



Bangko Sentral ng Pilipinas

MAYNILA, PILIPINAS

CIRCULAR LETTER

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

Subject: Intraday Liquidity Facility for the Implementation of Circular 266 thru the Improved Interbank Call Loan Funds Transfer System (MIPS2)

In its Resolution No. 1139 dated July 19, 2001, the Monetary Board, amended its Resolution No. 480 dated March 26, 2001 which approved the establishment of the Intraday Liquidity Facility (ILF) to support the implementation of Circular 266 thru MIPS2. Circular 266 amended the rules on settlement of transactions involving interbank loans and government securities under repurchase agreements with the Bangko Sentral ng Pilipinas (BSP) in connection with its open market operations. The Circular prescribes settlement of these transactions gross, on trade-for-trade basis and with finality, subject to the availability of balances in the deposit reserves maintained by banks and non-bank financial institutions with quasi-banking functions (NBQBs) with the BSP.

BSP recognizes that there are interbank transactions, other than check clearing, that are still settled on net basis. These interbank transactions include secondary trading of government securities and peso-netting arising from \$-Peso swaps. The ILF provides the smoothening mechanism in the settlement of these interbank transactions, which are not covered by Circular 266 but could cause a failure of settlement of transactions under MIPS2. The operation of the ILF is considered part of the BSP's open market operations.

The basic features of ILF are described in this document. The timeline and procedures are shown in **Annex 1**.

1. **Establishment of BSP-ILF-Principal Securities Account and Client Securities Account for each participating bank/NBQB with BTR-ROSS.** - The BSP-Accounting Department (BSP-AcD) shall open a RoSS Principal Securities Account (to be named BSP-ILF) and Client Securities Account (CSA-ILF) for each participant (to be named BSP-ILF - Name of Seller/Institution). To establish the CSA-ILF, each RoSS member participating bank/NBQB shall instruct the Bureau of Treasury (BTr) to move from its account with BTr-RoSS to the BSP-ILF account the pool of peso-denominated government securities to be set aside. Non-RoSS participants must first accomplish the required documents for RoSS membership prescribed by BTr. The instruction shall come in the form of "Confirmation of Transfer of Government Securities Sans Consideration" (COT-SC). (*Doc. No. 1*)
 - a. All participating banks/NBQBs shall submit to BTr-RoSS the CSA-ILF file securities that shall constitute the initial inventory of securities in diskette form using an Excel worksheet in accordance with the signed form schedule shown in **Annex 2**. The CSA-ILF e-file shall be supported by a signed COT-SC. In case discrepancies are detected by BTr in the contents of the CSA-ILF e-file, the whole file shall be rejected.



- b. After updating the RoSS for the instructions from the participating banks/NBQBs, BTr shall transmit the initial CSA-ILF e-file of individual participants to the BSP via cc:Mail addressed to mailbox "*BSP-ILF*" and to the individual participants.
2. **Eligible Securities** - Only government securities listed below that are free and unencumbered shall be eligible for the ILF. The securities shall be booked under either "*Investments in Bonds and Other Debt Instruments (IBODI) - ILF*" or "*Trading Account Securities (TAS) - ILF*".
- a. Peso-denominated issues of the National Government (NG) with remaining maturity life of at least eleven (11) days to ten (10) years, including Special Series Treasury Bills used as liquidity reserves under Circular 10.
- Special Series Treasury T-Bills used as liquidity reserves under Circular 10 should first be released by the ILF participants before said securities can be transferred to their CSA-ILF account by formally advising RoSS on such transfer.
- b. US\$ denominated bonds issued by the NG with remaining life of at least eleven (11) days.
3. **Intraday Bank Limit** - Banks/NBQBs shall set their individual ILF limits based on the amount of government securities delivered to the CSA-ILF pool.
4. **Valuation of Securities** - The government securities in CSA-ILF shall be valued based on the 11:16 A. M. fixing rates on the last banking day of the week when the documents are submitted to BSP-AcD, from applicable Bloomberg's MART pages. Securities that are not quoted in said MART pages shall be valued based on the price to be mutually agreed by BSP-Treasury Department (BSP-TD) and the participating bank/NBQB.

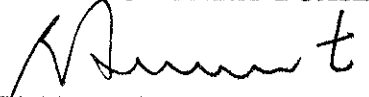
BSP shall adopt the following valuation guidelines for the Peso-denominated government securities:

Tenor (Remaining Life)	Valuation
Up to 182 days	90 % of market value
More than 182 days but less than 5 years	80 % of market value
5 years up to 10 years	70 % of market value

5. **Margins** - Margins shall be applied based on the remaining life of the security and on existing procedures of the BSP-TD.
6. **Access to ILF and Repayments of O/N-RP** - At the start of the banking day, participating banks/NBQBs shall sell to BSP the securities in the CSA-ILF pool based on the value established in Section 4. BSP shall credit the proceeds of the sale to the respective demand deposit (DD) accounts of the seller with BSP (*Doc. No. 2*). At 5:30 P.M., BSP shall sell back the securities at the same price in accordance with the guidelines stated below.
- a. In case the DD balance is not sufficient to cover the purchase transaction, BSP-TD and the participating bank/NBQB shall mutually agree on either of two options:

- i. BSP-TD shall extend an overnight repurchase agreement (O/N RP) at 600 basis points over BSP's lending rate for the day.
 - ii. BSP-AcD shall sell back to the participating bank/NBQB only to the extent of the DD balance and the bank shall issue an instruction to BTr to transfer the securities from the CSA-ILF of the BSP ILF principal securities account to BSP-TD regular principal securities account using *Confirmation of Sale (Doc. No. 3)*
- b. The O/N RP shall be paid not later than 11:00 A.M. on maturity date. Unpaid O/N-RP shall be converted into an absolute sale to BSP of the collateral.
7. **Changes in Securities in the CSA-ILF Pool** - Participating banks/NBQBs may increase or reduce their intraday bank limit by submitting to BTr an adjusted CSA-ILF e-file **not later than 12:00 noon** on the last banking day of the week. BTr shall post the adjusted CSA-ILF file and transmit the updated CSA-ILF e-file **not later than 9:30 A.M. of the immediately following banking day after date of receipt** from the participating bank/NBQB.
8. **Transaction Fee** - BSP shall collect a commitment fee of 20 basis points per annum on the intraday bank limit and transaction fee of P100.00. The cost of maintaining the CSA-ILF to be charged by BTr shall be borne by the participating bank/NBQB.
9. **System for Monitoring Movement of Securities** - The BSP-AcD shall maintain the CSA-ILF file in tandem with the BSP Financial Accounting System (FAS). The CSA-ILF file shall be updated for the following transactions:
 - a. Use of securities as collaterals of O/N-RP
 - b. Transfer from the BSP-ILF to the BSP-TD principal account with BTr-RoSS on account of an absolute sale evidenced by the issue of Confirmation of Sale by the bank/NBQB and the *Confirmation of Purchase (Doc. No. 4)* by the BSP-TD.
10. **Availability of the Facility** - The ILF shall be available in its fully automated form after completion of the user acceptance testing by market participants, BSP and BTr and upon signing of the memorandum of agreement by and among BSP, BTr and the Bankers Association of the Philippines in behalf of its members. Participating banks and NBQBs shall sign individual participating agreements.

FOR THE MONETARY BOARD


RAFAEL B. BUENAVENTURA
Governor

July 31, 2001

**TIMELINE, POLICIES AND PROCEDURES FOR IMPLEMENTATION OF
INTRADAY LIQUIDITY FACILITY (ILF) TO SUPPORT MIPS**

Date	Time	Participating Bank/NBQB	BSP Treasury	Bureau of the Treasury (BTR)	BSP Accounting
1. Establish Collateral Pool including Subsequent Amendments					
One week before effectivity	Not later than 12:00 noon of the last banking day of the week	Banks shall submit to BTR e-file of securities covered by a "Confirmation of Transfer Sans Consideration" (COT-SC) 1. Maturities of at least 11 days to 10 years 2. Free and unencumbered 3. Marked as non-tradable 4. Booked as IBODI-ILF or TAS-ILF		BTR shall transmit initial CSA-ILF file of individual participants to BSP via CC-mail addressed to "BSP-ILF"	BSP-AcD shall open a ROSS Principal Securities Acct. (BSP-ILF) and Client Securities Account (CSA) for each participant (BSP ILF) Name of seller/institution BSP-AcD confirms receipt of CSA-ILF with individual participants
	9:30 a.m. immediately following banking day		Using API of Bloomberg, downloads the 11:16 am fixing rates of the last banking day of the week and sends extracted prices file to BSP AcD; if prices are not quoted for a given security, it will not be given values; BSP-TD and bank/NBQB shall mutually agree on the price	BTR shall post the adjusted CSA-ILF file and transmit the updated CSA-ILF e-file not later than 9:30AM immediately on the following banking day to BSP and participating banks	Calls valuation program, Sets up intraday facility file for following week's settlement operations. Total collateral value - Individual bank/NBQB ILF limit
2. Utilization of Intraday Liquidity Facility					
DAY 1	9:45 a.m.				Revalued GS collaterals are sold to BSP at start of banking day and proceeds are credited to banks' DDA as ILF participants
DAY 1	10:00AM to 4:00 PM	Transacts eligible interbank transactions other than check clearing			Settles interbank transactions using available DDA funds which includes proceeds from sale of collaterals to BSP at start of the day

**TIMELINE, POLICIES AND PROCEDURES FOR IMPLEMENTATION OF
INTRADAY LIQUIDITY FACILITY (ILF) TO SUPPORT MIPS**

Date	Time	Participating Bank/NBQB	BSP Treasury	Bureau of the Treasury (BTR)	BSP Accounting
DAY 1	4:01 P.M. to 5:00 P.M.				Updates DDA for previous hours' transactions of BSP internal departments including BSP regional and PCHC clearing results
DAY 1	5:30 P.M.	Participants purchase back GS sold to BSP at start of banking day at same price	Prints register of unsettled ILF utilization In case of insufficient DDA BSP TD and participating bank shall agree on 2 options 1. O/N - RP 2. BSP-AcD to sell back to participating banks/NBQB to the extent of DDA		BSP-ILF system to debit DDA and credit banks' ILF accounts corresponding to their ILF limit
DAY 1	5:31 P.M. to 6:15 P.M.		Selects securities to be either a) used as collaterals for O/N RP, or b) purchased and transferred to BSP-TD regular principal securities account (in case demand deposit balance is not sufficient to cover ILF availments) Recognizes O/N-RP or issues a Confirmation of Purchase depending on agreed option Generates Confirmation of Purchase and Confirmation of Sale in case of option no. 2 Upon receipt of Confirmation of Sale, issues signed Confirmation of Purchase	BTR to transfer the securities from CSA-ILF of the BSP ILF principal securities account to BSP-TD regular principal securities account (in case of option no. 2)	Updates DDA for IBCL third trading window Instructs BTR to transfer the securities from the CSA-ILF of the BSP ILF principal securities account to the BSP-TD regular principal securities account using Confirmation of Transfer Sans Consideration (in case of option no. 2) ILF system will rank securities based on following criteria and update collateral file (mark) 1. Shortest remaining life 2. Value less than and closest to par

**TIMELINE, POLICIES AND PROCEDURES FOR IMPLEMENTATION OF
INTRADAY LIQUIDITY FACILITY (ILF) TO SUPPORT MIPS**

Date	Time	Participating Bank/NBQB	BSP Treasury	Bureau of the Treasury (BTR)	BSP Accounting
3. Repayment of O/N RP					
DAY 1	5:31 P.M. to 6:15 P.M.		Prints transaction ILF register and proofsheets		
DAY 2	Not later than 11:00 A.M.		Sends maturing O/N-RP to BSP Accounting Converts automatically unpaid O/N- RP into absolute sale of collateral using Confirmation of Sale (COS) and Confirmation of Purchase (COP) provision in the standby contract Generates Confirmation of Purchase and Confirmation of Sale in case of absolute sale Upon receipt of Confirmation of Sale, issues signed Confirmation of Purchase	BTr to transfer the securities from CSA-ILF of the BSP ILF principal securities account to BSP-TD regular principal securities account	Settles matured O/N- RP thru DDA balance at start of day, if sufficient Effects transfer from RP to Sale of GS Instructs BTr to transfer the securities from the CSA-ILF of the BSP ILF principal securities account to the BSP-TD regular principal securities account using Confirmation of Transfer Sans Consideration

DEALER NO.	ACCT. NO.	REMARKS
FROM: XXX	XXX	Regular RoSS Account No. of Securities Dealer
TO: 648	XXX	ILF RoSS Account of Securities Dealer

Transaction No. _____

Director
Liability Management Service
Bureau of the Treasury
2/F Palacio del Gobernador Building
1002 Intramuros, Manila

Attention: REGISTRY OF SCRIPLESS SECURITIES

CONFIRMATION OF TRANSFER OF
GOVERNMENT SECURITIES SANS CONSIDERATION

The _____, does hereby INSTRUCTS and AUTHORIZES you to transfer unto _____, under the account BSP-ILF the following described Government Securities held by the Bureau of the Treasury under the Registry of Scripless Securities (ROSS) System:

ISIN	TERM	ISSUE DATE	MATURITY DATE	FACE AMOUNT	PRICE
_____ (Code)		_____ (Account Number)			

Name of GSED/Non-GSED

(Signature of Authorized Signatory)

(Designation)

(Test Key)

REGISTRY OF SCRIPLESS SECURITIES

Transaction No. _____
Value Date _____

Acknowledgement

This is to acknowledge receipt of the instruction Confirmation of Transfer of GS Sans Consideration, _____

Details of which are as follows:

ISIN	TERM	ISSUE DATE	MATURITY DATE	FACE AMOUNT	PRICE
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Date _____

Very truly yours,

BTR Authorized Official

Letterhead of the Selling Bank

SALE AND PURCHASE AGREEMENT OF GOVERNMENT SECURITIES

For and in consideration of the Intraday Liquidity Facility to be established by the Bangko Sentral ng Pilipinas (BSP) in favor of the _____ (the "Bank") in the amount not exceeding P_____, the Bank hereby agrees on the sale of the pool of government securities lodged under the account CSA-ILF in the name of the Bank with the Bureau of Treasury and subject of the Confirmation of Transfer Sans Consideration copy of which is attached hereto.

The Bank hereby authorizes the BSP to credit to its Demand Deposit Account with the BSP the value of the pool of securities under the CSA-ILF as determined in accordance with Section 4 of the Circular Letter dated _____ and to debit and credit to the same Demand Deposit Account transactions mentioned under Section 6 of the said Circular Letter.

The government securities in the CSA-ILF Pool and the amount Intraday Liquidity Facility established may, however, be changed in accordance with Section 7 of the said Circular Letter. Unless sooner terminated, this Agreement shall be effective for the period covering _____ to _____, 200__.

AUTHORIZED SIGNATORY

BSP

AUTHORIZED SIGNATORY

Bank

LETTERHEAD OF THE SELLER

Transaction No. _____
 Value Date _____

CONFIRMATION OF SALE OF GOVERNMENT SECURITIES

The _____, does hereby CONFIRM that it has SOLD, TRANSFERRED AND CONVEYED unto _____, pursuant to the Sale and Purchase Agreement executed for the period covering _____ to _____, 200__, all of its rights, titles and interests over the following described Government Securities, held by the Bureau of Treasury under the Registry of Scripless Securities (RoSS) System.

<u>ISIN</u>	<u>TERM</u>	<u>ISSUE DATE</u>	<u>MATURITY DATE</u>	<u>FACE AMOUNT</u>	<u>PRICE</u>
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 (Code)

 (Account Number)

 (Name of GSED/Non-GSED)

 (Signature of Authorized Signatory)

 (Designation)

BSP LETTERHEAD

Transaction No. _____
Value Date _____**CONFIRMATION OF PURCHASE OF GOVERNMENT SECURITIES**

The _____, does hereby CONFIRM that it has PURCHASED from _____, pursuant to the Sale and Purchase Agreement executed for the period covering _____ to _____, 200__, all of its rights, titles and interests over the following described Government Securities, held by the Bureau of Treasury under the Registry of Scripless Securities (RoSS) System.

<u>ISIN</u>	<u>TERM</u>	<u>ISSUE DATE</u>	<u>MATURITY DATE</u>	<u>FACE AMOUNT</u>	<u>PRICE</u>
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(Code)_____
(Account Number)_____
Signature of Authorized Signatory)_____
(Name of Authorized Signatory)_____
(Designation)