681 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.

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 Bangko Sentral, its successor or assigns, all promissory notes covering availment against the loan line, if any; and

(3) Collateralized 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) Government securities - based on the current market value of the securities	80%	80%
(2) Unencumbered real estate properties in the name of the bank		
(a) *Initial rate* - based on the appraised value (AV) of the land and insured improvements	40%	30%
(b) *Final rate* - based on the AV of the land and insured improvements determined by a licensed and independent appraiser acceptable to the Bangko Sentralin accordance with Bangko Sentral's terms of reference	70%	60%
(3) Mortgage credits		
Initial rate - based on the AV of the property securing the loan evidenced by negotiable instruments or the outstanding balance of such loan	40% of AV or 50% of the outstanding balance, whichever is lower	30% of AV or 40% of the outstanding balance, whichever is lower
Final rate - based on the AV of the property securing the loan evidenced by negotiable instruments as determined by a licensed and independent appraiser acceptable to the Bangko Sentralin accordance with the Bangko Sentral's terms of reference or the outstanding balance of such loan	70% of AV or 80% of the outstanding balance, whichever is lower	80% of AV or 70% of the outstanding balance, whichever is lower
(4) Hold-out on foreign currency deposits with the Bangko Sentral- 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 Bangko Sentral; and
(2) PCHC certification that the bank participates in the PCHC clearing process in accordance with the MOA per Bangko Sentral 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 becomes past due;
(3) The property mortgaged 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 Bangko Sentralon 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 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 from next clearing. The PSO shall advise the PCHC of such exclusion upon prior Monetary Board approval.

Sec. 6. Conversion/Suspension of Clean/Collateralized OCL.

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:

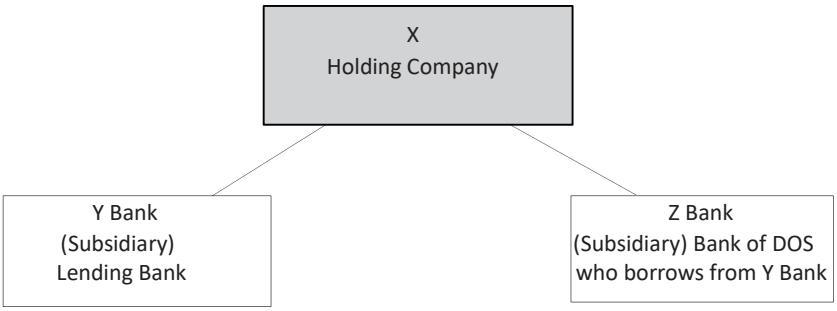
a. Availment of OCL for five (5) consecutive clearing days; or
b. Availment of OCL for five (5) times within any 30-day rolling calendar period.

The suspension of the OCL may be lifted upon 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 Sec. 285 *(When an emergency loan or advance may be availed of*) or may be subject to foreclosure of collateral.

ILLUSTRATIONS WHEN A DIRECTOR, OFFICER AND STOCKHOLDER (DOS) SHALL WAIVE THE SECRECY OF DEPOSITS
(Appendix to Sec. 347)

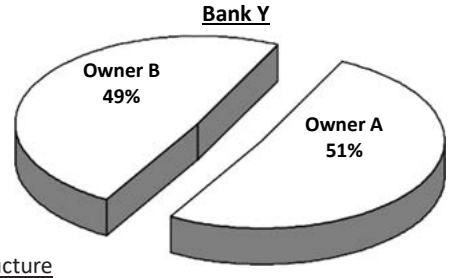
A. When the loan is obtained from a bank that is a subsidiary of a holding company of which both the borrower's bank and the lending bank are subsidiaries.



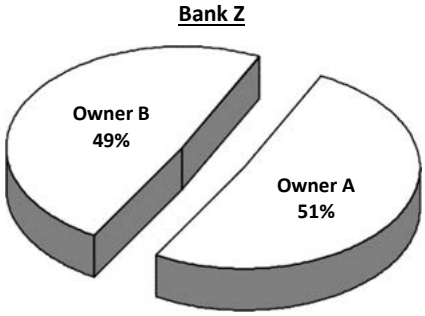
Thus, if Mr. A, who is a director of Z Bank borrows from Y Bank, he should waive the secrecy of deposits of whatever nature in all banks in the Philippines since both Y Bank and Z bank are subsidiaries of X Holding Company.

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.

GUIDELINES ON THE ADOPTION OF PHILIPPINE FINANCIAL REPORTING STANDARDS (PFRS 9) – CLASSIFICATION AND MEASUREMENT
(*Appendix to Sec. 172*)

Section 1. Classification and Measurement of Financial Assets and Financial Liabilities

BSFIs shall classify and measure financial assets and financial liabilities, including those which are designated as hedged items, in accordance with the provisions of PFRS 9. In this respect, BSFIs shall observe the following:

A. **Classification of Financial Assets** - Financial assets shall be classified based on their contractual cash flow characteristics and the business model for holding the instruments.

(1) *Financial assets that are debt instruments.* Financial assets that are debt instruments shall be classified under any of the following categories:

a. **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:

- The financial asset is part of a hedging relationship, in which case, the provisions of PFRS 9 on hedge accounting shall apply;
- The financial asset is measured at fair value through other comprehensive income (FVOCI); or
- The financial asset that is a debt instrument is measured at amortized cost.

Financial assets measured at fair value through profit or loss shall consist of the following:

i. Financial assets held for trading (HFT), which include stand-alone and/or embedded derivatives, except a derivative that is a financial guarantee contract or designated and effective hedging instruments, as defined in PFRS 9;

ii. Financial assets designated at fair value through profit or loss (DFVPL) as defined in PFRS 9.

BSFIs may, at initial recognition, irrevocably designate financial assets that are debt instruments as measured at fair value through profit or loss in accordance with the condition mentioned under PFRS 9, subject to the following requirements:

- BSFIs shall have in place appropriate risk management systems including related risk management policies, procedures, and controls; and
- BSFIs shall apply the fair value option only to instruments for which fair values can be reliably estimated.

iii. Other financial assets which are mandatorily measured at fair value through profit or loss (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.

b. **Financial Assets at Fair Value through Other Comprehensive Income (FVOCI).** A financial asset measured at FVOCI shall meet both of the following conditions:

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

c. **Financial assets measured at amortized cost**. A financial asset that is a debt instrument, other than those that are designated at fair value through profit or loss, which meet both of the following conditions:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- 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.

(2) *Financial assets that are equity instruments.* Financial assets that are equity instruments shall be classified under any of the following categories:

a. Financial assets measured at fair value through profit or loss which shall include financial assets HFT;
b. Financial Assets at Fair Value through Other Comprehensive Income (FVOCI) which shall consist of:

i. Financial asset designated at fair value through other comprehensive income (DFVOCI). BSFIs may, at initial recognition, irrevocably designate financial assets that are equity instruments that are neither held for trading nor contingent consideration recognized by an acquirer in a business combination to which PFRS 3 applies, as measured at fair value through other comprehensive income.

ii. Financial assets mandatorily measured at fair value. This includes investment in an equity instrument, previously accounted at cost per PAS 39, which does not have a quoted price in an active market for an identical instrument.

B. **Classification of Financial Liabilities** - Financial liabilities shall be classified and subsequently measured at amortized cost using the effective interest method, except for:

(1) Financial liabilities measured at fair value through profit or loss. This shall consist of the following:

a. Financial liabilities HFT, including derivative liabilities that are not accounted for as hedging instruments; and

b. Financial liabilities DFVPL. A BSFI may, at initial recognition, irrevocably designate financial liabilities as measured 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 "*A (1) a ii"* above.

(2) Financial liabilities which shall be subsequently measured in accordance with the provisions of PFRS 9, as follows:

a. Financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies;
b. Financial guarantee contracts, as defined under PFRS 9;
c. Commitments to provide a loan at a below-market interest rate; and
d. Contingent consideration recognized by an acquirer in a business combination.

C. **Classification of hybrid contracts and derivatives** - Investments in hybrid securities, securities overlying securitization structures, other structured products and credit-linked notes (CLNs) and similar structured products with embedded credit derivatives, as defined under Sec. 624-A shall be classified and measured in accordance with PFRS 9 based on the following guidelines:

(1) An entire hybrid contract, which contains a host that is an asset within the scope of PFRS 9, shall be classified in accordance with the requirements on the classification of financial assets.

(2) A hybrid contract, which contains a host that is not an asset within the scope of PFRS 9 shall require the separation of an embedded derivative from the host and the same shall be accounted for as a derivative based on the requirements and conditions provided under the standard. If an embedded derivative is separated, the host contract and the derivative, individually, shall be accounted for in accordance with appropriate standards.

(3) If a contract contains one or more embedded derivatives and the host is not an asset within the scope of this Standard, a BSFI may designate the entire hybrid contract as at fair value through profit or loss unless:

- the embedded derivative(s) do(es) not significantly modify the cash flows that otherwise would be required by the contract; or

- it is clear with little or no analysis when a similar hybrid instrument is first considered that the separation of the embedded derivative(s) is prohibited, such as a prepayment option embedded in a loan that permits the holder to prepay the loan for approximately its amortized cost.

(4) If a BSFI is unable to measure the embedded derivative separately either at acquisition or at the end of a subsequent financial reporting period, it shall designate the entire hybrid contract as at fair value through profit or loss.

Section 2. Business Model in Managing Financial Assets

Business model pertains to the manner by which a portfolio of financial assets will be managed to generate cash flows such as by collecting contractual cash flows or by both collecting contractual cash flows and selling the financial assets, among others. BSFIs shall determine the business model for a portfolio of financial assets based on scenarios that are reasonably expected to occur, taking into consideration the expected changes to asset allocations or to balance sheet structure as a result of business strategies. In this respect, these scenarios do not include "worst case" or "stress case" scenarios.

a) The criteria that will be used in determining the business model for managing financial assets shall be applied to a portfolio of financial assets and not on an instrument-by-instrument basis.

b) Business models for managing financial assets shall be observed through specific activities being undertaken by the BSFI to achieve their stated objectives. A BSFI shall exercise sound judgment and shall use all relevant evidences available at the date of assessment in determining the business model for managing portfolios of financial assets. Such relevant evidences include but are not limited to:

- Risks affecting the performance of financial assets and the business model and how these risks will be managed;
- Frequency, volume, timing and nature of sales in prior periods, the reasons for such sales, and expectations about future sales activity;
- The manner by which business model and the financial assets held within it are evaluated (e.g., based on trading income) and reported to the BSFI's board of directors or any equivalent position in the case of branches of foreign banks and senior management; and
- The basis for compensation of concerned personnel and/officers (e.g., whether the compensation is based on the fair value of the assets managed or the contractual cash flows collected).

c) Business models for managing financial assets shall be approved by the board of directors and shall be adequately documented. The documentation for each business model shall include, among others, detailed description of specific business objectives (whether to hold in order to collect contractual cashflows, to sell or both); cases of sales and/or derecognition of financial assets and conditions for changes in business model that are considered consistent with the provisions of PFRS 9; and appropriate level of authority designated to approve determination of business model of specific portfolios of financial assets as well as the sales, derecognition, and changes in business model of financial assets.

d) Changes in business model are expected to be rare and shall be determined as a result of external or internal changes which are significant to the BSFI's operations and evident to external parties. Change in intention related to the management of particular financial assets does not constitute a change in business model. The change in business model shall be approved by the appropriate level of authority based on sound justifications and in accordance with accounting standards. The qualitative and quantitative impact of the change in business model shall be adequately documented and appropriately disclosed in the audited financial statements in line with the disclosure of risk management policies on the relevant risk exposure.

e) All affected financial assets shall be reclassified when, and only when, a BSFI changes its business model for managing financial assets in accordance with the provisions of Item *("d). Financial liabilities*" are not allowed to be reclassified.

If cash flows are realized in a way that is different from the expectations at the date at which the BSFI assessed the business model, it does not constitute a change in the classification of the remaining financial assets as long as the BSFI considered all relevant and objective information available when it initially made the business model assessment.

In cases where a BSFI changes a business model, the financial assets within the said model shall not be reclassified within the reporting period that the change in business model was made. The reclassification in this case shall only take effect in the next financial reporting month. In this respect, any previously recognized gains, losses or interest shall not be restated.

Section 3. Contractual Cash Flow Characteristics

a) In order for a financial asset to be classified and measured at amortized cost or FVOCI, the contractual terms of the financial asset must give rise on specific dates to cash flows that are SPPI on the principal amount outstanding. A financial asset that does not meet the SPPI criterion shall be measured at FVPL, unless it is an equity instrument which shall be classified and measured at FVOCI.

b) The cashflows that are considered SPPI are consistent with basic lending arrangement where the principal is the fair value of the financial asset at initial recognition and the interest represents consideration for the time value of money, credit risk, profit margin and other basic lending risks and costs associated with holding the financial asset for a particular period of time.

c) A BSFI shall determine if the contractual cashflows are SPPI in accordance with the provisions of PFRS 9. In this respect, a BSFI shall assess the contractual terms of a financial instrument before investing in the same and determine if such instrument introduces exposure to risks or volatility that is unrelated to a basic lending arrangement.

d) Policies and procedures shall include guidelines in performing the SPPI assessment, and shall identify the units responsible for conducting and reviewing the propriety of the assessment as well as the documentation supporting the classification of financial assets.

Section 4. Supervisory Expectations on Classification and Measurement of Financial Assets and Financial Liabilities

a) The business model for managing financial assets shall be assessed in line with the BSFI's internal risk management policies such as credit, market and liquidity risk management. For instance, the financial assets classified and measured at FVPL are commonly associated with the management of market risks since the business model objective is to actively trade the securities. On the other hand, financial assets which were classified and measured at amortized cost mostly relate to the management of credit risk and/or interest rate risk in the banking book since there is no intent to sell the financial asset prior to maturity.

b) The business model for managing financial assets shall be assessed based on the objective information on the activities undertaken for the portfolios of financial assets. This shall include the comparison of frequency of sales activities across portfolios of financial assets. Portfolios of financial assets that are held for trading are expected to exhibit more frequent and higher turnover as compared with financial assets managed under a hold to collect cash flow and sell business model.

c) The manner by which the performance of financial assets is measured given a specific business model shall be assessed. Key performance indicators should be consistent with the specific business models for portfolios of financial assets. For instance, the performance of financial assets accounted at fair value through profit or loss may be gauged through actual trading/capital gains since the objective is to optimize earnings from interest rate volatilities/price movements. Performance of financial assets classified at amortized cost may be measured through (net) interest income since the objective is to generate accrual income from long-term investments. The results of the impairment testing and credit review of accounts may likewise be considered.

d) Bases for incentives or compensation granted to personnel involved in managing specific portfolios of financial assets shall be evaluated in line with the expected activities under a specific business model.

e) The roles and responsibilities of units involved in the management, monitoring, and reporting of performance of financial assets for specific business models shall be clearly defined. Pursuant to Section 146 (*Duties and Responsibilities*) the Bangko Sentral shall assess the effective implementation of the three lines of defense, which shall include the evaluation of the propriety of segregation of functions.

For instance, part of the first line of defense is the trading desk which is expected to manage financial assets that are measured at FVPL as these assets are usually acquired for short term profit taking. On the other hand, the asset/liability management desk is expected to manage financial assets classified as FVOCI since the financial assets booked under said classification are being used to manage the BSFI's liquidity position or to maintain a particular interest yield profile or duration.

The delineation of the roles and responsibilities of the second and third lines of defense shall be evaluated as well as the effectiveness of the scope and frequency of their review. These lines of defense are expected to evaluate consistency of internal policies and practices with the provisions of PFRS 9 and adherence of the BSFI with established policies.

f) The review of the second and third lines of defense shall cover, among others, the assessment of the following:

i. Comprehensiveness of reports submitted to the board or senior management. These should include the risks that may affect the performance of the business model; consistency of the performance of the financial assets held within the business model against strategic and financial objectives; and results of internal and external validation on management and monitoring of business model.

ii. Propriety of sales or derecognition of financial assets based on the business model for managing the same. For instance, the BSFI decides to sell a portion of a portfolio of financial assets held and measured at amortized cost, a review should be conducted to ascertain whether the business models has not changed as a result of such sale. In case of change in business model, the self-assessment functions shall look into the circumstances that triggered the decisions to change, consistency of said decision with internal policies and principles of the standard, propriety of the governance process, and adequacy of documentation.

Section 5. Financial Instruments Under Management of Trust Entities

Consistent with the expectations from BSFIs on the adoption of PFRS 9, as provided under Item *"d"* of Sec. 172 (*Philippine Financial Reporting Standards/Philippine Accounting Standards*), the board of directors of a trust entity (TE) shall ensure that the TE appropriately and consistently adopts PFRS 9 as part of its reporting governance process.

In this respect, the board of directors shall approve policies and guidelines relative to the classification and measurement of financial assets under management of the TE.

The TE shall adhere to the provisions of Sections 1 to 4 of these guidelines on the classification and measurement of financial assets, to the extent applicable to trust operations. In addition, considering that the management of financial assets under the administration of the TE shall vary for each client, the TE shall be governed by the following:

a. The board of directors shall approve the business models that will be adopted by the TE for managing the financial assets of clients under its administration. Such business models shall be in accordance with pre-defined investment objectives. For this purpose, the TE may use as guide the industry convention on the mapping of investment objectives to the corresponding business models.

b. The TE shall use only the board-approved business models in determining the business model/s for each client's financial assets. The assignment of the applicable business model/s, which shall be consistent with the client's investment objectives, liquidity requirement, and investment horizon, shall no longer require a separate approval. The classification of financial assets for each client shall be aligned with the business model/s determined by the TE.

c. For existing accounts, the TE shall assess the impact of the new classification of financial assets on the performance indicator/s set for the client.

(1) If the new classification will have a significant unfavorable impact on the performance indicator/s set for the client, a consent or conforme shall be obtained from the client or the authorized signatory/ies of the client, as applicable. The consent or conforme shall document in plain and clearly understandable language: (a) the business model/s determined by the TE in the management of the client's financial assets;(b) a brief description of the new classification; and (c) the corresponding impact on the performance indicator/s set for the client.

A negative consent or conforme may be allowed, subject to the following conditions:

(a) the TE has an adequate monitoring process to ensure actual receipt of the notification by the client;
(b) the client shall be given a reasonable time to respond to the negative consent or conforme or to raise concern/query, if any; and
(c) the client is allowed to amend the business model determined by the TE in the management of the client's portfolio within a reasonable period.

(2) If the new classification will not have a significant unfavorable impact on the performance indicator/s set for the client, the TE shall provide appropriate disclosure in the financial reports provided or made available to the client. The disclosure shall document in plain and clearly understandable language: (a) the business model/s determined by the TE in the management of the client's financial assets; and (b) a statement allowing the client to discuss with the TE any concern/query on the change in the classification of the financial assets of the client.

d. For new accounts opened after the effectivity of these guidelines, the business model/s determined by the TE in the management of the client's financial assets shall be documented in plain and clearly understandable language in the investment policy statement or letter of instruction, whichever is applicable.

e. Reclassification of assets may be allowed if there is a change in the business model/s determined in the management of the client's financial assets.

Any change in the business model/s determined by the TE in the management of the client's financial assets shall be supported by a change in the client's investment objective. In order to strengthen controls and prevent potential abuse, the TE shall have adequate policies and procedures, duly approved by the board of directors, covering, among others, the review process, minimum required documentation, and monitoring mechanism for the change in the business model/s determined by the TE in the management of each client's financial asset/s.

Section 6. Reporting guidelines.

Prudential reports shall be prepared using the existing templates of the Financial Reporting Package (FRP)/FRP for Trust Institutions (FRPTI). The mapping of PFRS 9 based accounts to the existing FRP/Consolidated Statement of Condition (CSOC) and Consolidated Statement of Income and Expenses (CSIE) and FRPTI template is provided in Annex A of *this guidelines.*

(Circular No. 1023 dated 04 December 2018 and 1011 dated 14 August 2018)

Annex A

Mapping of Philippine Financial Reporting Standards 9 (PFRS 9) Accounts in the Financial Reporting Package (FRP)

Banks, including their trust departments, shall report financial assets and financial liabilities using the existing account titles of the FRP based on the mapping of accounts provided below:

1. Banks

Table 1. Financial Assets Measured at Fair Value Through Profit or Loss

PFRS 9 Accounts	FRP Accounts
Balance Sheet Accounts	
1. Financial Assets Measured at Fair Value Through Profit or Loss	
a. Financial Assets Held for Trading (HFT)	1. Financial Assets Held for trading
i. HFT Debt Securities	a. HFT Securities
ii. HFT Equity Securities	
iii. Derivatives with Positive Fair Value Held for Trading (stand-alone and embedded derivatives)	b. Derivatives with Positive Fair Value Held for Trading
(FRP Account will no longer be used)	c. Derivatives Carried at Cost
b. Financial Assets Designated at Fair Value Through Profit or Loss (DFVPL)	2. Financial Assets Designated at Fair Value Through Profit or Loss
c. Other Financial Assets Mandatorily Measured at Fair Value Through Profit or Loss (MMFVPL)	
Income Statement Accounts	
1. Interest Income	1. Interest Income
a. Financial Assets Measured at Fair Value Through Profit or Loss	a. Financial Assets Held for Trading
i. HFT Debt Securities	i. HFT Securities
ii. Derivatives with Positive Fair Value Held for Trading (stand-alone and embedded derivatives)	ii. Derivatives with Positive Fair Value Held for Trading
b. Financial Assets Designated at Fair Value Through Profit or Loss (DFVPL)	b. Financial Assets Designated at Fair Value Through Profit or Loss
c. Other Financial Assets Mandatorily Measured at Fair Value Through Profit or Loss (MMFVPL)	
2. Gains/(Losses) on Financial Assets and Liabilities Held for Trading	2. Gains/(Losses) on Financial Assets and Liabilities Held for Trading
a. Realized Gains/(Losses) from Sale or Derecognition of Financial Assets and Liabilities	a. Realized Gains/(Losses) from Sale or Derecognition of Financial Assets and Liabilities
b. Unrealized Gains/(Losses) from Marking to Market	b. Unrealized Gains/(Losses) from Marking to Market
c. Realized Gains/(Losses) from Foreign Exchange Transactions	c. Realized Gains/(Losses) from Foreign Exchange Transactions
3. Gains/(Losses) on Financial Assets and Liabilities DFVPL	3. Gains/(Losses) on Financial Assets and Liabilities Designated at Fair Value Through Profit or Loss
a. Realized Gains/(Losses) from Sale or Derecognition of Financial Assets and Liabilities	a. Realized Gains/(Losses) from Sale or Derecognition of Financial Assets and Liabilities
b. Unrealized Gains/(Losses) from Marking to Market	b. Unrealized Gains/(Losses) from Marking to Market
4. Gains/(Losses) on Financial Assets and Liabilities MMFVPL	4. Gains/(Losses) on Financial Assets and Liabilities Designated at Fair Value Through Profit or Loss
a. Realized Gains/(Losses) from Sale or Derecognition of Financial Assets and Liabilities	a. Realized Gains/(Losses) from Sale or Derecognition of Financial Assets and Liabilities
b. Unrealized Gains/(Losses) from Marking to Market	b. Unrealized Gains/(Losses) from Marking to Market

Table 2. Financial Assets Measured at Fair Value Through other Comprehensive Income (FVOCI)

PFRS 9 Accounts	FRP Accounts
Balance Sheet Accounts	
1. Financial Assets Measured at Fair Value Through Other Comprehensive Income (FVOCI)	1. Available for Sale (AFS) Financial Assets
a. Debt Securities at FVOCI	a. AFS Debt Securities
b. Equity Securities at FVOCI	b. AFS Equity Securities
i. Designated at FVOCI	
ii. Mandatorily Measured at Fair Value	
(FRP Account will no longer be used)	2. Allowance for Credit Losses
2. FVOCI - Net of Accumulated market gains/losses	3. AFS Financial Assets - Net
3. Other Comprehensive Income	4. Other Comprehensive Income
a. Net Unrealized Gains/(Losses) on Financial Assets at FVOCI[1]	a. Net Unrealized Gains/(Losses) on AFS Financial Assets
i. Debt Securities at FVOCI	i. AFS Debt Securities
ii. Equity Securities at FVOCI	iii. AFS Equity Securities
b. Realized and Cumulative/ Gains/(Losses) on Equity Securities Designated at FVOCI	b. Others
Income Statement Accounts	
1. Interest Income	1. Interest Income
a. Financial Assets Measured at Fair Value Through Other Comprehensive Income	a. Available for Sale (AFS) Financial Assets
2. Gains/(Losses) from Sale/ Redemption/ Derecognition of Financial Assets and Liabilities Measured at FVOCI	2. Gains/(Losses) from Sale Redemption/ Derecognition of Non-Trading Financial Assets and Liabilities
a. Realized Gains/(Losses) from Sale or Derecognition of Financial Assets and Liabilities	a. Realized Gains/(Losses) from Sale or Derecognition of Financial Assets and Liabilities
i. Debt Securities at FVOCI	
ii. Equity Securities Mandatorily Measured at Fair Value	
(FRP Account will no longer be used)	b. Gains/(Losses) on Reclassification from AFS to HTM

Table 3. Financial Assets Measured at Amortized Cost

PFRS 9 Accounts	FRP Accounts
Balance Sheet Accounts	
1. Debt Securities Measured at Amortized Cost	1. Held-to-Maturity (HTM) Financial Assets
(FRP Account will no longer be used)	2. Unquoted Debt Securities Classified As Loans
(FRP Account will no longer be used)	3. Investments in Non-Marketable Equity Securities
Income Statement Accounts	
1. Interest Income	1. Interest Income
a. Debt Securities at Amortized Cost	a. Held-to-Maturity (HTM) Financial Assets
	b. Unquoted Debt Securities at Amortised Cost
2. Gains/(Losses) from Sale/ Redemption/ Derecognition of Financial Assets and Liabilities Measured at Amortized Cost	2. Gains/(Losses) from Sale/ Redemption/ Derecognition of Non-Trading Financial Assets and Liabilities
a. Realized Gains/(Losses) from Sale or Derecognition of Financial Assets and Liabilities	a. Realized Gains/(Losses) from Sale or Derecognition of Financial Assets and Liabilities

[1] Loss allowance should also be recognized in Other Comprehensive Income

Table 4. Financial Liabilities Measured at Amortized Cost

PFRS 9 Accounts	FRP Accounts
Balance Sheet Accounts - Financial liabilities measured at amortized cost under PFRS 9 shall be booked based on corresponding liability accounts in the FRP.	
Income Statement Accounts	
1. Gains/(Losses) from Sale/ Redemption/ Derecognition of Financial Assets and Liabilities Measured at Amortized Cost	1. Gains/(Losses) from Sale/ Redemption/ Derecognition of Non-Trading Financial Assets and Liabilities
a. Realized Gains/(Losses) from Sale or Derecognition of Financial Assets and Liabilities	a. Realized Gains/(Losses) from Sale or Derecognition of Financial Assets and Liabilities
i. Financial Liability at Amortized Cost	

Table 5. Financial Liabilities Measured at Fair Value Through Profit or Loss

PFRS 9 Accounts	FRP Accounts
Balance Sheet Accounts	
1. Financial Liabilities Measured at Fair Value Through Profit or Loss	
a. Financial Liabilities Held for Trading (HFT)	1. Financial Liabilities Held for Trading
i. Derivatives with Negative Fair Value Held for Trading (stand-alone and embedded derivatives)	a. Derivatives with Negative Fair Value Held for Trading
ii. Liability for Short Position	b. Liability for Short Position
b. Financial Liabilities Designated at Fair Value Through Profit or Loss (DFVPL)	2. Financial Liabilities Designated at Fair Value Through Profit or Loss
2. Other Comprehensive Income	3. Other Comprehensive Income
a. Net Unrealized Gains/(Losses) on Financial Liabilities Designated at FVPL attributable to changes in credit risk	a. Others
Income Statement Accounts	
1. Interest Expense	1. Interest Expense
a. Financial Liabilities Measured at Fair Value Through Profit or Loss	
i. Financial Liabilities Held For Trading	a. Financial Liabilities Held For Trading
• Derivatives with Negative Fair Value Held for Trading (stand-alone and embedded derivatives)	i. Derivatives with Negative Fair Value Held for Trading (stand-alone and embedded derivatives)
• Liability for Short Position	ii. Liability for Short Position
b. Financial Liabilities Designated at Fair Value Through Profit or Loss (DFVPL)	b. Financial Liabilities Designated at Fair Value Through Profit or Loss
2. Gains/(Losses) on Financial Assets and Liabilities Held for Trading	2. Gains/(Losses) on Financial Assets and Liabilities Held for Trading
a. Realized Gains/(Losses) from Sale or Derecognition of Financial Assets and Liabilities	a. Realized Gains/(Losses) from Sale or Derecognition of Financial Assets and Liabilities
b. Unrealized Gains/(Losses) from Marking to Market	b. Unrealized Gains/(Losses) from Marking to Market
c. Realized Gains/(Losses) from Foreign Exchange Transactions	c. Realized Gains/(Losses) from Foreign Exchange Transactions
3. Gains/(Losses) on Financial Assets and Liabilities DFVPL	3. Gains/(Losses) on Financial Assets and Liabilities DFVPL
a. Realized Gains/(Losses) from Sale or Derecognition of Financial Assets and Liabilities	a. Realized Gains/(Losses) from Sale or Derecognition of Financial Assets and Liabilities
b. Unrealized Gains/(Losses) from Marking to Market, except for changes in fair value attributable to changes in credit risk	b. Unrealized Gains/(Losses) from Marking to Market

2. Trust Departments

Table 1. Financial Assets Measured at Fair Value through Profit or Loss

PFRS 9 Accounts	FRPTI Accounts
Financial Assets Measured at Fair Value through Profit or Loss a. Debt and Equity Securities b. Derivatives with Positive Fair Value	Financial Assets at Fair Value through Profit or Loss a. Debt and Equity Securities b. Derivatives with Positive Fair Value

Table 2. Financial Assets Measured at Fair Value through Other Comprehensive Income (FVOCI)

PFRS 9 Accounts	FRPTI Accounts
1. Financial Assets Measured at Fair Value through Other Comprehensive Income (FVOCI)	1. Available for Sale (AFS) Financial Assets
(a) Debt Securities at FVOCI	(a) AFS Debt Securities
Unamortized Discount/Premium	Unamortized Discount/Premium
Debt Securities at FVOCI (at amortized cost)	AFS Debt Securities (at amortized cost)
Accumulated Market Gains/Losses	Accumulated Market Gains/Losses
Debt Securities at FVOCI (Fair Value)	AFS Debt Securities (Fair Value)
(b) Equity Securities at FVOCI i. Designated at FVOCI ii. Mandatorily Measured at Fair Value	(b) AFS Equity Securities
Accumulated Market Gains/Losses	Accumulated Market Gains/Losses
Equity Securities at FVOCI(Fair Value)	AFS Equity Securities (Fair Value)
(FRP Account will no longer be used)	Allowance for Credit Losses
FVOCI - Net of Accumulated market gains/losses	AFS Financial Assets - Net
Accountabilities	**Accountabilities**
1. Net Unrealized Gains/(Losses) on Financial Assets at FVOCI[1]	1. Net Unrealized Gains/(Losses) on AFS Financial Assets
a. Debt Securities at FVOCI	a. Debt Securities
b. Equity Securities at FVOCI	b. Equity Securities
2. Realized and Cumulative/ Gains/(Losses) on Equity Securities Designated at FVOCI	2. Miscellaneous Liabilities

Table 3. Financial Assets Measured at Amortized Cost

PFRS 9 Accounts	FRPTI Accounts
1. Debt Securities Measured at Amortized Cost	1. Held-to-Maturity (HTM) Financial Assets
Unamortized Discount/Premium	Unamortized Discount/Premium
Debt Securities Measured at Amortized Cost – Net of Amortization	HTM Financial Assets – Net of Amortization
Less: Allowance for Credit Losses	Less: Allowance for Credit Losses
Debt Securities Measured at Amortized Cost - Net	HTM Financial Assets – Net
(FRP Account will no longer be used)	2. Unquoted Debt Securities Classified as Loans
(FRP Account will no longer be used)	3. Investments in Non-Marketable Equity Securities

(Circular No. 1023 dated 04 December 2018 and 1011 dated 14 August 2018)

[1] Loss allowance should also be recognized in Other Comprehensive Income

MARKING TO MARKET GUIDELINES FOR INVESTMENTS IN DEBT AND EQUITY SECURITIES
***(Appendix to Sec. 172 on Marking to market of financial instruments*)**

Bases/References

Bangko Sentral Supervised Financial Institutions (BSFIs) shall have adequate governance structures and control processes to ensure that valuations are prudent and reliable for risk management and financial reporting purposes. These processes shall be consistently applied across the institution and integrated within the overall governance framework and risk management systems.

In this respect, BSFIs shall mark-to-market (MTM) debt and equity securities in accordance with the provisions of Philippine Financial Reporting Standard 13 (PFRS 13) on Fair Value Measurement and shall observe the following bases/references:

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 latest available closing price.
2. Trade 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)	Latest available price for the day, Manila time.
C. Foreign Currency Denominated Debt Securities Traded in Local Registered Exchange or Market	The latest available closing price provided by the exchange where the said security is traded and/or enrolled.
D. Peso-Denominated Government Securities	The market prices provided by either a third party pricing service or calculating agent: *Provided,* That the pricing service or the calculation agent and its valuation methodology are recognized by the Securities and Exchange Commission (SEC) – licensed benchmark administrator.
E. Peso-Denominated Private Debt Securities	The basis for MTM of peso-denominated debt securities traded in an organized market shall be the same as those used in Section C above.

Other Valuation Guidelines

In the absence of market price described above, the fair value which is the price that would be received in selling the financial instrument in an orderly transaction in the principal (or most advantageous) market under current market condition, shall be used as basis for the MTM. BSFIs shall ensure that such an observed price or the price estimated using another valuation technique, including inputs to valuation technique, are consistent with the provisions of PFRS 13.

(Circular Nos. 1021 dated 15 November 2018, 960 dated 04 May 2017)

GUIDELINES ON THE USE OF SCRIPLESS (RoSS) SECURITIES AS SECURITY DEPOSIT FOR THE FAITHFUL PERFORMANCE OF TRUST DUTIES
(Appendix to Sec. 417 and 424)

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 P1,000 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 authorize the BTR and Bangko Sentral 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 Sec. 417 (*Basic Security Deposit, Eligible securities, Valuation of Securities and Basis of Computation of the Basic Security Deposit Requirement and Compliance Period; Sanctions*).

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 Sec. 411 (*Required Capital*). 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 institutions 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 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.

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 erformance of trust duties of institutions engaged in trust business pursuant to Section 65 of R.A. No. 337, as amendeSecurities Account in the Registry of Scripless Securities (RoSS) for the purpose of holding the security deposit for the faithful pd.

We understand that the Bureau of Treasury shall maintain the Principal Securities Account of BSP-SES for free.

Very truly yours,

_____
Deputy Governor

Annex 1-A

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

Annex 2-A

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)

Annex 2-B

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)

Annex 3

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.

Type	ISIN	Purchase Date	Issue Date	Due Date	Remaining Tenor [a/]	Face Amount	Purchase Price

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)_____ .

Type	ISIN	Purchase Date	Issue Date	Due Date	Remaining Tenor [a/]	Face Amount	Purchase Price

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

Annex 4

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).

Type	ISIN	Purchase Date	Issue Date	Due Date	Remaining Tenor [a/]	Face Amount	Purchase Price

Very truly yours,

_____
Name and Designation of Authorized Signatory

[a/] Reckoned from actual date of transfer/withdrawal.

Annex 5

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)

Type	ISIN	Purchase Date	Issue Date	Due Date	Remaining Tenor [a/]	Face Amount	Purchase Price

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.

Annex 6

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 PERSONAL EQUITY AND RETIREMENT ACCOUNT (PERA) ADMINISTRATOR
(Appendix to Sec. 417 on Basic Security Deposit)

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 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. lf 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.

   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)

Annex 1

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

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

Annex 2-A

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)

Annex 2-B

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)

Annex 3

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 ₱ _____
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.

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	₱ -	₱ -	₱ -	₱ -

B. SECURITY REQUIREMENT	**Book Value**
1 Security Requirement (1% of A.1 (Ave.) above	-

As of (Transaction date)[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)	₱	-
5 EXCESS (DEFICIENCY)	₱	-

[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 E-C	G	H F-G	J A-B	K	L J-K	M 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
---	---	---	---	---	---	---	---	---	---	---	---	---	---
---	---	---	---	---	---	---	---	---	---	---	---	---	---
1 Outstanding Gov't Securities (Beginning Balance)													
2 Add: Securities on (date)													
---		---	---	---	---	---	---	---	---	---	---	---	---
Subtotal		---	---	---	---	---	---	---	---	---	---	---	---
3 Less: Measured/Replaced Securities on (date)													
		---	---	---	---	---	---	---	---	---	---	---	---
Subtotal		---	---										
4 Outstanding Gov't Securities (Ending Balance)		---	---										

Annex 5

(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

Annex 6

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.

Type	ISIN	Purchase Date	Issue Date	Due Date	Remaining Tenor [1]/	Face Amount	Purchase Price

Very truly yours,

Name and Designation of Authorized Signatory

[1] Reckoned from actual date of transfer/withdrawal.

Annex 7

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.

Annex 8

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

Annex 9

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 Section 1102)

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

Total Debit P _____
Total Credit P _____

Approved by: _____
(Name of BSP Official/Position)

Date: _____

Received by: _____
Date: _____

Official Receipt No: _____
Date: _____

SUGGESTED GESTATION/GRACE PERIODS FOR AGRICULTURE AND FISHERIES PROJECTS
(Appendix to Sec. 313 on Agriculture and Fisheries Projects with Long Gestation Periods)

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 Mangosteen	5-7	7
Pomelo	6-8	7
Rambutan	5-7	7
Rubber	6-7	5
Palm Oil	5-7	7
Pili	4-6	7
Jackfruit	6-8	7
Others[1]	5-7	7
B. Livestock C. Poultry D. Fisheries		will depend on the cash flow or type of project, up to a maximum of seven (7) years

Note: Cash Flows/Cost and Return Analysis for these projects are available at the Agribusiness and Marketing Assistance Service, Department of Agriculture.

[1] 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 102*)

A. THE APPLICATION PROCESS

PRE-APPROVAL

1. The application for authority to establish a bank shall be submitted to the Supervisory Policy and Research Department (SPRD) 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	✓	✓	✓	✓

   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				

[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.

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. 371 and its subsections for the equity investment to the proposed bank	✓			
10. List of directors and principal officers including their citizenships	✓	✓	✓	✓
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 website[1].

EVALUATION

Capital Requirements/Stockholdings

1. Banks to be established shall comply with the required minimum capital prescribed under Sec. 121 (*minimum capitalization*).

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 Secs. 122 (*Limits of stockholdings in a single bank*) and 122-A (*Limits on stockholdings in several banks*), respectively.

[1] http://www.bsp.gov.ph/downloads/Regulations/guidelines/guidelines%20for%20banks.pdf

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 bank shall be subject to the limits prescribed under Sec. 132 (*Composition of the board of directors*).

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. 132 and 134.

7. The disqualifications of directors and officers prescribed under Sec. 138 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 (1) 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 Sec. 147 (*Minimum security measures*) and the requirements under Batas Pambansa Blg. 344[1] and Republic Act No. 9994[2];
    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 supervising 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;

[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

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 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 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.

(Circular Nos. 969 dated 22 August 2017, 930 dated 18 November 2016, and 902 dated 15 February 2016)

RULES AND REGULATIONS FOR COOPERATIVE BANKS
(*Appendix to Section 102*)

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 theappropriate supervising department of Bangko Sentral;

    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 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 RA No. 9520 shall comply with the pre-operating requirements specified in *Section 11, Appendix 34*.

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 Sec. 121 *(minimum capitalization)*.

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. 132 to 138 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 (1) 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 (MKSN) 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/branch-lite units/other banking offices by Coop Banks shall be governed by the provisions of Sec. 105 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. 373, 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 Nos. 987 dated 28 December 2017, 969 dated 22August 2017, 932 dated 16 December 2016, 917 dated 08 July 2016)

Annex A

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 supervising department of Bangko Sentralwhen 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/FIs, under different credit lines or loan contracts, are past due pursuant to Sec. 304 and Sec. 303-Q of the MORNBFI;

(b) Obligations shall include all borrowings from a bank/QB obtained by:

(i) A director or officer for his own account or as the representative or agent of others or where he/she acts as a guarantor, endorser, or surety for loans from such FIs;
(ii) The spouse or child under the parental authority of the director or officer;
(iii) Any person whose borrowings or loan proceeds were credited to the account of, or used for the benefit of a director or officer;
(iv) A partnership of which a director or officer, or his/her spouse is the managing partner or a general partner owning a controlling interest in the partnership; and
(v) A corporation, association or firm 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 supervising department of Bangko Sentral of such directors' election/re-election;

(7) Directors who failed to attend the special seminar for board of directors required under Item *"3"* of Sec. 132 or Sec. 137-Q. This disqualification applies until the director concerned had attended such seminar;

(8) Persons dismissed/terminated from employment for cause. This disqualification shall be in effect until they have cleared themselves of involvement in the alleged irregularity;

(9) Those under preventive suspension; or

(10) Persons with derogatory records with the NBI, court, police, Interpol and monetary authority (central bank) of other countries (for foreign directors and officers) involving violation of any law, rule or regulation of the government or any of its instrumentalities adversely affecting the integrity and/or ability to discharge the duties of a bank/QB/trust entity director/ officer. This disqualification applies until they have cleared themselves of involvement in the alleged irregularity.

3. Qualification for officers

(a) He shall be at least twenty-one (21) years of age;

(b) He shall be at least a college graduate, or have at least five (5) years experience in banking or trust operations or related activities or in a field related to his position and responsibilities, or have undergone training in banking acceptable to the appropriate supervising department of Bangko Sentral; 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 COVERINGRESERVE REQUIREMENT/DEFICIENCY OF BANKS' DEMAND DEPOSIT ACCOUNTWITH THE BANGKO SENTRAL

(Appendix to Sec. 202 and 203)

Start Time	Agency Involved	Activities	Cut-off Time
		Current Day (T+0)	
9:00 AM	PCHC	Regular check clearing processing window	4:30 PM
9:00 AM	Various	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) • Bank payment of OLF converted from ILF availed (value T-0) • Bangko Sentral ECWS transactions • Cash deposits with Bangko Sentral Head Office and Regional Offices/EFTIS • OFW remittances via PhilPaSS-REMIT • ATM transactions • BTr-GS sale/purchase via DvP • PCHC-EPCS Results • PDS Settlement Highway for GS-eDvP • BSP-OLC Collection of OCL availed (value T-0) • 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 - do - - do - 5:00 PM 5:45 PM - do - - do -
9:00 AM	BTr	Bank's availment of ILF Loan	10:00 AM
10:01 AM	BSP-TD	Grant/Credit of ILF loan proceeds to bank's DDA Collection (on demand) of ILF loan availed	5:00 PM 5:00 PM
10:00 AM	BSP-TD	Bangko Sentral Monetary Operations: • TDF (bid submission at 9:30 AM) • Outright GS purchase and sale • OLF/Conversion of Unpaid ILF to 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
4:30 PM	BSP-PSO	Posting of PCHC ECCS results	4:45 PM
4:30 PM	BSP-TD	Bangko Sentral Monetary Operations - Overnight RRP	5:00 PM
4:30 PM	BSP-PSO	PhilPass settlement cut-off of Bangko Sentral Overnight RRP	5:45 PM
6:00 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 DDAlosses, 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

Start Time	Agency Involved	Activities	Cut-off Time
Next Day (T+1) **Normal Conditions**			
2:00 AM	PCHC	Returned COCI receiving window	8:00 AM
8:01 AM	BSP-PSO	Posting/settlement of PCHC AM returns (back value T+0)	8:15 AM
8:16 AM	BSP-PSO	Interbank trading and settlement window for losses in AM returns (back value T+0)	8:59 AM
	BSP-DLC	Availment of OCL by Banks (back value T+0)	8:59 AM
	BSP-TD	Bangko Sentral-OLF window for losses in AM returns (back value T+0)	8:45 AM
8:16 AM	BSP-PSO	PhilPaSS settlement cut-off Bangko Sentral OLF (back value T+0)	8:59 AM
9:00 AM	BSP-PSO	DDA balances (T+0) available on demand via PhilPaSS Participant Browser (PPB)	9:00 AM
9:00 AM	BSP-PSO	PhilPaSS business hours – Value T+1	5:45 PM
9:00 AM	PCHC	Receipt of Bangko Sentral notice of bank's suspension in clearing operations, if any	
Next Day (T+1) – Abnormal Conditions (Extended End-of-Day Procedures)			
2:00 AM	PCHC	Returned COCI receiving window	8:00 AM
8:01 AM	BSP-PSO	Posting/settlement of PCHC AM returns (back value T+0)	8:15 AM
8:16 AM	BSP-PSO	Interbank trading and settlement window for losses in AM returns (back value T+0)	9:59 AM
8:16 AM	BSP-DLC	Availment of OCL by Banks (back value T+0)	9:59 AM
	BSP-TD	Bangko Sentral Monetary Operations trading window on an extended EOD basis (back value T+0)	
		• Overnight RRP (bid submission at 8:16 AM)	9:30 AM
		• OLF	9:30 AM
		• ODF	9:30 AM
		• TDF	9:30 AM
8:16 AM	BSP-PSO	PhilPaSS settlement cut-off Bangko Sentral OLF, ODF, TDF and RRP (back value T+0)	9:59 AM
10:00 AM	BSP-PSO	DDA balances (T+0) available on demand via PhilPaSS Participant Browser (PPB)	10:00 AM
10:01 AM	BSP-ITSS	Housekeeping Procedures	12:59 PM
1:00 PM	BSP-PSO	PhilPaSS business hours –Value T+1	5:45 PM

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
ILF - Intraday Liquidity Facility
OFW - Overseas Filipino Workers
OCL - Overdraft Credit Line
ODF - Overnight Deposit Facility
OLF - Overnight Lending Facility
PDS - Philippine Dealing System
PvP - Payment versus Payment
RRP - Reverse Repurchase Agreement
TDF - Term Deposit Auction Facility
(T-0) - Banking days prior to Current Day

(Circular Nos. 986 dated 29 December 2017, 955 dated 11 April 2017 and 913 dated 02 June 2016)

GUIDELINES GOVERNING THE REDISCOUNTING OF HOUSING LOAN PAPERS OF QUALIFIED BANKS UNDER HUDCC PROGRAM
(Appendix to Sec. 289)

Sec. 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 P180,000.00 for socialized housing and P375,000.00 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 (PFIs)
IN GOVERNMENT BANKS WHOLESALE LENDING PROGRAM
(Appendix to Sec. 362 on Limit for Wholesale Lending Activities of Government Banks)

I. Accreditation Criteria

For accreditation purposes, PFIs shall initially be evaluated/appraised on the basis of the following pre-qualifying criteria:

a. The PFI shall submit a certification on the following:

(1) 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.

(2) As of application date, the PFI has generally complied with the orders or instructions of the Monetary Board and/or Bangko Sentral Management, more particularly:

(a) Set-up of the required general loan loss and specific provisioning requirements.; and
(b) Correction of major violations and previous years' exceptions noted in the latest Bangko Sentral examination.

(3) The PFI has no past due obligations with the Bangko Sentral or with any government financial institution.

(4) The PFI's accounting records, systems, procedures and internal control systems are satisfactorily maintained.

b. Profitability

(1) 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.
(2) 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.

c. Capital

Compliance with minimum capital accounts of ₱400.0 million or Bangko Sentral required minimum capitalization applicable to the category where the PFI belongs, whichever is higher.

d. 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 Bangko Sentral.

e. Ownership/Management

For PFIs operating for less than three (3) years as of date of filing of the application for accreditation –

(1) Domestic bank owned by reputable individuals/institutions and managed by reputable and experienced bankers.

(2) 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

a. 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 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.

b. PFIs shall be subject to quantitative and qualitative evaluation as well as the accreditation criteria when applying for renewal of credit lines.

c. 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 Section 122 on Issuance of redeemable shares: conditions; certification and report; sanctions)

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 Auhority (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 Sections 122 and 122-C 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 _____, 201___ .

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 _____, 20___, 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. 164 and Sec. 112 on Authority to outsource)

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, 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. 613 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* – 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.

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 appropriate supervising department of Bangko Sentral 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;
(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 supervising department of the Bangko Sentral 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 supervising department of the Bangko Sentral 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 supervising department of the Bangko Sentral 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 supervising department of the Bangko Sentral 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 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 Sec. 174 (*Financial Audit*);

   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. 174 (*Financial Audit*).

    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 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. 164 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 "I.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 supervising department of the Bangko Sentral 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.

IMPLEMENTING RULES AND REGULATIONS OF REPUBLIC ACT NO. 6848 (THE ISLAMIC BANK CHARTER)
(Appendix to Section 101)

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 *Bangko Sentral*.

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;

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 *Bangko Sentral*;

7. To perform the following banking services:

    a. Open current or checking accounts;
    b. Open savings accounts for safekeeping or custody with no participation in profit and losses unless otherwise authorized by the account holders to be invested;
    c. Accept investment account placements and invest the same for a term with the IB's funds in Islamically permissible transactions on participation basis;
    d. Accept foreign currency deposits from banks, companies, organizations and individuals, including foreign governments;
    e. Buy and sell foreign exchange;
    f. Act as correspondent of banks and institutions to handle remittances or any fund transfers;
    g. Accept drafts and issue letters of credit or letters of guarantee, negotiable notes and bills of exchange and other evidence of indebtedness under the universally accepted Islamic financial instruments;
    h. Act as collection agent insofar as the payment orders, bills of exchange or other commercial documents are exclusive of *riba* or interest prohibitions;
    i. Provide financing with or without collateral by way of *Al-Ijarah* (leasing), *Al-Bai ul Takjiri* (sale and leaseback), or *Al-Murabahah* (cost- plus profit sales arrangement);
    j. Handle storage operations for goods or commodity financing secured by warehouse receipts presented to the Bank;
    k. Issue shares for the account of institutions and companies assisted by the Bank in meeting subscription calls or augmenting their capital and/or fund requirements as may be allowed by law;
    l. Undertake various investments in all transactions allowed by the Islamic *Shari'a* in such a way that shall not permit the *haram* (forbidden), nor forbid the *halal* (permissible);

8. To act as an official depository of the government or its branches, subdivisions and instrumentalities and of government-owned or controlled corporations, particularly those doing business in the Autonomous Region;

9. To issue investment participation certificates, muquaradah (non-interest- bearing bonds), debentures, collaterals and/or the renewal or refinancing of the same, with the approval of the Monetary Board of the *Bangko Sentral*, 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 Regulations 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 pre-emptive right to consolidate ownership of the outstanding shares as hereinafter increased: *Provided*, That the common shares of the Philippine Amanah Bank which have been issued and outstanding shall form part of the increased capitalization of the IB, subject to the concurrence of the existing shareholders of the Philippine Amanah Bank.

The IB is authorized to reacquire its common shares that are held privately: *Provided*, That it has sufficient surplus and/ or accumulated earnings for the purpose.

The IB may take the necessary steps to have its Series "B" shares listed in any duly registered stock exchange.

Sec. 8. Sale or Transfer of Shares

The IB shall make a report to the *Bangko Sentral* 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 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, and 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 liquidity shall be subject to the reserve requirement as may be determined by the *Bangko Sentral*. 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 *Bangko Sentral*.

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 *Bangko Sentral*.

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 be reported to the appropriate supervising department of the Bangko Sentral 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 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 *Bangko Sentral*, 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 department of the Bangko Sentral.

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 department of the Bangko Sentral 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:

Mode of Payment	Minimum Number of Installments in Arrears
Monthly	6
Quarterly	2
Semestrally	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:

Allied Undertaking	Limit
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 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 *Bangko Sentral*, 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 department of the Bangko Sentral 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:

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.

5. *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 *Bangko Sentral* 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 *Bangko Sentral* as may be necessary to facilitate the opening of said account.

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.

Investments Abroad. The ceiling provided for in the preceding paragraph shall apply to equity investments in and/or credit facilities to any enterprise abroad.

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 *Bangko Sentral*.

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:

    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 supervising department of the Bangko Sentral 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 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 & 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 department of the Bangko Sentral 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 department of the Bangko Sentral. 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.

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 *Bangko Sentral* 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. *Muquaradah* 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 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 *Bangko Sentral*. The provisions of other banking laws, MRBOFI, as well as the existing Rules and Regulations of the *Bangko Sentral*, 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 supervising department of the Bangko Sentral 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 *Bangko Sentral*.

NOTES ON MICROFINANCE
(Appendix to Sec. 314)

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

a. The poor needs access to variety of appropriate financial services that are convenient, flexible and reasonably priced.
b. The poor has the capability to repay loans, pay the real cost of loans, generate savings and avail complementary financial services.
c. Microfinance institutions must subscribe to performance standards and best practices to ensure greater outreach and sustainability.
d. 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.
e. 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.
f. 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[1]
Other market segments	a. 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. b. Small and marginal farmers, rural artisans, weavers and those self-employed in the urban informal sector as hawkers, vendors and workers in household micro-enterprises requires credit for working capital, including a small part for consumption needs. This segment largely comprises the poor but not the poorest. c. 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 manufacturing activity. These persons live barely above the poverty line and also suffer from inadequate access to formal credit.

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

a. Types of microfinance loans

(1) 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.

(2) 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

[1] 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.

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.314.

(3) Housing microfinance loans-loans granted for home improvements, house construction, house and/or lot acquisition, utilizing microfinance principles and methodologies in accordance with existing Bangko Sentral regulations[1]. The maximum principal amount of a housing microfinance loan for house construction and/or lot acquisition is generally pegged at P300,000.

(4) 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. 314.

b. 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.

c. 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 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.

d. 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 and general features of microfinance savings deposit accounts or micro-deposits

Micro-deposits shall now be referred to as basic deposit accounts under Sec. 213.

G. 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 regulations[2].

H. General features of a microinsurance product (as provided by the Insurance Code)

a. 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.

b. 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.

(Circular Nos. 992 dated 01 February 2018 and .841 dated 04 July 2014)

[1] Circular 678 dated 05 January 2010
[2] Circular 683 dated 23 February 2010

GUIDELINES TO INCORPORATE MARKET RISK IN THE RISK-BASED CAPITAL ADEQUACY FRAMEWORK
(Appendix to Section 125 on Market risk capital requirements)

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 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 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.

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

Annex A

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 Bangko Sentral.

2. The Bangko Sentral 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 Bangko Sentral'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 Bangko Sentral'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 Bangko Sentral 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 Bangko Sentral 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 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 Bangko Sentral may also require a bank to calculate its VaR using a shorter observation period' if in the Bangko Sentral'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 Bangko Sentral may also recognize empirical correlations across broad risk factor categories, provided that the Bangko Sentral 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 Bangko Sentral 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 Bangko Sentral 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 Bangko Sentral 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 Bangko Sentral 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 Bangko Sentral 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 Bangko Sentral 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 Bangko Sentral with a description of the 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 Bangko Sentral 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 Bangko Sentral 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 Bangko Sentral 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 Bangko Sentral 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 Bangko Sentral withdraws approval for that model).

15. The following conditions will apply to banks using such combinations:

(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 Bangko Sentral that they have a good reason for doing so;

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 Section 125 on Market Risk Capital Requirement)

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)
(Appendix to Sec. 125 on Market risk capital requirement)

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 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;
   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 amaturity 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 (forfloating 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 banks[1]	0.00%
Qualifying[2]	.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[3]	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 General market risk applies to positions in all debt securities, debt derivatives and interest rate derivatives, subject only to an exemption for fully or very closely matched positions in identical instruments as described in paragraphs 25 to 26 above. The unadjusted capital charge is the sum of the following components:

    a) the net short or long weighted position in the whole trading book;
    b) a small proportion of the matched positions in each time band (the "vertical disallowance"); and
    c) a larger proportion of the matched positions across different time-bands (the "horizontal disallowance").

32. In the maturity ladder, first calculate the weighted positions by multiplying the positions reported in each time band by a risk-factor according to the following table:

Table 1
Maturity method: time bands and weights

Coupon 3% or more	Coupon less than 3%	Risk weight
1 month or less	1 month or less	0.00%
Over 1 month to 3 months	Over 1 month to 3 months	0.20%
Over 3 months to 6 months	Over 3 months to 6 months	0.40%
Over 6 months to 12 months	Over 6 months to 12 months	0.70%
Over 1 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	4.5%
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%

[1] "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.
[2] "Qualifying" refers to the issuers/issues as described under items 1.4 to 1.7 in Part I.1 of the Report.
[3] "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.

33. The weighted longs and shorts in each time band will be offset resulting in a single short or long position for each band. A 10% capital charge ("vertical disallowance") will be levied on the smaller of the offsetting positions, be it long or short. Thus, if the sum of the weighted longs in a time band is P100.0 million and the sum of the weighted shorts is PHP90.0 million, the vertical disallowance would be 10% of PHP90.0 million (i.e., PHP9.0 million).

34. Two rounds of "horizontal offsetting" will then be conducted, first between the net positions in each of 3 zones (zero to 1 year, over 1 year to 4 years and over 4 years), and subsequently between the net positions in the 3 different zones. The offsetting will be subject to a scale of disallowances expressed as a fraction of the matched positions, as set out in Table 2 below. The weighted long and short positions in each of 3 zones may be offset, 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%		
	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 to15 years			
	Over 15 years to 20 years			
	Over 20 years			

Part II Equity Exposures

35. Report in this part the long and short positions in equities and equity derivatives in the trading book, including instruments that exhibit market behavior similar to equities. The instruments covered include common stock (whether voting or non-voting), convertible bonds (i.e., debt issues or preference shares that are convertible, at a stated price, into common shares of the issuer) which trade like equities and commitments to buy or sell equity securities. For non-convertible preference shares and those convertible bonds which trade like debt securities, they should be reported under Part I. Equity derivatives include forwards, futures and swaps on both individual equities and or stock indices. Options should be included subject to the specific instructions set out in Part IV. Long and short positions in the same issue may be reported on a net basis.

36. The positions are to be reported on a market-by-market basis, i.e., under separate columns to indicate the exchange where the reported equities are listed/traded. For foreign markets, banks should indicate the country where the market is located. (Refer to example (9) in Annex A) Equities with listing in more than one market should be reported as positions in the market of their primary listing.

37. Equity derivatives are to be converted into positions in the relevant underlying. Futures and forward contracts relating to an individual equity should be reported at current market values. Futures relating to equity indices can be reported either as the current index value times the monetary value of one index point set by the exchange, i.e., the "tick" value, or the marked-to-market value of the notional underlying equity portfolio. (Refer to example (11) in Annex A).

38. Matched positions in each identical equity or index (same delivery months) in each market may be fully offset, resulting in a single net short or long position. A future in a given equity may be offset against an opposite cash position in the same equity but the interest rate exposure arising out of the equity futures should be reported in Part I. For example, a short futures contract on a specific stock with delivery 3 months from the reporting date can be offset against a long position in the underlying stock. However, the interest rate exposure arising out of the equity futures should be reported as a long position in the "1 to 3 months" time band of the stock denominated currency in Part I. The position should be reported as the current market value of the stock.

39. An equity swap obligates a bank to receive an amount based on the change in value of a particular equity or equity index and also to pay an amount based on the change in value of a different equity or equity index. Accordingly, the receipt side and the payment side of an equity swap contract should be reported as a long and a short position, respectively. For an equity swap contract which involves a leg relating to a financial instrument other than equities or equity derivatives, for example, receiving/paying a fixed or floating interest rate, the exposure should be slotted into the appropriate maturity band in Part I. Where equities are part of a forward contract (equities to be received or to be delivered), any interest rate exposure from the other leg of the contract should be reported in Part I. The treatment is similar to that set out in paragraph 38. The same arrangement applies for index futures. (Refer to example (11) in Annex A).

40. As with interest rate exposures, the capital charge is levied to separately cover both the specific risk and the general market risk. Calculation is done on an individual market basis. The unadjusted capital charge for specific risk will be 8% on the gross (i.e., long plus short) positions. The unadjusted general market risk charge will be 8% on the net position. Net long and short positions in different markets cannot be offset for the purpose of calculating general market risk charge.

Part III Foreign Exchange Exposures

41. Report in this part the amount in US dollars (USD) of net long or net short position in each currency. The net delta- based equivalent of foreign currency options should also be reported for each currency, subject to the specific instructions in Part IV. In addition, structural positions taken deliberately to hedge against the effects of exchange rate movements on the capital adequacy of the reporting bank may be excluded. This should be cleared with the 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, 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 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[1] (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[2]

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 instrument[3]		As per the risk weights in Table 1, according to the residual maturity (fixed rate) or next repricing (floating rate)
Government and multi-lateral development banks	0.00%	
Qualifying (with residual rate maturity)		
6 months or less	0.25%	
Over 6 months to 24 months	1.00%	
Over 24 months	1.60%	
LGU bonds	4.00%	
Others	8.0%	
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 three (3) months and a short position with a maturity of six (6) months.

[1] 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.
[2] 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.
[3] Issuer/issues classifications as per Part I.1 of the Report.

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 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:

Gamma impact = ½ x Gamma x 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 +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 Bangko Sentral'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, 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.

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

Annex A

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

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)

$$= PHP975.000MM \times \frac{0.08}{(1+0.0581 \times 0.5)} + \frac{0.08 + 1.08}{(1+0.06425)^{1.5}} + \frac{1.08}{(1+0.0688)^{2.5}}$$

= PHP1, 038.479MM

PV of the floating leg (i.e. receive side)

$$= PHP975.000MM \times \frac{1.055}{(1+0.0581 \times 0.5)}$$

= 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

   Assume the discounting factors are:

6 months	0.09674
12 month	0.9346
18 month	0.9009
24 month	0.8673

   Assume spot exchange rate is PHP75.00

   Report in Part I.2 GBP ladder:

   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

   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

   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

(For simplicity, gamma and vega positions are not presented in this example.)

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 Calculation 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.)

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

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 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
$= \frac{\text{PHP975.000MM x (1.11)}}{(1 + 0.0581 \times 0.5)}$
= PHP1, 051.700MM

Receive – USD
109.5% of USD19.500MM in 6 months

PV of USD leg
$= \frac{\text{USD19.500MM x (1.095)}}{(1+0.04 \times 0.5)}$
= 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 Without Expanded Derivatives Authority)
(Appendix to Sec. 125 on Market risk capital requirement)

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 P10.0 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
   (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:

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.

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.

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[1]	0.00%
Qualifying[2]	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[3]	4.00%
Others	8.00%

27. Currency swaps and forward foreign exchange contracts will not be subject to a specific risk charge.

General market risk

28. General market risk applies to positions in all debt securities and currency forwards and swaps subject only to an exemption for fully or very closely matched positions in identical instruments as described in paragraphs 22 to 23 above. The unadjusted capital charge is the sum of the following components:

    (a) the net short or long weighted position in the whole trading book;
    (b) a small proportion of the matched positions in each time band (the "vertical disallowance"); and
    (c) a larger proportion of the matched positions across different time-bands (the "horizontal disallowance").

29. In the maturity ladder, first calculate the weighted positions by multiplying the positions reported in each time band by a risk-factor according to the following table:

Table 1
Maturity method: time bands and weights

Coupon 3% or more	Coupon less than 3%	Risk weight
1 month or less	1 month or less	0.00%
Over 1 month to 3 months	Over 1 month to 3 months	0.20%
Over 3 months to 6 months	Over 3 months to 6 months	0.40%
Over 6 months to 12 months	Over 6 months to 12 months	0.70%
Over 1 year to 2 years	Over 1.0 year to 1.9 years	1.25%
Over 2 years to 3 years	Over 1.9 years to 2.8 years	1.75%
Over 3 years to 4 years	Over 2.8 years to 3.6 years	2.25%
Over 4 years to 5 years	Over 3.6 years to 4.3 years	2.75%
Over 5 years to 7 years	Over 4.3 years to 5.7 years	3.25%
Over 7 years to 10 years	Over 5.7 years to 7.3 years	3.75%
Over 10 years to 15 years	Over 7.3 years to 9.3 years	4.5%
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%

[1] "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.
[2] "Qualifying" refers to the issuers/issues as described under items 1.4 to 1.7 in Part I.1 of the Report.
[3] "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. 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
Historical disallowances

<table>
<tr><th>Zones</th><th>Time-band</th><th>Within the zone</th><th>Between adjacent zones</th><th>Between zones 1 and 3</th></tr>
<tr><td rowspan="4">Zone 1</td><td>1 month or less</td><td rowspan="4">40%</td><td rowspan="4">40%</td><td rowspan="10">100%</td></tr>
<tr><td>Over 1 month to 3 months</td></tr>
<tr><td>Over 3 months to 6 months</td></tr>
<tr><td>Over 6 months to 12 months</td></tr>
<tr><td rowspan="3">Zone 2</td><td>Over 1 year to 2 years</td><td rowspan="3">30%</td><td rowspan="6">40%</td></tr>
<tr><td>Over 2 years to 3 years</td></tr>
<tr><td>Over 3 years to 4 years</td></tr>
<tr><td rowspan="6">Zone 3</td><td>Over 4 years to 5 years</td><td rowspan="6">30%</td></tr>
<tr><td>Over 5 years to 7 years</td></tr>
<tr><td>Over 7 years to 10 years</td></tr>
<tr><td>Over 10 years to 15 years</td></tr>
<tr><td>Over 15 years to 20 years</td></tr>
<tr><td>Over 20 years</td></tr>
</table>

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 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 eight (8%) of the overall net open position.

Part IV Internal Models Approach

41. Only those banks which have obtained the Bangko Sentral'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 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.

51. For on-balance-sheet debt securities and equities in the trading book included in Parts I, II and IV of this Report, the credit risk-weighted exposures reported in Part II of the Report on the Computation of the Risk-Based Capital Adequacy Ratio covering credit risk should be excluded in calculating the adjusted ratio covering combined credit risk and market risk. The market risk capital charges for these positions calculated in this Report cover all the capital requirements for absorbing potential losses arising from carrying such positions.

(Circular Nos. 890 dated 02 November 2015 and 827 dated 28 February 2015)

Annex A

Suppose as at 31 December, 200X, ABC Bank Corporation has the following trading book positions:

(1) Long position in US Treasury Bond (7.5% annual coupon) with face value equivalent to PHP507.000MM and residual maturity of 8 years.

Market value based on quoted price: PHP518.914MM equivalent

(2) Long position in an unrated floating rate note (6.25% current annual coupon) issued by a US corporate with face value equivalent of PHP260.000MM and next repricing 9 months after.

Market value based on quoted price: PHP264.758MM equivalent

(3) Forward foreign exchange position of EUR5.000MM (long) against PHP250.000MM equivalent maturing in 3 months.

(4) Long 1000 shares of a US listed company with current market price of PHP715.000MM equivalent.

Treatments:

(1) Report market value (PHP518.914MM) of the long position in Part I.1, item I.2 and Part I.2, USD ladder, 7 to 10 years time band.

(2) Report market value (PHP264.758MM) of the long position in Part I.1, item 1.9 and Part I.2, USD ladder, 6 to 12 months time band.

(3) Report a long 3 months zero coupon security in Part I.2, EUR ladder, 1 to 3 months time band and a short 3 months zero coupon security in the Peso ladder, 1 to 3 months time band.

Assume 3 months EUR cash rate at 3.25%, 3-month Peso zero-coupon yield at 5.63% and spot exchange rate is 46.

PV of the EUR leg (i.e. receive side)

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 Sec. 125 on Market risk capital requirement)

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 42*, using the attached questionnaire in Annex A.

B. Offsite assessment by Bangko Sentral

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 supervising department of the Bangko Sentral, 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 unit[1], 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) 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

[1] Referring generally to the risk management group functions in the BAP Financial Markets Risk Reference Manual.

(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 Bangko Sentral prescribed backtesting program should begin on the quarter following the date of Bangko Sentral's recognition of the bank's internal model and thus implies that the formal accounting of exceptions under the Bangko Sentral 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 Bangko Sentral on its compliance with the abovementioned requirements for the use of internal models.

C. On-site assessment by Bangko Sentral

The Bangko Sentral 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 Bangko Sentral.

After initial recognition of the models by the Bangko Sentral, the bank should inform the Bangko Sentral of any material change to the models, including change in the methodology or scope to cover new products and instruments. The Bangko Sentral shall determine whether the models remain acceptable for calculating the market risk capital charge.

The Bangko Sentral 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 42* on an ongoing basis. Non-compliance with the minimum requirements shall be ground for disallowing the use of such models.

Annex A

_____

(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?			
• 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. 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?			
4. 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?			
5. 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?			
• 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?			
• 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?			

[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]
6. Is the bank's internal risk measurement model closely integrated into the day-to-day risk management process of the bank?			
- 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?			
7. 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?			
8. 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)?			
9. 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?			
10. 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?			
- the accuracy and appropriateness of volatility and correlation assumptions?			

Criteria	Yes	No	Bank's Explanations[1]
- 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?			
1. 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?			
2. 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?			
3. 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?			
4. Does the risk measurement system incorporate separate risk factors to capture spread risk (e.g., between bonds and swaps)?			
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 99th percentile, one-tailed confidence interval used?			
3. Is an instantaneous price shock equivalent to a ten (10) day movement in prices used, i.e., is the minimum "holding period" 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?			
4. Is the historical observation period (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 year (that is, the weighted average time lag of the individual observations is not less than six (6) months)?			
5. Are data sets updated no less frequently than once every three (3) months?			
• Are data sets reassessed whenever market prices are subject to material changes?			
6. For banks with option transactions			
• Does the bank's model capture the non-linear price characteristics of options positions?			

Criteria	Yes	No	Bank's Explanations[1]
• 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 volatilities of the rates and prices 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?			
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)?			
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?			

GUIDELINES FOR THE ESTABLISHMENT AND ADMINISTRATION/MANAGEMENT OF SINKING FUND FOR THE REDEMPTION OF REDEEMABLE PRIVATE PREFERRED SHARES

(Appendix to Sec. 122 on Issuance of redeemable shares: conditions; certification and report; sanctions)

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 Bangko Sentral 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 Bangko Sentral, 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 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 P1.0 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 Bangko Sentral.

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 Bangko Sentral.

4. Sanctions. Failure to comply with the guidelines shall subject the bank and its directors and officers to the sanctions prescribed Item *"c"* of Sec. 122 Issuance of redeemable shares; conditions; certification and report; sanctions and Sections 36 and 37 of R.A. No. 7653.

Annex A

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.

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

(b)	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 OR UNSOUND BANKING
(Appendix to Secs. 181 and 420)

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 transactions.

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 Bangko Sentral under Secs. 274 and 420.

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;

(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 Sec. 314 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 Sec. 143.

w. Improper or non-documentation of repurchase agreements covering government securities and commercial papers and other negotiable and non-negotiable securities or instruments.

(Circular Nos. 903 dated 29 February 2016)

CERTIFICATION OF COMPLIANCE WITH SECTION 55.4 OF REPUBLIC ACT NO. 8791
(Appendix to Sec. 276 on Certification of Compliance with Subsection 55.4 of R.A. No. 8791)

Name of Bank
Address of Head Office
Telefax/FaxNumber

The Deputy Governor
Financial Supervision 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 July 2, 2002 and Circular Letter dated November 11, 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 Sec. 172)

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 Bangko Sentral (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) Bangko Sentral 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
(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 Bangko Sentral (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 of/settled and income, disbursements, disposal of assets	10 years from dates when accounts were closed/disposed

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 Bangko Sentral 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 Bangko Sentral.

(Circular Nos. 957 dated 17 April 2017)

Annex A

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__

SMALL AND MEDIUM ENTERPRISE UNIFIED LENDING OPPORTUNITIES FOR NATIONAL GROWTH BANK ACCREDITATION APPLICATION FOR RURAL AND THRIFT BANKS ELIGIBILITY AND DOCUMENTARY REQUIREMENTS

(Appendix to Sec. 332)

Requirements	Documents to be submitted
a. CAMELS rating should be at least "3.0"	Latest report of Bangko Sentral bank examination
b. Compliance with the ten percent (10%) maximum ratio of DOSRI past due loans	Copy of quarterly report submitted to Bangko Sentral
c. 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
d. 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
e. Not deficient in loan loss provisions/reserves	Certification from Bangko Sentral
f. 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
g. 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
h. 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
i. 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
j. The bank is owned and managed by the same persons (key officers) at least for the last two (2) years	Applicant's records
k. No derogatory information gathered on the officers and directors of the bank	GFI Credit and Appraisal Management Unit or Department
l. Compliance with corporate governance	Applicant's reply to questionnaire on comparison of Bangko Sentral mandated practices with actual practices

SMALL AND MEDIUM ENTERPRISE UNIFIED LENDING OPPORTUNITIES FOR NATIONAL GROWTH
LENDING FEATURES OF SHORT-TERM LOANS

Loan Purpose	Export Financing (Export Packing Credit)	Credit Line (Temporary Working Capital)
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 ₱100 million, excluding the value of the land	At least sixty percent (60%) Filipino- owned whose assets are not more than ₱100 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 ₱5.0 million
Interest Rate[1]	Nine percent (9.00%)	Nine percent (9.00%)
Repayment term	Maximum of one (1) year	Maximum of one (1) year
Collateral[2]	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

[1] 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.
[2] 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.

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)[1] 5-year T-Bond rate + 2% (5-year loan)[1]
Repayment Term	Maximum of five (5) years, inclusive of maximum one (1) year grace period on principal monthly amortization
Collateral[2]	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
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

[1] 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%.

[2] 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.

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. 316)

Pursuant to Monetary Board Resolution No. 1125 dated 22 June 2016, the following guidelines shall govern the domestic borrowings of 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

a. 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*.

b. 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.

c. 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.

d. The LGU shall be informed in writing of the Monetary Board's decision on its request for opinion and shall contain the following conditions:

(1) 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;

(2) 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;

(3) 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;

(4) The LGU 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 final disbursement of the loan proceeds; and

(5) 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.

e. No opinion will be issued by the Monetary Board in case the LGU loan has already been partially or fully disbursed.

f. 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.

g. 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.

h. 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 *"a"* of Section III of this *Appendix*. However, the LGU would only need to submit the required documents under Items *"(1)"* to *"(3)"* of Item *"b"* under Section III of this *Appendix* to the lending institution if there are changes to the previously submitted documents.

III. Required Documents and Information

a. Request for Monetary Board opinion. To support the request for Monetary Board opinion, the LGU must submit the following documents/information to Bangko Sentral:

(1) 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:

(a) 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;

(b) Statement certifying that no disbursement, in full or partial amounts, has been made on the loan; and

(c) The names and signatures of the LGU's chief executive and the lending institution's authorized representative.

(2) Valid BLGF certification on the borrowing and debt service capacity of the LGU; and

(3) Information on the LGU's year-to- date outstanding loans (use the prescribed form attached as *Annex 2*).

b. 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:

(1) 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*);

(2) Other applicable requirements under R.A. No. 7160, such as the provincial/city/ municipal validation of the ordinance, as applicable**.**

(3) 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*).

c. 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.

d. 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

a. *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*).

b. *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*).

c. *Sworn certification on lendings to local government units (LGUs)*. The BSFIs shall submit, through a letter addressed to the appropriate supervising department of the Bangko Sentral, 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 Nos. 926 dated 13 September 2016)

Annex 1

(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	*Please provide breakdown of specific projects, including cost and mode of acquisition:*[2] Project 1: (Project title/details) (Cost in Php million) (Mode of acquisition) Project 2: (Project title/details) (Cost in Php million) (Mode of acquisition)
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:

a. Latest DOF-BLGF certification on the net debt service ceiling and borrowing capacity; and
b. Information on the LGU's year-to-date outstanding loans *(use the form attached as Annex 2 of Appendix 53).*

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 representative[3]

[3] The signature of the lending institution's authorized representative is required only for loan availments.

Annex 2

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 53.

Certified true and correct:

Name and signature of
Governor/Mayor/Brgy. Chairman

Annex 3

Sample LGU Ordinance for Proposed borrowing (loan)

Republic of the Philippines
Province of _____
Municipality/City of _____

OFFICE OF THE SANGGUNIANG BAYAN/PANLUNGSOD/PANLALAWIGAN

ORDINANCE[4] 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 with[5] 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 _____.

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[6]
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

---

[4] Based on the Local Govenrment Code [e.g., Secs. 305 (a) and 55 (b)].
[5] Secs. 296 and 297 of the Local Government Code.
[6] 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.

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 Sangguniang 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.[7]

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:[8]

_____
Sangguniang Panlalawigan Secretary

_____ Date Validated: _____
Provincial Governor

[7] In particular, but not limited to, Secs. 54-56, 58-59. This includes the mayor's/governor's/local chief executive's signature on all pages.

[8] An ordinance passed by a municipality or component city has to be validated as consitent 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.

Annex 4

(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/Munipality 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

Annex 5

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	

Annex 6

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) Payment

[1] Should at least include information on the maturity date, interest rate, and payment terms.

Annex 7

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 Sec. 316, we hereby certify[2] 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	Chief Compliance Officer
TIN:	TIN:
Com. Tax Cert. No:	Com. Tax Cert. No:
Issued on:	Issued on:
Issued at:	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_____.

[2] Check appropriate box.

Annex 7

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 Sec. 316)

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 borrowings[1] 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.

II. Procedures

a. 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.

b. 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.

c. 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.

d. The BGE shall be informed in writing of the Monetary Board's decision on its request for opinion and shall contain the following conditions:

(1) 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;

(2) 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;

(3) 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 loan proceeds or final availment of the credit facility; and

(4) 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.

e. No opinion will be issued by the Monetary Board in case the borrowing has already been partially or fully disbursed.

f. 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.

g. 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.

[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).

h. 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

a. *Request for Monetary Board opinion.* To support the request for Monetary Board opinion, the BGE must submit the following documents/information to Bangko Sentral:

(1) *For GOCCs*

(a) 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.

(b) 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.

(c) 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*).

(d) Department of Finance (DOF) comments on the proposed loan.

(e) 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.

(f) Information on outstanding loans (use the prescribed form attached as *Annex 4*).

(2) *For LWDs*

(a) 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 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.

(b) 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*).

(c) Endorsement/clearance of the proposed loan from the Local Water Utilities Administration (LWUA).

(d) Information on outstanding loans (use the prescribed form attached as *Annex 4*).

(3) *For SUCs*

(a) 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

[1] Short-term borrowings refer to those with tenors of ninety (90) days or less.

certify that no disbursement, in full or partial amounts, has been made on the loan.

(b) 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*).

(c) Endorsement/clearance of the proposed borrowing from the Commission on Higher Education (CHEd).

(d) 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.

b. *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

a. *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 electonic 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*).

b. *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 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*).

c. *Sworn Certification on Lendings to BGEs.* The BSFIs shall submit, through a letter addressed to the appropriate supervising department of the Bangko Sentral, 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)

Annex 1

(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.

a. *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	

[1] Information for Items "d" to "g" should be validated with the lending bank/institution.

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	*Please provide breakdown of specific projects, including cost and mode of acquisition:*[2] Project 1: (Project title/details) (Cost in Php million) (Mode of acquisition) Project 2: (Project title/details) (Cost in Php million) (Mode of acquisition) ...
d. Interest rate (in percent per annum)	*Please 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	

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	*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 conditions	
k. Borrowing capacity (in Php million)	
l. Financial advisor	
m. Underwriter	
n. Guarantor	

[1] Information 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:

a. 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);
b. Data on the year-to-date outstanding borrowings (Annex 4. Pro-forma report on outstanding loans);
c. DOF comments on the proposed loan; and
d. 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:

a. 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);
b. Data on the year-to-date outstanding borrowings (Annex 4.Pro-forma report on outstanding loans); and
c. LWUA endorsement/clearance of the proposed loan.

For SUCs:

a. Board Resolution approving the proposed loan, its purpose, terms and conditions
b. (Annex 2. Pro-forma Board Resolution) or Corporate Secretary's certificate on the corresponding Board Resolution (Annex 3. Pro-forma Corporate Secretary certificate);
c. Data on the year-to-date outstanding borrowings (Annex 4. Pro-forma report on outstanding loans); and
d. CHEd endorsement/clearance of the proposed loan.

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 representative[1]

[1] The signature of the lending institution's authorized representative is required only for loan availments.

Annex 2

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]

IN WITNESS WHEREOF, WE have hereunto set our hands this_____day of_____, 20XX, in_____ _____, Philippines.

[1] This 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.

(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 _____

Annex 3

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]

[1] This 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.

(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 _____

Annex 4

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 54).

Certified true and correct:

_____

Name and signature of
Head of GOCC/LWD/SUC

Annex 5

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	

[1] Please indicate if on a staggered basis

Annex 6

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	(5) Interest Rate	(6) Mode of Payment

[1] Should at least include information on the maturity date, interest rate, and payment terms.

Annex 7

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 Sec. 316 [Domestic borrowings by local government units pursuant to Section 123 of R.A. 7653; 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; and Enforcement actions], we hereby certify[1] 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	Chief Compliance Officer
TIN:	TIN:
Com. Tax Cert. No:	Com. Tax Cert. No:
Issued on:	Issued on:
Issued at:	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

CHECKLIST OF BANGKO SENTRAL REQUIREMENTS IN THE SUBMISSION OF FINANCIAL AUDIT REPORT, ANNUAL AUDIT REPORT AND REPORTS REQUIRED UNDER APPENDIX 39
(Appendix to Sec. 174 on Financial Audit)

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 supervising department of the Bangko Sentral not later than 120 calendar days after the close of the calendar year or fiscal year adopted by the bank, together with the following:

	Information/Data required	**Deadline for submission**
A.	Financial Audit Report	
1.	Certification by the external auditor on the following: 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.	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.
2.	Reconciliation statement for the differences in amounts between the audited and the submitted Balance Sheet and Income Statement for bank proper (regular and FCDU) and trust department, including copies of adjusting entries on the reconciling items. **Note:** Please see pro-forma comparative analysis (Annex A).	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.
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. 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.	Within thirty (30) calendar days after submission of the FAR.
4.	Copies of the board resolutions showing the: a. Action taken on the FAR and, where applicable, on the certification under oath including the names of the directors present and absent, among other things; and	Within thirty (30) banking days after the receipt of the financial audit report and Certification under oath by the Board of Directors.

b. Action taken on the findings and recommendations in the LOC, and the names of the directors present and absent, among other things.	Within thirty (30) banking days after the receipt of the LOC by the board of directors.
5. In case of foreign banks with branches in the Philippines, in lieu of the board resolution:	
a. A report by the country head on the action taken by management (head office, regional or country) on the FAR and, where applicable, on the certification under oath stating that no material weakness or breach in the internal control and risk management systems was noted in the course of the audit of the bank.	Within thirty (30) banking days after the receipt of the financial audit report and certification under oath by the country head.
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 Sec. 174 (*Disclosure requirement in the notes to the audited financial statements*).	For submission together with the financial audit report not later than one hundred twenty (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 *Appendix 39*:	
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 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: a. CAR; and b. Loans and other risk assets review and classification. (3) Findings on matters of corporate governance that may require urgent action by the Bangko Sentral.	Within fifteen (15) calendar days after the occurrence/discovery.
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.	

B. AAR– For banks under the concurrent jurisdiction of the Bangko Sentral and COA.

1. Copy of the AAR accompanied by the:	Within forty (40) calendar days after receipt of the AAR by the board of directors.
a. Certification by the institution concerned on the date of receipt of the AAR by the board of directors;	
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	
c. Other information that may be required by the Bangko Sentral.	
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.	Within thirty (30) banking days after receipt of the AAR by the board of directors.

(Circular Nos. 911 dated 02 May 2016)

GUIDE IN PREPARING THE KEY INFORMATION AND INVESTMENT DISCLOSURE STATEMENT FOR UNIT INVESTMENT TRUST FUNDS

(Appendix to Sec. 414 on Minimum disclosure requirement)

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 REDEEMIN G, 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)

(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:	Custodianship Fees:	External Auditor Fees:	Other Fees:_____%
_____%	_____%	_____%	
(Name of Trustee)	*(Name of Custodian)*	*(Name of External Auditor)*	*(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:
    - [Indicate the risk profile of the target investors/participants]
    - [Indicate if the principal will be at risk]
    - [Indicate the recommended investment horizon of a participant]
    - [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:
    - Have aggresive risk appetite
    - 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:

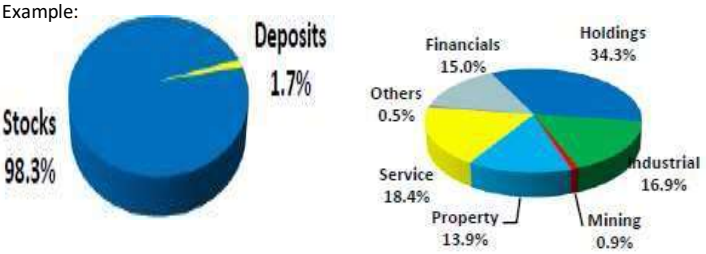


Cumulative Performance (%)

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

1. Volatility measures the degree to which the Fund fluctuates vis-à-vis its average return over a period of time.
2. 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.
3. 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.

FORMAT OF RISK DISCLOSURE STATEMENT
(Appendix to Sec. 414)

(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 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 counter party, 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

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 Section 125)

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. Time Table

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 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 of the appropriate supervising sector at email address sdc_stat@bsp.gov.ph.

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

RISK-BASED CAPITAL ADEQUACY FRAMEWORK FOR THE PHILIPPINE BANKING SYSTEM
(*Appendix to Section 125)*

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.

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 solo[2] and consolidated[3] bases. The application of the requirement on a consolidated basis is the best means to preserve the integrity of capital in banks with subsidiaries by eliminating double gearing. However, as one of the principal objectives of supervision is the protection of depositors, it is essential to ensure that capital recognized in capital adequacy measures is readily available for those depositors. Accordingly, individual banks should likewise be adequately capitalized on a stand-alone basis.

4. To the greatest extent possible, all banking and other relevant financial activities (both regulated and unregulated) conducted by a bank and its subsidiaries will be captured through consolidation. Thus, majority-owned or -controlled financial allied undertakings should be fully consolidated on a line by line basis. Exemptions from consolidation shall only be made in cases where such holdings are acquired through debt previously contracted and held on a temporary basis, are subject to different regulation[4] 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.

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[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

[4] These currently pertain to insurance companies and securities brokers/dealers

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. 59 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;[1]

    g. Other comprehensive income;

        (1) Net unrealized gains or losses on AFS securities[2];
        (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:[3] *Provided*, That the minority interest arises 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. 59 Annex D.*

[1] For early adopters of PFRS 9, this account should include the net unrealized gains/losses on available-for•sale (AFS) debt securities;

[2] 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 ac- counting framework, the Bangko Sentral will revise its relevant regulation once the treatment of fair value adjustments in the calculation of CET1 has been determined.

[3] 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.

Regulatory adjustment to CET1 capital

4. The following must be deducted from/(added to) CET1 capital:

   a. Common stock treasury shares[1] 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);

   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);

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[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 liabilitiy 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;

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.

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. 59 Annex B";
ii. required loss absorbency features for instruments classified as liabilities for accounting purposes. The loss absorbency requirements are provided in "App. 59 Annex E"; and
iii. required loss absorbency feature at point of non-viability as set out in "App. 59 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 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. 59 Annex D.

Regulatory adjustments to AT1 capital

6. The following are the adjustments to AT1 capital:

a. AT1 instruments treasury shares[2], including shares that the bank could be contractually obliged to purchase;

[1] Same footnote as in Part II, Item "3.g.2.a".
[2] Same footnote as in Part II, Item "4.a"

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. 59 Annex C"; and
ii. required loss absorbency feature at point of non-viability as set out in "App. 59 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;

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. 59 Annex D.

[1] Same footnote as in Part II, Item "3.g.2.a"

Regulatory adjustments to Tier 2 capital

8. The following adjustments shall be charged against Tier 2 capital:

    a. Tier 2 instruments treasury shares[1], 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:

    a. Permanently assigned capital[2]:
    b. Undivided profits;
    c. Retained earnings;
    d. Accumulated net earnings[3]:
    e. Other comprehensive income

        (1) Net unrealized gains or losses on AFS securities[4];
        (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

[1] Same footnote in Part II, Item "*4.a*"
[2] Shall include unremitted earnings elected by the branch to be part of assigned capital.
[3] 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.
[4] 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.

(5) Others (indicate the nature and amount of the accounts lodged)

Regulatory adjustments to CET1 capital

11. The regulatory adjustments to CET1 capital are provided in paragraph 4, as applicable.

    In addition, the *Net due from* head office, branches and subsidiaries outside the Philippines, excluding accumulated net earnings 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.

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. Countercyclical Capital Buffer

1. A Countercyclical Capital Buffer (CCyB) set as percent of risk-weighted assets shall be required of UBs/KBs and their subsidiary banks and quasi-banks. It shall be comprised of CET1 capital.

2. The buffer is meant to ensure that banking sector capital requirements take account of the macrofinancial environment in which banks operate. The primary aim of the countercyclical capital buffer regime is to use a buffer of capital to achieve the broader macroprudential goal of protecting the banking sector from the build-up of systemic vulnerabilities. Protecting the banking sector in this context is not simply ensuring that individual banks remain solvent through a period of stress, as the minimum capital requirement and capital conservation buffer are together designed to fulfill this objective. Rather, the aim is to ensure that the banking sector in aggregate has the capital on hand to help maintain the flow of credit in the economy without its solvency being questioned, when the broader financial system experience stress.

3. The countercyclical buffer requirement will extend the size of the capital conservation buffer. The ban 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 the declaration of dividends as provided in the MORB.
   b. Has CET1 of more than the total required (minimum CET1 ratio of six percent (6%) plus CCB of two and a half percent (2.5%) plus CCyB at the rate determined by the Monetary Board) before the distribution; and
   c. Has complied with the minimum capital ratios (CET1 ratio to six percent (6%) Tier 1 ratio of seven and a half percent (7.5%) and ten percent (10%) (CAR) after the distribution.

   Otherwise, the policy framework of the capital conservation buffer on the restriction on distributions shall apply, except for drawdowns. Thresholds on the restriction on distribution shall consider the CCyB requirement as an extension of the capital conservation buffer.

4. Drawdowns on the CCyB are not allowed unless the Bangko Sentral announces a decision to lower the buffer rate. The capital surplus created when the CCyB is lowered should be unfettered, i.e., there are no restrictions on distributions when the buffer is released.

5. The uniformly applicable rate of the countercyclical buffer shall initially be set at zero percent (0%), subject to recalibration as determined by the Monetary Board. CCyB decisions shall be based on a set of indicators including, but not limited to, the credit-to-GDP gap as well as the growth and quality of credit, among others.

6. Any increase in the countercyclical buffer shall have a preannouncement period of twelve (12) months in consideration of the capital planning process of banks while reductions in the buffer would take effect immediately to help reduce the risk of the supply of credit being constrained by regulatory capital requirement.

Part V. 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 Below	AA+ to AA-	A+ to A-	BBB+ to BBB-	BB+ to BB-	B+ to B-	Below 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]

[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
[2] Or risk weight applicable to sovereign of incorporation, whichever is higher

Interbank call loans	20%							
Local government units	20%	20%	50%	50%	100%	100%	150%	100%[2]
Government corporations	20%	20%	50%	100%	100%	150%	150%	100%[2]
Corporates	20%	20%	50%	100%	100%	150%	150%	100%[2]
Housing loans	50%							
MSME qualified portfolio	75%							
Defaulted exposures								
Housing loans	100%							
Others	150%							
ROPA	150%							
All other assets	100%							

Sovereign Exposures

2. These include all exposures to central governments and central banks. All Philippine peso (Php) denominated exposures to the Philippine National Government (NG) and the Bangko Sentral shall be risk-weighted at zero percent (0%). Foreign currency denominated exposures to the NG and the Bangko Sentral, however, shall be risk-weighted according to the table above: *Provided*, That only one-third (1/3) of the applicable risk weight shall be applied from 01 July 2007, two-thirds (2/3) from 01 January 2008, and the full risk weight from 01 January 2009[1]. 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.

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.

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 borrower[2].

[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 60.

[2] Includes housing microfinance loans under Sec. 314

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 guaranteesissued 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%);

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; and

d) Loans to MSMEs, which are performing, to the extent guaranteed by a qualified Credit Surety Fund (CSF) Cooperative, which shall be risk-weighted at twenty percent (20%). A qualified CSF Cooperative refers to a cooperative that is organized consistent with the provisions of Republic Act (R.A.) No. 10744 and its implementing rules and regulations {IRR): *Provided,* That the maximum allowable leveraging ratio of the CSF Cooperative to guarantee bank loans shall be three (3); *Provided further,* That said leverage ratio shall be subject to periodic review for progressive increase as warranted by the CSF Cooperative's performance but not to exceed 5x the CSF Cooperative's Restricted Capital for Surety.

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:

            - Shipside bonds/airway bills
            - Letters of credit – confirmed

ii. Sight letters of credit outstanding (net of margin deposit);
iii. Usance letters of credit outstanding (net of margin deposit);
iv. Deferred letters of credit (net of margin deposit); and
v. Revolving letters of credit (net of margin deposit) arising from movement of goods and/or services;

This shall also apply to commitments with an original maturity of up to one (1) year, and shall include Committed Credit Line for Commercial Paper Issued.

d) Zero percent (0%) credit conversion factor – this shall apply to commitments 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:

Interest Exchange			
Residual Maturity	**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%

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 counterparty[1] 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.

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:

    $E^* = \max \{0, [E \times (1 + He) - C \times (1 - Hc - Hfx)]\}$

    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:

		Haircut	
Issue rating for debt securities[1]	Residual maturity	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 $H = \Sigma a_i H_i$, where a_i i, is the weight of the asset in the basket and H_i is the haircut applicable to that asset.

40. For collateralized OTC derivatives transactions in the trading book, the credit equivalent amount will be computed according to paragraphs 18 to 19, but adjusted by deducting the volatility adjusted collateral amount as computed according to paragraphs 36 to 39.

41. The exposure amount after risk mitigation will be multiplied by the risk weight of the counterparty to obtain the risk weighted asset amount for the collateralized transaction.

Guarantees

42. Where guarantees are direct, explicit, irrevocable and unconditional, banks may be allowed to take account of such credit protection in calculating capital requirements.

43. A guarantee must represent a direct claim on the protection provider and must be explicitly referenced to specific exposures or a pool of exposures, so that the extent of the cover is clearly defined and incontrovertible. Other than non-payment by a protection purchaser of money due in respect of the credit protection contract, the guarantee must be irrevocable; there must be no clause in the contract that would allow the protection provider unilaterally to cancel the credit cover or that would increase the effective cost of cover as a result of deteriorating credit quality in the hedged exposure. It must also be unconditional; there should be no clause in the protection contract outside the direct control of the bank that could prevent the protection provider from being obliged to pay out in a timely manner in the event that the original counterparty fails to make the payment(s) due.
44. In addition to the legal certainty requirement in paragraph 22, in order for a guarantee to be recognized, the following conditions must be satisfied:

    a) On the qualifying default/non- payment of the counterparty, the bank may in a timely manner pursue the guarantor 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;

[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

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;
e) The Agricultural Guarantee Fund Pool (AGFP) created under Administrative Order No. 225-A dated 26 May 2008; and
f) Qualified Credit Surety Fund (CSF) Cooperative as defined in Part IV. A.

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 of the Philippines (TIDCORP), which guarantees are counter-guaranteed by the Philippine NG receive zero percent (0%) risk weight.

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

[1] Housing microfinance loans under Sec. 314 to the extent guaranteed by the HGC, shall be subject to a zero percent (0%) risk weight.

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.

Agency	**INTERNATIONAL RATINGS**						
S&P	AAA	AA+	AA	AA-	A+	A	A1
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 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 VI. 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 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 nth (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 $(n-1)^{th}$ default- protection has also been obtained or when n-1 of the assets within the basket has already defaulted.

20. Where the contract is referenced to entities in the basket proportionately, reductions in the risk weight will only apply to the extent of the underlying asset's share of protection in the contract.

21. When a bank conducts an internal hedge using a credit derivative (i.e., hedging the credit risk of an exposure in the banking book with a credit derivative booked in the trading book), in order for the bank to receive any reduction in the capital requirement for the exposure in the banking book, the credit risk in the trading book must be transferred to an outside third party (i.e., an eligible protection seller).

22. Where a bank buys credit protection through a TRS and records the net payments received on the swap as net income, but does not record offsetting deterioration in the value of the asset that is protected (either through reductions in fair value or by an addition to reserves), the credit protection will not be recognized.

23. Materiality thresholds on payments below which no payment is made in the event of loss are equivalent to retained first loss positions and must be deducted in full from the capital of the bank buying the credit protection.

24. Where the credit protection is denominated in a currency different from that in which the exposure is denominated – i.e., there is a currency mismatch – the protected portion of the exposure will be reduced by the application of a haircut, as follows:

    $$Ga = G \times (1 - Hfx)$$

    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 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 VII. 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 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 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

[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

percent (0%) CCF may be applied to eligible liquidity 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. 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 VIII. 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.

Measurement of capital charge

8. The market risk capital charge shall be computed according to the methodology set under Sec. 125, 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	1.0%
Residual maturity > 24 months	Residual maturity > 24 months	Residual maturity > 24 months	1.60%
		All other debt securities/derivatives	8.00%

10. Foreign currency denominated debt securities/derivatives issued by the Philippine NG and Bangko Sentral[2] 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.

B. 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 IX. 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 approval[3]. In order to qualify for use of the standardized approach, a bank must satisfy Bangko Sentral that, at a minimum:

[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.

[2] 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.

[3] Refer to Appendix 61 for the Guidelines on the Use of the Standardized Approach in Computing the Capital Charge for Operational Risk

a) Its board of directors and senior management are actively involved in the oversight of the operational risk management framework;
b) It has an operational risk management system that is conceptually sound and is implemented with integrity; and
c) It has sufficient resources in the use of the approach in the major business lines as well as the control and audit areas.

6. Operational risk capital charge is calculated as the three (3)-year average of the simple summation of the regulatory capital charges across each of the business lines in each year. In any given year, negative capital charges (resulting 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, trustand 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.).

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 X. 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 Item "*j*", 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 "*j*" 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) Countercyclical capital buffer;
   g) Capital requirements for credit risk (including securitization exposures);
   h) Capital requirements for market risk;
   i) Capital requirements for operational risk; and
   j) 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.

(Circular No. 1027 dated 28 December 2018, and 1024 dated 06 December 2018)

Annex A

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 occur[1]. 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 cannot 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 entity[2] 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.

[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.

Annex B

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 bank[1]; 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/payments[2];
    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 *App.59- 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.

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[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.

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. 59 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]

[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.

Annex C

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 exercised[1]; 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.

[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.

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 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]

[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.

Annex D

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	
Assets		Assets	
Loans	90	Loans	160
CET 1 investment in Bank S	30		
ATI investment in Bank B	9		
Tier 2 investment in Bank S	4		
Liabilities and Equity		Liabilities and Equity	
Deposits	70	Deposits	90
Tier 2 capital instruments	20	Tier 2 capital instruments	16
ATI capital instruments	12	ATI 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

(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 Capital Surplus 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**	**.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 1	**12.5 (= 12.5% * 100)**	**57.5 (= (43+11+16) - 12.5)**

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	.2	12.2
Tier 1	**43**	**2.8**	**45.8**
Tier 2	**20**	**2.0**	**22.0**
Total Capital	**63**	**4.8**	**67.8**

Annex E

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 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.

Annex E-1

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.

Annex F

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, whichever 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.

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.

Annex G

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. 979 dated 25 October 2017, Circular No. 934 dated 23 December 2016, Circular 914 dated 23 June 2016, Circular 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 Section 125)

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 59*.

(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. 125)

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 59*.

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 59*. 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 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 ancillary[1] 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 template[2] 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 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.

Circular No. 890 dated 02 November 2015

[1] Ancillary function is an activity/function that is not the main activity of a given business line but only as support activity
[2] Part V of the revised CAR report template

RISK BASED CAPITAL ADEQUACY FRAMEWORK FOR STAND-ALONE THRIFT BANKS, RURAL BANKS, AND COOPERATIVE BANKS[1]
(Appendix to Sec. 127)

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 activities[2], 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 System[3].

3. The CAR requirement will be applied to all stand-alone TBs, RBs and Coop Banks on both solo and consolidated bases, as applicable. The application of the requirement on a consolidated basis is the best means to preserve the integrity of capital in banks with subsidiaries by eliminating double gearing. However, as one of the principal objectives of supervision is the protection of depositors, it is essential to ensure that capital recognized in capital adequacy measures is readily available for those depositors. Accordingly, individual banks should likewise be adequately capitalized on a stand-alone basis.

4. To the greatest extent possible, all banking and other relevant financial activities (both regulated and unregulated) conducted by a bank and its subsidiaries will be captured through consolidation. Thus, majority-owned or controlled financial allied undertakings (i.e., RBs and VCCs for TBs, and RBs for Coop Banks) should be fully consolidated on a line-by-line basis. Exemptions from consolidation shall only be made in cases where such holdings are acquired through debt previously contracted and held on a temporary basis, are subject to different regulation, or where non- consolidation for regulatory capital purposes is otherwise required by law. All cases of exemption from consolidation must be made with prior clearance from the Bangko Sentral.

5. Banks shall comply with the minimum CAR at all times notwithstanding that supervisory reporting shall only be on quarterly basis. Any breach, even if only temporary, shall be reported to the bank's board of directors and to Bangko Sentral-SES within three (3) banking days. For this 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:

[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.

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.

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

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.

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.

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 Bangko Sentral: *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 Bangko Sentral:

Provided, further, That such repayment shall be approved by the Bangko Sentral 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 Bangko Sentral regulations. The dividend/coupon rate, or the formulation for calculating dividend/coupon payments must be fixed at the time of issuance and must not be linked to the credit standing of the bank;

k) It may allow only one (1) moderate step-up in the dividend/coupon rate in conjunction with a call option, only if the step-up occurs at a minimum of ten (10) years after the issue date and if it results in an increase over the initial rate that is not more than:

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

   ii. Fifty percent (50%) of the initial credit spread less the swap spread between the initial index basis and the stepped-up index basis.

   The swap spread should be fixed as of the pricing date and reflect the differential in pricing on that date between the initial reference security or rate and the stepped- up reference security or rate.

l) It must be underwritten by a third party not related to the issuer bank nor acting in reciprocity for and in behalf of the issuer bank;

m) It must be issued in minimum denominations of at 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 Bangko Sentral: *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 Bangko Sentral:

Provided, further, That such repayment prior to maturity shall be approved by the Bangko Sentral only if the debt is simultaneously replaced with issues of new capital which is neither smaller in size nor of lower quality than the original issue, unless the bank's capital ratio remains more than adequate after redemption,

It must not contain any clause which requires acceleration of payment of principal, except in the event of insolvency. The agreement governing its issuance must not contain any provision that mandates or creates an incentive for the bank to repay the outstanding principal of the instrument, e.g., a cross-default or negative pledge or a restrictive covenant, other than a call option which may be exercised by the bank;

f) Its main features must be publicly disclosed by annotating the same on the instrument and in a manner that is easily understood by the investor;

g) The proceeds of the issuance must be immediately available without limitation to the bank;

h) The bank must have the option to defer any coupon payment where the bank:

i. Has not paid or declared a dividend on its common shares in the preceding financial year; or
ii. Determines that no dividend is to be paid on such shares in the current financial year;

It is acceptable for the deferred coupon to bear interest but the interest rate payable must not exceed market rates;

i) The coupon rate, or the formulation for calculating coupon payments must be fixed at the time of issuance and must not be linked to the credit standing of the bank;

j) It may allow only one (1) moderate step-up in the coupon rate in conjunction with a call option, only if the step-up occurs at a minimum of ten (10) years after the issue date and if it results in an increase over the initial rate that is not more than:

i. 100 basis points less the swap spread between the initial index basis and the stepped-up index basis; or
ii. Fifty percent (50%) of the initial credit spread less the swap spread between the initial index basis and the stepped-up index basis.

The swap spread should be fixed as of the pricing date and reflect the differential in pricing on that date between the initial reference security or rate and the stepped- up reference security or rate;

k) It must be underwritten 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 Bangko Sentral: *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 Bangko Sentral:

Provided, further, That such repayment prior to maturity shall be approved by the Bangko Sentral only if the debt is simultaneously replaced with issues of new capital which is neither smaller in size nor of lower quality than the original issue, unless the bank's capital ratio remains more than adequate after redemption.

It must not contain any clause which requires acceleration of payment of principal, except in the event of insolvency. The agreement governing 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 59 Annexes A* to *C* and *Annexes E* to *F.*

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 Sec. 613, 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
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.

x. Loans to MSMEs, which are performing, to the extent guaranteed by a qualified Credit Surety Fund (CSF) Cooperative. A qualified CSF Cooperative refers to a cooperative that is organized consistent with the provisions of Republic Act (R.A.) No. 10744 and its implementing rules and regulations (IRR): *Provided,* That the maximum allowable leveraging ratio of the CSF Cooperative to guarantee bank loans shall be three (3); *Provided further,* That said leverage ratio shall be subject to periodic review for progressive increase as warranted by the CSF Cooperative's performance, but not to exceed five times (5x) the CSF Cooperative's Restricted Capital for Surety.

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;

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] For all non-performing sales receivables and NCAHS, it shall take effect 01 January 2013.

(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 inequity/other regulatory capital instruments of other banks/QBs/enterprises.

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.

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 Bangko Sentral;

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 Bangko Sentral;
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); and
vii. Foreign incorporated private enterprises (including government corporations);

d) The Agricultural Guarantee Fund Pool created under Administrative Order No. 225-4 dated 26 May 2008; and
e) Qualified Credit Surety Fund (CSF) Cooperative as defined in Part III. A.

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.[2]

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 Sec. 175, 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.

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 Bangko Sentral;
   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;

[2] Applies to banks operating for less than three years, or those that have been recently merged, among others.

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 Bangko Sentral 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. 123.

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 315.

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 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.

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 the Published Statement of Condition shall be subject to the appropriate monetary penalties under Sec. 1102 that will be imposed on the bank. In addition, the President/or any officer holding equivalent position and the board of directors shall be subject to the following non-monetary sanctions:

a) First offense – warning on President/ or any officer holding equivalent position and the board of directors
b) Second offense – reprimand on President/or any officer holding equivalent position and the board of directors
c) Third offense – one (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 board of directors

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 ~~s~~ 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 Nos. 988 dated 20 December 2017, 979 dated 25 October 2017, 956 dated 17 April 2017, 914 dated 23 June 2016 and 827 dated 28 February 2014)

BANGKO SENTRAL RULES OF PROCEDURE ON ADMINISTRATIVE CASES INVOLVING DIRECTORS AND OFFICERS OF BANKS
(Appendix to Sec. 138 on Rules of Procedures on Administrative Cases Involving Directors and Officers of the Bank)

RULE I – GENERAL PROVISIONS

Sec. 1. Title. These rules shall be known as the Bangko Sentral 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), Bangko Sentral, 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 Bangko Sentral 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 Bangko Sentral, 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 complaint;
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 Bangko Sentral 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 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), Bangko Sentral. 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 executor. 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 Bangko Sentral.

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.

REGULATORY REQUIREMENTS IN INVESTING IN CREDIT-LINKED NOTES, STRUCTURED PRODUCTS AND SECURITIES OVERLYING SECURITIZATION STRUCTURES BY UNIVERSAL BANKS AND COMMERCIAL BANKS
(Appendix to Secs. 624-A, 625-A, 626-A and 627-A)

a. Banks shall: submit the following documents to the appropriate supervising department of the Bangko Sentral 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 Bangko Sentral 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 supervising department of the Bangko Sentral.

Should the Bangko Sentral subsequently determine that the investments do not fully comply with the provisions of Secs. 624-A, 625-A, 626-A and 627-A, as applicable, and other relevant Bangko Sentral regulations, the UB/KB shall be considered to have submitted a false certification, subject to the sanctions prescribed under –

(1) Sec. 626-A 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. 624-A, 625-A, 626-A and 627-A.

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)

C E R T I F I C A T I O N

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 _____

Annex B

For investments in structured products by UBs and KBs without expanded derivatives authority

(Name of Bank)

C E R T I F I C A T I O N

We certify, in relation to (Name of Bank)'s investment in (name of financial product) on (date), that –

a. The bank is allowed to invest in the product cited above under existing rules and regulations of the Bangko Sentral ng Pilipinas;

b. The bank's investment is in compliance with the conditions set out in Circular No. 466 dated 05 January 2005, as follows:

(1) 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.

(2) The contractual maturity of the instrument does not exceed 5 years.

(3) 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.

(4) 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.

(5) 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.

(6) 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:

(a) 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.

(b) The bank complies with generally accepted accounting and disclosure standards and/or rules and regulations prescribed by the Bangko Sentral.

(c) An independent risk management function is in place.

(d) The bank has the ability to value the investments on a continuing and consistent basis and to measure its sensitivity to market movements.

(e) The risks of the investments can be accurately aggregated in risk reports on a timely basis.

Further, we undertake to –

a. Perform, at regular intervals, stress tests that reflect extreme market conditions; and

b. 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 (CLNs) AND OTHER STRUCTURED PRODUCTS (SPs)
(Appendix to New Section 623-A)

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 (CLNs) and other (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

a. 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.

b. 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:

a. 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.

b. In the case of other SPs, the host contract shall be booked under the ASS, HTM or UDSCL category in accordance with Sec. 381.

   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 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 Sec. 622) 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.

IMPLEMENTATION OF THE DELIVERY BY THE SELLER OF SECURITIES DIRECTLY TO THE BUYER OR TO HIS DESIGNATED SECURITIES CUSTODIAN/CENTRAL SECURITIES DEPOSITORY

Appendix to Secs. 431, 242 on Delivery of Securities and Repurchase Agreements Covering Government Securities, Commercial Papers and Other Negotiable and Non-Negotiable Securities or Instruments, 245 on Delivery of Securities, and 431 on Registry of Scripless Securities of the Bureau of the Treasury

Sec. 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 67*.

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 Sec. 431 (*Functions and responsibilities of a securities custodian*).

A securities 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 transfers 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 Treasury. The Bureau of Treasury, as operator of the RoSS, which serves as the official registry for government securities, is not subject to 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 BSP-accredited securities custodian or SEC authorized central securities depository.

Sec. 5. Mode 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.

[1] BIS-IOSCO, "Principles for Financial Market Infrastructure", p.8 (April 2012)

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) purchaser in a registry of said securities; (2) purchaser in an SEC authorized central securities depository; or (3) 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 Secs. 3 and 4 above, together with the complete list of all Bangko Sentral -accredited custodians or SEC authorized central securities depositories. The selling or dealing bank or NBFI 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 custodian 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 the 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 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.

Annex A

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 Bangko Sentral -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):

(1) 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

(2) The security must be delivered by book-entry transfer to the appropriate securities account of the Bangko Sentral-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 Bangko Sentral -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 Bangko Sentral . 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.

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 Bangko Sentral accredited third party custodian of your choice who in turn will credit your securities account with them.

The registry is a Bangko Sentral -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 Bangko Sentral -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 Bangko Sentral 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 Bangko Sentral to ensure that they comply with Bangko Sentral rules and regulations and will be subject to penalties and administrative sanctions for any violation thereof.

As of date, Bangko Sentral 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.

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 Bangko Sentral

Please note that the abovementioned arrangements may change once the Bangko Sentral 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,

DELIVERY OF GOVERNMENT SECURITIES TO THE INVESTOR'S PRINCIPAL SECURITIES ACCOUNT WITH THE REGISTRY OF SCRIPLESS SECURITIES
Appendix to Secs. 431, 242 on Delivery of Securities, and 245 on Delivery of Securities

The following are the guidelines on the delivery of government securities by the selling bank and/or NBFI 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 Secs. 242 (*Delivery of Securities*), 245 (*Delivery of Securities*) and 431:

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/NBFI shall provide BTr with the following documents:

   (1) Agency Document issued by investor/client if the dealing bank/NBFI 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/QB/NBFI will be subject to the appropriate penalties prescribed under Secs. 242 (*Delivery of Securities*), 245 (*Delivery of Securities*) and 431.

(as amended by Circular 873 dated 25 March 2015)

Annex A

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 Sec. 245 (Delivery of securities), 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 Bangko Sentral, instruct the Bangko Sentral 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; and

7. Consistent with BTr Memoranda dated 28 December 2005, 12 January 2006 and 31 January 2006 and applicable Bangko Sentral 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.

Section. 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 or any written authority executed by the client-investor in favor of the dealer.

Annex B

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, necessary written authority in favor of either the dealing Government Securities Eligible Dealer[1] (GSED) (accredited by the Bureau of the Treasury) or Securities Dealer[2] (licensed by the Securities and Exchange Commission) 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; and

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 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)*

[1] Accredited by the Bureau of the Treasury
[2] Licensed by the Securities and Exchange Commission

[ ] 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.

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 acknowledge to me that the same is his/her free and voluntary act and deed (and the free act and deed of the entity they represent).

WITNESS MY HAND AND NOTARIAL SEAL this _____ at _____, Philippines.

NOTARY PUBLIC

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

PROMPT CORRECTIVE ACTION FRAMEWORK

[Appendix to Section 003]

In carrying out its primary objective of maintaining price stability conducive to a balanced and sustainable growth of the economy[1], the Bangko Sentral 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 Bangko Sentral . 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 Bangko Sentral , as supervisor, can enforce PCA[3] as soon as a bank's condition indicates higher-than normal risk of failure.

PCA essentially involves the Bangko Sentral 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 Bangko Sentral 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 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.

[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

A bank may be subject to PCA whenever any or all of the following conditions obtain:

(1) When either of the Total Risk-Based Ratio[1], Tier 1 Risk-Based Ratio, or Leverage Ratio[2] 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 Sec. 121;

(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, appropriate supervising department of the Bangko Sentral to the Monetary Board for approval. Any initiation of PCA shall be reported to the PDIC for notation. Upon PCA initiation, the Bangko Sentral 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, appropriate supervising department of the Bangko Sentral and confirmation by the Monetary Board.

In order to monitor compliance with the PCA, quarterly progress reports shall be made. The Bangko Sentral 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 Bangko Sentral 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 Bangko Sentral credit facilities notwithstanding non-compliance with standard conditions of access to such facilities. The Deputy Governor, appropriate supervising department of the Bangko Sentral 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, appropriate supervising department of the Bangko Sentral 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, appropriate supervising department of the Bangko Sentral 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.

[1] Otherwise known as Capital Adequacy Ratio ("CAR")
[2] Total Capital /Total Assets

GUIDELINES ON SUPERVISION BY RISK
(Appendix to Sec. 141)

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 Bangko Sentral 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, Bangko Sentral 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 Bangko Sentral 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 Bangko Sentral 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 Bangko Sentral-appropriate supervising department of the Bangko Sentral 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. 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 generally defined as the current and prospective risk to earnings or capital arising from an FI's inability to meet its obligations when they become due without incurring unacceptable losses or costs. Liquidity risk includes the inability to manage unplanned decreases or changes in funding sources.

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.

5. *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.

6. *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.

7. *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 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 Bangko Sentral will consider the FI's policies, processes, personnel, and control systems. Significant deficiencies in any one of these areas will cause the Bangko Sentral to expect the FI to compensate for these deficiencies in their overall risk management process.

1. *Policies* are statements of the FIs' 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 Bangko Sentral 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 supervising department of the Bangko Sentral 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 supervising department of the Bangko Sentral 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 supervising department of the Bangko Sentral will discuss preliminary conclusions regarding risks with FI management. Following these discussions, the appropriate supervising department of the Bangko Sentral will adjust conclusions when appropriate. Once the risks have been clearly identified and communicated, the appropriate supervising department of the Bangko Sentral 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 supervising department of the Bangko Sentral 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. 981 dated 3 November 2017)

GUIDELINES ON MARKET RISK MANAGEMENT
(Appendix to Sec. 144)

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 Bangko Sentral 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 Bangko Sentral 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 Bangko Sentral 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 Bangko Sentral 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.

c. 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 Bangko Sentral 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 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 Bangko Sentral 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 oversight[1]

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 Bangko Sentral 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 Bangko Sentral 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.

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

[1] This Section refers to a management structure composed of a board of directors and senior management. The Bangko Sentral 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.

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 Bangko Sentral 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 Bangko Sentral 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.

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 Bangko Sentral 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 Bangko Sentral 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 Bangko Sentral 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 Bangko Sentral 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 Bangko Sentral 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 Bangko Sentral 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 Bangko Sentral 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 Bangko Sentral 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 Bangko Sentral expects FIs to supplement their market risk measurement models with stress tests. Stress testing are simulations that show how a 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 Bangko Sentral 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 Bangko Sentral 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 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 Bangko Sentral 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 Bangko Sentral 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 Bangko Sentral. 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]

5. 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.

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 Bangko Sentral 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 Bangko Sentral 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 Bangko Sentral may require an FI to improve its system. In cases where an FI accepts significant market risk in its accrual book, the Bangko Sentral expects that a portion of capital will be allocated to cover this risk.

When performing these evaluations, the Bangko Sentral 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;[4]and
(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.

[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.

[4] 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. 145]

I. GENERAL PRINCIPLES

Liquidity risk management practices should ensure that a bank is able to maintain a level of liquidity sufficient to readily meet both expected and unexpected cash flows and collateral needs without adversely affecting daily operations and the financial condition of the institution. The management of cash flows should duly consider a bank's funding capacity for both short- and long-term time horizons, including intraday, and the currencies in which it has significant activities or exposures. Systems and controls should be in place to oversee and manage liquidity positions on an intragroup basis, including those arising from cross-border transactions, taking into consideration the differing liquidity risk profiles of each entity and the transferability of funds within the group, among other relevant factors. Funds management practices shall 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. Lastly, a bank should ensure that it is able to withstand a series of stress events with varying severities under different time horizons.

The requirements for sound liquidity risk management that are set forth in these guidelines shall apply to all banks. In addition, all banks are expected to comply with the minimum prudential liquidity requirements set out under existing regulations.

II. DEFINITIONS

1. *Liquidity risk* is generally defined as the current and prospective risk to earnings or capital arising from a bank'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.

2. *Funding liquidity risk* is the risk that a bank will not be able to meet efficiently both expected and unexpected current and future cash flow and collateral needs without affecting either daily operations or the financial condition of the bank. It also refers to the inability to meet investment and funding requirements arising from cash flow mismatches without incurring unacceptable losses or costs. This is synonymous to the general definition of liquidity risk.

3. *Market liquidity risk* is the risk that a bank cannot easily offset or eliminate a position at the market price because of inadequate market depth or market disruption. 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.

4. *Intraday liquidity* refers to funds which can be accessed during the business day, usually to enable banks to make payments in real time.

5. *Intraday liquidity risk* is the risk that a bank fails to manage its intraday liquidity effectively, which could leave it unable to meet a payment obligation at the time expected, thereby affecting its own liquidity position and that of other parties.

6. *Intragroup transactions/activities* are transactions between the bank and its parent, subsidiaries, affiliates, and related parties[1] that involve or could cause movement or transfer of funds.

III. LIQUIDITY RISK MANAGEMENT PROCESS

The management of liquidity risk shall form part of the overall risk management framework. At a minimum, the process should:

1. *Identify liquidity risk.* Proper identification of liquidity risk requires that management understands both existing and prospective risks from products and activities. It involves determining the volume and trend of liquidity needs and the sources of liquidity available to meet these needs. Liquidity risk identification should be a continuing process and should occur at the transaction, portfolio, entity and group levels.

2. *Measure liquidity risk.* Adequate measurement systems enable banks to quantify liquidity risk exposures on a per entity basis and across the consolidated organization. A relatively large organization with an extensive scope of operations would generally require more robust risk measurement tools and management information system to

[1] Related parties are defined in item *"(n)"* of Sec. 131.

properly measure risk in a timely and comprehensive manner.

3. *Control liquidity risk.* The control of liquidity risk necessitates the establishment of policies and standards on acceptable product types, activities, and counterparties, and set risk limits on a transactional, portfolio and aggregate/consolidated basis. Lines of authority and accountability should be clearly defined to ensure that liquidity risk exposures remain reasonable and within the risk tolerance expressed by the board.

4. *Monitor liquidity risk.* Monitoring liquidity risk requires timely reviews of liquidity risk positions, including intraday positions. Monitoring reports should be comprehensive, timely, and accurate in order to provide sufficient basis for sound business decisions.

IV. LIQUIDITY RISK MANAGEMENT FRAMEWORK

A sound liquidity risk management system should cover the following basic elements:

- Active board and senior management oversight;
- Adequate risk management policies and procedures;
- Appropriate risk measurement methodologies, limits structure, monitoring, and management information system; and
- Comprehensive internal controls and independent audits.

Following the proportionality principle, banks with simple operations may generally employ basic practices while larger and/or complex institutions are expected to adopt more sophisticated risk management frameworks. Large organizations shall take a comprehensive perspective to measuring and controlling risk by understanding how subsidiaries and affiliates can magnify or reduce the consolidated liquidity risk profile.

A. Board and Senior Management Oversight[1]

The board and senior management should have an adequate understanding of how the liquidity risk profile is affected by other risks such as credit, market, operational and reputational risks.

Responsibilities of the Board of Directors

The board is ultimately responsible for the liquidity risk assumed by the bank and the processes used to manage it. The board of directors shall:

1. Establish the bank's tolerance for liquidity risk in a way that:

   a. Defines clearly the level of unmitigated liquidity risk that the bank is willing to assume under normal and stressed conditions in varying time periods, including intraday, given its business model, financial condition, and funding capacity. The risk tolerance level should also be appropriate for the bank's role in the financial system. Banks that carry out important market functions or an activity that covers a key segment of the financial system are generally expected to factor in an additional measure of prudence in setting their risk tolerance level;

   b. Can be easily communicated and understood by personnel involved in the liquidity risk management process; and

   c. Reflects the bank's evaluation of the sources of liquidity risks and the trade-off between risks and profits.

   The risk tolerance level should be adequately documented, preferably with a combination of qualitative provisions in the form of a policy statement, and quantitative expressions (e.g., the specification of a minimum survival period under a range of severe but plausible stress scenarios, or the setting of limits on liquidity metrics used by the bank for controlling different aspects of liquidity risk). Lastly, the risk tolerance should be regularly reviewed in light of any significant changes in market conditions or the validity of assumptions used.

2. Approve the bank's funding strategy.

3. Ensure coherence of the measures used to contain liquidity risk within the stated tolerance level. Banks

[1] This Section refers to a management structure composed of a board of directors and senior management. The Bangko Sentral 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.

should note that the mere setting of metrics and limits for managing different aspects of liquidity risk alone does not in itself constitute a sufficient articulation of the overall liquidity risk tolerance.

4. Maintain an appropriate structure for day-to-day funds management and the management of liquidity risk of the bank and its subsidiaries, whenever applicable. The structure should enable the availability of liquidity and the monitoring of liquidity risks across the banking group and at each entity on an on-going basis.

   The management of liquidity risk generally requires collaboration among the various business areas that impact the bank's liquidity risk profile. These business units are usually represented in a senior management-level committee, commonly known as the Asset and Liability Committee (or ALCO), whose authority over asset and liability management (ALM) emanates from the board. Meanwhile, day-to-day funds management is executed by the ALM desk which is typically under a bank's treasury department.[1]

   A simple bank's[2] organizational structure may differ from that described above. Nonetheless, the board should identify committees/units within the organization that are responsible for effectively performing the ALM and daily funds management functions.

   To ensure the proper management of liquidity risk, the board shall designate an independent unit responsible for measuring, monitoring and controlling liquidity risk. Said unit should directly report to the board of directors or a committee thereof.

5. Ensure that the bank has competent senior personnel and appropriate resources in terms of expertise and systems to enable the identification, measurement, monitoring and control of liquidity risk.

6. Monitor the bank's performance and overall liquidity risk profile in a timely manner by requiring regular reports. These reports should, at a minimum, contain the liquidity position of the bank along with information related to compliance with established risk limits, and on new or emerging liquidity risks.

7. Mandate and track the resolution of breaches in risk limits and actions taken on deviations from policies and procedures.

Responsibilities of Senior Management

Senior management is responsible for effectively executing liquidity strategies and for operating within the liquidity risk tolerance level set by the board. Thus, the senior management shall:

1. Develop and implement a set of liquidity risk policies and procedures that translates the board's goals and objectives into operating standards, and ensure that this is transmitted to and well understood by personnel.

2. Develop a funding strategy that provides for the effective diversification of assets, funding sources and maturities, taking into account market conditions and the bank's ability to access funds from different sources. A bank should diversify available funding sources in the short-, medium- and long-term. Diversification targets should be part of the medium- to long-term funding plans and aligned with the budgeting and business planning process. The funding strategy should be formally documented and regularly reviewed in light of any changes in the market environment or key assumptions. The factors that complex banks may consider in designing the strategy are set out in Annex A (Factors to Consider in Developing a Funding Strategy).

3. Appropriately incorporate liquidity costs, benefits and risks in the internal pricing, performance measurement and new product approval processes for all significant activities (both on- and off-balance sheet), thereby aligning the risk-taking incentives of individual business lines with the liquidity risk tolerance set by the board.

4. Ensure that all business units conducting activities that have an impact on the liquidity profile are fully aware of the bank's funding strategies, and operate in accordance with approved policies, procedures, limits and controls.

5. Adhere to the lines of authority and responsibility that the board has established for managing overall liquidity risk, and ensure that the units responsible for managing liquidity risk have sufficient authority and independence from risk taking units to enable them to discharge their functions effectively.

[1] With this structure, the ALM desk would be the unit responsible for ensuring the capability of the bank to monetize any high-quality liquidity asset (HQLA) in accordance with Part III Item *"(9) (b)"* of the Liquidity Coverage Ratio Framework (LCR) in *Appendix 72*.
[2] The classification of banks as simple or complex is set out in item *"(c)"* of Sec. 131
.

6. Oversee the implementation and maintenance of management information and other systems that are used to identify, measure, monitor, and control the bank's liquidity risk.

7. Closely monitor current trends and potential market developments that may present significant challenges for managing liquidity risk. These developments and trends shall include emerging issues, such as increasing funding costs or concentrations, the growing size of the funding gap, the drying up of alternative liquidity sources, material and/or persistent breaches of limits, a significant decline in the internal liquidity buffer, or changes in external market conditions that signal difficulties in the future.

8. Inform the board of any new and emerging liquidity concerns in a timely manner.

B. Risk Management Policies and Procedures

A bank's liquidity risk policies and procedures shall be comprehensive, clearly defined, documented and duly approved by the board of directors. Policies and procedures covering the bank's liquidity risk management system shall provide appropriate guidance to relevant personnel. These policies should be applied on a consolidated basis and, as appropriate, at the level of individual financial subsidiaries, recognizing legal distinctions and possible obstacles to cash movements within the banking group.

The details of the policies and procedures shall take into account the bank's liquidity needs under normal and stressed conditions. These should cover, at a minimum, the following key aspects:

1. The liquidity risk tolerance, as determined by the board;

2. The general approach to funds management, and the liquidity risk management policies on particular aspects, such as:

    a. The composition and maturity of assets and liabilities;
    b. The diversity and stability of funding sources;
    c. The approach to managing liquidity in different currencies and across business lines;
    d. The approach to intraday liquidity management; and
    e. The assumptions on the liquidity and marketability of assets.[1]

3. Lines of authority, roles and responsibilities, and the reporting structure for liquidity risk management;

4. Tools for measuring, monitoring, controlling, and reporting liquidity risk, including:

    a. The setting of various liquidity limits and ratios;
    b. The framework for conducting cash-flow analysis under normal and stress scenarios, including the techniques and behavioural assumptions used; and
    c. The management reporting system for liquidity risk.

5. The contingency funding plan, which describes the approach and strategies for dealing with various types of liquidity crises.

    The policies should be periodically reviewed to ensure that these remain consistent with the level and complexity of the bank's operations as well as current circumstances. The policies should be regularly updated to incorporate the effects of new products/activities,[2] or changes in funding strategies or corporate structure.

C. Risk Measurement Methodologies, Limits Structure, Monitoring, and Management Information System (MIS)

Liquidity Metrics or Measurement Tools

Liquidity management entails the on-going measurement of intraday to long-term liquidity positions. Banks shall be guided by the following:

1. Banks shall employ a range of customized metrics or tools, against which internal limits may be set for measuring, monitoring and controlling liquidity risk.

[1] A related discussion on asset and market liquidity characteristics may be found in Part III Item *"5"* of the LCR Framework in *Appendix 72*.
[2] Item *"(i)"* of Sec. 611 of the sets out the expectations on the risk management for new products.

2. Measurement tools should be comprehensive and forward-looking. A comprehensive risk measurement process entails an analysis of cash flows and liquidity implications arising from all material assets, liabilities, off-balance sheet positions and other activities. This also includes the monitoring of liquidity positions in currencies in which banks have significant activity. A currency is considered significant if the aggregate liabilities denominated in that currency amount to five percent (5%) or more of total liabilities. On the other hand, a forward-looking process requires the identification of potential funding gaps, apart from current liquidity shortfalls.

3. The bank's set of metrics or tools shall be commensurate with its size, complexity, and liquidity risk profile. This set of tools should be able to measure the day-to-day liquidity position, structural liquidity mismatches, as well as vulnerabilities under stressed conditions. Some of the liquidity metrics that a bank may use are as follows:

    a. Cash flow projections from assets, liabilities and off-balance sheet items over an appropriate set of time horizons. Cash flow projections can be used for monitoring intraday liquidity requirements, day-to-day liquidity needs and funding capacity over short to medium term horizons, longer term liquidity needs, and vulnerabilities to events, activities or strategies that can put a significant strain on the bank's capacity to generate liquidity;

    b. Liquidity/Funding gap or maturity mismatch analyses based on contractual maturities as well as behavioural assumptions of cash inflows and outflows. These can be used to identify potential structural funding gaps that may need to be bridged;

    c. Information on the composition and quality of funding sources (e.g., ratio of core deposits to total deposits, level of concentration of funding sources). Such metrics provide information on the degree of stability of funding sources; and

    d. Other ratios (e.g., loans to deposits, liquid assets to liabilities, assets funded by swaps, etc.) as may be applicable to the bank.

4. A bank can use either a static or a dynamic approach to manage its liquidity position, and identify and address potential funding shortfalls in a timely manner.

5. Banks with large deposit bases should be able to conduct statistical or behavioural analyses of the stickiness or volatility of deposits. The related supervisory expectations are in Annex B (Factors to Consider in Developing Cash Flow Projections).

6. On the use of cash flow projections:

    a. Universal and commercial banks (UBs/KBs) and other institutions with active treasury operations are expected to adopt more robust approaches (e.g., dynamic cash flow projection). The related guidelines are set out in Annex B (Factors to Consider in Developing Cash Flow Projections).

    b. Simple banks may generally use a static approach to liquidity risk measurement, which is based on positions at a given point in time. This may consist of a simple cash flow projection in a spreadsheet where the bank's sources and uses of cash in a contractual or maturity liquidity gap over different time horizons may be analyzed.

    c. Developing a realistic cash flow projection is highly dependent upon the underlying assumptions. As such, banks shall ensure that:

        - Controls are in place such that no major assumptions or parameters are used or changed unless the approval by an appropriate independent board-level committee is sought; and

        - Key assumptions, including those that are used in behavioural analysis, are kept valid considering changes in market conditions, the competitive environment, and business strategies; thus, the assumptions must be evaluated and tested at least annually.

    d. At a minimum, the cash flow projection shall be prepared on a consolidated basis and for each significant currency (refer to Section VI – Foreign Currency Liquidity Management), at the banking group level and for each material financial subsidiary. In determining whether a financial subsidiary is material, consideration may be given to the subsidiary's balance sheet size, volume of funding requirements, level of activities, and degree of funding reliance on the parent bank.

7. Apart from liquidity metrics, banks shall design a set of indicators which may be derived from either internal or market data, to help identify at an early stage emerging risks or potential funding needs. These indicators can be qualitative or quantitative in nature and may include, but are not limited to, the following:

    a. Rapid asset growth, especially when funded by volatile liabilities;
    b. Growing concentrations on certain assets and liabilities, or on payment/settlement obligations to a single or group of related counterparties;
    c. Increasing currency mismatches or widening negative liquidity gaps especially in short-term time bands;
    d. Unusual or sudden increase in intraday payment obligations;
    e. Growing size of the projected intraday liquidity shortfall;
    f. Increasing level of past due loans or non-performing assets;
    g. Increasing overall funding costs;
    h. Continuing operating losses;
    i. Rapid decline of share prices, for listed banks;
    j. Negative publicity; and
    k. Difficulty in accessing short-term or longer term funds, such as from interbank and repo facilities.

Limits Structure

Banks shall establish limits consistent with the liquidity risk tolerance set by the board and the nature and amount of liquidity risk they are willing and capable to assume. A set of quantitative and qualitative factors should be considered in limits setting. These include, at a minimum, the nature of the bank's strategies and activities, market conditions and costs of access to money markets and other alternative sources of funding.

Limits can take various forms. Banks should address limits on types of funding sources and uses of funds, including off-balance sheet positions. These limits, tolerances, and guidelines may include the following:

a. Limits on projected net cash flow positions over specified time horizons;

b. Limits on the maximum amount of projected intraday liquidity shortfall;

c. Limits on periodic and/or cumulative funding mismatches or gaps over specified short- and long-term time horizons;

d. Target amounts of highly liquid assets expressed as aggregate amounts or as ratios calculated in relation to, for example, coverage of net cash outflows, or expected liquidity needs under stress scenarios;

e. Limits or triggers on the structure of short-term and longer-term funding of the asset base, under both normal and stressed conditions;

f. Limits or triggers on funding concentrations or guidelines that promote funding diversification such as limits on large liability and borrowed funds dependency, single funds providers, exposure to market segment funds providers, and other wholesale funding;

g. Limits or triggers on contingent liabilities such as unfunded loan commitments and top-up provisions or margin calls from outstanding contracts; and

h. Guidance on the acceptable tenors of different categories of assets and liabilities (e.g., term of deposits or notes to be issued, or duration of securities holdings).

Before setting limits that allow negative funding gaps, the board and senior management shall consider the bank'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 timeframe. Further, liquidity positions and limits should be influenced by the outcome of stress tests.

Banks shall ensure compliance with the established limits, establish policies on accountabilities for non-compliance, and define the procedures for reporting exceptions or breaches. Finally, banks should regularly review the suitability and effectiveness of their limits structure.

Liquidity Risk Monitoring and Reporting

Banks shall have an adequate and reliable MIS that is able to provide the board, senior management and other concerned personnel with timely information on the bank's liquidity position. The MIS should encompass

all significant sources of liquidity risk, including new activities and contingent risks and the related triggers. The MIS should be able to calculate risk measures to monitor liquidity positions:

- In all currencies, both individually and on an aggregate basis;
- In each financial subsidiary and at the consolidated level;
- Under normal business conditions and during stress events, with the ability to deliver more granular, frequent, and time-sensitive information during the latter; and
- For different time horizons (e.g., on an intraday basis, on a day-to-day basis, and over a series of more distant time periods thereafter).

A bank's MIS should likewise be able to capture risks in the following areas:

- The deposit base particularly signs that it is becoming more volatile, as may be indicated by statistical and behavioural analyses;
- Secured borrowing and lending, including information on maturity mismatches and asset liquidity;
- Derivative transactions, including collateral outflows resulting from rating changes and asset price movements; and
- Off-balance sheet funding vehicles and non-contractual obligations, providing greater transparency into contingent funding risks.

To facilitate liquidity risk monitoring, there should be reporting standards that specify the scope and granularity of information that should be provided to specific committees or authorities within the bank, as well as the manner and frequency of reporting.

The contents of the MIS reports should adequately support the functioning of the liquidity risk management tools for measuring liquidity needs and controlling different aspects of liquidity risk. At a minimum, the reporting should compare current liquidity exposures to established limits. Breaches in liquidity risk limits should be reported to the appropriate level of management.

Other than monitoring of compliance with limits, the MIS reports should be capable of supporting the board and senior management in identifying emerging concerns on liquidity, as well as in managing events during liquidity crises.

D. Internal Controls and Audit[1]

A bank shall have adequate internal controls in place to protect the integrity of its liquidity risk management process. An effective internal control system promotes operational efficiency, complete and reliable financial and regulatory reporting, and compliance with applicable policies, laws and regulations.

As with other risks, an effective system of internal controls for liquidity risk includes:

- A strong internal control environment;
- An adequate process for identifying, measuring, monitoring and controlling liquidity risk;
- Adequate information systems; and
- Continuous review of adherence to established policies and procedures.

A key element of the internal control system is the conduct of independent internal audit reviews at reasonable audit cycles. Banks/QBs should ensure that the internal audit scope, program and procedures cover all aspects of the liquidity risk management process, including the determination of the appropriateness of the risk management system, particularly its risk measurement tools and stress testing methodology, risk reporting processes, and compliance with policies.

V. INTRADAY LIQUIDITY RISK MANAGEMENT

Banks whose business activities inherently entail a large volume of daily payments and settlements should effectively manage their intraday liquidity positions and risks in order to meet obligations on a timely basis under both normal and stressed conditions, and contribute to the smooth functioning of payment and settlement systems.

A bank may be exposed to intraday liquidity risk through its direct participation in payment and settlement systems, the provision of correspondent and custodian banking services, or reliance on correspondent or custodian banks for the payment and settlement of its own transactions. In the latter case, operational or financial disruptions at the bank's correspondent or custodian bank will also affect its own liquidity position.

[1] Refer to Secs. 162 and 163 for the frameworks on Internal Control System and Internal Audit, respectively.

The objective of intraday liquidity risk management is to identify, prioritize, and meet critical obligations when they become due, and to settle other less critical obligations as soon as possible. In accomplishing this objective, banks may face a number of challenges due to the uncertainty of the level and timing of gross cash inflows and outflows. It is, therefore, essential that all banks:

1. Understand the rules of all payment and settlement systems in which they participate;
2. Identify key counterparties and their correspondents or custodians that act as the source of incoming or outgoing gross liquidity flows;
3. Identify key times, days, and circumstances where liquidity flows and possible intraday credit needs might be particularly high; and,
4. Understand the business needs underlying the timing of liquidity flows and intraday credit needs of internal business lines and key customers.

For this purpose, it may be useful for banks to maintain lines of communication with key customers, including customer banks, to obtain a forecast of their own payment traffic.

Banks should have policies, procedures and systems to support operational objectives in all of the financial markets and currencies in which they have significant payment and settlement activities. These should enable them to:

1. Measure expected daily gross liquidity inflows and outflows, including throughput,[2] anticipate the intraday timing of these flows where possible, and forecast the range of potential net funding shortfalls that might arise at different points during the day;

2. Monitor intraday liquidity positions against expected activities and available resources. Such monitoring should be frequent enough to enable a bank to:

   (a) determine when to acquire additional intraday liquidity or restrict liquidity outflows to meet critical payments;
   (b) allocate intraday liquidity efficiently between itself and its customers; and
   (c) react quickly to unexpected payment flows and adjust overnight funding positions easily when needed.

3. Secure sufficient funding and manage the timing of liquidity outflows in accordance with intraday objectives, as well as requirements from the market;

4. Manage and mobilize collaterals as necessary to obtain intraday funds. A bank should have sufficient collaterals available to acquire the level of intraday liquidity needed to meet its intraday objectives. It should have operational arrangements in place to pledge or deliver this collateral either to the central bank, correspondents, custodians or other counterparties when needed. A bank should also understand the timeframes required to mobilize different forms of collaterals, including collaterals held on a cross-border basis;

5. Attribute intraday liquidity costs to the bank's income generating units, as warranted;

6. Set intraday liquidity risk limits that take into account possible obstacles to intraday cash flow movement across various payment systems, and across borders in the case of foreign banks and other global financial market utilities (FMUs)[3] which may be operating in more than one jurisdiction; and

7. Deal with unexpected disruptions to intraday liquidity flows, as supported by stress tests and the contingency funding plan. Scenarios designed based on intraday funding disruptions should be included in the bank's stress testing exercise. Stress scenarios for a bank that uses correspondent banking services may include events where: (i) intraday credit lines are being withdrawn by the correspondent bank; or (ii) a bank is required to either prefund its payments and/or to collateralize its intraday credit lines. Contingency funding plans must also be adopted to manage liquidity needs under the different scenarios. (Refer to Sections IX and X of this Appendix for the related guidelines on stress testing and contingency funding plans.)

The tools and resources applied by a bank in managing its intraday liquidity risks should be tailored to its business model, role in the financial system, and the manner by which it conducts its activities for a particular market. That is, whether it directly participates in a payment and settlement system, or it provides correspondent or custodian services and intraday credit facilities to other banks. In particular, a bank classified as a settlement bank for transactions executed through an FMU is expected to have a robust MIS that can tag and segregate, as well as monitor, in real time the inflows/outflows of their own transactions from their payment and settlement obligations.

[2] Throughput refers to the percentage of outgoing payments relative to total payments within the day.
[3] A Financial Market Utility (FMU) refers to a multilateral system that provides the infrastructure for transferring, clearing, payment settlements and other financial transactions among financial institutions in the system. A bank can be designated as a settlement entity for foreign exchange transactions, securities related transactions, large value payment systems (such as the Philippine Payments and Settlements System or PhilPaSS), a clearing house, transfer systems and any other FMU.

Banks should ensure that there is a clear assignment of tasks and responsibilities to personnel involved in the intraday liquidity management process. There should also be sufficient coordination among the front, middle, and back offices, as intraday liquidity management requires close monitoring of expected payments and direct contacts with customers, where necessary, to quickly verify the reasons for delayed payments.

VI. FOREIGN CURRENCY LIQUIDITY MANAGEMENT

The principles described in these guidelines also apply to the management of any foreign currency in either the Regular Banking Unit (RBU) or Foreign Currency Deposit Unit (FCDU) to which the bank maintains a significant exposure. The systems or processes for measuring, monitoring, and controlling foreign currency liquidity positions shall be integrated into various aspects of a bank's overall liquidity risk management framework, such as managing net funding requirements, stress-testing, and contingency funding planning, as appropriate.

Banks should formulate liquidity strategies and policies for the major currencies in which they have significant activity or exposure.[4] As a general principle, banks should manage and control their funding needs to avoid over-reliance on foreign exchange or currency swap markets in respect of those currencies in which they have significant exposure, as there is a risk that their ability to swap currencies may erode rapidly under stressed conditions.

Banks should assess their aggregate foreign currency liquidity needs under both normal and stressed conditions, and control currency mismatches within acceptable levels.[5] Management needs to set and regularly review limits on the size of its funding gaps for each significant individual currency and in aggregate over particular time bands (e.g., "next day", "7 days" and "1 month") for each major foreign currency in which they operate.

Currency mismatch may arise where, for example, a bank relies on local currency liabilities and short-term borrowings to fund a portion of its assets denominated in foreign currency, or vice versa via foreign exchange or currency swap markets. In these cases, banks should demonstrate the capacity to assess and monitor the risk of sudden, adverse exchange rate movements that could sharply widen existing funding gaps and alter the effectiveness of foreign exchange hedges and hedging strategies. Banks should also assess the likely convertibility of foreign currencies and access to foreign exchange markets for switching funding from one currency to another.

The size of the limits should take into account the following factors, among others:

a. The amount of foreign currency liabilities that can be swapped through the foreign exchange market to fund local currency assets, or vice versa;

b. The convertibility and price volatility of individual foreign currencies, the timing of access to funds in those currencies, as well as the potential for impairment or complete closure of foreign exchange swap markets for particular currency pairs in the case of market disruptions;

c. The conditions of foreign exchange markets, including the depth and liquidity of the markets and the level of interest rates;

d. The ability to raise funds in foreign exchange markets and to transfer surplus liquidity from one currency to another, across jurisdictions and legal entities;

e. Differences in the behavior of foreign currency depositors and lenders vis-à-vis those of customers and counterparties in transactions involving the domestic currency, and the stickiness of deposits in foreign currencies under stressed conditions;

f. The availability of foreign currency backup facilities in cases where normal access to funding in individual currencies is disrupted; and

g. The ability of borrowers to repay their foreign currency liabilities under stressed conditions (e.g., interest rate hikes and exchange rate fluctuations).

VII. INTRAGROUP LIQUIDITY RISK MANAGEMENT

Banks belonging to a financial group shall have adequate policies and systems that enable active monitoring and control of liquidity risk exposures and funding needs within and across business lines and legal entities in their groups, including those arising from cross-border transactions. Further, the parent bank of a group should establish processes

[4] The term "significant" as defined in Item *"C.2"* applies.
[5] Banks with FCDU operations are subject to statutory requirements, such as the asset cover.

that facilitate data aggregation across multiple systems to enable group-wide management of liquidity risk. For cross-border intragroup activities and other intragroup transactions involving foreign currencies, banks shall also apply the provisions of Part VI, Foreign Currency Liquidity Management.

Banks shall clearly document any liquidity support arrangements with group entities. Further, they should specify in their liquidity risk management policies the treatment of intragroup transactions and the assumptions on intragroup dependencies for the purposes of making cash-flow projections for both normal and stressed conditions.

Intragroup transactions may be treated in the same way as other third party transactions for the purpose of cash flow projections under normal business conditions, provided that there is no doubt about the financial position of the group as a whole. Under stressed situations, banks should analyze how the liquidity positions of group entities may affect their own liquidity. They should be able to account for any funding or liquidity commitment provided to group entities and prepare for any withdrawal of funding provided by these entities. Where there is reliance on funding support from group entities, banks should take into account any limitation on their access to liquidity from those entities.

Banks should identify and understand the constraints on the movement of liquidity within their groups and specify assumptions regarding the transferability of funds and collateral in liquidity risk management policies. These assumptions should fully consider regulatory, legal, accounting, credit, tax, and internal constraints on the effective movement of liquidity and collateral as well as the time required to complete the transfers. There should also be processes in place for the allocation of liquidity and collateral resources.

A bank should assess the possibility of a reputation contagion that occurs when a liquidity problem in an entity within its group leads to a liquidity strain across the entire group due to the assumption of market counterparties that a problem at one entity is a problem for the group as a whole. The inherent vulnerability of a bank that is part of a group to reputation contagion must be addressed in the bank's intragroup liquidity risk management system.

To mitigate the potential for reputation contagion, banks should consider establishing internal limits on liquidity risk within and across business lines and group entities. It is also vital that banks engage in effective communication with major counterparties and other stakeholders when liquidity problems in their group entities arise. Scenarios based on reputation contagion should be considered in the bank's stress testing exercise and must be complemented with a robust group-wide contingency funding plan. Banks should ensure that they have sufficient liquidity cushions and a well-diversified funding structure to mitigate the effects of reputation contagion.

VIII. COLLATERAL MANAGEMENT

The availability of eligible assets that a bank can use as collateral to obtain funding in the market gives it the ability to raise cash quickly to meet liquidity needs. On the other hand, entering into contracts with margin requirements (such as derivatives) exposes a bank to liquidity risk. Hence, the allocation of sufficient resources to the management of collateral positions is needed in order to achieve the overall liquidity risk management strategy of the bank. In this regard, banks that regularly and/or have plans to enter into collateralized transactions shall institute policies, procedures, and systems that would enable them to:

1. Assess the eligibility and acceptability of each major asset class for pledging as collateral to major counterparties, the Bangko Sentral, and other fund providers in secured funding markets for intraday, overnight, and term credit. Banks should also ensure that there is proper legal documentation for each asset class to be effectively pledged for liquidity;

2. Monitor the level of available collateral by legal entity, jurisdiction, and currency exposure;

3. Track the legal entity and the physical location, i.e., the custodian bank or securities settlement system, with which each of the available collaterals are held;

4. Meet expected, and accommodate unexpected, borrowing needs as well as potential increases in margin requirements. Banks should also be able to monitor the shifts of collateral usage between intraday, overnight, and term borrowing requirements;

5. Optimize the allocation of collateral available for different operational needs, products, business units, locations, and currencies, as applicable;

6. Diversify the sources of collateral to avoid excessive concentration on any particular funding provider or market taking into consideration capacity constraints, sensitivity of prices, haircuts and collateral requirements (e.g., concentration of available collaterals in the form of long-dated ROP bonds that have a higher price sensitivity may pose constraints in generating liquidity especially during stressed conditions);

7. Account for all collateral positions, including both currently pledged and unencumbered eligible assets;

8. Prudently measure the value of available and pledged collaterals, together with estimates of its liquidated value in adverse market conditions;

9. Capture the implications of hedging activities and obligations embedded in the contractual terms of transactions involving derivatives, securitizations, structured products, and other market instruments to their ability to utilize collaterals to obtain liquidity and outstanding collateral positions; and

10. Integrate collateral positions in the liquidity risk measurement tools. Banks should incorporate assumptions for available and pledged collaterals in both business as usual and stressed-based liquidity risk measurement tools.

IX. LIQUIDITY STRESS TESTING

Stress tests should enable a bank to assess its ability to generate sufficient liquidity from the asset side, liability side, and contingent items of the balance sheet to meet funding needs under adverse conditions and to ensure that exposures remain in accordance with the bank's liquidity risk tolerance. In this regard, the following guidelines shall apply:

1. Stress tests shall be conducted on a regular basis for a variety of short-term and protracted stress scenarios to identify sources of potential liquidity strain. This applies to all bank, including those that are covered by the regulations on the LCR, to take into account the varying liquidity risk profiles and vulnerabilities of individual institutions.

2. The design and frequency of stress tests shall be commensurate with the size and complexity of a bank, its liquidity risk exposures, as well as the importance of the bank within the financial system.

3. It is important for banks to construct plausible stress scenarios under varying levels of severities and examine the resultant cash flow needs. They shall, at a minimum, include the following types of scenarios in their stress testing exercise: (a) an institution-specific crisis scenario; (b) a market-wide crisis scenario; and (c) a combination of both.[6]

4. In designing stress scenarios, banks shall take into account specific risks associated with their business models and vulnerabilities arising from a concentration of assets or funding sources.

5. Retail banks, including rural and cooperative banks, may develop scenarios that include: (i) an acute deposit run with significant daily run-off rates for deposits; and (ii) increasing requests from customers to redeem their time deposits prior to maturity.

6. Banksthat actively utilize interbank facilities or collateralized borrowings, shall:

   a. Analyze the impact of stressed market conditions on the value of assets used as collaterals; and
   b. Account for systemic as well as second-round effects, i.e., tests should assume that the bank's actions may have an impact on the market and that there are other institutions seeking to undertake similar actions.

7. The ability of a bank to honor its immediate commitments at least for the initial period when the stress is likely to be most acute is crucial for its later survival. As such, the bank is expected to have sufficient funds to cover its liquidity needs. It shall ensure that it is able to continue its businesses for a certain minimum stress period under each of the crisis scenarios.

   The minimum stress period for an institution-specific crisis scenario shall last for no less than five (5) business days, while a market wide crisis scenario and a combined scenario shall last for no less than one month. Banks may adopt longer minimum stress periods if their liquidity risk profile so warrants.

8. Stress tests shall be performed for all currencies in aggregate and separately for positions in the local currency and individual foreign currencies in which banks have significant positions. Refer to Section VI for the related guidelines on foreign currency liquidity management.

9. A bank that exercises control over subsidiary/ies should be able to analyze the impact of stress scenarios on its consolidated liquidity position as well as that of individual financial subsidiaries within the group in order to

[6] An institution-specific stress scenario may refer to situations that could arise from a bank experiencing problems which affect public confidence in either the bank or its group-wide operations. On the other hand, a market-wide stress scenario may refer to situations where liquidity at a large number of financial institutions in one or more markets is affected. This may be characterized by a market-wide liquidity squeeze, substantial discounts needed to sell or repo assets, or severe operational or settlement disruptions affecting one of more payment or settlement systems.

understand where risks could arise. Branches of foreign banks are expected to apply these guidelines to their Philippine operations only. Refer to Section VII for the related guidelines on intragroup stress testing.

10. Banks belonging to a banking group/conglomerate should, in particular, assess the effects of a group-wide crisis scenario on their liquidity positions. This scenario assumes that an institution-specific stress event is affecting the global operations of the banking group (i.e., with problems spilling over the entire banking group).

11. Results of the stress tests should be linked to the overall ALM and liquidity risk management processes of the bank. To this end, the board and senior management should:

    a. Integrate the stress test results into the bank's strategic business planning process, liquidity risk management strategies and practices, setting of internal liquidity risk limits, and the assessment of potential funding shortfalls in the contingency funding plan; and

    b. Thoroughly discuss the stress testing results to consider the need for remedial or mitigating actions, such as, but not limited to, expanding the liquidity buffer, obtaining more long-term funding or adjusting the composition of assets.

12. A bank's stress scenarios and related assumptions must be well documented. The scenario design and underlying scenarios used should be subject to regular review and approval by the board and senior management to ensure that the nature and severity of the tested scenarios remain appropriate and relevant to market conditions, changes in business model and activities, and actual experiences in stressed situations.

X. CONTINGENCY FUNDING PLAN

Banks shall have a formal contingency funding plan (CFP) that clearly sets out strategies for addressing emergency situations. These include, in particular, liquidity shortfalls estimated from stress tests performed by the bank under institution-specific, market-wide and combined stress scenarios mentioned in Sections V and IX. The following shall be observed:

1. The CFP should address liquidity issues over a range of different time horizons, including intraday.

2. The CFP should clearly define a set of triggering events that will activate the plan as well as the mechanisms for identification, monitoring and reporting of such events at an early stage. Banks may adopt internal and market indicators for defining and monitoring triggering events.

3. The CFP should provide a bank's management with a diversified set of viable, readily deployable potential contingency funding measures for preserving liquidity and addressing liquidity shortfalls. All potential sources of funding should be identified, along with the estimated amount of funds that can be derived from these sources, their expected degree of reliability, the conditions under which these sources should be used (such as scenarios when a bank incurs a sudden material intraday liquidity shortfall), and the lead time needed to tap additional funds from each of the sources.

   In this regard, banks must maintain adequate records in support of their assumed funding sources during stress conditions, such as test results of counterparty lines, analysis of saturation points for certain securities markets, or statements of support from related parties.

4. The CFP should reflect the relevance of the central bank lending facility as a secondary source of liquidity. It should specify the type of facility to be availed, the corresponding collateral requirements, and operational procedures for accessing the same.

5. To enable a bank to make timely and well-informed decisions and execute contingency measures proficiently, the roles and responsibilities and internal procedures for crisis management should be clearly delineated. These should cover the following:

    a. The authority to invoke the CFP, and the establishment of a formal liquidity crisis team to facilitate internal coordination and communication across different business lines and locations and decision-making by senior management during a liquidity crisis;

    b. Clear escalation and prioritization procedures detailing what actions to take, who can take them, and when and how each of the actions can and should be activated;

c. Names and contact details of members of the team responsible for implementing the CFP and the locations of team members; and

d. The designation of alternates for key roles.

6. In a time of stress, to support general confidence in the bank, it should develop a communication plan to deliver on a timely basis clear and consistent communication to internal and external parties. Internal communication should cover employees in different business lines and locations. External parties should include the Bangko Sentral, clients, and creditors. The CFP should, in particular, address communication with shareholders, market participants, and major counterparties to whom assurance about the bank is extremely important, as their actions could significantly affect the reputation of the bank and its liquidity position.

   Strategies should also be appropriately formulated for managing media relationships and making public announcements to help reduce uncertainty or speculation about the bank in the market.

7. The CFP should be subject to regular testing to ensure its effectiveness and operational feasibility, particularly in respect of the availability of the contingency sources of funding listed in it. This is highly warranted in respect of intraday liquidity stress events considering the need to address funding shortfalls in a limited period of time. The testing of the CFP should cover the following major aspects:

   a. Verifying key assumptions, such as the ability to sell or repo a certain volume of assets or periodically draw down from credit lines;
   b. Ensuring that roles and responsibilities are appropriate and understood;
   c. Confirming that contact information is up-to-date, with reporting lines clearly stated and synchronized with the latest organization chart; and
   d. Reviewing that the necessary legal and operational documentation is in place to execute the plan at short notice.

8. The CFP should be consistent with a bank's business continuity plans and should be operational under situations where business continuity arrangements have been invoked. As such, the bank should ensure effective coordination between teams managing issues surrounding liquidity crises and business continuity.

9. Banks should review and update their plan at least annually for the board's approval, or more often as changing business or market circumstances require.

ANNEX A

FACTORS TO CONSIDER IN DEVELOPING A FUNDING STRATEGY

1. Concentration on particular funding markets and sources

Banks should manage any potential concentration in their reliance on particular funding markets and sources. What would constitute a funding concentration cannot be expressed in definite sizes or amounts, as this depends on the nature and complexity of banks' business activities. The following factors should be taken into account in assessing the degree of funding concentration:

- Maturity profile and credit-sensitivity of the liabilities;
- Mix of secured funding and unsecured funding;
- Extent of reliance on the following:
  a. A single fund provider or a group of related fund providers;
  b. Certain instruments or products, e.g., interbank borrowing, retail versus wholesale deposits, and repurchase agreements and swaps;
  c. Particular markets, including a limited number of counterparty lines for financial instruments that are regularly used for funds management; and
  d. Intragroup funding;
- Geographical location, industry, or economic sector of fund providers; and
- Currency of funding sources.

2. Availability of stable funding sources

Banks should build up a sufficient level of stable funding to support their assets and activities. They should analyze their funding structure and identify which funding sources are likely to stay with them, and which may leave, under adverse circumstances. Banks with a large deposit base should, in particular, conduct a granular analysis to evaluate the behavioural characteristics of different types of deposits with a view of determining the attributes of deposits that are more stable in nature. The trends and levels of stable deposits should be regularly monitored.

3. Impact of available funding sources on liquidity position

Banks should recognize that certain funding sources, e.g., interbank borrowing and wholesale funding, are more volatile than traditional retail funding. Banks that are heavily reliant on such funding sources should seek more diversification of these sources and maintain a higher proportion of high-quality liquid assets to withstand the potential impact of liquidity or market disruptions.

In the case of standby credit facilities, banks should likewise recognize the likelihood that their right to draw on these facilities may be denied in a crisis. Banks should therefore avoid excessive reliance on standby facilities. Where standby facilities constitute a major source of a bank's backup liquidity, it should be able to prove the certainty of these arrangements.

4. Access to alternative sources of funding

Banks should identify alternative sources of funding that may be used to generate liquidity in case of need. These may include intragroup fund transfers, new debt issues, asset sales, and access to Bangko Sentral credit facilities, among others. Banks should review the effectiveness of using such sources in different situations. They should be aware that not all fund-raising options are available in all circumstances and some may be available only with a substantial time delay.

ANNEX B

FACTORS TO CONSIDER IN DEVELOPING CASH FLOW PROJECTIONS

1. While certain cash flows can be based simply on contractual maturities, there are those which can only be estimated based on assumptions. Banks should make realistic assumptions to enable prudent cash-flow projections that reflect the complexity of their underlying businesses, products and markets. These assumptions may include –

    a. Future growth in the balance sheet;
    b. The proportion of maturing assets and liabilities that banks/QBs expect to roll over or renew;
    c. The quality and proportion of liquid assets or other marketable securities that can be used as collateral to obtain secured funding;
    d. The behaviour of assets and liabilities with no clearly specified maturity dates, such as repayment of overdrafts and demand deposits;
    e. Potential cash flows arising from off-balance sheet activities, e.g., drawdown under loan commitments and contingent liabilities (including all potential draws from contractual or non-contractual commitments);
    f. Convertibility of foreign currencies;
    g. The lead time required for the liquidation of marketable debt securities, taking into account the settlement time and the impact of time differences if the clearing or custodian agents are located outside the Philippines; and
    h. Access to wholesale markets, standby facilities, and intragroup funding.

2. In projecting cash flows, banks should also consider general economic and market trends (e.g., an interest rate hike) that could affect their ability to access funds readily and at reasonable terms. Banks should document in their liquidity risk management policy statement the underlying assumptions used for estimating cash flow projections and the rationale behind them. The assumptions and their justifications should be approved, and be subjected to regular review, by senior management to take account of available statistical evidence and the changing business environment.

3. Techniques employed by banks for designing assumptions should be commensurate with the nature and complexity of their business activities. These may range from historical experience and static simulations based on current holdings to sophisticated modelling (for more complex banks), taking into account ongoing market developments.

4. In deriving behavioural cash flow assumptions, banks may analyze historical observations on cash flow patterns. While there is no standard methodology for making such assumptions, it is important that the use of consistent and reasonable assumptions should be supported by sufficient historical or empirical evidence.

5. The minimum criteria for using behavioural assumptions are as follows:

    a. The assumptions should be consistent and reasonable for each scenario. For example, the proportion of marketable debt securities which could be liquidated in case of need and their liquidation value should properly reflect the quality and market liquidity of the securities under different scenarios.

    b. The assumptions should be verified and supported by sufficient evidence, experience and performance rather than arbitrarily selected. Typical information sources that could be used to help formulate the assumptions include –

        - Historical observations or statistical analyses of cash-flow patterns/behavioural maturity under different scenarios. For instance, the past behaviour of different types of customer deposits, coupled with an analysis of their characteristics and factors affecting their stability, may provide relevant information for estimating the amount of deposits that will likely be withdrawn under normal or stressed situations;

        - Models developed or used by banks for conducting cash-flow analysis;

        - Input from managerial and business units about business and pricing strategies, as planned changes to business or repricing strategies could affect the behaviour of future cash flows of positions with uncertain maturities; and

        - General economic and market trends as well as other relevant information that could affect banks'/QBs' ability to access funds readily and at reasonable terms.

    c. The length of the underlying historical observation period used for the analyses and models should be at least ten years, consistent with international standards.

6. Banks should document the behavioural assumptions in their liquidity management policy statement. The type of analysis performed under each assumption should also be documented to facilitate periodic review. The details of that documentation should be consistent with the significance of the risk and the complexity of the analysis.

BASEL III FRAMEWORK ON LIQUIDITY STANDARDS- LIQUIDITY COVERAGE RATIO
(Appendix to Sec. 145 on Liquidity Coverage Ratio [LCR], LCR Disclosure Requirements, and Sanctions)

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 covered 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, covered 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 covered 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 covered banks to clients under explicit contractual agreements or 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 covered 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) covered bank (correspondent) holds deposits owned by other covered 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 covered 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 28*.

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.

[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 covered bank supervisory authorities and central banks from Argentina, Australia, Belgium, Canada, China, France, Germany, Hong Kong SAR, India, Indonesia, Italy, Japan, Korea, Luxemborg, 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.

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 covered 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 covered 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 covered 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 covered 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 covered bank as an independent third party intermediary, agent or administrator.

21. *Operational service* – refers to any of the following contractual services performed by the covered 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:

    Clearing

    a. Overnight financing and maintenance of post-settlement balances;

    b. Transmission, reconciliation, and confirmation of payment orders;

    c. Intraday overdraft;

    d. Determination of intraday and final settlement positions;

    Cash Management

    e. Payment remittance;

    f. Collection and aggregation of funds;

    g. Payroll administration and control over disbursement of funds;

    h. Administration of payments and cash flows related to the safekeeping of investment assets, not including the purchase or sale of assets;

    Custody

    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 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 covered 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 covered bank in times of stress; or

    - embedded in financial products and instruments sold, sponsored, marketed or originated by the covered bank that might prompt the covered 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 covered 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 covered 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 covered 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 covered 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 covered 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 covered 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 covered 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 Sec. 403, 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 covered 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 covered bank or to any of its related parties[2].

[2] As defined under Sec. 131 on Policy Statement and Definition of Terms.

36. *Unsecured wholesale funding* – refers to liabilities and general obligations of the covered bank, other than deposits, to wholesale clients that are not collateralized by legal rights to specifically designated assets owned by the covered 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 covered bank from legal entities (excluding sole proprietorships and partnerships and those entities classified as micro and small enterprises) (hereinafter called wholesale clients).

II. LCR Calculation

A. General Requirements

1. The LCR is designed to promote the short-term resilience of the liquidity risk profile of a covered bank. To meet funding obligations and draws on contingent liabilities over the next thirty (30) calendar days, the LCR requires the covered bank to hold a stock of unencumbered HQLA equal to or greater than total net cash outflows. Hence, the LCR is calculated as the:

$$\text{LCR} = \frac{\text{Stock of HQLA}}{\text{Total net cash outflows over the next 30 calendar days}}$$

2. The standard requires that, under normal situation, the value of the liquidity ratio be no lower than 100%[3] 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 covered 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 covered 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.

   It should capture, at a minimum, specific information related to the covered 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.

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.

7. To assess the relative liquidity and ready-marketability of assets, particularly those that are classified as Level 2 under this Framework, liquidity metrics such as those set out in *Annex A* may be used. The metrics, including the analytical tools, guidelines and methodologies, data used, and the threshold levels shall be developed in coordination with the banking industry. These shall be subject to review and updating at least annually to reflect prevailing market liquidity conditions.

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.

[3] The 100% threshold is the minimum requirement absent a period of financial stress, and after the phase-in arrangement are complete.

9. The following operational requirements are designed to ensure that the stock of HQLA is managed in such a way that the covered 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 covered 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 transaction[4].
        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 covered bank. For example, an asset should not be included in the stock if the sale of that asset, without replacement throughout the thirty (30)-day period, would remove a hedge that would create an open risk position to the covered 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 covered 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 covered 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 covered 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 covered 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 covered bank.

        vi. The covered 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 covered bank's HQLA at any time in accordance with the relevant standard settlement periods and procedures for the asset class; and

[4] If a covered 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.

(3) Periodically monetizing a sample of HQLA in order for the covered 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 covered 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 covered 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 covered 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 assets[5], which must be held by the covered 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 covered bank shall be allowed to keep such liquid asset as HQLA during the said LCR period. This would give the covered 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 value[6]2. However, in case the covered 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 covered 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 covered bank for monetization.

[5] To qualify as HQLA, the assets must satisfy the asset and market liquidity characteristics, and the operational requirements for monetization eligibility criteria.
[6] 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.

(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. Covered bank reserves in the Bangko Sentral;
    c. Overnight and term deposits[7] with the Bangko Sentral, including reserve repos where the Bangko Sentral is the counterparty; and
    d. Eligible securities representing claims on or guaranteed[8] by -

        i. The Philippine National Government (NG) and the Bangko Sentral[9]; 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 covered bank or any of a covered bank's financial allied undertakings[10].

(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 covered bank or any of a covered bank's financial allied undertakings[10]:	
	i. Twenty percent (20%)	15%
	ii. Fifty percent (50%)	50%
b.	Eligible corporate debt securities (including commercial papers)[11] that are assigned with the following long-term credit rating[12] by a third party credit assessment agency recognized by the Bangko Sentral[13], and are not issued by a covered bank or any of a covered bank's financial allied undertakings[10]:	
	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 covered bank or any of a covered bank's financial allied undertakings[10].	50%

Further, the Level 2 assets shall meet the metrics set out in Annex A-1, except for securities representing claims on or guaranteed by sovereigns, central covered banks and MDBs.

[7] To the extent allowed to be drawn down in times of stress.
[8] Securities which are guaranteed by the Philippine NG but were issued and remain as liabilities of a covered bank will not qualify for the stock of HQLA. The only exception is when the covered bank also qualifies as a GOCC with the highest credit quality, in which case, the securities issued by said covered bank could qualify for Level 2 assets if all necessary conditions are satisfied.
[9] Issuances in foreign currencies shall be included in the stock to the extent of the covered bank's net cash outflows in that specific foreign currency.
[10] 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.
[11] 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.
[12] 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.
[13] 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 *59.*

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}

19. The covered 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 covered 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 covered 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 covered 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 covered 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 covered bank to any legal or reputational risk;

    c. If an option to adjust the maturity date is subject to a notice period, the covered 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 covered 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 covered 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, other than those maintained within the covered 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 covered 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 covered 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 covered 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 covered 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 covered 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 covered bank services, etc.) from the covered 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 covered 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 covered bank solely for effecting credits and debits arising from foreign exchange transactions, without having to go through a correspondent covered 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 covered 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:

Outstanding Balance Per Account	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 covered banks, financial corporates, trust and other fiduciaries, beneficiaries, conduits and special purpose vehicles (SPVs), and by affiliated entities of the covered 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 covered 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 covered bank that is not eligible as capital, and hence, treated as borrowings which the covered bank expects to fulfill within the LCR period;
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 covered 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 Sentral; by sovereigns, central banks, PSEs of foreign countries; by MDBs and by non-financial corporates: 40% outflow rate*

38. The covered 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 covered banks, financial corporates and from other wholesale clients: 100% outflow rate*

39. Unsecured funding provided by covered banks, financial corporates, trust and other fiduciaries, beneficiaries, conduits and SPVs, by affiliated entities of the covered 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 covered 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 covered 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 covered 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 covered bank: *Provided*, That the covered 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 covered 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 outflows[14] 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 covered 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 covered bank faces potentially substantial liquidity risk exposures to the valuation changes of collaterals posted by the covered 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) months[15] preceding the date of the LCR calculation. The collateral amounts pledged towards the covered bank shall not be taken into account.

(iii) *Downgrade triggers embedded in financing transactions, derivatives and other contracts[16]: 100% outflow rate*

49. For a contract where downgrade trigger exists, the covered 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 covered bank's long-term credit rating. Triggers linked to a covered bank's short-term rating should be assumed to be triggered at the corresponding long-term rating in accordance with published ratings criteria. The covered 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 covered 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 covered 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 covered bank's other assets such that it cannot be rehypothecated; and
    c. Is not already excluded as eligible HQLA by the covered bank.

[14] If a covered bank posted a pool of HQLA and non-HQLA collateral to secure derivative and other transactions, the covered 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.
[15] The two (2)-year observation period consists of approximately 730 periods of thirty (30)-day, partly overlapping, rolling window.
[16] 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 covered 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.

(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 covered 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[17]: 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 covered 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 covered 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 allowed under existing regulations: 100% outflow rates*

54. To take account of the potential liquidity risks pertaining to the covered bank's own structured financing facilities that include the issuance of short-term asset-backed commercial paper, the covered 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 covered bank (as original asset transferor) to provide liquidity, effectively ending the financing arrangement (liquidity puts) within the thirty (30)-day period, the covered 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 covered bank are conducted through a special purpose entity (such as a special purpose vehicle, conduit or structured investment vehicle), the covered 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 covered 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 any[18]: *Provided*:

[17] This provision for additional liquidity requirement shall be applicable only when the received HQLA collateral actually counts toward the covered 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.

[18] 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.

a. The covered 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 covered 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:

Counterparties	Drawdown Rate
Retail clients	5%
Philippine NG; LGUs; GOCCs; sovereigns, central banks, PSEs of foreign countries; MDBs	10%
Non-financial corporates	10%
Covered banks subject to prudential supervision	40%
Financial corporates, trust and other fiduciaries, beneficiaries, SPEs conduits and SPVs (excluding covered 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 covered 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 positions[19], dividends or contractual interest payments, with explanation given as to what comprises this bucket. In case, however, the covered bank's short position is being covered by a collateralized securities financing transaction, the covered 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 covered 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

[19] In the case of a covered bank's short positions, if the short position is being covered by an unsecured security borrowing, the covered 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.

expectations in a commercially reasonable manner would likely cause material reputational damage to the covered 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 purposes but there is expectation that the covered 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 covered 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 covered bank with the objective of maintaining stable value[20]; and
        iv. outstanding debt securities (unsecured and secured, term as well as short-term) having maturities greater than thirty (30) calendar days, where the covered 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 covered bank's assessment that the contingent outflow will materialize within the LCR period, thereby rendering it necessary for the covered bank to provide funding support or to extend funds; or the Bangko Sentral has determined the covered 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 covered 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 covered 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 covered 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.

[20] This excludes funds managed by the covered bank's trust department.

(4) Cash inflows

67. *Cap on total inflows.* In order to prevent covered 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 covered 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 covered 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 covered 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 covered bank holds at other institutions for its own purposes;

    f. Amounts related to non-financial revenues; and

    g. Amounts payable to the covered 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 repos[21] and securities borrowings

70. For secured lending maturing within the LCR period, the covered 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 covered 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.

[21] This excludes reverse repo transactions where the Bangko Sentral is the counterparty, as such is already treated as HQLA.

(b) Loans, receivables and other credit facilities

72. The covered 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 covered 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%
Covered 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 covered 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 covered bank is not under obligation to extend credit and/or the covered 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 covered bank at the foregoing net inflow rates.

74. In case of loans with no specific maturity, the covered 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 covered 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*.

Part II. LCR Disclosure Requirements

1. In the quarterly published balance sheet, the covered 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.

2. On the covered 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 covered 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 covered bank's units; and
viii. other inflows and outflows in the LCR calculation that are not captured in the LCR common template but which the covered bank considers to be relevant for its liquidity profile.

3. The covered 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 covered bank's internal liquidity risk management and positions. At the option of the covered 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.

4. The covered 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.

(Circular Nos. 996 dated 08 February 2018, 969 dated 22 August 2017, 930 dated 18 November 2016 and 905 dated 10 March 2016)

Annex A

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
		Trading venues	Electronic (including hybrids)
			Exchange-traded
Market structure characteristics	Active and sizeable market	Size	Volumes (number of trades and peso value)
			Outstandings
		Related financing markets	Repo financing available
			Other secured/forward financing
			Related hedging markets
		Market participation	Breadth of investors (low concentration)
			Large number of active market maker
Market liquidity	Liquidity	Depth/price impact of trading	Amihud ratio (price changes relative to volume)
			Autocorrelations of returns
		Breadth	Effective bid-ask spreads (ex post)
			Quoted bid-ask spreads (ex ante)
		Immediacy	Average number of trades per day
			Number of days with zero return/volume

(Circular No. 905 dated 10 March 2016)

Annex A-1

LIQUIDITY METRICS FOR LEVEL 2 ASSETS

Pursuant to paragraph 17 of Part I.II of *Appendix 72*, a security must meet the following metrics to be eligible as a Level 2 Asset:

(a) The security has a long term issuer rating that is investment grade or its equivalent;

(b) The security is traded in the secondary market with an ample number of market participants on both the buying and selling side of transactions; and

(c) There is a means to obtain market information on a security (i.e., bid, ask and done price). For peso securities, information on trade volume should also be available.

(Circular No. 996 dated 08 February 2019)

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 - 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 term[24] 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 - 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)

[24] 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**			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. 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: $Total\ \boldsymbol{unweighted}\ retail\ funding_{Qi}$ = $\frac{1}{T} \times \sum_{t=1}^{T} (Total\ \boldsymbol{unweighted\ retail\ funding})_t$ $Total\ \boldsymbol{weighted}\ retail\ funding_{Qi}$ = $\frac{1}{T} \times \sum_{t=1}^{T} (Total\ \boldsymbol{weighted\ retail\ funding})_t$ Where *T* equals the number of observations in period *Qi*.
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**		

[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
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		
EXPECTED CASH INFLOWS	No value to be reported			*Weighted* values of HQLA (line 1, 3rd 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, 2nd column) must be calculated as outstanding balances. *Weighted* outflows and inflows (lines 3, 5–8, 10–15 and 17–19, 3rd column) must be calculated after the application of the outflow and inflow rates. *Adjusted* values of HQLA (line 21, 3rd 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, 3rd 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: $LCR_{Qi} = \frac{1}{T} \times \sum_{t=1}^{T} LCR_t$
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		
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.

[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 OF SWORN CERTIFICATION OF COMPLIANCE WITH THE LIQUIDITY COVERAGE RATIO (LCR) REQUIREMENTS
(Appendix to Sec. 145 on Liquidity Coverage Ratio)

(Deleted by Circular No.996 dated 8 February 2018 and 905 dated 10 March 2016)

IT RISK MANAGEMENT STANDARDS AND GUIDELINES

Area: IT Audit

(Appendix to Section 148 on Purpose and Scope, and on IT Risk Management Systems)

1. INTRODUCTION

1.1. BSFIs 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 program[1] is essential to evaluate risk management practices, internal control systems and compliance with policies concerning IT-related risks at BSFIs 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 BSFIs 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 BSFI'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 independence[2]; 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.

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 BSFI become more sophisticated or as more complex technologies evolve, the auditor may need additional training.

[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.

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 BSFI'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 BSFI'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 BSFI'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 charter[1] 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;

[1] Audit charter is a document approved by the Board of Directors that defines the IT audit function's responsibility, authority and accountability.

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 programs[1] 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 BSFI 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 BSFI should develop an overall audit plan[2] 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 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:

[1] Work program is a series of specific, detailed steps to achieve an audit objective.
[2] 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.

a. Identify the BSFI's data, application[1] and operating systems[2], 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 BSFI; 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 entails the review of the adequacy of general controls[3] in place to ensure proper management and monitoring of IT risks/ environment and the effective functioning of the BSFI'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 controls[4] 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

[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.
[3] 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.
[4] 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.

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** - BSFIs 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 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 BSFI'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 BSFI 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 BSFI'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 BSFI 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 BSFI 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 BSFI should carefully consider its current and anticipated business risks in setting each party's internal audit responsibilities. To clearly define the BSFI's duties and those of the audit provider, it should have a written contract, often referred to as an engagement letter[1].

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 Section 162 Independence of the Internal Auditor. Likewise, the IT audit- related tasks of the Audit Committee are in addition to the tasks prescribed under Section 133 Powers/responsibilities and duties of directors, Item "c(7)(d)(i)".

(Circular No. 969 dated 22 August 2017, Circular No. 958 dated 25 April 2017)

[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 Sections 148 on Purpose and Scope, and on IT Risk Management Systems, and 149 on Other Policies, Standards and Processes)

1. INTRODUCTION

1.1 Information, as one of the most critical assets of Bangko Sentral Supervised Financial Institutions (BSFIs), should be accorded with adequate level of protection and risk management controls to preserve its confidentiality, integrity, and availability. BSFIs are increasingly relying on information to achieve business goals and objectives, drive core operations, and support critical decisions. With the emergence of new business models in a predominantly information-driven economy, information that is timely, accurate, and reliable becomes even more important. Effectively addressing information security requirements enables BSFIs to remain competitive and relevant as the financial services industry moves towards digital innovation. Thus, BSFIs need to prioritize information security risk management (ISRM) aligned with their business goals and objectives.

1.2 Information security instills trust and confidence between BSFIs and their customers, ensures compliance with laws and regulations, and improves enterprise value. Because information security is intrinsically linked to the overall safety and soundness of BSFIs, the Board of Directors (Board) and Senior Management should exercise effective information security governance to ensure ongoing alignment of information security with business needs and requirements. Information security risks and exposures must be managed to within acceptable levels through a dynamic interplay of people, policies and processes, and technologies and must be integrated with the enterprise-wide risk management system.

1.3. The frequency, severity, and visibility of recent cyber-attacks highlight, not only the degree of disruption to business operations, but also the extent of reputational damage which could undermine public trust and confidence in the financial system. If not properly managed, cyber-attacks may result to operational, legal, reputational, and systemic risks. In light of the growing concerns on cybersecurity, a key component of information security, BSFIs should put greater emphasis on cybersecurity controls and measures in managing information security risks.

2. INFORMATION SECURITY GOVERNANCE

2.1. **Information Security Strategic Plan.** An information security strategic plan (ISSP), aligned with the BSFI's business plan, must be established to clearly articulate the Board and Senior Management's direction on information security. The ISSP should provide a roadmap that would guide the BSFI in transforming the current state of security to the desired state taking into account business goals and strategies. In defining the desired state of security, the concerned BSFI should consider key elements, to include principles and policy framework, organizational structures and culture, information/data, services, IT infrastructure, and people.

The BSFI may utilize commonly accepted approaches or frameworks in developing the ISSP tailored to its specific business and technology profile. The ISSP must be reviewed at least annually by the Board and Senior Management and regularly updated in line with changes in business strategies, IT infrastructure and services, and operating environment.

2.2. **Information Security Program.** The BSFI should maintain a comprehensive, well- designed and effective Information Security Program (ISP) commensurate with its operational and IT profile complexity. The ISP is essentially the mechanism to implement the ISSP which must be aligned with business needs and strategies and integrated across all facets of the business environment. To ensure its effectiveness and sustainability, the ISP should have strong support from the Board and Senior Management as well as cooperation of all concerned stakeholders. The program should clearly establish security roles, responsibilities and accountabilities, and provide mechanisms to ensure enforcement and compliance (e.g. formal disciplinary process and corresponding actions for those who have committed security violations). The ISP generally covers security policies, standards and procedures, security operations, technologies, and organizational structures as well as security awareness and training programs aimed at protecting BSFI's information assets and supporting infrastructure from internal and external threats.

The ISP should be reviewed and tested at planned intervals to ensure its continuing suitability, adequacy, and effectiveness. Management should adjust the ISP to reflect the results of ongoing risk assessment, analyses of emerging internal and external threats and vulnerabilities, cyber-intelligence gathered from information sharing groups, and the level of effectiveness of the existing security controls. Further, Management should take into

account changes in the IT infrastructure/systems and business arrangements such as mergers, acquisitions, alliances and joint ventures, and outsourcing agreements.

2.3 **Security Culture.** The Board and Senior Management should take the lead in establishing an information security culture that regards security as an intrinsic part of the BSFI's core business and operations. Instilling a strong security culture ensures that security controls, processes and measures are deeply embedded into the BSFI's lines of business, products, services and processes, including its employees and external relationships. Having a strong security culture will help facilitate attainment of the institution's desired state of security and level of maturity as well as more effective and efficient implementation of the ISSP and ISP. The level of compliance of employees to the security policies, employees' knowledge in identifying and reporting incidents, and the degree of integration of security requirements throughout the life cycles of services and applications are some indicators of an institution's security culture. The Board and Senior Management should adopt the right mindset and understand the crucial role of information security in supporting/achieving business goals and objectives. In line with this, the Board and Senior Management should provide the necessary resources to develop, maintain, and implement the ISP.

2.4 **Responsibility and Accountability.** Information security roles and responsibilities span the entire organization from the Board and Senior Management, business line managers, security department, down to the employees. The BSFI's Board and Senior Management set the overall tone and strategic direction for information security by providing strong leadership and effective information security governance. The Board, or an appropriate Board committee, is responsible for overseeing the development, implementation and maintenance of the BSFI's ISSP and ISP. The Board should understand the business case for information security as well as the impact of information security risks to the business. Relative thereto, the Board should approve and provide adequate funding and other necessary resources for security projects and initiatives to effectively implement the ISSP and ISP. The Board or a Board-designated committee should approve and review the written ISSP and ISP including the corresponding security policies and standards at least annually. The Board or a Board-designated committee should likewise periodically review the assessments of the overall effectiveness of the program and direct Senior Management to undertake corrective actions, when necessary.

Senior Management is generally responsible and accountable in executing the ISSP and ISP within the bounds and thresholds set by the Board. Senior Management plays a key role in providing leadership and support for information security as well as balancing business and security requirements and managing information security risks within acceptable levels. Senior Management should appoint a Chief Information Security Officer (CISO) who will be responsible and accountable for the organization-wide ISP. The duly appointed CISO is a senior level executive with sufficient authority within the institution to effectively perform the following functions and responsibilities, among others:

a. Formulate the ISSP and ISP for approval by the Board and Senior Management;
b. Implement and manage the duly-approved ISSP and ISP;
c. Coordinate and work with business process owners and executives across different departments to ensure that information security requirements support business needs and security systems and processes are working as intended;
d. Enforce compliance with the ISP and the corresponding policies, standards and procedures across the organization and conduct security awareness and training programs catered to different sets of stakeholders;
e. Educate, inform, and report to the Board and Senior Management relevant information security issues and concerns;
f. Prepare business cases for certain security control technologies, products, and arrangements for Board and Senior Management's approval;
g. Ensure that security controls and processes are embedded throughout the lifecycle of information, systems, applications, products and services;
h. Assist in the effective implementation of information security incident response plan; and
i. Assist in ensuring regulatory compliance and adherence to information security-related laws, rules and regulations.

In addition to the minimum qualifications provided in Sec. 134, the appointed CISO should have sufficient knowledge, technical background, skills and training to enable him to perform the above assigned tasks. To ensure appropriate segregation of duties, the CISO should report directly to the Board, designated Board committee or to Senior Management and have sufficient independence to perform his mandate. The CISO should perform the tasks of a risk manager and should be independent from the IT department. For BSFIs with moderate to complex IT profile classification, the CISO may be the head of an information security office/unit, staffed with a number of highly skilled security specialists. In the case of BSFIs with simple IT profile, the CISO function may be assigned to an existing independent officer who meets the above qualifications.

The BSFI's IT department also plays a crucial role in maintaining security within the technology domain. Considering that security controls and measures are largely automated and technology-driven, it may be more feasible for BSFI's security operations personnel and IT personnel to share some security administration functions. IT personnel are usually charged in managing the security configuration of servers, databases, routers, switches and other security technologies that are deeply embedded in systems/applications.

Security specialists, on the other hand, are responsible in managing the more specialized security tools and technologies such as Security Information and Event Management (SIEM) tools, vulnerability scanners, and other management support technologies.

Insofar as the ISP includes physical security as one of the IS controls, the CISO may need to coordinate with the BSFI's Chief Security Officer or Bank Security Officer on IS matters/incidents that entail physical security considerations. The CISO should also collaborate with fraud management units (FMU), particularly in monitoring emerging security and fraud risks involving customer accounts.

Business line managers, application/system and information owners are generally responsible for information asset classification and determining the required level of security requirements to support business requirements. They are also responsible in defining and granting access rights of employees and ongoing monitoring of the appropriateness of such access rights. On the other hand, employees, as the first line of defense, should understand and abide by the security policies, standards and procedures. They are responsible in monitoring and reporting security-related incidents and security lapses within their job functions in accordance with the information security incident response plans. To ensure their ongoing commitment and awareness, employees should regularly attend security awareness trainings and other programs.

2.5. **Resources.** The Board and Senior Management should see to it that adequate resources, organizational functions/capabilities, policies, standards and procedures as well as the supporting infrastructure commensurate with the BSFI's IT profile classification and risk appetite, are available and optimized to effectively implement the institution's ISSP and ISP. Without sufficient resources in terms of funding/budget allocations, skilled manpower and underlying technologies, implementation of the ISP may suffer leading to security lapses, incidents and poorly designed/implemented security systems. Thus, it is crucial that sufficient resources are devoted to information security operations and initiatives. Further, Management may supplement its existing security skills and capabilities through outsourcing of certain security functions to third party service providers, including cloud service providers. In such cases, the institution needs to provide adequate oversight and institute robust risk management processes and practices pursuant to existing regulations on outsourcing and cloud computing.

2.6. **Compliance with Relevant Laws, Regulations and Standards.** In designing the ISSP and ISP, compliance with relevant laws, regulations, and standards must be fully considered. For BSFIs, these include The Law on Secrecy of Bank Deposits under R.A. No. 1405 and recently, the Data Privacy Act of 2012 under R.A. No. 10173. For BSFIs that process and issue payment cards under international brand schemes (e.g., VISA, Mastercard, AMEX, etc.), the ISP should be tailored to fit the requirements of the Payment Card Industry Data Security Standard (PCI DSS). Moreover, Management may find having security certifications such as those provided by the International Organization for Standardization (ISO) and other certifying bodies to be of significant value to the business.

These certifications serve as proof of certain quality and standards in terms of information security management systems which may enhance customers' and stakeholders' confidence, facilitate regulatory compliance on security, and enable achievement of desired security posture and maturity. While not specifically required under the Bangko Sentral regulations, obtaining security certifications may be considered a sound security practice that may speed up the maturity level of the BSFI and a sound indicator of effective information security culture. Management should continually assess the regulatory environment and adjust/update their ISSP and ISP accordingly to ensure continuing compliance.

3. ISP MANAGEMENT

3.1. **Information Security Risk Management System.** The Information Security Risk Management (ISRM) system should be an integral part of the organization's ISP and enterprise-wide risk management system. The ISRM framework, including cybersecurity elements, should be commensurate to the level of risk profile of the BSFI. The design and implementation of the ISRM system largely depends on the BSFI's culture, mission and objectives, organizational structure, products, services, and management/operational processes. To ensure that appropriate information

security controls and maturity levels are achieved, Management may refer to leading standards and technology frameworks[1] in designing the institution's own ISRM framework.

3.1.1. **Risk Management Process.**



Management should conduct periodic security risk assessment to identify and understand risk on confidentiality, integrity and availability of information and IT systems based on current and detailed knowledge on BSFI's operating and business environment. This includes identifying information security risks relative to its internal networks, hardware, software, applications, systems interfaces, operations and human elements. The risk assessment should include an identification of information and IT resources to be protected and their potential threats and vulnerabilities. This risk identification phase should be comprehensive to cover all possible risk scenarios that may hamper the confidentiality, integrity and availability of information assets.

An effective risk assessment process involves three phases namely: risk identification, analysis and evaluation. Vendor concerns place additional elements to the process. The risk identification process, including the elements that the BSFI needs to consider is further detailed in item 3.2 Identification phase.

Once the risks are identified, Management should undertake a systematic risk analysis phase whereby the likelihood and impact of threats and vulnerabilities are assessed. It should utilize clearly defined and consistent risk measurement approaches in analyzing and evaluating risks. After which, the appropriate risk treatment options (i.e., mitigate, transfer, avoid or accept) should be applied taking into consideration the BSFI's risk appetite and tolerance. Once the BSFI identifies the risks to mitigate, Management can begin to develop risk mitigation strategy which should be an integral component of the ISP. The risk management phases from identification to risk treatment should flow into the BSFI's risk reporting and monitoring activities to ensure effectiveness and continuous improvement of the entire risk management process. The results of the risk management processes should be communicated to the concerned stakeholders and reported to the Board and Senior Management for appropriate risk decisions.

3.1.1.1. **Insurance.** The BSFI may avail of insurance coverage for information security- related events and incidents as a way to transfer risks. It is, however, not to be construed as a substitute for an effective ISP. Insurance is a logical risk treatment option for risk exposures with high impact but with low probabilities (e.g., fire, earthquakes, massive cyber-attacks, etc.). Hence, it should carefully evaluate the extent and availability of coverage in relation to the magnitude and probability of the risks. Likewise, Management should ensure compliance with relevant security controls and policies as stipulated in the insurance policy.

3.2. **Identification.** Management should be able to identify the BSFI's information security as well as cyber-related risks through a thorough understanding of its business processes and functions, information assets and related access, threats and vulnerabilities, interconnections, and security architecture. The identification process is the first crucial step to information security risk management and should be robust enough to ensure that all foreseeable risks and

[1] US National Institute of Standards and Technology (NIST), ISO, US FFIEC, COBIT and CPMI publications, amongothers.

threats are identified. Failure to identify key information security risks would significantly hamper the security posture, as such would no longer be considered in the analysis and mitigation phases.

3.2.1. **Business Processes and Functions.** The BSFI constantly faces the challenge of balancing its security requirements versus performance objectives and costs. Similar to the conduct of business impact analysis (BIA), Management should identify all business processes and functions, including their dependencies and consequently assess and determine their criticality and importance to the business. This exercise should guide the BSFI's decision-makers in prioritizing preventive, detective, response and recovery efforts. The level and degree of security controls and measures are expected to be commensurate to the criticality and importance of the business processes and functions. At a minimum, Management should ensure that the ISP is able to adequately support/secure the institution's critical business processes and functions.

3.2.2. **Information Assets and Related Access.** The BSFI should maintain an inventory of all information systems assets that include components from all information systems. In developing an information systems assets inventory, it should be able to document system-specific information (e.g., hardware inventory specifications, software license information, software version numbers, component owners, machine names, network address, manufacturer, device type, model, serial number, and physical location) that will allow Management to:

a. Identify the information owner who shall be responsible in ensuring confidentiality, integrity, and protection of these assets;
b. Associate the interdependencies of these systems and understand how these systems support the associated business lines;
c. Facilitate an efficient process for system installations, removals, and other updates; and
d. Monitor system configuration activities and detect unauthorized changes to the systems in a timely manner.

3.2.3. **Threats and Vulnerabilities.** In identifying risks, the BSFI should have a documented process that will determine the threats and vulnerabilities to the institution's IT environment. A threat is anything or anyone that has the potential to adversely impact the institution by exploiting vulnerability in people, process, and/or technology. Given the broad definition of threat, the BSFI should establish a structured approach that will allow Management to have a holistic view of the threat landscape. This can be done by maintaining robust threat intelligence feeds from various sources such as publicly available data from news media, publications and websites as well as subscription to information security vendors and information-sharing organizations.

Threat identification and management programs should enable the BSFI to:
a. Identify and understand the nature, frequency, and sophistication of threats;
b. Categorize threats, sources, and vulnerabilities;
c. Aggregate and quantify potential threats;
d. Evaluate the corresponding information security risks to the institution; and
e. Develop appropriate risk mitigation strategies as part of the ISP.

As threats continue to evolve rapidly and increase in sophistication, Management should ensure that threat monitoring and vulnerability scanning tools and processes remain effective in identifying both known and unknown (zero-day[1]) security exposures.

3.2.4. **Interconnections.** The BSFI's business processes often deal with exchanging information and conducting transactions in an online and interconnected environment which inevitably require third-party connections to its network and computing resources and vice versa. These arrangements should be governed by terms and conditions that clearly establish the duties and responsibilities of both parties in owning, operating, and/or maintaining the information systems. The extent of interconnection may result to risks that may weaken the institution's security posture.

As such, it should identify connections with external parties, including other BSFIs, financial market infrastructures and third party service providers, their corresponding access points and channels and systems/applications accessed. Consequently, Management should assess the BSFI's interconnectivity risks and implement appropriate risk mitigation controls to improve resilience of the entire ecosystem.

[1] Refers to the exploit of zero-day vulnerability which takes place on the same day the vulnerability becomes generally known. It also means zero days between the time the vulnerability is discovered and the first attack.

3.2.5. **Security Architecture.** Given the increasing interconnectivity and complexity of information systems and security infrastructure, developing an information security architecture using generally acceptable architectural approaches can provide the BSFI with a holistic view of existing security controls and processes, the taxonomy of business processes and information and information flows and their interdependencies. For complex BSFIs, an information security architecture that is aligned with their enterprise architecture should be adequately documented. The development of the information security architecture should also incorporate security controls needed to support data privacy requirements. The information security architecture generally includes an architectural description, placement of security controls, security-related information for external interfaces, information being exchanged across the interfaces, and protection mechanisms associated with each interface.

3.3. **Prevention.** Management should put in place adequate protection mechanisms and controls to prevent security incidents and risks from materializing. These include measures ranging from baseline to advanced tools and approaches such as defense-in-depth, malware prevention, access controls, and cybersecurity awareness programs, among others. These preventive controls are generally categorized into three types, namely: administrative, physical and environmental, and technical controls.

3.3.1. **Administrative Controls.** The BSFI should establish administrative controls to clearly articulate the Board and Senior Management's intent, expectations, and direction on information security. Administrative controls generally address the human factor affecting information security within all levels of the organization.

3.3.1.1. **Policies, Standards, and Procedures.** Management should formulate written information security policies, standards, and procedures which define the institution's control environment and guide employees on the required, expected, and prohibited activities. Policies, standards, and procedures serve as a primary tool in the exercise of effective information security governance, hence, they should be able to capture the Board and Senior Management's security direction and risk appetite. The Board and Senior Management should approve and periodically review policies, standards, and procedures to ensure ongoing alignment with business needs and requirements. Policies, standards, and procedures should have the following attributes:

a. Documented using clear, simple, and unambiguous language and widely communicated to all employees and concerned stakeholders;

b. Comprehensive and complete covering all aspects of ISRM such as, but not limited to, security organizational structure, physical, environmental and logical security, communications and operations management, and human resources security;

c. Tailored to the needs and requirements, including the security culture of the institution; and

d. Adaptable to the changing business, regulatory, and operating environment.

3.3.1.1.1. **Minimum Baseline Security Standards.** Management should put in place minimum baseline security standards (MBSS) to ensure that systems, hardware, and network devices are consistently and securely configured across the organization. These standards enable the deployment of operating systems, databases, network devices, and mobile devices within the IT environment in an efficient and standardized manner. Management may refer to leading standards and best practices as well as vendor-specific recommendations in developing their MBSS, taking into consideration the following controls:

a. Secure configuration of operating systems, system software, databases, and servers to meet the intended uses with all unnecessary services and programs disabled or removed;

b. Periodic checking to ensure that baseline standards are consistently complied with;

c. Timely deployment of tested and approved patches and security updates;

d. Adequate documentation of all configurations and settings of operating systems, system software, databases, and servers; and

e. Adequate logging capabilities for all systems, applications, network devices, and databases.

3.3.1.2. **Security Training and Awareness Programs.** All employees of the organization and, where relevant, contractors and third party users should receive appropriate information security awareness training and regular updates in organizational policies and procedures relevant to their job function. Awareness and education are vital components in the overall security strategy of the BSFI as they address the weakest link in the security chain. Security training and awareness programs promote a security conscious environment and strengthen compliance with the BSFI's security policies, standards, and procedures.

Security training and awareness programs should be designed and tailored to the specific requirements of different groups and stakeholders (i.e., business process/information owners, security specialists, incident responders, etc.). The program should be constantly updated to cover emerging threats and risks and must include defined metrics to enable the BSFI to assess its effectiveness over time.

3.3.1.3. **Security Screening in Hiring Practices.** Management should have a process to verify job application information of 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. Similar checks should be conducted for all staff, including contractors, at regular intervals throughout their employment, commensurate with the nature and sensitivity of their job functions as well as their access to critical systems. Management should be aware of changing personal circumstances of employees and contractors that may be indicative of potential increased incentives for system misuse or fraud. Further, it should establish processes and controls to mitigate risks related to employees' termination/resignation or changing responsibilities.

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3.3.2. **Physical and Environmental Controls.** Physical security measures should be in place to protect computer facilities and equipment from damage or unauthorized access that can impair the confidentiality, integrity, and availability of information. 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 upon presentation of proper identification and authentication process (i.e., ID cards, badges, biometrics, etc.). Moreover, a specific and formal authorization process should be employed for the removal of hardware and software from the premises.

Since the data center houses the BSFI's most critical information processing facilities, Management should fully consider the environmental threats (e.g., proximity to dangerous environment hazards) when selecting sites for data centers. Buildings should give minimum indication of their purpose, with no obvious signs identifying the presence of information processing facilities. Moreover, physical and environmental controls should be implemented to prevent, detect, and 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 backup generators. Management should ensure that these systems and devices regularly undergo preventive maintenance to ensure that they are in good working condition and operating as intended.

3.3.3. **Technical Controls.** Management should employ robust and multi-layered technical controls to ensure that the confidentiality, integrity, and availability objectives for information assets are met. These consist of various logical security controls, security tools, and technologies which provide defense against system compromise. Technical controls represent the technology factor in information security that should be working in tandem with the BSFI's policies, standards, and processes.

3.3.3.1. **Technology Design.** Management should consider information security and cyber resilience during the infrastructure build-up, systems development and product design. It should ensure that applicable standards and operating procedures are in place for all software, network configurations, and hardware connected to critical systems. Management should also understand the benefits and limitations of the technology that the institution uses and provide compensating controls when necessary. Management should also adopt mechanisms to continually assess whether processes, people, and technologies support the desired level of information security based on the BSFI's size, complexity, and risk profile.

3.3.3.2. **Identity and Access Management.** The BSFI should adopt a sound and systematic identity and access management program following the principles of least privilege and segregation of duties. Access rights and system privileges granted should be the minimum required for users to perform their job functions and responsibilities. No person, by virtue of rank or position, should have unrestricted and unauthorized access to confidential data, applications, system resources or facilities.

The BSFI should have an effective process to manage user authentication and access control consistent with the criticality and sensitivity of the information/system. The grant, modification, and removal of user access rights should be approved by the information/system owner prior to implementation. Information/system owners or business line managers should ensure that user access rights remain appropriate through a periodic user access re-certification process. Obsolete user accounts or inappropriate access rights should be disabled/removed from the systems in a timely manner.

Prior to granting access to systems, users should be required to sign an acceptable-use policy (AUP) to promote user awareness and accountability in conforming to security policies and procedures. The BSFI should have password standards in place to ensure that user passwords are not easily compromised (i.e., password syntax, validity, system-enforced password changes). Stronger authentication methods, such as the use of multi-factor authentication techniques, should be deployed for high-risk transactions (e.g., large value funds/wire transfers, enrollment of billers, systems administration functions).

Default user accounts defined in new software and hardware should either be disabled or changed and subject to close monitoring. Privileged access and use of emergency IDs should be tightly controlled as it gives the user the ability to override system or application controls. The necessary controls include:

a. Formal approval process on a need-to-use or event-by-event basis;
b. Prohibiting shared usage of privileged accounts/IDs;
c. Logging and monitoring of activities performed;
d. Proper safeguard of privileged and emergency IDs and passwords (e.g., kept in a sealed envelope and locked in a secure place inside the data center); and
e. Change of privileged and emergency IDs' passwords immediately upon return by the requesters.

3.3.3.2.1. **Remote Access.** The BSFI, in line with business strategies and needs, may allow employees to connect remotely to the institution's network using either an institution-owned or a personally owned device (often referred to as "bring

your own device" or BYOD). Management should ensure that such remote access is provided in a safe, secure, and sound manner to manage attendant risks. At a minimum, the BSFI should establish control procedures covering:

a. Formal authorization process for granting remote access;

b. Risk-based authentication controls for remote access to networks, host data and/or systems, depending on the criticality and sensitivity of information/systems;

c. Securing communication channels, access devices and equipment from theft, malware and other threats (i.e., encryption, strong authentication methods, data wipe capabilities, application whitelisting[1]); and

d. Logging and monitoring all remote access communications.

For BYOD, Management should fully understand the benefits in line with business goals/strategies as well as the risks in adopting BYOD policy. An effective mechanism should be in place to ensure that personal devices meet certain security standards, such as operating system version, patch levels, and anti-malware solutions, before these can be allowed to access the internal network.

3.3.3.3. Network Security. Management should adopt robust and multi-layered controls to prevent and detect unauthorized access, misuse, and other threats from entering and/or spreading into its internal computer networks and systems. Effective controls should be employed to adequately secure system and data within the network which include the following, among others:

a. Grouping of network servers, applications, data, and users into security domains or zones (e.g., untrusted external networks, external service providers, or trusted internal networks);
b. Adopting security policies for each domain in accordance with the risks, sensitivity of data, user roles, and appropriate access to application systems;
c. Establishment of appropriate access requirements within and between each security domain;
d. Implementation of appropriate technological controls to meet access requirements consistently;
e. Monitoring of cross-domain access for security policy violations and anomalous activity; and
f. Maintaining accurate network diagrams and data flow charts[2].

Commonly used tools and technologies to secure the network include firewalls, intrusion detection systems (IDS), intrusion prevention systems (IPS) and demilitarized zones, among others. As the network complexity as well as threats affecting the network evolve, the BSFI should continuously monitor and enhance its network security and systems to ensure that they remain secure, safe, and resilient.

Additional controls should be adopted for Wireless Local Area Networks (WLAN) implementations since these are inherently less secure than wired networks. Controls such as limiting of WLAN signals to authorized areas, physically securing wireless access points and formally approving installations of wireless devices/gateways and active monitoring of the WLAN environment should be employed on top of the usual network security controls. Management may also consider implementing network access control (NAC) systems to prevent recognition and connection of unauthorized or rogue devices into the network.

3.3.3.3.1. **Virtualization.** As BSFis are increasingly leveraging on virtualization technologies to optimize existing hardware resources, reduce operating expenses and improve IT flexibility and agility to support business needs, additional security risks such as attacks on hypervisor integrity and lack of visibility over intra-host communications and virtual machine (VM) migrations are also rising. To address such risks,

[1] *Application whitelisting* is the maintenance and use of a list of applications and their components (e.g., libraries and configuration files) that are authorized to be present or active on a system according to a well-defined baseline.
[2] Network and data flow diagrams should identify hardware, software, and network components, internal and external connections, and types of information passed between systems to facilitate the development of a defense-in-depth security architecture.

Management should extend security policies and standards to apply to virtualized servers and environment. Likewise, it should adopt the following control measures:

a. Hypervisor hardening with strict access controls and patch management;

b. Inspection of intra-host communications {traffic within VM environments) and ensuring that security control measures are implemented for confidential/sensitive data stored in VMs; and

c. VM creation, provisioning, migration, and changes should undergo proper change management procedures and approval processes similar to deployment of physical network/system devices and servers.

The BSFI may also consider implementing next generation firewalls that can restrict access more granularly and prevent virtualization-targeted attacks that exploit known VM vulnerabilities and exploits.

3.3.3.4. **Application Security.** Management should ensure that all applications, whether developed in-house or acquired off-the-shelf, have appropriate controls commensurate to the sensitivity and criticality of applications. Core banking applications as well as other applications considered as mission-critical (e.g., loans, general ledger and treasury systems) should have embedded security control features to maintain information confidentiality, integrity and availability. Secure coding practices which consider security control requirements early into the development phase should be incorporated in the BSFI's application systems development and acquisition policies and procedures. New applications, including subsequent enhancements, should be adequately tested using various testing methodologies (e.g., penetration tests, vulnerability assessments, and application security tests) before loading into production. In case third parties were engaged to develop the applications, Management should exercise adequate oversight to ensure that the level of risk management and security controls/standards is consistently applied.

Security controls within applications should have adequate access and authentication controls, audit trails and logs, and logical controls appropriate to the applications' business purpose and function (e.g., maker/checker functionalities, transaction limits and alerts). Application systems reviews, penetration testing and vulnerability assessments should be periodically conducted to ensure that the applications meet the desired level of security.

3.3.3.5. **Data Security.** The BSFI should have information classification strategy guidelines and institute appropriate set of controls and procedures for information protection in accordance with the classification scheme. Information should be protected throughout its life cycle from handling, storage or data-at- rest, transmission or data-in-transit, up to the disposal phase.

3.3.3.5.1. **Data-at-Rest.** Policies, standards, and procedures as well as risk management controls must be in place to secure the BSFI's information assets, whether stored on computer systems, physical media, or in hard- copy documents. The level of protective controls shall depend on the sensitivity and criticality of the information. Sensitive information such as system documentation, application source code, and production transaction data are expected to have more extensive controls to guard against alteration or data leakage (e.g., integrity checkers, cryptographic hashes, data leakage prevention systems). Management should likewise implement appropriate controls over information stored on portable devices such as laptops, smart phones, and tablets taking into account their susceptibility to lost or theft. Applicable risk mitigation controls include data encryption, host-provided access controls, homing beacons, and remote wiping or deletion capabilities, among others.

Considering the unique risk dimensions of storing data in cloud computing platforms, Management should fully understand the nature of the cloud technology in line with business requirements and satisfy themselves as to the

level of security (e.g., how access is controlled and how information is retrieved) and compliance to data privacy and other relevant rules and regulations. Information security and accountability still rests with the institution's Management, hence, it should exercise effective oversight over the cloud service provider in terms of adherence to security, performance and uptime, and back-up and recovery arrangements contained in the contract/agreement.

3.3.3.5.1.1. **Database security.** The BSFI should adopt policies, standards, and procedures to adequately secure databases from unauthorized access, misuse, alteration, leakage and/or tampering. Considering their criticality, sensitivity and business impact, access authorizations to databases should be tightly controlled and monitored. Databases should be configured properly and securely with effective preventive and detective controls such as encryption, integrity checkers, logs and audit trails, among others.

3.3.3.5.1.2. **Data-in-transit.** Data transfers are commonly done through physical media or electronic transmission. Policies, standards, and procedures should be in place for maintaining the security of physical media containing sensitive information while in transit, including to off-site storage, or when shared with third parties. These include contractual requirements incorporating risk-based controls, accreditation process for carriers/couriers, packaging standards, encryption of sensitive information, tracking of shipments, and non-disclosure agreements, among others.

Electronic transmission may be done using various channels such as e-mail, file transfer protocols, secure shell, dedicated line, short message service, and the internet. Management should develop policies and procedures and implement appropriate safeguards depending on the channel used. When transmitting sensitive information over a public network, the institution may use encryption controls and techniques such as secure e-mail protocols, secure file transfer protocol (SFTP), and secure socket layer (SSL) certificates to protect against interception or eavesdropping.

3.3.3.5.2. **Removal, Transfers and Disposition of Assets.** Procedures for the destruction and disposal of media containing sensitive information should be risk-based relative to the sensitivity of the information and the type of media used to store the information. Disposal techniques that the BSFI may implement include deletion, overwriting, degaussing[1], destruction of the media. Management should be mindful about residual data being stored in computer-based media as well as dumpster-diving attacks in paper-based information in deciding the best disposal strategy for sensitive information assets. BSFIs should consider applicable Bangko Sentral regulations as well as laws, rules and regulations in developing policies and procedures on disposal of records/media.

3.3.3.6. Malware Protection. Malware threats continue to be a serious concern given their rapid proliferation and advanced capabilities to disrupt operations, corrupt data, and conduct unauthorized transactions. Zero-day exploits and other advanced malwares have the ability to penetrate various access points within the BSFI's network and evade traditional signature-based anti-malware systems and network monitoring controls. To mitigate such risks and ensure resilience against malware threats, Management should adopt layered and integrated anti-malware strategy, including data integrity checks, anomaly detection, system behavior monitoring, and enhanced employee security awareness training programs.

[1] *Degaussing* is a procedure that reduces the magnetic flux to virtual zero by applying a reverse magnetizing field. Also called demagnetizing.

At a minimum, Management should apply the "Least Privilege" principle in granting access to all systems and services and mandate safe computing practices for all users. Other preventive measures include installation and timely update of anti-malware software provided by reputable vendors, periodic vulnerability scanning, and effective patch management procedures for all critical systems and applications. To address the more sophisticated forms of malware, Management should consider adopting advanced security solutions such as signature-less anti-malware solutions capable of analyzing abnormal behavioral patterns in network and system traffic flows. Likewise, application whitelisting which allows only specified programs to run and/or sandboxing technologies which can inspect incoming traffic such as e-mail attachments without compromising the production environment can be employed.

As malware sophistication and capabilities evolve, Management should continuously monitor changes in technologies, threat profiles and the overall operating environment to address emerging risks. It should likewise closely coordinate with its technology vendors and relevant information sharing groups for appropriate remediation procedures.

3.3.3.7. **Encryption.** Encryption, when properly designed, managed, and implemented, can serve as a key control in securing communications, information, and data storage. Management should adopt a sound encryption program covering the following elements:

a. Encryption type, level and strength commensurate to the sensitivity of the information based on the institution's data classification policy;
b. Effective key management policies and practices to properly safeguard the generation, distribution, storage, entry, use, and archiving of cryptographic keys; and
c. Periodic review and testing to ensure that encryption methods deployed still provide the desired level of security vis-a-vis changes in technology and threat landscape.

3.3.3.8. **Integration with IT Processes.**

3.3.3.8.1. Systems Development and Acquisition. Security requirements and considerations should be deeply embedded into the BSFI's systems development and acquisition processes. Involvement of internal audit and information security personnel in the development or acquisition activities should be clearly defined as a means to verify the adequacy of the control and security requirements as they are developed and implemented.

Aside from 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 clear and specific. The information and/or process owners should check security requirements and conduct user acceptance tests prior to approval of systems to be loaded into the production environment.

Further, BSFIs should maintain separate environments for their development, testing, and production activities respectively. In line with this, programmers/developers should have no access to the production environment. Lastly, strict segregation of duties between developers/programmers and IT operations should be upheld.

3.3.3.8.2. **Change Management.** The BSFI should have an effective and documented process to introduce changes into the IT environment in a safe and secure manner. Such changes should be controlled as to requirements definition, authorization and approvals, testing procedures, and audit trails. Moreover, the process should incorporate review of the impact of changes to the effectiveness of security controls.

3.3.3.8.3. **Patch Management.** Management should adopt a patch management process to promptly identify available security patches to technology and software assets, evaluate criticality and risk of patches, and test and deploy patches within an appropriate timeframe.

3.3.3.8.4. **Vendor Management and Outsourcing.** Management should conduct appropriate due diligence and consider information security in selecting third party service providers (TPSPs). The BSFI should ensure that effective oversight processes are in place to monitor the activities of TPSPs. Contracts should sufficiently detail information security requirements, particularly for TPSPs that store, transmit, process, or dispose of customer information. Mechanisms should be in place to properly monitor the performance of third party service providers to confirm whether sufficient level of controls is maintained. Considering that TPSPs may be a source of cyber-risks, Management should properly assess cyber-risk exposures from TPSPs in order to proactively adjust their cyber-risk management

3.4. **Detection.** Management should design and implement effective detection controls over the BSFI's networks, critical systems and applications, access points, and confidential information. Detection controls provide the institution with alerts and notifications for any anomalous activities within its network that can potentially impair the confidentiality, integrity, and availability of information assets. Early detection is critical to the BSFI's incident response and recovery procedures as it allows sufficient lead time to institute countermeasures to address impending attacks and contain associated impacts. The detection capabilities are largely a function of people, process, and technology that enable continuous monitoring of the institution's internal networks, systems, applications, and databases.

The level and maturity of the BSFI's detection capabilities should be commensurate to its IT profile classification and operating environment. The selection and design of detection controls largely depends on business priorities and overall security strategy. Detection controls which Management may employ include intrusion detection systems (IDS), virus/malware detection, honeypots, system alerts/notifications, and security incident and event management {SIEM} system. For moderate to complex BSFIs, detection controls are expected to be largely automated to facilitate real-time or near real-time analysis of events such the use of SIEM, IDS, and other technology-based detection systems.

At a minimum, all BSFIs should be able to establish baseline profile of system activity or condition and data flows across the layers of their infrastructure to facilitate monitoring and detection of anomalous activity. Likewise, metrics should be defined for systems, applications and network to determine indicators of possible compromise. For instance, access to a highly-sensitive system beyond office hours or failed log-in attempts of privilege user accounts should prompt real-time or near real-time alerts and notification to concerned security operations personnel.

3.4.1. **Log Management.** Log files can be analyzed for real-time or near real-time detection of anomalous activities, facilitate subsequent investigation of security incidents and can serve as forensic evidence for the prosecution of fraudulent activities. Thus, Management should put in place adequate security controls to prevent unauthorized access, modification and/or deletion of log files. Depending on the criticality of information contained in the log files, Management should implement the following controls to secure the integrity of log files:

a. Encrypting log files containing sensitive data, where feasible;
b. Ensuring adequate storage capacity to avoid gaps in log generation;
c. Restricting access and disallowing modification to log files. Attempts to tamper with log files should prompt activation of system alarms/notifications; and
d. Securing backup and disposal of log files.

3.4.2. **Layered Detection.** In designing the BSFI's detection controls and monitoring capabilities, Management should, to the extent feasible, adopt a layered or defense-in- depth approach to ensure that a failure in one control would be compensated by another control. This approach effectively delays or disrupts an attacker's ability to progress within the attack sequence. Tools such as attack trees, event trees, and kill chains may be utilized to enable swift identification and remediation of attacks as they occur.

3.5. **Response.** The response phase is triggered upon confirmation of an occurrence of a cyber-attack or security incident affecting the BSFI and its customers. With the growing incidence of sophisticated cyber-crimes and threats, Management should develop comprehensive, updated, and tested incident response plans supported by well-trained incident responders, investigators, and forensic data collectors. Through adequate response capabilities, Management should be able to minimize and contain the damage and impact arising from security incidents, immediately restore critical systems and services, and facilitate investigation to determine root causes.

3.5.1. **Incident Response Plan and Procedures.** Management should develop and implement a formal incident response plan to address identified information security incidents in a timely manner. The incident response plan should:

a. Provide a roadmap for implementing an incident response process appropriate to the nature, size, and complexity of the institution;
b. Describe the structure and organization that supports the incident response process;
c. Classify incidents, define reportable incidents, and escalation protocols;
d. Define metrics for assessing the incident response process; and
e. Define resources and management support needed to effectively maintain and continuously improve the incident response process.

3.5.2. **Incident Management Process.** Incident handling should follow a well-defined and documented incident management process which sufficiently details the steps from incident analysis and triage assessment, impact mitigation and containment up to testing and continuous improvements.

3.5.2.1. **Incident Analysis and Triage Assessment.** Reported incidents should be investigated to confirm their occurrence and classification. Incidents should be categorized or classified in a manner that enables appropriate prioritization of response and recovery efforts. The category of an incident should guide protocols for communicating to internal and external stakeholders.

3.5.2.2. **Impact Mitigation and Containment.** Upon discovery of an information security incident, the BSFI should seek to contain the damage, mitigate its effects, and eradicate the cause of the incident. Containment measures should be implemented to prevent further harm to the BSFI and/or its customers. Strategies for containment can vary between organizations but typically include the following:

a. Isolation of compromised systems;
b. Remediation and recovery of compromised systems;
c. Collection and preservation of evidence; and
d. Communication with affected parties (e.g., primary regulator, information- sharing organizations, law enforcement authorities, customers).

3.5.2.3. **Testing and Continuous Improvement.** Management should define a process for periodically reviewing the incident response plan and updating it based on the BSFI's experience from current and previous incident response activities, including periodic testing exercises.

3.5.3. **Incident Response Teams.** The incident response plan should identify in advance the personnel who will be tasked to respond to an information security incident and clearly define their roles and responsibilities. Organizing a team and assigning responsibilities during an actual incident is likely to cause confusion and may limit the ability of the BSFI to effectively execute response and recovery efforts. In this regard, BSFIs should set-up and organize a formal security incident response team (SIRT) tasked to perform, coordinate, and support responses to security incidents and intrusions. Typical SIRT membership includes individuals with varied backgrounds and different areas of expertise including management, legal, public relations, information security, and information technology.

3.5.4. **Crisis Communication and Notification.** The plan should be adequately communicated to appropriate internal and external stakeholders. The BSFI should establish and communicate standard procedures for reporting possible information security incidents to a designated officer or organizational unit.

Concerned BSFIs should promptly notify the Bangko Sentral of any confirmed IT-related fraud cases or major security breaches, pursuant to Sec. 148. Appropriate law enforcement authorities should also be

notified in situations involving criminal violations requiring immediate attention. Incidents involving unauthorized disclosure of sensitive personal information should comply with notification rules set by the National Privacy Commission. Customers should also be notified when warranted.

3.5.5. **Forensic Readiness.** Management should implement appropriate controls to facilitate forensic investigation of incidents. Policies on system logging should be established covering the types of logs to be maintained and their retention periods. Applicable Bangko Sentral regulations as well as laws, rules, and regulations on records retention should be complied with. Where a follow-up action against a person or organization after an information security incident involves legal action, evidence shall be collected, preserved, and presented to conform to the relevant rules for evidence.

Management should define in the response plan a systematic process for recording and monitoring information security incidents to facilitate investigation and subsequent analysis. Adequate documentation should be maintained for each incident from identification to closure. Facts about the incident, operational impact, estimated cost, investigation findings, and actions taken by the BSFI should be consistently documented. Automated means of reporting and tracking of incidents may be implemented for analysis and preparation of reports to support decision-making.

3.5.6. **Outsourcing.** For a BSFI without in-house technical expertise, outsourcing of functions related to security incident response including forensic investigations, can be a viable option. In such instances, Management should require the service provider to strictly adhere to the BSFI's policies and standards and ensure confidentiality of data.

3.6. **Recovery.** The recovery phase encompasses both the resumption of activities at a level which is considered "good enough for a certain period of time" and full recovery, i.e., an eventual return to full service. The BSFI should be able to establish back-up facilities and recovery strategies to ensure the continuity of critical operations. During recovery phase, Management should ensure that information processed using back-up facilities and alternate sites still meet acceptable levels of security.

3.6.1. **Business Continuity Management.** Management should develop and implement a formal incident recovery plan to restore capabilities or services that are affected by information security incidents in a timely manner. This can be achieved by incorporating scenarios related to information security (e.g., data breach, malware outbreak, denial of service) in its business continuity and disaster recovery plans. Refer to Sec. 149 for further guidance on Business Continuity Management (BCM).

3.6.2. **Communication Plan.** A communication plan for information security incidents should be incorporated in the incident recovery plan to facilitate escalation for appropriate management action and to help manage reputation risk. Incidents that lead to publicly visible disruption to BSFI services should be given utmost attention. Timely notification should be given to all relevant internal and external stakeholders (e.g., employees, customers, vendors, regulators, counterparties, and key service providers, media and the public) following a disruption.

Management should consider alternate methods of communication and preparation of predetermined messages tailored to a number of plausible disruption scenarios to ensure various stakeholders are timely, consistently, and effectively informed. Refer to Sec. 149 for further guidance on crisis management.

3.6.3. **Cyber Resilience.** Management should consider the potential impact of evolving cyber events into the BSFI's business continuity planning and institute adequate cyber resilience capabilities. Given the unique characteristics of cyber-threats and attacks, traditional back-up and recovery arrangements adopted may no longer be sufficient. In some instances, it may even exacerbate the damage to BSFI's network, operations, and critical information assets. Hence, Management must consider cyber-related attacks and incidents in the BCM and recovery processes to achieve cyber resilience.

3.6.3.1. **Business Impact Analysis/Risk Assessment.** Management should consider the impact of cyber-threat scenarios during the Business Impact Analysis/Risk Assessment (BIA/RA) phase in conjunction with the ongoing information security risk assessment process. The BSFI should take into consideration a wide-range of cyber-threat scenarios perpetrated from diverse threat sources (e.g., skilled hackers, insiders, state-sponsored groups) which seek to compromise the confidentiality, availability, and integrity of its information assets and networks. Cyber-risks and threats such as

malware, distributed denial of service (DDoS) attacks, advance persistent threats (APTs), among others, should be considered in the BIA/RA process.

3.6.3.2. **Defensive Strategies.** Depending on the results of its risk assessments and cybersecurity profile, the BSFI may need to deploy defensive strategies ranging from basic to highly advanced technologies to promote cyber resilience, such as, defense-in-depth or layered controls, reducing attack surfaces, virtual technologies, air-gap facilities and threat intelligence feeds, among others.

3.6.3.3. **Recovery Arrangements.** Depending on IT and operations risk profile and complexity, Management should consider adopting innovative recovery arrangements that address the unique risks arising from cyber-threats. These include the use of non-similar facility, cloud-based disaster recovery solutions and pre-arranged third party forensic and incident management services.

3.7. **Assurance and Testing.** Management needs to continually assess and test controls and security measures implemented under prevent, detect, respond and recover phases to ensure that these are effective and working as intended. Likewise, a comprehensive, systematic and layered testing and assurance program covering security processes and technologies should be in place. This is to ensure that the ISP is on track in providing appropriate level of information security commensurate to the BSFI's IT profile classification. This phase also ensures that the ISSP and ISP remain effective vis-a-vis the fast-evolving cyber-threat landscape.

3.7.1. **Testing Program.** Given the dynamic nature of information security risks, Management should continually ascertain that the ISP is operating as expected and reaching the intended goals. The scope and depth of testing generally depend on the level of confidence that the Board and Senior Management intend to place on the program. Management should establish a written testing and evaluation plan that assesses the effectiveness of system design and operation, including the integration of security controls, vis-a-vis the level of assurance desired by the Board and Senior Management. At a minimum, the testing plan should have the following key elements:

a. Scope, timing, and frequency of testing;
b. Independence and capability of the testing personnel and review team;
c. Criteria used to ascertain whether the results are acceptable; and
d. Reporting process to the Board and Senior Management.

3.7.2. **Types of Tests and Evaluations.** Considering that no one type of assessment can provide a complete representation of the BSFI's information security posture, Management should employ a variety of effective testing methodologies and practices in order to validate the overall effectiveness of the ISP. Some of the more common types of security assessment/testing with corresponding objectives, brief description and other details, in order of increasing complexity, are as follows:

a. Self-Assessment - an activity conducted by the specific business line or department that typically captures their awareness of the level of risk and effectiveness of controls concerning their own business processes and functions. Since these are performed by the concerned business units themselves, an independent review process should occur subsequent to the conduct of self-assessment for validation and consistency across the entire BSFI.

b. Security Audit/Review and Compliance Check - is commonly performed by the BSFI's IT auditors, security personnel, and compliance function, respectively, to assess compliance to relevant security policies, standards, and procedures. Internal or external auditors review all aspects of the ISP to determine its overall effectiveness in achieving the desired security results or outcome. Auditors must have the necessary background, training, experience, and independence to effectively discharge their tasks and responsibilities.

c. Vulnerability Assessment (VA} - refers to the identification of security vulnerabilities in systems and network usually through the use of automated vulnerability scanners. Frequency of the performance of vulnerability scans should be determined based on assessment of risk and criticality of systems or information stored on each system. High risk vulnerabilities uncovered during VA exercises should be remediated within a reasonable timeframe.

d. Penetration Testing (PT) - involves subjecting a system or network to simulated or real-world attacks that exploit vulnerabilities under controlled conditions. Depending on the test objectives and scope,

the BSFI may use penetration testing to assess potential business impact, the level of security, risk management processes and controls as well as the knowledge of concerned personnel in the organization in identifying, detecting, and responding to attacks.

For BSFIs providing digital/electronic, financial services, VA and PT should be performed by an external party at least annually.

e. Scenario-Based Testing - constitutes a wide range of scenarios, including simulation of extreme but plausible events such as targeted cyber-attacks in testing the BSFI's response, resumption and recovery practices, including governance arrangements and communication plans. To ensure robustness of test scenarios, cyber threat intelligence and threat modeling should be utilized to the extent possible to mimic actual cyber-threats and events.

f. Compromise/Breach Assessment- involves the placement of sensors/tools within the network to actively probe network traffic and system activities to detect, alert, and potentially mitigate malware intrusions as they occur. This type of assessment addresses advanced malwares and threats with capabilities to evade traditional monitoring systems. Complex BSFIs should conduct regular compromise/breach assessment exercises, on top of other types of tests, to enhance the level of assurance on their security posture as well as their overall situational awareness.

g. Red-Teaming Exercise - a more in-depth type of penetration testing which continually challenges the organization's defenses and controls against cyber- attacks. The red team is composed of highly-trained specialists, acting on adversarial mode, which may be the BSFI's own independent employees or third party experts. The end objective is to improve the state of readiness of the entire organization in cases of cyber-attacks.

4. CYBER THREAT INTELLIGENCE AND COLLABORATION

4.1. **Situational Awareness and Threat Monitoring.** In response to rapidly-evolving, sophisticated, and coordinated cyber-attacks targeting financial institutions, BSFIs need to enhance situational awareness as well as their threat monitoring capabilities. Situational awareness is a state whereby the BSFIs' Board and Senior Management are fully aware of the internal and external threat environment as it relates to their IT risk and cyber-risk profiles, operating complexities and business models. Situational awareness entails gathering and maintaining robust threat intelligence about the proficiencies, tactics, and motives of malicious actors/attackers that enable BSFIs to institute appropriate countermeasures quickly. A keen sense of the threat landscape, both from internal and external sources, would greatly help BSFIs in adjusting their ISSP and ISP to achieve cyber- resilience. BSFIs should establish a systematic process of gathering, analyzing, and monitoring threat information for actionable intelligence, timely insights, and proactive response. As gathered from Bangko Sentral 's surveillance and monitoring activities, below are some of the top cyber-threats that BSFIs should be wary about with the corresponding prescribed countermeasures/controls:

Threat Description	Prescribed Countermeasures/Controls
Card Skimming - refers to the illegal copying of information from the magnetic stripe of a credit or ATM card to gain access to accounts. This type of fraud usually results to financial losses and unauthorized charges to the customers.	As required under Sec. 148 , BSFIs should migrate their entire payment card network to the EMV technology. This is to address the vulnerabilities of magnetic stripe cards from card skimming fraud. Pending full migration to EMV, BSFIs should implement mitigating controls such as those specified under Bangko Sentral Memorandum No. M-2014-040 dated 03 October 2014 on Card Fraud and skimming attacks.

Distributed Denial of Service (DDoS) Attack - makes use of the capacity limitation of enterprise networks, systems or applications with extreme traffic loads or requests that impair their availability to legitimate users.	BSFIs should implement multiple layers of control to prevent, detect, correct, monitor, and analyze system and network anomalies arising from DDoS attacks. These include deployment of on-premise and/or cloud-based solutions, close coordination with internet service providers (ISPs) and hosting companies, as well as having a robust and reliable back-up system. Incident response plans should cover response and recovery procedures for DDoS attacks. In some cases, a DDoS attack is used as a diversionary tactic, hence, BSFIs should be on heightened alert for any signs of infiltration or presence of malware across their IT environment during and after such incident.
Phishing Attacks - involve tricking customers into giving sensitive information through fraudulent emails or websites.	Employee and customer awareness campaigns and education programs are key elements in addressing phishing attacks since these attacks specifically exploit BSFIs' employees, officers and customers. BSFIs should adopt multi-factor authentication for high-risk systems/transactions in order to limit the ability of attackers to consummate the fraud. Further, BSFIs should adopt security measures and mitigating controls prescribed under Memorandum No. M-2015-025 dated 22 June 2015 on Guidance on Management of Risks Associated with Fraudulent E-mails or Websites.
Ransomware and other malwares - refer to malicious software that compromises the confidentiality, availability, and integrity of information systems, networks and data. For ransomware, data or applications are encrypted by the attacker to prevent users from accessing their own data. Only when users pay the "ransom" will these information or systems be released.	On top of the security controls and measures under Item 3.3.3.6 on malware prevention prescribed above, BSFIs, specifically those confronted with ransomware attacks should refrain from paying or communicating with the malicious actor as this does not guarantee that ransomed and/or encrypted files will be released. To mitigate the potential catastrophic impact of ransomware attacks, BSFIs should ensure that adequate back-up and recovery procedures for critical systems and data, including periodic testing to check the integrity thereof, are in place. Because back-ups may also be subject to attacks, BSFIs should consider supplementing existing practices with cloud-based back-ups and/or back-ups using removable media or air-gapped facilities.
Advanced Persistent Threats (APT) - are highly-sophisticated attacks which primarily target a specific institution or industry for terrorist aims, corporate espionage or massive fraud schemes. APTs often involve integrity breach wherein core data, systems, and network are compromised and corrupted once an attacker gained foothold and established persistent presence in the target environment.	These types of attacks are generally more destructive compared to the other cyber-threats since the threat actors are highly skilled, motivated, and determined to infiltrate and exploit vulnerabilities on stealth mode. As such, Management should adopt defense-in-depth strategy in preventing and detecting APTs. Likewise, complex BSFIs that are more vulnerable to these types of threats should consider deploying automated and advanced security tools, technologies and methods such as the use of anti-malware solutions, behavior-based fraud management systems and monitoring tools with machine-learning capabilities, among others. These technologies should be supported by 24x7 monitoring through a mature SOC. High-risk system should have robust security controls and closely monitored for any anomalous or suspicious activities. A strong security culture should likewise be instilled across the organization as a first line of defense.

4.1.1. **Security Operations Center.** In light of the growing cyber-threat concerns affecting BSFIs, the need for centralized visibility, continuous monitoring, and rapid response and recovery procedures is increasingly heightened. Hence, centralizing security operations through a security operations center (SOC}, equipped with automated security monitoring tools, defined processes and highly-trained personnel, enables BSFIs to keep pace with the tactics of advanced threat actors. Complex BSFIs should put in place an SOC tasked to provide round-the-clock monitoring and real-time analysis of security incidents and cyber-related events.

An SOC is typically organized into three levels or tiers, with Tier 1responders serving as the frontlines to monitor security endpoints and perform incident triage procedures in line with the institution's incident response plans and procedures. Depending on incident classification, security events are then escalated to

Tier 2 and Tier 3 responders accordingly to conduct deep-dive analysis and investigation to quickly remediate, contain and recover from the incident. The SOC's major functions commonly cover detect, respond, and recover phases in the information security cycle. These include network, host, and application activity monitoring; forensic investigation; threat analysis and modeling; and engagement with security service providers and information sharing groups. The BSFI should adopt adequate policies and procedures in managing the SOC which should be integrated into its governance mechanisms, business and IT operations, incident response and BCM processes.

Considering that it may be difficult for some organizations to establish a mature and fully-operational SOC with the requisite skills, expertise and tools, the BSFI may opt to outsource some or all of its SOC functions to a third party service provider. This may be under a managed security service arrangement either on-premise, off-premise or through cloud computing platforms. In this regard, Management should exercise adequate oversight, due diligence and other risk management controls, and comply with existing Bangko Sentral regulations on outsourcing and cloud computing.

4.1.2 **Emerging Technologies and Innovation.** Emerging technologies and innovation are continuously being introduced in the market resulting to a dynamic operating environment for BSFIs. These include distributed ledger technologies (DLT), cryptocurrencies, big data and internet of things (IOT), among others. These technologies, if prudently harnessed, can significantly increase market share, improve customer experience, enhance security, and promote financial inclusion.

Prior to adopting these emerging technologies, Management should fully understand the mechanics, implications to consumer protection, money-laundering and overall security posture as well as inherent risks associated with these new technologies. In cases where applicable regulations/requirements are unclear, BSFIs should consult the Bangko Sentral prior to implementation.

4.2. **Information Sharing and Collaboration.** With the stealthier, sophisticated and advanced forms of cyber-threats and attacks confronting the financial services industry, BSFIs should have a collective, coordinated, and strategic response through information sharing and collaboration. Information sharing allows BSFIs to enhance threat intelligence/ situational awareness that enable quick identification, prevention, and response to emerging and persistent threats. In some cases, BSFIs may need to cooperate with concerned government/regulatory bodies, law enforcement agencies and third party providers to prosecute cyber-criminals, activate government incident response plans or issue warnings/advisories to the public. The extent, breadth, and nature of information sharing activities of BSFIs largely depend on their maturity and capabilities. Moderate to Complex BSFIs should actively engage in information sharing organizations and fora within the financial services industry.

At a minimum, BSFIs should define information sharing goals and objectives aligned with their ISSP and ISP. Further, BSFIs should formulate policies and procedures on information sharing activities within and outside their organizations, taking into consideration the following:

a. Obtaining Board and Senior Management approvals prior to joining information sharing groups/communities;
b. Listing/identifying threat information (i.e. indicators of compromise (IOC), tactics, techniques and procedures (TIPs}, security alerts, etc.} that can be shared with trusted parties;
c. Establishing processes to sanitize/anonymize threat information that may contain sensitive/confidential data; and
d. Ensuring compliance with applicable laws, rules, and regulations (e.g. data privacy and bank secrecy laws).

4.3. **Continuous Improvement.** The BSFI should integrate continuous improvements in its ISSP and ISP to maintain an effective security posture amidst changing threat landscape and technological developments. Lessons learned from their own experiences as well as from other BSFIs/organizations should be incorporated in further enhancing its capabilities to identify, assess, and manage security threats and vulnerabilities. A holistic and systematic approach should be adopted in assessing the BSFI's security posture, supported by robust and effective metrics, to ensure that security program, initiatives and efforts are moving in the right direction. The improvement process should cover all aspects of ISRM, people, policies, standards and procedures, processes and technology which should ultimately result to ongoing cyber-resilience.

IT RISK MANAGEMENT STANDARDS AND GUIDELINES
Area: Project Management/Development, Acquisition and Change Management
(Appendix to Section 148 on Purpose and Scope, and on IT Risk Management Systems)

1. INTRODUCTION

1.1. Because technology is constantly evolving, Management of BSFIs 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, BSFIs 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 projects[1]; 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-control[2] features into applications is expensive, time consuming, and often results in less effective features. Therefore, BSFIs 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 BSFI'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 BSFI. 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 projects, with the assistance of the legal and compliance functions, if necessary. This review is to ensure compliance with the project life cycle[3] methodology, other internal policies, control requirements, regulations and applicable laws.

3. PROJECT MANAGEMENT STANDARDS AND METHODOLOGY

3.1. **Project Management.** The BSFI 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 BSFI 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.

[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.
[3] *Project life cycle* refers to a logical sequence of activities to accomplish a project's goals or objectives.

3.2. **Project Methodology.** The BSFI 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 deliverables[1] 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 an 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 BSFI'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 (RFP[2]) or invitations-to-tender (ITT) that it distributes to vendors or third-party service providers (TSP) in the bid solicitation 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 BSFI 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.

[1] *Deliverables* are project goals and expectations. They include broadly-defined, project or phase requirements and specifically-defined tasks within project phases.
[2] *RFP* is a document that a BSFI 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.

5.2. Development standards should also include procedures for managing internally developed spreadsheets and database reports. BSFIs 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 BSFI'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. 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 BSFI and vendor should be legally binding. The BSFI 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 BSFI's existing portfolio.

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 BSFI 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 BSFI 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 codes[1] should be archived as contingency measure, with a clear indication of the precise date, time and all necessary

[1] *Source codes* are software program instructions written in format (language) readable by humans.

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 codes[1] 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 BSFI, the institution's interest should be protected in the form of a written agreement. The agreement, generally known as escrow agreement, should allow the BSFI 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 BSFI to periodically determine that the source code maintained in escrow is up-to-date. If the BSFI 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 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 BSFI 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 BSFI 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 BSFI'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.

[1] *Object codes* are software program instructions compiled (translated) from source code into machine- readable formats.

13. DISPOSAL

13.1. The BSFI 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 BSFI should maintain archived repository of data in accordance with applicable record retention requirements and system documentation to facilitate reinstallation of 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 BSFI'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 73* for the detailed guidelines on audit's participation in the development, acquisition, and maintenance of major systems.

14.2 **Information Security.** The BSFI 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. 958 dated 25 April 2017, Circular No. 833 dated 28 May 2014)

IT RISK MANAGEMENT STANDARDS AND GUIDELINES
Area: IT Operations
(Appendix to Section 148 on Purpose and Scope, and on IT Risk Management Systems)

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 platforms[1]. With the advent of technology, even small BSFIs have now become increasingly reliant on IT to achieve operational efficiency and deliver innovative products and services. Although some of these BSFIs 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 BSFIs 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 BSFIs, 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 BSFI'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 BSFI, and establishing and monitoring policies for risk management.

On the other hand, IT operations management is primarily responsible in ensuring the BSFI'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 BSFI 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.

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 BSFI's operations universe. Regardless of size, BSFI 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 BSFI'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 BSFI'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 BSFI should include in the software inventory: operating systems, application software, and back- office and environmental applications.

[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.

c. Network Components and Topology[1]- Network management should develop and maintain high-level topologies that depict local area networks (LANs[2]), metropolitan area networks (MANs[3]) and wide area networks (WANs[4]). 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 BSFI'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:

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 BSFI'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 BSFI 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 BSFI.

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 BSFI. The BSFI 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 BSFI'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 BSFI's IT operations.

3.3.2. **Controls Implementation**

3.3.2.1. **Environmental Controls.** IT equipment should have a continuous uninterruptible power supply (UPS[5]). 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.

[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.

[5] *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.

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 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 Management[1] & Control.** Complex BSFIs should have a change management policy that defines what constitutes a "change" and establishes minimum standards governing the change process. Simple BSFIs 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.

[1] *Change management* refers to the broad processes for managing organizational change. Change management encompasses planning, oversight or governance, project management, testing and implementation.

3.3.2.4. **Patch Management**[1]
Management should establish procedures 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 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 BSFI personnel to implement and perform appropriate

[1] 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.

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 BSFIs, 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 BSFIs, 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 BSFI 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 BSFI 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 BSFI 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 BSFI 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 BSFI 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.** BSFIs 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 BSFI 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 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 objective[1] (RTO) and recovery point objective[2] (RPO) should be established for systems and applications.

c. **Alternate sites for technology recovery.** The BSFI should make arrangements for alternate and recovery sites[3] 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 BSFI's recovery capability.

[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.

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 BSFI should ensure that the IT systems at the recovery sites are:

a. Compatible with the BSFI'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 BSFI'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 BSFI to use its services until it achieves a full recovery from the disaster and resumption of activity at the BSFI's own facility.

The BSFI 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 redundancy with strategies such as engagement of different network service providers and alternate network paths may be instituted.

d. **Disaster Recovery Testing.** The BSFI should always adopt pre-determined recovery actions that have been tested and endorsed by management. The effectiveness of recovery requirements and the ability of BSFI'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. BSFIs 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 BSFI 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).** BSFI 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-Assessments[1] (CSAs).** The BSFI 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.

[1] *CSA* is a technique used to assess risk and control strength and weaknesses against a control framework.

Depending on the complexity of the BSFI'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 BSFI 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 BSFI position itself to meet its current needs and plan for periods of growth, mergers, or expansion of products and services.

BSFI 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 bandwidth[1]. 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 BSFI'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. 958 dated 25 April 2017)

[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 Section 148 on Purpose and Scope, and on IT Risk Management Systems)

1. INTRODUCTION

1.1. With globalization and advancement in IT, BSFIs 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 BSFI 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 BSFI, 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 BSFI'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 BSFI 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 BSFI.

3.2 **Service Provider Selection.** Before selecting a service provider, the BSFI 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 BSFI'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 BSFI.

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 BSFI, as those prevailing at the time for comparable transactions with non- related third parties;

c. Choose the most appropriate pricing method for the BSFI's needs;

d. Ensure service provider's physical and data security standards meet or exceed the BSFI's standards. Any breach in security should be reported by the service provider to the BSFI;

[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.

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 BSFI (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 BSFI 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 BSFI and the right of access to information on the BSFI and the service provider.

Some service providers may contract with third-parties in providing IT services to the BSFI. 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 BSFI 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 BSFI 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 BSFI 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 BSFI 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 BSFI 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 BSFI 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 BSFI;
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 BSFI should be prepared or reviewed by its senior management and provided to its Board. The BSFI 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 BSFI 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 BSFI 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 BSFI's systems, and appropriate access controls and monitoring should be in place between the service provider's systems and the BSFI.

3.6. **Business Continuity Planning Consideration.** The BSFI 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 BSFI 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 BSFIs' 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 BSFIs 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 BSFIs. While outsourcing strategy allows BSFIs 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]

[1] National Institute of Standards Technology, *The NIST Definition of Cloud Computing: Special Publication 800-145, 2011, www.nist.gov/itl/cloud/*

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 BSFIs 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) 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 BSFIs 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. BSFIs 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")

- Legal and Regulatory Compliance;
- Governance and Risk Management;
- Due Diligence;
- Vendor Management/Performance and Conformance;
- Security and Privacy;
- Data Ownership and Data Location and Retrieval;
- 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 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 BSFI 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. BSFIs should consult Bangko Sentral before making any significant commitment on cloud computing.

5. ROLE OF IT AUDIT

5.1. The BSFI 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 BSFI from losses due to irregularities and willful manipulations. Such responsibility can be assigned to the BSFI's IT audit function. In case the BSFI 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. 958 dated 25 April 2017, Circular No. 808 dated 22August 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 BSFI 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 BSFI'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 comingles the BSFI's data with data from other customers that operate under diverse legal and regulatory jurisdictions. The BSFI should understand the applicability of local laws and regulations and ensure its contract with a CSP specify its obligations with respect to the BSFIs' 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. No. 6426)
c. Anti-Money Laundering Act, particularly on data/file retention;
d. Electronic Commerce Act (R.A. No. 8792);
e. Data Privacy Law;
f. Cybercrime Prevention Act;
g. General Banking Law (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 BSFI'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 BSFI 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 BSFI 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 BSFIs.

3. **Due Diligence**

The due diligence in selecting a qualified CSP is of paramount importance to ensure that it is capable of meeting the BSFI'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 BSFI'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 BSFI'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 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 BSFI. 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 BSFI 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 BSFI.

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 BSFI 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 BSFI'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 BSFI 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 BSFI 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 BSFI'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 BSFI 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 BSFI'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 BSFI's own audit staff. Ideally, the BSFI 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, BSFIs 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 BSFIs to have a sufficient level of assurance that the CSP is maintaining effective controls.

It is important that BSFIs 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 BSFI 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 BSFI should include appropriate notification procedures; effective monitoring of security-related threats, incidents and events on both BSFI'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 BSFI'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 BSFI'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 BSFI 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 BSFI 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 BSFI 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 BSFI 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 BSFI 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 back- up copy of data at the BSFI'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-BSFI is offline.

(Circular No. 958 dated 25 April 2017)

IT RISK MANAGEMENT STANDARDS AND GUIDELINES
Area: Electronic Banking, Electronic Payment, Electronic Money and Other Electronic Products and Services
(Appendix to Section 148 on Purpose and Scope, and on IT Risk Management Systems)

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 BSFIs in recent years and are now a component of most institutions' business strategy. Electronic delivery of services can have many benefits for BSFIs 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, BSFIs 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 BSFIs 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 BSFIs 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 BSFIs 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 BSFI 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 BSFI 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 BSFI's applications and underlying technologies.

The Board and senior management should ensure that the operational and security risk dimensions of the BSFI'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 BSFI's existing risk management, security control, due diligence and oversight processes for outsourcing relationships are appropriately evaluated and modified to accommodate e-services.

BSFI 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 BSFI'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. BSFI 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 BSFI 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 BSFI's overall strategy. The BSFI 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 BSFI'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 BSFI'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 BSFI 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 BSFI 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 BSFI 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 BSFI management to provide adequate assurances that transactions performed and information flowed through the electronic delivery channels are properly protected. For this reason, the BSFI should maintain a strong and comprehensive security control system. As such, in addition to the information security standards in *Appendix 75*, the BSFI should also provide the following controls specific for e-services:

4.1.1. **Account Origination and Customer Verification.** The BSFI 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 BSFI 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[1].** The BSFI should use reliable and appropriate authentication methods to validate and verify the identity and authorization of customers. Authentication is facilitated by the use of factors, which are generally classified into three (3) basic groups:

a. Knowledge – Something the user knows (e.g., username, password, mobile PIN, card number account number);
b. Possession – Something the user has (e.g., payment card, token, one-time password); and
c. Inherence – Something the user is (e.g., biometrics)

As the number of factors increases, the window of compromise becomes more difficult. The use of single factor authentication alone is considered inadequate to address the risks inherent in sensitive communications and/or high-risk transactions. Thus, BSFIs should adopt multi-factor authentication (MFA) or use a minimum of two (2) factors in such instances. This requirement shall apply to online transactions where the risk of compromise is heightened. Sensitive communications and/or high-risk transactions requiring MFA include, among others, the following:

a. Enrollment in transactional e-services;
b. Payments and transfers to third parties;
c. Online remittance, including those for pick-up at the BSFI branches or via door- to-door delivery;

[1] BSFIs shall comply with the foregoing requirements on customer authentication by 30 September 2017. In this regard, a BSFI should be able to show its plan of actions with specific timelines, as well as the status of initiatives being undertaken to fully comply with the provisions of Item "*4.1.2*" of *Appendix 78,*, upon request of the Bangko Sentral starting May 2017. This transitory period, however, should not excuse BSFIs from immediately complying with the MFA requirements imposed by affiliated payment networks.

d. Account maintenance, including change in account information and contact details; and
e. Use of payment cards (e.g., ATM, credit and debit cards) in e-commerce websites.

For transactions that do not require real- time or near real-time authentication/ authorization, BSFIs may also opt to use positive confirmation in lieu of MFA. Positive confirmation refers to any form of communication that will enable the BSFI to timely and accurately verify the identity of the requesting customer. The BSFI should use a different communication channel other than the one where the request originated from when confirming sensitive communications and/or high-risk transactions.

The adoption of MFA techniques or positive confirmations for sensitive communications and/or high-risk transactions can increase customer confidence in e-services. In addition, it provides an opportunity for the customers to assist the BSFI in preventing and detecting fraudulent activity. Nevertheless, alternative and less stringent authentication procedures may be considered for the following:

a. Small-value payment or other low- risk transactions, provided the same are justified by a transaction risk analysis[1] and bounded by prudent thresholds established by the BSFI. The BSFI's methodology for setting the threshold should be adequately documented and independently validated at least annually;

b. Payments and transfers made to pre-enrolled merchants in the bills payment facility and those pre-registered recipients by the customer: Provided, That the BSFI employs a robust and reliable enrollment process for third party merchants and recipients; and

d. Transaction between two (2) accounts of the same customer at the same BSFI.

As authentication methods continue to evolve, the BSFI should monitor, evaluate, and adopt sound industry practices to address current and changing risk factors. The authentication process should be consistent with and support the BSFI'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 controls

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 BSFI 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 sender and receiver in an online transaction environment. Public key infrastructure[3], digital signature[4], digital certificate[5] and certification authority[6] 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

[1] *Transaction risk analysis* refers to the evaluation of risk related to a specific transaction taking into account various criteria including, but not limited to, customer behavioral transaction pattern, payee profile, nature of product/service to be acquired and transition value.
[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.
[3] *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.
[4] *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.
[5] *Digital Certificate* is the electronic equivalent of an ID card that authenticates the originator of digital signature.
[6] *Certification Authority (CA)* is the organization that attests using a digital certificate that a particular electronic message comes from a specific individual or system.

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 BSFI 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 BSFI'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.
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 BSFI 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 BSFI must provide safe-to-use intelligent electronic devices and ensure that customers are able to make safe use of these devises at all times.

The BSFI 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 BSFI 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 BSFI 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 BSFI 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 BSFI 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.

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 attack[1]. 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 HTML[2] 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 BSFI 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 BSFI 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 BSFI 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 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 BSFI's monitoring staff should be promptly alerted by its monitoring mechanism if suspicious online transfers and unusual activities are initiated. In these cases, the BSFI 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.

[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.

4.1.8. **Audit Trail.** The BSFI 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 (3) 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 BSFI 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.

4.1.9. **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 BSFI 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.

4.1.10. **Website Information and Maintenance.** Because the BSFI'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 BSFIs 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 BSFI's products and services on-line. To protect the BSFI from potential liability or reputational harm, it should test or otherwise verify the accuracy and appropriateness of these tools and programs.

The BSFI should carefully consider how links to third-party Internet Web sites are presented. "Hyperlinks[1]" may imply an endorsement of third-party products, services, or information that could lead to implicit liability for the BSFI. The BSFI 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 BSFI 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 BSFI 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 BSFI's transactional e-services portal through hyperlinks embedded in e-mails unless the website is validated by legitimate digital certificate.

Additionally, the BSFI 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. **Service Availability and Business Continuity.** The BSFI 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.

4.2.2. **Incident Response and Management.** The BSFI 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 75.*

4.2.3. **Outsourcing Management.** Increased reliance upon partners and third party service providers to perform critical e-services functions lessens BSFI 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 BSFI 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 BSFI'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 BSFI 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 BSFI should make reasonable endeavours to ensure that:

a. The BSFI'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 BSFI's privacy policies and relevant privacy issues concerning use of e-services;

c. Customers may decline ("opt out") from permitting the BSFI 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 BSFI'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 BSFI 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 BSFI.

The BSFI should set out clearly in its terms and conditions the respective rights and obligations between the BSFI 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 BSFI 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 BSFIs.

4.3.3. **Consumer Awareness**. Customer education is a key defense against fraud, identity theft and security breach. Therefore, the BSFI 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 BSFI 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 BSFI should convey to its customers.

4.3.4. **Complaints Resolution.** The BSFI 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 BSFI should also establish procedures to resolve disputes arising from the use of the e-services.

4.3. Cross-Border E-Banking Activities.

4.4.1. Before a BSFI 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 BSFI 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 BSFI should ensure that adequate information is disclosed on its Web site to allow potential customers to make a determination of the BSFI'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 BSFI 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 BSFI 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 BSFI senior management.

5.3. Subsequent to an initial independent assessment, the BSFI should conduct risk assessment at least every two (2) 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 BSFIs 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.

ANNEX A

SECURITY CONTROLS ON SPECIFIC ELECTRONIC SERVICES AND CHANNELS

In providing banking/financial services via electronic channels, such as ATM, internet and mobile devices, the BSFI 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 BSFI 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 BSFI, 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 BSFI should install surveillance camera or cameras which shall view and record all persons entering the facility. Such recordings shall be preserved by the BSFI 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 BSFI 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 BSFI as well as other BSFIs' hotline numbers for other cardholders who are allowed to transact business in the ATM, and police hotlines for emergency cases.

2. The BSFI 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 BSFI in recognizing the particular problem and to what degree it exists so that it can implement the necessary preventive measures. In this connection, all BSFIs 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 BSFI 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 BSFI 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 BSFI 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 BSFI'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 BSFIs 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 BSFI 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 BSFI 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 BSFI 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 BSFI should also be able to check the authenticity 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 BSFI 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 BSFI 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 BSFIs 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.

ANNEX B

DISCLOSURE REQUIREMENTS

1. General Requirement

BSFIs 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.

BSFIs 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 BSFI 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 BSFI's website to notify customers that they are leaving the BSFI's website and hence they are not protected by the privacy policies and security measures of the BSFI when they hyperlink to third party's website.

2. Disclosure Responsibility

a. Compliance officers should review BSFI's disclosure statements to determine whether they have been designed to meet the general and specific requirements set in the regulation;

b. For BSFIs 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 BSFIs 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 BSFI should ensure that the vendors comply with the disclosure requirements of the Bangko Sentral.

ANNEX C

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 six (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 BSFI 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.

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 BSFI concerned 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 BSFI.

iv. Memorize ATM card 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 BSFI.

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 BSFI.

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 BSFI.

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 BSFI 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 BSFI.

c) 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 BSFI.

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, BSFIs should devise effective methods and channels for communicating with them on security precautions. They may make use of multiple channels (e.g., BSFI websites, alert messages on customers mobile phone, messages printed on customer statements, promotional leaflets, circumstances when BSFI's frontline staff communicate with their customers) to enforce these precautionary measures.

(Circular No. 958 dated 25 April 2017)

AUTHORIZATION FORM FOR QUERYING THE BANGKO SENTRAL WATCHLIST FILES FOR SCREENING APPLICANTS AND CONFIRMING APPOINTMENTS OF DIRECTORS AND OFFICIALS
(Appendix to Section 138 on Watchlisting)

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 Section 138 on confidentiality:

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 Bangko Sentral; and

b) The Bangko Sentral 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

ACKNOWLEDGMENT

REPUBLIC OF THE PHILIPPINES)
PROVINCE/CITY OF) S.S

BEFORE ME, this _____ day of _____ 200___ in _____personally appeared the following person:

Name	Comm. Tax Cert. No.	Date of Issue	Place of Issue

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 _____.

Circular No. 969 dated 22 August 2017

FINANCIAL REPORTING PACKAGE
(Appendix to Sec. Section 172)

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
(10)	Schedule 10	:	Interbank Loans Receivables
(11)	Schedule 11	:	Loans and Receivables– Others
(12)	Schedule 11a to 11 a4	:	Loans and Receivables – Others, Classified as to Status
(13)	Schedule 11b to 11b4	:	Restructured Loans and Receivables, Classified as to Status
(14)	Schedule 11d to 11d4	:	Loans and Receivables – Others, at Amortized Cost, Classified as to Type of Business/ Industry
(15)	Schedule 11f	:	Schedule of Agri/Agra, Microfinance and SME Loans Receivables, Classified as to Counterparty

(16)	Schedule 12	:	Loans and Receivables Arising from Repurchase Agreements, Certificates of Assignment/ Participation with Recourse and Securities Lending and Borrowing Transactions, By Counterpart
(17)	Schedule 15	:	Equity Investment in Subsidiaries, Associates and Joint Ventures
(18)	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
(22)	Schedule 24	:	Bills Payable
(23)	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 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 to 6c(3)	:	Available for Sale Financial Assets Movements in Allowances for Credit Losses
(3)	Schedule 7b	:	Fair Value of Held to Maturity Financial Assets
(4)	Schedule 7c to 7c(3)	:	Held to Maturity Financial Assets ("Collateral and Other Credit Enhancements Received as Security for the Related Impaired and Past Due Assets" column)
(5)	Schedule 7d to 7d(3)	:	Held to Maturity Financial Assets Movements in Allowances for Credit Losses
(6)	Schedule 8a	:	Fair Value of Unquoted Debt Securities Classified as Loans
(7)	Schedule 8b to 8b(3)	:	Unquoted Debt Securities Classified as Loans ("Collateral and Other Credit Enhancements Received as Security for the Related Impaired and Past Due Assets" column)
(8)	Schedule 8c to 8c(3)	:	Unquoted Debt Securities Classified as Loans Movements in Allowances for C Losses
(9)	Schedule 11e to 11e(3)	:	Loans and 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 follows[1]: (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 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.

[1] Provide Columns (in US$ and Peso Equivalent) for foreign accounts, where applicable.

(a.2) Bangko Sentral

(a.3) Banks

(i) *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.

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.

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.

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.

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 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

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

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. Commonwealth of Independent States – Armenia; Azerbaijan; Belarus; Georgia; Kazakhstan; Kyrgyz Republic; Moldova; Mongolia; Russia; Tajikistan; Turkmenistan; Ukraine and Uzbekistan.

(iii) 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.

(iv) 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.

(v) 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 Nos. 890 dated 02 November 2015 and 837 dated 18 June 2014, M-2014-009 dated 17 March 2014)

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 OVERNIGHT DEPOSIT FACILITY (ODF)

(Appendix to Section 601)

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 facilities 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 eligible banks shall not place in the TDF and in the ODF funds obtained, directly or indirectly, from non-residents: *Provided,* That funds inwardly remitted by a foreign bank intended as capital of its branch or subsidiary in the Philippines shall be eligible for placement in the TDF and the ODF of the Bangko Sentral.

An eligible bank is required to submit to the Bangko Sentral's Treasury Department a notarized Letter of Undertaking (LOU) (Annex "A") committing it is qualified as a counterparty of the Bangko Sentral TDF and the ODF.

It is the responsibility of an eligible bank 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 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 to the TDF and/or the ODF.

The eligible bank shall report to the appropriate supervising department of the Bangko Sentral all existing TDF and ODF placements not consistent with these guidelines. Such placements shall not be renewed and shall be terminated upon maturity.

(Circular No. 995 dated 5 February 2018, 961 dated 02 June 2017, M-2016- 016 dated 18 November 2016 and Circular No. 913 dated 02 June 2016)

Annex A

(Institution's Letterhead)

Date: _____

The Treasury Department
Bangko Sentral ng Pilipinas
A. Mabini St., Malate, Manila

Letter of Undertaking

Pursuant to Sec. 601, 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)	(President or Equivalent Position)
Signature Over Printed Name	Signature Over Printed Name

SUBSCRIBED AND SWORN TO before me this day of _____ at _____, affiant/s exhibiting their _____, to wit:

NOTARY PUBLIC

Doc. No. _____;
Page No. _____;
Book No. _____;
Series of 20_____;

Annex B

(Institution's Letterhead)

Date: _____

The Treasury Department
Bangko Sentral ng Pilipinas
A. Mabini St., Malate, Manila

Letter of Undertaking

Pursuant to Sec. 601, 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)	(President or Equivalent Position)
Signature Over Printed Name	Signature Over Printed Name

SUBSCRIBED AND SWORN TO before me this day of _____ at _____, affiant/s exhibiting their _____, to wit:

NOTARY PUBLIC

Doc. No. _____;
Page No. _____;
Book No. _____;
Series of 20_____;

GUIDELINES IN DETERMINING COMPLIANCE WITH CEILINGS ON EQUITY INVESTMENTS
(Appendix to Secs. 373, 374, 375, 376-A and 378)

The following are the guidelines in determining compliance with ceilings on equity investments prescribed under Sections 373, 374, 375, 376-A and 378, 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 Secs. 378 and 374: *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. 373, 374, 375, 376-A and 378: *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 Section 376-A;
   (2) Acquisition of shares of stock of non-allied enterprises other than those specified under Section 376-A 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 Section 376-A;
   (4) Acquisition of shares of stock of venture capital corporation in excess of limits provided in Sec. 374;
   (5) Acquisition of shares of stock of financial allied enterprises by banks, in excess of limits provided in Sec. 373;
   (6) Acquisition of shares of stock of non-financial allied enterprises by TBs and RBs in excess of limit provided in Sec. 375; and
   (7) Acquisition of shares of stock in excess of limits provided in Sec. 378;

   Provided, further, That said confirmation shall be subject, among others, to the condition that such shares of stock shall be disposed of within a reasonable period not to exceed five (5) years from the date of acquisition thereof.

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. 376-A;
(2) Those with universal banking authority with acquired shares of stock non- allied enterprises in settlement of loans other than those specified under Sec. 376-A;
(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 Sec. 376-A;
(4) Those with acquired shares of stock of financial allied enterprises in settlement of loans that are in excess of limits provided in Sec. 373; 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. 375.

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.

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 1111)

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) bundles[1] 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 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) bundles[1] 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 -

[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.

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	₱ 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 and signature of the Bangko Sentral accountable officer (for CD)/Teller (RMASS), 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) bags[1] per denomination for CD, while for RMASS, twenty (20) bags of one (1) or various denominations and by classification (fit or unfit) and placed in the prescribed bag[2].

(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 Section 1111. 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 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.

[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.

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[3]. 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] 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.

(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.

(Circular No. 931 dated 09 December 2016)

APPRAISAL AND LOAN VALUATION FRAMEWORK FOR
RIGHTS-BASED SECURE TENURE ARRANGEMENTS AS COLLATERAL SUBSTITUTES
(Appendix to Sec. 314 on Housing Microfinance Loans)

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.

I. 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.

II. 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

III. 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	*Usufruct agreement or contract* – 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	*Lease agreement or contract* – 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	*OCT/TCT* – Torrens title issued by the Register of Deeds evidencing absolute ownership of real property *Interim Title, Contract to Sell or Conditional Sale* – 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
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

BASIC STANDARDS IN THE ADMINISTRATION OF TRUST,
OTHER FIDUCIARY AND INVESTMENT MANAGEMENT ACCOUNTS
(Appendix to Sec. 401)

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 Bangko Sentral 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 Bangko Sentral 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 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 trust entity'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 iliquid shall be carefully reviewed prior to acceptance to ensure that the trust entity only accepts accounts which hold assets it may be able to properly manage.

Prior to the acceptance of a fiduciary account, the trust entity shall review the underlying instrument (trust agreement or contract) for potential conflicts of interest. If such conflict exists, the trust entity shall take appropriate action to address such condition before the account is accepted.

In cases where the trust entity is chosen as a successor trustee or investment manager, the trust entity shall perform a review and evaluation of all assets to be delivered to the trust entity to determine how these would serve the client's objectives, whether the trust entity 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.

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*[1]. This process defines the trust entity's policies and procedures for client/account identification, consistent with the trust entity's KYC policy for compliance with anti-money laundering regulations; identification of the needs of the client; the objective(s) of the

[1] Trust entities (TE) shall be given six (6) months from 01 August 2017 to make appropriate changes in their policies, processes, and procedures in order to comply with the above requirements.

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 UITFs, 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 UITF clients. The account opening process shall at least involve the following:

(1) As a general rule, client profiling shall be performed for all UITF and regular trust, other fiduciary and investment management accounts via a duly acknowledged Client Suitability Assessment (CSA), which aims to provide the trust entity 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:

(a) court trust;
(b) legislated and quasi-judicial trust;
(c) trust under indenture;
(d) facility/loan agency;
(e) transfer agency;
(f) depository and reorganization;
(g) escrow;
(h) custodianship;
(i) safekeeping; and
(j) 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.

(i) CSA

The trust entity 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 trust entity 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 trust entity for directional accounts.

(ii) Minimum information required for CSA[1]:

(aa) 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.

(bb) 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.

[1] TEs may already invest their existing money market UITFs for conservative clients in securities issued by the National Government: *Provided*, That the amended plan rules have been approved by the TE's board of directors, and that existing participants in the said money market UITFs shall be immediately notified and shall be allowed to withdraw their participations within reasonable time prior to such investment but in no case less than ten (10) banking days from notification.

The Bangko Sentral shall be notified of the amendments to the Plan Rules within thirty (30) banking days from approval of the amendments by the board of directors of the TE. The notice and the amendment to the Plan Rules shall be considered as *"Category A-3"* reports.

(cc) 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.

(dd) Knowledge and financial situation. For complex transactions where the level of risk involved is greater, the trust entity 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.

(ee) Investment time frame and liquidity requirement. The trust entity is able to organize the portfolio in a manner that will provide for anticipated liquidity requirement through redemption of principal contribution or earnings.

(ff) Risk tolerance. Allow the trust entity 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, 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/or deposits with financial institutions in any foreign country: *Provided,* That said financial institution has at least an investment grade credit rating from a reputable international credit rating agency. For purposes of investing in a UITFs, a client wants an investment strategy where the primary objective is to prevent the loss of principal and where the fund is invested in securities issued by the National Government and/or deposits with local banks/branches of foreign banks operating in the Philippines and/or with financial institutions in any foreign country: *Provided,* That said financial institution 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.

(iii) Investment policy statement

Trust entity managing discretionary accounts 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 trust entity shall make a recommendation only after having reasonably determined that the proposed investment is suitable to the client's and/or beneficiary's risk profile/tolerance, financial situation, investment experience, and Investment objectives.

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:

(aa) Client's risk tolerance;

(bb) Investment and/or return objectives;

(cc) Liquidity requirements;

(dd) Investment horizon;

(ee) Investment strategy and rebalancing;

(ff) Portfolio construction process, including asset allocation and security selection criteria;

(gg) Investment restrictions - identifying any limitation which the client may have for the portfolio such as, but not limited to, single/group exposure limits, investment restrictions (e.g., prohibited investments), and client's consent for taking losses; and

(hh) Investment performance review- indicating proposed market benchmarks and the desired frequency of the performance review reporting.

A trust entity shall review the IPS of each client, offer suggestions on clarifying any necessary changes in the IPS, and discuss with the client various techniques and strategies to be used to meet the client's investment goals. A trust entity shall have a mechanism in place to ensure that this review is done periodically and that only appropriate investments and investment strategies are included in a client's portfolio and are aligned with the IPS.

For UITF, the IPS is equivalent to the investment objective of the fund specifically stated in the Declaration of Trust.

(iv) Option of client to re-classification

Generally, the trust entity shall recommend the investment product/ portfolio/strategy suitable to the client based on the results of the CSA. The trust entity 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:

(aa) The client shall state in writing to the trust entity that –

- He does not agree with or accept the recommendation of the trust entity 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.

(bb) The trust entity 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.

(cc) The trust entity shall have taken all reasonable steps to ensure that the client meets all relevant requirements as provided for in the trust entity's written policies.

For non-discretionary accounts, the trust entity shall observe the above requirements for every transaction allowing clients to invest in products/portfolio/strategy with a higher risk than those corresponding to their CSA profile results.

(v) Frequency of CSA and IPS

(aa) The CSA shall be performed and the IPS shall be formulated and executed prior to the opening of the account;

(bb) The trust entity 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 trust entity, on account of a change in personal/financial circumstances or preferences, the trust entity 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 entity shall ensure that the CSA and the IPS are updated at least annually. Otherwise, the trust entity shall not make new/additional investments in complex investment products;

(cc) The trust entity shall ensure that periodic written notices given to clients reminding them of such updates are received/acknowledged by clients or their authorized representatives;

(dd) Updated CSA and IPS shall be acknowledged by the client;

(ee) The frequency of review shall be included as a provision in the written agreement; and

(ff) 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.

(2) Identification of degree of discretion granted by client to the trust entity. This process involves the determination of the extent of discretion granted to the trust entity to manage the client's portfolio.

(a) Discretionary. The trust entity has authority or discretion to invest the funds/ property of the client in accordance with the parameters set forth by the client; and

(b) Non-discretionary. Investment activity of the trust entity 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 trust entity 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 UITF, 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 Sec. 413 (*Minimum documentary requirements*) for trust and other fiduciary accounts and Sec. 415 (*Minimum documentary requirements*) for investment management accounts. In addition, the Agreement shall contain the following provisions:

- A description of the services to be provided;
- All charges relating to the services or instruments envisaged and how the charges are calculated;
- The obligations of the client with respect to the transactions envisaged, in particular his financial commitments towards the trust entity; and
- 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 trust entity 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 trust entity shall disclose to the client and require client's prior written conformity to the following:

- Key features of investment services and financial instruments envisaged, according to the nature of such instruments and services;

- The type(s) of instruments and transactions envisaged;
- The obligations of the trust entity with respect to the transactions envisaged, in particular, its reporting and notice obligations to the clients; and
- 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 trust entity shall provide a clearly stated and easily understood Risk Disclosure Statement to its clients, which 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:

- 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;

- If the investment outlet is exposed to any major or specific risks, a description and explanation of such risks shall be clearly stated; and

- 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 trust entity 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 UITFs) 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 re-affirm 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 trust entity, the former assumes full risk on the investment and related activities, and counterparties. Relevant changes in the trust entity's organization or investment policies that may affect the client's decision to continue the services of the trust entity 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 trust entity 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 trust entity 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 trust entity shall keep its clients informed of the investment and related activities by rendering periodic reports and financial statements prescribed under Sec. 435 and as necessary. The types of reports and statements and the frequency of their submission must be clearly specified in the trust entity's written policies and procedures.

The trust entity 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 trust entity'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 trust entity. 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 trust entity 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 trust entity up to the execution of actual investment;
ii. Credit criteria and rating used;
iii. Manner by which the trust entity handles the information, including confidential and material data, which is shared between and among the departments, subsidiaries or affiliates of the trust entity; and
iv. Clear delineation of duties and responsibilities of each of the departments, subsidiaries and affiliates of the trust entity, where such groups or entities share the credit process.

(b) *Counterparty accreditation process*. The trust entity 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 trust entity handles the information, including confidential and material data, which are shared between and among the departments, subsidiaries or affiliates of the trust entity;
iv. Usage, duties and responsibilities of each of the department, subsidiaries and affiliates of the trust entity, 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 trust entity, 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 trust entity in the execution of its fund/asset management function. The primary objective of such process is to create a structure that will assure trust entities 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 trust entity'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 trust entity 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 trust entity 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 trust entity shall be required to measure performance based on benchmarks to gauge or measure the performance of the account. The trust entity must have clear definition of its benchmarking policy.

- Limits. Identifies any limitations on portfolio management which the client may impose on the trust entity. 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 trust entity 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 trust entity 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. Trust entities 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 trust entity establish appropriate investment policies and strategies, select appropriate investments, and manage risks effectively.

vi. The trust entity shall have a process that will confirm trust personnel with investment functions know and follow the board-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 trust entity 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 trust entity 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 trust entity, reviewed periodically and updated at least annually.

(d) *Best practices*. The trust entity 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 trust entity 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 trust entity in relation to credit (debt), shareholder, and investment position taking. The policy shall state the duties and responsibilities of the trust entity 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 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 trust entity 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 trust entity 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 trust entity 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 trust entity 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 trust entity 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 trust entity shall take all reasonable steps to execute promptly client orders in accordance with the instruction of clients.

- The trust entity, when acting for or with clients, shall always execute client orders on the best available terms.

- The trust entity 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 trust entity and chooses to purchase another investment product which is not recommended, the trust entity 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 trust entity 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 Sec. 413 and Sec. 415.

viii. Valuation. The trust entity 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 trust entity. The trust entity must ensure that the valuation processes of service providers, custodians, and other subcontractors are compatible with those of the trust entity 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 trust entity 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 trust entity 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 trust entity must develop policies and procedures to identify and deal with conflicts of interest situations.

C. *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 trust entity. 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 trust entity'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 trust entity must ensure the risk control processes are observed when terminating accounts just as when accepting them.

The trust entity 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 trust entity 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. 1020 dated 07 November 2018 and 966 dated 11 July 2017)

RISK MANAGEMENT GUIDELINES FOR TRUST AND OTHER FIDUCIARY BUSINESS AND INVESTMENT MANAGEMENT ACTIVITIES
(Appendix to Sec. 401)

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.

III. Risk Management Principles for Fiduciary Activities

Risk management practices must be designed to ensure that exposures are well within trust entities capacity to manage and risks taken by the trust entity 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 institutions' 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 trust entities 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 board of directors/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:

a. *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 trust entity 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, 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.

b. *Market risk* is the current and prospective risk to client's earnings or principal contribution arising from changes in the value of the trust entity's holdings of investment portfolios. Market risk arises from dealing and position-taking activities in interest rate, foreign exchange and equity markets.

c. *Liquidity risk* is the current and prospective risk to client's earnings or principal contribution arising from a trust entity'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 trust entity shall determine and maintain adequate level of liquidity in each accounts based on client-defined constraints/circumstances or product specifications.

d. *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 trust entity 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 trust entities 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 trust entity.

e. *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 trust entity may be ambiguous or untested. This risk exposes the trust entity 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 trust entity's reputation.

f. *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 trust entity'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.

g. *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 trust entity'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 trust entity's ability to establish new fiduciary relationships or services, or continue servicing existing relationships. Since public's perception is critical in the fiduciary business, trust entities should exercise an abundance of caution in dealing with clients and the public in general.

V. Risk Management Process

A trust entity 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 trust entity. These processes shall also recognize and address the differences in the needs, objectives and risk tolerance of the clients and the trust entity. An effective risk management program can serve as an early warning system that enables the trust entity to anticipate and/or pro-actively identify potential problems from arising which may result in unanticipated loss to the clients and the trust entity. A risk management program should:

a. *Identify risk*. Trust entities 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 trust entity'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 trust entity and client after taking into account the willingness and the ability to absorb risks.

b. *Measure risk*. Trust entities 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 trust entity'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.

c. *Monitor risk*. Trust entities 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.

d. *Control risk*. Trust entities 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 board of directors/Trust Committee and the client. Trust entities shall implement a process for tracking and reporting exposures to monitor the trust entity'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 69* (Appendix to Sec. 141), the Bangko Sentral shall assess the suitability and adequacy of a trust entity's risk management system in accordance with the following elements:

A. Active Board and Senior Management Oversight

a. 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.

b. 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 trust entity shall have Board-approved written risk management policies and documentation standards which provide detailed guidance for the day-to-day implementation of the trust entity's strategies and generally include risk limits, operating procedures and control processes designed to safeguard the trust entity 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 board of directors/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[1]
(e) Trust Department/Branch/Unit Heads[1]
(f) Account officers/Marketing personnel, including those assigned in branches[1]
(g) Trading or Dealing officers and staff[1]
(h) Backroom officers and staff[1]

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 board of directors, 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 trust entities shall be guided by the minimum requirements prescribed in *Appendices 70* (Appendix to Sec. 142) and *71 (*Appendix to Sec. 144), and the guidelines provided under *Appendix 22* (Appendix to Sec. 613) as applicable.

Trust entities are expected to adopt models/ methodologies commensurate to the size, complexity and nature of the fiduciary activities undertaken. In addition, the trust entity'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 board of directors and the trust committee

Trust entities 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 board of directors 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 trust entity. 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.

[1] Including minimum qualification standards.

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 board of directors should ensure that the impact of emerging technologies on fiduciary activities is properly considered. The board of directors and Trust Committee shall be afforded with adequate information on the trust and investment management activities to properly fulfill their responsibilities. Accordingly, the trust entities shall have policies and procedures in reporting information on fiduciary activities to the board of directors 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 MIS shall be commensurate with the complexity and diversity of the trust entity's operations such that a complex trust entity shall have a more comprehensive MIS.

Because of the cost involved in developing technology, a trust entity may opt to purchase information technology rather than develop its own internal system. Nonetheless, regardless of the source of information system, the board of directors 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 trust entity'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 trust entity and its fiduciary risk management system. It shall form an integral part of the trust entity'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 board of directors 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 trust entity'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 board of directors 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 trust entity'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 trust entity'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 trust entity's fiduciary activities, existing Bangko Sentral regulations require the conduct of periodic internal audits of the trust entity at least once every twelve (12) months. The board of directors 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 trust entity'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 board of directors. Moreover, the audit committee and/or board of directors 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 trust entities and of each unit investment trust fund by an independent auditor acceptable to the Bangko Sentral.

Compliance Program

The trust entity 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 Section 161.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 board of directors must recognize the scope and implications of applicable laws; approve a compliance program that protects the trust entity 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 trust entity to another. Nevertheless, an effective compliance programs have common elements that include:

a. A strong commitment from the board of directors and Trust Committee;
b. A formalized program coordinated by a designated compliance officer that includes periodic testing and validation process;
c. Responsibility and accountability from line management;
d. Comprehensive training programs; and
e. Timely reporting and follow-up process.

(Circular No. 972 dated 22 August 2017)

GUIDELINES FOR DAYS DECLARED AS PUBLIC SECTOR HOLIDAYS

(Appendix to Sections 802 on Check Clearing Operations During Public Sector Holidays, 254, and 601 on Monetary Operations)

Table of standard operating procedures of the Bangko Sentral 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							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	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	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	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	Closed	Non-Reserve	Closed	Closed	No clearing; no settlement. PCHC will issue an advisory to its processing checks members that it will continue accepting and processing checks	To be decided in coordination with Head Office
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

Time of receipt of Public Holiday Announcement by the Bangko Sentral		Bangko Sentral							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
	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
6. In case the suspension of work is extended to Day 2													

Time of receipt of Public Holiday Announcement by the Bangko Sentral		Bangko Sentral				PDS	PhilPASS	Cash Dept Withdrawal	Reserve Position	Bureau of the Treasury		PCHC	
		Treasury Department											
		Trading and Settlement											
		ODF	OLF	TDF	Overnight RRP Facility					Auction	Sec. Mkt	Manila	Regional
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				PDS	PhilPASS	Cash Dept Withdrawal	Reserve Position	Bureau of the Treasury		PCHC	
		Treasury Department											
		Trading and Settlement											
		ODF	OLF	TDF	Overnight RRP Facility					Auction	Sec. Mkt	Manila	Regional
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 3	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 Treasury Department Trading and Settlement				PDS	PhilPASS	Cash Dept Withdrawal	Reserve Position	Bureau of the Treasury		PCHC	
		ODF	OLF	TDF	Overnight RRP Facility					Auction	Sec. Mkt	Manila	Regional
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.													

(Circular Nos. 921 dated 22 August 2016 and 913 dated 02 June 2016, M-2008-025 dated 13 august 2008)

GUIDELINES ON THE AVAILMENT OF US DOLLAR DENOMINATED REPURCHASE AGREEMENT FACILITY WITH THE BANGKO SENTRAL
(Appendix to Section 601 on Repurchase Agreements with Bangko Sentral)

The guidelines on the availment of USD denominated repo agreement facility of banks with the Bangko Sentral are as follows:

A. Eligible borrowers

RBUs or FCDU/EFCDUs 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 Bangko Sentral '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 such other documents as may be deemed necessary, to the Treasury Department, copy furnished the appropriate CPCD and SES, to aid Bangko Sentral 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 Bangko Sentral are required to submit to the appropriate supervising department of the Bangko Sentral the following:

1. Report on the deployment/utilization of USD repo borrowing and other documents and supplemental information, as may be required, to enable Bangko Sentral 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 Bangko Sentral 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 Bangko Sentral 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 Bangko Sentral 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 Bangko Sentral and shall be accounted for in accordance with the FRP issued under Sec. 172

Eligible securities booked under the HTM category shall be subject to the tainting provision provided under Sec. 381 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 Sec. 601, including but not limited, to termination of eligibility and pre- termination of any outstanding balance through repayment and/or sale of the collateral.

GUIDELINES ON THE SUBMISSION OF APPLICATION FOR MERGER AND CONSOLIDATION
(Appendix to Section 104 on Requirement of Bangko Sentral Approval)

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 Bangko Sentral of a satisfactory action plan, if applicable, to address serious supervisory concerns.

2. Submission of the following documentary requirements simultaneously to the Bangko Sentral and the PDIC for merger/ consolidation application involving a bank; and to the Bangko Sentral 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- 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 (see Annex A for the sample list of merger incentives);

    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;

    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 Bangko Sentral and/ or PDIC.

3. For merger/consolidation involving a bank, the Bangko Sentral 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 Bangko Sentral approval.

GUIDELINES ON THE COLLECTION OF THE ANNUAL SUPERVISORY FEES
(Appendix to Section 1101)

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 Section 1101 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
      (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 Section 1101 shall apply.

(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)

REGULATORY RELIEF FOR BANKS AFFECTED BY CALAMITIES
(Footnote to Secs.143, 255 and 282)

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. 304 (Past Due Account and Non-Performing Loans) on the dates specified in Item "II" of Annex A and those maturing up to the dates indicated in Item "II" of Annex A, from computation of past due loan ratio: *Provided,* That Bangko Sentral documentary requirements for restructuring of loans for this purpose are waived: *Provided, further*, That bank will adopt appropriate and prudent operational controls;[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 "II" of Annex A;

c. Non-imposition of penalties on legal reserve deficiencies of RBs/TBs/Coop Banks with head office and/or branches/EOs/MBOs in the affected areas incurred within the inclusive dates specified in Item *"II"* of Annex A: *Provided*, That 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 "II" 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 *"II"* 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 *"II"* 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 regularization[2].

For All Rediscounting Banks

a. Upon application, granting of a 60-day grace period to settle the outstanding rediscounting obligations as of the dates specified in Item *"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 appropriate supervising department of the Bangko Sentral; 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

[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.

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.

(Circular Nos. 974 dated 29 September 2017, 945 dated 06 February 2017, M-2017-002 dated 18 January 2017, 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)

Annex A

LIST OF AREA COVERED BY THE REGULATORY RELIEF; INCLUSIVE DATES OF COVERAGE; AND IMPLEMENTING GUIDELINES ON THE RESTRUCTURING SCHEME
(Footnote to Sec.143 on Credit Classification and Provisioning, Sec. 355, Sec. 304 on Past Due Account and Non-Performing Loans, and Sec. 282 on Rediscount/lending rates and liquidated damages and Repayments/remittance of collections/arrearages)

I. Areas that were Declared under State of Calamity:

EL NIÑO

a) 2010

Region I: La Union, Pangasinan, Ilocos Norte and Ilocos Sur
Region II: Cagayan, Isabela, Nueva Vizcaya and Quirino
Region III: Bataan, Bulacan, Nueva Ecija, Pampanga, Tarlac and Zambales
Region IV-A: Cavite , Laguna, Batangas, Rizal and Quezon
Region V: Albay [six (6) municipalities and two (2) cities], Camarines Sur [eighteen (18) municipalities and two (2) cities], Camarines Norte [nine (9) municipalities], Sorsogon [one (1) municipality], Catanduanes [six (6) municipalities], and Masbate [fourteen (14) municipalities and one (1) city]
Region VI: Antique, Guimaras, Iloilo, Negros Occidental and Capiz
Region VII: Twenty-eight (28) mountain barangays in Cebu City, and Negros Oriental Region IX: Zamboanga del Norte, Zamboanga Sibugay and Zamboanga City
Region X: Lanao del Sur, Lanao del Norte, Bukidnon, Misamis Occidental and Misamis Oriental Region XI: Davao del Sur, Davao del Norte and Davao City
Region XII: Cotabato Province, Sultan Kudarat, Sarangani, South Cotabato, and Maguindanao Province [seventy-five (75) municipalities] Cordillera: Ifugao, Kalinga, Apayao, Mt. Province, Abra and Administrative Region

b) 2016

Banks with head offices and/or branches located in areas which were affected by the El Niño phenomenon: Provided, 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.

JUAN

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 and Rizal
e. Cordillera Administrative Region (CAR): Abra, Apayao, Benguet, Ifugao, Kalinga and Mt. Province
f. National Capital Region (NCR): Manila

LANDSLIDES AND FLOODING

a. Region IV-B: Palawan
b. Region V: Albay, Sorsogon, Camarines Sur and Catanduanes
c. Region VI: Negros Occidental
d. Region VII: Cebu, Bohol, Negros Oriental and Siquijor
e. Region VIII: Southern Leyte, Eastern Samar, Western Samar, Northern Samar and Leyte
f. Region X: Lanao del Norte and Misamis Occidental
g. Region XI: Compostela Valley, Davao del Norte, Davao del Sur and Davao Oriental
h. Region XII: South Cotabato
i. Region XIII (CARAGA): Surigao del Norte, Surigao del Sur, Agusan del Norte and Agusan del Sur
j. Autonomous Region of Muslim Mindanao (ARMM): 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. 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 Mt. 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 Mt. 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 Mt. Province

HABAGAT

a. Region I: Ilocos Sur, La Union and Pangasinan
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 Mt. 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 and Negros Occidental
b. Region VII: Bohol, Cebu and Siquijor

YOLANDA

a. Region IV-A: Batangas, Cavite, Laguna, Quezon and Rizal
b. Region IV-B: Marinduque, Occidental Mindoro, Oriental Mindoro, Palawan and Romblon
c. Region V: Albay, Camarines Norte, Camarines Sur, Catanduanes, Masbate and Sorsogon
d. Region VI: Aklan, Antique, Capiz, Guimaras, Iloilo and Negros Occidental
e. Region VII: Bohol, Cebu and Negros Oriental
f. Region VIII: Biliran, Eastern Samar, Leyte, Northern Samar, Samar and Southern Leyte
g. Region X: Bukidnon, Camiguin, Lanao del Norte and Misamis Oriental
h. Region XI: Compostela Valley and Davao Oriental
i. Region XIII (CARAGA): Agusan del Norte, Dinagat Island, Surigao del Norte and 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. ARMM: Maguindanao

GLENDA

a. 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. 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 and Valenzuela City
b. Region III: Bataan
c. Region IV-A: Batangas, Cavite, Laguna, Quezon and Rizal
d. Region IV-B: Marinduque, Occidental Mindoro, Oriental Mindoro, Palawan and Romblon
e. Region V: Albay, Camarines Norte, Camarines Sur, Catanduanes, Masbate and Sorsogon
f. Region VI: Aklan, Antique, Capiz, Guimaras, Iloilo and Negros Occidental
g. Region VII: Bohol, Cebu, Negros Oriental and Siquijor
h. Region VIII: Biliran, Eastern Samar, Leyte, Northern Samar, Samar (Western Samar) and Southern Leyte
i. Region XIII: Agusan del Norte, Agusan del Sur, Dinagat Islands, Surigao del Norte and 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 and 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 (CARAGA): Agusan Del Norte, Agusan Del Sur, Dinagat Islands, Surigao Del Norte and 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. CAR: Abra, Apayao, Baguio City, Benguet,Ifugao, Kalinga and Mt. 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. CAR: Abra, Apayao, Benguet, Ifugao, Kalinga and Mountain Province

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 Mt. Province

NINA

a. Region IV-A: Batangas, Cavite, Laguna, Quezon and Rizal
b. Region IV-B: Marinduque, Occidental Mindoro, Oriental Mindoro and Romblon
c. Region V: Albay, Camarines Norte, Camarines Sur, Catanduanes, Masbate and Sorsogon
d. Region VIII: Northern Samar

JOSIE

a. Region I: Ilocos Norte, Ilocos Sur, La Union, and Pangasinan
b. Region II: Cagayan
c. Region III: Bataan, Bulacan, Nueva Ecija, Pampanga, Tarlac, and Zambales
d. Region IV-A: Cavite, Laguna Batangas, Rizal; and Quezon
e. Region IV-B: Oriental Mindoro, and Occidental Mindoro
f. CAR: Abra, Benguet, Ifugao, Kalinga, and Mountain Province
g. NCR: Cities of Malabon, Marikina, Paranaque, Pasig, Quezon, and Valenzuela

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	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	7/25/2011
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 02/23/2011	02/29/2012	08/25/2011	8/25/2011
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

[1] Excluding TBs

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
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	11/08/2013
Agaton	01/17/2014 to 03/31/2015	01/17/2014 to 03/31/2015	01/17/2014 to 09/30/2014	01/23/2014 to 07/24/2014	09/30/2014	01/17/2014	01/17/2014
Glenda	07/14/2014 to 09/30/2015	07/14/2014 to 09/30/2015	07/14/2014 to 03/31/2015	07/14/2014 to 01/15/2015	03/31/2015	07/14/2014	07/14/2014
Luis and Mario	09/14/2014 to 09/30/2015	09/14/2014 to 09/30/2015	09/14/2014 to 03/31/2015	09/19/2014 to 03/13/2015	03/31/2015	09/14/2014	09/14/2014
Ruby	12/06/2014 to 12/31/2015	12/06/2014 to 12/31/2015	12/06/2014 to 06/30/2015	12/11/2014 to 06/11/2015	06/30/2015	12/06/2014	12/06/2014
Seniang	12/29/2014 to 12/31/2015	12/29/2014 to 12/31/2015	12/29/2014 to 06/30/2015	01/01/2015 to 07/02/2015	06/30/2015	12/29/2014	12/29/2014
Ineng	08/18/2015 to 08/31/2016	08/18/2015 to 08/31/2016	08/18/2015 to 02/29/2016	08/21/2015 to 02/25/2016	02/29/2016	08/18/2015	08/18/2015
Lando	10/18/2015 to 10/31/2016	10/18/2015 to 10/31/2016	10/18/2015 to 04/30/2016	10/22/2015 to 04/21/2016	04/20/2016	10/18/2015	10/18/2015
El Niño (2016)	For a period of 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 state of calamity	For a period of one (1) year from declaration date of state of calamity	Declaration date of state of calamity	Declaration date of state of calamity
Lawin	10/19/2016 to 10/31/2017	10/19/2016 to 10/31/2017	10/19/2016 to 04/30/2017	10/25/2016 to 04/25/2017	04/30/2017	10/19/2016	10/19/2016
Nina	12/25/2016 to 12/31/2017		12/25/2016 to 06/30/2017	12/29/2016 to 06/29/2017	06/30/2017	12/25/2016	12/25/2016
Josie	7/21/2018 to 7/31/2019		07/21/2018 to 01/31/2018	07/26/2018 to 01/31/2019	01/31/2019	07/21/2018	07/21/2018

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 appropriate supervising department of the Bangko Sentral, 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:

(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 Execution of Cancellation of Deeds of Real Estate Mortgage Assignment or Pledge	Director, DLC, or in his/ her absence, any of the DLC Deputy Directors 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.

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 3 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;
x) El Niño (2016) - up to 13 November 2016;
y) Lawin - up to 30 April 2017;
z) Nina - up to 30 June 2017; and
aa) Josie – up to 31 January 2019.

(M-2018-024 dated 16 August 2018, Circular Nos. 974 dated 29 September 2017, 945 dated 06 February 2017, M-2017-002 dated 18 January 2017, M-2016-020 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)

ADDITIONAL SPECIAL REGULATORY RELIEFS TO BANKS IN AREAS SEVERELY AFFECTED BY TROPICAL DEPRESSION "YOLANDA"
(Footnote to Sec. 105 on Establishment/Relocation/Voluntary Closure/ Sale of Branches/Branch-lite Units and Other Offices, Opening of branches/branch-lite units, Sec. 109 on Appreciation or increase in book value, 382, 921, 1101)

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 banks[1] 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.

b. Borrowers who benefited from the debt relief may be allowed to avail of new loans subject to appropriate creditunderwriting standards. 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 classification[2] within the province, for instances where the capital requirement under Sec. 121 (Minimum capitalization) of this Manual is not met, shall be temporarily relieved from 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 basis[3].

[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)
[3] 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).

The 45-day prior notice requirement for temporary closure of offices[4] 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. 827 dated 28 February 2014)

[4] Required under Sec. 105 (Opening of branches/branch-lite units).

GUIDELINES ON BANKS' INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS
(Appendix to Section 130)

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 supervising department 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 94*.

4. The ICAAP should form an integral part of banks' risk management processes so as to enable the board and senior management to assess, on an on-going basis, the risks that are inherent in their activities and material to their bank. This could range from using the ICAAP in more general business decisions (e.g., expansion plans) and budgets, to the more specific decisions such as allocating capital to business units, or to having it play a role in the individual credit decision process.

5. The ICAAP should be reviewed by the board and senior management at least annually, or as often as is deemed necessary 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 94* 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:

    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. 869 dated 30 January 2015)

Annex A

INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS
(Suggested Format)

The Bangko Sentral 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 Bangko Sentral and may therefore make the review process more efficient for both the bank and the Bangko Sentral . 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 Bangko Sentral of its internal capital adequacy assessment process. While this may be based on existing internal documentation from numerous sources, the Bangko Sentral 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 Bangko Sentral 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 Bangko Sentral 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 Bangko Sentral 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 Bangko Sentral 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;

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 Bangko Sentral 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 Bangko Sentral 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 Bangko Sentral 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.

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 Bangko Sentral review the bank's ICAAP could be provided.

Annex B

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 Bangko Sentral 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).

GUIDELINES ON THE BANGKO SENTRAL'S SUPERVISORY REVIEW PROCESS
(Appendix to Sec. 130)

A. Introduction

1. The Bangko Sentral '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 Bangko Sentral 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 Bangko Sentral - bank dialogue.

2. Although these guidelines are directed mainly at Bangko Sentral supervision and examination personnel, banks will have a clear interest in knowing the approach the Bangko Sentral intends to take in assessing their capital adequacy.

B. Guiding principles in assessing banks' ICAAP

1. As a first step, the Bangko Sentral 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 Bangko Sentral 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 Bangko Sentral 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 Bangko Sentral to tailor its approach for each individual bank and will provide the foundation for theBangko Sentral 's general approach for each bank and its actions.

4. The Bangko Sentral '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 Bangko Sentral 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 management of banks together with any action that is required of them and any significant action planned by theBangko Sentral . This may be done as part of the dialogue between the Bangko Sentral and each bank on the ICAAP.

6. In evaluating the ICAAP of branches of foreign banks in the Philippines, the Bangko Sentral will refer to the home supervisor's consolidated assessment of the ICAAP of the head office/parent bank. The Bangko Sentral will also take into account the strength and availability of parental support.

C. Guiding principles on Bangko Sentral -bank dialogue

1. A key element of the SRP is the dialogue between the Bangko Sentral and each bank. The dialogue will inform the Bangko Sentral 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 Bangko Sentral every January of each year (suggested format is in *Annex A of Appendix 90*), will be the basis for the Bangko Sentral -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 Bangko Sentral 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 Bangko Sentral 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 Bangko Sentral , and vice versa. Following the dialogue, the Bangko Sentral will reach an assessment.

D. Guidelines on prudential measures

If the Bangko Sentral 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.

1. The measures available to the Bangko Sentral 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.

2. 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 Bangko Sentral . 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.

3. The requirement to increase capital may also be set where the Bangko Sentral 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.

4. Prudential measures should be communicated promptly and in sufficient detail. In communicating its decision on prudential measures, the Bangko Sentral 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.

SUPPLEMENTAL GUIDELINES ON THE INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP) AND SUPERVISORY REVIEW PROCESS (SRP) FOR FOREIGN BANK BRANCHES
(Appendix to Sec. 130)

In implementing the provisions of Section 130 and *Appendices 94* and *95*, 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 94 and 95* 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 95* 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 document[1] of foreign bank branches should be submitted to the appropriate supervising department of the Bangko Sentral on or before 31 March of each year. Banks may refer to Annex A of *Appendix 94* 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 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 Sec. 305 on Method of Computing Interest)*

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	=	PMT (C3, C5, -C1)*-1	11,001.60
(using Excel PMT Function)			
Effective Annual Interest Rate (EIR)	=	$(1+\text{IRR (F10:F22)})^{12}-1$	26.71%
(using Excel IRR Function)			
Effective Monthly Interest Rate (MIR)	=	IRR (F10:F22)	1.99%
(using Excel IRR Function)			

Illustration 2

EFFECTIVE INTEREST CALCULATION MODEL
FIXED PRINCIPAL AMORTIZATION CASE

	A	B	C	D	E	F	G
1	Loan Amount		120,000.00				
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)	=	$(1+\text{IRR}(F10:F22))^{12}-1$	=	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 (Using excel PMT Function	=	PMT (C3, C5, -C1)*-1	=	11,001.60
Effective Annual Interest Rate (EIR) (using Excel IRR Function)	=	$(1+\text{IRR (F10:F24)})^{12}-1$	=	19.68%
Effective Monthly Interest Rate (MIR) (using Excel IRR Function)	=	IRR (F10:F24)	=	1.51%

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)	=	$(1+\text{IRR (F10:F22)})^{12}-1$	=	23.58%
(using Excel IRR Function)				
Effective Monthly Interest Rate (MIR)	=	IRR (F10:F22)	=	1.78%
(using Excel IRR Function)				

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	=	PMT (C4, C6, - C1)*-1		
Effective Annual Interest Rate (EIR) (using Excel IRR Function)	=	$(1+\text{IRR (F11:F24)})^{52}-1$	=	50.46%
Effective Monthly Interest Rate (MIR) (using Excel IRR Function)	=	$(1+\text{IRR (F11:F24)}^{13/3}-1$	=	3.46%

GUIDELINES ON OUTSOURCING OF SERVICES BY ELECTRONIC MONEY ISSUERS (EMIs) TO ELECTRONIC MONEY NETWORK SERVICE PROVIDERS (EMNSP)
(Appendix to Section 702 on Outsourcing of Services by EMIs to EMNSP)

I. *Statement of Policy.* It is the goal of the Bangko Sentral to achieve a truly inclusive financial system. In line with achieving this goal, the Bangko Sentral recognizes the potential of electronic money (E-Money) as an instrument to facilitate delivery of financial services affordably to the low-income, unbanked or undeserved segments of the population, particularly in non-urbanized areas. The Bangko Sentral 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 Bangko Sentral 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 Section 112. In addition to the documentary requirements under said Section, 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 Section 112. The contract should also stipulate that:

(1) the EMNSP shall allow the Bangko Sentral 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 Bangko Sentral 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 Bangko Sentral - 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 Bangko Sentral 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 Bangko Sentral 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 Bangko Sentral 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. 702, 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 Bangko Sentral .

IX. *Sanctions.* Violations committed by EMIs pertaining to outsourcing of activities to EMNSP shall be subject to monetary penalties as graduated under *Appendix 24* 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.

FORMAT OF CERTIFICATION ON COMPLIANCE WITH RULES AND REGULATIONS ON THE RECLASSIFICATION OF REAL AND OTHER PROPERTIES ACQUIRED (ROPA) TO BANK PREMISES, FURNITURE, FIXTURE AND EQUIPMENT
(Appendix to Sec. 109 on Bank Premises and Other Fixed Assets)

Annex A

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 Section 109, 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 Bangko Sentral 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 Section 109, as shown below.

Description	Before Reclassification	After Reclassification
Ratio of bank's investment in real estate and improvements 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

Notary Public

_____
_____
_____
_____

GUIDELINES ON THE ADOPTION OF PHILIPPINE FINANCIAL REPORTING STANDARDS 9 (PFRS 9) FINANCIAL INSTRUMENTS – IMPAIRMENT
(Appendix to Sec. 172)

Section 1. Expected Credit Loss Model

BSFIs shall adopt the expected credit loss (ECL) model in measuring credit impairment, in accordance with the provisions of PFRS 9. In this respect, BSFIs shall recognize credit impairment/allowance for credit losses even before an objective evidence of impairment becomes apparent. BSFIs shall consider past events, current conditions, and forecasts of future economic conditions in assessing impairment.

a) BSFIs shall apply the ECL model on credit exposures covered by PFRS 9, which include the following:

- Loans and receivables that are measured at amortized cost;
- Investments in debt instruments that are measured at amortized cost or at fair value through other comprehensive income (FVOCI); and
- Credit commitments and financial guarantee contracts that are not measured at fair value through profit or loss (FVTPL)

b) Credit exposures shall classify into three (3) stages using the following time horizons in measuring ECL:

Stage of credit impairment	Characteristics	Time horizon in measuring ECL
Stage 1	– Credit exposures that are considered "performing" and with no significant increase in credit risk since initial recognition or with low credit risk	Twelve (12) months
Stage 2	– Credit exposures that are considered "under-performing" or not yet non-performing but with significant increase in credit risk since initial recognition	Lifetime
Stage 3	– Credit exposures with objective evidence of impairment, thus, considered as "non-performing"	Lifetime

c) BSFIs shall promptly recognize and maintain adequate allowance for credit losses at all times. It shall adopt the principles provided under the Enhanced Standards on Credit Risk Management[1] in implementing sound and robust credit risk measurement methodologies that adequately considers ECL. In this respect, the ECL methodology shall not be considered as a separate and distinct process but as an important element of the entire credit risk management process.

Section 2. Twelve (12)-Month ECL

a) BSFIs shall consider reasonable and supportable information, including forward-looking information that affect credit risk in estimating the twelve (12)-month ECL. BSFIs shall exercise experienced credit judgment and consider both qualitative and quantitative information that may affect the assessment.

b) Zero allowance for exposures under Stage 1 shall be rare. It shall be expected only for exposures with zero percent (0%) credit risk-weight under the Risk-Based Capital Adequacy Framework, such as Philippine peso-denominated exposures to the Philippine National Government and the Bangko Sentral.

Section 3. Lifetime ECL

a) BSFIs shall evaluate the change in the risk of default occurring over the expected life of the exposures in assessing whether these shall be moved to a lifetime ECL measure.[2] Although collateral will be used to measure the loss given a default, this should not be primarily used in measuring risk of a default or in transferring to different stages.

[1] Sec. 143
[2] PFRS 9 paragraph 5.5.9 provides that the assessment should be made in terms of the risk of a default and not on the expected credit loss (i.e., before consideration of the effects of credit risk mitigants such as collaterals or guarantees).

b) BSFIs shall measure lifetime ECL of the following:

- exposures that have significantly increased their credit risk from origination (Stage 2); and
- non-performing exposures (Stage 3).

Section 4. Assessment of forward-looking information

BSFIs shall clearly demonstrate how forward-looking information, including macroeconomic factors, have been reflected in the ECL assessment and how these are linked to the credit risk drivers of the exposures. Experienced credit judgment is essential in assessing the soundness of forward-looking information and in ensuring that these are adequately supported.

Section 5. Transfer from Stage 1 to Stage 2 – Assessment of significant increase in credit risk

BSFIs shall transfer credit exposures from Stage 1 to Stage 2 if there is significant increase in credit risk from initial recognition.

a) BSFIs shall establish well-defined criteria on what constitutes significant increase in credit risk. BSFIs shall consider a wide range of information, which includes among others, information on macroeconomic conditions, economic sector and the geographical region relevant to the borrower, and other factors that are borrower-specific. The criteria on what constitutes significant increase in credit risk shall consider, at a minimum, the list provided in PFRS 9.

b) BSFIs shall classify exposures to Stage 2 if the exposures have potential weaknesses, based on current and/or forward-looking information, that warrant management's close attention. Said weaknesses, if left uncorrected, may affect the repayment of these exposures. BSFIs shall also classify exposures Stage 2 if there are adverse or foreseen adverse economic or market conditions that may affect the counterparty's ability to meet the scheduled repayments in the future.

c) The Bangko Sentral shall apply the following indicators of significant increase in credit risk in BSFIs noted to have weak credit loss methodologies:

- exposures considered especially mentioned under Sec. 143 (*Credit Classification and Provisioning*);
- exposures with missed payment for more than thirty (30) days; and
- exposures with risk ratings downgraded by at least two (2) grades (e.g., exposure with risk rating of "3" on the origination date was downgraded to risk rating of "5" on the reporting date) for BSFIs with below fifteen (15)-risk rating grades, and three (3) grades for BSFIs with fifteen (15) or above risk rating grades.

Section 6. Transfer from Lifetime ECL to Twelve (12)-month ECL

BSFIs shall transfer the exposures from Stage 3 (non-performing) to Stage 1 (performing) when there is sufficient evidence to support their full collection. Exposures should exhibit both the quantitative and qualitative indicators of probable collection prior their transfer. The quantitative indicator is characterized by payments made within an observation period (e.g., regularly pays during the minimum observation period). The qualitative indicator pertains to the results of assessment of the borrower's financial capacity (e.g., improvement in counterparty's situation).

As a general rule, full collection is probable when payments of interest and/or principal are received for at least six (6) months.

BSFIs shall observe the following guidelines for exposures that were restructured:

a) Non-performing restructured exposures that have exhibited improvement in creditworthiness of the counterparty may only be transferred from stage 3 to Stage 1 after a total of one (1) year probation period [i.e., six (6) months in Stage 3 before transferring to Stage 2, and another six (6) months in Stage 2 before transferring to Stage 1; or directly from Stage 3 to Stage 1, without passing through Stage 2, after twelve (12) months]; and

b) Restructured accounts classified as "performing" prior to restructuring shall be initially classified under Stage 2. The transfer from Stage 2 to Stage 1 will follow the six (6)-month rule mentioned in Item *"a"* of this Section.

Section 7. Multiple exposures to specific counterparties

In measuring the ECL to multiple exposures to a single counterparty or multiple exposures to counterparties belonging to a group of related entities, the following shall apply:

a) *Exposures to non-retail counterparties.* BSFIs with multiple exposures to a non-retail counterparty shall measure ECL at the counterparty level. In particular, the BSFI shall consider all exposures to a counterparty as subject to lifetime ECL when any of its material exposure is subjected to lifetime ECL;

b) *Exposures to a retail counterparty.* BSFIs with multiple exposures to a retail counterparty shall measure ECL at the transaction level. In particular, the BSFI may classify one transaction under Stage 1 and another transaction under Stage 3. However, BSFIs are not precluded from taking into account the potential of cross default, such that if one exposure is classified under Stage 3 all the other exposures may be classified under Stage 3; and

c) Exposures to counterparties belonging to a group of related entities. BSFIs with multiple exposures to counterparties that belong to the same group of related entities shall measure ECL at the counterparty level (per entity). BSFIs shall likewise consider the status of the other counterparties belonging to the same group in determining the stage under which the exposures shall be classified.

Section 8. Recognition of Income

For purposes of preparing the prudential reports (e.g., Financial Reporting Package and Capital Adequacy Ratio report), BSFIs shall not recognize interest income on non-performing exposures, except when payment is received.

On the other hand, interest income recognized on non-performing exposures (Stage 3 accounts) for purposes of preparing the audited financial statements (AFS) shall be disclosed in the AFS. This shall likewise be included in the list of reconciling items between the prudential reports and the AFS that is being submitted to the Bangko Sentral.

Section 9. Off-balance sheet financial items

As a general rule, BSFIs shall recognize the ECLs on off-balance sheet exposures as a liability and booked as "Provisions-Others".

On credit facilities with partial drawdown (e.g., with loan balance and an undrawn commitment), BSFIs shall observe the following rules in accordance with PFRS 7 (*Financial Instruments: Disclosures*):

a) If the BSFI cannot separately identify the ECL attributable to the drawn and undrawn commitment, the provision for ECL on the off-balance sheet accounts shall be presented together with the allowance for the financial asset (contra-asset); and

b) If the combined ECL exceeds the gross carrying amount of the financial asset, the ECL should be recognized as "Provisions-Others" (liability).

BSFIs shall look beyond the contractual date when estimating the expected losses of facilities with both loan and undrawn commitment components such as the credit card portfolio.

Section 10. Application to simple BSFIs

BSFIs with simple operations shall adopt simple loan loss methodologies fundamentally anchored on the principle of recognizing ECL. In this respect, BSFIs shall look beyond the past due/missed amortizations in classifying exposures and in providing allowance for credit losses. On the other hand, BSFIs with credit operations that may not economically justify adoption of said simple loan loss estimation methodology that is compliant with PFRS 9 shall, at a minimum, be subject to the regulatory guidelines in setting up allowance for credit losses prescribed under the *Appendix 15*.

Section 11. General and Specific Provisions for Loan Accounts

a) BSFIs shall treat Stage 1 provisions for loan accounts as General Provision (GP), while Stages 2 and 3 provisions shall be treated as Specific Provisions (SP).

b) BSFIs shall set up general loan loss provision (GLLP) equivalent to one percent (1%) of all outstanding Stage 1 on-balance sheet loans, except for accounts considered as credit risk-free under existing regulations. BSFIs are not required to provide a one percent (1%) GP on other credit exposures covered by PFRS 9 such as off-balance sheet accounts and investments.

c) Allowance for credit losses for Stages 1, 2 and 3 accounts shall be recognized in the profit or loss statement. In cases when the computed allowance for credit losses on Stage 1 accounts is less than the 1 percent GP required, the deficiency shall be recognized by appropriating the Retained Earnings (RE)[1] account. GP recognized in profit or loss as allowance for credit losses for Stage 1 accounts and the amount appropriated in RE shall be considered as Tier 2 capital subject to the limit provided under the Capital Adequacy Ratio (CAR) framework[2].

d) BSFIs that use the guidelines provided under *Appendix 15* in determining allowance for credit losses shall book the entire amount of GP in profit or loss.

e) BSFIs shall charge against RE the increase in ECL – SP as of 01 January 2018 as a result of the change in accounting policy.

Section 12. Expectations from Trust Entities

Consistent with the expectations from BSFIs on the adoption of PFRS 9, as provided under Item *"d"* of the Sec. 172 (*Philippine Accounting Standards*), the board of directors of a trust entity (TE) shall ensure that the TE appropriately and consistently adopts PFRS 9 as part of its reporting governance process.

In this respect, the board of directors shall approve policies and guidelines relative to the impairment of financial assets under management of the TE.

The TE shall adhere to the requirements of PFRS 9 on impairment and the guidelines provided herein, to the extent applicable to the trust operations. Pursuant to Item *"c"* of Section 1 of these guidelines *(Expected Credit Loss Model)*, a TE shall promptly recognize and maintain adequate allowance for credit losses at all times.

Consistent with the provisions under Section 10 of these guidelines *(Application to simple BSFIs)*, the following provisions shall apply to TEs:

a) A TE with simple operations shall adopt simple loan loss methodologies fundamentally anchored on the principle of recognizing ECL. In this respect, the TE shall look beyond the past due/missed amortizations in classifying exposures and in providing allowance for credit losses.

b) A TE with credit operations that may not economically justify adoption of said simple loan loss estimation methodology that is compliant with PFRS 9 shall, at a minimum, be subject to the regulatory guidelines in setting up allowance for credit losses prescribed under *Appendix 15*.

(Circular Nos. 1023 dated 04 December 2018 and 1011 dated 14 August 2018)

[1] BSFIs shall use Retained Earnings Reserve – Others as temporary account of Retained Earnings – General Provisions (RE-GP)

[2] As temporary presentation in CAR reports, the RE included in Common Equity Tier (CET/Core Tier 1 shall be net of RE-GP. In computing Tier 2 Capital, the General Loan Loss Provision (GLLP) shall include the RE-GP. However, the GLLP added back to on-balance sheet assets subject to risk-weight shall not include the RE-GP since when appropriating the RE, total assets is not affected.

REQUIRED CERTIFICATIONS AND EXAMPLES OF SUPPORTING DOCUMENTS FOR THE CONFIRMATION OF THE ELECTION/APPOINTMENT OF DIRECTORS/OFFICERS OF BSFIS[1]

(Appendix to Sections 137, 161 and 412 on Confirmation of Election/Appointment of Directors and Officers)

Requiring Bangko Sentral Confirmation[2]		Not Requiring Bangko Sentral Confirmation
Directors	**Chief Executive Officers and Other Officers enumerated in Section 137[3]**	**Offices below the rank of Senior Vice President requiring a different set of minimum qualifications[4]**
• Letter-request for Bangko Sentral confirmation signed by authorized officer[5] with an affirmative statement that the institution has conducted a fit and proper test on the director/s concerned	• Letter-request for Bangko Sentral confirmation signed by authorized office signed 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 stockholders or board of directors approving the election	• Secretary's Certificate attesting to the resolution of the board of directors approving the appointment[6]	
• Bio-data with a photograph (2" x 2") taken within the last six (6) months	• Bio-data with a photograph (2" x 2") taken within the last six (6) months	• Bio-data with a photograph (2" x 2") taken within the last six (6) months
• Certification under oath of the director concerned that he/she possesses all th e qualifications and none of the disqualifications to become a director	• 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 directors in a particular bank/ banking group as defined in Section 137	• For first-time officers to be subject to Bangko Sentral confirmation in a particular bank with trust authority/trust corporation/banking group as defined in Section 137	

[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 Sections 137 and 412

[3] E.g., Treasurer, trust officer, heads of internal audit, risk management, and compliance functions, and other functions with the rank of Senior Vice President and above

[4] E.g., Security Officer, Head/In-Charge of E/FCDU Operations, and Head/In-Charge of Import and Export Financing Operations (for TBs)

[5] Authorized signatory is the Chief Executive Officer (CEO) of the institution, except for appointment of CEO, 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 Section 137, submit 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

REQUIRED CERTIFICATIONS AND EXAMPLES OF SUPPORTING DOCUMENTS FOR THE CONFIRMATION OF THE ELECTION/APPOINTMENT OF DIRECTORS/OFFICERS OF BSFIS[1]

(Appendix to Sections 137, 161 and 412 on Confirmation of Election/Appointment of Directors and Officers)

Requiring Bangko Sentral Confirmation[2]		**Not Requiring Bangko Sentral Confirmation**
Directors	**Chief Executive Officers and Other Officers enumerated in Section 137[3]**	**Offices below the rank of Senior Vice President requiring a different set of minimum qualifications[4]**
• Certification under oath of compliance with Bangko Sentral-prescribed syllabus on on boarding/orientation program	• Duly accomplished and notarized authorization form for querying the Bangko Sentral watchlist file from the officer concerned	
• 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 that he/she fully understands and accepts the same		
• Duly accomplished and notarized authorization form for querying the Bangko Sentral watchlist file from the director concerned		
• For independent directors, certification under oath that he/she is an independent director as defined in Bangko Sentral regulations	• Brief description of his/her duties and responsibilities	• Brief description of his/her duties and responsibilities
• 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	• Alien Employment Permit issued by the Department of Labor and Employment for foreigners appointed as officers	

(Circular No. 972 dated 22 August 2017, Circular 969 dated 22 August 2017)

[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 Sections 137 and 412

[3] E.g., Treasurer, trust officer, heads of internal audit, risk management, and compliance functions, and other functions with the rank of Senior Vice President and above

[4] E.g., Security Officer, Head/In-Charge of E/FCDU Operations, and Head/In-Charge of Import and Export Financing Operations (for TBs)

Appendix to Section 137 on Bio-data of Directors and Officers

DEADLINE: 20 banking/business days from the annual election of the board of directors/trustees
SUBMISSION: Original copy to the appropriate supervising department of the Bangko Sentral

(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 Nos. 969 dated 22 August 2017 and Circular No. 887 dated 07 October 2015)

DOCUMENTS REQUIRED UNDER THE REVISED OUTSOURCING FRAMEWORK FOR BANKS
(Appendix to Section 112 on Documentations)

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 infrastracture 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.

GUIDELINES FOR THE TREATMENT OF NON-DELIVERABLE FORWARDS INVOLVING THE PHILIPPINE PESO
(Appendix to Section 622 on Non-deliverable Forward Contracts Involving the Philippine Peso)

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 buildup of systemic risks and protect against undue concentration in market usage, the following prudential guidelines are set in place.

Definition of Terms. As used in this 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 22*(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 22* (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 five (5) banking days, the bank shall present to the appropriate supervising department of the Bangko Sentral 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 supervising department of the Bangko Sentral, the bank shall be directed to close all of its outstanding positions within two (2) 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 twenty percent (20%) of unimpaired capital for domestic banks. Foreign bank branches shall have a limit equal to 100 percent of their unimpaired capital as defined under Section 103 (Capital Requirements).

Bilateral Netting. A bank 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 supervising sector of the Bangko Sentral.

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 banking.

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 supervising department of the Bangko Sentral that transactions under this situation are meant to directly square existing positions.

CERTIFICATE OF COMPLIANCE ON THE PROVISIONS OF HOUSING MICROFINANCE LOAN
(Appendix to Sec. 314)

_____
(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 Section 314 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 twelve percent (12%);
    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

NOTARY PUBLIC

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

(Circular 817 dated 06 November 2013)

ACTS TANTAMOUNT TO THE ACT OF ISSUING PRE-APPROVED CREDIT CARDS
***(Appendix to Sec. 312 on Minimum requirements for the issuance of credit cards*)**

a. Sending of credit cards to consumers with no prior application, written request and supporting documents required for prudent credit card evaluation;
b. 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;
c. 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;
d. 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;
e. 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;
f. 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
g. 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 Nos. 1003 dated 16 May 2018 and 845 dated 15 August 2014)

BANGKO SENTRAL ISSUANCES ON MINIMUM CAPITALIZATION OF BANKS
(Appendix to Section 121)

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) [11]				
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

[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 Sec. 181 on Reportorial Requirement)

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 and teen savings account* refers to interest-bearing savings account of children and teens up to nineteen (19) years old with an initial deposit of P100 and no minimum maintaining balance requirement.

    d. *Basic deposit account* refers to interest- or non-interest-bearing account designed to promote financial inclusion, as defined in Section 213.

    e. *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 nos.992 dated 1 February 2018 and 848 dated 08 September 2014)

GUIDELINES ON THE COMPLETION OF THE REPORT ON CROSS-BORDER FINANCIAL POSITIONS[1]
(Appendix to Section 173 on Report on cross-border financial positions)

UBs and KBs and their subsidiary TBs shall report their cross-border financial claims[2] from and financial liabilities[3] 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 Centers[4], (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 statistics[5].

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 NBFI 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;
         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.

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[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

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 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:

a. Interbank loans payable
b. Repurchase agreement
c. Securities lending/borrowing agreements
d. Other bills payable

vi. Bonds Payable – Report the amortized cost of bonds payable according to holder. Bonds payable with maturity of up to twelve (12) months and those with maturity exceeding twelve (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 twelve (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 twelve (12) months and those with maturity exceeding twelve (12) months shall be separately reported.

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.

ix. 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.

x. Finance Lease Payment Payable – Report the amount of future lease payments payable under finance leases according to lessee.

xi. Treasurer/Cashier/Manager's Checks – Report the amount of treasurer/ cashier/manager's checks payable according to designated beneficiaries.

xii. Payment Orders Payable – Report the amount of payment orders payable according to designated beneficiaries.

xiii. 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.

xiv. Cash Letters of Credit – Report the amount of import letters of credit issued where the importer pays 100 percent in Philippine pesos.

xv. 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.

xvi. Unearned Income – Report the unearned portion of income received according to recipient. This includes rentals received in advance.

xvii. 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

xviii. 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.

xix. 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 Section 128 on Domestic Systemically Important Banks [DSIBs])

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.

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%
Interconnectedness (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%

[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.

	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 ratio[1].

   b. Interconnectedness

      Financial distress at one (1) institution can materially increase the likelihood of distress at other institutions given the network of 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:

[1] To be computed in accordance with the guidelines to be issued by the Bangko Sentral on leverage ratio.

(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 59*. 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 combined requirement for capital conservation buffer (CCB) and Countercyclical Capital Buffer (CCyB)under *Appendix 59*. Table 3 shows a sample total CET1 capital requirement for banks identified as DSIBs per bucket.

Table 3. Sample Total CET 1 Capital Requirement when:

A. CCyB rate is at 0%

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%
Countercyclical Capital Buffer (c)	0%	0%	0%
DSIB HLA Requirement (d)	3.5%	2.5%	1.5%
Total Additional CET1 Requirement (b+c+d)	6.0%	5.0%	4.0%
Total Required CET1 (a+b+c+d)	12.0%	11.0%	10.0%

B. CCyB rate is at 2.5%

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%
Countercyclical Capital Buffer (c)	2.5%	2.5%	2.5%
DSIB HLA Requirement (d)	3.5%	2.5%	1.5%
Total Additional CET1 Requirement (b+c+d)	8.5%	7.5%	6.5%
Total Required CET1 (a+b+c+d)	14.5%	13.5%	12.5%

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 eighteen (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 Section 124;

    b. Has CET1 of more than the total required (minimum CET1 ratio of six percent (6.0%) plus the combined requirement for CCB of two and a half percent (2.5%) and the CCyB at the rate determined by the Monetary Board – zero percent (0%) to 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. Sample Restriction on Distributions when

A. CCyB rate is 0%

Restriction on Distributions	Level of CET1 Capital	
	Bucket 1	Bucket 2
No distribution (until the minimum CET1 requirement, the combined requirement for CCB and CCyB and more than 50% of DSIB HLA requirement 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 requirement, the combined requirement for CCB and CCyB 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%

B. CCyB rate is at 2.5%

Restriction on Distributions	Level of CET1 Capital	
	Bucket 1	**Bucket 2**
No distribution (until the minimum CET1 requirement, the combined requirement for CCB and CCyB and more than 50% of DSIB HLA requirement are met; and conditions "a" and "c" above are complied with)	<=11.75%	<=12.25%
50% of earnings may be distributed (if the minimum CET1 requirement, the combined requirement for CCB and CCyB and more than 50% of the DSIB HLA requirement are met; and conditions "a" and "c" above are complied with)	>=11.75% to 12.50%	<=12.25% to 13.50%

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 are 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. 1024 dated 06 December 2018)

Annex A

Schedule of Restriction on Distribution During the Phased-In Implementation Period of the Higher Loss Absorbency Requirement[1]
(Appendix to Section 128 on DSIBs)

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 2019
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 110 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 CET 1, CCB and more than 50% of the DSIB HLA requirements are met; and conditions a and c of Appendix 110 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%

[1] 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 Section 128 on DSIBs)

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 basis[1], 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 the 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 a statute or an agreement; or
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; 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 twenty percent (20%) 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.

2.3 *Point of non-viability* is as defined under Item *"3, Annex F"* of Appendix 59 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 the 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 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 Sentral 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 arrangements[2] 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

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 linkages[3] 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.;

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[1] 6 percent CET1 Capital + 2.5 percent Capital Conservation Buffer + Countercyclical Capital Buffer at the rate determined by the Monetary board (0 to 2.5 percent)+1.5 or 2.5 percent Higher Loss Absorbency Requirement.

[2] For continuous functioning of internal processes, IT systems, clearing and settlement facilities, supplier and employee contracts, etc.

[3] 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.

- 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;

- processes 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 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 benefits[4] 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.

[4] 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.

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 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 supervising department of the Bangko Sentral 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. 1024 dated 06 December 2018)

GUIDELINES ON EUROPAY, MASTERCARD AND VISA (EMV) IMPLEMENTATION
(Appendix to Section 148 on IT Risk Management Systems)

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 skimming[1] and counterfeiting.

To outpace and manage fraudsters' shift towards jurisdictions that are still using magstripe, Bangko Sentral supervised financial institutions (BSFIs) via Section 148 (IT Risk Management Systems) 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 BSFIs 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 BSFIs 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 Financial Institutions (BSFIs)* include banks, 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 BSFIs 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.

[1] Skimming is the illegal copying of information from the magnetic stripe of a payment card to gain access to accounts.

8. *EMV chip liability shift* means that the liability and responsibility for counterfeit or fraudulent transactions shall shift to the BSFI 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, BSFIs, in migrating to EMV, shall consider the following:

1. BSFIs 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 devices[1]; and

5. BSFIs 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, BSFIs 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

[1] Include EMV-compliant ATMs, POS terminals and other similar devices.

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 BSFIs 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.*

BSFIs 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. 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.

I. Updated EMV migration plan

Any changes arising from the aforementioned guidelines shall be incorporated in the EMV Migration Plan and all affected BSFIs shall resubmit their updated plan to Bangko Sentral's Core Information Technology Specialist Group (CITSG) within sixty (60) days from 24 November 2014.

All BSFIs shall support migration to EMV standards. Consequently, all cards issued and card-accepting devices should be EMV-compliant.[2]

(Circular No. 961 dated 02 June 2017, Circular No. 936 dated 28 December 2016, Circular No. 890 dated 02 November 2015 Circular No. 859 dated 24 November 2014)

[1] A security requirement of the Payment Card Industry (PCI) regarding testing of PIN-entry devices using pre-defined standards to get certification.
[2] This paragraph shall take effect on 01 January 2017.

EMV CARD FRAUD LIABILITY SHIFT FRAMEWORK (ECFLSF)
(Appendix to Section 148 on IT Risk Management Systems)

I. Introduction

This document outlines the Bangko Sentral's guidelines implementing the EMV Card Fraud Liability Shift Framework (ECFLSF). Pursuant to Section 148 and *Appendix 112*, 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.

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 112 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 complted	Issuer

The information provided above shall be considered as a general guide as each fraudalent transaction shall be separately 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.

[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.

b. Cardholders' complaints and/or requests for chargeback as a result of counterfeit card shall be considered as complex complaint/request defined in Appendix 115 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 Section 1121)

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;

(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.

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; 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
Bangko Sentral	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.

3) 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.

H. 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 disaccredited 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. 890 dated 02 November 2015, M-2014-045 dated 02 December 2014 and Circular No. 860 dated 28 November 2014)

GUIDELINES AND PROCEDURES GOVERNING THE CONSUMER ASSISTANCE MANAGEMENT SYSTEM (CAMS) OF BANGKO SENTRAL-SUPERVISED FINANCIAL INSTUTITIONS
(Appendix to Section 1002)

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 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 cam requirement 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 Group of at least P1.0 billion
Dedicated Head Consumer Assistance Office	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, branch-lite unit/s or branch-lite unit/s 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 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.

[1] all periods are reckoned from receipt of complaint.

(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. There to, 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 resolution[1]; 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:

(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.

[1] The complaint register must reveal the reason in case the date of resolution falls outside the regulatory deadline.

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, branch-lite unit/s 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
(iv) 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 Bangko Sentral -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 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 Nos. 890 dated 02 November 2015 and 857 dated 21 November 2014)

GUIDELINES ON THE IMPLEMENTATION OF THE BASEL III LEVERAGE RATIO FRAMEWORK
(Appendix to Section 129)

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 solo[1] and consolidated[2] 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 59*.

Tier 1 capital should be net of regulatory deductions[3] 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)

Exposure Measure = On-balance sheet exposures + Derivative exposures + Securities Financing Transactions (SFT) exposures + Off-balance sheet (OBS) Items

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 contracts[1] 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:

Exposure Measure for Derivatives = Replacement Cost (RC) + Potential Future Exposure (PFE) ± Adjustments for Written Credit Derivatives

Where:
RC = Positive mark-to-market value of the contract (or zero if the mark-to-market value is zero or negative);

PFE[2] = 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 amount[3] 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:

ResidualMaturity	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

[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.

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 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 derivatives[1] 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 amount[2] 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 name[3], *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 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.

[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.

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:

Exposure Measure for SFTs = Adjusted SFT Assets + Counterparty Credit Risk Exposure (E)

Where:
Adjusted SFT Assets = the gross SFT assets[1] 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 sheet[2].

Counterparty Credit Risk Exposure (E) = the measure of CCR is calculated as the current exposure (i.e., without PFE) with respect of the SFT.

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:

$$E = \max, \{0, [Ei- Ci]]$$

Where:
Ei = cash and the fair value of securities lent to a counterparty for a transaction, and
Ci = 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. Fifty (50) percent CCF - this shall apply to OBS securitization exposures that qualify as eligible liquidity facilities3 and certain transaction-related contingent items, e.g. performance bonds, bid bonds, warranties and standby letters of credit related to particular transactions) as follows:

[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).
[3] These OBS securitization exposures must meet the definition and minimum requirements under Sec. 125.

- 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 (1) year and Underwritten Accounts Unsold.

c. Twenty (20) percent CCF - this shall apply to short-term self-liquidating trade letters of credit arising from the movement of goods1, e.g., documentary credits collateralized by the underlying shipments, such as:

- Trade-related guarantees:
  - Shipside 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 (1) year.

d. Ten (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 facility[2] 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 30 June 2018, banks concerned shall submit the Basel lll Leverage Ratio reporting template on both solo and consolidated bases for monitoring purposes. The report shall use the prescribed forms and shall be submitted to the appropriate supervising department of the Bangko Sentral. The report submission is summarized below:

Report Date	Reference Date	Deadline of Submission
30 September 2017 31 December 2017	31 December 2017	Fifteen (15) banking days from end of reference date on solo basis, and
31 March 2018	31 March 2018	Thirty (30) banking days from end of reference date on consolidated basis
30 June 2018	30 June 2018	

Upon migration to a Pillar 1 minimum requirement effective on 1 July 2018, the Basel lll Leverage Ratio report shall be submitted along with the Basel lll CAR report.

The Basel lll Leverage Ratio reporting template shall be composed of four (4) parts:
- Part I - Calculation of Basel lll Leverage Ratio
- Part ll - Derivative Exposures
- Part lll - Securities and Financing Transactions
- Part lV - Off-Balance Sheet Items

[1] Applied to both issuing and confirming banks.
[2] Issued under Memorandum M-2014-044 dated 24 November 2014

In addition to the reporting template to be submitted to the Bangko Sentral, banks will be required to publicly disclose their Basel lll 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 shall be made either through inclusion of the requirements in the bank's annual reports or published financial statements that are posted in the banks' websites. 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. All disclosures must be made according to the defined templates.

At a minimum, three (3) 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 lll Leverage Ratio.

(Circular Nos. 990 dated 22 January 2018, 943 dated 26 January 2017 and881 dated 09 June 2015)

EXAMPLES OF MINIMUM INTERNAL CONTROL MEASURES
(Appendix to Section 162 on Control Activities)

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 Tellering 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;
   k. Dispatching and delivery of current account statements shall be done by someone who is not involved in current account operations; and
   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;
   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 accounts**[1]

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 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.

[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.

(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 Section 104)

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]

    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 and 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; Engagement of the services of the selected financial adviser;

    b. Signing of confidentiality agreement by the engaged financial adviser;

c. Conduct of due diligence/valuation by the financial adviser;

d. Preparation of reports by the financial adviser to be presented to the proponent banks and regulators;

e. 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;

f. Preparation of necessary documents (Plan of Consolidation, Articles of Consolidation, New Articles of Incorporation and By-Laws) to be submitted to SEC;

g. 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;

h. 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;

i. Submission to SEC of the registration documents; and

j. 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 purpose[1]. The cooperation of SEC shall likewise be sought through the Financial Sector Forum (FSF).

(Circular No. 903 dated 29 February 2016 and CL-2015-050 dated 18 August 2015)

[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 IMPLEMENTING GUIDELINES
(Appendix to Section 104)

Section 1 - Rationale

The Consolidation Program for Rural Banks (CPRB) was established in recognition of the need to further strengthen and enhance the viability of rural banks 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.

The CPRB aims to bring about more resilient rural banks and a less fragmented banking system by encouraging rural banks to merge or consolidate in order to: (i) improve financial strength, enhance viability and generate better return to shareholders; (ii) strengthen management and governance; (iii) generate synergies and economies of scale through common infrastructure, systems and resources; and (iv) expand their market reach.

Section 2 - Definition of Terms

For purposes of this Guidelines, the following acronyms, words and phrases shall mean as follows:

2.1 "Agencies" refers, collectively, to BSP, PDIC and LBP as authors and advocates of the CPRB.

2.2 "CAR" refers to "Capital Adequacy Ratio".

2.3 "CFIEP" refers to the Countryside Financial Institutions Enhancement Program which shall provide funding support to the CPRB, consistent with its objectives of improving the long term viability of countryside financial institutions.

2.4 "CFIEP TC" refers to the CFIEP Technical Committee which is composed of representatives from Bangko Sentral, PDIC and LBP and is mainly tasked to monitor the implementation of CFIEP projects, including the CPRB.

2.5 "Consolidation" refers to the combination of at least five rural banks (RBs) resulting in their dissolution and the creation of a new entity, subject to the provisions of existing applicable and relevant laws and Section 5.

2.6 "Day" refers to business day or day other than a Saturday, Sunday or day on which commercial banks in Metro Manila are generally closed for business.

2.7 "Financial Adviser" refers to the adviser engaged by the Proponent Banks from among the top audit firms[1] and investment houses[2] with capability to undertake financial advisory services to the Proponent Banks as set forth under Section 8.7.

2.8 "Financial Adviser's Final Report" refers to the written report submitted by the Financial Adviser which includes but is not limited to the: (i) methodology of valuation; (ii) due diligence findings including report on the overall financial condition of the Proponent Banks; (iii) valuation of Proponent Banks which takes into consideration appraisal of assets and legal audit report on pending cases; (iv) proposed ownership and capital structure and proposed consolidation or merger plan of the Resulting Bank; and (v) all reports and documents required to be delivered by the Financial Adviser under this Guidelines and the engagement contract with the Financial Adviser.

2.9 "Merger" refers to the combination of at least five RBs, one of which shall be the Resulting Bank, subject to the provisions of existing applicable and relevant laws and Section 5.

2.10 "MOA" refers to the "Memorandum of Agreement on the Consolidation Program for Rural Banks among the Proponent Banks" which shall contain the Proponent Banks' agreements as indicated in Section 7(f).

2.11 "MOU" refers to the Memorandum of Undertaking in favor of the Agencies duly and jointly executed by and among the Proponent Banks which shall contain the commitments, representations, warranties and other obligations of the Proponent Banks as indicated in Section 7(g).

2.12 "Proponent Banks" refers to the participating RBs which qualify under the CPRB pursuant to Section 5.

[1] As listed in the Business World Top 1,000 Corporations
[2] Members of the Investment House Association of the Philippines, provided they are not subsidiaries or affiliates of, or do not belong to the same business group as, any local or foreign bank.

2.13 "SEC" refers to the Securities and Exchange Commission which approves the registration of the Resulting Bank as a consolidated or merged bank.

2.14 "Resulting Bank" refers to the consolidated bank or surviving bank after consolidation or merger, respectively, of the Proponent Banks.

Section 3 - Interpretation

The headings in this 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 this Guidelines.

Section 4 - CPRB Availability Period

The CPRB shall be available for two (2) years from approval by all governing boards of Bangko Sentral, PDIC, and LBP. To avail of the CPRB, letters of intent/application duly supported by certification of board and shareholders' approvals 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 the expiration of the two-year availability period.

Section 5 - Eligibility of Proponent Banks to the CPRB

Proponent Banks should be at least five RBs, the head offices or majority of the branches of which shall preferably be located in the same region or area.

The Resulting Bank should meet all of the following:

a. CAR of at least 12%; and
b. Combined unimpaired capital of at least P100 million.

If the Proponent Banks are less than five but based on the submitted documents, the Resulting Bank will have CAR of at least 12% and a combined unimpaired capital of at least P100 million, the application may be accepted.

Section 6 - PRB Support

The Proponent Banks may avail of the following:

6.1 Funding support, subject to subsidy limits set by the CFIEP TC, for:

a. Financial advisory services in accordance with Sections 8.6 and 13.2;
b. Business process improvement services in accordance with Section 13.2;

6.2 Capacity building support services in accordance with Section 12.3;

6.3 Possible equity participation by the LBP as provided under Section 10;

6.4 Regulatory Incentives under Section 104 and other existing laws and rules subject to the Proponent Banks' compliance with the requirements therein and approval of the concerned agencies; and

6.5 Other CPRB support as may be provided by Bangko Sentral, PDIC, LBP, and CFIEP

Section 7 - Procedures for Application

To avail of the CPRB's incentives, the Proponent Banks shall submit to PDIC, through the Office of the Vice President-Resolution Group, three sets of the following documents:

a) Letter addressed to the PDIC and the Bangko Sentral indicating their intention to consolidate or merge under the CPRB;

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 CPRB. 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 of each Proponent Bank approving the consolidation or merger with other Proponent Banks under the CPRB. 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 support under Section 6.1;

   ii. Approval by the Board of the MOA among Proponent Banks containing the terms under Section 7(f), the MOU in favor of the Agencies containing the terms under Section 7(g), Confidentiality Agreement, and other documents as may be required under the CPRB; and

   iii. Designation of the Proponent Bank's authorized signatories to execute and deliver the foregoing documents in relation to the CPRB and attesting to their specimen signatures.

f) Duly executed joint MOA among Proponent Banks containing, among others, the following:

   i. Agreement to consolidate or merge under the CPRB, and to comply with the CPRB's requirements.

   ii. Commitment to: (a) allow the duly designated Financial Adviser to conduct due diligence on the Proponent Banks; and (b) voluntarily disclose and allow 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. Agreement to accept the results of the Financial Adviser's due diligence review including the consolidation/ merger structure.

   iv. Infusion of additional fresh capital, as may be needed, to bring the resulting CAR and combined adjusted capital of the Proponent Banks to the required capital level pursuant to Sections 5 and 9.

   v. Agreement to adopt the human resource and systems integration plan for the Resulting Bank as proposed by the Financial Adviser.

   vi. Nomination of directors in the Resulting Bank who possess the qualifications and none of the disqualifications under Bangko Sentral regulations, who adhere to sound governance principles and who will work to ensure the viability of the Resulting Bank to attain the objectives of the CPRB.

   vii. Installation in the Resulting Bank of a professional management team composed of individuals who meet BSP's fit and proper rule.

   viii. Institution and adoption of capacity building measures.

   ix. Submission of valuation and appraisal reports, due diligence findings (including report on the overall financial condition of the Proponent Banks) of the Financial Adviser and such other information as may be required by PDIC and Bangko Sentral.

   x. Submission of the business plan, including strategies, financial projections and proposed organizational structure for the Resulting Bank.

   xi. Agreement on cost sharing of expenses under the CPRB including dealing with withdrawal (voluntary or involuntary) by any of the Proponent Banks.

   xii. Agreement to fully reimburse CFIEP for the funding support it extended, 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' commitments to the Agencies as follows:

   i. Abide by the terms and conditions of the CPRB as outlined in the Guidelines, and their obligations under the MOA among the Proponent Banks referred to in Section 7(f).

ii. Abide by their warranties and representations to the Agencies.

iii. Grant authority to PDIC to request for proposals from the pool of financial advisers accredited under the CPRB.

iv. In case the consolidation or merger of the Proponent Banks does not materialize, fully reimburse CFIEP's share as specified under Section 13.2 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 BSP to deduct from their respective accounts with Bangko Sentral, any amount due to the CFIEP, in case they fail to remit their corresponding share to reimburse CFIEP share under Section 13.2 in accordance with Sections 14.1and 14.2.

vi. Engage a business process consultant for the Resulting Bank in accordance with Section 12.2, with the approval of the Proponent Banks' respective board of directors.

h) Duly executed Confidentiality Agreement of each of the Proponent Bank; 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. PDIC shall furnish Bangko Sentral and LBP copies of the complete documents which PDIC received from the Proponent Banks.

Section 8 - Engagement of the Financial Adviser

8.1 Upon receipt of the complete set of requirements as provided under Section 7, PDIC shall request the top audit firms 1 and investment houses2 with capability to undertake financial advisory services under Section 8.7 to submit proposals for engagement of their services. The proposals shall be addressed directly to the Proponent Banks' duly designated authorized representative, copy furnished PDlC.

8.2 Within ten (10) days from receipt of all the proposals from the financial advisers, the Proponent Banks shall:

a. Collectively decide and select the Financial Adviser with the most reasonable and responsive proposal; and
b. Notify PDIC in writing of the choice of Financial Adviser.

8.3 Within two (2) days from receipt of notice of choice of Financial Adviser, 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, the CFIEP 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 an engagement contract with the Financial Adviser, copy furnished PDIC.

8.6 Within five (5) days from the execution of the engagement contract with the Financial Adviser, the Proponent Banks' authorized representative shall release to the Financial Adviser the initial payment for its services equivalent to 20% of the Financial Advisers' fee as indicated in the said engagement contract. The balance equivalent to 80% of the Financial Adviser's fee, subject to the subsidy limits set by the CFIEP TC under Section 13.2, shall be for the account of CFIEP. Any excess from the subsidy limits set by the CFIEP TC under Section 13.2 shall be for the account of the Proponent Banks.

The engagement contract with the Financial Adviser shall become effective upon the Financial Adviser's receipt of the 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 20% initial payment, the Financial Adviser shall immediately commence and render financial advisory services, which include but are not limited to the following:

a. Conduct due diligence review to determine the financial condition of each Proponent Bank using standard parameters.

The due diligence review shall take off from the Proponent Bank's latest audited financial statements (Balance Sheet, Income Statement and Cash Flow) and supporting schedules and related documents, as well as the latest interim end-of-month financial statements.

The Financial Adviser shall ensure that the financial statements were prepared in accordance with Philippine Financial Reporting Standards (PFRS) and Bangko Sentral rules and regulations for banks, and reflect the latest financial condition of the Proponent Banks which shall be as of the end of the month immediately preceding the date of application under the CPRB. In case it becomes necessary to adjust the books of the Proponent Banks in order to comply with PFRS and BSP rules and regulations, the Financial Adviser shall restate the financial statements accordingly.

b. Prepare valuation study on each Proponent Bank based on net asset value (NAV) approach, taking into consideration the appraised value of the fixed assets and the estimated contingent assets and liabilities based on the audit of significant legal cases.

i. Where updated appraisal of the Proponent Banks' real properties and fixed assets is necessary, the Financial Adviser shall set the parameters for the internal appraisal and/or for the engagement by the Proponent Banks of (an) independent appraiser(s).

ii. The Financial Adviser shall also set the parameters for the legal audit by existing retained/in-house lawyers and/or for the engagement by the Proponent Banks of (a) law firm(s) which shall conduct the legal audit.

c. Recommend ownership and capital structure of the Resulting Bank based on the results of the valuation study.

d. Assist the Proponent Banks in the preparation of the business plan/strategy, financial projections, organizational structure and human resource strategy for the Resulting Bank.

e. Assist in coordinating with the SEC, the Agencies and the Bureau of Internal Revenue, if necessary.

f. Undertake other functions/activities required to complete and implement the transaction contemplated under the CPRB.

8.8 Within fifteen (15) days from the conclusion of their due diligence review, the Financial Adviser shall submit the Financial Adviser's Final Report containing the result of valuation and the Resulting Bank's ownership structure for approval of the Proponent Banks' respective boards of directors and shareholders, copy furnished PDIC and Bangko Sentral.

The due diligence, valuation study and capital structuring shall not exceed six (6) months from the effective date of the engagement contract with the Financial Adviser.

Section 9 - Infusion of Additional Capital

9.1 In case the resulting CAR and the unimpaired capital of the Resulting Bank based on the Financial Adviser's Final Report are below 12% and P100Mn, respectively, the Proponent Banks shall infuse additional fresh capital to meet the CPRB'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 under the CPRB 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 - Possible Equity Investment Facility from LBP

10.1 In the event that the resulting CAR of the Resulting Bank falls short of the 12% requirement but is at least 10%, the Resulting Bank may avail of LBP's Equity Investment Facility to bring the CAR to 12%.

10.2 The Resulting Bank's eligibility under this facility shall be subject to the Guidelines on the LBP Equity Investment Facility for CPRB attached hereto as Annex "A" and made an integral part of this Guidelines.

Section 11- Approval of the Consolidation or Merger

11.1 The Proponent Banks shall secure the approval of their respective boards of directors and shareholders on the final plan of consolidation or merger.

11.2 Within forty-five (45) days from receipt of the Financial Adviser's Final Report, the Proponent Banks shall secure the regulatory consents and/or approval of PDIC, Bangko Sentral and SEC as provided under existing laws for all banks on consolidations or mergers.

11.3 Upon Bangko Sentral's issuance of the Certificate of Authority to operate as the Resulting Bank, the Proponent Banks shall secure from the SEC the Certificate of Registration of the Resulting Bank.

Section 12 - Integration and Other Activities of the Resulting Bank

12.1 Within twenty-five (25) days from the issuance by the CFIEP TC of the certificate of completion of the Financial Adviser's Final Report, the Proponent Banks 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 Resulting Bank.

12.2 Should the Proponent Banks decide to avail of the funding support for the business process improvement services, it shall notify PDIC of such decision and the choice of consultant, in which case, procedures for the engagement of the Financial Adviser under Section 8 shall be observed as may be appropriate. Provided, however, that the sharing of expenses shall be subject to Section 13.2.

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 trainings on credit evaluation and administration, audit and internal control, personnel management, accounting/record keeping, treasury, information technology, and governance at no cost to the Resulting Bank.

Section 13- CPRB's Funding and Expenses

13.1 CFIEP shall participate in the CPRB by providing the funding requirements in accordance with this Guidelines.

13.2 Subject to the subsidy limits set by the CFIEP TC, the cost of the financial advisory and business process improvement services inclusive of applicable taxes shall be shared by the CFIEP and the Proponent Banks (or Resulting Bank) in accordance with the following proportion:

CFIEP	80%
Proponent Banks/Resulting Bank	20%

13.3 The Agencies shall not be liable for any amount due to the Financial Adviser in excess of CFIEP's share under Section 13.2. Any additional payment for the financial advisory and business process improvement service providers shall be for the account of the Proponent Banks (or Resulting Bank).

13.4 All other fees and expenses related to the consolidation or merger of the Proponent Banks under the CPRB shall be shouldered by the Proponent Banks (or Resulting Bank).

13.5 For CFIEP's corresponding share in the fees under Section 13.2, the same shall be remitted to the Financial Adviser and the business process consultant only after the Proponent Banks shall have paid their proportionate share.

Section 14 - Reimbursement to CFIEP

14.1 The Proponent Banks shall be under obligation to reimburse CFIEP's share under Section 13.2 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, SSP, after due notice from the CFIEP to the Proponent Bank concerned, shall proceed to debit the Proponent Bank's demand deposit account 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 SSP.

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 Bank. The procedures set forth under the preceding section shall be observed in the payments/collection of such deficiency. 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 - Amendments

The Agencies may execute a supplement or amendment hereto for the purpose of adding, changing or modifying provisions of this Guidelines as may be necessary to achieve the CPRB's objectives.

Section 16 - Repealing dause

Previous issuances/guidelines inconsistent herewith are deemed superseded.

Section 17 – Effectivity

This Guidelines shall take effect immediately.

Annex A

CONSOLIDATION PROGRAM FOR RURAL BANKS
GUIDELINES ON THE LAND BANK OF THE PHILIPPINES (LBP) EQUITY INVESTMENT FACILITY

A. Rationale

Upon consolidation or merger of Proponent Banks, and in case the resulting Capital Adequacy Ratio (CAR) and the unimpaired capital of the Resulting Bank based on the Financial Adviser's report are below 12% and P100Million, respectively, the Resulting Bank shall infuse additional fresh capital to meet the capital and CAR requirements of the Consolidation Program for Rural Banks (CPRB), 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 CAR of the Resulting Bank is at least 10% but below 12%, the Resulting Bank may avail of LBP's equity investment facility under the CPRB.

B. Objectives

LBP equity infusion shall be undertaken to meet the following objectives:

1. Increase the CAR from at least 10% to 12%;
2. Strengthen the capital base of the Resulting Bank;
3. Help sustain long-term viability of the Rural Banking sector.

C. Equity Investment Facility

The Resulting Bank (consolidated or merged bank) under the CPRB may avail of the LBP equity investment facility subject to the following:

1. Eligibility Criteria

    a. No adverse findings on the principal (Directors/Key Officers);
    b. CAR of at least 10% but less than 12%;
    c. Minimum capitalization required by the CPRB;
    d. Adequate Reserves for the four (4) week period preceding the application (based on the submitted interim financial statements);
    e. Net past due ratio of not more than 15%; and
    f. The Proponent Banks shall have no past due obligations with LBP and other banks.

2. Maximum amount: Up to 100% of the total capital requirement in bringing the CAR from at least 10% to 12%;

3. Features

    a. Maturity of ten (10) years from the date of release, notwithstanding any change in the structure of ownership of the Resulting Bank;

    b. LBP's entitlement to be represented in the Countryside Financial Institution (CFI)1 Board pursuant to E.O. 20, series of 2015 "Guidelines on the Designation of LBP representatives to the Board of CFIs as may be amended;

    c. Preferred shares;

    d. Cumulative dividends;

[1] CFI shall refer to the Resulting Bank in the consolidation/merger under the CPRB.

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 10-year PDST-R2 plus 2.5%1 or a floor rate of 6.5%2, whichever is higher, fixed at the time of availment, provided in the event that the PDST-R2 rate will be replaced by a new benchmark rate as determined by the Bankers' Association of the Philippines or the SSP, the new benchmark rate will be adopted for purposes of determining the Dividend Rate;

h. Booking of the equity by the Resulting Bank shall be recognized under Tier 2 Capital; and

i. The Resulting Bank shall be required to establish sinking fund with the LBP Trust Banking Group where regular annual contribution to build up over time to cover repayment. The specific date during the year and amount of contribution to the sinking fund shall be stipulated in the Escrow Agreement between the Resulting Bank and LBP which is a pre-release requirement.

4. Other Terms and Conditions:

Issuance of the preferred shares under the CPRB shall require compliance with the following in accordance with Section 125 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 related entity or other arrangement that legally or economically enhances the seniority of the claim vis-a-vis depositors and general creditors of 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 shown in the table below; and

Remaining Maturity	Discount Factor
5 years and above	0%
4 years to <5 years	20%
3 years to <4 years	40%
2 years to <3 years	60%
1year to <2 years	80%
<1year	100%

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

[1] For confirmation approval by the LBP Committees/ Loan Approving Group (LAG).

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 into common equity upon the occurrence of a trigger event subject to the provisions as may be defined by BSP. The trigger event occurs when the Bank is considered non-viable as determined by the BSP. 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 BSP, 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 features of Tier 2 capital at point of non-viability as provided in Annex F of *Appendix 59* shall likewise be observed.

Following the provisions of Item *"10 of Annex F"* of *Appendix 59*, the formula for the conversion of the total outstanding notes into common shares when the trigger event shall have occurred and the Issuer is declared by Bangko Sentral to have reached the point of non-viability, shall be as follows:

$$\text{No. of Common Shares} = \frac{\text{Amount of Investment}}{\text{50\% X Adjusted Book Value per Share}}$$

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:

$$\frac{\text{Total Stockholder's Equity- Preferred Equity}}{\text{Total Outstanding Common Shares}}$$

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:

The issuer must make the necessary adjustments to its Articles of Incorporation to accommodate the conversion of the capital instrument into common shares for 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 repaid 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 Philippine Deposit Insurance Corporation (PDIC).

n. The existing LBP equity investments and loans in the participating banks, if any, should be recognized by the Resulting 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 Resulting Bank (merged or consolidated) under the CPRB	Complied
2. No adverse findings on the principal (Directors/Key Officers)	Complied
3. Capital Adequacy Ratio (CAR)	At least 10% but less than 12%
4. Minimum capitalization required by the CPRB	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 Annex G of *Appendix 67*,

1) The Issuer shall provide the appropriate Risk Disclosure Statement for the issuance of additional Tier 2 capital instruments. The said disclosure statement shall explain the loss absorbency features of additional Tier 2 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 Tier 2 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.

r. Such other terms and conditions as may be required by LBP

5. Documentary Requirements

a. Pre-processing Requirements

1) Written endorsement from LBP Servicing Lending Center (SLC) on Resulting Bank's application for LBP equity investment;

2) Original copy of Resulting Bank's application letter signed by its duly authorized signatory;

3) Original copy of Board of Directors Resolution approving the Resulting Bank's authorized representative/ signatory to Resulting Bank's application for LBP equity investment with his/her picture and specimen signatures, and the Resulting Bank's application for LBP equity investment;

4) Copy of the merger or consolidation plan;

5) Certified true copy of Legal Reserves Schedule for 4 weeks immediately preceding the submitted latest quarter-ended financial statements of the current year;

6) Financial Statements (FS)- Balance Sheet & Income Statement:

a. Certified true copy of audited and Bureau of Internal Revenue (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 CAR 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 CAR as of latest quarter-ended FS of the current year

7) Business Plan;

8) 5-yr. 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 Resulting Bank's 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 background investigation (BI)/credit investigation (CI) results on Resulting Bank (not more than 6 months from latest quarter-ended FS);

f) Copy of latest approved Credit Facility Proposal (CFP) on Rediscounting facility granted to Resulting Bank, if applicable; and
g) Copy of the Financial Adviser's Report.

b. Pre-release Requirements

Original copies of the following:

1) Resulting Bank's letter request for the release of proceeds of LBP equity investment;

2) Board Resolution designating Resulting Bank's authorized signatory for the execution of Memorandum of Agreement (MOA), Escrow Agreement and other pre-release documents with his/her picture and specimen signatures;

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) Investment and loan Committee ILC)/Board Resolutions approving the LBP equity investment;

7) Certificate of stock issued in favor of LBP;

8) Written commitment of Resulting Bank 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; and

11) Pay/Settle all past due obligations (loans and investments) prior to availment.

c. Post-release Requirements

Resulting Banks commit to comply with the following documentary submission until full redemption of the equity investment:

1) Annual Submission to LBP of Audited FS (including Auditor's Opinion and Notes to FS};

2) Invitation/Notice and Minutes of General Stockholders'/Board of Directors' Meetings submitted to LBP representatives to CFIs;

3) SSP-filed annual reports in accordance to Bangko Sentral Circular No. 956 (April 17, 2017) Guidelines on the Submission of Annual Reports and the Sanctions to be Imposed for Non-Disclosure of Relevant Information;

4) Notice of Change in Ownership or composition of stockholders in the Resulting Bank, and other major changes that may have material impact to LBP's investment to be implemented in the Bank; and

5) Resulting Bank's disclosure on Material Adverse Events.

(CL-2017-069 dated 17 November 2017)

FORMAT CERTIFICATION ON COMPLIANCE WITH REQUIREMENTS ON DIVIDEND DECLARATION
(Appendix to Section 124 on Reporting and Verification)

_____
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 Section 124

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. The combined requirement for capital conservation buffer and the countercyclical capital buffer as defined in *Appendix 59*, (for UBs/ KBs and their subsidiary banks and QBs)

e. Higher loss absorbency requirement as provided under Section 128; (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 Section 124-C (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 bank

[1] We also certify that the bank also apply with this requirement even after dividend distribution.

To the best of our knowledge, the foregoing statements are true and correct.

_____	_____
President	Chief Compliance Officer
TIN:	TIN:
Com. Tax Cert. No.:	Com. Tax Cert. No.:
Issued on:	Issued on:
Issued at:	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.. 1024 dated 06 December 2018, 888 dated 09 October 2015, Circular No. 930 dated 18 November 2016)

AGRICULTURE VALUE CHAIN - BUSINESS MODELS
(Appendix to Sec. 313 on Agricultural Value Chain Financing Framework)

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 Nos. 930 dated 18 November 2016 and 908 dated 14 March 2016)

REPORTING GUIDELINES AND INSTRUCTIONS ON REPORTORIAL TEMPLATE ON REPURCHASE AGREEMENTS (REPOS)
(Appendix to Sec. 173 on Report on Repurchase Agreements)

I. Rationale

The creation and design of this Prudential Reporting Template on 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.

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 28*.

3. Repo Transactions for the Month

The 'Repo Transactions for the Month' schedule provides information on repo deals that are availed and which subsequently mature or are pre-terminated within the reporting month. The information required to be disclosed on these repo deals include details on the economic terms of the repo transaction, counterparties and underlying securities.

Banks that have no repo deals with their entire repo term (availment up to maturity/ pre-termination) falling within the reporting month need not accomplish this schedule.

B. *Data components*

1. Components of End of Day Balance Schedule

The following data fields are provided with the following descriptions:

Category	Standardized Data Fields	
	Data Fields	**Description**
Transaction Details	Date	Refers to a calendar day (yyyy-mm-dd)
	No. of Repo Deals for the Day	
Economic terms of the repo transaction	Availments	Refers to the number of repo deals availed during the day. Repo availments shall include renewals and rollovers.
	Matured/ Pre-terminated	Refer to the number of repo deals matured/pre-terminated during the day.
	Amount	
	Bills Payable - Repo	
Economic terms of the repo transaction	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	Standardized Data Fields	
	Data Fields	**Description**
Transaction Details Economic terms of the repo transaction	Entry number	Refers to the unique number that identifies an entry.
	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".
Transaction Details		Refers to the market segment of the repo which can either be: bilateral, tri-party or Central Clearing Counterparty (CCP).

Economic terms of the repo transaction	Market Segment	*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. *Bilateral* refers to repurchase agreements between two (2) institutions. *Tri-party* 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
	Term	Refers to the length of the contract. *(auto-generated by the reporting system)*
	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/FCDU 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	A *resident* refers to an individual or institutional unit that has a center of economic interest in the economic territory of the Philippines. A *non-resident* refers to an individual or institutional unit that has a center of economic interest outside the economic territory of the Philippines. A *multilateral agency* refers to an international organization defined in the FRP for banks.
	Geographic Region	Refers to the geographic region of the counterparty. This shall consist of: a. Northern America b. Latin America

[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.

		c. Europe d. Asia e. Others
	Country	Refers to the country of the counterparty.
Counterparty Details Data on the individuals or institutional unit to which the entity is exposed.	Sector (General)	Refers to the general sector of the following counterparties: 1. *Resident counterparty* such as government, Bangko Sentral, banks, private corporations and individuals; 2. *Non-resident counterparty* such as central government, public sector, banks, private corporations and individuals; or 3. *Multilateral agency* 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.
Counterparty Details Data on the individuals or institutional unit to which the entity is exposed.	Sector (Specific)	This refers to the sub-classification of the following sectors of the counterparty: For Residents *Government Sector* i. National Government ii. Local Government Units (LGUs) iii. Government Owned and Controlled Corporations (GOCCs) a. Social Security Institutions b. Other financial institutions c. Non-financial institutions *Banks* i. Universal and Commercial Banks (UBs/KBs) ii. Other Banks *Private corporations* i. Financial Corporations ii. Non-Financial Corporations For Non-Residents *Banks* i. Off-Shore Banking Units (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	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. Held for Trading (HFT), 2. Held to Maturity (HTM), 3. Available for Sale (AFS), 4. Investments in Non-Marketable Equity Securities (INMES), and 5. Unquoted Debt Securities Classified as Loans (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.
	Total Fair Value	Refers to the mark-to-market (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	A *resident* refers to an individual or institutional unit that has a center of economic interest in the economic territory of the Philippines; A *non-resident* refers to an individual or institutional unit that has a center of economic interest outside the economic territory of the Philippines; and A *multilateral agency* refers to an international organization as defined in the FRP for banks.
	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. *Resident counterparty* such as government, Bangko Sentral, banks, and private corporations. 2. *Non-resident counterparty* such as central government, public sector, banks, and private corporations. 3. *Multilateral agency* 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.
	Sector (Specific)	This refers to the sub-classification of the following sectors of the issuer: For Residents *Government Sector* i. National government ii. LGUs iii. GOCCs a. Social security institutions b. Other financial institutions c. Non-financial institutions

		Banks i. UBs/KBs ii. Other banks *Private corporations* i. Financial corporations ii. Non-financial corporations For Non-Residents *Banks* 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.

3. Components of the Repo Transaction 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 columns:

	Standardized Data Fields	
Category	**Data Fields**	**Description**
Maturity and Pre-determination 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 transactions.
	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.
	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 Reportorial Template on Repurchase Agreements (Repos) and the Control Prooflist certifying that there is nothing to report for the month.

IV. Effectivity

The Repo reporting template shall take effect as of the reporting period ending 30 June 2017.

(M-2017-020 dated 28 June 2017 and 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. 202)

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 Philippine Clearing House Corporation (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-i-vis covering reserve requirement/deficiency of banks' DDA is shown in *Appendix 35.*

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 clearing results affected by the COCI later returned due to insufficient funds or credit, closed account and/or stop payment order.

[1] See schedule of revised clearing and settlement process shown as footnote of Sec. 203

(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-i-vis covering reserve requirement/deficiency of banks' DDA is shown in *Appendix 36.*

(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)

GUIDELINES ON GRANTING OF LICENSE/AUTHORITY
(Appendix to Section 111)

I. Guiding Principle

The Bangko Sentral, the licensing authority, has the power to set criteria and reject applications that do not comply with the criteria/standards set. In this light, the Bangko Sentral is providing the following guidelines on its licensing process to establish accountability and promote transparency to banks and BSFIs wishing to apply for any licenses/authorities within the jurisdiction of the Bangko Sentral. These guidelines also aim to provide more consistency in how risk-focused supervision is applied to licensing process.

The Bangko Sentral will not restrict the scope of risk-taking activities of BSFIs consequent of the licenses and/or authorities granted: *Provided,* That these licenses and/ or authorities are in line with their business model and strategic direction: *Provided, further,* that BSFIs demonstrate the capacity and ability to implement these strategies.

As indicated in the new Licensing Policy, applications for licenses and/or authorities are categorized as follows:

a. *Type "A"* – applications for licenses and/or authorities where compliance with the defined prudential requirements/criteria described in Sec. 111 is a pre- condition for applicants to be considered eligible;

b. *Type "B"* – applications for licenses and/or authorities processed regardless of risk profile; and

c. *Type "C"* - activities which no longer require submission of applications and processing but shall be subject to submission of reports/certification/ notification within stated deadlines. However, compliance with pre- qualification requirements is subject to post verification and any false information and/ or misrepresentation may be a basis for the imposition of appropriate enforcement actions described in Sec. 111.

II. Guidelines and Procedures

1. *Process Flow.* The licensing application process involves four (4) stages, to wit:

   a. *Stage 1. Eligibility Test and Assessment.* The Bangko Sentral shall consider an applicant's eligibility for licenses/authorities categorized as *Type "A"* in accordance with the standards and/or prudential criteria described in Sec. 111; and whether approval thereof is consistent with applicable laws, rules, regulations, policies and safety and soundness considerations.

      In this regard, BSFIs shall signify to the appropriate supervising department of the Bangko Sentral its interest to apply for a license(s) or authority/ies. However, the Bangko Sentral expects each BSFI to have conducted self-assessment vis-à-vis prudential criteria and/ or requirements to determine whether it is eligible and/or qualified to apply for any specific license/authority, prior to signifying its interest.

      BSFIs with CAMELS composite rating of below *"3"*, or under the PCA or rehabilitation may still be considered eligible, on a case by case basis, upon showing valid justifications and/or verifiable evidence of significant compliance with the comprehensive PCA plan (PCAP)/ rehabilitation plan approved by the Bangko Sentral and/or if licenses and/or authorities applied for are vital to the implementation of the PCAP/rehabilitation plan.

   b. *Stage 2. Application.* The BSFI upon receipt of notice and/or confirmation from the Bangko Sentral of its eligibility can now formally submit its application letter together with the documentary requirements, as applicable to the license/authority applied for. Applications with incomplete documentation will be returned without prejudice to re-submission of a complete application and collection of applicable fees.

   c. *Stage 3. Processing.* Upon receipt of a complete application, the appropriate supervising department of the Bangko Sentral shall proceed in preparing the memorandum elevating to the appropriate approving authority of the Bangko Sentral its recommended action/s.

   d. *Stage 3. Decision.* Within five (5) working days upon approval and/or confirmation from the appropriate authority of the Bangko Sentral, BSFI's shall expect to be notified of the decision on their request / application.

The Bangko Sentral may request information and/or documents aside from the minimum documentary requirements for each type of license/authority to arrive at an informed decision. It may also conduct limited inspection or validation, when warranted.

The Bangko Sentral may approve any application of an eligible applicant after evaluating the application and considering relevant factors. Likewise, the Bangko Sentral may deny applications if (a) significant supervisory or compliance concerns exist or (b) the applicants fail to provide material information necessary to make an informed decision.

2. *Responsibility*

The Bangko Sentral expects each applicant to prepare accurately and completely each application/certification/ reports submitted to the appropriate supervising department of the Bangko Sentral.

By virtue of the application, the applicant authorizes the Bangko Sentral to conduct an on-site evaluation or inspection for the purpose of ascertaining compliance with relevant laws, rules, regulations and/or directives, and/or applicant's risk management capabilities, when warranted.

For this purpose, the applicant shall include in its application letter the authorization in favor of the Bangko Sentral giving its consent to the conduct of on-site verification of the documents and/or representations stated in the application filed in connection with the license or authority applied for.

3. *Fees*

An applicant, depending on its classification and type of license/authority applied for, shall be assessed the following fees per application:

i. Processing fee - shall be charged upon filing of an application and is non-refundable. In case of re-submission of application that is returned for incomplete documentation, another processing fee shall be charged anew; and

ii. Licensing fee - shall be charged to certain application upon approval. The licensing fee shall be net of the processing fee.

For Banks, assessed fees shall be debited from the applicant’s demand deposit account with the Bangko Sentral upon the lapse of fifteen (15) calendar days reckoned from receipt of Bangko Sentral's decision on its request/application. For this purpose, banks shall, upon filing of an application, state in its application letter the authority to debit their demand deposit account with the Bangko Sentral for the applicable fees to the license or authority applied for. Otherwise, assessed fees shall be paid to the Bangko Sentral.

4. *Post Decision*

Unless otherwise prescribed by the Bangko Sentral, an applicant may file a new application for a denied and/or withdrawn application after the lapse of six (6) months reckoned from the date of denial/ withdrawal: *Provided,* That any weaknesses, deficiencies and/or non compliance with any laws, rules, regulations and/or directives that made the applicants ineligible have already been satisfactorily addressed.

(Circular No. 947 dated 15 February 2017)

DISCLOSURE REQUIREMENTS IN THE ANNUAL REPORT
(Appendix to Sec. 175 on Disclosure requirements in the annual report)

Introduction

This Appendix outlines the guidelines on the minimum disclosure requirements of the Bangko Sentral for the Annual Report of banks. The guidelines shall take effect for financial year 2017.

Basic Disclosure Requirements

All banks shall prepare an Annual Report which shall include a discussion and/or analysis of the following minimum information:

1. Corporate Policy – A brief discussion of the following information covering the first page of the Annual Report:

    a. Brief discussion of bank's vision and mission statements
    b. Introduction of the bank's brand that differentiates it from other banks
    c. Business model of the bank

2. Financial Summary/Financial Highlights – A two (2)-year comparative presentation of selected profitability, capital, performance, and balance sheet data/ratios which will serve as a snapshot of the bank's financial condition to be presented after Item *"1"* above on Corporate Policy. The bank may use the template below:

	Consolidated[1]		Parent Bank (Solo)	
Minimum Required Data	**Current Year**	**Previous Year**	**Current Year**	**Previous**
Profitability				
Total Net Interest Income				
Total Non-Interest Income				
Total Non-Interest Expenses				
Pre-provision profit				
Allowance for credit losses				
Net Income				
Selected Balance Sheet Data				
Liquid Assets				
Gross Loans				
Total Assets				
Deposits				
Total Equity				
Selected Ratios				
Return on equity				
Return on assets				
CET 1 capital ratio (for UBs/KBs)				
Tier 1 capital ratio (for UBs/KBs)				
Capital Adequacy Ratio				
Per common share data (For UBs, KBs and publicly listed Banks)				
Net Income per share:				
Basic				
Diluted				
Book Value				
Others				
Cash dividends declared				
Headcount				
Officers				
Staff				

For banks with subsidiaries, the Financial Summary/Financial Highlights should be presented side by side on a solo basis (parent) and on a consolidated basis (parent and subsidiaries) as provided under Sec. 174 (Audited Financial Statements of Banks) Financial Condition and Results of Operations.

[1] Consolidated amounts of Parent and Subsidiaries

3. Financial Condition and Results of Operation

A report from either the chairman or president/chief executive officer or officer of equivalent rank addressed to the stockholders and other stakeholders of the bank covering the following information:

a. Review of bank's operations and result of operations for the financial year including details and explanations for any significant change during the year
b. Highlight of major activities during the year that impact operations, if any
c. Major strategic initiatives of the bank and the banking group, as applicable
d. Challenges, opportunities, and responses during the year, if any

4. Risk Management Framework Adopted

This section highlights the bank's board-approved risk management framework and should include at a minimum the following information:

a. Overall risk management culture and philosophy (discuss the general mission and goal of the bank's risk management practices and the corresponding risk management policy/principles adopted by the bank's board for the attainment of the said mission and goal)

b. Risk appetite and strategy (describe the risk appetite of the bank and the factors considered in defining the said risk appetite; and discuss the significant risk areas/exposures of the bank)

c. Bank-wide risk governance structure and risk management process (Define the roles and responsibilities and the reporting lines for the different business units that composed the risk management group/unit. For better appreciation, illustrate in a chart/ table form the risk management structure and organization of the relevant risk management function. Discuss also the scope and nature of risk reporting and/or measurement systems) AML governance and culture, and description of the overall ML/TF risk management framework to prevent the use of the bank for ML/TF activities

5. Corporate Governance

This section comprehensively discusses the bank's corporate governance framework and corporate culture adopted by the bank and the banking group, as applicable. The following minimum information should be disclosed in this section:

a. Overall corporate governance structure and practices (describe the overall governance framework adopted by the bank)

b. Selection process for the board and senior management (describe the bank's process/procedure for identifying, assessing and selecting board and senior management candidates to ensure application of fit and proper standards)

c. Board's overall responsibility (describe the general responsibility of the board in the approval and oversight of management's implementation of bank's strategic objectives, risk strategy, corporate governance and corporate values, among others)

d. Description of the major role and contribution of the chairman of the board

e. Board composition (include the names of the members of the board). For each member, include the following:

i. Type of directorship (executive, non-executive, or independent director);
ii. The principal stockholder represented if nominee;
iii. The number of years served as director;
iv. Number of direct and indirect shares held; and
v. Percentage of shares held to total outstanding shares of the bank.

f. Board qualification (provide details of the relevant qualifications and experiences of each member of the board of directors, including current directorship and officership in other companies, their age and nationality)

g. List of board-level committees including membership and function

h. Directors' attendance at board and committee meetings (include the total number of board and committee meetings for the election year and the number of board and committee meetings attended by each director[1]). A sample template is provided below:

Name of Directors	**Board** Number of Meetings		**(Name of Board Committee)** Number of Meetings		**(Name of Board Committee)** Number of Meetings		**(Name of Board Committee)** Number of Meetings		**(Name of Board Committee)** Number of Meetings	
	Attended	%	Attended	%	Attended	%	Attended	%	Attended	%
1										
2										
3										
4										
5										
Total Number of Meetings Held During the Year										

i. Changes in the board of directors *(for complex banks only)* (indicate the changes in the composition of the board of directors that happened during the period including the reason for said change, i.e., resignation, death, removal).

j. List of executive officers/senior management (disclose the name, position, relevant qualifications/experience, age and nationality of the officer. *Senior management* refers to the president/CEO or officer of equivalent rank and other persons having authority and responsibility for planning, directing and controlling the activities of the bank).

k. Performance Assessment Program (describe the process adopted by the bank in assessing the performance of the board and senior management based on established performance standards that are consistent with the bank's strategic objectives).

l. Orientation and Education Program (disclose the in-house and external training program of the bank for its directors and senior management to ensure that they continuously possess the qualifications for the position).

m. Retirement and Succession Policy (describe the retirement and succession policy of the bank including the retirement age for the board and senior management; and the term limit for the members of the board).

n. Remuneration policy

   i. Remuneration Policy and Structure for executive and non-executive directors (disclose the bank's remuneration policy and the structure of its remuneration package for the board).

   ii. Remuneration Policy for senior management (disclose the process used for determining the remuneration of the president/CEO or officer of equivalent rank, and the four (4) most highly compensated management officers of the bank).

o. Policies and procedures on related party transactions.

   i. Describe the bank's overarching policies and procedures for managing related party transactions (RPT) as defined under Sec. 135 (Profit sharing programs), including managing of conflicts of interest or potential conflicts of interest; and responsibility of the RPT Committee[2].

[1] Past and present directors during the year.
[2] As required under Sec. 135 (Item a.7 of Loans, advances, and other credit accommodations to officers).

ii. Conglomerate structure (for UBs and KBs that are part of conglomerates under Sec. 135 (Compensation and other benefits of directors and officers).

iii. Provide the details of material RPTs as defined under Sec. 135 (Item e of Loans, advances, and other credit accommodations to officers), including the nature, terms and conditions, as well as original and outstanding individual and aggregate balances, including off-balance sheet commitments.

p. Self-Assessment Function

i. Describe the structure of the internal audit and compliance functions including its role, mandate/authority, and reporting process
ii. Describe the review process adopted by the board to ensure effectiveness and adequacy of the internal control system

q. Dividend policy (discuss the bank's policies and procedures for declaring dividends and the amount of total dividends declared during the year, if any)

r. Corporate Social Responsibility Initiatives (discuss any initiative undertaken or proposed to be undertaken by the bank during the year)

s. Consumer Protection Practices[1]

i. Describe the role and responsibility of the board and senior management for the development of consumer protection strategy and establishment of an effective oversight over the bank's consumer protection programs;

ii. Describe the consumer protection risk management system of the bank, i.e., means by which a bank identify, measure, monitor, and control consumer protection risks inherent in its operations; and

iii. Describe the consumer assistance management system of the bank which shall include the consumer assistance policies and procedures as well as the corporate structure for handling complaints.

6. Corporate Information

a. Present the organizational structure, including the name and position of key officers
b. List of major stockholders[2] of the bank, including nationality, percentage of stockholdings and voting status
c. List and description of products and services offered
d. Bank website (as applicable)
e. List of banking units (such as branches, extension offices, other banking offices, and representative offices) domestic and abroad including address and contact details (optional for banks that disclose these information in their websites)

7. Audited Financial Statements (AFS) with Auditor's Opinion

The AFS for the calendar or fiscal year including the opinion of the external auditor of the bank should be presented in full in the Annual Report. For banks with subsidiaries, the AFS should be presented side by side on a solo basis (parent) and on a consolidated basis (parent and subsidiaries) as provided under Sec. 174 (Audited Financial Statements of Banks).

For complex banks[3] with various business segments, it shall also submit Financial Results of Major Business Segments with a summary report from each business segment (such as corporate banking, consumer banking, treasury, trust, wealth management, among others) highlighting the following minimum information:

a. Summary of financial performance of the business segment for the year
b. Contribution of business segment to the total revenue of the bank during the year
c. Significant developments during the year including major activities
d. Future plans/targets/objectives

(Circular No. 956 dated 17 April 2017)

[1] As required under Sec. 1001 (Consumer Protection Oversight Function).
[2] Stockholders owning more than twenty percent (20%) of voting shares of stock of a bank or which enables such stockholder to elect, or be elected as, a director of such bank
[3] As defined under Sec. 131 (Policy Statement and Definition of Terms)

NATIONAL RETAIL PAYMENT SYSTEM (NRPS) FRAMEWORK
(Appendix to Section 803)

A. NRPS Framework

The NRPS is a policy and regulatory framework that aims to establish a safe, efficient, and reliable electronic retail payment system in the Philippines. Given that retail payment systems contribute to the stability and efficiency of the financial system as a whole, the attainment of the NRPS vision will help achieve higher economic growth and enhance overall competitiveness of our economy.

With the rapid evolution of retail payments due to advancements in technology, retail payments related activities of BSFIs introduced a complex interplay of different types of risks. Thus, while the Bangko Sentral promotes the modernization of the country's retail payment system in accordance with the NRPS Framework, it is critical to ensure that enabling policies and a multifaceted approach to strengthening risk management are timely adopted, and greater attention is devoted to retail payments activities of BSFIs such as clearing and settlement.

In carrying out these activities, BSFIs are expected to adhere to the NRPS Framework and measures aimed at strengthening risk management as set forth in Sec. 803 and this Appendix. Hence, the retail payment system and activities that BSFIs participate in should establish the following:

1. Strengthened risk management through a better, holistic and multi-stakeholder approach to governance, and an enhanced transparency of clearing and settlement transactions classified according to risk profile.

2. Augmented efficiencies and effectiveness in the retail payment system by minimizing duplicative efforts, promoting interoperability among retail payment system participants, standardizing clearing and settlement rules, and harmonizing various initiatives towards the achievement of the shared goals of safe, reliable and efficient retail payment system.

3. Continued compliance with Bangko Sentral rules and regulations particularly on information technology, consumer protection, and AML/CFT.

Retail payments under the NRPS Framework are payments that meet at least one of the following characteristics: (i) the payment is not directly related to a financial market transaction; (ii) the settlement is not time-critical; (iii) the payer, the payee, or both are individuals or non-financial organizations; and (iv) either the payer, the payee, or both are not direct participants in the payment system that is processing the payment. This definition of retail payment includes person-to-person, person-to-business, business-to-person, business-to-business, person/business-to-government, and government-to-person/business payments.[1] On the other hand, large-value payments refer to payments, generally of very large amounts, which are mainly exchanged between banks or between participants of financial markets and that usually require urgent and timely settlement.

The Bangko Sentral, as a central bank, generally plays a variety of essential roles in the payment system by being an operator of the real-time gross settlement system (RTGS), an overseer in core payment arrangements, a user and participant of payment services, and, most critically, a catalyst for payment system reform. It is through the performance of these roles that the Bangko Sentral seeks to acquire a broader and holistic perspective on the role and the status of the payment system in the financial system and the economy in accordance with one of the pillars of central banking of promoting safe and efficient payment systems in the country.

1. Key Principles

    a. Governance of the payment system shall be separate and distinct from the actual clearing operations to enable the retail payment system participants to effectively and efficiently deploy resources to focused and specialized activities. The governance of the payment system includes the establishment and implementation of standards and rules among payment system participants.
    b. Sound governance shall be performed by an industry-led self-governing body that is duly recognized and overseen by the Bangko Sentral.

[1] Developing a comprehensive National Retail Payments Strategy, Financial Infrastructure Systems Policy and Research, World Bank, October 2012, available at http://siteresources.worldbank.org/FINANCIALSECTOR/Resources/Developing_a_ comprehensive_national_retail_payments_strategy_for_G PW _IO _20%2BvL%29.pdf.

c. All qualified BSFIs may apply to be direct clearing participants and, as such, participate in the governance structure.

d. All clearing participants shall subscribe to and comply with the PSMB-formulated principles, policies, and business rules that will govern the payments system.

e. All clearing shall be done within the NRPS governance structure. Bilateral clearing arrangements outside of the NRPS governance structure are considered as undertakings that carry risks that cannot be identified, measured, monitored and/or controlled, nor can said undertakings be properly considered in attaining a holistic perspective and improving governance of the retail payment system. Hence, bilateral arrangements outside of the NRPS governance structure shall not be allowed and failure to comply therewith shall result in deployment of appropriate supervisory actions from the Bangko Sentral.

f. All significant retail payment streams shall be covered by an ACH.

g. Non-discriminatory participation shall be espoused in the retail payment system by allowing all qualified direct clearing participants to participate in the formulation of standards and rules, as well as participate in business arrangements.

h. A reasonable market-based and transparent pricing mechanism shall be adopted by all BSFIs which are clearing participants. Reasonable service fees shall be allowed only for actual services rendered directly related to the delivery of electronic financial and payment services to clients of a BSFI.

i. Bangko Sentral policies and supervisory actions, not directly involving payments governance within the scope of the PSMB, shall be addressed directly to the individual payment system participants as BSFIs.

2. Objectives:

a. To enable effective and efficient interface and interoperability using shared and resilient infrastructure;
b. To foster innovation and new business models;
c. To promote fair access and competition amongst NRPS participants;
d. To facilitate the provision of a wide range of payment products and services with needed certainty, affordability (based on a reasonable market-based pricing methodology) and trust; and
e. To make relevant information on retail payment system available to concerned stakeholders.

The NRPS Framework espouses the cooperation of different competitors, or what is known as *"coopetition"*, in the domestic retail payments by delineating areas to be covered between the cooperative and the competitive spheres.

It is recognized that certain areas are dedicated for cooperation and collaboration among BSFIs participating in the retail payment system towards the common goals of safety, efficiency, reliability and resiliency. This cooperative sphere centers on the clearing and settlement activities of BSFIs which shall collaborate through the formulation and implementation of clearing and settlement standards, rules, and agreements under a formal governance structure that conforms to the NRPS principles.

To complement the cooperative sphere is the competitive sphere where the NRPS principles promote competition through innovation in the delivery of quality and cost-effective financial products and services, the creation of new business models customized to the needs of target consumers, and the development of services with a higher level of security, among others. The competitive sphere shall be governed by reasonable, transparent and effective consumer pricing mechanisms to allow BSFIs cost-recovery and fair financial returns. Each BSFI shall be responsible for prescribing its pricing mechanisms for its financial products and services taking into consideration, among others, the nature of the product or service, the market segment to be served and the costs incurred to provide such product or service.

B. Governance - Payment System Management Body (PSMB)

The PSMB is an industry-led self-governing body that is duly recognized and overseen by the Bangko Sentral.

To attain a holistic perspective and multi-stakeholder organized structure that would bring about good governance in the retail payment system, BSFIs shall adhere to the following key principles when engaging in clearing activities and must do so only within the NRPS governance structure.

1. Key Principles

    a. The retail payment transactions covered under the NRPS governance structure shall be as follows:

        i. For card-based instruments, the card shall be both issued and acquired locally; and
        ii. For online, mobile, or other electronic payment instructions/instruments, the account of payer (sender) and account of payee (recipient) shall be both maintained with BSFIs that are licensed to offer EFPS.

    b. The PSMB shall be a not-for-profit juridical entity.

    c. The PSMB shall adopt a Charter in consultation with the Bangko Sentral.

    d. The PSMB membership criteria shall, at all times, be consistent with the NRPS Framework and Bangko Sentral regulations, in addition to the following principles:
        i. All qualified direct clearing participants should be members of the PSMB.
        ii. To be a PSMB member, a BSFI shall be a participant in at least one (1) ACH and actively participate in an ACH within one (1) month of joining the PSMB.
        iii. Each PSMB member shall be entitled to only one (1) vote.

    e. The PSMB shall be funded by the members on an agreed basis.

    f. The PSMB shall be governed by a PSMB board which shall observe the following principles:

        i. The PSMB board shall have multi-stakeholder representation in accordance with the volume of the risk-taking activities, such as clearing volume, within a specified time frame [e.g., immediately preceding twenty four (24) months]. The basis for computing the clearing volume across all ACHs or payment streams shall include all payment streams with clearing activities as of the date when the election of the PSMB board is called, except if a valid reason is shown to limit the parameters.

        ii. The PSMB board shall also abide by sound corporate governance practices which may include, but is not limited to, allocating seat/s for independent board member/s or board member/s that represent/s the broader public interest and has/have competence and experience in the payments field.

        iii. The PSMB board members shall appoint as official representative their chief executive officer (CEO) and designate a formal alternate who can act with full authority (e.g., voting, approval, decision-making, and others).

        iv. Each PSMB board member shall have one (1) vote.

        v. No two (2) PSMB board members shall come from the same group of companies where one is majority-owned or controlled by the other company.

        vi. The Chairperson shall be elected among PSMB board members and shall not serve for two (2) successive terms.

    g. The PSMB shall be independent from the clearing switch operator/s with respect to business operations.

    h. All BSFIs that are part of the NRPS governance structure shall subscribe to and comply with the PSMB-formulated principles, policies, and business rules that will govern the payments system provided such PSMB-formulated principles, policies and business rules are in conformity with the NRPS Framework and principles as well as applicable laws and regulations.

2. Objectives

    a. The PSMB will provide sound governance to the retail payment system and serve as a forum of collaboration for ensuring appropriate conditions for retail payments in the country. Towards this end, the PSMB will perform these functions with respect to its members:

        i. Ensure compliance by PSMB members with criteria, standards and rules promulgated and adopted by the PSMB's membership and PSMB board, as applicable.

ii. Set policies and standards on clearing activities of PSMB members.

iii. Standardize retail clearing agreements across payment streams, which may include minimum guideline on the content of service level agreements with CSOs.

iv. Manage members' conformance to multilateral retail clearing agreements.

v. Review applications for establishment of ACHs and to accordingly approve the formation thereof to ensure, among others, that the NRPS principle of a payment stream falling only under one (1) ACH is observed by PSMB members.

vi. Prescribe policies and rules to promote visibility of retail clearing and resulting settlement positions to manage risks resulting from or associated with clearing and settlement activities.

vii. Set forth policies, rules and/or standards to ensure that no anti-competitive activities occur in clearing operations of PSMB members.

viii. Promote fair access to the payment system amongst PSMB members.

ix. Enable effective and efficient interface and interoperability using shared and resilient infrastructure.

x. Establish a dispute resolution mechanism for PSMB members on matters not covered or cannot be resolved under the ACH dispute resolution framework.

xi. Provide a clearing environment that will support payments innovation and the adoption of new business models by the payment system participants.

C. Automated Clearing House (ACH)

The ACH is a multilateral legally binding agreement amongst clearing participants. The ACH shall govern clearing and settlement determination.

To promote interoperability and standardize clearing and settlement rules and procedures, BSFIs are expected to observe the following key principles in forming and participating in ACHs under the NRPS governance structure.

1. Key Principles

   a. ACHs shall be created and differentiated based on payment streams, which comprise of payment instruments or instructions, business rules, clearing activities and risk considerations which are of similar nature or which create similar risk profiles.

   b. A payment stream can fall under only one (1) ACH.

   c. The formation of and participation in an ACH shall be open to all qualified clearing participants.

   d. The formation of an ACH shall be considered a business arrangement to be agreed upon between participants of an ACH.

   e. An ACH shall engage the services of only one (1) clearing switch operator.

   f. PSMB members may be part of more than one (1) ACH Participant Group and/or participate in more than one (1) AcH, provided the PSMB member meets the requirements for participating in such ACH.

   g. At least two (2) direct clearing participants can initiate the creation of an ACH subject to the recognition of the PSMB Board, or in the absence of a PSMB, the Bangko Sentral.

2. Salient Features

   a. ACH participants shall elect representatives to an ACH Participant Group, which once recognized by the PSMB, shall draw up and implement ACH rules and agreements and contract a qualified clearing switch operator. To assist in drafting the ACH agreements, the Participant Group may nominate a Working Group to formulate draft agreements subject to the former's approval.

   b. The assignment of a new ACH to an existing or new ACH Participant Group shall be approved by the PSMB Board.

   c. Where a new ACH Participant Group has to be formed, it shall be recognized by the PSMB Board once its charter has been accepted by the ACH participants and meets the PSMB criteria for an ACH Participant Group.

D. Clearing Switch Operator (CSO)

The CSO provides clearing switch services.

To augment efficiencies in the retail payment system while ensuring a robust and resilient infrastructure underlying retail payment transactions of BSFIs, BSFIs should observe the following key principles in engaging the services of CSOs relative to the delivery of a retail payment product or service within the NRPS governance structure.

1. Key Principles

   a. The operations of the CSO that services an ACH shall be limited to the provision of clearing and other services that do not compete with services offered by BSFIs participating in the ACH.

   b. Clearing switch operations shall be conducted effectively and efficiently consistent with international standards as this is a critical prerequisite for the functioning of all the various systems supporting and underlying retail payment services.

   c. The CSO shall have a reliable, resilient, robust, and secure infrastructure to ensure consistency and continuity of services under different operating conditions.

   d. The CSO shall be a duly licensed entity in the Philippines. Entities organized under the laws of countries other than the Philippines shall secure a license to do business in the Philippines and comply with the Foreign Investments Act of 1991 as well as other applicable laws and regulations.

   e. A CSO can extend service to multiple ACHs.

   f. Each ACH, through their designated CSO, shall individually settle their clearing results through the RTGS system operated by the Bangko Sentral.

(Circular No. 980 dated 06 November 2017)

EXPANDED REPORT ON REAL ESTATE EXPOSURES REVISED GUIDELINES AND LINE ITEM INSTRUCTIONS
(Appendix to Sec. 363)

I. Real Estate Loans

A. Residential Real Estate Loans to Individual Households for Occupancy

Report required information on residential real estate loans granted to individual households for purposes of financing the acquisition, construction and/or improvement of housing units, which shall refer to houses and lots, homelots or residential condominium units, among others, and acquisition of any associated land that is or will be occupied by the borrower, as follows:

(1) **Socialized Housing** shall refer to socialized housing units as defined under existing guidelines of the Housing and Urban Development Coordinating Council (HUDCC) for the implementation of various government housing programs, or in such other amounts which HUDCC may prescribe in the future for said housing units.

(2) **Low-cost Housing** shall refer to low-cost housing units as defined under existing guidelines of the HUDCC for the implementation of various government housing programs, other than those classified as socialized housing units, or in such other amounts which HUDCC may prescribe in the future for said housing units.

(3) **Mid-end Housing** shall refer to housing units that are worth more than ₱ 3 million to ₱ 10 million.

(4) **High-end Housing** shall refer to housing units that are worth more than ₱ 10 million.

B. Commercial Real Estate Loans

(1) **For land development as well as acquisition, construction and/or improvement of commercial real estate units**

Report required information on commercial real estate loans or loans granted for purposes of financing land development, acquisition, as well as construction and/or improvement of commercial real estate units intended for own use, sale or lease to the following borrowers:

(a) Loans to individuals

(b) Loans to land developers/construction companies.

Commercial real estate loans extended to land developers and/or construction companies shall further be classified according to the following types of real estate projects:
(i) Residential unit;
(ii) Office building/condominium;
(iii) Stand-alone stall/store/shop/supermarket/convenience store;
(iv) Mall/Shopping Center[1];
(v) Plant/factory/mill/warehouse/ storage facility;
(vi) Accommodation, restaurant, resort and other entertainment and recreational facility[2];
(vii) Others, which shall refer to projects other than those classified under Items *"(i)"* to *"(vi)"* above and which shall be further broken down into:
  (a) Working capital. This shall refer to short-term loans for purposes of financing the day-to-day real estate development operations of land developers/construction companies; or
  (b) Others

including all project-related amenities/facilities.

In reporting loans intended for the construction/development of property/(ies) under a "mixed-use" concept, the bank shall report the loan under the type of project where most of the loan proceeds will be utilized.

(c) Loans to other corporate borrowers, including holding companies.

Commercial real estate loans extended to (1) holding companies, and (2) other corporate entities shall further be classified according to the specific types of real estate projects defined under Items

[1] Mall/Shopping Center refers to a group of retail and other commercial establishments that is planned, developed and managed as a single property, comprising commercial multi-branded rental units and common areas. For purposes of reporting, a mall/shopping center shall have at least twenty (20) tenant stores.
[2] Refer to classification under PSIC 2009

"I.B.(1).(b).(i)." to *"I.B.(1).(b).(vii)."*, except for working capital purposes, of the Line Item Instructions of this Appendix.

Holding companies shall refer to entities owning the equity of subsidiary corporations and whose principal activity is owning the group.

(2) **For ancillary real estate activities such as buying and selling of real estate, lease of real estate and management of real estate/real property**

Report required information on commercial real estate loans or loans granted for purposes of financing ancillary real estate activities such as buying and selling of real estate, lease of real estate and management of real estate/real property, classified as to the following borrowers:

(a) Loans to individuals, including sole proprietors, which are further classified as to the following:
  (i) Real estate brokers,
  (ii) Real estate lessors, and
  (iii) Others; and

(b) Loans to other corporate entities, which are further classified as to:

  (i) Real estate brokers;
  (ii) Real estate lessors;
  (iii) Property management companies;
  (iv) Holding companies; and
  (v) Other corporate entities

Details of Residential and Commercial Real Estate Loans

Report in the appropriate column the following requested information:

(1) **No. of Accounts** – Report the number of accounts of real estate loans extended.
(2) **Outstanding Balance** – Report the amortized cost (i.e., gross of allowance for credit losses) of real estate loans extended.
(3) **Allowance for Credit Losses** – Report the specific allowance for credit losses booked for the real estate loans extended.
(4) **Net Carrying Amount** – Report the net carrying amount of real estate loans extended as the difference between Items *"(2)"* and *"(3)"*.
(5) **Status of Accounts**

Report the amortized cost (i.e., gross of allowance for credit losses) of real estate loans extended classified as to the following status:

(a) Current
(b) Past Due
(c) Non-Performing
(d) Items in Litigation

as defined under existing regulations.

(6) **Collateral**

Report the amortized cost (i.e., gross of allowance for credit losses) of real estate loans classified as to the following:

(a) **Secured by REM –** Report the amortized cost (i.e., gross of allowance for credit losses) of real estate loans to the extent covered by real estate mortgage (REM) on residential and commercial properties.

(b) **Secured by Non-Risk Assets** - Report the amortized cost (i.e., gross of allowance for credit losses) of real estate loans to the extent covered by non-risk assets as provided under existing regulations.

(c) **Secured by Other Assets** – Report the amortized cost (i.e., gross of allowance for credit losses) of real estate loans to the extent secured by other assets as provided under existing regulations.

(d) **Unsecured** – Report the amortized cost (i.e., gross of allowance for credit losses) of unsecured real estate loans extended by the bank as provided under existing regulations.

(7) **Guaranteed by Home Guarantee Corporation (HGC)** – Report the amortized cost (i.e., gross of allowance for credit losses) of real estate loans to the extent guaranteed by the HGC, regardless of whether these are secured or unsecured.

(8) **Contracts to Sell (CTS)**

Report the amortized cost (i.e., gross of allowance for credit losses) of real estate loans acquired from real estate developers/construction companies that are covered by CTS agreements, executed between the developer and homebuyers, prior to the transfer of underlying real estate properties in the name of the homebuyer and execution of REM on said properties by the bank.

(a) **CTS without recourse –** Report the amortized cost (i.e., gross of allowance for credit losses) of real estate loans acquired from real estate developers/construction companies by way of purchase of CTS on a without recourse basis.

(b) **CTS with recourse** – Report the amortized cost (i.e., gross of allowance for credit losses) of real estate loans to real estate developers/construction companies by way of purchase of CTS on a with recourse basis.

(9) **Fair Value of REM Collateral** – Report the fair value of the REM collateral on an annual basis.

(10) **Residual Maturity**

Report the amortized cost (i.e., gross of allowance for credit losses) of real estate loans classified according to the time remaining from the date of report until maturity date of the loan.

(a) Up to 1 year;
(b) Over 1 year to 5 years;
(c) Over 5 years to 10 years; and
(d) Over 10 years.

Additional Information

A. RELs to Finance Residential Units – This refers to residential real estate loans granted for purposes of financing the acquisition, construction and/or improvement of housing units, which shall refer to houses and lots, homelots or residential condominium units, among others, and acquisition of any associated land.

(1) **Residential RELs for Occupancy** – This refers to residential real estate loans granted to individual households for purposes of financing the acquisition, construction and/or improvement of housing units and acquisition of any associated land that is or will be occupied by the borrower.

(2) **Commercial Real Estate Loans for Land Development as well as Acquisition, Construction and/or Improvement of Residential Units** – Report the required information on commercial real estate loans extended to finance the land development and construction of residential housing units, which are intended for sale/lease to individual households, broken down as to counterparties, and further classified according to type of housing segment as defined under the line item instructions for Item *"I.A."* - *Residential Real Estate Loans to Individual Households for Occupancy*:

(a) Land Developers/Construction Companies
  (i) Socialized Housing
  (ii) Low-cost Housing
  (iii) Mid-end Housing
  (iv) High-end Housing

(b) Other Borrowers
  (i) Socialized Housing
  (ii) Low-cost Housing
  (iii) Mid-end Housing
  (iv) High-end Housing

B. RELs to Finance Residential Condominium Units – Report information on residential real estate loans extended to finance the acquisition, construction and/or improvement of residential condominium units.

C. RELs to Overseas Filipinos (OFs) and/or their Beneficiaries – This refers to real estate loans granted to OFs and/or their beneficiaries, where the repayment for such RELs would come from the salary and /or remittances of the OF. These RELs shall be broken down as to the following:

(1) **Residential RELs for Own Occupancy** – Report information on residential real estate loans granted to OFs and/or their beneficiaries to finance the acquisition, construction and/or improvement of housing units and acquisition of any associated land that is or will be occupied by the OF and/or his/her beneficiaries.

(2) **Commercial Real Estate Loans** – Report information on commercial real estate loans granted to OFs and/or their beneficiaries for purposes of financing commercial real estate activities.

D. Loans Secured by REM (Other than those reported as Real Estate Loans under Item I) – Report information on loans secured by REM that are extended, other than for real estate activities, broken down as to the following:

(1) Secured by REM on Residential Properties
(2) Secured by REM on Commercial Properties
(3) Secured by REM on Agricultural Properties

E. Loans for Public Infrastructure –Report information on loans extended for purposes of financing infrastructure projects for public use as defined under Item *"1"* of Section 1397.

II. Investments in Securities Issued for Purposes of Financing Real Estate Activities

A. Debt Securities

Report the names of corporations that issued debt securities for purposes of financing real estate activities that are held by the bank.

Further, report under the appropriate column the following information:

(1) **Acquisition Cost** – Report the acquisition cost of debt securities per line item indicated.

(2) **Carrying Amount** – Report the carrying amount, (i.e. gross of allowance for credit losses) of debt securities per line item indicated.

(3) **Allowance for Credit Losses** – Report the specific allowance for credit losses per line item indicated

(4) **Net Carrying Amount** – Report the net carrying amount of debt securities per line item indicated as the difference between Items *"(2)"* and *"(3)".*

(5) **Past Due Accounts** – Report the carrying amount (i.e., gross of allowance for credit losses) of past due debt securities as defined under existing regulations per line item indicated

(6) **Collateral** – Report the carrying amount (i.e., gross of allowance for credit losses) of debt securities as to the following collateral types:

(a) Secured by Mortgage Trust Indenture (MTI)
(b) Secured by Non-Risk Assets
(c) Secured by Other Assets
(d) Unsecured

(7) **Fair Value** – Report the fair value of debt securities held by the bank on an annual basis.

B. Equity Securities

Report the names of land developers/construction companies and other corporate borrowers such as real estate brokers, real estate lessors and property management companies that issued equity securities that are held by the bank.

Further, report under the appropriate column the following information:

(1) **Acquisition Cost** – Report the acquisition cost of equity securities per line item indicated.

(2) **Carrying Amount** – Report the carrying amount, (i.e. gross of allowance for credit losses) of equity securities per line item indicated.

(3) **Allowance for Impairment** – Report the specific allowance for impairment per line item indicated.

(4) **Net Carrying Amount** – Report the net carrying amount of equity securities per line item indicated as the difference between Items *"(2)"* and *"(3)".*

(5) **Fair Value** – Report the fair value of equity securities held by the bank on an annual basis.

Additional Information:

Investments in Securities for Public Infrastructure – Report information on investments in securities issued for purposes of financing infrastructure projects for public use as defined under Item *"1"* of Section 1397.

III. Ratio of REE to Adjusted Capital

A. RELs – Report the amortized cost (i.e., gross of allowance for credit losses) of total RELs as computed in Part I of the reporting template.

B. Investments in Securities – Report the carrying amount (i.e., gross of allowance for credit losses/impairment) of investments in securities as computed in Part II of the reporting template.

C. Total REEs – Sum of Items *"A"* and *"B"* above.

D. Adjusted Capital – Report the adjusted capital of the bank as provided under Section 121 and Sec. 103 (Capital requirements of foreign banks) Subsection X105.4 (for Philippine branches of foreign banks) of the Manual of Regulations for Banks.

E. Ratio of REE to Adjusted Capital – Divide Item *"C"* by Item *"D".*

The adjusted capital that shall be used for the banking group report shall be the adjusted capital of the parent bank.

(Circular No. 976 dated 10 October 2017)

REPORT ON PROJECT FINANCE EXPOSURES
LINE ITEM INSTRUCTIONS ON THE COVERAGE OF PROJECT FINANCE EXPOSURES
(Appendix to Sec. 173)

I. Project Finance Loans Classified According to Type of Infrastructure Projects – Report information on loans extended using the method of project finance as defined under Section 344 (Exclusion from the thirty percent (30%) unsecured individual ceiling for project finance) broken down as to the following type of infrastructure projects:

A. Highways, expressways, roads, bridges, interchanges, tunnels and related facilities;
B. Rail-based projects, non-rail based mass transit facilities, navigable inland waterways and related facilities;
C. Airports, air navigation and related facilities;
D. Piers, wharves, quays, and other port infrastructure-related facilities;
E. Power-generation/transmission/distribution related facilities;
F. Telecommunications, backbone network, terrestrial and satellite facilities and related service facilities;
G. Government buildings and housing projects;
H. Information technology (IT) and data base infrastructure-related facilities;
I. Education and health infrastructure facilities;
J. Irrigation, water supply, sewerage, drainage and related facilities;
K. Land reclamation, dredging, industrial and tourism estates/townships including ecotourism projects and other related development facilities/utilities;
L. Warehouses and post-harvest facilities, markets, slaughterhouses and related facilities;
M. Public fish ports and fish ponds, including storage and processing facilities; and
N. Others.

Additional Information on Project Finance Loans –

A. Project Finance Loans Classified According to the Current Phase of the Project Being Financed – Report information on project finance loans as defined under Section 344 of the MORB, broken down as to the following:

(1) **Project is in its Gestation/Pre-operational Phase** – Report information on loans extended to projects which are at the pre-operational phase or the phase wherein the project does not yet generate cash flows, as of reporting date.

(2) **Project is Operational** – Report information on loans extended to projects which are operational, or the phase wherein the project is already generating cash flows, as of reporting date.

B. Project Finance Loans for Public Infrastructure Projects Awarded under Public-Private Partnership Contracts/Agreements – Report the name of the infrastructure project awarded under Public-Private Partnership Contracts/Arrangements that is financed by the bank through project finance loans and other required information related to project finance loans for public infrastructure projects awarded under Public-Private Partnership Contracts/Arrangements.

Details of Project Finance Exposures

"Report in the appropriate column the following requested information:

1. **No. of Accounts** – Report the number of accounts of project finance loans extended.

2. **Total Commitments** – Report the total amount of commitments under committed credit line agreements of a bank with a corporation that fall under a project finance arrangement.

3. **Outstanding Balance** – Report the amortized cost (i.e., gross of allowance for credit losses) of project finance loans extended.

4. **Allowance for Credit Losses** – Report the specific allowance for credit losses booked for the project finance loans extended.

5. **Net Carrying Amount** – Report the net carrying amount of project finance loans extended as the difference between Items *"(3)"* and *"(4)"*.

6. **Status of Accounts**

Report the amortized cost (i.e., gross of allowance for credit losses) of project finance loans extended classified as to the following status:

(a) Current
(b) Past Due
(c) Non-Performing
(d) Items in Litigation

as defined under existing regulations.

7. **Collateral**

Report the amortized cost (i.e., gross of allowance for credit losses) of project finance loans classified as to the following:

(a) **Secured by REM –** Report the amortized cost (i.e., gross of allowance for credit losses) of project finance loans to the extent covered by real estate mortgage (REM) on residential and commercial properties.

(b) **Secured by Non-Risk Assets** - Report the amortized cost (i.e., gross of allowance for credit losses) of project finance loans to the extent covered by non-risk assets as provided under existing regulations.

(c) **Secured by Other Assets** – Report the amortized cost (i.e., gross of allowance for credit losses) of project finance loans to the extent secured by other assets as provided under existing regulations.

(d) **Unsecured** – Report the amortized cost (i.e., gross of allowance for credit losses) of unsecured project finance loans extended by the bank as provided under existing regulations.

8. **Fair Value of REM Collateral** – Report the fair value of the REM collateral on an annual basis.

9. **Residual Maturity –** Report the amortized cost (i.e., gross of allowance for credit losses) of project finance loans classified according to the time remaining from the date of report until maturity date of the loan.

(a) Up to 1 year;
(b) Over 1 year to 5 years;
(c) Over 5 years to 10 years; and
(d) Over 15 years.

II. Investments in Securities Issued for Infrastructure Projects under Project Finance – Report information on investments in securities issued for purposes of financing infrastructure projects funded through project finance as defined under Section 344 (Exclusion from the thirty percent (30%) unsecured individual ceiling for project finance).

A. Debt Securities

Report the names of corporations that issued debt securities for purposes of financing project finance activities that are held by the bank.

Further, report under the appropriate column the following information:

(1) **Acquisition Cost** – Report the acquisition cost of securities per line item indicated.

(2) **Carrying Amount** – Report the carrying amount, (i.e. gross of allowance for credit losses) of securities per line item indicated.

(3) **Allowance for Credit Losses/Impairment** – Report the specific allowance for credit losses/impairment per line item indicated.

(4) **Net Carrying Amount** – Report the net carrying amount of securities per line item indicated as the difference between Items *"(2)"* and *"(3)"*.

(5) **Past Due Accounts** – Report the carrying amount (i.e., gross of allowance for credit losses) of past due securities as defined under existing regulations per line item indicated.

(6) **Collateral** – Report the carrying amount (i.e., gross of allowance for credit losses) of securities as to the following collateral types:

(a) Secured by Mortgage Trust Indenture (MTI)
(b) Secured by Non-Risk Assets
(c) Secured by Other Assets
(d) Unsecured

(7) **Fair Value (Annually)** – Report the fair value of securities held by the bank on an annual basis.

B. Equity Securities

Report the names of special purpose entity (SPE) projects that are listed with the Philippine Stock Exchange.

Further, report under the appropriate column the following information:

(1) **Acquisition Cost** – Report the acquisition cost of equity securities per line item indicated.

(2) **Carrying Amount** – Report the carrying amount, (i.e. gross of allowance for credit losses) of equity securities per line item indicated.

(3) **Allowance for Impairment** – Report the specific allowance for impairment per line item indicated.

(4) **Net Carrying Amount** – Report the net carrying amount of equity securities per line item indicated as the difference between Items *"(2)"* and *"(3)"*.

(5) **Fair Value** – Report the fair value of equity securities held on an annual basis.

Additional Information

A. Investments in Securities for Project Finance Infrastructure Projects Awarded under Public-Private Partnership Contracts/Arrangements – Report the name of the project finance infrastructure project awarded under Public-Private Partnership Contracts/Arrangements that is financed by the banks through investments in securities and other required information related to the investments in securities issued to finance public infrastructure projects awarded under Public-Private Partnership Contracts/Arrangements.

(Circular No. 976 dated 10 October 2017)

SWORN CERTIFICATION OF COMPLIANCE WITH THE MINIMUM LIQUIDITY RATIO REQUIREMENT
(Appendix to Sec. 145 Minimum Liquidity Coverage Ratio for Stand-Alone Thrift Banks, Rural Banks, and Cooperative Banks)

<Name of Bank>

CERTIFICATION

Pursuant to Section 145 (Minimum Liquidity Ratio for Stand-Alone Thrift Banks, Rural Banks and Cooperative Banks) of the Manual of Regulations for Banks, I/we hereby certify that –

☐ The Bank has fully complied with the twenty percent (20%) Minimum Liquidity Ratio (MLR) Requirement on all banking days of the month/quarter ended <Year>.

☐ The Bank incurred shortfalls on the following days of the month/quarter ended <Year>:

I/We further certify to the best of my/our knowledge that the above statement is true and correct.

(Signature over Printed Name of President, or
Executive Vice President and Compliance Officer/
Chief Accountant/Comptroller)

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.

NOTARY PUBLIC

Doc. No. _____;
Page No. _____;
Book No. _____;
Series of 20___

(Circular No. 996 dated 8 February 2018)

GUIDELINES ON THE BANGKO SENTRAL IMPLEMENTATION OF THE NET STABLE FUNDING RATIO (NSFR)
(Appendix to Sec. 145 on NSFR)

The guidelines on the implementation of the NSFR are aligned with the provisions of the "Basel III: The Net Stable Funding Ratio" document issued by the Basel Committee on Banking Supervision (BCBS). National discretion is exercised in certain areas considering domestic conditions. For purposes of these guidelines, the definitions used in the Liquidity Coverage Ratio (LCR) Framework as provided in *Appendix 72* shall apply, unless otherwise explicitly provided.

A. Available Stable Funding

1. The available stable funding (ASF) represents the portion of the covered bank's capital and liabilities that are expected to be reliable sources of funds over a one-year time horizon. The amount of ASF is determined by assigning the carrying value of the covered bank's capital and liabilities to different ASF categories, multiplying each category by an ASF factor and adding the weighted amounts. The carrying value of the covered bank's capital and liabilities shall refer to the recorded amount before the application of any regulatory deductions and other adjustments.

Characteristics of Funding Stability

2. Under the NSFR framework, liabilities are accorded with presumed degree of stability as reflected in their corresponding ASF factor. The factors are scaled from 100% to zero percent (0%) with 100% representing the most stable account.

3. Three (3) characteristics are identified for funding stability, namely: tenor, type and counterparty:

    a. *Funding Tenor.* Longer-term liabilities are assumed to be more stable than short term liabilities. As such, funding that matures in more than one (1) year is considered more stable than those maturing in less than a year.

    b. *Funding type.* The framework recognizes that certain types of funding are inherently more stable than other types without considering the tenor. Retail deposits are generally considered more stable than wholesale deposits.

    c. *Funding counterparty.* The covered bank's counterparty influences the stability of funding such that retail customers or counterparties are considered more stable than similar types of funding provided by wholesale customers. Likewise, funds provided by non-financial corporates/entities are considered more stable than those provided by financial corporate/entities.

Maturity of Funding

4. Funding instruments with options to redeem and deposits with withdrawal notice periods shall be assumed to be redeemed through the exercise of an option or withdrawn on the earliest date possible.

5. For long dated liabilities, only the portion of cash flows due beyond six (6) months and one (1) year time horizon shall receive an ASF based on residual maturity of six (6) months to less than one (1) year and one (1) year or more, respectively.

ASF Categories

Liabilities and capital with 100% ASF factor

6. Liabilities and capital instruments receiving 100% ASF factor include:

    a. Total amount of regulatory capital[1] before the application of regulatory adjustments excluding Tier 2 instruments with residual maturities of less than one (1) year or those instruments with explicit or embedded options that, if exercised, would reduce the expected maturities to less than one (1) year.

    b. Other capital instruments not included above, that have effective residual maturities of one (1) year or more, but excluding any instruments with explicit or embedded options that, if exercised, would reduce the expected maturity to less than one (1) year.

    c. Secured and unsecured funding with residual maturities of one (1) year or more.

[1] Regulatory capital is the sum of Tier 1 and Tier 2 capital before the application of any regulatory deductions and other adjustments.

d. Wholesale non-operational deposits with residual maturities of one (1) year or more.

e. Retail term deposits with residual maturities of one (1) year or more.

Liabilities with ninety-five percent (95%) ASF factor

7. Retail non-maturity deposits and retail term deposits with residual maturities of less than one (1) year and that have an outstanding balance of P500 thousand and below.

Liabilities with ninety percent (90%) ASF factor

8. Retail non-maturity deposits and retail term with residual maturities of less than one (1) year and that have an outstanding balance of more than P500 thousand

Liabilities with fifty percent (50%) ASF factor

9. Wholesale non-operational deposits with residual maturities of less than one (1) year from the Philippine National Government (NG) and other sovereigns, Local Government Units (LGUs), Government Owned and Controlled Corporations (GOCCs), Philippine Stock Exchanges (PSEs) of Foreign Countries, and Multilateral Organizations including Multilateral Development Banks (MDBs).

10. Wholesale non-operational deposits with residual maturities of less than one (1) year from non-financial corporates.

11. Wholesale non-operational deposits with residual maturities of six (6) months to less than one (1) year from the Bangko Sentral, other central banks, banks and financial corporates.

12. Wholesale operational deposits. All Current Account and Savings Account (CASA) including negotiable order of withdrawal accounts are automatically categorized as operational deposits.

13. Secured and unsecured funding with residual maturities of less than one (1) year provided by the NG and other sovereigns, LGUs, GOCCs, PSEs of Foreign Countries, and Multilateral Organizations including MDBs.

14. Secured and unsecured funding with residual maturities of less than one (1) year provided by non-financial corporates.

15. Secured and unsecured funding with residual maturities of six (6) months to less than one (1) year provided by the Bangko Sentral, other central banks, banks and financial corporates.

16. Other sources of funding with residual maturities of six (6) months to less than one (1) year.

17. For foreign bank branches, any balance of "Net due to head office/branches/agencies abroad" excluding accumulated "unremitted profits" and "losses in operations".

Liabilities and equities with zero percent (0%) ASF factor

18. Wholesale non-operational deposits with residual maturities of less than six (6) months from the Bangko Sentral, other central banks, banks and financial corporates.

19. Secured and unsecured funding with residual maturities of less than six (6) months provided by the Bangko Sentral other central banks, banks and financial corporates.

20. Other sources of funding with residual maturities of less than six (6) months.

21. All other liabilities and equity items not included in the above categories. The liabilities shall include those without a stated maturity such as short positions and open maturity positions. Two (2) exceptions shall be recognized for liabilities without a stated maturity:

    - First, deferred tax liabilities, which shall be treated according to the nearest possible date on which such liabilities could be realized; and
    - Second, minority interest, which shall be treated according to the term of the instrument, usually in perpetuity.

These liabilities shall then be assigned either a 100% ASF factor if the effective maturity is one (1) year or greater or fifty percent (50%), if the effective maturity is between six (6) months and less than one (1) year.

22. Trade date payables arising from purchase of financial assets pending actual receipt/settlement of the underlying securities.

B. Required Stable Funding

23. The amount of required stable funding (RSF) represents the amount of funding needed to support a covered bank's assets and off balance sheet (OBS) exposures based on their liquidity characteristics or liquidity risk profile. RSF is calculated by assigning the carrying value of assets and OBS exposures to the relevant RSF category. The carrying value is then multiplied by the corresponding RSF factor to arrive at the weighted amounts. The carrying value of an asset shall be gross of the GLLP and net of specific provisions.

Considerations for Asset Liquidity

24. Similar to available stable funding, a set of standardized weightings shall be used to determine the amount of stable funding a covered bank must maintain. RSF factors shall be scaled from zero percent (0%) to 100% based on liquidity characteristics of asset and OBS exposures.

25. The RSF factor assigned to each asset represents the amount of a particular asset estimated to be funded, either because the asset will be rolled over or because it could not be monetized through sale or be used as collateral in secured borrowing transaction, over the course of one (1) year

26. The following characteristics are considered collectively for each asset, as applicable:

    a. Credit Quality. Asset with higher credit quality are perceived to attract more demand from market participants than those with lower credit quality, and thus more liquid than the latter. Under the framework, assets with lower credit quality shall require more stable funding than those with higher credit quality.

    b. Tenor. Assets with longer maturities are expected to require more funding than those with shorter maturities. This is in view of the longer time necessary for the asset to be converted to cash or for cash inflows to be realized from the asset. Additionally, assets with longer tenor may liquidate at a discount because of the higher market and credit risks associated with the longer time to wait for cash inflows.

    c. Counterparty. Relationships with counterparties are critical in continuing business. Covered banks would generally roll over certain exposures to non-financial counterparties to maintain business relationship and generate additional business in the future.

    d. Market Characteristics. Assets that are traded in an exchange tend to exhibit a higher degree of liquidity, thus, shall require less stable funding.

    e. Asset Encumbrance. In general, encumbered assets cannot be monetized during the period they are encumbered. The longer an asset is encumbered, the more stable funding it would require.

27. For purposes of determining the RSF, covered banks shall include financial instruments, foreign currencies, and commodities for which a purchase order has been executed and shall exclude those for which a sales order has been executed.

Maturity of assets

28. In determining the maturity of an instrument, it shall be assumed that investors will exercise any option to extend maturity. On the other hand, for assets with options exercisable at the discretion of the covered bank, the reputational factors which may limit a covered bank's ability not to exercise the option shall be considered. For amortizing loans, the portion that comes due within the one-year period shall be classified under the less than one (1) year residual maturity category.

Asset Encumbrance

29. The RSF factor for an encumbered asset is either the same as, or higher than, the RSF factor for an equivalent unencumbered asset. The specific RSF factors for encumbered assets depend on the remaining period of encumbrance. On-balance sheet assets that are encumbered for one year or more shall have an RSF factor of 100%

while assets encumbered for a period of six (6) months to less than one (1) year shall have a fifty percent (50%) RSF factor. Encumbered assets with less than six (6) months remaining in the encumbrance period shall receive the same RSF factor as if the equivalent asset was unencumbered.

30. Where beneficial ownership is retained in assets that are encumbered in a repo or other securities financing transactions, and these assets are included in the balance sheet, such assets shall be allocated in their respective RSF category.

RSF Categories

Asset assigned a zero percent (0%) RSF factor

31. Cash on hand, checks and other cash items.

32. Covered bank reserves in the Bangko Sentral and all claims on the Bangko Sentral (including demand), overnight, and term deposits and reverse repos where the Bangko Sentral is the counterparty) with residual maturities of less than six (6) months.

33. Trade date receivables arising from sale of financial assets pending actual settlement/delivery of the underlying securities.

Assets assigned a five percent (5%) RSF factor

34. Eligible securities representing claims on or guaranteed by the NG, the Bangko Sentral, sovereigns, other central banks and PSEs of Foreign Countries, and Multilateral Organizations including MDBs. These securities are assigned zero percent (0%) risk weight under the standardized approach for credit risk and are not direct obligations of a covered bank or any of a covered bank's financial allied undertakings.

Assets assigned a ten percent (10%) RSF factor

35. Loans to banks, financial corporates and other central banks with residual maturities of less than six (6) months and where the loans are secured by Level 1 assets as defined in the LCR rules.

Assets assigned a fifteen percent (15%) RSF factor

36. Eligible securities representing claims on or guaranteed by the LGUs, GOCCs, sovereigns, other central banks, and PSEs of Foreign Countries, and Multilateral Organizations including MDBs. These securities are assigned a twenty percent (20%) risk weight under the standardized approach for credit risk and are not direct obligations of a covered bank or any of a covered bank's financial allied undertakings.

37. Corporate debt securities (including commercial papers) assigned with a credit rating equal or equivalent to at least AA- by a third-party credit assessment agency recognized by the Bangko Sentral, and not issued by a covered bank or any of a covered bank's financial allied undertakings.

38. Loans to banks, financial corporates, and other central banks with residual maturities of less than six (6) months.

39. Non-operational deposits held at other banks with residual maturities of less than six (6) months

Assets assigned a fifty percent (50%) RSF factor

40. Eligible securities representing claims on or guaranteed by the LGUs, GOCCs, sovereigns, other central banks and PSEs of Foreign Countries, and Multilateral Organizations including MDBs. These securities are assigned a fifty percent (50%) risk weight under the standardized approach for credit risk and are not direct obligations of a covered bank or any of a covered bank's financial allied undertakings.

41. Corporate debt securities (including commercial papers) assigned with a credit rating of between A+ and BBB- or equivalent by a third-party credit assessment agency recognized by the Bangko Sentral, and not issued by a covered bank or any of a covered bank's financial allied undertakings.

42. Common equity shares that are included in the main index of an organized exchange and not issued by a covered bank or any of a covered bank's financial allied undertakings.

43. Other debt securities with residual maturities of less than one (1) year.

44. Loans to banks, financial corporates, the Bangko Sentral and other central banks, with residual maturities of between six (6) months to less than one (1) year.

45. Non-operational deposits held at other banks with residual maturities of between six (6) month to less than one (1) year.

46. Operational deposits held at other banks.

47. Loans to the NG, LGUs, GOCCs, sovereigns, PSEs of Foreign Countries, and Multilateral Organizations including MDBs with residual maturities of less than one (1) year.

48. Loans too non-financial corporates and micro, small and medium enterprises (MSME) with residual maturities of less than one (1) year.

49. Consumer loans with residual maturities of less than one (1) year.

50. For foreign bank branches, any balance of "Net due from head office/branches/ agencies abroad' excluding accumulated "unremitted profits" and "losses in operation".

Assets assigned a 65.0 percent (65%) RSF factor

51. Loans to the NG, LGUs, GOCCs, sovereigns, PSEs of Foreign Countries, and Multilateral Organizations including MDBs with residual maturities of one (1) year or more and would apply for a fifty percent (50%) or lower risk weight under the standardized approach for credit risk.

52. Loans to non-financial corporates with residual maturities of one (1) year or more and would qualify for a fifty percent (50%) or lower risk weight under the standardized approach for a credit risk.

53. Residential real estate loan with residual maturities of one (1) year or more and would qualify for a risk weight of fifty percent (50%) under the standardized approach for credit risk.

Assets assigned an eighty five percent (85%) RSF factor

54. Loans to the NG, LGUs, GOCCs, sovereigns, PSEs of Foreign Countries and Multilateral Organizations including MDBs with residual maturities of one year or more and would not qualify for a fifty percent (50%) risk weight under the standardized approach for credit risk.

55. Loans to non-financial corporates and MSMEs with residual maturities of one year or more and would not qualify for a fifty percent (50%) risk weight under the standardized approach for credit risk.

56. Residential real estate loans with residential maturities of one (1) year or more, which do not qualify for a risk weight of fifty percent (50%) under the standardized approach for credit risk.

57. Other consumer loans with residual maturities of one (1) year or more.

58. Other traded equity securities and debt securities with residual maturities of one (1) year or more and not issued by a covered bank or any of a covered bank's financial allied undertakings.

Assets assigned a 100% RSF factor

59. Loans to banks, financial corporates, the Bangko Sentral and other central banks, with residual maturities of one (1) year or more.

60. Non-operational deposits held at other banks with residual maturities of one (1) year or more.

61. Non-traded equity shares which are not issued by a covered bank or any of a covered bank's financial allied undertakings.

62. Non-performing loans and securities.

63. Items deducted from regulatory capital; and

64. All other assets.

C. Off-Balance Sheet Exposures

65. For OBS exposures, the covered bank shall apply the RSF factor shown below:

RSF Factor	Off-balance Sheet Items
5%	Guarantees and financial standby letters of credit Irrevocable and conditionally revocable credit and liquidity facilities
1%	Other transaction and trade-related contingent items Unconditionally revocable credit and liquidity facilities
0%	Non contractual obligations

D. Derivatives

66. The amount of the NSFR derivative assets is calculated based on the replacement cost for derivative contracts (obtained by marking to market) where the contract has a positive value. On the other hand, where the contract has a negative value, this shall be reflected as NSFR derivative liabilities. For contracts that inherently require net settlement (e.g., non-deliverable forward exchange contract), the expected derivatives exposure shall be reported on a net basis.

67. NSFR derivative assets are assigned a 100% RSF factor while NSFR derivative liabilities would not be considered a source of stable funding and would be assigned a zero percent (0%) available stable funding factor. When the NSFR derivative assets are greater than the NSFR derivative liabilities, a 100% RSF factor shall be assigned to five percent (5%) of the NSFR derivative liabilities.

(Circular No. 1007 dated 6 June 2018)

SWORN CERTIFICATION OF COMPLIANCE WITH THE NET STABLE FUNDING RATIO (NFSR) REQUIREMENTS
(Appendix to Sec. 145 on Net stable funding ratio)

<NAME OF BANK>

C E R T I F I C A T I O N

Pursuant to Section 145 (*Net Stable Funding Ratio*) of the Manual of Regulations for Banks, we hereby certify that the Bank has fully complied with the minimum NSFR requirement on all calendar days of the month/quarter ended _____ 20 __ .

We further certify to the best of our knowledge that above statement is true and correct.

President/CEO or Country Head	*[Other authorized signatories for Category A-1 report]*	
TIN:	TIN:	TIN:

[Officer Charged with Liquidity Management Function]	Compliance Officer
TIN:	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.

NOTARY PUBLIC

Doc. No. ____;
Page No. ____;
Book No. ____;
Series of 20___.

(In case of occurrences of non-compliance during the month/quarter, the certification should read as follows:)

Pursuant to Section 145 (*Net Stable Funding Ratio*) of the Manual of Regulations for Banks, we hereby certify that the Bank have fully complied with the minimum NSFR requirement on all calendar days of the month/quarter ended _____ 20 ___, except on (*example)*

Dates (Day)	NSFR Compliance (%)
11 January 2018 (Thursday)	99.56%
15 January 2018 (Monday)	98.10%
16 January 2018 (Tuesday)	98.97%

A shortfall notice containing the minimum information required under Section 145 (*Supervisory framework for the minimum prudential liquidity requirements*) had been submitted to the Bangko Sentral on *17 January 2018* through the appropriate supervisory department.

We further certify to the best of our knowledge that above statement is true and correct.

President/CEO or Country Head	*[Other authorized signatories for Category A-1 report]*	
TIN:	TIN:	TIN:
[Officer Charged with Liquidity Management Function]	Compliance Officer	
TIN:	TIN:	

SUBSCRIBED AND SWORN TO before me this ___ day of _____ 20 __, at _____, Philippines affiant/s exhibiting government-issued identification cards as follows:

NAME	GOVERNMENT-ISSUED ID	DATE OF ISSUE	PLACE OF ISSUE

Witness my hand and notarial seal on date and place above-written.

NOTARY PUBLIC

Doc. No. ____;
Page No. ____;
Book No. ____;
Series of 20___.

(Circular No. 1007 dated 6 June 2018)

IMPLEMENTING GUIDELINES OF THE CURRENCY RATE RISK PROTECTION PROGRAM (CRPP) FACILITY
(Appendix to Section 629)

A. Mechanics on the availment of the CRPP facility

1. Qualified applicants shall file with a UB/KB (the "Bank"): (a) Application for the Bangko Sentral Currency Rate Risk Protection Program (The "CRPP Facility") certifying under oath that the underlying foreign currency obligation qualifies under the CRPP Facility and that such obligation is unhedged; and (b) supporting documents in Item *"B"* hereof.

2. The Bank, after reviewing the application and finding the same in order, shall request the Domestic Market Operations Department (DMOD) under the Financial Market Operations Sub-Sector to quote the CRPP rates between 1:00-2:00 P.M. and 4:00-5:00 P.M. Each application shall be dealt with by Bangko Sentral-DMOD separately.

3. The Bank shall submit to the appropriate supervising department of the Bangko Sentral not later than 5:00 P.M. of the banking day following the date of availment of the CRPP contract:

    a. Copy of qualified client's Application for the CRPP Facility required in Item *"A.1"*; and

    b. Certification and Deed of Undertaking on the Availment of CRPP Transactions with the Bangko Sentral and Details of Availment of CRPP Transactions with Clients. Said certification and deed of undertaking shall be jointly signed under oath by the Bank's authorized signatories who shall at least be a senior vice president or officer of equivalent rank and the compliance officer.

4. The Bank shall keep the original duly accomplished application form and supporting documents, and make these available for inspection upon request by the Bangko Sentral during on-site examination and off-site verification, as may be warranted.

5. It is understood that prior to the application by the qualified client, the Bank has conducted the necessary client suitability assessment procedures and has explained to the client the information, risks and costs associated with the NDF product and the CRPP facility.

B. Documentary requirements

On or before the deal date, the qualified applicant shall submit to the Bank the duly notarized accomplished application for the Bangko Sentral CRPP Facility, together with the following documents:

1. Bangko Sentral-reported short-term (ST) trade-related loans from banks operating in the Philippines [FCDU/EFCDU and RBU], and medium/long-term trade-related FCDU/RBU loans with payments maturing within ninety (90) days as of date of application:

    a. Promissory note certified as true copy by the Head of the lending bank's Loans Department or equivalent unit; and

    b. Certification from the lending bank that the loan is trade-related; and indicating the following: (i) date when the loan was reported to the Bangko Sentral-International Operations Department (Bangko Sentral-IOD) under the prescribed form; (ii) total amount outstanding as of date of application; and (iii) amounts payable within ninety (90) days (with due date/s) as of date of application.

2. Bangko Sentral-reported ST trade-related borrowings of oil companies from offshore banking units (OBUs) and offshore sources:

    a. Proof of reporting to the Bangko Sentral; and

    b. Certification from the creditor that the loan is trade-related; and indicating the following: (i) date when the loan was reported to the Bangko Sentral-IOD under the prescribed form; (ii) total amount outstanding as of date of application; and (iii) amounts payable within ninety (90) days (with due date/s) as of date of application.

3. Bangko Sentral-registered ST trade-related borrowings of oil companies from offshore banks:

    a. Bangko Sentral registration letter and accompanying Schedule; and

    b. Certification from the creditor that the loan is trade-related; and indicating the following: (i) total amount outstanding as of date of application; and (ii) amounts payable within 90 days (with due date/s) as of date of application.

4. US dollar trust receipts (US$ TRs):

    a. Shipping document/s [e.g., Bill of lading (BL)] and commercial invoice;
    b. US$ TR draft;
    c. Trust receipt agreement; and
    d. Letter of credit, as applicable.

5. Foreign currency import bills/customers' liabilities under acceptances;

    a. Shipping document/s (e.g., BL) and commercial invoice;
    b. Bill of exchange [import bill or customer's acceptance); and
    c. Letter of credit, as applicable.

6. Bangko Sentral-reported Documents Against Acceptance (DA)/Open Account (OA) import obligations:

    a. Certification from the reporting bank indicating the following: (i) date when the import obligation is reported to the Bangko Sentral under Schedule 10 of FX Form 1; (ii) unpaid balance as of date of application; and (iii) Bank Reference Number for DA; and

    b. Shipping document/s (e.g., BL) and commercial invoice.

    It is understood that the FX obligations to be covered by the CRRP Faciltiy shall not exceed the amounts that are duly reported and/or registered with the Bangko Sentral.

    On or before the settlement/maturity date, the qualified applicant shall likewise submit to the Bank a proof showing the amount to be paid (e.g., billing statement) or payment of the underlying FX obligation.

C. Tenors

The maximum tenor of the CRPP contracts is ninety (90) days but not to exceed the remaining tenor of the underlying FX obligation. At the expiration of the contract, the qualified applicant has the option to reavail the CRPP Facility for the remaining eligible unpaid FX obligation (interest or principal amortization). A new application and supporting documents are required for each CRPP reavailment.

D. Pricing

The DMOD will provide forward rates for tenors up to 90 days. Pricing of the non-deliverable forward (NDF) contract under the CRPP Facility will be based on this formula:

$$\text{NDF Rate} = \frac{\text{Spot Rate} \times [1 + (\text{Peso Interest Rate}^* \times \text{Tenor}/360)]}{1 + (\text{US Dollar Interest Rate}^{**} \times \text{Tenor}/360)}$$

**Peso Interest Rate will be determined by the BSP-DMOD*
***US Dollar Interest Rate will be based on the relevant LIBOR*

For the 1:00-2:00 P.M. CRPP window, the DMOD will use the A.M. Bankers Association of the Philippines (BAP) weighted average rate for spot transactions or the weighted average of the last five (5) transactions mapped at the BAP during the morning session (up to 12 noon), whichever is higher, on deal date as the Spot Rate. If both are not available, the previous banking day's BAP weighted average rate or the weighted average rate of the last five (5) transactions dealt in the afternoon session (up to 4:00 P.M), whichever is higher, will be used as the Spot Rate.

For the 4:00-5:00 P.M. CRPP window, the DMOD will use the BAP weighted average rate for spot transactions or the weighted average of the last five (5) transactions mapped at the BAP during the afternoon session (up to 4:00 P.M.), whichever is higher, on deal date as the Spot Rate.

E. Fixing date

One banking day prior to the maturity date of the CRPP contract, the Fixing Rate will be agreed upon by the Bank and the Bangko Sentral, using the A.M. BAP weighted average rate. The net difference between the NDF Rate and the Fixing Rate will be applied against the Notional US Dollar Amount to compute the Peso Net Settlement Amount. If the Fixing Rate is higher/lower than the NDF Rate, Bangko Sentral pays/receives the Peso Net Settlement Amount.

The Peso Net Settlement Amount will then be paid on the maturity date of the CRPP contract by crediting or debiting the regular demand deposit account of the Bank with the Bangko Sentral.

The applicable formula for computing the Peso Net Settlement Amount will be as follows:

Peso Net Settlement Amount = (NDF Rate – Fixing Rate) x Notional US Dollar Amount

F. Pre-termination of CRPP contract

1. Pretermination requested by client

a. Pre-termination of a CRPP contract shall be allowed if the corresponding FX obligation will be paid in full or is in default. Pre-termination will also be allowed if a portion of the underlying FX obligation of the CRPP contract is paid. The manner of prepayment should not be done through renewal of the loan under a new promissory note or by another form of FX obligation.

b. In requesting for the pre-termination of the CRPP contract, the client shall submit to its Bank a document evidencing the creditor's conforme to the proposed prepayment. The proof of payment shall be submitted on prepayment date.

c. The DMOD shall quote the NDF Reversal Rate upon request of the Banks on behalf of its clients, between 1:00-2:00 P.M. one (1) banking day before the pre-termination date.

The NDF Reversal Rate shall be computed following the NDF Rate formula based on the Remaining Tenor of the CRPP contract and the New Spot Rate.

The DMOD will use the A.M. BAP weighted average rate for spot transactions or the weighted average of the last five (5) transactions dealt during the morning session, whichever is lower, on the date of request, adjusted for the prevailing bid-offer spread, as the New Spot Rate. If both are not available, the New Spot Rate shall be the previous banking day's BAP weighted average rate or the average of the last five (5) transactions dealt in the afternoon session, whichever is lower.

d. On the pre-termination date, if the NDF Reversal Rate is higher/lower than the original NDF Rate, the Bangko Sentral pays/receives the Pre-termination Peso Net Settlement Amount, as calculated using the formula below. The Pre-termination Peso Net Settlement Amount shall be paid by crediting or debiting the regular demand deposit account of the Bank with the Bangko Sentral.

Pre-termination Peso Net Settlement Amount =

$$\frac{(\text{NDF Rate} - \text{NDF Reversal Rate}) \times \text{Notional US Dollar Amount}}{1+(\text{Peso Interest Rate}^* \times \text{Remaining Tenor}/360)}$$

**Peso interest Rate will be determined by BSP-DMOD*

2. Pre-termination by the Bangko Sentral

   For CRPP contracts pre-terminated by Bangko Sentral, settlement on the pre-termination date of the Pre-termination Peso Net Settlement Amount will be as follows:

   a. If the NDF Reversal Rate is lower than the original NDF Rate, the Bank will pay the Pre-termination Peso Net Settlement Amount; and
   b. If the NDF Reversal Rate is higher than the original NDF Rate, the Bangko Sentral shall not pay the Pre-termination Peso Net Settlement Amount.

3. Pre-terminated CRPP contracts

   Underlying FX obligations of pre-determined CRPP contracts shall no longer be eligible for the CRPP Facility.

4. Reporting requirements on the pre-termination

   The Bank shall submit the Certification on the Pre-termination of CRPP Transaction with the Bangko Sentral and Details of Pre-terminated CRPP Contracts with Clients to the appropriate supervising department of the Bangko Sentral not later than 5:00 P.M. of the banking day following the date of pre-termination of the CRPP contract. Said certification shall be jointly signed under oath by the Bank's authorized signatories who shall at least be a senior vice president or officer of equivalent rank and the compliance officer.

   The Bank shall also keep the relevant documentary requirements supporting the pre-termination of CRPP contracts and make these available for inspection upon request by the Bangko Sentral during on-site examination and off-site verification, as warranted.

   (Circular No. 1015 dated 5 October 2018)

IMPLEMENTING GUIDELINES ON THE RESTRUCTURING SCHEME COVERING THE REDISCOUNTING OBLIGATIONS WITH THE BANGKO SENTRAL OF REDISCOUNTING BANKS IN THE AREAS AFFECTED BY CALAMITIES
(Appendix to Sec. 1151)

1. Objectives

The objectives of the loan settlement scheme are as follows:

1.1 To support the recovery efforts of rediscounting banks in the areas affected by calamities;

1.2 To enable the rediscounting banks to liquidate their loan obligations with the Bangko Sentral by way of restructuring; and

1.3 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.

2. Qualified Banks

2.1 All rediscounting banks with end-user borrowers located in affected areas which have been declared as under state of calamity by the proper authorities, i.e., the President of the Philippines or the local sanggunian, upon the recommendation of the National Disaster Risk Reduction and Management Council or Regional/Local Disaster Risk Reduction and Management Council.

2.2 Rediscounting banks with serious violations or findings with the appropriate supervising department of the Bangko Sentral 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.

2.3 In addition to Item No. "*2.2*", the Department of Loans and Credit (DLC) shall evaluate each bank to determine if each would qualify for the restructuring.

3. Terms and Conditions

3.1 Maturity

The restructured loan shall have a maximum term of five (5) years.

3.2 Amount to be restructured

The amount to be restructured shall be equivalent to the following:

- *Principal*. Unpaid outstanding balance of the principal obligation in the books of accounts of the Bangko Sentral.
- *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.

3.3 Interest Rate

The interest rate to be charged against the outstanding principal balance of the restructured loan shall be based on prevailing rediscount rate at the date of approval of the restructured loan. The interest shall be re-priced annually.

3.4 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 interest rate of the Bangko Sentral. Moreover, the bank shall not charge interest on accrued interest.

3.5 Terms of Repayment

3.5.1 **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:

- *Principal.* The principal obligation shall be paid in equal monthly amortizations plus the applicable rediscount rate.

- *Accrued Interest.* The accrued interest on the principal obligation as of the end of 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.

3.5.2 **Grace Period**. The bank may be given a grace period of six (6) months within which to pay the first amortization if request for such is specified by the bank in the application for restructuring.

3.6 Collaterals

The following shall be the collaterals acceptable:

- Deed of Assignment on restructured promissory notes of end-user borrowers;

- Deed of Real Estate Mortgage on bank premises;

- Deed of Pledge on government securities; and

- Other collaterals acceptable to the Bangko Sentral.

3.7 Required Documents

Qualified banks shall submit the following documents:

- 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.

- Surety Agreement executed by the controlling interest (single stockholder, natural or juridical owing more than fifty percent (50%) of the voting stocks) obligating himself/herself jointly and severally with the bank to pay monthly amortizations, if there is collateral deficiency.

3.8 Default Cause

- Failure to pay two 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.

- 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.

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.

4. <u>Application Procedures</u>

4.1 Filing of Application

The bank shall file with the DLC an application for restructuring of its outstanding rediscounting loans, supported by the following documents:

- 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 thereof.

- The restructured Promissory Notes of the end-user borrowers and other supporting documents.

- Promissory Note with Trust Receipt Agreement and Deed of Assignment executed by the authorized senior officers of the bank, duly notarized.

- Collaterals under Item No. *"3.6"* of the Implementing Guidelines.

4.2 Notice of Approval Application

The DLC shall notify the bank of the approval of its application to avail of the loan restructuring scheme. Upon receipt of said notice, the bank shall:

- Execute the applicable document under Item No. *"4.1"* of the Implementing Guidelines.

- Pay the required amortization immediately on the month following the date of approval of the loan restructuring scheme, or after the grace period, as applicable, and monthly thereafter until fully paid.

5. <u>Authorized Signatories of the Bangko Sentral</u>

Transaction	Authorized Bangko Sentral Officer
Approval of the application to avail of the loan restructuring scheme	Director, DLC, or in her absence, any of the DLC Deputy Directors
Approval to release the collateral documents	Director, DLC, in her absence, any of the DLC Deputy Directors
Execution of Cancellation of Deeds of Real Estate Mortgage, Assignment or Pledge	Deputy Governor, Monetary and Economics Sector

6. <u>Other Provisions</u>

6.1 Value Date of the Restructuring Scheme

The value-date of the restructuring shall be the end of the month immediately preceding the date of approval of the loan restructuring.

6.2 Effectivity Date

The loan restructuring scheme shall be made available for a period of six (6) months reckoned from date of receipt of the appropriate supervising department of the Bangko Sentral of the letter-notification from the bank stating the latter's intention to avail of the relief package.

(Circular No. 1017 dated 10 October 2018)

GUIDELINES FOR THE ADMINISTRATION OF THE UNIT INVESTMENT TRUST FUND (UITF) CERTIFICATION PROGRAM
(Appendix to Sec. 414 on Minimum disclosure requirement)

In line with the thrust of the Bangko Sentral to promote the development of the capital markets and to ensure investor protection, UITF Marketing Personnel are required to be certified through a UITF Certification Program (UCP) administered by a reputable financial services industry association/organization (FSIAO) acceptable to the Bangko Sentral.

The UCP is aimed at strengthening the qualification of UITF Marketing Personnel in order to ensure that they can provide sufficient information on UITFs to clients and promote delivery of safe and effective products and services, among others. The requirement is expected to advance the quality of UITF Marketing Personnel and their sales and marketing practices.

In order to ensure that the administration of UCP meets the expectations of the Bangko Sentral, the following guidelines shall be observed:

Section 1: Pre-requisites for the administration of the UCP

1. In order to be recognized by the Bangko Sentral as an administrator of the UCP, the FSIAO should meet the following qualification standard:

    a. It is formally organized as a FSIAO related to trust, investment funds, collective investment schemes and other related areas;

    b. It has adequate financial and organizational resources, and the system, to execute the UCP;

    c. It shall adopt a three-pronged process for the UCP which shall be composed of a qualifying examination, a requirement for continuing education, and the registration and registry to monitor and manage the certified UITF Marketing Personnel;

    d. It shall adopt an acceptable and relevant curriculum that is aimed at advancing the quality of the UITF marketing personnel; and

    e. It shall ensure that the UCP guidelines contain, at the minimum, provisions on the governance mechanism, operational requirements, complaints handling, and provisions on Data Privacy and/or confidentiality of information, among others.

2. The FSIAO, through its authorized representative, shall submit to the appropriate supervising department of the Bangko Sentral the following:

    a. Letter of its intent to administer the UCP;
    b. By-laws of the association/organization;
    c. Notarized Secretary's Certificate on Board of Directors/Trustees' resolution approving the application;
    d. Board-approved UCP guidelines; and
    e. Certification that it meets the requirements enumerated in these Guidelines.

3. Only the FSIAO that meets the criteria and requirements enumerated in these Guidelines shall be recommended for approval.

4. Upon the recommendation of the appropriate supervising department of the Bangko Sentral, the appropriate approving authority shall act on the FSIA's application. If approved, the authority to administer the UCP shall remain valid until revoked.

Section 2: Administration of the UCP

1. The FSIAO shall be responsible for ensuring that the administration of UCP is properly conducted and in accordance with the Board-approved UCP guidelines.

2. The FSIAO shall maintain the integrity and confidentiality of the UCP.

3. The FSIAO shall report to the Bangko Sentral any significant development and/or concern in the administration of the UCP.

4. In case of significant changes in the UCP guidelines, the FSIAO shall submit to the appropriate supervising department of the Bangko Sentral the revised Board-approved UCP guidelines for clearance.

5. The FSIAO shall ensure that the UCP guidelines are adequately disseminated to the FSIAO's members/member-institutions for information.

6. The FSIAO shall ensure that the UCP guidelines provide adequate transitory arrangements for existing Certified UITF Marketing Personnel, if necessary.

7. The FSIAO shall make the UCP guidelines, including the examination questions, available for review by the Bangko Sentral.

8. The FSIAO shall maintain records of the certified UITF Marketing Personnel which shall be made available to the Bangko Sentral upon request.

9. The FSIAO shall post the list of certified UITF marketing personnel in its website.

10. The appropriate supervising department of the Bangko Sentral shall undertake the monitoring and periodic review of the administration of the FSIAO of the UCP to ensure that the UCP remains relevant and at par with the requirements of the Bangko Sentral.

Section 3. Withdrawal or Suspension of Administration of UCP

1. The Bangko Sentral reserves the right to withdraw or suspend the administration of the UCP of the FSIAO not complying with the provisions enumerated in these Guidelines, after compliance with due process requirements.

2. The FSIAO may likewise voluntarily withdraw the administration of the UCP, subject to the approval of the Bangko Sentral.

3. The FSIAO that intends to withdraw as administrator of the UCP shall ensure proper transition of operational arrangements to minimize or eliminate potential disruption of the UCP administration.

4. The withdrawal or suspension of the FSIAO as administrator of the UCP shall be approved by the appropriate approving authority upon the recommendation of the appropriate supervising department of the Bangko Sentral.

(Circular No. 1018 dated 26 October 2018)

RULES AND PROCEDURES ON ADMINISTRATIVE CASES INVOLVING DIRECTORS AND OFFICERS OF BSFI
(Appendix to Sec. 137 on Rules of procedures on administrative cases involving directors and officers of BSFI)

RULE I – GENERAL PROVISIONS

Section 1. ***Title***. – These Rules shall be known as the ***Bangko Sentral ng Pilipinas Revised Rules of Procedure*** **on** ***Administrative Cases Involving Directors and Officers of Bangko Sentral - Supervised Financial Institutions.***

Section 2. ***Applicability***. – These Rules shall apply to administrative cases filed with the Office of Special Investigation (OSI), Bangko Sentral, involving directors and officers of BSFI in relation to Section 37 of Republic Act No. 7653 (The New Central Bank Act) and Section 16 of Republic Act No. 8791 (The General Banking Law of 2000).

These Rules shall also apply to administrative cases arising out of the fact -finding investigation conducted by OSI.

Complaints against BSFI, as a juridical entity shall not be covered by these Rules.

Supervisory and enforcement actions shall also not be covered by these Rules.

Section 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 .

In the absence of applicable provision in these Rules, and pursuant to the summary nature of these proceedings, the pertinent provisions of the Rules of Court may be applied suppletorily.

Section 4. ***Appearance of Counsel***. – The parties, if they so desire, may be assisted or represented by counsel.

Section 5. ***Confidentiality of Proceedings***. – Proceedings under these Rules shall be confidential and shall not be disclosed to third parties, except to the extent as may be provided under existing laws. All communications relating to these proceedings shall be made in writing, copy furnished the other party.

RULE II- DEFINITION OF TERMS

Section 6. ***Adoption***. – The terms as defined in the Manual of Regulations are hereby adopted in these Rules.

RULE III - PLEADINGS AND NOTICES

Section 7. ***Complaint***. - The complaint shall be in writing, and subscribed and sworn to by the complainant. No anonymous complaint shall be entertained.

Section 8. ***Where to file***. - The complaint shall be filed with OSI, in as many copies as there are respondents, including two (2) copies for OSI.

Section 9. ***Contents of the Complaint***. -The complaint shall contain the ultimate facts of the case, and shall include the following:

a. The full name and address of the complainant;

b. The full name and address of the respondent;

c. The position of the respondent, in the BSFI;

d. A specification of the charges against the respondent;

e. A statement of the material facts;

f. A statement as to whether or not a similar complaint has been filed with the Bangko Sentral, the Supreme Court, the Court of Appeals, any other tribunal or agency;

g. Except for complaints arising from factual investigation conducted by the OSI or the appropriate supervising sector of the Bangko Sentral a statement that the complaint was previously referred to appropriate supervising department of the Bangko Sentra for appropriate action of the Financial Institution where the bank officer or director complained of belongs, with a copy of the response of said Financial Institution that failed to settle or resolve the complaint, or upon the lapse of thirty {30) calendar days from referral of the complaint by the appropriate supervising department of the Bangko Sentral to the Financial Institution in case of the latter's failure or refusal to respond.

The complaint shall include copies of documents and sworn statements of witnesses, if any, in support of the complaint.

Section 10. ***Action on the Complaint***. – Upon a determination that the complaint is sufficient in form and substance, and complies with Rule Ill, Section 9 of - these Rules, OSI shall issue a notice requiring the respondent to file a sworn answer to the complaint.

However, if the complaint fails to comply with the immediately preceding section, OSI shall dismiss the complaint, without prejudice, or take such appropriate action as may be warranted.

Section 11. ***Answer***. – Within ten (10) days from receipt of the notice to file answer and a copy of the complaint, respondent shall submit a sworn answer, copy of which shall be furnished the complainant.

The respondent, in the sworn answer, shall specifically admit or deny all the charges specified in the complaint, including evidence in support thereof.

The failure of the respondent to file an answer within the prescribed period shall be considered as a waiver of the respondent's right to file the same, and the case shall be resolved based solely on the evidence presented by the complainant.

Section 12. ***Prohibited Pleadings and Motions***. – The following pleadings or motions are prohibited:

(i) Motion to dismiss, except on the ground of lack of jurisdiction;
(ii) Motion for bill of particulars;
(iii) Motion for the issuance of *subpoena duces tecum* and/or *ad testificandum,* provisional remedies, modes of discovery, and similar reliefs;
(iv) Dilatory motions for postponement or extension of time; and
(v) Other pleadings or motions of a similar nature.

RULE IV- MODES OF SERVICE

Section 13. ***Modes of Service***. – Service of pleadings, motions, orders or processes may be made by personal delivery, registered mail, courier, or other modes of service as defined under this Rule.

Personal service shall be made by delivering to the parties a copy of the pleading, motion, order or process.

Service by registered mail or courier shall be made by sending a copy of the pleading, motion, order or process in a sealed envelope, addressed to the parties' residence, office or regular place of business.

Section 14. ***Other modes of service***. – For processes or pleadings other than the notice to file answer and a copy of the complaint, service may also be made by electronic mail or other electronic form that provides a record of delivery.

Section 15. ***Completeness of service***. – Personal service is complete upon actual delivery. Service by registered mail shall be deemed complete upon actual receipt by the parties, or after five (5) calendar days from the date of receipt of the first notice of the postmaster, whichever date is earlier.

Service made via courier shall be deemed complete on the date of the actual delivery by the courier.

For other modes of service, the date indicated in the electronic record of delivery or the transmission report shall be the effective date of receipt.

RULE V- JURISDICTION OVER THE RESPONDENT

Section 16. ***Acquisition of jurisdiction over the respondent***. – Jurisdiction over the respondent is acquired once service of the notice to file answer and a copy of the complaint is completed.

Should the respondent refuse to receive the notice to file answer and a copy of the complaint, the service may be effected by leaving the same at the respondent's residence, office or regular place of business.

Should the respondent no longer be connected with the BSFI at the time of the filing of the complaint, service may be effected by leaving the notice to file answer and a copy of the complaint at, or sending them to, the respondent's last known address.

RULE VI - PROCEEDINGS BEFORE THE HEARING OFFICER

Section 17. ***Submission of Position Papers***. – The Hearing Officer shall direct the parties to simultaneously submit their verified position papers with supporting documents and affidavits, if any, on a date to be set by the Hearing Officer.

Section 18. ***Submission of Comment***. – A party may file a comment on the position paper within ten (10) calendar days from receipt thereof.

Section 19. ***Issuance of Clarificatory Order***. – The Hearing Officer may issue a clarificatory order to elicit facts or information necessary for the prompt and just resolution of the administrative case.

RULE VII - RESOLUTION OF THE CASE

Section 20. ***Submission of Report***. – Within sixty (60) calendar days from issuance of an Order declaring that the case is submitted for resolution, the Hearing Officer shall submit a report to the Monetary Board, which shall contain a recommendation stating clearly and distinctly the findings of facts, determination of issues and conclusions of law on which it is based. The period of time to resolve the case may be extended, for good cause, only upon approval of the General Counsel.

In case the report recommends the dismissal of the Complaint, the Report shall be submitted for approval by the Governor. The dismissal of the Complaint shall not be subject to appeal to the Monetary Board.

Section 21. ***Issuance and Finality of Resolution***. – After consideration of the report, the Monetary Board shall issue its resolution which shall become final and executory upon the lapse of fifteen (15) calendar days from receipt thereof by the parties, unless a motion for reconsideration has been timely filed.

Section 22. ***Motion for Reconsideration***. – A motion for reconsideration, on the ground of grave errors of fact or law, may be filed by the parties within fifteen (15) calendar days from receipt of the resolution with the Monetary Board.

No second motion for reconsideration shall be allowed.

Section 23. ***Enforcement***. – The resolution shall be referred to the department of the Bangko Sentral concerned, for appropriate action.

RULE VIII – APPEAL

Section 24. ***Appeal***. – An appeal from the resolution of the Monetary Board may be filed before the Court of Appeals within the period and in the manner provided under Rule 43 of the Rules of Court.

Interlocutory orders of the OSI shall not be subject to appeal to the Governor or the Monetary Board.

Section 25. ***Effect of Appeal***. – The appeal shall not stay the enforcement of the resolution sought to be reviewed, unless the Court of Appeals shall direct otherwise upon such terms as it may deem just.

RULE IX – MISCELLANEOUS PROVISIONS

Section 26. ***Repeal***. - All existing rules, regulations, orders or circulars or any part thereof inconsistent with these Rules are hereby repealed, amended or modified accordingly.

Section 27. ***Separability Clause***. - If any part of these Rules is declared unconstitutional or illegal, the other parts or provisions shall remain valid.

Section 28. ***Effectivity***. - These Rules shall take effect on 1 January 2019.

Section 29. ***Transitory Provision***. -All pending administrative cases filed with the Supervised Banks Complaints Evaluation Group (SBCEG), Office of the General Counsel and Legal Services, shall be resolved by the SBCEG in accordance with the provisions of Sec. and App, prior to the effectivity of these Rules. Upon the effectivity of these Rules, all pending cases with the SBCEG shall be resolved in accordance with the new Rules in so far as applicable.

(Circular No. 1012 dated 12 September 2018)