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INVESTMENTS IN DEBTS SECURITIES AND MARKETABLE EQUITY SECURITIES

The Monetary Board in its Resolution No. 401 dated 18 March 1998, approved the rules and regulations to govern investments in all debts securities and marketable equity securities. Accordingly, Books I, II, and IV of the Manual of Regulations for Banks and Other Financial Intermediaries are amended, as follows:

SECTION 1. Sections 1391 (Book I), 2391 (Book II) and 4391Q (Book IV) are hereby added to the Manual of Regulations for Banks and Other Financial Intermediaries, to read as follows:

> **"Section __391. Investments in All Debt Securities and Marketable Equity Securities** — Investments in all debt securities and marketable equity securities shall be classified into one of four categories and accounted for as follows:
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> **"a. Investments in Bonds and Other Debt Instruments (IBODI)** — These are debt securities where the financial institution has the intention and ability to hold these securities to maturity. Such investments shall be measured at amortized cost where any realized gains or losses shall be included in reported current income. However, if a decline in fair market value below the amortized cost is other than temporary, i.e., full collection of principal and interest is not expected on a debt security, the amortized cost basis of the particular debt security shall be adequately provided with allowance for probable losses. The amount of investment loss provision shall be accounted for as a realized loss and charged to reported current income.
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> The ability to hold to maturity is evidenced by the funding structure of such securities wherein IBODI shall not exceed 50% of adjusted net worth plus 40% of total deposit liabilities. For foreign bank branches, the adjusted net worth shall include "net due to head office/branches/agencies" which shall not exceed the equivalent of four (4) times [three (3) times for foreign bank branches with expanded commercial banking authority] the amount of permanently assigned capital.
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> Sales of debt securities that meet either of the following two conditions may be considered as maturities for purposes of the classification of securities under IBODI:
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> "1. The sale of a debt security occurs near enough to its maturity date (or call date if exercise of the call is probable) that interest rate risk is

substantially eliminated as a pricing factor. That is, the date of sale is no near the maturity or call date (for example, within three months) that changes in market interest rates would not have a significant effect on the security's fair market value.

"2. The sale of a debt security occurs after the financial institution has already collected at least eighty five per cent (85%) of the principal outstanding at acquisition due either to prepayments on the debt security or to scheduled payments on a debt security payable in installments (both principal and interest) over its term

"b. Trading Account Securities (TAS) — These are debt securities and equity securities (TAS — equity securities applicable only to expanded commercial banks and to non-bank financial institutions with quasi-banking functions) purchased and held principally with the intention of selling them in the near term.

TAS must have readily determinable fair market values and by their very nature require daily mark-to-market where unrealized and realized gains and losses are recognized and booked against "Trading Gain/(Loss)" account.

"c. Available for Sale Securities (ASS) — These are debt securities purchased and held indefinitely, i.e., neither held to maturity nor for trading purposes, where the financial institution anticipates that the securities will be available to be sold in response to liquidity needs and/or to reduction in legal reserves, liquidity reserves, liquidity floor, security deposits and/or allowable alternative investments.

The daily valuations for these securities are, like TAS, at fair market values to account for both upward and downward market movements. However, unrealized gains or losses shall be excluded from reported earnings and reported as a separate component of stockholders' equity until realized.

"d. Underwriting Accounts (UA) — These are available for sale underwritten debt securities and equity securities purchased and held principally with the intention of selling them within a defined short-term period.

The daily valuations for these securities are, like ASS, at fair market values with unrealized gains or losses excluded from reported earnings and reported as a separate component of stockholders' equity until realized. UA account is applicable only to expanded commercial banks and investment houses.

"For TAS, ASS and UA, a financial institution may opt to book the mark-to-market valuation every end of the month: Provided, That an adequate mechanism is in place to determine the daily fair market values of securities.