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# RISK DISCLOSURE REQUIREMENTS ON LOSS ABSORBENCY FEATURES OF CAPITAL INSTRUMENTS

*BSP CIRCULAR NO. 786, February 15, 2013*

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The Monetary Board, in its Resolution No. 164 dated 25 January 2013, approved the risk disclosure requirements on the loss absorbency features of Additional Tier 1 and Tier 2 capital instruments eligible under the Basel III framework. Said requirements uphold investor protection through enhanced disclosure and transparency.

Section 1. When marketing, selling and distributing Additional Tier 1 and Tier 2 instruments eligible as capital under the Basel III framework, banks/quasibanks 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 Additional Tier 1 and Tier 2 capital instruments. The said disclosure statement shall explain the loss absorbency feature for Additional Tier 1 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 Additional Tier 1 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 BSP, as may be required, the:

a.

Risk Disclosure Statement;

b.



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Certification cited in item 3 above duly signed by the investor; and

c.

Client Suitability Test of the investor.

Section 2. 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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