

[BSP CIRCULAR NO. 591, S. OF 2007, December 27, 2007]

GUIDELINES FOR FX FORWARD AND SWAP TRANSACTIONS INVOLVING THE PHILIPPINE PESO

SECTION 1. Statement of Policy - It is the policy of the Bangko Sentral ng Pilipinas (BSP) to support the deepening of the Philippine financial markets, in line with this policy, customers may, thru foreign exchange (FX) forwards, hedge their market risks arising from FX obligations and/or exposures provided that forward sale of FX (deliverable and non-deliverable) may only be used when the underlying transaction is eligible for servicing by the banking system under Circular No. 1389 dated 13 April 1993, as amended, Customers may, likewise, cover their funding requirements thru FX swaps.

Banks may only engage in FX forwards and swap transactions with customers if the latter is hedging market risk or covering funding requirements. There shall be no double multiple hedging that any given point in time, the total notional amount of the FX, derivatives transaction/s shall not exceed the amount of the underlying FX obligation/ exposure.

The customer shall no longer be allowed to buy FX from the banking system for FX obligations/exposures that are fully covered by deliverable FX forwards and FX swaps.

The following guidelines, as well as minimum documentary requirements, shall cover FX forward and swap transactions involving the Philippine peso between authorized dealer banks and their customers.

SECTION 2. Definition of Terms -

"Customers" shall refer to; (a) resident banks (other than commercial and universal banks) and non-bank BSP-supervised entities (NBBSEs) not authorized to engage in FX forwards and swaps as dealers; (b) resident non-bank entities; and (c) non-residents, both banks and non-banks.

"Foreign exchange obligation" shall refer to an actual commitment to repatriate or pay to a non-resident or any authorized agent bank (AAB) a specific amount of foreign currency on a pre-agreed date.

"Foreign exchange exposure" shall refer to an FX risk arising from an existing commitment which will lead to an actual payment of FX to, or receipt of FX assets from, nonresidents or any Authorized Agent Bank (AAB) based on verifiable documents on deal date. FX risks arising from BSP-registered foreign investments without specific repatriation dates are considered FX exposures.

"Resident" shall refer to -

- a. An individual citizen of the Philippines residing therein; or
- b. An individual who is not a citizen of the Philippines but is permanently residing therein; or
- c. A corporation or other juridical person organized under the laws of the Philippines; or
- d. A branch, subsidiary, affiliate, extension office of any other unit of corporations or juridical persons which are organized under the laws of any country and operating in the Philippines, except Offshore Banking Units.

"Non-resident" shall refer to an individual, a corporation or other juridical person not included in the definition of resident.

"Foreign exchange swap" shall refer to a transaction involving the actual exchange of two currencies (principal amount only) on a specific date at a rate agreed on deal date (the first leg), and a reverse exchange of the same two currencies at a date further in the future (the second leg) at a rate (different from the rate applied to the first leg) agreed on deal date.

"Foreign exchange forward" shall refer to a contract to purchase/sell a specified amount of currency against another at a specified exchange rate for delivery at a specified future date three or more business days after deal date.

"Non-Deliverable Forward (NDF)" shall refer to an FX forward contract where only the net difference between the contracted forward rate and the market rate at maturity (i.e., the fixing rate) shall be settled on the forward date.

SECTION 3. Documentation -

Minimum documentary requirements for FX forward and swap transactions listed in the attached Annex "A"* shall be presented on or before deal date to the banks unless otherwise indicated.

FX selling banks shall stamp the supporting documents upon presentation by customers as follows:

- a. For hedging transactions: "FX HEDGED/DELIVERABLE" or "FX HEDGED/NON-DELIVERABLE";
- b. For funding transactions: "FX SOLD", indicating the contract date and amount involved, and signed by the bank's authorized officer. Copies of all duly marked supporting documents shall be retained by the banks and made available to the BSP for verification. The retained copies shall also be marked "DOCUMENTS PRESENTED AS REQUIRED" and signed by the bank's authorized officer.

SECTION 4. Tenor/Maturity and Settlement

- a. Forward Sale of FX (whether deliverable or non-deliverable)