PHILIPPINE FINANCIAL REPORTING STANDARDS 9

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Pursuant to Monetary Board Resolution No. 1064 dated 14 July 2011, the guidelines on the implementation/ early adoption of Philippine Financial Reporting Standards (PFRS) 9 Financial Instruments are hereby amended.

Section 1. The provisions of Circular No. 708 dated 10 January 2011 on the implementation/early adoption of PFRS 9 are hereby amended, as follows:

"x x x
"Section 2. Classification and measurement of Financial Assets and Financial Liabilities under PFRS 9

"PFRS 9 shall apply to financial assets and financial liabilities within the scope of Philippine Accounting Standards (PAS) 39. Financial institutions (FIs) shall classify and measure financial assets and financial liabilities in accordance with the provisions of PFRS 9 upon its initial application. FIs shall likewise observe the following guidelines in the implementation of PFRS 9:

"x x x

"3. Financial assets measured at fair value through profit or loss. x x x

"Financial assets measured at fair value through profit or loss shall consist of the following:

"a. Financial assets held for trading (HFT) as defined in PFRS 9;

"x x x

"8. Classification of financial liabilities. Financial liabilities shall be classified as subsequently measured at amortized cost using the effective interest method, except for:

> "a. Financial liabilities which are part of a hedging relationship, in which case the provisions of PAS 39 on hedge accounting shall apply;
>
> "b. Financial liabilities measured at fair value through profit or loss; and
>
> "c. The following financial liabilities which shall be subsequently measured in accordance with the provisions of PFRS 9:
> "i. Financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies;
>
> "ii. Financial guarantee contracts, as defined under Appendix A of PFRS 9; and
>
> "iii. Commitments to provide a loan at a below-market interest rate.

v9. Financial liabilities measured at fair value through profit or loss. Financial liabilities measured at fair value

through profit or loss shall consist of the following:

> "a. Financial liabilities held for trading (HFT), including derivative liabilities that are not accounted for as hedging instruments, and
>
> "b. Financial liabilities designated at fair value through profit or loss.

"10. Financial liabilities designated at fair value through profit or loss (DFVPL). An FI may, at initial recognition, irrevocably designate financial liabilities 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 No."4"above.

"Net unrealized gains/losses arising from changes in the fair value of financial liabilities DFVPL shall be recognized in profit or loss: Provided, That those net unrealized gains/losses that are attributable to changes in the liability's credit risk shall be recognized in "Other Comprehensive Income (OCI)" Provided, however, That if the recognition of net unrealized gains/losses in OCI would create or enlarge an accounting mismatch in the FI's profit or loss, the FI shall present all net unrealized gains/losses on that financial liability DFVPL in profit or loss.

"1. Reclassification of financial assets and financial liabilities.

> "a. Financial assets shall be reclassified when, and only when, an FI changes its business model for managing financial assets in accordance with the provisions of PFRS 9 and of this Circular. reclassifications other than due to change in business model are not permitted.
> "x x x
>
> "An FI shall not effect a reclassification within the period of change in the business model. Any reclassification of financial assets due to change in business model should take effect from the beginning of the next reporting period of the FI's financial statements: Provided, That the change in business model shall be disclosed in the financial statements in the period of change consistent with PFRS 7 Financial Instruments: disclosures which require among others the disclosure of an entity's objectives, policies and processes for managing the risk from financial instruments and any changes to those objectives, policies, and procedures.
>
> "b. Financial liabilities shall not be reclassified.

"12. Operations and Accounting Manual. An FI shall maintain an operations and accounting manual on the classification and measurement of financial assets and financial liabilities which shall be consistent with PFRS 9 and the provisions of this Circular. The said manual shall cover processes and procedures that will capture the reconfiguration and/or modification of existing systems, interface and data requirements, changes to the chart of accounts and implementation of new accounting/information systems to ensure compliance with the PFRS/PAS and the reportorial requirements of the SEC and the BSP, as applicable.

"Section 3. Early Adoption of PFRS 9
"x x x

"3. FRP reporting. Banks shall report financial assets and financial liabilities in accordance with the following guidelines on the mapping of financial assets and financial liabilities (Annexes A and A-1) using the existing FRP template issued under Circular No. 512 dated 3 February 2006, as amended:

"x x x

"d. Financial liabilities measured at fair value through profit or loss under PFRS 9 shall continue to be booked under the following accounts/sub-accounts:

"i. The "Financial Liabilities Held for Trading" account shall be used to record financial liabilities held for

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trading,

- The “derivatives with negative Fair Value Held for Trading” account shall be used to record the negative fair value of derivatives, other than those that are designated and effective hedging instruments.

- The sub-account “derivatives with negative Fair Value Held for Trading (stand-alone derivatives)” shall be used to record the negative fair value of stand-alone derivatives, other than those that are designated and effective hedging instruments.

- The sub-account “derivatives with negative Fair Value Held for Trading (embedded derivatives)” shall be used to record the negative fair value of embedded derivatives where the host contract is a financial liability of the FI.

- The “Liability for Short Position” account shall be used to record the (a) obligation of the purchaser/borrower of securities under Reverse Repurchase Agreements/Certificates of Assignment/Participation with recourse/Securities Lending and Borrowing Agreements to return the securities purchased/ borrowed from the seller/lender, which the former sold to third parties.

“ii. The “Financial Liabilities designated at Fair Value Through Profit or Loss” account shall be used to record financial liabilities that are designated as at fair value through profit or loss. The “Other Comprehensive Income – Others” account under the equity section of the balance sheet shall be used to record net unrealized gains/(losses) from changes in fair value attributable to own credit risk of financial liabilities DFVPL that are accounted for in accordance with PFRS 9.

“e. The following accounts/sub-accounts shall no longer be used upon initial application of PFRS 9:

“ x x x

“f. All the required information in the main schedules, sub-schedules, and additional disclosures/ information in the FRP shall be accomplished for completeness.

“4. Consolidated Statement of Condition. Quasi-banks and other non-bank financial institutions shall report financial assets and financial liabilities in accordance with the following guidelines on the mapping of financial assets and financial liabilities (Annexes B and B-1) using the existing CSOC template:

“x x x

“e. The “Bills Payable – Others” account shall temporarily be used to record financial liabilities held for trading and financial liabilities DFVPL.

“f. Changes in fair value of financial liabilities DFVPL attributable to own credit risk shall temporarily be recorded in the account “net Unrealized Gains/Losses on Available for Sale Financial Assets”.

“g. The following sub-accounts in the balance sheet of the CSOC shall no longer be used upon initial application of PFRS 9:

“(i) Underwriting Accounts - Debt Securities x x x

“5. FRP for Trust Institutions (FRPTI) reporting. x x x

“6. Supplementary report. early adopters shall submit a Supplementary report on early Adoption of PFRS 9 which shall be a Category A-1 report to the SDC together with the prescribed monthly/quarterly FRP/CSOC reports, as follows:

“a. Banks shall submit the solo and consolidated supplementary report (Annex D) in accordance with the

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submission frequency and deadline of the prescribed FRP.

“b. Non-bank FIs, other than trust institutions, shall submit the solo supplementary report (Annex E) in accordance with the submission frequency and deadline of the Consolidated Statement of Condition report.”

“7. Report on initial application of PFRS 9. A bank/QB, and each of its subsidiary banks/QBs, that opt to early adopt PFRS 9 shall submit a one- time solo report on Initial Application of PFRS 9 to the BSP through the SdC using the attached format (Annex F). The report which shall be considered a Category A-1 report shall be submitted to the BSP in accordance with the following timelines:

“a. For FIs which initially apply PFRS 9 on or before 31 December 2010 - not later than 31 January 2011;

“b. For FIs which initially apply PFRS 9 in 2011 - not later than fifteen (15) banking/business days from the end of the month when such initial adoption is reflected in their books, and

“c. For FIs which initially apply PFRS 9 in 2012 -not later than fifteen (15) banking/business days from the end of the first month or quarter, in the case of rural banks/Coop Banks, of the calendar or fiscal year of initial application of PFRS 9.

“The report shall disclose the cumulative impact of the FI’s adoption of PFRS 9 on selected balance sheet accounts, net income and capital position reckoned from the beginning of the FI’s calendar or fiscal year, as applicable.

“Section 4. Transition Rules

“FIs shall observe the transition rules provided under PFRS 9 as well as the following:

“1. PFRS 9 shall not be applied to financial assets and financial liabilities that have already been derecognized at the date of initial application.

“2. An FI shall assess whether a financial asset shall be classified under the amortized cost, FVPL, or DFVOCI category on the basis of the facts and circumstances that exist at the date of initial application of PFRS 9. However, the resulting classification shall be applied retrospectively, irrespective of the FI’s business model in prior reporting periods.

“3. The tainting rule for HTM securities and the related holding period for HTM securities that are reclassified to the AFS category under Appendix 33 of the MORB shall no longer apply to FIs upon initial application of PFRS 9.

“4. An FI may choose to adopt the provisions of PFRS 9 issued in 2009 or the provisions of PFRS 9 issued in 2010 before 1 January 2013.

“5. An FI that has adopted PFRS 9 on financial assets in 2010 need not submit revised FRP/CSOC reports that conform with the guidelines under Section 2 of this Circular for periods prior to 31 December 2010. It may adopt the provisions of PFRS 9 on financial liabilities before 1 January 2013: Provided, That it does not re-apply the transitional provisions of the said standard on its financial assets: Provided, further, That the FI complies with the submission guidelines set forth under Item nos.“6”, “7” and “8” below, as applicable: Provided, finally, That the FI limits the information that it shall report in the one-time solo Report on Initial Application of PFRS 9 to that arising from its adoption of the provisions of PFRS 9 on financial liabilities.

“6. An FI which intends to early adopt PFRS 9 in 2011 is given up to 31 December 2011 within which to reflect the requirements of PFRS 9 in its prudential reports: Provided, That it notifies the BSP, through the SDC, of the details of its actual implementation of adoption of the said standard, including the month-end date when such

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initial adoption is reflected in its books, in its one-time solo Report on Initial Application of PFRS 9.

“7. An FI that intends to early adopt PFRS 9 in 2012 shall reflect the requirements of the said standard in its FRP/CSOC report as of the end of the first month or quarter, in the case of rural banks/Coop Banks, of the calendar or fiscal year of initial application of PFRS 9.

“8. An FI is expected to comply with the reportorial and disclosure requirements of the Securities and exchange Commission on the adoption of PFRS 9.

“9. An FI which adopts PFRS 9 on the mandatory effective date shall present prior period comparative general purpose financial statements which reflect all of the requirements of PFRS 9. FIs are, therefore, expected to have an implementation program in place to ensure compliance with the said requirement by 1 January 2013.”

Section 2. The Supplementary report on early Adoption of PFRS 9 (Annex E) that shall be submitted by non-bank financial institutions (NBFIS) is hereby amended to append a schedule (Schedule 2) to present information on financial liabilities designated at fair value through profit or loss upon initial application of PFRS 9.

Section 3. The one-time solo Report on Initial Application of PFRS 9 (Annex F) is hereby amended to append schedules to present information on the reclassification of financial liabilities designated at fair value through profit or loss as of the date of initial application and the impact of the implementation/early adoption of PFRS 9 by banks/ quasi-banks.

Section 4. The penalties and sanctions provided under Subsection X388.5(c) of the MORB and Subsection 4388Q.5 of the MORNBFI shall be imposed on FIs and officers concerned found to have violated any of the provisions of this Circular.

Section 5. This Circular supersedes/amends/modifies the provisions of existing circulars, memoranda, and/or regulations that are inconsistent herewith.

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.) AMANDO M. TETANGCO, JR.

Governor

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