

# QAU Memo No. 11, s2019



## ***In this issue:***

The Bangko Sentral ng Pilipinas (BSP) has issued various Circulars and some of these are Amendments on Basic Security Deposit Requirement, reserve requirement, capitalization requirement of Non-stock Savings and Loans Associations (NSSLAs) and capital contributions of members, and guidelines on the adoption of PFRS 9 for NSSLAs.

## R.S. BERNALDO & ASSOCIATES

TAKING YOU FURTHER

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## CIRCULAR NO. 1029 Amendments to the Reporting Templates on Bank Loans and Deposit Interest Rates

This Circular amends the reporting template on bank interest rates on loans and deposits to read:

Subsection 1192.13 states that: *“Data on the volume of transactions and weighted average interest rates of certificates of time deposits and secured/unsecured loans granted, classified by maturity, and outstanding savings deposits classified by interest rates, shall be prepared daily (except data on savings deposits which shall be prepared weekly) and submitted weekly by all head offices of UBs/KBs to the Department of Economic Research of the Bangko Sentral not later than 4:00pm on Thursday after end of reference week”*

Simplified reporting framework, including the revised frequency of submission of reports on bank interest rates are as follows:

Category	Form No.	Report Title	Frequency	Submission Deadline	Submission Procedure
B	Form 1 Page 1 of 3	Volume and Interest Rates on Peso-Denominated Loans and Receivables-Others	Weekly	Not later than Friday after end of reference week	SDC
B	Form 1 Page 2 of 3	Volume and Interest Rates on Peso-Denominated Deposits	Weekly	Not later than Friday after end of reference week	SDC
B	Form 1 Page 3 of 3	Volume and Interest Rates on Dollar-Denominated Deposits	Weekly	Not later than Friday after end of reference week	SDC
B	Form 2 Page 1 of 2	Weighted Average Interest Rates on Peso-Denominated Loans	Monthly	Not later than 15 banking days after end of reference month	SDC
	Form 2 Page 2 of 2	Weighted Average Interest Rates on Deposits			

Kindly follow the link below for the revised reporting templates covering amendments to the reporting templates on bank loans and deposit interest rates:

[Circular No. 1029 Amendments to the Reporting Template on Bank Loans and Deposit Interest Rates](#)

## CIRCULAR NO. 1037 Extension of Transitory Period of the Amended Reporting Templates on Bank Loans and Deposit Interest Rates

Circular No. 1037 set out the extension of transitory period of the Reporting Templates on Bank Loans and Deposit Interest Rates as amended by Circular No. 1029. The timelines are set out below:

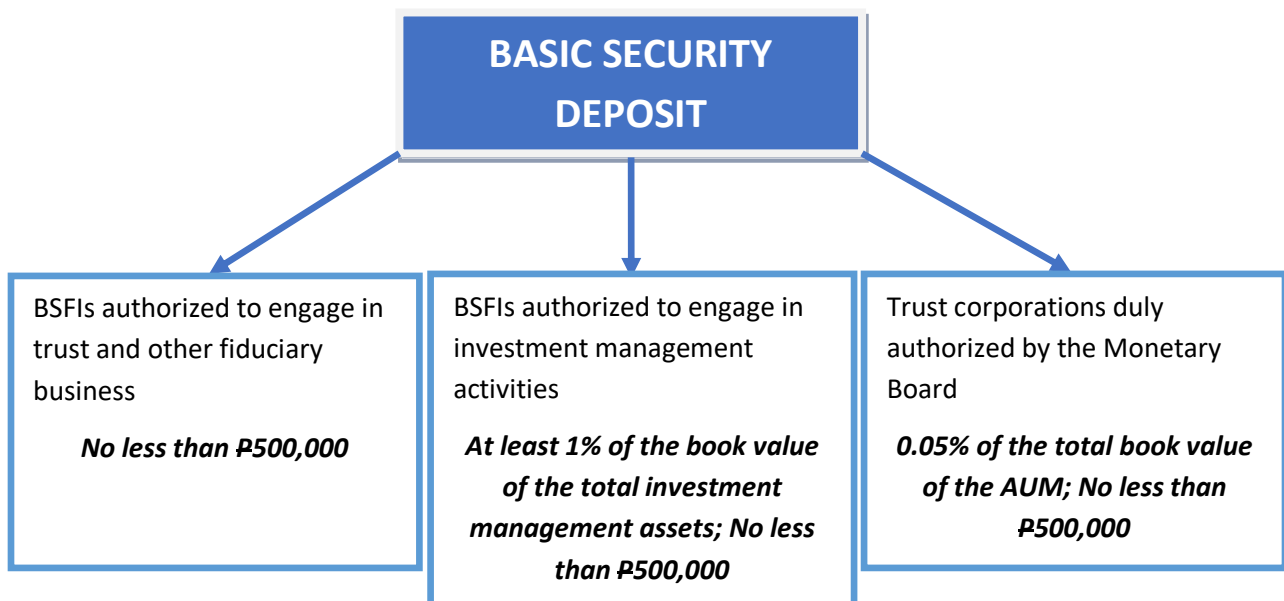
	Circular No. 1029	Circular No. 1037
Transitory Period	01-28 February 2019	01 February 2019 to 31 December 2019
Actual Implementation	01 March 2019	01 January 2020

**Erroneous/delayed/erroneous and delayed/unsubmitted reports** shall be subject to penalties in accordance with rules on Category B reports.

## CIRCULAR NO. 1032 Amendments to the Guidelines on the Basic Security Deposit Requirement

### Basic Security Deposit

- The basic security deposit shall be in the form of government securities acceptable to the Bangko Sentral.
- Scripless securities under the Bureau of the Treasury Registry (BTr) may be used as basic security deposit for trust and other fiduciary duties.
- The security for the faithful performance of Personal Equity and Retirement Account (PERA) Administrator shall be separately calculated.



This Circular amends Subsections X405.4/4405Q.4 and X415.4/4415Q.4 of the MORB/MORNBFI regarding compliance with the basic security deposit requirement of a trustee or fiduciary.

COMPLIANCE PERIOD	
<b><i>Subsections 4405Q.4 and 4415Q.4</i></b>	The trustee or fiduciary/investment manager shall have thirty (30) calendar days after the end of every calendar quarter within which to deposit with the BSP the basic security deposits.
<b><i>Amended Subsections 4405Q.4 and 4415Q.4</i></b>	<ul style="list-style-type: none"> <li>▪ The trustee or fiduciary/investment manager shall comply with the basic security deposit requirement on a quarterly basis.</li> <li>▪ The trustee or fiduciary/investment manager shall ensure compliance with the basic security deposit requirement after every deposit, withdrawal, replacement or redemption of government security. Any deficiency arising from a withdrawal, replacement or redemption transaction must be corrected through the immediate posting of additional securities. In case a deficiency is calculated at the end of the calendar quarter, the trustee or fiduciary/investment manager shall have a grace period of thirty (30) calendar days reckoned from the end of the reference calendar quarter.</li> </ul>

Sanctions imposed for any deficiency in the basic security deposit for the faithful performance of trust, investment management and other fiduciary duties remain unchanged in this Circular which are as follows:

a. On the QB:

- i. Non-monetary penalty beginning with the third (3<sup>rd</sup>) offense (all QBs) - prohibition against the acceptance of new investment management/fiduciary accounts and from renewing expiring investment management/fiduciary contracts up to the time the violation is corrected.

ii. Monetary penalty/ies:

Penalty per Calendar Day	Trusts with Full Trust Authority and with Trust		OFFENSE		
		Trust Asset Size	First	Second	Third and Subsequent Offense (s)
		Up to P500 million	P600.00	P700.00	P800.00
		Above P500 million but not exceeding P1 billion	P1,000.00	P1,250.00	P1,500.00
		Above P1 billion but not exceeding P10 billion	P2,000.00	P3,000.00	P4,000.00
		Above P10 billion but not exceeding P50 billion	P5,000.00	P6,000.00	P7,000.00
		Above P50 billion	P8,000.00	P9,000.00	P10,000.00

Notwithstanding the execution of a basic security deposit, withdrawal, or replacement transaction, the Bangko Sentral is not precluded from imposing sanctions against the trustee or fiduciary/investment manager for non-compliance with the regulations on the basic security deposit, if warranted.

**This Circular amends Subsection 4960Q.5 of the MORB/MORNBFI regarding compliance with the basic security deposit requirement of an administrator.**

COMPLIANCE PERIOD	
<b>Subsection 4960Q.5</b>	The Administrator shall have one (1) week from the end of every calendar quarter within which to replenish any deficiency.
<b>Amended Subsection 4960Q.5</b>	<ul style="list-style-type: none"> <li>▪ The Administrator shall comply with the basic security deposit requirement on a quarterly basis.</li> <li>▪ The Administrator shall ensure compliance with the basic security deposit requirement after every deposit, withdrawal, replacement or redemption of government security. Any deficiency arising from a withdrawal, replacement or redemption transaction must be corrected through the immediate posting of additional securities.</li> <li>▪ In case a deficiency is calculated at the end of the calendar quarter, the Administrator shall have a grace period of one (1) week reckoned from the end of the reference calendar quarter.</li> </ul>

## SANCTIONS

**Subsection 4960Q.5 of the MORNBF**, “any non-compliance with the security requirements shall be subject to Sections 36 and 37 of [R.A. No. 7653 \(New Central Bank Act\)](#) without prejudice to the imposition of other sanctions as the Monetary Board may consider warranted under circumstances that may include the suspension or revocation of the entity’s authority to engage in PERA administration, and such other sanctions as may be provided by law.” Is hereby amended as follows:

- a) An Administrator, which incurs a deficiency with the basic security deposit within the quarter, or reports a deficiency with the basic security deposit as of the end of the quarter and fails to deposit securities to comply with the said requirement within the one (1)-week grace period, shall be considered deficient with the basic security deposit requirement from the date the deficiency is incurred up to the date of efficiency is corrected or the succeeding quarter-end, **whichever comes earlier**.
- b) Notwithstanding the execution of a basic security deposit, withdrawal, or replacement transaction, the Bangko Sentral is not precluded from imposing sanctions against the Administrator for non-compliance with the regulations on the basic security deposit, if warranted.

Subsection 4112T.4 of MORNBF is hereby amended as follows:

- The trust corporation shall comply with the basic security deposit on a quarterly basis; and
- The trust corporation shall ensure compliance with the basic security deposit requirement after every deposit, withdrawal, replacement or redemption of government security. Any deficiency arising from a withdrawal, replacement or redemption transaction must be corrected through the immediate posting of additional securities. In case a deficiency is calculated at the end of the calendar quarter, the trust corporation shall have a grace period of thirty (30) calendar days reckoned from the end of the reference calendar quarter within which to deposit with the Bangko Sentral the additional securities required. In case of change in the trust rating, the reckoning period of thirty (30) days shall be the quarter-end from receipt of the Report of Examination.

Please see [Circular No. 1032 Amendments to the Guidelines on the Basic Security Deposit Requirement](#) for other procedural requirements and reportorial templates covering reports on basic security deposit transactions and quarterly compliance.

## CIRCULAR NO. 1033 Amendments to Regulations on Electronic Banking Services and Other Electronic Operations

The definition of the following terms shall apply for the purpose of this Circular:

- a. **Electronic Payment and Financial Services (EPFS)** – products or services offered by BSP-supervised Financial Institutions (BSFIs) to enable customers to receive payments or initiate financial transactions and other related services through an electronic device such as a computer, mobile phone, Automated Telling Machine (ATM), and other devices.
- b. **Transaction account** – an account held or maintained with a BSFI, which could be a bank or a non-bank.

This Circular was issued to replace the part seven (7) of MORB and MORNBFi with regards to Electronic Banking Services and Other Electronic Operations.

For your reference of the old regulations, please follow the links below:

- [Manual of Regulations for Banks](#)
- [Manual of Regulations for Non-bank Financial Institutions](#)

Policy statement on Electronic Payment and Financial Services is stated as follows, *“The Bangko Sentral recognizes that electronic payment and financial services contribute to economic growth by facilitating the transfer of funds which are necessary for all productive activities. Thus, the Bangko Sentral promotes a safe, efficient, reliable, affordable, and inclusive national payment system to support the delivery of said services.” (Section X701/4701Q of MORB/MORBNFI)*

For the purpose of authorizing BSFIs to render EPFS, such services are classified in **SS X701.2/4701Q.2 of MORB/MORBNFI** as follows:

- a. **Basic EPFS** – limited to services allowing only receipt of funds or access to information;
- b. **Advanced EPFS** – in addition to basic services, this enable customers to send funds and initiate other financial transactions

Under **SS X701.3/4701Q.3 of MORB/MORBNFI**, BSFIs that intend to offer EPFS shall obtain the appropriate authority/license, as follows:

Classification	Category of License/Authority
Advanced EPFS	Type A <sup>1</sup> /B <sup>2</sup>
Basic EPFS	Type C


**Compliance with Relevant Regulations.** A BSFI that has been granted an advanced EPFS authority shall at all times comply with the following relevant regulations stated under **SS X701.4/4701Q.4 of MORB/MORBNFI**:

- Oversee its EPFS through an appropriate top-level committee to ensure that concerns on these services are timely and properly addressed;
- Make its EPFS with funds transfer functionality interoperable by participating in an Automated Clearing House;
- Integrate EPFS in its overall strategic plan to ensure that these services do not put undue strain on its systems, financial performance, and risk management capability;
- Promote EPFS by implementing appropriate marketing strategies;
- Ensure that it satisfies the legal and regulatory requirements for Anti-Money Laundering/Combating Financing of Terrorism; and
- Comply with the relevant regulations on payments, IT Risk Management Standards, Guidelines on Electronic Products and Services, Business Continuity Management regulations, and Consumer Protection Standards of Conduct for BSFIs.


**Enhancements and other Changes in EPFS.** BSFIs shall seek prior Bangko Sentral approval for the following enhancements and changes in their licensed EPFS (*SS X701.5/4701Q.5 of MORB/MORNBFI*)

- Replacement of platform;
- Upgrade in EPFS from purely informational to transactional services; and
- Change in system architecture, altering the risk score or assessment on the system or the other systems related to it.

**Reportorial Requirements.** BSFIs shall provide the BSP with the required data and updates on their EPFS as prescribed under *SS X701.6/4701Q.6 of MORB/MORNBFI*

 **Required Reports.** The following reports shall be submitted to the appropriate supervising department of the Bangko Sentral

- i. EPFS Transactions and indicators; and
- ii. Changes and enhancements in EPFS.

 **Sanctions.** Failure to comply with the reportorial requirements shall subject the concerned BSFI to applicable sanctions for “Erroneous/Delayed/Erroneous and Delayed/Unsubmitted Reports”.

**Enforcement Action.** Failure to comply with the provisions of this Section shall cause the concerned BSFI to be subject to enforcement action in accordance with Section X009/4009Q and/or Subsection X1101.3/41101Q.3 or the MORB/MORNBFI. (*Subsection X701.12/4701Q.12 of MORB/MORNBFI*)

Additional section has been added in connection with the participation of BSFIs in Automated Clearing Houses (ACHs). BSFIs that have been licensed to offer funds transfer services shall make these services interoperable by participating in an ACH. Prior to its participation, a BSFI shall observe the following guidelines: (*Section 2*)

- a) Secure a Confirmation of Eligibility (COE) by submitting to the Bangko Sentral a letter of intent to participate in an identified ACH accompanied by a certification signed by the President (or any officer of equivalent rank and function) and Chief Compliance Officer (CCO).
- b) Submit the following minimum documentary requirements to the Payment System Management Body (PSMB) duly recognized by the Bangko Sentral:
  - i. Valid COE, a COE shall be valid for a period of six (6) months from date of issuance;
  - ii. Corporate secretary’s certificate on the approval of the board of directors of the participation of the BSFI in the ACH; and
  - iii. Copy of the agreement with the bank sponsoring the BSFI into settlement, if applicable, and
- c) Comply with any other requirement set by the PSMB or provided in the ACH.

**Section 3.** The rules applicable to transactions performed under the National Retail Payment System (NRPS) are hereby revised and all references to the previous title of Part Seven of the MORB/MORNBFI Q-regulations are hereby changed to Electronic Payment and Financial Services.

Section/Subsection	Existing Phrase	New Phrase
Subsection X1205.5/412Q.5/47055.5/4705P.5/4805N.5	<b><i>Specific rules applicable to transactions performed under the NRPS Framework.</i></b> a. Minimum requirements to offer Electronic Financial and Payment Services (EFPS). EFPS, which shall <b>require Bangko Sentral approval in accordance with Section X701/4701.Q/4641s/4641P/4641N of the MORB/MORNBFI, refer to BSFI products and/or services through a point of interaction.</b>	<b><i>Specific rules applicable to transactions performed under the NRPS Framework.</i></b> a. Minimum requirements to offer Electronic Payment and Financial Services (EFPS). EFPS, which shall <b>require notification to or approval by the Bangko Sentral approval in accordance with Section X701/4701.Q/4641s/4641P/4641N of the MORB/MORNBFI.</b>
Subsection X266.2.a of the MORB	The bank shall have an electronic banking solution to implement its cash agent operations and comply with the requirements of Part Seven, on the Guidelines on <b>Electronic Banking Services and Operations.</b>	The bank shall have an electronic banking solution to implement its cash agent operations and comply with the requirements of Part Seven, on the Guidelines on <b>Electronic Payment and Financial Services.</b>
Subsection X780.3 of the MORB	<b><i>Prior Bangko Sentral approval.</i></b> Banks planning to be an EMI-Bank shall apply in accordance with Sec. X701 relating to the guidelines on <b>electronic banking services</b> and with Sec X162 on outsourcing of banking functions, when applicable.	<b><i>Prior Bangko Sentral approval.</i></b> Banks planning to be an EMI-Bank shall apply in accordance with Sec. X701 relating to the guidelines on <b>electronic payment and financial services</b> and with Sec X162 on outsourcing of banking functions, when applicable.
Subsection X780.4/4780Q.4/46425.4/4642N.4	<b><i>Common provisions.</i></b> The following provisions are applicable to all EMIs:	<b><i>Common provisions.</i></b> In addition to the provisions under Subsections X701.4/4701Q.4 of the MORB/MORNBFI, EMIs shall comply with the following requirements:
Subsection X183.4 of the MORB Subsection 4183Q.4/4198S.4/4195P.4/4183n.4/41177t.4 of the MORNBFI	<b><i>Compliance with relevant regulations.</i></b>  In the event that BSFIs opt to use social media for processing financial transactions, the	<b><i>Compliance with relevant regulations.</i></b>  In the event that BSFIs opt to use social media for processing financial transactions, the

	applicable Bangko Sentral rules and regulations on <b>electronic banking/electronic services</b> and technology risk management should likewise be observed to ensure security, reliability and authenticity of such transactions.	applicable Bangko Sentral rules and regulations on <b>electronic payment and financial services</b> and technology risk management should likewise be observed to ensure security, reliability and authenticity of such transactions.
Sec. 4641S/4641N	<b>Electronic Services.</b> The guidelines concerning <b>electronic activities</b> , as may be applicable, are found in Sec. 4701Q and its Subsections.	<b>Electronic Services.</b> The guidelines concerning <b>electronic payment and financial services</b> , as may be applicable, are found in Sec. 4701Q and its Subsections.
Sec. 4641P	<b>Sec. 4641P (2016-4196P) Electronic Services.</b> The guidelines concerning <b>electronic activities</b> as may be applicable, as found in Sec 4710Q and its Subsections, shall be adopted by pawnshops.	<b>Sec. 4641P (2016-4196P) Electronic Services.</b> The guidelines concerning <b>electronic payment and financial services</b> as may be applicable, as found in Sec 4710Q and its Subsections, shall be adopted by pawnshops.
Sec. 4904T of the MORNBF	<b>Sec. 4904T Applicable Regulations on Trust Corporations.</b>  Trust operations and investment management activities of trust corporations shall be subject to the applicable regulations in Parts Five (Foreign Exchange Operations), Six (Treasury and Money Market Operations, Seven ( <b>Electronic Operations and Other Services</b> ) and Eight (Anti-Money Laundering Operations) of the MORNBF, unless otherwise provided in this Manual.	<b>Sec. 4904T Applicable Regulations on Trust Corporations.</b>  Trust operations and investment management activities of trust corporations shall be subject to the applicable regulations in Parts Five (Foreign Exchange Operations), Six (Treasury and Money Market Operations, Seven ( <b>Electronic Payment and Financial Services</b> ) and Eight (Anti-Money Laundering Operations) of the MORNBF Q-regulations, unless otherwise provided in this Manual.

**Transitory Provisions.** The BSFIs shall re-register their EPFS by accomplishing the attached registration form with covering certification. The re-registration form shall be electronically submitted with the subject “EPFS Re-registration - <name of BSFI> - <date-YYYYMMDD>” to [epfs-licensing@bsp.gov.ph](mailto:epfs-licensing@bsp.gov.ph) **not later than March 31, 2019** while the covering certification shall be sent to the Financial Technology Sub-sector of the Bangko Sentral. Failure to submit the re-registration form by March 31, 2019 shall result in the revocation of the issued license/s.

Amended appendices of MORB/MORNBF can be referred to the complete [Circular No. 1033 Amendments to Regulations on Electronic Banking Services and Other Electronic Operations](#).

## CIRCULAR NO. 1038 Amendment to the Regulations on the Election and Employment of Foreign Nationals as Directors and Officers

Subsection 4142Q of MORNBFi states that:

An officer shall have the following minimum qualifications:

- a. He shall be at least twenty-one (21) years of age;
- b. He shall be at least a college graduate, or have at least five (5) years creditable experience or training in financial management or related activities, or in a field related to his position and responsibilities; and
- c. He must be fit and proper for the position he is being proposed/appointed to. In determining whether a person is fit and proper for a particular position, the following matters must be considered; integrity/probity, competence, education, diligence and experience/training.

In addition to the minimum qualifications of an officer set forth under Subsection 4142Q of Manual on Regulations for Non-bank Financial Institutions (MORNBFi), **non-Filipino citizens may become members of the board of directors of a BSFI.**

## CIRCULAR NO. 1040 Revised Framework on the Selection of External Auditors

**Section 164/4189Q/4189T/4189S/4180N** on the selection, appointment, reporting requirements and delisting of external auditors is hereby deleted and replaced with the sections discussed in this Circular.

**New Policy Statement.** *“The Bangko Sentral considers the external auditing profession as a partner in promoting the integrity of financial reports and transparency on the selection of external auditors (individual practitioners and audit firms) for Bangko Sentral Supervised Financial Institutions (BSFIs) in line with its cooperative arrangements with the Securities and Exchange Commission (SEC), Insurance Commission (IC), and Philippine Deposit Insurance Corporation (PDIC), under the auspices of the Financial Sector Forum (FSF).”*

### APPOINTMENT OF EXTERNAL AUDITORS OF BSFIs

- ✚ BSFIs shall engage the services of an external auditor included in the List of Selected External Auditors for BSFIs, the inclusion in the List shall be valid for five (5) years or for a shorter period prescribed by the financial sector supervisors.
- ✚ BSFI shall only appoint an external auditor belonging to the same category or from categories *higher than* the category of the BSFI concerned as provided below:

	Old	New
<b>Group A</b>	a. Universal or Commercial Banks; b. Foreign banks and branches or subsidiaries of foreign banks, regardless of unimpaired capital; and c. Banks, trust department of qualified banks and other entities with additional derivatives authority	a. Universal or Commercial Banks; b. Foreign banks and branches or subsidiaries of foreign banks, regardless of unimpaired capital; and c. Banks, trust department of qualified banks and other entities with additional derivatives authority

<b>Group B</b>	a. Thrift banks; b. Quasi-banks; c. Trust department of qualified banks and other trust entities; d. National Coop Banks; and e. Non-bank financial institutions with quasi-banking functions	a. Thrift banks; b. Non-bank financial institutions with quasi-banking license; and c. Trust departments and trust corporations
<b>Group C</b>	a. Rural Banks; b. Non-stock Savings and Loan Associations; c. Local Coop Banks; and d. Pawnshops	a. Rural and Cooperative Banks; b. Non-stock Savings and Loan Associations; c. Pawnshops; d. Remittance and Transfer Companies (RTCs)/Money Changers/Foreign Exchange Dealers (MCs/FXD), including Virtual Currency Exchanges and Electronic Money Issuers; and e. Credit Card Issuers/Acquirers

The external auditor qualified on the above categories shall likewise audit the BSFI's subsidiaries and affiliates engaged in allied activities and other financial institutions subject to Bangko Sentral's consolidated supervision.

- ✚ In the previous ruling, the selection of external auditors and/or auditing firm shall be valid for a period of three (3) years subject to early deletion which will depend on the annual assessment of the its performance. Currently, no specific period was mentioned however, periodic evaluation of the external auditor's performance will be done by the Bangko Sentral through an assessment of the quality of the BSFIs audited financial statements and its compliance with the requirements. The result of assessment shall serve also as a basis for the continuing inclusion of external auditors in the List of Selected External Auditors for BSFIs.
- ✚ The external auditor, including the engagement and quality control partners of the audit firm, of the BSFI shall be rotated in accordance with the relevant provisions of the Code of Ethics for Professional Accountants in the Philippines which will be rotated every seven (7) years or earlier with a two (2)-year cooling-off period.

#### AUDIT ENGAGEMENT AND REPORTORIAL REQUIREMENTS

- The BSFI's Audit Committee/board of directors/board of trustees shall ensure that the scope of external audit work appropriately covers areas relevant to BSFI's operations and risk exposures which include the following:
  - a) Review of the adoption of applicable reporting framework as well as the assessment of the accuracy, adequacy, and reliability of accounting records and financial reports;
  - b) Assessment of the propriety and adequacy of disclosures in the financial statements;
  - c) Assessment of the adequacy and effectiveness of internal controls and risk management systems;

- d) Assessment of the quality of capital in relation to risk exposures; and
  - e) Evaluation of the quality of corporate governance
- The engagement contract of BSFIs with the external auditor shall include, at a minimum, the following provisions:
    - a) That disclosure of information, such as material discoveries or findings, by the external auditor to the Bangko Sentral and/or other financial sector supervisors shall not constitute a breach of confidentiality on the part of the external auditor not shall it be a ground for civil, criminal, or disciplinary proceedings against the external auditor;
    - b) That the external auditor shall be allowed read-only access to the Bangko Sentral's Report of Examination on the BSFI and that the external auditor shall appropriately consider thereof and maintain its confidentiality; and
    - c) That the BSFI concerned and external auditor shall comply with all the requirements provided under this Circular.

#### CIRCULAR NO. 1041 Reduction in Reserve Requirements

Sec. 251 of the New Manual of Regulations for Banks (MORB) on required reserves against deposit and deposit substitute liabilities is hereby amended. Details of the old and amended rates with date of effectivity are as follows:

Demand Deposits			
	UBs/KBs	TBs	RBs/Coop Banks
Sec. 251 of New MORB (December 2017)	20%	8%	5%
Circular No. 1041 (May 2019)	17%	7%	4%

NOW Accounts			
	UBs/KBs	TBs	RBs/Coop Banks
Sec. 251 of New MORB (December 2017)	20%	8%	5%
Circular No. 1041 (May 2019)	17%	7%	4%

Savings Deposits (excluding basic accounts)			
	UBs/KBs	TBs	RBs/Coop Banks
Sec. 251 of New MORB (December 2017)	20%	8%	3%
Circular No. 1041 (May 2019)	17%	7%	3%

Time Deposits, Negotiable CTDs, Long-term Non-negotiable Tax Exempt CTDs			
	UBs/KBs	TBs	RBs/Coop Banks
Sec. 251 of New MORB (December 2017)	20%	8%	3%
Circular No. 1041 (May 2019)	17%	7%	3%

Long-term Negotiable Certificates of Time Deposits			
	UBs/KBs	TBs	RBs/Coop Banks
Sec. 251 of New MORB (December 2017)	4%	4%	4%
Circular No. 1041 (May 2019)	4%	4%	4%

Deposit Substitutes			
	UBs/KBs	TBs	RBs/Coop Banks
Sec. 251 of New MORB (December 2017)	20%	8%	NA
Circular No. 1041 (May 2019)	17%	7%	NA

Peso Deposits Lodged under Due to Foreign Banks			
	UBs/KBs	TBs	RBs/Coop Banks
Sec. 251 of New MORB (December 2017)	20%	NA	NA
Circular No. 1041 (May 2019)	17%	NA	NA

Peso Deposits Lodged under Due to Head Office/Branches/Agencies Abroad (Philippine branch of a foreign bank)			
	UBs/KBs	TBs	RBs/Coop Banks
Sec. 251 of New MORB (December 2017)	20%	NA	NA
Circular No. 1041 (May 2019)	17%	NA	NA

Reserve requirement rates of *deposit substitutes evidenced by repo agreement, interbank call loan, Bonds, mortgage certificate and basic deposit accounts* remain the same as set forth under Sec. 251 of new MORB.

	UBs/KBs	TBs	RBs/Coop Banks
Deposit Substitutes evidenced by Repo Agreement	0%	0%	NA
Interbank Call Loan	0%	0%	0%
Bonds	6%	6%	NA
Mortgage Certificate	NA	6%	NA
Basic Deposit Accounts	0%	0%	0%

**Notes:**

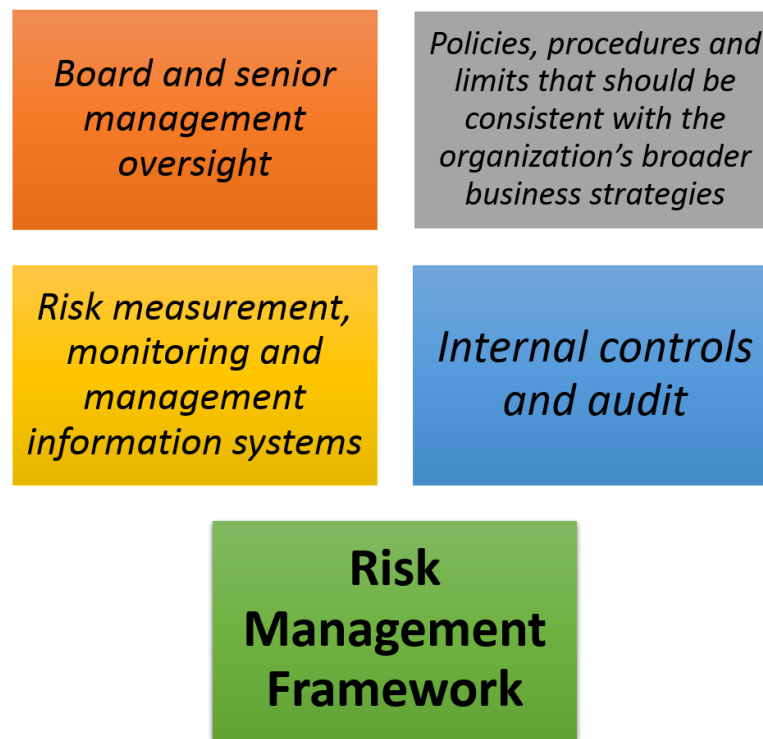
- ✚ For those deposit and deposit substitute liabilities with reserve requirement of **17%**, this will be 16.5% effective June 28, 2019 and 16% effective July 26, 2019.
- ✚ For those deposit and deposit substitute liabilities with reserve requirement of **7%**, this will be 6.5% effective June 28, 2019 and 6% effective July 26, 2019.
- ✚ Non-bank financial institutions with Quasi-banking function (NBQBs) shall maintain required reserves equivalent to **17%** of deposit substitute liabilities that will be 16.5% effective June 28, 2019 and 16% effective July 26, 2019.

## CIRCULAR NO. 1042 Guidelines on Investment Activities of BSP-Supervised Financial Institutions (BSFIs)

**Scope of Application.** These guidelines cover all of a BSFI's investments in the trading and banking books *except for the following*:


- a. investments that grant control over an enterprise and are accounted for using the equity method;
- b. transactions in derivatives involving stand-alone contracts; and
- c. receivables arising from repurchase agreements.

**Risk Management Framework.** A BSFI shall have systems to manage the risks arising from its investment activities to ensure that risks are effectively identified, measured, monitored and controlled consisting of the following fundamental elements:




**Risk of Investment Activities.** The guidelines below set out the supervisory expectations on the management of the major risks that are inherent to investment activities.

- a. Market Risk. The management of exposures to market risk arising from investment activities requires the BSFI to clearly designate positions belonging to either the trading book or the banking book.

 **Trading book** consists of proprietary positions in financial instruments which are taken on with the intention of short-term resale or benefiting in the short-term from actual or expected differences between the buying and selling prices or from other price or interest rate variations; positions which arise from the execution of trade orders from customers and market making; and positions taken in order to hedge other elements of the trading

book.

-  All other instruments held by a BSFI shall be categorized as **banking book positions**.
- b. Interest Rate Risk in the Banking Book.** Exposures from this risk shall feed into the BSFI's institution-wide measurement and monitoring of interest rate risk through earnings- and/or economic value-based methodologies.
- c. Credit Risk.** A BSFI shall not acquire an investment without conducting an independent assessment of the creditworthiness of the issuer.
- d. Market Liquidity Risk.** A BSFI shall ensure that it considers the effects that market risk can have on the liquidity of different types of instruments under various scenarios.
- e. Operational Risk.** A BSFI shall institute internal controls that ensure the separation of duties and supervision of persons executing transactions from those responsible for processing contracts, confirming transactions, controlling various clearing accounts, preparing or posting the accounting entries, approving the accounting methodology or entries, and performing revaluations.

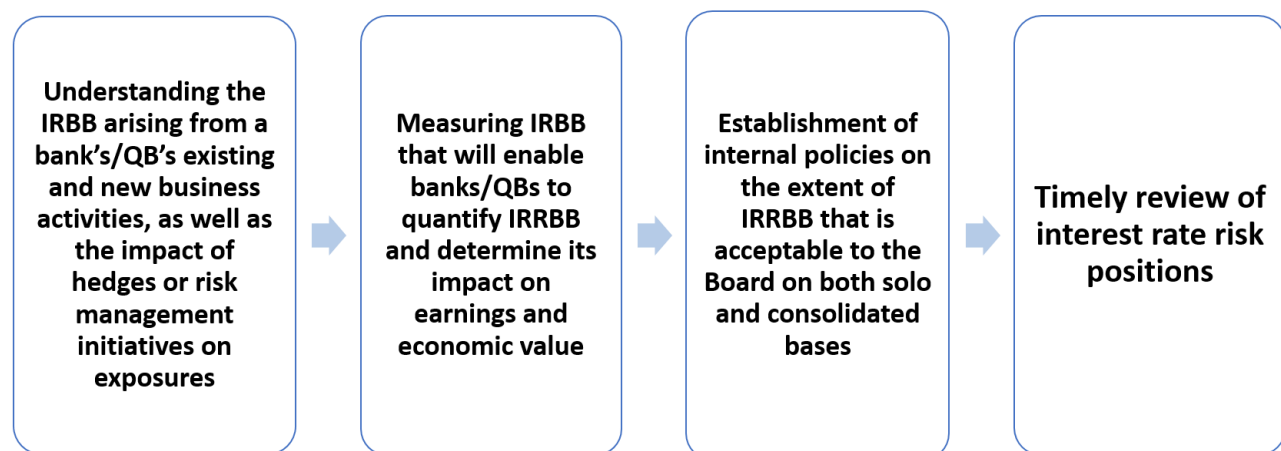
### Supervisory Enforcement Actions

- The Bangko Sentral may, among others, cite a BSFI for conducting business in an unsafe or unsound manner should its investment activities result in abnormal risk to the institution.
- A BSFI may likewise be directed to refrain from engaging in specific investment activities with serious supervisory issues.
- Sanctions may be imposed on the BSFI and responsible persons, which may include restrictions or prohibitions from certain authorities/activities; and reprimand, suspension, removal and disqualification of concerned directors, officers and employees.

## CIRCULAR NO. 1044 Guidelines on the Management of Interest Rate Risk in the Banking Book and Amendment of the Guidelines on Market Risk Management

### INTEREST RATE IN BANKING BOOK MANAGEMENT PROCESS

The Management of IRRBB shall form part of the overall risk management framework. At a minimum, the process should include:



## Interest Rate Risk in the Banking Book Management Framework

A sound management system for IRRBB shall cover the following basic elements:

- a. Active board and senior management oversight;
- b. Adequate risk management policies and procedures;
- c. Appropriate limits structure, risk measurement methodologies, and monitoring and management information systems; and
- d. Comprehensive internal controls and audit.

**Supervisory Framework.** The Bangko Sentral shall employ a risk-based approach in assessing the level and trend of a bank's/QB's IRRBB and the adequacy and effectiveness of its IRRBB management process. BSP shall consider the following:

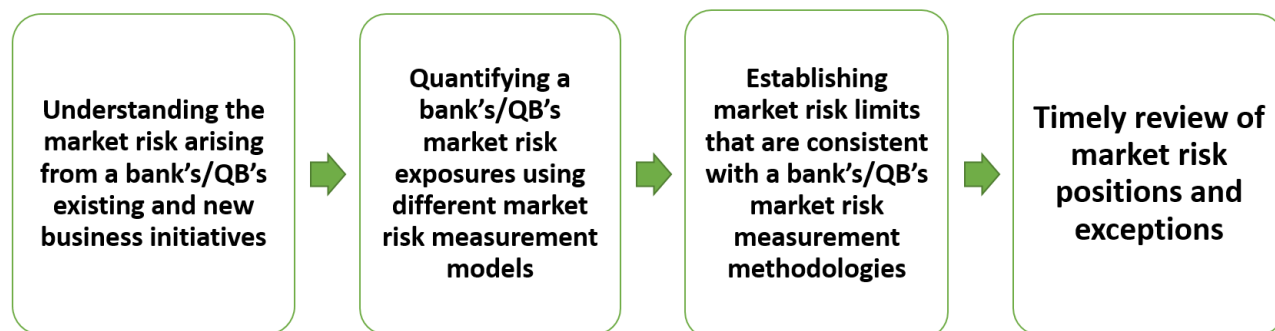
- The complexity of IRRBB risk management systems relative to the risk posed by assets, liabilities and off-balance sheet activities;
- The level of IRRBB in relation to earnings and capital;
- The effectiveness of hedging strategies used by management to manage IRRBB; and
- The adequacy and effectiveness of risk governance.

## Supervisory Enforcement Actions

- If a bank's/QB's risk exposures are not well-managed, the Bangko Sentral may direct the bank/QB to increase its capital, reduce its IRRBB exposures and/or strengthen its risk management system.
- The Bangko Sentral may likewise issue directives to limit the level of or suspend any business activity that has adverse effects on the safety and soundness of the bank/QB, among others.

## MARKET RISK MANAGEMENT PROCESS

A bank's/QB's market risk management process should be consistent with its general risk management framework and should be commensurate with the level of risk assumed. Market risk management process should include:



**Market risk** is the risk to earnings or capital arising from adverse movements in factors that affect the market value of instruments, products, and transactions in an institution's trading book portfolio, both on- and off-balance sheet.

### Sources of Market Risk

- + *Interest rate risk* is the current and prospective risk to earnings or capital arising from movements in interest rates.
- + *Foreign exchange (FX) risk* refers to the risk to earnings or capital arising from adverse movements in foreign exchange rates.
- + *Credit spread risk* refers to the risk to earnings or capital arising from changes in the credit risk premia of financial instruments.
- + *Equity risk* is the risk to earnings or capital arising from movements in the value of an institution's equity-related holdings.
- + *Commodity risk* is the risk to earnings or capital due to adverse changes in the value of an institution's commodity-related holdings.

### Sound Market Risk Management Practices and Market Risk Management Framework

A sound market risk management system should cover the following basic elements:

- a. Active and appropriate board and senior management oversight;
- b. Adequate risk management policies and procedures;
- c. Appropriate risk measurement methodologies, limits structure, monitoring and management information systems; and
- d. Comprehensive internal controls and independent audits.

### Supervisory Enforcement Actions

- If a bank's/QB's risk exposures are not well-managed, the Bangko Sentral may direct the bank/QB to increase its capital, reduce its trading book exposures and/or strengthen its risk management system.
- The Bangko Sentral may likewise issue directives to limit the level of or suspend any business activity that has adverse effects on the safety and soundness of the bank/QB, among others.

## CIRCULAR NO. 1045 Amendments to Minimum Capitalization of Non-stock Savings and Loans Associations (NSSLAs) and Capital Contribution of Members

Section 4106S on Capital of NSSLAs and Subsection 4106S.1 on Regulatory Treatment of Capital Contributions of Members are transferred to Subsections 4106S.1 and 4106S.2, respectively in this Circular. In addition, new section 4106S and Subsection 4106S.3 are hereby added.

The new **Section 4106S** states that: *“It is the policy of the Bangko Sentral ng Pilipinas to ensure that Non-Stock Savings and Loan Associations operate in a safe and sound manner. Towards this end, the Bangko Sentral shall set prudent and appropriate minimum capital adequacy requirements for NSSLAs that is capable to support the NSSLA as a going concern, commensurate to the risk exposures of the NSSLA and provides loss absorption mechanism, for both expected and unexpected losses.*

**Subsection 4106S.1** are stated as follows: *“The capital of a Non-stock Savings and Loans Associations (NSSLAs) shall comprise of: (1) capital contributions, both fixed capital and capital contribution buffer, (2) retained earnings free, (3) retained earnings reserve, (4) undivided profits, (5) other comprehensive income, and (6) revaluation increment reserves. An NSSLA shall have a minimum capital of ₱1.0 million. Thereafter, an NSSLA shall maintain a minimum capital that would allow it to comply with the capital adequacy ratio requirement.”*

**Subsection 4106S.2** is summarized as follows:

Each member’s capital contribution shall consist of fixed and buffer components, defined as follows:

- a. *Fixed-capital contributions* shall refer to the portion of member’s capital contributions that must be maintained and once increased and recorded, cannot be reduced for the duration of membership except upon termination of membership.
- b. *Capital contribution buffer* shall refer to the capital contributions in excess of the fixed capital contribution which shall not exceed ten times (10x) thereof.

Capital contributions of members shall be subject to the following requirements:

- a. Payment of minimum capital contribution, including entrance or membership fee, shall be one of the requisites of membership. Payment that fails to meet the minimum requirement shall be treated as payables and presented under “other liabilities” account in the financial reporting package.
- b. The total amount that a member may contribute as fixed capital contributions shall be subject to a ceiling which shall be determined by the board of trustees and duly confirmed by the majority of the NSSLAs general assembly which should be applied uniformly to all members and without prejudice to BSP setting lower of higher ceiling.
- c. The NSSLA shall establish and prescribe the conditions and/or circumstances when members’ capital contribution buffer may at least be maintained, such as, when the NSSLA is under liquidity stress or is unable to meet the capital-to-risk assets ratio requirement.

Each NSLA shall adopt policies and mechanisms towards increasing the members' capital contributions. The policies shall include but not limited to the following:

- a. Capital contribution build up program or schedule of capital contribution;
- b. Restriction or reduction of capital contribution;
- c. Ceilings on additional capital contribution; and/or
- d. Mode and terms of payment

The new Section 4106S states that: *"It is the policy of the Bangko Sentral ng Pilipinas to ensure that Non-Stock Savings and Loan Associations operate in a safe and sound manner. Towards this end, the Bangko Sentral shall set prudent and appropriate minimum capital adequacy requirements for NSSLAs that is capable to support the NSSLA as a going concern, commensurate to the risk exposures of the NSSLA and provides loss absorption mechanism, for both expected and unexpected losses."*

## CIRCULAR NO. 1047 Guidelines on the Adoption of PFRS 9 and Financial Reporting Package of NSSLA

### ADOPTION OF PFRS

Non-stock savings and loan association (NSSLAs) shall adopt the PFRS in recording transactions and in the preparation of financial statements and reports to the BSP. However, in cases where there are differences between Bangko Sentral regulations and PFRS as when more than one (1) options are allowed, or certain maximum or minimum limits are prescribed by PFRS, ***the option or limit prescribed by the BSP should prevail.***

**Preparation of Prudential Reports.** For prudential reporting, NSSLAs shall adopt the PFRS in following cases:

- 1) Preparation of solo financial statements; and
- 2) Recognition of allowance for credit losses (ACL).

### Preparation of Audited Financial Statements (AFS)

AFS shall be PFRS-compliant and shall be submitted to the BSP together with the adjusting entries reconciling the balances in the financial statements for prudential reporting with that in the AFS.

### Guidelines on the adoption of PFRS 9 *Financial Instruments*

- 1) The board shall approve policies and guidelines relative to the adoption of PFRS 9, which shall cover responsibilities of the different units in the NSSLA as well as the extent of participation or involvement of third parties in the adoption process.
- 2) Management shall implement the policies set by the board related to the adoption of PFRS 9 and ensure that sound professional judgment is exercised in implementing the provisions of the Standard.

- 3) NSSLAs shall be guided by the provisions of Appendix S-17 on “Guidelines on the Adoption of Philippine Financial Reporting Standards 9 (PFRS 9) – Classification and Measurement) and Appendix S-9 on “Impairment” in implementing the provisions of PFRS 9.

#### **Supervisory Enforcement Action**

- The Bangko Sentral reserves the right to deploy its range of supervisory tools and enforcement actions to promote adherence to the standards and principles set forth in these guidelines, bring about timely corrective actions and compliance with the Bangko Sentral directives and ensure that NSSLAs operate in a sound, lawful and orderly manner.
- BSP may issue directives or impose sanctions on the NSSLA and/or its trustees, officers and/or employees concerned for noted supervisory issues on the adoption of PFRS 9.

#### **Transitory Provisions**

- NSSLAs shall apply PFRS 9, retrospectively, in accordance with the transition requirements and guidance provided under PFRS 9 and PAS 8 *Changes in Accounting Policies, Changes in Accounting Estimates and Errors*.
- An NSSLA is expected to comply with the reportorial and disclosure requirements of the Securities and Exchange Commission on the adoption of PFRS 9

#### **FINANCIAL REPORTING PACKAGE**

- NSSLAs are required to adopt the Manual of Accounts prescribed under the Financial Reporting Package provided in Appendix S-16 for Non-Stock Savings and Loan Associations (FRPNSSLA) for prudential reporting purposes.
- The FRPNSSLA shall become effective starting with the reporting quarter-ending March 31, 2020, and shall be submitted to the appropriate supervising department of the Bangko Sentral in the manner, and within the period, prescribed under Appendix S-2.
- NSSLAs shall, within 120 calendar days after the close of the calendar year or their fiscal year, as the case may be, furnish the Monetary Board and post in any of the NSSLA’s bulletin boards or in any other conspicuous place a copy of their financial statements, showing, in such form and detail as the Monetary Board shall require, the amount and character of the assets and liabilities of the NSSLAs at the end of the preceding calendar/fiscal year.

Kindly follow the link below for the report formats on the adoption of PFRS 9 and complete financial reporting package:

[Circular No. 1047 Guidelines on the Adoption of PFRS 9 and Financial Reporting Package of NSSLA](#)

## CIRCULAR NO. 1050 Guidelines on Voluntary Surrender of a Banking License

**Criteria for Accepting Voluntary Surrender of a Banking License.** A bank that seeks to voluntarily surrender its banking license must obtain prior approval of the BSP when the following conditions/criteria are met:

- a. The voluntary surrender of a banking license is based on the plan either to proceed to voluntary dissolution and liquidation, or to convert into a non-bank entity;
- b. The plan has been approved by the required number of the BOD and stockholders of the bank or members of the cooperative bank;
- c. There are no grounds to prohibit the bank from doing business;
- d. The bank is solvent and has sufficient liquid assets to fully repay all its depositors and creditors in a timely manner;
- e. The bank has appropriated or set aside immediately accessible funds equivalent to its outstanding deposit obligations for the purpose of the payment/settlement of such obligations to its deposits in a timely manner;
- f. The bank submits an acceptable board-approved liquidation plan in the case of a plan to proceed voluntary dissolution or a plan of action for the cessation of the bank's banking business; and
- g. Other conditions which the BSP deems necessary or as may be warranted by the attendant circumstances in order to protect the public interest

**Application Procedures.** A bank contemplating to cease its banking business shall submit to the appropriate supervising department of the BSP an application letter, signed by its President or any authorized representative accompanied by the following documents:

- ✚ Certified true copy of the resolution of the required number of the board of directors and stockholders of the bank or members of a cooperative bank as provided under applicable law;
- ✚ Certified true copy of the resolution of the board of directors granting the bank's President or authorized representative the authority to execute: (1) notarized sworn statement attesting that the bank is solvent and has sufficient liquid assets to fully repay all its depositors and creditors; and (2) notarized sworn statement and/or undertaking that the bank has appropriated or set aside immediately accessible funds equivalent to its deposit obligations for the purpose of the payment/settlement of such obligation to its depositors in a timely manner; and
- ✚ A board-approved liquidation plan, in the case of a plan to proceed to voluntary dissolution and liquidation, which includes, among others, provision for the following matters:
  - i. Orderly settlement of all claims from depositors and other creditors, including those existing at the time of, and those discovered after, the surrender of the bank license, as well as the manner of notifying its depositors/creditors;
  - ii. Distribution of the remaining assets after the settlement of the claims;
  - iii. Disposition or maintenance of any remaining/unclaimed assets or unclaimed deposits;
  - iv. Retention of records including information on the physical location, as well as the contact details of the individual(s) and /or entity(ies) responsible for safekeeping of the records;

and

- v. Relevant details of the individual (s) and/or entity(ies) responsible for the orderly liquidation of the bank, including information on the individual(s) and/or entity(ies) responsible for addressing customer complaints.

✚ A board-approved plan of action for the cessation of the banking business, in the case of a plan to convert into a non-bank entity, which includes, among others, provision for the following matters:

- i. Orderly settlement of all claims from depositors and other creditors, including those existing at the time of, and those discovered after, the surrender of the bank license, as well as the manner of notifying its depositors/creditors;
- ii. Disposition or maintenance of any unclaimed deposits;
- iii. Retention of records including information on the physical location, as well as the contact details of the individual(s) and /or entity(ies) responsible for safekeeping of the records; and
- iv. Information on the individual(s) and/or entity(ies) responsible for addressing customer complaints.

✚ Such other documents/information that the concerned supervising department of the Bangko Sentral may require.

#### ***Approval of Voluntary Surrender of Banking License***

- The bank, upon receipt of notice of the Bangko Sentral approval of its voluntary surrender of banking license shall immediately cease to carry on banking business.
- In the case of a plan to proceed to voluntary dissolution and liquidation, the bank may retain only the powers necessary to effect orderly dissolution and liquidation.
- In the case of a plan to convert into a non-bank entity that is not under the supervision of the BSP, the bank shall file with the SEC/CDA, the corresponding amendment to its Articles of Incorporation/Cooperation (AOI/C) and By-laws within three (3) months from the receipt of the Bangko Sentral approval of the bank's voluntary surrender of banking license.

**Sanctions.** The voluntary surrender of banking license to Bangko Sentral will not exempt the bank's directors, officers and employees from any administrative or criminal sanctions arising from a determination that a violation of banking law, rule or regulation was committed.

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