



Bangko Sentral ng Pilipinas

OFFICE OF THE GOVERNOR

MEMORANDUM TO ALL BANKS AND NON-BANK FINANCIAL INSTITUTIONS WITH QUASI-BANKING FUNCTIONS

Subject: Amendments to the Accounting Guidelines on the Sale of NPAs to SPV and to Qualified Individuals for Housing Under the SPV Act of 2002

In line with the adoption of the Philippine Financial Reporting Standards (PFRS) and Philippine Accounting Standards (PAS) effective the annual financial statements beginning 1 January 2005, the Monetary Board, in its Resolution No. 1490 dated 18 November 2005 approved the following amendments to the Memorandum to All Banks and Non-Bank Financial Institutions with Quasi-Banking Functions dated 16 February 2004 on the revised accounting guidelines on the sale of non-performing assets (NPAs) to Special Purpose Vehicles and to qualified individuals for housing under "The Special Purpose Vehicle (SPV) Act of 2002":

Section 1. Part I of the said Memorandum on the derecognition of NPAs sold and initial recognition of financial instruments received are hereby amended to read as follows:

"I. Derecognition of NPAs Sold and Initial Recognition of Financial Instruments Received

"A bank/FI should derecognize an NPA in accordance with the provisions of PAS 39 (for financial assets such as loans and securities) and PASs 16 and 40 (for non-financial assets such as land, building and equipment).

"A sale of NPA qualifying as a true sale pursuant to Section 13 of the SPV Law and its Implementing Rules and Regulations but not qualifying for derecognition under PASs 39, 16 and 40 may nonetheless, be derecognized. *Provided:* That the bank/FI shall disclose such fact, in addition to all other disclosures provided in this Memorandum.

"On derecognition, any excess of the carrying amount of the NPA (i.e., net of specific allowance for probable losses after booking the BSP recommended valuation reserve) over the proceeds received in the form of cash and/or financial instruments issued by the SPV represents an actual loss that should be charged to current period's operations.

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"However, a bank/FI may use any existing specific allowance for probable losses on NPA sold:

- (1) to cover any unbooked (specific/general) allowance for probable losses; and
- (2) to apply the excess, if any, as additional (specific/general) allowance for probable losses,

on remaining assets, in which case the carrying amount of the NPA (which is compared with the proceeds received for purposes of determining the actual loss) shall be the gross amount of the NPA: *Provided*, That the use of such existing specific allowance for probable losses on the NPA sold as provisions against remaining assets shall be properly disclosed.

"The loss may, moreover, be booked under "Deferred Charges" account which should be written down over the next ten (10) years based on the following schedule:

End of Period From Date of Transaction	Cumulative Write-down of Deferred Charges
Year 1	5%
Year 2	10%
Year 3	15%
Year 4	25%
Year 5	35%
Year 6	45%
Year 7	55%
Year 8	70%
Year 9	85%
Year 10	100%

Provided, That the staggered booking of actual loss on sale/transfer of the NPA shall be properly disclosed.

"In case the face amounts of the financial instruments exceed the excess of the carrying amount of the NPA over the cash proceeds, the same shall be adjusted by setting up specific allowance for probable losses so that no gain shall be recognized from the transaction.

"The carrying amount of the NPA shall be initially assumed to be the NPA's fair value. The excess of the carrying amount of the NPA over the cash proceeds or the face amounts of the financial instruments, whichever is lower, shall then be the initial cost of financial instruments received.

"Banks/FIs shall book such financial instruments under the general ledger account "Unquoted Debt Securities Classified as Loans" for debt instruments or "Investments in Non-Marketable Equity Securities (INMES)" for equity instruments.

"Consolidation of SPV with Bank/FI. Even if the sale of NPAs to SPVs qualifies for derecognition, a bank/FI shall consolidate the SPV in the audited consolidated financial statements when the relationship between the bank/FI and the SPV indicates that the SPV is controlled by the bank/FI in accordance with the provisions of SIC (Standing Interpretations Committee)-12 Consolidation – Special Purpose Entities."

Section 2. The illustrative accounting entries for derecognition of NPAs, initial recognition of financial instruments issued by the SPV, and subsequent measurement of the carrying amount of the financial instruments attached as Annex 1 to the said Memorandum is hereby amended by replacing the account "IBODI/Equity Investments" by "Unquoted Debt Securities Classified as Loans/Investments in Non-Marketable Equity Securities (INMES)," as per attached amended Annex 1.

Section 3. The pro-forma disclosure requirement attached as Annex 2 to the said Memorandum is hereby amended as per attached amended Annex 2.

This Memorandum shall take effect after fifteen (15) calendar 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

02 December 2005

**ILLUSTRATIVE ACCOUNTING ENTRIES TO RECORD SALE OF NPAs TO SPV UNDER THE SPV LAW OF 2002
UNDER DEFERRED RECOGNITION OF LOSS/IMPAIRMENT OF FINANCIAL INSTRUMENTS**

	Mode of Payment (Cash, Financial Instruments)				
	Cash Only (30, 0)	Financial Instruments Only (0, 120)	Part Cash, Part Financial Instruments 1/ (30, 100)	Part Cash, Part Financial Instruments 2/ (30, 90)	Part Cash, Part Financial Instruments (30, 70)
Assumptions:					
Loans/ROPAs, gross	120	120	120	120	120
All, for credit losses	20	20	20	20	20
Loans/ROPAs, net	100	100	100	100	100
Cash payment received	30	0	30	30	30
Financial instruments received	0	120	100	90	70
Unbooked valuation reserves on remaining assets	15	15	15	15	15

1/ Face amounts of financial instruments exceed the excess of the gross amount of the NPAs over the cash proceeds.

2/ Face amounts of financial instruments do not exceed the excess of the gross amount of the NPAs over the cash proceeds.

	Accounting Entries		Cash Only (30, 0)		Financial Instruments Only (0, 120)		Part Cash, Part Financial Instruments 1/ (30, 100)		Part Cash, Part Financial Instruments 2/ (30, 90)		Part Cash, Part Financial Instruments (30, 70)	
			Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
1	All. for Credit Losses – NPAs sold All. for Credit Losses – Remaining Assets <i>(For unbooked provisions)</i> <i>(As additional provisions)</i>		20		20		20		20		20	
	To record the reclassification of existing specific allowance for credit losses on NPAs sold as provisions against remaining assets.			15		15			15			15
				5		5			5			5

[illegible]

PRO-FORMA DISCLOSURE REQUIREMENT

A. Statement of Condition

Particulars	Amount		
	Qualified for Derecognition Under PFRS/PAS	Not Qualified for Derecognition Under PFRS/PAS	Total
Additional Information:			
NPAs sold, gross	xxx	xxx	xxx
Allowance for credit losses (specific) on NPAs sold	xxx	xxx	xxx
All. for credit losses (specific) on NPAs sold applied to:			
Unbooked allowance for credit losses:			
Specific	xxx	xxx	xxx
General	xxx	xxx	xxx
Additional allowance for credit losses:			
Specific	xxx	xxx	xxx
General	xxx	xxx	xxx
Cash received	xxx	xxx	xxx
Financial instruments received, gross	xxx	xxx	xxx
Less: All. for credit losses (specific)	xxx	xxx	xxx
Carrying amount of financial instruments received	xxx	xxx	xxx
Less: Unbooked all. for credit losses (specific)	xxx	xxx	xxx
Adj. carrying amount of financial instruments received	xxx	xxx	xxx
Deferred charges, gross	xxx	xxx	xxx
Less: Deferred charges written down	xxx	xxx	xxx
Carrying amount of deferred charges	xxx	xxx	xxx

B. Statement of Income and Expenses

Particulars	Amount		
	Qualified for Derecognition Under PFRS/PAS	Not Qualified for Derecognition Under PFRS/PAS	Total
Additional Information:			
Net income/(loss) after income tax (with regulatory relief)			xxx
Less: Deferred charges not yet written down	xxx	xxx	xxx
Unbooked all. for credit losses (specific) on financial instruments received	<u>xxx</u>	<u>xxx</u>	<u>xxx</u>
Total deduction	xxx	xxx	xxx
Less: Deferred tax liability, if applicable	<u>xxx</u>	<u>xxx</u>	<u>xxx</u>
Net deduction	<u>xxx</u>	<u>xxx</u>	<u>xxx</u>
Net income/(loss) after income tax (without regulatory relief)			xxx