

[BSP CIRCULAR NO. 261, October 12, 2000]

CRPP FACILITY OR NON-DELIVERABLE FORWARD (NDF) FACILITY

The Monetary Board, in its Resolution No. 1716 dated October 4, 2000 approved the expansion of the coverage of the Currency Rate Risk Protection Program (the "CRPP Facility") otherwise known as the Non-Deliverable Forward (NDF) Facility under Circular No. 149 dated December 22, 1997, as amended.

SECTION 1. The CRPP Facility . — The CRPP Facility is a non-deliverable forward contract (NDF) between the BSP and the universal/commercial bank with the foreign exchange obligations of bank clients as the underlying transaction.

Under the CRPP Facility, a US Dollar-Philippine Peso forward foreign exchange contract is entered into whereby the parties agree that instead of the actual delivery of the contracted amount, only the net difference between the contracted forward rate and the prevailing spot rate shall be settled in pesos at maturity of the contract. Should the eligible obligation be denominated in a foreign currency other than the US dollar, the CRPP contract shall be denominated in their US dollar equivalent. For the purpose of availing of the CRPP Facility, the Bank and its customer shall certify that the availment is being made to hedge a foreign exchange requirement under the guidelines set forth in this Circular.

Universal and commercial banks, including those without derivatives license, may avail of the CRPP Facility for the specific purpose of hedging the foreign exchange obligations of their clients.

SECTION 2. Coverage . — Eligible obligations under the CRPP Facility shall refer to Fully Unhedged and **without natural hedge** foreign exchange (FX) obligations, in amounts not less than US\$50,000.00, which are current and booked as of September 30, 2000 and outstanding as of the date of the application. Past due foreign exchange obligations are not eligible. The following are the eligible FX obligations:

- a) Short term FCDU loans (with original maturities of up to one (1) year, that are duly registered with BSP-International Operations Department (IOD);
- b) US dollar Trust Receipts;
- c) Foreign Currency Import Bills/Customers' Liabilities Under Acceptances (CLA); and
- d) DA/OA (for oil companies only).

Foreign exchange obligations of exporters falling under (a) to (c) above shall be eligible provided that the exporter shows proof that upon application with the universal/commercial bank, he sells foreign exchange for pesos to the bank in an amount at least equal to the amount applied for under the facility. The sale of foreign exchange should be supported by a bank credit advice, or a document evidencing the sale of foreign exchange duly certified by a bank officer with the rank of Senior Vice President or its equivalent and by the bank's Compliance Officer.

For this purpose, ***unhedged obligations*** are those without outstanding hedge either thru forward contracts, options, or matched foreign currency deposits securing said obligation. Obligations with natural hedge, such as those of exporters (except those which qualify under the preceding paragraph) and companies with Currency Exchange Rate Adjustments (CERA), i.e., public utilities, are not eligible. Partially hedged FX obligations shall be evaluated on a case to case basis.

Foreign exchange obligations incurred after September 30, 2000, including renewed obligations, which are eligible under the provisions of this Circular, may be considered on a case-to-case basis. In cases wherein the maturity of the foreign exchange obligation is extended, a new application is required and the original CRPP availment shall be settled. Only one extension of the CRPP contract shall be considered provided the original term plus the extended term shall not exceed one year.

Renewal of obligations eligible for the CRPP Facility shall continue to be so qualified provided that the applicant commercial bank shall certify that the obligation applied for is not a new one but is the same eligible obligation previously granted access to the CRPP Facility. The amount of the renewed obligation may be less but in no case more than the original amount.

SECTION 3. *Terms and Conditions.* — The terms and conditions of the CRPP Facility are set forth in the implementing guidelines under Annex I hereto.

SECTION 4. *Reporting Requirements .* —

1. A list of eligible foreign exchange obligations outstanding as of September 30, 2000, shall be submitted to the BSP-DCB-I/DCB-II in the prescribed format (Annexes 2A – 2C); and
2. Daily reports on executed/ preterminated CRPP transactions shall be submitted by the bank to the BSP-DCB-I/DCB-II in the prescribed format (Annexes 3 and 3A) not later than 4:30 P.M. of the following banking day.

These reports shall be signed jointly under oath by the bank's authorized signatory who shall at least be a Senior Vice President or his equivalent and by the Compliance Officer. Said reports shall be considered Category A -1 for purposes of imposing monetary penalties on delayed/erroneous reports as prescribed in the Manual of Regulations for Banks.

SECTION 5. Sanctions . — Foreign exchange obligations subject of the CRPP contract when found to be ineligible under this Circular shall automatically render the CRPP contract cancelled, and the concerned Bank shall be liable to pay monetary penalty of P30 ,000.00 per day covering the period from the date the application was filed up to the date the CRPP contract was cancelled. In addition, the net differential shall be settled in pesos subject to the rules on pretermination under Annex I using the prevailing spot rate on the date of cancellation of the CRPP contract.

SECTION 6. Repealing Clause . — This Circular supersedes Circular Nos. 149, 150 and 151 and all related Circulars inconsistent herewith.

SECTION 7. Effectivity . — This Circular shall take effect immediately.

FOR THE MONETARY BOARD:

Adopted: 12 Oct. 2000

(SGD.) RAFAEL B. BUENAVENTURA
Governor

ANNEX 1

**IMPLEMENTING GUIDELINES FOR BSP CIRCULAR NO. 261 THE
CURRENCY RATE RISK PROTECTION PROGRAM (THE "CRPP
FACILITY")**

MECHANICS:

1. Qualified applicants shall file an application in the attached format (Annex 4) with the universal/commercial bank certifying that the underlying foreign exchange obligation qualifies under the Circular, and that no existing hedge has been put up to cover the said obligation.
2. The Bank, after reviewing the application and finding the same in order, shall request the BSP-Treasury Department to quote the CRPP rate between 1:00 P.M. to 2:30 P.M. Treasury will use the AM Philippine Dealing System (PDS) weighted average of the spot transactions or the last transacted deal during the morning session, whichever is higher, on deal date as the spot rate, or if not available, the previous day's P.M. PDS weighted average rate or the closing rate, whichever is higher.
3. Details of the deal done between the Bank and the BSP-Treasury shall be transmitted to BSP-DCB-I/DCB-II not later than 10:00 A.M. of the following day after deal date. It shall include a copy of the Reuters/Telerate conversation document, or if the deal is done thru the telephone, a fax copy of the details of the transaction, i.e., name of client, reference number, amount of eligible foreign exchange obligation, date contracted and maturity date.