



Bangko Sentral ng Pilipinas

MAYNILA, PILIPINAS

OFFICE OF THE GOVERNOR

Circular No. 557

Series of 2007

Subject: Lifting of Moratorium on the Grant of Licenses to Engage in Quasi-Banking Functions to Investment Houses and Finance Companies

Pursuant to Monetary Board Resolution Nos. 1305 and 1606 dated 26 October 2006 and 28 December 2006, respectively, the Manual of Regulations for Non-Bank Financial Institutions (MORNBFI) is hereby amended, as follows:

Section 1. STATEMENT OF POLICY. IT IS THE POLICY OF THE BANGKO SENTRAL NG PILIPINAS TO PROMOTE THE DEVELOPMENT OF THE DOMESTIC FINANCIAL MARKET SO AS TO FOSTER A SOUND, EFFICIENT AND INCLUSIVE FINANCIAL SYSTEM FULLY SUPPORTIVE OF SUSTAINABLE ECONOMIC GROWTH. TOWARDS THIS END, THE MORATORIUM ON THE GRANT OF AUTHORITY TO ENGAGE IN QUASI-BANKING FUNCTIONS TO INVESTMENT HOUSES AND FINANCE COMPANIES IS HEREBY LIFTED, SUBJECT TO THE FOLLOWING CONDITIONS:

- 1. THAT QUASI-BANKING ACTIVITIES SHALL BE UNDERTAKEN BY THE INSTITUTION CONCERNED TO PURSUE ITS CORE BUSINESS, I.E., UNDERWRITING OF SECURITIES OF OTHER CORPORATIONS AND OF THE GOVERNMENT OR ITS INSTRUMENTALITIES, PARTICIPATING AS SOLICITING DEALER OR SELLING GROUP MEMBER IN TENDER OFFERS, BLOCK SALES, OR EXCHANGE OFFERING OF SECURITIES, AND DEALING IN OPTIONS, RIGHTS OR WARRANTS RELATING TO SECURITIES AND SUCH OTHER POWERS WHICH A DEALER MAY EXERCISE UNDER THE SECURITIES REGULATION CODE, IN THE CASE OF INVESTMENT HOUSES, AND DISCOUNTING OR FACTORING COMMERCIAL PAPERS OR ACCOUNTS RECEIVABLE, OR BY BUYING AND SELLING CONTRACTS, LEASES, CHATTEL MORTGAGES, OR OTHER EVIDENCES OF INDEBTEDNESS, OR BY LEASING OF MOTOR VEHICLES, HEAVY EQUIPMENT AND INDUSTRIAL MACHINERY, BUSINESS AND OFFICE MACHINES AND EQUIPMENT, APPLIANCES AND OTHER MOVABLE PROPERTY, OR GRANTING BUSINESS AND CONSUMER LOANS, IN THE CASE OF FINANCE COMPANIES;**
- 2. THAT THE INSTITUTION CONCERNED SHALL FULLY INFORM INVESTORS OF THE NATURE OF A DEPOSIT SUBSTITUTE INSTRUMENT, E.G., THAT IT IS NOT COVERED BY THE PHILIPPINE DEPOSIT INSURANCE CORPORATION (PDIC) INSURANCE, THAT PRETERMINATION THEREOF IS SUBJECT TO PENALTY, WHERE APPLICABLE, AND SUCH OTHER MATERIAL RISKS INVOLVED IN INVESTING IN SUCH INSTRUMENT; AND**
- 3. THAT THE INSTITUTION CONCERNED SHALL CONDUCT EFFECTIVE INVESTOR SUITABILITY TESTING PROCEDURES.**

Section 2. Section 4102Q of the Manual of Regulations for Non-Bank Financial Institutions is hereby amended as follows:

“Section 4102Q. Preconditions for the Exercise of Quasi-Banking Functions. No person or entity shall engage in quasi-banking functions without authority from the Bangko Sentral. Only a duly incorporated **INVESTMENT HOUSE AND FINANCE COMPANY** may undertake or perform quasi-banking functions as defined in Section 4101Q. An **INSTITUTION** securing BSP authority to engage in quasi-banking functions must meet the following requirements:

- a. It must have complied with the minimum adjusted capital accounts of at least **P300** million or such amounts as may be required by the Monetary Board in the future;
- b. It has generally complied with applicable laws, rules and regulations, orders or instructions of appropriate authority, including the Monetary Board and/or BSP Management where applicable;
- c. Its accounting records, systems and procedures as well as internal control systems are satisfactorily maintained;
- d. It does not have float items outstanding for more than sixty (60) calendar days in the “Due From/To Head Office/Branches/Offices” accounts exceeding one percent (1%) of the total resources as of end of preceding month;
- e. It has no past due obligation with any financial institution as of date of application;
- f. The officers who will be in-charge of the **QUASI-BANKING** operations have actual experience of at least two (2) years in a bank or non-bank with quasi-banking functions (NBQBs) as in-charge (or at least as assistant-in-charge). The directors of the **INSTITUTION**, officer-in-charge of the **QUASI-BANKING** operations and the managerial staff must comply with the fit and proper rule prescribed under existing law/rules and regulations;
- g. The **INSTITUTION** has elected at least two (2) independent directors and all its directors have attended the required seminar for directors of banks/NBQBs conducted or accredited by the BSP.
- h. It has not engaged in unsafe and unsound practices during the past six (6) months immediately preceding the date of application where applicable;

- i. It must have in place a comprehensive risk management system approved by its board of directors appropriate to its operations characterized by a clear delineation of responsibility for risk management, adequate risk measurement systems, appropriately structured risk limits, effective internal control and complete, timely and efficient risk reporting systems. In this connection, a manual of operations and other related documents embodying the risk management system must be submitted to the appropriate supervising department at the time of application for authority and within thirty (30) days from updates."

Section 3. Section 4103Q of the Manual of Regulations for Non-Bank Financial Institutions is hereby amended to read as follows:

"Section 4103Q - Certificate of Authority from the Bangko Sentral. An **INSTITUTION** securing BSP's Certificate of Authority to engage in quasi-banking functions shall file an application with the appropriate supervising and examining department of the BSP. The application shall be signed by the president or officer of equivalent rank **OF THE INSTITUTION** and shall be accompanied by the following documents:

- a. Certified true copy of the resolution of the board of directors **OF THE INSTITUTION** authorizing the application.
- b. A certification signed by the president or officer of equivalent rank that: (1) the institution has complied with all conditions/prerequisites for the grant of authority to engage in quasi-banking functions; (2) **QUASI-BANKING FUNCTIONS SHALL BE PURSUED/ UNDERTAKEN BY THE INSTITUTION IN THE FURTHERANCE OF ITS CORE BUSINESS, E.G., UNDERWRITING OF AND DEALING IN SECURITIES OF OTHER CORPORATIONS AND OF THE GOVERNMENT OR ITS INSTRUMENTALITIES, IN THE CASE OF INVESTMENT HOUSES, AND LEASING AND/OR DISCOUNTING/FACTORING COMMERCIAL PAPERS OR ACCOUNTS RECEIVABLE, OR GRANTING BUSINESS AND CONSUMER LOANS, IN THE CASE OF FINANCE COMPANIES; (3) INVESTORS SHALL BE INFORMED THAT THEIR INVESTMENTS/PLACEMENTS SHALL NOT BE INSURED BY THE PHILIPPINE DEPOSIT INSURANCE CORPORATION (PDIC) AND THAT ANY PRETERMINATION THEREOF SHALL BE SUBJECT TO PENALTY, IF APPLICABLE, AS WELL AS ALL OTHER MATERIAL RISKS; AND (4) INVESTORS SHALL BE SUBJECTED TO EFFECTIVE INVESTOR SUITABILITY TESTING PROCEDURES;**
- c. An information sheet;
- d. Bio-data signed under oath, of the members of the managerial staff who will undertake quasi-banking operations.

- e. Borrowing-investment program for one (1) year, and annually thereafter on or before November 30, which should include at the minimum:

1) planned distribution of portfolio as to –

- a. underwriting;
- b. commercial papers;
- c. stocks and bonds;
- d. government securities;
- e. receivables financing, discounting and factoring;
- f. leasing; and
- g. direct loans;

2) expected sources of funds to support investment program classified as to –

- a. maturity: short, medium and long-term
- b. interest rates; and
- c. domestic or foreign sources whether institutional or personal."

The foregoing requirement shall also apply to NBQBs existing as of the date of effectivity of this Circular.

Section 5. Transitory Provisions.

INVESTMENT HOUSES AND FINANCE COMPANIES authorized to engage and are actually performing quasi-banking functions but do not meet the new capital requirement are hereby given a period of two (2) years reckoned from (date of **EFFECTIVITY** OF this Circular) within which to comply with the minimum capital requirement in Section 4102Q.a: *Provided*, That this may be substituted by a capital build-up program for a period of not more than **THREE (3) YEARS** which must be approved by the Monetary Board. Such capital build-up program shall be in equal annual or diminishing amounts and shall be submitted to the appropriate supervising and examining department **OF THE BSP** within three (3) months from (date of **EFFECTIVITY** OF this Circular). **NBQBs** which fail to comply with the required capitalization upon expiration of said two (2) year period given them or those which fail to comply with **THE** approved capital build-up program shall liquidate their quasi-banking operations within one (1) year **FROM SAID DEADLINES** and **THEIR LICENSES** shall be considered revoked/cancelled.

THE LICENSES OF EXISTING NBQBS NOT ACTUALLY PERFORMING QUASI-BANKING FUNCTIONS WHICH DO NOT MEET THE REQUIRED MINIMUM

CAPITALIZATION PROVIDED IN SECTION 4102Q.A ON THE DATE OF EFFECTIVITY OF THIS CIRCULAR SHALL BE AUTOMATICALLY REVOKED.

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

FOR THE MONETARY BOARD:



AMANDO M. TETANGCO, JR.
Governor

12 January 2007