

TO APPROVE RULES AND REGULATIONS THAT SHALL GOVERN BANKS' INVESTMENTS IN SECURITIES OVERLYING SECURITIZATION STRUCTURES

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The Monetary Board in its Resolution No. 13 dated 6 January 2005, approved the following rules and regulations that shall govern banks' investments in securities overlying securitization structures:

Section 1. Statement of Policy. The Bangko Sentral ng Pilipinas (BSP) aims to foster the development of a market for new financial products in the country and provide banks with expanded opportunities for investment diversification, while at the same time ensure that they hold sufficient capital commensurate to the risks inherent in these products.

Section 2. Definition. Securitization structures refer to:

- 1) structures where the cash flow from an underlying pool of exposures is used to service at least two different stratified risk positions or tranches reflecting different degrees of credit risk (also known as traditional securitization); or
- 2) structures with at least two 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).

Section 3. Qualified Banks. All universal/commercial banks with expanded derivatives authority may invest in securities overlying any tranche of securitization structures. Universal/commercial banks without expanded derivatives authority may also invest but only in securities overlying tranches of securitization structures that are rated at least A, or its equivalent, by a BSP-recognized credit rating agency.

Section 4. Capital Treatment.

1. Credit risk

A. Risk weights. Capital charge for investments in securitization structures held in the banking book shall be based on the latest rating given by any of the following BSP-recognized credit rating agencies:

International rating agencies:

- Moody's
- Standard & Poor's
- Fitch IBCA

- Other international rating agencies as may be approved by the Monetary Board

Domestic rating agencies:

- PhilRatings

- 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 Below Baa3 Below BBB- Below BBB- Below Baa

total of Tier 1

and Tier 2 Unrated

capital

B. Use of ratings

Ratings of BSP-recognized credit rating agencies shall be used as follows:

- Securities overlying securitization structures created within the Philippines may be rated by any BSP-recognized international or domestic credit rating agency, while securities overlying securitization structures created outside of the Philippines may only be rated by any of the international credit rating agencies that are recognized by the BSP; and

- In cases when overlying securities have split ratings which map into different risk weights, the higher risk weight should be used.

2. Market risk. Capital charge for securities overlying securitization structures held in the trading book shall be determined in accordance with BSP Circular No. 360 dated 3 December 2002, as amended, and the use of agency ratings for such purpose shall be consistent with the above principles.

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

Adopted: 12 Jan. 2005

For the Monetary Board:

(Sgd.) RAFAEL B. BUENAVENTURA

Governor

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