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AMENDMENTS TO BOOK IV OF THE MANUAL OF REGULATIONS FOR BANKS AND OTHER FINANCIAL INTERMEDIARIES ON INVESTMENT HOUSES

BSP CIRCULAR NO. 74, May 15, 1995

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Pursuant to Monetary Board Resolution No. 397 dated April 19, 1995, the regulations on investment houses in Book IV of the Manual of Regulations for Banks and Other Financial Intermediaries are hereby amended as follows:

SECTION 1. The following sections are hereby added after Section 4106Q/Section 4105N of the Manual of Regulations to read as follows:

> "Section 4107Q/4106N. Minimum Capital of Investment House.
>
> The Minimum paid-in capital requirement for an investment house to be established in Metro Manila shall be P200 million. Those to be established outside Metro Manila shall have a minimum initial paid-in capital of P100 million. However, when any branch is set up in Metro Manila, the P200 million minimum paid-in capital for Metro Manila must be complied with.
>
> Investment houses which are existing, or newly authorized but not yet operating, or those from whom completed applications to establish investment houses have been received as of the date of this Circular but pending action by the Bangko Sentral ng Pilipinas (BSP) shall each have minimum combined capital accounts of P200 million or P100 million, depending on location. The total paid-in capital (including paid-in surplus), earned surplus and undivided profits, net of (a) such unbooked valuation reserves and other capital adjustments as may be required by the BSP and (b) total outstanding unsecured credit accommodations, both direct and indirect, to directors, officers, all stockholders, and their related interests (DOSRI) shall not be less than the amount herein prescribed. Any appraisal surplus or appreciation credit as a result of appreciation or an increase in book value of assets shall be excluded."

SECTION 2. A new subsection is hereby added after Section 4107Q of the Manual of Regulations to read as follows:

> "Subsec. 4107Q.1 Capital Build-up Program.
>
> a.. Investment houses required to have a minimum combined capital accounts of P200 million which at present do not meet said minimum are hereby granted one (1) year from the date of this Circular within which to meet the minimum capital requirement: Provided, That they shall submit to the BSP a capital build-up program for this purpose within three (3) months from the date of this Circular indicating, among others, target dates, levels of capital and source/manner of sourcing, e.g. from net income or additional investment by stockholders.
>
> b. If the prescribed minimum capital accounts will necessitate an increase in the authorized capital stock, the investment house shall cause the corresponding amendments to its articles of incorporation, and submit a copy of the proposed amendment to the BSP together with its capital build-up program and other documentary requirements.

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c. It shall be the responsibility of the investment house's board of directors and senior management to ensure full compliance with the entity's capital build-up program. Any or all of the following sanctions, among others, may be imposed on any investment house (i) which fails to comply with the minimum capital required under Section 4107Q or having complied, shall fail to maintain thereafter such minimum capital requirement, or (ii) which fails to submit its capital build-up program within the prescribed deadline or to comply with its approved capital build-up program:

1. Suspension of authority to engage in quasi-banking functions;

2. Suspension of authority to engage in trust/investment management activities;

3. Cease and desist order;

4. No new/renewal/extension of credit accommodations to DOSRI;

5. Prohibition against declaration of cash dividends;

6. Prohibition from extending new loans or making new investments;

7. Suspension of the privilege to establish and/or open approved branches, agencies, offices, etc.; and

8. Other sanctions as may be applicable to investment houses."

SECTION 3. A new Subsection is hereby added after Section 4106N of the Manual of Regulations to read as follows:

"Subsec. 4106N.1. Capital Build-up Program - Investment houses required to have a minimum combined capital accounts of P200 million which at present do not meet said minimum are hereby granted one (1) year from the date of this Circular within which to meet the minimum capital requirement: Provided, That they shall submit to the BSP a capital build-up program for this purpose within three (3) months from the date of this Circular indicating, among others, target dates, levels of capital and source/manner of sourcing, e.g. from net income or additional investment by stockholders.

If the prescribed minimum capital accounts will necessitate an increase in the authorized capital stock, the investment house shall cause the corresponding amendments to its articles of incorporation, and submit a copy, of the proposed amendment to BSP together with its capital build-up program and other documentary requirements.

It shall be the responsibility of the investment house's board of directors and senior management to ensure full compliance with the entity's capital build-up program. Any or all of the following sanctions, among others, may be imposed on any investment house (i) which fails to comply with the minimum capital required under Section 4106N or having complied, shall fail to maintain thereafter such minimum capital requirement, or (ii) which fails to submit its capital build-up program within the prescribed deadline or to comply with its approved capital build-up program:

1. Suspension of authority to engage in trust/investment management activities;

2. Cease and desist order; and

3. Other sanctions as may be applicable to investment houses."

SECTION 4. The provisions of Item 1 of the Guidelines to Evaluate Investment Houses, Appendices Q-1 and N-1 of the Manual of Regulations for Banks and Other Financial Intermediaries are hereby amended to read as follows:

"1. Capital - The requirement is a minimum paid in capital of P200 million for investment houses located in

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Metro Manila and P100 million for those located outside Metro Manila."

SECTION 5. A new Subsection is hereby added after Subsection 4136Q.6 of the Manual of Regulations to read as follows:

"Subsection 4136Q.7. Limitations on declaration of dividends.

Compliance with the provisions of Section 4107Q.1 on capital build-up program by an investment house with quasi-banking functions shall be a pre-requisite to its declaration of any cash dividends."

This Circular shall take effect immediately.

Adopted: 15 May 1995

(SGD.) GABRIEL C. SINGSON
Governor

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