

Circular No. 963

BANGKO SENTRAL NG PILIPINAS, June 27, 2017

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Adopted: 27 June 2017

Date Filed: 05 July 2017

The Monetary Board, in its Resolution No. 963 dated 8 June 2017, approved the following amendments to the Manual of Regulations for Banks (MORB) setting forth the Bangko Sentral's expectation on banks to establish an effective reporting system with an appropriate governance process that enables the generation and timely submission of reports that are in accordance with the Bangko Sentral's reporting standards.

Section 1. A new Section shall be added to the MORB, which shall read as follows:

Section X184. Governance Process on the Quality of Bank Reporting.

Statement of Policy

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.

Subsection X184.1. 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 Circular pertain to a bank's financial condition (i.e., solvency, liquidity, and profitability) as well as its operations and management.

Subsection X184.2. 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 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;
- Written policies and procedures documenting the bank's standards and processes in generating quality internal and external reports;
- 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;
- 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
- A process for the timely reporting significant transactions, events and quality of reports of the bank.

Bank reports shall meet the reporting standards prescribed under Subsection X184.1. To ensure the quality of bank's reporting, Subsection X184.3 prescribes the corresponding sanctions for banks that fail to comply with such reporting standards. The Bangko Sentral shall conduct, as described in Subsection X184.4, 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.

Subsection X184.3. Sanctions on Reports for Non-compliance with the Reporting Standards.

- Definitions

- Erroneous Report - A report submitted within the prescribed deadline, but is found to be non-compliant with the Bangko Sentral reporting standards described in Section 184.1 shall be classified as "Erroneous". Submission of an Erroneous Report shall be considered as willful failure to comply with a regulation.

- 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.

- 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.

- 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 Reports

Secondary Reports

Universal/Commercial Banks (U/KBs)

P 3,000

P600

Thrift Banks (TBs)

1,500

300

Rural Banks/Coop Banks (RCBs)

450

150

The list of reports classified as Primary and Secondary are provided in the attached Annex A[*].

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 in Subsection X184.3.a.3) 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 e)

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 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 89, 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 Section X009.

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 other similar fortuitous events.

The submission of reports with the appropriate department of the SES 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 Supervision and Examination Sector.

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 points incurred by a bank in a reporting calendar year

Report Category

Total

Primary

Secondary

A. Monetary penalties approved for imposition

P180,000

P30,000

B. Prescribed fine per applicable category based on Table 1

P3,000

P600

C. 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 Republic Act 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.

Subsection X184.4 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 Section X009. This is without prejudice to imposition of sanctions provided under applicable regulations and law, such as but not limited to, Sections 34, 35, and 35 of R.A. No. 7553 (The New Central Bank Act).

Subsection X184.5. Transitory Provisions.

Banks have until 31 December 2017 to make the necessary preparations to their systems and processes to ensure compliance with Section X184. The period of preparation shall be treated as an observation period wherein banks will be provided information on their accumulated demerit points described under Subsection X184.3 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 1 January 2018.

Section 2. The provisions of Subsection X192.2 of the MORB are hereby deleted.

Section 3. All references to Subsection X192.2 on the provisions of the MORB indicated below are hereby changed to Subsection X184.3. The said pertinent provisions are likewise revised as follows:

Section/Subsection/ Appendix

Existing Phrase

New Phrase

Subsection X115.4

Late and/or erroneous reporting of all reports in compliance with the Basel III requirements shall be subject to penalties provided under Subsec. X192.2. Banks failing to submit the required reports within the prescribed deadline shall be subject to monetary penalties applicable for delayed reporting under existing regulations.

Erroneous/Delayed/ Erroneous and Delayed/ Unsubmitted reports relative to the Basel III requirements shall be subject to penalties provided under Subsec. x184.3.

Subsection X115.6 b.

However, late and/or erroneous reports shall be subject to penalties provided under Subsection X192.2. Banks failing to submit the required reports within the prescribed deadlines shall be subject to monetary penalties applicable for delayed reporting under existing regulations.

However, Erroneous/ Delayed/ Erroneous and Delayed/ Unsubmitted reports shall be subject to penalties provided under Subsection X184.3.

Subsection X126.2

Any willful delay in the submission of said report, a Category A-2 report, shall subject the bank to the corresponding fines for delayed reports in accordance with the provisions of Subsec. X192.2 to be reckoned on the day following the due date of submission until the correct report is submitted to the Bangko Sentral.

Any Delayed/ Unsubmitted report, a Category A-2 report, shall subject the bank to the corresponding penalties in accordance with Subsection x184.3.

Subsection 1176.3 ii.

For delayed sworn certification and/or LCR report. A bank shall be subject to the penalties for delayed submission of the sworn certification and/or LCR report in accordance with the provisions of Subsec. X192.2, to be reckoned on the day following the due date of submission until the certification and/or report is filed with the Bangko Sentral.

For Erroneous/ Delayed/ Erroneous and Delayed/ Unsubmitted sworn certification and/or LCR report. A bank shall be subject to the penalties for Erroneous/ Delayed/ Erroneous and Delayed/ Unsubmitted sworn certification and/or LCR report in accordance with the provisions of Subsec. X184.3.

Subsection X190.1

The reports and certifications of institutions concerned, schedules and attachments required under this Subsection shall be considered Category B reports, delayed submission of which shall be subject to the penalties under Subsec. X192.2b(1)b.

The reports and certifications of institutions concerned, schedules and attachments required under this Subsection shall be considered Category B reports, wherein Delayed/ Unsubmitted reports subject to the penalties under Subsec. X184.3.

Subsection X192.4

Moreover, final reports on crimes and losses with incomplete information as required under SES Form 6G shall be considered erroneous reports and the concerned bank shall be required to submit amended reports subject to penalties on late reporting for Category B reports under Subsec. X192.2;

Moreover, initial and/or final reports on crimes and losses as required under SES Form 6G that are considered Erroneous/ Delayed/ Erroneous and Delayed/ Unsubmitted shall be subject to the penalties for Category B reports under Subsection X184.3.

Subsection X192.18

Late and/or erroneous reporting of the said report shall be subject to penalties prescribed under Subsec. X192.2 for Category I reports.

Erroneous/Delayed/ Erroneous and Delayed/ Unsubmitted reports shall be subject to penalties prescribed under Subsec. X184.3 for Category B reports.

Subsection X341.15 (1) (b)

For delayed/amended reports

A bank shall be subject to the fines for delayed/amended reports on compliance with the mandated credit allocation for agri-agra credit under R.A. No. 10000 in accordance with the provisions of Subsec. X192.2, to be reckoned on the day following the due date of submission until the proper report is filed with the BSP.

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 Subsec. x184.3.

Subsection X351.9

Late and/or erroneous reporting of said reports shall be subject to penalties prescribed for category A-2 report under Subsec. X192.2.

Erroneous/Delayed/ Erroneous and Delayed/ Unsubmitted reports shall be subject to penalties prescribed for category A-2 report under Subsec. X184.3.

Subsection X410.5

For purposes of imposing monetary penalties provided under Subsec. X192.2 for delayed submission of reports, the amendments to the Plan shall be considered as "Category A-3" report.

For purposes of imposing monetary penalties provided under Subsec. X184.3 for Delayed/ Unsubmitted reports, the amendments to the Plan shall be considered as "Category A-3" report.

Subsection X190.7 b.

Delayed submission of Annual Report. Sanctions in case of willful delay in the submission of Annual Report and the ARAC shall be in accordance with the provision under Subsec. X192.2.

Delayed/ Unsubmitted Annual Report. Sanctions in case of Delayed/ Unsubmitted Annual Report and the ARAC shall be in accordance with the provision under Subsec. X184.3.

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Late and/or erroneous reporting of the said report shall be subject to penalties prescribed under Subsec. X192.2 for Category A-1 reports, without prejudice to sanctions provided under Sections 35 and 37 of R.A. No. 7553 or The New Central Bank Act.

Erroneous/Delayed/ Erroneous and Delayed/ Unsubmitted reports shall be subject to penalties prescribed under Subsec. X184.3 for Category A-1 reports, without prejudice to sanctions provided under Sections 35 and 37 of R.A. No. 7553 or The New Central Bank Act.

Section 4. The pertinent portions in Appendix 6, as shown in Annex B[*], are amended to indicate the new requirement for their electronic submission.

Section 5. Effectivity. This Circular shall take effect fifteen (15) calendar days following its publication either in the Official Gazette or in a newspaper of general circulation.

FOR THE MONETARY BOARD:

(SGD) NESTOR A. ESPENILLA

Officer-in-Charge

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Circular No. 964

Amendments to Section X269 and Subsection X269.5 and X269.6 of the Manual of Regulations for Banks (MORB)

Adopted: 27 June 2017

Date Filed: 05 July 2017

The Monetary Board, in its Resolution No. 882 dated 01 June 2017, approved the amendments to Section X269 and Subsections X269.5 and X269.6 of the MORB to reflect the termination of sunset provision in favor of thrift banks, rural banks, and cooperative banks resulting in a unified rediscount window for all types of banks.

Section 1. Section X259 of the MORB shall be amended to read as follows:

“Sec. X269 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 Department of Loans and Credit a notarized Electronic Rediscounting System Participation Agreement before availing of the rediscounting facility of the Bangko Sentral.”

Section 2. Subsections X269.5 and X269.6 of the MORB shall be amended to reflect a unified rediscount window, retaining only the provisions of Rediscounting Window I, as follows:

“§ X269.5 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).

§ X269.5 Rediscount/Lending rates and liquidated damages. The rediscount rates for peso, dollar and yen loans shall be as follows:

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

xxx.”

Section 3. Effectivity. This Circular shall take effect fifteen (15) calendar days following its publication either in the Official Gazette or in a newspaper of general circulation.

FOR THE MONETARY BOARD:

(SGD) NESTOR A. ESPENILLA, JR.

Officer-in-Charge

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Circular No. 965

Exclusion of Clearing and Settlement Accounts of Banks and Quasi-Banks from the Single Borrower's Limit

(SBL)

Adopted: 05 July 2017

Date Filed: 13 July 2017

The Monetary Board, in its Resolution No. 1002 dated 15 June 2017, approved the following guidelines on exclusion from SBL of banks' and quasi-banks' short-term exposures to clearing and settlement banks arising from payment transactions. This exclusion is intended to promote the smooth functioning of financial markets and financial market infrastructures (FMIs).

Section 1. Subsection X303.4 (Exclusions from Loan Limit) of the Manual of Regulations for Banks (MORB) shall be amended to read as follows:

“§ X303.4 Exclusions from loan limit.

a. xxx

b. xxx

c. xxx

d. xxx

e. xxx

f. xxx

g. xxx

h. xxx

i. xxx

j. Short-term exposures of banks to settlement banks arising from payment transactions pertaining to fund transfer services, check clearing, foreign exchange trades, security trades, security custody services, and other short-term payment transactions: Provided, That for the purpose of this Subsection, 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 Subsection, 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.

Section 2. Subsection 4303Q.1 (Exclusions from Loan Limit) of the Manual of Regulations for Non-bank

Financial Institutions (MORNBFI) shall be amended to read as follows:

“§ 4303Q.1 (2008 - 4306Q.1) Exclusions from loan limit. xxx

a. xxx

b. xxx

c. Short-term exposures of QBs to settlement banks arising from payment transactions pertaining to fund transfer services, check clearing, foreign exchange trades, security trades, security custody services, and other short-term payment transactions: Provided, That for the purpose of this Subsection, 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) QBs 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 payment transactions as described in this Subsection, and said account is not subject to a minimum balance requirement.

(3) The clearing and settlement bank shall keep the funds received from client QBs separate from its own funds. The client QBs shall also segregate their clearing and settlement accounts from any of their other bank accounts.

(4) The settlement bank and its client QBs shall adopt an internal control mechanism appropriate to the said payment transactions.

d. In case of a stand-alone trust corporation x x x.”

xxx.”

Section 3. Amendments to the Financial Reporting Package. The following portions of the Financial Reporting Package (FRP) required under Subsection X191.2 of the MORB shall be amended as indicated below.

a. Manual of Accounts

“BALANCE SHEET ACCOUNTS

“Asset Accounts

“xxx xxx xxx

“4. Due from Other Banks

“xxx

“b. Non-Resident Banks - This refers to the balances of deposit accounts xxx xxx.

“The foreign currency amount maintained in the FCDU/EFCDU book shall be those held as asset cover for FCDU/EFCDU liabilities.

“(c) Resident Banks - Clearing and Settlement Account - This refers to debit balances of accounts maintained with other resident banks exclusively for the settlement of payment transactions pertaining to fund transfer

services, check clearing, foreign exchange trades, security trades, security custody services, and other short-term payment transactions.

(1) Local currency - This refers to balances of accounts maintained for the settlement of short-term Peso-denominated payment transactions including interbank claims in places where there is no BSP clearing facility.

(2) Foreign currency - This refers to balances of accounts maintained for the settlement of short-term foreign-currency denominated payment transactions. It includes accounts with the franchise holder of the Philippine Domestic Dollar Transfer System (PDDTS) for clearing of checks and accounts with the designated settlement bank for the Domestic Renminbi (RMB) Transfer Service, among others.

“(d) Non-Resident Banks - Clearing and Settlement Account - This refers to debit balances of clearing and settlement accounts maintained with non-resident banks exclusively for the settlement of payment transactions pertaining to fund transfer services, check clearing, foreign exchange trades, security trades, security custody services, and other short-term payment transactions.

“5. Financial Assets Held for Trading (HFT)

“xxx.”

“Liability Accounts

“xxx xxx xxx

“4. Due to Other Banks

(a) Due to Resident Banks - Clearing and Settlement Accounts - This refers to credit balances of accounts maintained by other resident banks exclusively for settlement of payment transactions pertaining to fund transfer services, check clearing, foreign exchange trades, security trades, security custody services, and other short-term payment transactions.

(i) Local currency - This refers to credit balances of accounts maintained by other resident banks for settlement of short-term Peso-denominated payment transactions including interbank claims in places where there is no BSP clearing facility.

(ii) Foreign currency - This refers to credit balances of accounts maintained by other resident banks for the settlement of short-term foreign-currency denominated payment transactions.

“(b) Due to Non-Resident Banks - Working Capital - This refers to credit balances of deposit accounts maintained by non-resident x x x.

b. FRP and Simplified FRP Schedules (FRP)

The amendments to Schedules 2 and 23 of the FRP and Simplified FRP are hereby attached as “Annex A”. The revised electronic FRP/Simplified FRP templates including the reporting guidelines shall be deployed through a Memorandum to all Banks. The revised templates shall be used starting on the 30 September 2017 reporting cut off.

Section 6. This Circular shall take effect fifteen (15) calendar days following its publication either in the official Gazette or in any newspaper of general circulation in the Philippines.

FOR THE MONETARY BOARD

(SGD) NESTOR A. ESPENILLA, JR.

Governor

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Circular No. 966

Rationalizing the Regulatory Requirements of Trust, Other Fiduciary and Investment Management Accounts under Discretionary and Non-Discretionary Mandates

Adopted: 11 July 2017

Date Filed: 21 July 2017

The Monetary Board, in its Resolution No. 1001 dated 15 June 2017, approved the following amendments to Subsections X409.2/4409Q.2, X411.4/4411Q.4, X425.1/4425Q.1 and Appendix 83/Q-48 of the Manual of Regulations for Banks (MORB) and of the Manual of Regulations for Non-Bank Financial Institutions (MORNBFI), respectively, to tailor fit the regulatory requirements with the degree of discretion exercised by the trust entities in managing clients' portfolio.

Section 1. Subsections X409.2 /4409Q.2 of the MORB/MORNBFI are hereby amended to read as follows:

“Subsection X409.2/4409Q.2 Lending and investment disposition. x x x”

“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:

- Traditional deposit products of universal and commercial Banks 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;
- 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;
- Loans fully guaranteed by the Republic of the Philippines as to the payment of principal and interest;
- 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;
- 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/institution, or of mortgage and chattel mortgage bonds issued by the trustee or fiduciary;
- Loans fully secured by real estate or chattels in accordance with Section X311/4311Q and Subsections X178.7/4178.7 and X304.1/4304Q.1; and
- Placements in the Bangko Sentral Term Deposit Facility (TDF) and the Overnight Deposit (ODF) subject to the applicable provisions of Section X601/X4601Q and Appendix 78a/Q-47a.[1]

The specific directives required under this Subsection shall consist of the following information:

- (1) The transaction to be entered into;
- (2) Name of the issuer or borrower;
- (3) Amount involved; and
- (4) Terms of the security, including collateral, if any.”

Trust Entities (TEs) 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 subsection.”

Section 2. Subsections X411.4 /4411Q.4 of the MORB/MORNBFI are hereby amended to read as follows:

“Subsection X411.4/4411Q.4 Lending and investment disposition. x x x”

“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:

- Traditional deposit products of universal and commercial Banks 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;
- 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;
- 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;
- 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;
- 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/institution, or of mortgage and chattel mortgage bonds issued by the investment manager; and
- Loans fully secured by real estate or chattels in accordance with Section X311/4311Q and Subsection s X178.7/4178.7 and X304.1/4304Q.1.

The specific directives required under this Subsection shall consist of the following information:

- (1) The transaction to be entered into;
- (2) Name of the issuer or borrower;
- (3) Amount involved; and
- (4) Terms of the security, including collateral, if any.”

TEs with composite rating of at least “3” under the Revised Trust system in the latest Bangko Sentral examination will not be subject investment limitations provided under this subsection.”

Section 3. Reporting requirements for discretionary and non-discretionary accounts under Subsections X425.1/4425Q.1 of the MORB/MORNBFI are hereby amended to read as follows:

“Subsection X425.1/4425Q.1 To trustor, beneficiary, principal. An entity acting as trustee, fiduciary or investment manager shall render reports on the trust, other fiduciary or Investment Management Accounts (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:

- 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.

- 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:

- (i) Transaction entered into;
- (ii) Borrower's or issuer's name;
- (iii) Amount involved;
- (iv) Terms of the security, including collateral, if any;
- (v) Settlement price;
- (vi) Value date and settlement date; and
- (vii) Fees and charges related to the transaction.

- 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

- 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.”

Section 4. Part III.A.2 Items (a) and (b) of Appendix 83/Q-48 of the MORB/MORNBFI is hereby amended to read as follows:

“(a) Account opening process. Xxx

xxx

Client Suitability Assessment (CSA)

xxx

Minimum Information Required for CSA

xxx

Investment policy statement

TE 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 TE 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:

- i. Client's risk tolerance;
- ii. Investment and/or return objectives;
- iii. Liquidity requirements;
- iv. Investment horizon;
- v. Investment strategy and rebalancing;
- vi. Portfolio construction process, including asset allocation and security selection criteria;
- vii. 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
- viii. Investment performance review - indicating proposed market benchmarks and the desired frequency of the performance review reporting.

A TE 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 TE 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 Unit Investment Trust Fund (UITF), the IPS is equivalent to the investment objective of the fund specifically stated in the Declaration of Trust.

Option of client for re-classification

xxx

For non-discretionary accounts, the TE 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.

Frequency of CSA and IPS

xxx

(b) Identification of degree of discretion granted by client to the TE. This process involves the determination of the extent of discretion granted to the TE to manage the client's portfolio.

(1) Discretionary. The TE has authority or discretion to invest the funds/property of the client in accordance with the parameters set forth by the client; and

(2) Non-discretionary. Investment activity of the TE is directed by the client or limited only to specific securities or properties and expressly stipulated in the agreement or upon written instruction of the client.

(c) Documentation. The trust, fiduciary or investment management relationship shall be formally established through a written legal document, such as the trust or investment management agreement. The engagement documents shall clearly specify the extent of fiduciary assignments/responsibilities of the TE and articulate the nature and limits of each party's status as trustor/principal or trustee/agent. Policies and procedures shall provide that trust or investment management agreements are signed by the trust officer, or subordinate officer of the trust department, or in the case of UITF, branch managers/officers duly authorized by the board of directors.

The documentation process must also consider the following:

(1) The Agreement must conform to the requirements provided under Subsec. X409.1/4409Q.1 for trust and other fiduciary accounts and Subsec. X411.1/4411Q.1 for investment management accounts. In addition, the Agreement shall contain the following provisions:

(i) xxx

xxx

(2) The Agreement shall be in plain language understandable by the client and/or personnel of the TE responsible for explaining the contents of the agreement to the client.

(3) For complex investment products, such as financial derivatives instruments or those that use synthetic investment vehicles, the TE shall disclose to the client and require client's prior written conformity to the following:

(i) xxx

xxx

(4) In order to give a fair and adequate description of the investment service or financial instrument, the TE shall provide a clearly stated and easily understood Risk Disclosure Statement to its clients, which forms part of or attached to the trust, fiduciary or investment management agreement. The Risk Disclosure Statement shall contain, among other things, the following provisions:

(i) xxx

xxx

Additional risk disclosures may be provided as appropriate.

The TE must ensure that the trust, fiduciary and investment management agreements and documents have been

reviewed and found to be legally in order.”

Section 5. Transitory Provision. The following provision shall be incorporated as a footnote to Subsections X409.2/4409Q.2 on “Lending and Investment Disposition of Trust and Other Fiduciary Business”, X411.4/4411Q.4 on “Lending and Investment Disposition of Investment Management Activities”, and X425.1/4425Q.1 on “Reports Required to Trustor, Beneficiary, Principal”, and Part III.A.2 Item (a) on “Account Opening Process” of Appendix 83/Q-48 of the MORB/MORNBFI:

Trust entities shall be given six (6) months from the effectivity of this Circular to make appropriate changes in their policies, processes, and procedures in order to comply with the above requirements.

Section 6. Effectivity. This Circular shall take effect fifteen (15) calendar days following its publication either in the Official Gazette or in a newspaper of general circulation.

FOR THE MONETARY BOARD:

(SGD) NESTOR A. ESPENILLA, JR.
Governor

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Circular No. 973

Demonetization of Bangko Sentral New Design Series 100,000-Piso and 2,000-Piso Centennial Commemorative Notes

Adopted: 18 September 2017

Date Filed: 26 September 2017

Pursuant to the authority of the Bangko Sentral ng Pilipinas (BSP) under Section 57 of Republic Act No. 7653, otherwise known as the New Central Bank Act, and Monetary Board Resolution No. 1210 dated 20 July 2017, the Monetary Board approved the demonetization of the New Design Series (NDS) banknotes consisting of 100,000-Piso and 2,000-Piso Centennial Commemorative Notes, which have served their commemorative purpose. The demonetization schedule of the said banknotes are as follows:

- The 100,000-Piso and 2,000-Piso Centennial Commemorative Notes shall remain legal tender up to 1 August 2018. Thereafter, the said banknotes shall cease to be legal tender;
- From 2 August 2018 to 1 August 2019, the 100,000-Piso and 2,000-Piso Centennial Commemorative Notes may be exchanged with authorized agent banks and the BSP at par with the New Generation Currency (NGC) banknotes at full face value in the holder’s desired denomination, and without charge; and
- Starting 2 August 2019, 100,000-Piso and 2,000-Piso Centennial Commemorative Notes that have not been exchanged shall be considered demonetized.

FOR THE MONETARY BOARD:

(SGD) DIWA C. GUINIGUNDO
Officer-in-Charge

—o0o—

Other Issuances Filed by the Bangko Sentral ng Pilipinas (BSP)

Text Available at the Office of the National Administrative Register, U.P. Law Complex, Diliman, Quezon City

Date Filed

Issuance No.

Subject/Title

Adopted

03 July 2017

Circular Letter No. CL-2017-038

Approved Applications for New Banking Offices and Opened Banking Offices During the 1 st Quarter of 2017

22 June 2017

05 July 2017

Memorandum No. M-2017-020

Final Reportorial Template and Reporting Guidelines on the Reportorial Template on Repurchase (Repo) Agreements of Banks and Quasi-Banks (QBs)

28 June 2017

05 July 2017

Circular Letter No. CL-2017-038 (Corrected Copy)

Approved Applications for New Banking Offices and Opened Banking Offices During the 1 st Quarter of 2017

22 June 2017

13 July 2017

Circular Letter No. CL-2017-039

Lost Bangko Sentral registration Documents (BSRDs)

05 July 2017

13 July 2017

Circular Letter No. CL-2017-040

Publication/Posting of Balance Sheet (BS) and Consolidated Balance Sheet (CBS)

06 July 2017

13 July 2017

Circular Letter No. CL-2017-041

Publication/Posting of Statement of Condition and/or Consolidated Statement of Condition

06 July 2017

21 July 2017

Circular Letter No. CL-2017-042

Consolidation Between Cooperative Bank of Ilocos Norte and Ilocos Sur Cooperative Bank into a New Cooperative Bank to be Known as “Ilocos Consolidated Cooperative Bank”

07 July 2017

21 July 2017

Circular Letter No. CL-2017-043

Updates on the BSP Registry of Pawnshops, FXDs/MCs and/or RAs from 1 March – 30 June 2017

11 July 2017

21 July 2017

Circular Letter No. CL-2017-044

Rural Bank of Lupao, Inc. – Change of Corporate Name to ProFarmers Rural Banking Corporation

12 July 2017

21 July 2017

Memorandum No. M-2017-019

Supplemental Guidelines on BSP EMV Migration Requirement

09 June 2017

21 July 2017

Memorandum No. M-2017-021

Guidelines on the Electronic Submission of the Report on Repurchase Agreements of Banks/Quasi-Banks (REPO Report)

12 July 2017

21 July 2017

Memorandum No. M-2017-022

Inventory of New Design Series (NDS) Banknotes

12 July 2017

07 August 2017

Circular No. 967

Reportorial Requirements for Trust Entities

27 July 2017

07 August 2017

Memorandum No. M-2017-023

Reporting of Foreign Exchange Transactions Under Intercompany Netting Arrangements

26 July 2017

07 August 2017

Circular Letter No. CL-2017-045

Lost Bangko Sentral Registration Documents (BSRD)

27 July 2017

07 August 2017

Circular Letter No. CL-2017-046

Rural Bank of Calaca, Inc. – Change of Corporate Name to FBC First Bank of Calaca, Inc. (Rural Bank of Calaca)

21 July 2017

16 August 2017

Memorandum No. M-2017-024

Guidelines on Records Maintenance and Minimum Internal Control Standards

01 August 2017

16 August 2017

Circular No. 968

Extension of the Transitory Provision of Subsection 4511N.16 of MORNBF1

10 August 2017

22 August 2017

Circular Letter No. CL-2017-047

MB Resolution No. 1340 Dated 11 August 2017 Prohibition of the World Partners Ban (A Thrift Bank), Inc. From Doing Business in the Philippines

11 August 2017

22 August 2017

Circular Letter No. CL-2017-048

Rules on the Imposition of Administrative Sanctions Under Republic Act No. 9160, as Amended

(Note: Said Rules was also Filed by the Anti-Money Laundering Council on July 25, 2017)

07 August 2017

30 August 2017

Circular No. 969

Enhanced Corporate Governance Guidelines for BSP-Supervised Financial Institutions

22 August 2017

30 August 2017

Circular No. 970

Enhanced Corporate Governance for BSP-Supervised Financial Institutions Amending the Manual of Regulations for Non-Bank Financial Institutions

22 August 2017

30 August 2017

Circular No. 971

Guidelines on Risk Governance

22 August 2017

30 August 2017

Circular No. 972

Enhanced Guidelines in Strengthening Compliance Frameworks

22 August 2017

30 August 2017

Circular Letter No. CL-2017-049

Hua Nan Commercial Bank, Ltd. – Manila Branch – Establishment and Commencement of Operations

22 August 2017

11 September 2017

Circular Letter No. CL-2017-050

BPI Family Savings Bank, Inc. and BPI Capital Corporation – Surrender/ Revocation of Trust Licenses

29 August 2017

11 September 2017

Circular Letter No. CL-2017-051

Optimum Development Bank, Inc. – Change of Corporate Name to AllBank (A Thrift Bank), Inc.

31 August 2017

11 September 2017

Memorandum No. M-2017-025

Reminder on Compliance with Regulations Governing Fees on Retail Bank Products/Services and Dormant Deposit

25 August 2017

18 September 2017

Memorandum No. M-2017-026

Electronic Correspondences from the BPS-Supervision and Examination Sector (SES)

11 September 2017

18 September 2017

Circular Letter No. CL-2017-052

Maximum Savings Bank, Inc. – Change of Corporate Name

24 August 2017

18 September 2017

Implementing Rules and Regulations of Republic Act No. 10744 – The Credit Surety Fund Cooperative Act of 2015

20 June 2017

25 September 2017

Circular Letter No. CL-2017-053

Consolidation of Cooperative Bank of Misamis Oriental, Bukidnon Cooperative Bank and Cooperative Bank of Agusan Norte – Butuan City to be Known as Mindanao Consolidated Cooperative Bank

30 June 2017

25 September 2017

Circular Letter No. CL-2017-054

Lost Bangko Sentral Registration Document (BSRD)

15 September 2017

25 September 2017

Memorandum No. M-2017-027

Guidelines on the Electronic Submission of Reports Required from Trust Entities

11 September 2017

25 September 2017

Memorandum No. M-2017-028

Guidelines on the Electronic Submission of Prescribed Reports to the BSP-Supervision and Examination Sector (SES) Through the Supervisory Data Center (SDC)

11 September 2017

26 September 2017

Memorandum No. M-2017-029

Operating Schedule of BSP Offices on 21 September 2017

19 September 2017

[*] Text Available at the Office of the National Administrative Register, U.P. Law Complex, Diliman, Quezon City.

[1] For instance, a weekly report received on the eight (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.

[*] Text Available at the Office of the National Administrative Register, U.P. Law Complex, Diliman, Quezon City.

[1] The Monetary Board, in its Resolution No. 1945 dated 27 October 2016 approved the discontinuance of access of trust entities to the BSP deposit facilities. Trust entities shall no longer have outstanding placement in the ODF and TDF by 30 June 2017.

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