

INTRADAY LIQUIDITY FACILITY FOR THE IMPLEMENTATION OF CIRCULAR 266 THRU THE IMPROVED INTERBANK CALL LOAN FUND TRANSFER SYSTEM (MIPS)

BSP CIRCULAR LETTER, March 29, 2001

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The Monetary Board, in its Resolution No. 480 dated March 26, 2001, approved the establishment of the Intraday Facility (ILF) to support the implementation of Circular 266 thru MIPS2. Circular 266 amended the rules on settlement of transactions involving interbank loans and government securities under repurchase agreements with the Bangko Sentral ng Pilipinas (BSP) in connection with its Open Market Operations (OMO). The Circular prescribes settlement of these transactions gross, on a trade-for-trade basis and with finality, subject to the availability of balances in the deposit reserves maintained by banks and non-bank financial institutions with quasi-banking functions (NBQBs) with the BSP.

BSP recognizes that there are interbank transactions, other than check clearing, that are still settled on net basis. These interbank transactions include primary auction of government securities, secondary trading of government securities, peso-netting arising from \$-Peso swaps and lendings/borrowings among banks. The ILF provides the smoothening mechanism in the settlement of these interbank transactions which are not covered by Circular 266 but could cause a failure of settlement of transactions under MIPS2. The operations of the ILF is considered part of the BSP's open market operations.

The basic features of ILF are described in this document. The timeline and procedures are shown in Annex A.

1. Establishment of BSP ILE Sub-Account with BTR-ROSS - To establish the ILF, each bank and NBQB shall instruct the Bureau of Treasury to move from their accounts with BTR-ROSS to the BSP ILF sub-account the pool of peso-denominated government securities to be pledged as collaterals covered by a "Contract to Pledge/Sell Under R/P". This sub-account is unique to ILF.

2. Access to the facility - The ILF shall be accessed only within the 10:00 AM to 4:00 PM trading window of Circular 266. Whenever the reserve deposits of banks and NBQBs are not sufficient to cover the amount of eligible interbank transactions to be settled, the Financial Accounting System (FAS) of BSP shall automatically access the unutilized balance of ILF and move the funds to the Demand Deposit account (DDA) of the bank/NBQB, up to the amount not exceeding its intraday bank limit.

3. Eligible interbank transactions - Only the following interbank transactions shall be eligible for settlement thru ILF:

- Primary action of government securities
- Secondary trading of government securities
- Peso netting from \$-Peso swap
- Lendings/borrowings and their collections/repayments

4. Intraday bank limit - Banks and NBQBs shall set their individual ILF limits based on the amount of government securities to be delivered to the pool and to be pledged.
5. Eligible collateral - Similar to BSP's guidelines for Repurchase Agreements (RPs) peso- denominated issues of the National Government, with maturities of up to 10 years, are eligible. As such, these government securities shall be free of unencumbered and dedicated for this specific purpose. The government securities to be pledged should be part of "Investments in Bonds and Other Debt Instruments" (IBODI) in the bank's books.
6. Valuation of collateral -The government securities shall be valued based on the 11:15 AM fixing rates on Friday of the week when pledged documents are submitted to BSP Treasury (from applicable Bloomberg's MART pages).
7. Margins - Margins shall be applied based on the remaining life of the security and on existing procedures of BSP Treasury.
8. Changes in collateral - Banks and NBQBs may increase or decrease their intraday facility limit by adjusting the amount of government securities delivered to the pool no later than 10:00 AM each Thursday. BSP Treasury shall value the securities on Fridays, for use the following week, i.e., starting Monday
9. Transaction fee - In lieu of interest, BSP shall collect a transaction fee of P2.500 per (LF access to be debited to the DDA account of banks/NBQBs at the close of the transaction date.
10. Repayments of intraday availments
 - a. The unsettled ILF utilization, after BSP Accounting has settled the check clearing results and the interbank lendings/borrowings among banks and NBQBs at 6.15 PM, shall be automatically converted into an overnight (O/N) RP at 600 basis points over the BSP's overnight lending rate for the day
 - b Collaterals for the O/N RP shall be selected from the ILF pool based on the following criteria:
 - Shortest remaining life
 - Value less than par and closest to par
 - c. ILF utilization that are converted into O/N RPs may be repaid the following banking day through the unutilized balance in the facility should there be a shortfall in the DDA balance
 - d. Unsettled O/N RP arising from ILF utilization due to insufficient DDA balance with BSP shall be converted automatically into an outright sale/purchase of the pledged collateral
 - e. Unsettled ILF utilization shall not be eligible for funding from the regular R/P window of BSP.
11. System for earmarking/unearmarking collaterals - BSP accounting shall maintain an I LF collateral file which shall function in tandem with the FAS system. The ILF collateral file shall be maintained for movement of collaterals from the ILF to O/N RPs and for unearmarking of government securities which are transferred to the BSP main account with BTR-ROSS on account of an absolute sale evidenced by the issue of Confirmation of Sale (COS) by the bank and NBQB and the Confirmation of Purchase (COP) by the BSP Treasury.
12. Availability of the facility - The ILF shall be available in its fully automated form after completion of the user acceptance testing by market participants, BSP and the Bureau of Treasury. Prior to full automation, there shall be physical delivery of pledge documents to the BSP Treasury for government securities to be utilized as collaterals for the ILF.

Adopted: 29 March 2001

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Governor

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