



BANGKO SENTRAL NG PILIPINAS

OFFICE OF THE GOVERNOR

**CIRCULAR NO. 1035
Series of 2019**

**Subject: Amendments to the Basel III Liquidity Coverage Ratio Framework
and Minimum Liquidity Ratio Framework**

The Monetary Board, in its Resolution No. 301 dated 21 February 2019, approved the: (1) extension of the observation period of the minimum Basel III Liquidity Coverage Ratio (LCR) requirement to 31 December 2019 for subsidiary banks and quasi-banks (QBs) of universal and commercial banks (U/KBs), (2) adoption of a seventy percent (70%) LCR floor for subsidiary banks and QBs during the observation period; (3) amendments to the LCR framework under Subsections X176.1/4176Q.1 to X176.2/4176Q.2 and Appendix 74a/Q-44b of the Manual of Regulations for Banks (MORB)/Manual of Regulations for Non-bank Financial Institutions (MORNBFi); and (4) amendments in the formula of the Minimum Liquidity Ratio (MLR) under Subsection X176.3/4176Q.3 of the MORB/MORNBFi.

Section 1. Subsection X176.1/4176Q.1 of the MORB/MORNBFi on LCR are hereby amended as follows:

Subsection X176.1/4176Q.1 Liquidity Coverage Ratio (LCR). x x x

x x x

c. Implementation - The implementation of the minimum LCR shall be phased in to help ensure that the banks/QBs concerned can meet the standard through reasonable measures without disrupting credit extension and financial market activities. In order to facilitate compliance, banks/QBs shall undergo an observation period before the LCR becomes a minimum requirement. Subsidiary banks/QBs of UBs/KBs shall be subject to an LCR floor of seventy percent (70%) during the observation period. The timelines are set out in the table below:

	Observation Period	Minimum LCR	
UBs/KBs	01 July 2016 – 31 December 2017	01 January 2018 and thereafter– 90%	Starting 01 January 2019 – 100%
Subsidiary Banks and QBs of UBs/KBs	23 February 2018 - 31 December 2019 Floor of 70% - to be applied in 2019		Starting 01 January 2020 – 100%

Requirements during the observation period. x x x

During the observation period, the Bangko Sentral is not precluded from assessing the compliance of the banks/QBs concerned with the LCR requirement. Banks/QBs with LCRs that are already at or near the prescribed minimum should not view the

transition period as an opportunity to reduce their liquidity coverage. Where a bank/QB is unable to meet the minimum LCR, as applicable, in single currency on either solo or consolidated basis, as applicable, for two consecutive weeks during the observation period, the bank/QB shall adopt a board-approved liquidity build-up plan not later than thirty (30) calendar days from the end of the two-week period. The plan should clearly articulate the said bank's/QB's defined strategies and timelines for meeting the required LCR, taking into account compliance with other prescribed liquidity metrics and should also include quarterly estimates of the LCR prior to the effectivity date. The build-up plan shall be submitted to the appropriate supervising department of the Bangko Sentral, within ten (10) banking/business days from the date of board approval. The supervising department concerned will evaluate and monitor the continuing compliance of the bank/QB with the said plan.

In light of the extended observation period, subsidiary banks/QBs concerned that have submitted a liquidity build-up plan in 2018 may revise the same, if they deem necessary: *Provided, That*, the revised liquidity plan shall be adopted by the concerned bank's/QB's Board not later than thirty (30) calendar days from effectivity of this Circular.

In case of non-compliance, the Bangko Sentral may require the bank/QB concerned to undertake a set of actions. The Bangko Sentral may likewise impose enforcement actions as provided under Section X176.20/4176Q.20 of the MORB/MORNBFI.

Section 2. Subsection X176.2/4176Q.2 of the MORB/MORNBFI on LCR disclosure requirements are hereby amended as follows:

Subsection X176.2/4176Q.2 LCR disclosure requirements. To improve the transparency of the regulatory liquidity requirement, enhance market discipline, and reduce uncertainty in the market, covered banks/QBs shall publicly disclose information related to the LCR in single currency and on solo and consolidated bases as prescribed under Part II of *Appendix 74a/Appendix Q-44b* starting year 2019 for UBs/KBs and year 2020 for subsidiary banks/QBs of UBs/KBs. The mandatory disclosure requirements in single currency should be included in the quarterly published balance sheet, as well as in the annual reports or published financial reports (e.g., the audited financial statements)."

Section 3. Part I of Appendix 74a of the MORB on the detailed LCR framework is hereby amended as follows:

"Part I. Liquidity Coverage Ratio (LCR) Framework

I. Definition of Terms

x x x

II. LCR Calculation

x x x

18. The total net cash outflows, which should include interests and installments that are expected to be received and paid during the LCR period, are calculated as follows:

$$\text{Total net cash outflows over the next 30 calendar days} = \text{Total expected cash outflows} \\ - \text{Min \{total expected cash inflows; 75\% of the total expected cash outflows\}}$$

- 19.a. The bank is not allowed to double count items in the calculation of the LCR. If a liquid asset is included as part of the stock of high-quality liquid assets (HQLA) (which is the numerator), the cash inflows associated with that liquid asset should no longer count as part of the total expected cash inflows (which is part of the denominator).
- 19.b Cash flows arising from Foreign Exchange (FX) spot transactions that involve the full exchange of principal amounts need not be reported as a cash flow in determining compliance with the LCR in single currency. However, cash flows for FX spot transactions shall be reported in their original currency at gross amounts in determining compliance with the LCR in significant currency.

x x x

42. The bank shall calculate expected contractual derivative cash inflows and outflows in accordance with existing valuation methodologies. A 100% outflow factor shall be assigned to the net cash outflows within the LCR period from each derivative contract maturing or expected to be pre-terminated within the LCR period.
43. Where derivative payments are collateralized by HQLA, the cash outflows shall be calculated net of any corresponding cash or collateral inflows that would result, all other things being equal, from contractual obligations for cash or collateral to be posted to the bank; Provided, the bank is legally entitled and operationally capable to re-use the collateral in new cash raising transactions once the collateral is received. This is in line with the principle that banks should not double count liquidity inflows and outflows.
44. Options shall be assumed to be exercised when they are "in the money" to the option buyer.
45. Additional cash outflow¹⁴ for liquidity requirements resulting from contingent obligations embedded in derivative contracts, if any, shall be included in the calculation of total expected cash outflows, with outflow rates assigned as follows:

(i) Potential valuation changes on posted collateral securing derivative and other transactions: 20% outflow rate

46. When a mark-to-market exposure from a derivative position is secured by securities other than those that qualify as Level 1 assets, an additional stock of HQLA shall be maintained by the bank posting such collateral to cover the potential loss of market value for these securities. Twenty percent (20%) of the value of such posted collateral, net of collateral received on a counterparty basis, shall be included in the calculation of total expected cash outflows, *Provided*, That the collateral received is not subject to restrictions on re-use or rehypothecation. This 20% shall be calculated based on the amount required to be posted as collateral after applying the relevant haircut prescribed for these assets. Any collateral that is in a segregated margin account can only be used to offset outflows that are associated with payments that are eligible to be offset from that same account.

(ii) Market valuation changes on derivative or other transactions: 100% outflow rate

47. Potential valuation changes of derivative or other transactions, which are subject to collateral requirements, require additional outflows. Using the historical look-back approach, the outflows shall be based on the fluctuations in the total current market value amount of collaterals posted for all derivatives for each day within consecutive periods of thirty (30) days. The amount of additional expected cash outflows shall be equal to the largest difference between the highest and the lowest amount of accumulated collateral posted during any thirty (30)- day period in the last 24 months¹⁵ preceding the date of the LCR calculation. The collateral amounts pledged towards the bank shall not be taken into account.

(iii) Downgrade triggers embedded in financing transactions, derivatives and other contracts¹⁶: 100% outflow rate

48. x x x

(iv) Excess non-segregated collateral held by the bank: 100% outflow rate

49. An additional 100% cash outflow based on the market value of the collateral held must be calculated as part of the total expected cash outflows in cases where the bank holds a collateral that:
- Can be contractually called at any time by the counterparty because the collateral posted exceeds the counterparty's current collateral requirement under the contract; and
 - Is not segregated from the bank's other assets (such that the bank holding the collateral may have already rehypothecated the asset or counted the same as HQLA).

(v) Contractually required collateral which are not yet posted: 100% outflow rate

50. For a collateral that is contractually due but the posting of which is not yet demanded by the counterparty, the bank shall increase the total expected cash outflows by an amount equivalent to 100% of the market value of the collateral.

(vi) Collateral substitution to non-HQLA or lower-quality HQLA¹⁷: 100% outflow rate

51. When a contract for a transaction allows the HQLA collateral received that has not been segregated to be substituted by other collateral without the consent of the bank, an additional outflow shall be included in the calculation of the total expected cash outflows. The basis for calculating the amount of the outflow depends on the type of asset that may serve as a potential substitute under the contract. Where the potential substitute collateral is a non-HQLA, the amount of outflow shall be equivalent to 100% of the market value of the HQLA collateral held by the bank. Where the potential substitute is another HQLA but of a lower quality (e.g., a Level 1 asset is potentially substituted by a Level 2 asset), the amount of the outflow shall be equivalent to the market value of the collateral received multiplied by the difference between the haircuts of the collateral received and the potential substitute collateral.

x x x

74. The following instruments or transactions maturing within the LCR period shall receive a 100% inflow percentage:

x x x

- g. The sum of all cash inflows from derivatives transactions calculated in accordance with *paragraphs 42 to 44 under Section II.C – Total Net Cash Outflows.*"

Section 4. Items 53 to 75 of Appendix 74a of the MORB shall be renumbered to items 52 to 74.

Section 5. The revised regulations under Appendix 74a of the MORB shall be adopted in Appendix Q-44b of the MORNBF and shall apply to QBs concerned.

Section 6. Subsection X176.3/4176Q.3 of the MORB/MORNBF on the minimum liquidity ratio for stand-alone thrift banks, rural banks, cooperative banks and quasi-banks are hereby amended as follows:

“Subsection X176.3/4176Q.3 Minimum Liquidity Ratio (MLR) for Stand-Alone Thrift Banks, Rural Banks, Cooperative Banks and Quasi-Banks. x x x.

a. Minimum requirement - A prudential MLR of twenty percent (20%) x x x. The liquidity ratio is expressed as a percentage of a bank's/QB's eligible stock of liquid assets to its total qualifying liabilities.

(1) The stock of liquid assets shall consist of:

(a) Cash on hand;

x x x

(d) Eligible debt securities representing claims on or guaranteed by -

(i) The Philippine national government (NG) and the Bangko Sentral; or

(ii) Sovereigns, central banks of foreign countries, or x x x Part III of *Appendix 63c* of the MORB/Subsec. 4116Q.3 of the MORNBFi;

(e) Deposits in other banks; and

(f) Interbank loans receivable with contractual maturity dates that fall within the next 30 calendar days.

Provided, That the amounts to be included in the stock of liquid assets are immediately liquefiable and free from encumbrances. The stock of liquid assets shall be based on their net carrying amounts.

(2) The qualifying liabilities shall consist of the following:

(a) Total liabilities, where the following obligations are subject to the conversion factors set out in the table below:¹

Liability	Conversion Factor
• Retail current and regular savings deposits ² with outstanding balance per account of P500,000 and below	50%
• Deposits where the account holder has no contractual or legal discretion to withdraw said deposit or pre-terminate the account within the next 30 calendar days (e.g., negotiable certificates of deposits)	0%
• Borrowings that are non-callable in, or have contractual maturity dates beyond, the next 30 calendar days	0%
• Obligations arising from operational expenses	0%

Liability accounts that are not assigned conversion factors shall be included as qualifying liabilities at their full carrying amounts.

¹ To calculate the amount that shall be included as qualifying liabilities, the carrying amount of the liability account shall be multiplied by the corresponding conversion factor.

² This refers to current and savings deposits raised by the bank from individual clients, including sole proprietorships and partnerships, and those classified as micro and small enterprises.

- (b) Irrevocable obligations under off-balance sheet items, such as:
- (i) Guarantees issued;
 - (ii) Trade related guarantees;
 - (iii) Letters of credit; and
 - (iv) Other committed credit lines.

b. *Reporting and monitoring requirements. x x x."*

Section 7. The amended MLR reporting template for Stand-Alone Thrift Banks, Rural Banks, Cooperative Banks and QBs is in Attachment 1. The guidelines governing the mode and manner of submission of the electronic reporting template shall be covered by a separate issuance.

Section 8. 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

15 March 2019

DEADLINE : 15 banking days after
end of reference month

SUBMISSION : Original copy to the
Supervisory Data Center

**FOR STAND-ALONE THRIFT, RURAL AND COOPERATIVE BANKS AND NON-BANK FINANCIAL INSTITUTIONS WITH
QUASI-BANKING AUTHORITY**

(Name of Bank/Quasi-Bank)	(Code)
(Address)	

COMPUTATION OF MINIMUM LIQUIDITY RATIO
Solo Basis

As of _____ (Month-End)

REPUBLIC OF THE PHILIPPINES)
_____) S.S.

I/We solemnly swear that all matters set forth in this report and all its supporting schedules are true and correct, to the best of my/our knowledge and belief.

(Signature over Printed Name of
President, or Executive Vice President and Chief
Accountant/Comptroller)

Name of Bank/Quasi-Bank
Minimum Liquidity Ratio
As of (Month-End)
(in PHP, Absolute Amounts)

PART I. MINIMUM LIQUIDITY RATIO (MLR)			
Item	Nature of Item	Reference	Amount
A.	Stock of Liquid Assets	Part II, Item B	-
B.	Qualifying Liabilities	Part III, Item D	-
C.	MLR [A divided by B]		

PART II. STOCK OF LIQUID ASSETS		
Item	Nature of Item	Amount
A.	Stock of Liquid Assets	
(1)	Cash on hand	
(2)	Bank reserves in the BSP	
(3)	Overnight and term deposits with the BSP	
(4)	Reverse repos with the BSP	
(5)	Debt securities representing claims on or guaranteed by -	
(a)	The Philippine national government (NG) and the Bangko Sentral	
(b)	Sovereigns and central banks of foreign countries with external credit ratings of at least AA- or its equivalent	
(c)	Multilateral organizations with external credit ratings of at least AA- or its equivalent	
(6)	Deposits in other banks [Sum of 6(a), 6(b) and 6(c)]	-
(a)	Deposits in universal and commercial banks	
	Of which, P are deposited with related parties ^{1/}	
(b)	Deposits in thrift banks	
	Of which, P are deposited with related parties ^{1/}	
(c)	Deposits in rural and cooperative banks	
	Of which, P are deposited with related parties ^{1/}	
(7)	Interbank loans receivable with contractual maturity dates within the next 30 calendar days	
	Of which, P are loans to related parties ^{1/}	
B.	Total [Sum of A(1) to A(7)]	-

^{1/} Refer to item "n" of Subsection X141.1 of the MORB/item "(5)(a)" of Subsection 4141Q.3 of the MORNBF for the definition of related parties.

PART III. QUALIFYING LIABILITIES (in Absolute Amount)				
Item	Nature of Item	(a) Amount	(b) Conversion Factor	(c) Adjusted Amount (a * b)
A. Qualifying Liabilities				
(1) Retail current and regular savings deposits ^{1/} with outstanding balance per account of P500,000 and below			50%	-
Of which, deposits by related parties ^{2/} : P				
(2) Deposits where the account holder has no contractual or legal discretion to withdraw said deposit or pre-terminate the account within the next 30 calendar days (e.g., negotiable certificates of deposits)			0%	-
(3) Borrowings that are non-callable in, or have contractual maturity dates beyond, the next 30 calendar days			0%	-
Of which, unsecured subordinated debt: P				
(4) Obligations arising from operational expenses			0%	-
(5) Total on-balance sheet liabilities				
(6) Deduct: [Sum of A(1) to A(4)]		-		
B. Other on-balance sheet liabilities [Item A(5) less A(6)]		-	100%	-
Of which, deposits by related parties ^{2/} : P				
unsecured subordinated debt : P				
C. Irrevocable obligations under off-balance sheet items: [Sum of C(1) to C(5)]		-	100%	-
(1) Guarantees issued				
(2) Trade related guarantees				
(3) Letters of credit				
(4) Other committed credit lines				
(5) Others				
D. Total [Sum of Adjusted Amount A(1), A(2), A(3), A(4), B and C]				-

1/ This refers to current and savings deposits raised by the bank from individual clients, including sole proprietorships and partnerships, and those classified as micro and small enterprises. Special savings accounts shall be part of the liabilities under Item B - Other on-balance sheet liabilities.

2/ Refer to item "n" of Subsection X141.1 of the MORB/item "(5)(a)" of Subsection 4141Q.3 of the MORNBF for the definition of related parties.