

TO APPROVE RULES AND REGULATIONS THAT SHALL GOVERN THE CAPITAL TREATMENT OF BANKS' EXPOSURES TO STRUCTURED PRODUCTS

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The Monetary Board in its Resolution No. 1791 dated 09 December 2004, approved the following rules and regulations that shall govern the capital treatment of banks' exposures to structured products:

Section 1. Statement of Policy. The Bangko Sentral ng Pilipinas (BSP) aims to foster the development of a market for new financial products in the country, while at the same time ensure that banks hold sufficient capital commensurate to the risks inherent in these products.

Section 2. Definition. A structured product refers to a financial instrument where the return is a function of one or more underlying indices, such as interest rates, equities and exchange rates. There may also be embedded derivatives such as swaps, forwards, options, caps, and floors that reshape the risk-return pattern. For purposes of this Circular, structured products do not include asset-backed securities, credit-linked notes and other similar instruments.

Section 3. Qualified Banks. As a general rule, only universal/commercial banks with expanded derivatives license may obtain exposures in structured products. Banks without expanded derivatives license may only invest in structured products duly approved by the BSP.

Section 4. Capital Treatment

1. Banking book

A. Risk weights. Capital charge for structured products held in the banking book shall depend on the rating of the issuing entity, or rating of the collateral in case of structured products issued by special purpose vehicles (SPVs), given by the following BSP-recognized international credit rating agencies:

- Moody's
- Standard & Poor's
- FitchRatings
- And such other international rating agencies as may be approved by the Monetary Board

In cases where there are two or more types of collateral, capital charge shall depend on the lowest rated collateral.

The mapping of ratings to the corresponding risk weights shall be as follows:

Risk weight Moody's Standard & Poor's Fitch Ratings

50% Aaa to Aa3 AAA to AA- AAA to AA-

100% A1 to A3 A+ to A- A+ to A-

150% Baa1 to Baa3 BBB+ to BBB- BBB+ to BBB-

Deduction from Below Baa3 Below BBB- Below BBB-

total of Tier 1

and Tier 2 capital Unrated

B. Use of ratings. If an issuer of a structured product has only one rating by any of the BSP-recognized international rating agencies, that rating shall be used to determine the risk weight of the product; in cases where there are two or more ratings which map into different risk weights, the higher of the lowest two risk weights should be used.

2. Trading book. Capital charge for structured products held in the trading book shall be determined according to Circular No. 360 dated 3 December 2002, as amended.

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

Adopted: 13 Jan. 2005

For the Monetary Board:

(Sgd.) RAFAEL B. BUENAVENTURA
Governor

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