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# MARK-TO-MARKET GUIDELINES ON DEBT AND EQUITY SECURITIES

*BSP CIRCULAR LETTER, December 29, 2000*

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- This Circular Letter establishes the market benchmarks/reference prices as well as computation method that will be used to mark-to-market debt and marketable equity securities as required under BSP Circular No. 161, series of 1998.

General Principle

- As a general rule, to the extent a credible market pricing mechanism as determined by the Bangko Sentral ng Pilipinas (BSP) exists for a given security, that market price shall be the basis of mark-to-market. However, in the absence of a market price, a calculated price shall be used as prescribed in this Circular Letter.

A financial institution may also be allowed, subject to the approval of the Deputy Governor, Supervision and Examination Sector, BSP, to use its own system for marking-to-market its securities holdings provided that this can be shown to be sufficiently transparent, objective, reliable and consistent. The system should be approved by the financial institution's board of directors (or equivalent management committee in the case of foreign bank branches). The model should be vetted by the financial institution's risk management group, internal audit group and systems group, properly documented and such documentation available for review by external auditors and the BSP.

Mark-to-Market Guidelines

- To ensure consistency, the following shall be used as bases in marking-to-market debt and equity securities:

Type of Security

Market Price Basis

A. Equity Securities Listed in the Stock Exchange

1. Traded in the Philippines

Same day closing price as quoted at the Philippine Stock Exchange. In case of halt trading/suspension or holidays, use the last available closing price.



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2. Traded Abroad

Latest available closing price from the exchange where the securities are traded.

B. Foreign Currency-Denominated Debt Securities Quoted in Major Information Systems (Bloomberg, Reuters, Bridge)

1. US Treasuries

Price as of end of day, Manila time.

2. US Agency papers such as Fannie Maes, Freddie Macs, Ginnie Maes, Municipal papers

Latest available price for the day, Manila Time. In the absence of a price, use average quotes of at least three regular brokers/ market makers.*

3. Brady Bonds

Same as B.2.

4. For all US$-denominated government and corporate Securities

Same as B.2.

5. Other foreign-currency securities

Same as B.2

C. Peso-Denominated Government Securities


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1. Short-term Domestic Government Securities

Price as of end of day. Use the following sources as discount rate/yield to maturity:

- Weighted average dealt rate for the day.
- In the absence of a same day dealt rate. Use end of day indicative mid rate between best bid and best offer.
- In the absence of a same day indicative mid rate, use end of day best bid rate.

2. Long-term Domestic Government Securities

Same as C 1

A. Peso- Denominated Private Debt Securities

1. Short-term securities

Prices computed using the corresponding government

Type of Security

Market Price basis

Security benchmark + long-term risk Premium

2. Long-term Fixed Rate Securities

Prices computed using the corresponding government security benchmark & long-term risk premium

3. Long-term Securities Floaters

Prices computed using the corresponding benchmark based on the reset period + government security risk premium. (Please refer to Technical Annex for pricing formula.)

All the risk premia mentioned under Section shall be recommended by a Risk Assessment Committee (RAC) and updated regularly. The RAC shall be convened by the Bankers Association of the Philippines (BAP) and composed of representatives from the BAP, Investment Houses Association of the Philippines , Money Market Association of the Philippines, rating agencies and the BSP.

Other Guidelines

In pricing debt securities, interpolated yields shall be used for securities with odd tenors.

The mark-to-market rules prescribed for securities from Sections A to C (Equity Securities Listed in the Stock Exchange, Foreign Currency-Denominated Debt Securities Quoted in Major Information Systems and Peso-Denominated Government Securities) shall take effect on April 1, 2001. The effectivity date of the mark-to-market rules prescribed for securities covered under Section D (Peso-Denominated Private Debt Securities) shall be announced later thru a Circular Letter.

For strict compliance.

Adopted: 29 Dec. 2000

(SGD.) ALBERTO V. REYES
Deputy Governor

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