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AMENDMENTS TO SUBSECTION X306.5 OF THE MANUAL OF REGULATIONS (MOR) AND SUBSECTION 4308Q.5 OF THE MANUAL OF REGULATIONS FOR NON-BANK FINANCIAL INSTITUTIONS (NBQBS) TO IMPLEMENT S...

BSP CIRCULAR NO. 463, S. 2004, December 29, 2004

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The Monetary Board, in its Resolution No. 1785 dated 9 December 2004, approved the following amendments to Subsection X306.5 of the Manual of Regulations (MOR) and Subsection 4308Q.5 of the Manual of Regulations for Non-Bank Financial Institution (NBQBs) to implement Section 49 of Republic Act (R.A.) No. 8791, otherwise known as the General Banking Law of 2000.

SECTION 1. Provisions for losses. The board of directors of banks and NBQBs are responsible for ensuring that their institutions have controls in place to determine the allowance for probable losses on loans, other credit accommodations, advances and other assets consistent with the institutions' stated policies and procedures, generally accepted accounting principles (GAAP), the BSP rules and regulations and the safe and sound banking practices. The board of directors, in fulfilling this responsibility, shall require management to develop and maintain an appropriate, systematic and uniformly applied process consistent and in compliance with existing BSP rules and regulations to determine the amount of reserves for bad debts or doubtful accounts or other contingencies.

SECTION 2. Write-off. Banks, upon approval by their board of directors, may write-off loans, other credit accommodations, advances and other assets against allowance for probable losses (valuation reserves) or current operations as soon as they are satisfied that such loans, other credit accommodations, advances and other assets are worthless as follows:

- In the case of secured loans, banks and NBQBs may write-off loans, other credit accommodations and other assets in an amount corresponding to the booked valuation reserves, provided that the balance of the secured loans, other credit accommodations, advances and other assets shall remain in the books.

- In the case of unsecured loans, other credit accommodations, advances and other assets, banks and NBQBs shall write-off said loans, other credit accommodations, advances and other assets in full amount outstanding.

However, write-off of loans, other credit accommodations, advances and other assets considered transactions with DOSRI shall be with prior approval of the Monetary Board.

SECTION 3. Definitions. For purposes of this Circular, the following terms are hereby defined as follows:

1) Loans. The term loans shall refer to all the accounts under the loan portfolio of a bank and a NBQB as enumerated in the Manual of Accounts for Banks/NBQBs.

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2) Other Credit Accommodations. The term other credit accommodations shall refer to exposures of banks and NBQBs other than loans such as sales contract receivables, accounts receivables, accrued interest receivables, lease receivables, and rental receivables.

3) Advances. The term advances shall refer to any advance by means of an incidental or temporary overdraft, cash "vale", any advance by means of DAUD and any advances of unearned salary or unearned compensation.

4) Other Assets. The term other assets shall refer to investments, placements, ROPOAs and all other asset accounts that will not fall under loans and other credit accommodations.

5) Bad Debts. The term bad debts shall refer to the definition under Subsec. X136.1 of the MOR.

SECTION 4. Reporting Requirements. Notice of write-off of loans, other credit accommodations, advances and other assets shall be submitted in the prescribed form (copy attached[*]) to the supervising and examining department concerned at least twenty five (25) banking days prior to the intended date of write-off.

The income tax expense deferred corresponding to the amount of loan, other credit accommodation, advances and other asset written-off considered deductible for income tax purposes shall be recognized and reversed in bank's books.

SECTION 5. Applicability to Non-Bank with Quasi Banking Functions (NBQBs). The regulations contained herein shall also apply to NBQBs.

SECTION 6. Effectivity. This Circular shall take effect fifteen (15) days following its publication in a national newspaper of general circulation.

Adopted: 29 Dec. 2004

For the Monetary Board:

(Sgd.) ARMANDO L. SURATOS
Officer-in-Charge

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[*] Text Available at Office of the National Administrative Register, U.P. Law Complex Diliman, Quezon City.

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