INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP) AND SUPERVISORY REVIEW PROCESS (SRP) FOR FOREIGN BANK BRANCHES

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The Monetary Board in its Resolution No. 791 dated 25 May 2011 approved the supplemental guidelines in relation to the Internal Capital Adequacy Assessment Process (ICAAP) of foreign bank branches, in accordance with the provisions of Circular No. 639 dated 15 January 2009, as follows:

In implementing the provisions of Circular No. 639 dated 15 January 2009, the Bangko Sentral ng Pilipinas (BSP) shall consider the following guidelines with respect to the Internal Capital Adequacy Assessment Process (ICAAP) and the related Supervisory Review Process (SRP) for foreign bank branches:

- The guiding principles for banks' ICAAPS and the SRP in Circular No. 639 shall apply to foreign bank branches on a proportionate basis. In this regard, the BSP expects that there will be variation in foreign banks branches' ICAAPs in accordance with the nature, size and complexity of their business in the Philippines.

- The BSP will primarily be interested in finding out how a foreign bank branch assesses its capital in relation to its business plans and operations in the Philippines.

- The ICAAP of a foreign bank branch should cover risks arising from the occurrence of domestically-oriented scenarios. It should also take into account the specific circumstances of the branch, i.e., regulatory commitments in relation to special licenses or authorities, etc.

- The BSP acknowledges that a foreign bank branch is likely to make use of the methodology of the head office/parent bank for its own ICAAP or portions thereof. However, the branch should be able to explain that such processes and methodologies are appropriate to its business in the Philippines.

- A branch must include in its ICAAP how capital is being allocated to the branch and the factors that influence this allocation. It should also be able to illustrate how this capital is managed, and how capital can be made available to the branch in a timely manner when it has been determined that there is a need to do so.

- In line with Item 2.6 on the Guidelines on the BSP's Supervisory Review Process, the BSP will refer to the ICAAP developed at the level of the head office/parent bank, and the home supervisor's assessment thereof. The BSP will look at the extent that the head office/parent bank ICAAP covers the risks of its branch in the Philippines, including the possible impact of scenarios that primarily affect the operations of the head office/parent bank on the operations and capital adequacy of the branch

- The ICAAP document of foreign bank branches should be submitted to the Central Point of Contact Department (CPCD) of the BSP on or before 28 February of each year. Banks may refer to Circular No. 639 for the suggested format of the document. While a common outline facilitates the BSP's evaluation, banks are not precluded from modifying the format and content of the ICAAP document if certain sections or suggested content do not apply to the operations of the branch, or, if presenting the information in another way would best reflect the internal capital assessment process of the branch.

- A "trial" ICAAP document shall be submitted to the CPCD of the BSP on or before 30 September 2011.

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

Adopted: 28 July 2011

FOR THE MONETARY BOARD:

(SGD.) JUAN D. DE ZUNIGA, JR.
Officer-in-Charge

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