



BANGKO SENTRAL NG PILIPINAS

OFFICE OF THE GOVERNOR

Series of 2021

CIRCULAR NO. 1121

Subject: Amendments to the Regulations on Securities Custodianship and Securities Registry Operations

The Monetary Board, in its Resolution No. 646 dated 27 May 2021, approved the amendments to the regulations governing securities custodianship and securities registry operations under the Manual of Regulations for Banks (MORB) and the Manual of Regulations for Non-Bank Financial Institutions (MORNBFI) to streamline the requirements for securities custodians and securities registry.

The amendments are in line with the commitments of the Bangko Sentral to contribute to the deepening of the domestic capital market.

Section 1. The authorities to conduct securities custodianship and securities registry operations shall be classified as Type C license. Section 111 of the MORB and Section 111-Q/101-N of the MORNBFI shall be amended to read as follows:

111 LICENSING

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Type of license of permissible activities¹. The type of license attached to permissible activities of the Bangko Sentral - supervised financial institutions (BSFIs) shall be as follows:

Type of License	Permissible Activity	Related Sections
A	xxx	xxx
B	xxx	xxx
C	xxx	xxx
	Amendment of the Plan Rules of UITF	Sec. 414 (<i>Plan Rules</i>)
	Securities Custodianship Operations Securities Registry Operations	Sec. 631 Sec. 631

¹ Applications filed with the Bangko Sentral xxx

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111-Q/101-N LICENSING

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Type of License of Permissible Activities¹. The type of license attached to permissible activities of Bangko Sentral - supervised financial institutions (BSFIs) shall be as follows:

Type of License	Permissible Activity	Related Sections
A	xxx	xxx
B	xxx	xxx
C	xxx	xxx
	Amendment of the Plan Rules of UITF	Sec. 414-Q (<i>Plan rules</i>)
	Securities Custodianship Operations	Sec. 631-Q/ Sec. 1002-N
	Securities Registry Operations	Sec. 631-Q/ Sec. 1002-N

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Section 2. The provisions of Section 431/431-Q of the MORB/MORNBFI will be transferred to Section 631/631-Q of the MORB/MORNBFI under new Item D. General Provisions of Part VI. Treasury and Money Market Operations. The said provisions including Section 1002-N of the MORNBFI are hereby amended to read, as follows:

631/631-Q and /1002-N SECURITIES CUSTODIANSHIP AND SECURITIES REGISTRY OPERATIONS

Policy Statement. xxx

Definition of Terms. The following definitions shall apply:

- a. *Securities custodian* is a financial institution accredited by the Bangko Sentral that is designated by investor to perform the functions of safekeeping, holding title to the securities in a nominee capacity, reports rendition, mark-to-market valuation, collection and payment of dividends, interest earnings or proceeds from the sale/redemption/maturity of securities held under custodianship, and



representation of the client in corporate actions. It may also perform the value-added service as a securities lending agent, subject to the conditions specified under this Section.

- b. *Securities registry* is a financial institution duly authorized by the Bangko Sentral and the Securities and Exchange Commission (SEC) that is designated or appointed by an issuer of securities to maintain the securities registry book either in electronic or in printed form. It records the initial issuance of the securities and subsequent transfers of ownership and issues registry confirmations to the buyers/holders.
- c. *Self-managed custodianship arrangement* refers to an arrangement where securities sold to or managed on behalf of a BSFI's clients are maintained under a BSFI's own unit performing securities custodian services.
- d. *Central securities depository (CSD)* is an entity duly-authorized by the SEC that provides securities accounts, central safekeeping services, and asset services, which may include the administration of corporate actions and redemptions, and helps ensure the integrity of securities issues.
- e. *International Central Securities Depository (ICSD)* refers to a central securities depository (CSD) such as Clearstream and Euroclear, where foreign currency denominated Philippine securities, such as the Republic of the Philippines and US dollar denominated bonds, are held under custody. Dealers and banks in the Philippines usually maintain accounts with the ICSDs that will facilitate settlement and safekeeping of the covered securities under this regulation.
- f. *Omnibus securities custodianship account* is an account structure where securities or collateral belonging to some or all customers of a securities custodian is commingled and held in a single account that is segregated from the account that holds the assets of the BSFI acting as custodian. The ultimate ownership of all the assets in the account is maintained by the custodian in its books of records.

Applicability of this regulation. This regulation shall govern securities custodianship and securities registry operations of banks, quasi-banks (QBs) and non-bank financial institutions (NBFIs) under Bangko Sentral supervision. It shall cover all their transactions in securities as defined in Section 3 of the Securities Regulation Code (SRC), whether exempt or required to be registered with the SEC, that are sold, borrowed, purchased, traded, held under custody or otherwise transacted in the Philippines where at least one (1) of the parties is a bank, QB or an NBF under Bangko Sentral supervision. xxx



Application for authority. A bank/QB and NBFIs applying for authority to engage in securities custodianship and/or securities registry operations shall submit the following documents to the appropriate supervising department of the Bangko Sentral:

- a. Notification letter signed by the president or officer of equivalent rank that the BSFI will engage in securities custodianship operations. For this purpose, the notification letter shall describe the unit that will handle the securities custodianship operations and how the BSFI complies with Item b of the prequalification requirements;
- b. Corporate secretary's certificate on the approval of the board of directors (or equivalent management committee in the case of foreign bank branches) to engage in securities custodianship operations; and
- c. Certification signed by the president or officer of equivalent rank and the chief compliance officer (CCO) certifying that the institution has complied with all the:
 - (1) prudential criteria prescribed under Section 111/111-Q/101-N; and
 - (2) pre-qualification requirements for a securities custodian and securities registry under this Section.

The Bangko Sentral reserves the right to issue a notice of objection, within 30 calendar days from receipt of the notification letter and other required documents from the bank/QB and NBFIs, to the application for authority to engage in securities custodianship operations and/or securities registry operations. In this regard, the bank/QB or NBFIs that did not receive any notice of objection from the Bangko Sentral within the said 30-day period may proceed with the securities custodianship and/or securities registry operations.

Pre-qualification requirements for a securities custodian/registry.

- a. The securities custodian/registry must be a universal/commercial bank (U/KB), an investment house with quasi-banking authority (IHQB), or a non-bank financial institution (NBFIs) under the Bangko Sentral supervision with a trust authority, or a stand-alone trust corporation. A U/KB or an IHQB may propose to offer securities custodianship services either through the bank/investment house (IH) proper or its trust department;
- b. The securities custodianship operations shall be conducted in a unit that is separate from the securities underwriting, dealing, or brokering operations of the BSFI;
- c. The securities custodian must have adequate information technology (IT) infrastructure to ensure the protection, safety and integrity of client assets;
 - (1) xxx; and



- (2) It must also have an updated, comprehensive and secured IT security system network and telecommunication facilities that will:
 - (a) xxx;
 - (b) xxx; and
 - (c) xxx
- d. At the minimum, it maintains the following documents/information which shall be made available upon request by the appropriate supervising department of the Bangko Sentral:
 - (1) relevant standard custody/registry agreement and other documents. In the case of self-managed securities custodianship arrangements, these shall include the written consent of the owner of securities to said arrangement;
 - (2) policies, procedures, and organizational structure related to the custody/registry business; and
 - (3) transaction records
- e. It shall be headed by a qualified person with at least two (2) years of experience in treasury, trust, or custody/registry operations;
- f. Its system can interface with the: (1) clearing and settlement system of any recognized exchange in the country that settles securities transactions on a Delivery-versus-Payment (DvP) basis, and (2) with a payment system that facilitates real time gross settlement of securities transactions; and
- g. A securities custodian which offers the value-added service of lending securities that are sold, offered for sale or distributed within the Philippines, must be a duly-licensed lending agent registered with the SEC.

Functions and responsibilities of a securities custodian. xxx:

- a. Safekeeps the securities of the client;
- b. xxx
- c. Executes purchase, sale, and other related instructions;
- d. Conducts at least a monthly reconciliation for securities custodians and an end-of-day reconciliation in the case of self-managed securities custodians to ensure that all securities custodianship positions are properly recorded and accounted for;
- e. xxx
- f. xxx
- g. xxx
- h. xxx
- i. xxx
- j. In addition to the above basic functions, it may perform the value-added service as a securities lending agent: *Provided*, That it complies with the Item "(g)" of the prequalification requirements for a securities

custodian/registry under this Section : *Provided*, further That the securities custodian complies with the SEC regulations governing securities lending transactions and with the guidelines of the organized market in which the deal is transacted; *Provided finally*, That the service shall be covered by a Securities Lending Authorization Agreement (SLAA) which shall be attached to the custody contract.

Functions and responsibilities of a securities registry.

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Protection of securities of the customer. xxx:

- a. ***Full disclosure to clients.*** Selling or dealing banks or other BSFIs authorized to transact in securities with clients shall inform their clients of the arrangements for the custody of their securities. The selling or dealing bank or BSFI must inform their clients that the choice of securities custodian or CSD is the sole prerogative of the securities purchaser or investor. It shall also provide the complete list of all Bangko Sentral- accredited custodians or SEC- authorized central securities depositories to its clients. The transacting bank or BSFI may, however, indicate to their clients their preferred arrangements.

The securities custodian shall ensure that its clients are informed of the relevant laws and regulations that are applicable to the securities custodianship arrangement as well as the client's rights over the securities held in custody by the bank/QB/NBFI.

- b. ***Accounting and recording for securities.*** Custodians must employ accounting and safekeeping procedures that fully protect customer securities. xxx.

The securities account in the registry shall be recorded at the nominal amount of Php1.00. Such securities account shall reflect the name and relevant customer information of the individual clients.

For securities held at CSDs/ICSDs on behalf of clients, the account in the CSD/ICSD shall reflect the name and relevant customer information of individual clients to the extent practicable. An omnibus account for clients that is segregated from that of the custodian's proprietary assets, shall be allowed provided that the name and relevant customer information of the individual clients are



reflected in the records of the custodian that maintains the account in the CSD/ICSD.

- c. *Documentation.* The appropriate documentation for securities custodianship shall be made and it shall clearly define, among others, the authority, role, responsibilities, fees and provision for succession in the event the securities custodian can no longer discharge its functions. It shall be accepted in writing by the counterparties.

The governing securities custodianship agreement shall be pre-numbered and this number shall be referred to in all amendments and supplements thereto. The securities custodianship agreement shall contain at the minimum the; (a) rights and obligations of the parties; b) fees for the services offered by the custodian/depository; and c) scope and term/period of the Agreement.

The securities purchasers/owners may, designate/appoint a representative or agent for the purpose of opening of the custodianship/securities deposit account and the execution of trade transactions (i.e., buying and selling instructions including relaying of instructions to the custodian/CSD to receive or deliver securities in order to consummate the buy/sell transactions).

In addition, a BSFI offering self-managed securities custodianship arrangement shall: (i) secure a written consent from the client designating the BSFI as the custodian for securities bought; (ii) tag the securities as non-tradeable unless with prior consent of the clients; and (iii) subject the arrangement to periodic review or audit by a third party.

- d. *Confirmation of custody.* The securities custodian xxx ;
- (1) Owner of securities;
 - (2) Issuer;
 - (3) Securities type and type of transactions (free deliver/free receipt, receive vs. payment/deliver vs. payment);
 - (4) Identification or serial numbers;
 - (5) Quantity;
 - (6) Face Value;
 - (7) Settlement Amount;
 - (8) Trade Date;
 - (9) Counterparty; and
 - (10) Other information, which may be requested by the parties.
- e. *Periodic reporting.* The client statements of accounts (SOA) shall be prepared either in print or electronic form on a quarterly basis. In the

case of self-managed securities custodians, it shall be prepared at least on a monthly basis. The SOA shall also be prepared at such interval as the owner of securities will require provided that it shall not be less frequent than the quarterly or monthly reporting requirement. The SOA shall be delivered to the registered owner's home/email address on record. Said statement shall present detailed information such as, but not limited to, inventory of securities of the client held under custody, outstanding, and market values.

Independence of the securities custodian and securities registry. A BSFI authorized to offer securities custodianship/securities registry services are prohibited from performing the said services for its own securities issued. A BSFI performing custodianship/securities registry services for a related party shall ensure that appropriate safeguards and controls as provided under Section 136 on related party transactions shall be instituted to prevent conflict of interest on the said arrangement.

National Registry of Scripless Securities of the Bureau of the Treasury. The National Registry of Scripless Securities (NRoSS), operated by the Bureau of the Treasury which is acting as a registry for government securities is deemed to be automatically accredited for purposes of this Section and is likewise exempted from the independence requirement under this Section (Independence of the securities custodian and securities registry). Securities registered under the NRoSS shall be delivered in accordance with the guidelines set forth in *Appendix 67 of the MORB and Appendix Q-38 of the MORNBFI*.

Confidentiality. xxx

Compliance with Anti- Money Laundering laws/regulations. Compliance with the requirements on Republic Act (R.A) No. 9160, otherwise known as the "Anti-Money Laundering (AML) Act of 2001", as amended, by Bangko Sentral -accredited securities custodians/securities registries or SEC-authorized central securities depositories shall be governed by AML rules and regulations issued by their supervising authorities, such as the Bangko Sentral or the SEC.

For purposes of compliance with the customer identification, record keeping, and reporting of covered and suspicious transactions, a Bangko Sentral - accredited custodian may rely on referral by the seller issuer of securities: *Provided*, That it maintains a record of such referral together with the minimum identification, information/documents required under the law and its implementing rules and regulations; *Provided*, further, That, the ultimate



responsibility for customer due diligence (CDD) and record-keeping remains with such Bangko Sentral-accredited securities custodian.

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Additionally, a Bangko Sentral-accredited securities custodian/securities registry or SEC-authorized central securities depository may rely on the customer identification process undertaken by a third party pursuant to existing AML rules and regulations. Notwithstanding the above, the custodian, registry or CSD is not precluded from conducting its own Know-Your-Customer (KYC) activities and maintaining direct holding of the KYC information/documents of its clients.

Basic Security Deposit. xxx.

Required Reports. xxx

Supervisory enforcement action. Consistent with Section 002/002-Q/001-N, the Bangko Sentral reserves the right to deploy a range of supervisory tools to ensure compliance with the requirements set forth in these guidelines. Non-compliance with, and any other violations of these guidelines shall constitute reasonable grounds for the Bangko Sentral to deploy its enforcement tools, including but not limited to, citing a BSFI for conducting business in an unsafe or unsound manner should its activities result in abnormal risk to the institution. A BSFI may likewise be directed to refrain from engaging in or be suspended from securities custodianship and/or securities registry operations if there are serious supervisory issues. Sanctions may be imposed on the BSFI and responsible persons, including monetary sanctions against the BSFI and/or erring directors, officers, and employees under Section 1102/1102-Q/806-N.

Section 3. The provisions of Section 242/201-Q of MORB/MORNBFI on Delivery of Securities are hereby amended to read, as follows:

242/201- Q DEPOSIT SUBSTITUTE INSTRUMENTS

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Delivery of Securities.

- a. Securities, warehouse receipts, quedans and other documents of title which are the subject of quasi-banking functions, such as repurchase agreements, shall be delivered to a Bangko Sentral accredited securities custodian or an SEC - authorized central securities depository in accordance with the following guidelines:



- (1) The securities shall be delivered by the seller directly to the purchaser or to the purchaser's designated BSP-accredited securities custodian or SEC-authorized central securities depository.
- (2) If the securities sold are certificated, delivery shall be effected physically to the purchaser, or to the purchaser's designated Bangko Sentral-accredited custodian. The certificate must be transferred to and registered under the name of the purchaser and properly recorded in the registry book.

The securities custodian shall hold the securities in the name of the borrower/seller, but shall keep said securities segregated from the proprietary securities account of the borrower/seller if the borrower/seller has an existing securities account with the securities custodian: *Provided*, That a bank authorized by the Bangko Sentral to perform securities custodianship function may not be allowed to be the custodian of securities issued or owned by said bank or of securities in bearer form.

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- b. The guidelines on the delivery of government securities to the investor's principal securities account with the National Registry of Scripless Securities (NROSS) are in Appendix 67/Q-38.

Section 4. The provisions of Section 245/101-Q and 201-N of MORB/MORNBFI on Delivery of Securities are hereby amended to read, as follows:

245/101-Q and 201- N WITHOUT RECOURSE TRANSACTIONS

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Delivery of Securities.

- a. Securities sold on a without recourse basis under this Section shall be delivered to a Bangko Sentral -accredited securities custodian or an SEC-authorized central securities depository in accordance with the following guidelines:
 - (1) The securities shall be delivered by the seller directly to the purchaser or to the purchaser's designated BSP-accredited securities custodian or SEC-authorized central securities depository.



- (2) If the securities sold are certificated, delivery shall be effected physically to the purchaser, or to the purchaser's designated Bangko Sentral-accredited custodian. The certificate must be transferred to and registered under the name of the purchaser and properly recorded in the registry book.

The securities custodian shall hold the securities in the name of the buyer: *Provided*, That a bank authorized by the Bangko Sentral to perform securities custodianship function or a SEC-authorized central securities depository may not be allowed to be securities custodian/depository of securities issued by said securities custodian or central securities depository or of securities in bearer form.

- b. The guidelines on the delivery of government securities to the investor's principal securities account with the National Registry of Scripless Securities (NRoSS) are in Appendix 67/Q-38.

Section 5. Appendix 66/Q-37 of MORB/MORNBFI is hereby deleted.

Section 6. The provisions of Section 304-T of the MORNBFI on securities custodianship and securities registry operations of Trust Corporations are hereby amended to read, as follows:

304-T SECURITIES CUSTODIANSHIP AND SECURITIES REGISTRY OPERATIONS

The provisions under Sec. 631-Q, shall apply to trust corporations (TC) applying for authority to conduct securities custodianship and securities registry operations.

Section 7. The sections of the MORB/MORNBFI, detailed in Annex A of this Circular, are hereby amended to delete the term "third party" in respect to the securities custodian operations.

Section 8. Appendix 67/Q-38 of the MORB/MORNBFI is hereby amended to add "National" or "N" to the registry of scripless securities or RoSS, respectively.



Section 9. Effectivity. This Circular shall take effect fifteen (15) calendar days following its publication either in the Official Gazette or in a newspaper of general circulation.

FOR THE MONETARY BOARD:


BENJAMIN E. DIOKNO
Governor

68 June 2021

Sections in the MORB/MORBNFI that shall be revised to delete the term third party that make reference to third party custodianship.

SECTION	TOPIC	EXISTING PROVISION	AMENDED PROVISION
Section 121	Minimum Required Capital	For the grant of the following special banking authorities: a. xxx xxx g. Acting as third party custodian/registry;	For the grant of the following special banking authorities: a. xxx xxx g. Acting as custodian/registry;
Section 289	Rediscounting Window	Rediscounting Window Available to Rural and Cooperative Banks xxx xxx d. xxx f. Notarized custodian agreement xxx Coop Bank, the third party custodian and the Bangko Sentral	Rediscounting Window Available to Rural and Cooperative Banks xxx xxx d. xxx f. Notarized custodian agreement xxx or Coop Bank, the custodian and the Bangko Sentral
Sections 414 and 414-Q	Unit Investment Trust Funds	Unit Investment Trust Fund administration support. a. xxx b. Custody of securities. xxx accredited third party custodians xxx. Investments xxx to act as third-party custodian.	Unit Investment Trust Fund administration support. a. xxx b. Custody of securities. xxx accredited custodians xxx. Investments xxx to act as custodian.
Appendices 59 and Q 45	RISK-BASED CAPITAL ADEQUACY FRAMEWORK FOR THE PHILIPPINE BANKING SYSTEM Part V. Credit risk weighted assets	Collateralized transactions 30. xxx Bangko Sentral - authorized third party custodians.	Collateralized transactions 30. xxx Bangko Sentral - authorized custodians.
Appendices 67 and Q-38 (Annex A)	Memorandum of Agreement	Section 1. Obligations of Bureau of the Treasury) BTr 5. xxx designated third-party custodian, xxx; xxx 7. xxx (a) declined xxx name or a third-party custodian xxx	Section 1. Obligations of Bureau of the Treasury (BTr) 5. xxx designated custodian, xxx; xxx 7. xxx (a) declined xxx name or a custodian xxx