

[BSP CIRCULAR NO. 714, S. 2011 (CORRECTED COPY), March 10, 2011]

SECURITIES CUSTODIANSHIP OPERATIONS

Pursuant to Monetary Board Resolution No. 245 dated 17 February 2011, the Manual of Regulations for Banks (MORB) and the Manual of Regulations for Non-Bank Financial Institutions (MORNBFI) are hereby amended as follows:

Section 1. Subsec. X441.5 of the MORB on pre-qualification requirements for a securities custodian/registry is hereby amended as follows:

"Subsec. X441.5 Pre-qualification requirements for a securities custodian/registry.

"a. The securities custodian must be a bank that is authorized to engage in investment management or trust business. The securities registry must be a bank.

"b. It must have complied with the minimum capital accounts required under existing regulations, as follows:

"(1) *Domestic banks.* The minimum capital required under Subsec. X111.1 or the minimum capital required for TBs operating in Metro Manila, whichever is higher.

"(2) *Branches of foreign banks.* The minimum capital required under Subsec. X105.4.

"x x x

"o. A securities custodian which provides the value-added service of securities lending involving securities that are sold, offered for sale or distributed within the Philippines must be a duly-licensed lending agent registered with the SEC."

Section 2. Subsec. 4441Q.5 and 4144N.5 of the MORNBFI on prequalification requirements for a securities custodian/registry is hereby amended as follows:

"Subsec. 4441Q.5/4144N.5 Pre-qualification requirements for a securities custodian/registry.

"a. The securities custodian must be a QB/NBFI under BSP supervision that is authorized to engage in investment management (for LHs with QB authority only) or trust business. The securities registry must be a QB/NBFI under BSP supervision whether or not authorized to engage in investment management (for LHs with QB authority) or trust business;

"x x x

"n. A securities custodian which provides the value-added service of securities lending involving securities that are sold, offered for sale or distributed within the Philippines must be a duly-licensed lending agent registered with the SEC."

Section 3. Section 2 of App. 68 of MORB and App. Q-38 of the MORNBFIs on distinction between a custodian and a registry is hereby amended to read as follows:

"Sec. 2 Distinction Between a Custodian and a Registry. A securities custodian is a BSP accredited bank or a QB/NBFI under BSP supervision that is authorized to engage in investment management (for banks and investment houses with quasi-banking authority only) or trust business and is designated by the investor to perform the functions of safekeeping, holding title to the securities in a nominee capacity, reports rendition, mark-to-market valuation, collection and payment of dividends, interest earnings or proceeds from the sale/redemption/maturity of securities held under custodianship and representation of clients in corporate actions.

"It may also perform the value added service of securities lending as agent, subject to the conditions specified under Subsection X441.6 of the MORB/4441Q.5 and 4144N.6 of the MORNBFIs. xxx"

Section 4. Subsec. X441.6 of the MORB on functions and responsibilities of a securities custodian are hereby amended to read as follows:

"Subsec. X441.6 Functions and responsibilities of a securities custodian. A securities custodian shall have the following basic functions and responsibilities:

"x x x

"h. Does earmarking of encumbrances or liens such as, but not limited to, Deeds of Assignment and court orders; and

"i. Acts as a collecting and paying agent in respect of dividends, interest earnings or proceeds from the sale/redemption/maturity of securities held under custodianship: *Provided*, That the custodian shall immediately

make known to the securities owner all collections received and payments made with respect to the securities under custody.

"j. In addition to the above basic functions, it may perform the value-added service of securities lending as agent: *Provided*, That it complies with the pre-qualification requirements under Item "o" of Subsection X441.5: *Provided, further*, That the securities lending service shall be covered by a Securities Lending Authorization Agreement (SLAA) which shall be attached to the custody contract.

"A securities custodian which renders the value-added service of securities lending involving securities that are sold, offered and distributed within the Philippines shall comply with all other pertinent rules and regulations of the SEC on securities lending and borrowing operations."

Section 5. Subsecs. 4441Q.6 and 4144N.6 of the MORNBFI on functions and responsibilities of a securities custodian are hereby amended to read as follows:

Subsecs. 4441Q.6 and 4144N.6 Functions and responsibilities of a securities custodian. A securities custodian shall have the following basic functions and responsibilities:

"x x x

"h. Does earmarking of encumbrances or liens such as, but not limited to, Deeds of Assignment and court orders; and

"i. Acts as a collecting and paying agent in respect of dividends, interest earnings or proceeds from the sale/redemption/maturity of securities held under custodianship: *Provided*, That the custodian shall immediately make known to the securities owner all collections received and payments made with respect to the securities under custody.

"j. In addition to the above basic functions, it may perform the value-added service of securities lending as agent: *Provided*, That it complies with the pre-qualification requirements under Item "n" of Subsec. 4441Q.5/4144N.5: *Provided, further*, that the securities lending service shall be covered by a Securities Lending Authorization Agreement (SLAA) which shall be attached to the custody contract.

"A securities custodian which renders the value-added service of securities lending involving securities that are sold, offered and