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AMENDMENT ON RISK DISCLOSURE REQUIREMENTS ON LOSS ABSORBENCY FEATURES OF CAPITAL INSTRUMENTS

BSP CIRCULAR NO. 826, February 14, 2014

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The Monetary Board, in its Resolution No. 109 dated 16 January 2014, approved the amendments to the risk disclosure requirements on loss absorbency features as provided in Circular No. 786 dated 15 February 2013, which clarify the applicability of the risk disclosure requirements with regard to the place of issuance of capital instruments. The Manual of Regulations for Banks/Non-Bank Financial Institutions particularly Appendix 63b/Q46b, respectively, are hereby amended as follows:

Section 1. The risk disclosure requirements on loss absorbency features as provided in Circular No. 786 including amendments thereto shall be incorporated in Appendix 63b/Q46b of the MORB/MORNBFI as Annex G - Risk Disclosure Requirements on Loss Absorbency Features, which shall now read as:

“Risk Disclosure Requirements on Loss Absorbency Features of Capital Instruments

I.

When marketing, selling and/or distributing Additional Tier 1 and Tier 2 instruments eligible as capital under the Basel III framework, in the Philippines, banks/quasi-banks 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 features 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

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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.

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

c.

Client Suitability Test of the investor.

II.

For offshore issuances of Additional Tier 1 and Tier 2 capital instruments, the risk disclosure requirements shall be governed by the applicable rules and regulations of the country where these instruments are issued.

The subsequent sale and/or distribution of Additional Tier 1 and Tier 2 capital instruments in the Philippines, originally issued overseas, shall comply with all the risk disclosure requirements for issuance in the Philippines."

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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