

**[BSP CIRCULAR NO. 601, S. OF 2008, February
13, 2008]**

**AMENDMENTS TO FOREIGN CURRENCY COVER REQUIREMENTS
UNDER CIRCULAR NO. 1389, AS AMENDED, AND OTHER RELATED
REGULATIONS UNDER THE MANUAL OF REGULATIONS FOR
BANKS AND REVISED REPORT ON FOREIGN CURRENCY COVER**

The Monetary Board in its Resolution Nos. 82 and 120 dated 24 and 30 January 2008, respectively, approved the following amendments to foreign currency cover requirements under Circular No. 1389, as amended, and other related regulations under the Manual of Regulations for Banks (MORB) and the revised report on foreign currency cover.

SECTION 1. Statement of Policy. It is the policy of the BSP to promote fairness, accuracy and comparability in financial reporting. It is in this view that the existing regulations and reportorial requirements are aligned to the greatest extent possible with the provisions of Philippine Financial Reporting Standards (PFRS)/Philippine Accounting Standards (PAS).

SECTION 2. Foreign Currency Cover Requirements. The following amends Subsection X501.4 of the MORB and Section 73 of Circular No. 1389 dated 13 April 1993, as amended.

"Depository banks under the foreign currency deposit and expanded foreign currency deposit systems shall maintain at all times a 100% cover for their foreign currency liabilities. For purposes of complying with this requirement, the principal offices in the Philippines of the authorized banks and all their branches located therein shall be considered as a single unit. The foreign currency cover shall consist of the net carrying amount of the following:

a. For banks authorized to operate an FCDU -

- (1) Foreign currency cash on hand;
- (2) Foreign currency checks and other cash items;
- (3) Due from BSP - Foreign Currency;
- (4) Due from other banks (other FCDUs/EFCDUs, OBUs, and non-resident banks);
- (5) Derivatives with Positive Fair Value Held for Trading and/or Hedging (Derivatives with Negative Fair Value Held for Trading and/or Hedging shall require corresponding asset/liquid asset cover);

(6) Investments in readily marketable foreign currency-denominated debt instruments, booked under the following control accounts: (i) Held for Trading (HFT); (ii) Designated at Fair Value through Profit or Loss (DFVPL); (iii) Available for Sale (AFS); and (iv) Held to Maturity (HTM). Foreign currency-denominated debt securities sold/lent in repurchase agreement/securities lending and borrowing transactions shall be considered as eligible asset cover for the 100% asset cover requirement. The same treatment shall likewise apply to foreign currency denominated debt securities used as additional collateral in repurchase agreements or as collateral by borrowing bank in securities lending and borrowing transactions;

(7) Foreign currency loans and receivables maturing within one (1) year authorized by the BSP, booked under the following:

(a) Loans to BSP; (b) Interbank loans receivable; (c) Loans and receivables others.

Loans and receivables authorized by the BSP shall refer to those granted pursuant to Circular No. 1389 dated 13 April 1993, as amended, and shall include the following: (a) those with specific approval by the BSP under Section 23 of Circular No. 1389, as amended (Loans Requiring Prior BSP Approval);

(b) those short term loans to resident private and public sector borrowers which under existing regulations require no prior BSP approval but allowed to be serviced using foreign exchange purchased from the banking system (i.e., loans to commodity and service exporters, indirect exporters, producers/ manufacturers, including oil companies and public utility concerns) under Section 24.4 of Circular No. 1389, as amended, (Loans Not Requiring Prior BSP Approval); and (c) those loans to resident private sector borrowers to be serviced using foreign exchange purchased from outside of the banking system under Section 24.1.a of Circular No. 1389, as amended: Provided, That all applicable banking rules and regulations are complied with including single borrower's limit as provided in Section X303;

(8) Loans and receivables arising from repurchase agreements, certificates of assignment/participation with recourse, and securities lending and borrowing transactions, maturing within one (1) year;

(9) Foreign currency accrued interest income from financial assets;

(10) Accounts receivable arising from sale of financial assets under the trade date accounting pending actual settlement/delivery of the underlying securities; (Accounts payable arising from the purchase of financial assets under the trade date accounting pending actual settlement/receipt of the underlying securities shall require corresponding asset/liquid asset cover)

(11) Loans to RBU (net of transactions outstanding for more than one (1)

year): Provided, That the conditions under §X501.3(c) are complied with; and

(12) Such other assets as may be determined by the Monetary Board as eligible asset cover.

b. For banks authorized to operate an EFCDU - The foregoing accounts, regardless of maturity, and in the case of investment in foreign currency denominated debt instruments (including debt instruments booked under Unquoted Debt Securities Classified as Loans and investments in structured products), regardless of maturity and marketability, shall all be considered as eligible asset cover Loans to resident private and public sector borrowers which under Section 24.4 of Circular No. 1389, as amended, require no prior BSP approval and allowed to be serviced using foreign exchange purchased from the banking system (i.e., loans to commodity and service exporters, indirect exporters, producers/manufacturers, including oil companies and public utility concerns) shall however have short term maturity.

In addition, the following shall also be considered as eligible asset cover:

(1) Loans and Receivables granted by EFCDU pursuant to Section 24 of Circular No. 1389 dated 13 April 1993, as amended, i.e., those loans of non-residents from EFCDUs, to be serviced using foreign exchange purchased from outside the banking system under Section 24.1.b of Circular No. 1389, as amended: Provided, That all applicable banking rules and regulations are complied with including single borrower's limit as provided in Section X303;

(2) Outstanding Export Bills Purchased in the EFCDU books, booked under the following control accounts:

- (a) Interbank loans receivable - if without recourse
- (b) Loans and receivables - others - if with recourse

For this purpose, net carrying amount shall refer to the gross amount of financial asset, plus or minus, as the case may be, the following: (i) unamortized premium/(discount) determined using the effective interest method; (ii) any accumulated market gains/(losses) in the case of AFS financial assets; and (iii) any allowance for credit losses determined based on existing regulations.

c. Further, at least 30% of the cover requirement for foreign currency liabilities in the FCDU/EFCDU shall be in the form of liquid assets as follows:

- (1) Foreign currency cash on hand;
- (2) Foreign currency checks and other cash items;
- (3) Due from BSP-Foreign Currency with remaining maturity of one (1) year or less regardless of funding: Provided, That such deposit/placement is not encumbered or is not being utilized for any other purposes;
- (4) Due from other banks (other FCDUs/EFCDUs, OBUs and non-resident

banks);

(5) Investments in readily marketable foreign currency denominated debt instruments, booked under the following control accounts: (i) HFT; (ii) DFPVL; (iii) AFS; and (iv) HTM; except for the following; (a) those which are sold/lent in repurchase agreement/securities lending and borrowing transactions and those used as additional collateral in repurchase agreements or as collateral by borrowing bank in securities lending and borrowing transactions; and (b) those investments in structured products;

(6) Loans and receivables authorized by the BSP booked under the following:

(a) Loans to BSP maturing within one (1) year;

(b) Interbank loans receivable maturing within one (1) year;

(c) Loans and receivables - others that is any of the following;

(i) Outstanding export bills purchased in the EFCDU books;

(ii) Short-term EFCDU loans to exporters in the form of export packing credits, whether rediscounted or not under BSP's Export Dollar Facility, up to the extent guaranteed by Trade and Investment Development Corporation of the Philippines (TIDCORP) or Small Business Guarantee and Finance Corporation (SBGFC): Provided, That these credits are not overdue;

(7) Loans and receivables arising from repurchase agreements, certificates of assignment/ participation with recourse and securities lending and borrowing transactions, maturing within one (1) year; and

(8) Accounts receivable arising from sale, of financial assets under the trade date accounting pending actual settlement/delivery of the underlying securities pertaining to readily marketable foreign currency denominated debt instruments.

The 100% asset cover and 30% to be held in the form of liquid assets enumerated above, shall be unencumbered, except as otherwise provided in second paragraph of Item 6 of Subsection 2.a.

The amended report on compliance with FCDU/EFCDU cover requirements which shall form part of the Financial Reporting Package issued under Circular No. 512 dated 3 February 2006, as amended, is attached as Annex "A"*.

d. The Due from Other Banks - Non-Resident (DFOB-Non-Resident) account representing cover for foreign currency liabilities of FCDU/EFCDU shall be kept separate and distinct from the DFOB - Non Resident account for the regular banking unit.

SECTION 3. Securities Lending. The following is added as Item 'k' to Section X531 of the MORB on eligibility of foreign currency denominated securities lent in securities lending and borrowing transactions: