



Bangko Sentral ng Pilipinas

MEMORANDUM NO. M-2007- 044
Series of 2007

TO : ALL BANKS

Subject : Frequently Asked Questions (FAQs) on the Financial Reporting Package (FRP)

In view of the live implementation of the Financial Reporting Package issued under Circular No. 512 dated 3 February 2006, as amended, the following additional guidance in the preparation of the report are issued:

FRP GENERAL STRUCTURE AND SUBMISSION

- 1. *Will the other BSP reports such as but not limited to SME, Agri-agra and CAR continue to be submitted upon the live implementation of the FRP?***

Yes, banks will be advised later on as to which reports shall be dropped.

- 2. *If a bank opts to submit its FRP electronically, will it still be required to transmit a hard copy of the report?***

No. But the bank is required to submit to the BSP within the prescribed submission deadline, the duly notarized control prooflist of the FRP signed by an authorized signatory.

- 3. *What format should we use in submitting the FRP templates?***

The FRP may be submitted in either the dbf or the excel format but not a combination of both formats.

- 4. *Are banks required to submit schedules that are not applicable or there is nothing to report (e.g. Schedule 3 and 3a for banks with no financial assets booked under the Held for Trading category)?***

The FRP template is composed of several files and each file has various sheets representing different schedules in the FRP. For example, the file FINASSET.xls contain schedules 3-3a, 4-4a, 5, 6 and so forth. Thus, while Schedules 3 and 3a are not applicable, the same shall be submitted since it is part of the FINASSET.xls file. In this case, banks shall skip the said schedules or input zero values.

PANANALAPING MATATAG, BANSANG PANATAG

5. ***What is the proper classification of sole proprietorship and partnership in the FRP?***

Sole proprietorship and partnership shall be considered as corporations for FRP purposes.

6. ***Why is it that the FRP template does not accept certain balances (i.e. credit balance for assets or debit balance for liabilities)?***

The FRP was designed to accept only normal balances of accounts to ensure accuracy in reporting. Thus, in cases where an asset has a negative balance, this should be reclassified and reported as a liability. An example of which is the overpayment by a borrower of his accrued interest, which should be reported as a liability.

7. ***Are all amounts reported in the FRP schedules validated against the balances in the main reports (i.e. Balance Sheet and Income Statement) and other schedules?***

Generally, the balances in the main reports are validated against the breakdown totals in the supporting schedules. Thus, the amount reported as "Checks and Other Cash Items" in the Balance Sheet is reconciled with the totals reported in Schedule 1. In the same manner, the balance of "Due from Other Banks" is matched against the totals in Schedule 2.

8. ***What is the purpose of the "Additional Information Section" and why is it necessary that we accomplish the same?***

The additional information section requires disclosure of information necessary for validating compliance with other BSP requirements and for statistical purposes.

9. ***Are the amounts reported in the "Additional Information Section" validated against the breakdown totals in the supporting schedules?***

Not all amounts reported in the "Additional Information Section" are reconciled with the breakdown totals in the supporting schedules as some of these only comprise a portion of the reported balances. For example, the amount reported as Due from PCHC in the Additional Information should not exceed the total reported in Schedule 2. This is because the account Due from PCHC is only a part of the total Checks and Other Cash Items. On the other hand, the totals in the supporting schedules should reconcile with the amounts reported in the "Classified as to Original Term" in the Additional Information Section.

FRP MANUAL OF ACCOUNTS AND SCHEDULES

10. *What should be reported under Schedule 3a? Does this pertain to securities received as collateral under a Repurchase Agreement?*

Schedule 3a shall only be limited to debt securities booked under the Held for Trading (HFT) category. Hence, the amounts reported in Schedule 3a should reconcile with the total debt securities reported in Schedule 3.

Schedule 3a provides breakdown of a bank's HFT-Debt Securities portfolio. For example, if a bank purchased a Treasury Bond and booked it under the HFT category (Schedule 3), the same shall be reported under Schedule 3a - A. National Government (1) GS Purchased.

If the GS in this example is subsequently used by the bank as collateral in Repurchase Agreement, the said GS shall now be reflected in Schedule 3a - A. National Government (2) GS Sold under Repurchase Agreement (RA). In this regard, Schedule 3a pertains to securities used as collateral under Repurchase Agreement, Securities Lending and Borrowing Transactions and Certificates of Assignment/Participation with Recourse.

11. *What should be reported under the "positive/negative fair value" column in Schedule 4?*

The "Positive/Negative Fair Value" column in Schedule 4 refers to the mark-to-market amount of the derivative contracts. A separate column is provided for the notional amount of these contracts.

12. *Where should the fair value of the Forward Leg of Swap under Schedule 4a be reported – does it fall under the Forwards column or Swaps column?*

Though a Forward Leg of a Swap is technically a part of swap transaction, it shall be reported under the Forwards column in Schedule 4a. For purposes of validation, the total fair value of forwards in Schedule 4a is reconciled against the total fair value of stand-alone and embedded forward derivative contracts.

13. *Where should we report the negative fair value of derivative contracts?*

The negative fair value of derivative contracts shall be recorded in the Liability section of the Balance Sheet and booked under the account "Derivatives with Negative Fair Value Held for Trading". Said amount shall also be reported in Schedules 4 and 4a. Thus, the amount reported as "Derivatives with Negative Fair Value Held for Trading" in the Liability section of the Balance Sheet should reconcile with the amounts reported in Schedules 4 and 4a under the corresponding columns for derivatives with negative fair value.

14. What accounts in the FRP shall comprise the Total Loan Portfolio?

The total loan portfolio shall be comprised of the following:

- (a) Loans to Bangko Sentral ng Pilipinas
- (b) Interbank Loans Receivable
- (c) Loans and Receivables – Others
- (d) Loans and Receivables Arising from Repurchase Agreements, Certificates of Assignment/Participation with Recourse and Securities Lending and Borrowing

15. How should loans be reported under Schedule 11?

Loans and Receivables – Others shall be reported at its net carrying amount (i.e. after allowance for specific credit losses) and classified primarily based on the reporting bank's compliance with existing regulations (e.g. Agri/Agra, SME). Loans that are not used for purposes of compliance, shall be reported based on counterparty.

16. Under Schedules 11 and 11f of the FRP, how do we report loans that are used as compliance for the mandatory credit allocation for both Agrarian Reform/Other Agricultural Loans and SME?

Loans used to comply for both SME and Agri-Agra requirements shall be classified under the SME line item and such amount shall be disclosed in the row provided for the superscript "a/" after the total row.

For example, if a bank grants a loan to a GOCC which qualifies and is used as compliance for both Agri-Agra and SME, the said loan shall be reported under the SME line item in Schedule 11 at its net carrying amount (net of allowance for specific credit losses). In the same schedule, the said loan shall be disclosed under superscript "a/" after the total row. Under Schedule 11f, this loan shall be reported under the GOCC line item under the SME column.

17. Under Schedule 11c of the FRP, what amount should be reported under the opening balance column?

The opening balance refers to the ending balance reported in the last reporting period. Thus, during the parallel run when the FRP is submitted on a quarterly basis, the opening balance shall refer to the ending balance of the previous quarter.

18. What transactions should be reported under Schedule 12? How should we accomplish Schedule 12a?

In a Repurchase Agreement (Repo), the lender of funds shall record the amount lent as Loans and Receivables Arising from Repurchase Agreements, Securities Lending and Borrowing Transactions, Certificates

of Assignment/Participation with Recourse and reported under Schedule 12. The collateral received in this transaction shall be recorded as a memorandum entry.

For Schedule 12a, the amortized cost of the loan shall be reported in the line item corresponding to the transferee's counterparty or the borrower of funds in repurchase agreements (e.g BSP, Bank) and slotted under the column corresponding to the issuer of the securities received as collateral.

For instance, Bank X is the borrower in a Repo transaction and Bank Y is the lender of funds. In consideration for the funds lent, Bank Y receives a Treasury Bond from Bank X as collateral. For Bank Y, the transaction shall be reported in Schedule 12 under Banks line item as its counterparty. For Schedule 12a, the transaction shall still be reported under the Banks line item as counterparty and under the column Resident Issuers – National Government since the issuer of the collateral is the National Government.

- 19. Under Schedule 19 of the FRP, how will a bank interpret the footnote on Other Assets – Others (i.e. *Specify the type of account under this category that comprises at least 25 percent of total other assets. Items that do not comprise at least 25 percent of total other assets shall be aggregated and presented as a single line item)?**

The footnote requires banks to specify the type of account under the "Other Assets – Others" account that comprises at least 25 percent of total other assets. For example, if Bank A's Total Other Assets is 100 of which 80 is booked under the Other Assets – Others and is composed of the following accounts: A – 25, B – 28, C – 7, D – 10, and E - 10. Then, accounts A and B should be properly disclosed in Schedule 19 since they represent more than 25% of the total other assets, which is 25 (25% x 100). However, accounts C, D and E may be lumped and reported as a single item since they each comprise less than 25% of the total other assets.

- 20. How will a bank treat non-performing Sales Contract Receivable (SCR)? Are these considered as non-performing loans or non-performing assets?**

Non-performing SCR is considered a non-performing asset and not part of the bank's total loan portfolio.

- 21. A bank owns a building but only a portion of it is used in its operations. The other portion of the building is leased to other parties. Under the FRP, where should this be booked?**

The building should be booked under bank premises, furniture and fixtures.

- 22. What if a bank has bills payable to a foreign funder, how will the related interest expense be slotted in the FRP if payment is coursed through the Bureau of Treasury (National Government) which acts as collecting agent?**

The bank shall consider the foreign funder as its counterparty when slotting the interest expense in the FRP and not the National Government.

- 23. What are Liabilities for Short-Position?**

An example of a liability for short position is when the borrower of securities in Securities Lending and Borrowing (SLB) transaction sells to third parties the securities borrowed from the lender of securities. This shall be recorded as Liability for Short Position for the amount of cash received which shall be remeasured at fair value and any gain or loss arising from a change in its fair value shall be recognized in profit or loss under the account "Gain/(Loss) from Financial Assets and Liabilities Held for Trading".

To illustrate, assume that Bank A is the borrower of securities in a SLB transaction. As such, Bank A receives a Treasury Bond in exchange for another security. Bank A subsequently sold said Treasury Bond to third parties. In this case, Bank A has to recognize a "Liability for Short Position" corresponding to the cash received from the sale transaction. A "Liability for Short Position" is created since Bank A does not own the Treasury Bond sold and it is obligated to return the same or substantially the same security upon maturity of the SLB transaction.

- 24. Are dormant deposit liabilities required to be reported under Schedule 22?**

Dormant deposit liabilities should be reported under Schedule 22, except those which have already been reported to the Treasurer of the Philippines pursuant to the provisions of the Unclaimed Balances Act (Act No. 3936, as amended), which should be booked under the "Due to Treasurer of the Philippines" account. The amount of dormant deposits reported in Schedule 22 should be disclosed in the Additional Information section under Dormant Accounts.

- 25. Under the Additional Information Section in Schedule 22, what period is covered by reporting "Gross New Deposits for the Period"?**

"Gross New Deposits for the Period." would only cover the new deposits from the last reporting date up to current reporting date.

26. How do we slot FCDU deposits in Schedule 22a?

FCDU deposits shall be slotted in the FCDU column corresponding to the type of deposit account (i.e. savings or time deposits). The amount to be reported shall be both the US\$ and Php equivalent (using the PDS closing rate). Further, deposits are required to be categorized into deposit size and reported under the line item corresponding to the deposit size of each account. For FCDU deposits, the deposit size shall be based on the peso equivalent of the account.

27. What should be reported under Financial Liabilities Associated with Transferred Assets?

The account pertains to transfer of assets which do not meet the derecognition requirements under PAS 39. The consideration received on the transfer of assets should be reported under this account.

28. What values should be reported under "Nature of risk and rewards to which the bank remains exposed" under Schedule 27?

The "Nature of risks and rewards to which the bank remains exposed" column refers not to values but to a description of the risks and rewards to which the bank remains exposed to.

29. Why is it that the peso accounts column for Spot Foreign Exchange Contracts under Schedule 38 of the FRP is blocked?

The peso accounts column for Spot Foreign Exchange Contracts under Schedule 38 is blocked since only the foreign currency leg of the transaction is required to be reported.

30. Is the total of Schedules 39 and 40 the same?

Yes, the total of Schedules 39 and 40 will be the same, only the slotting will be different.

31. How would the time bucket slotting in Schedules 39 and 40 differ?

The time bucket reporting in Schedules 39 and 40 would differ in terms of the basis of slotting. The slotting in Schedule 39 is based on residual maturity of the accounts. On the other hand, Schedule 40 requires that the slotting be based on the next interest rate repricing from the reporting date. As an example, Bank X has a Treasury Bond classified as Available for Sale. Said instrument is repriced every quarter and has a contractual maturity of 30 September 2010. For the reporting period 31 December 2007, the Treasury Bond shall be classified under the "over one year to three years" (30 September 2010 – 31 December 2007) bucket in Schedule 39. However, for purposes of Schedule 40, it shall be reported

under the "over one month to three months" time bucket since the Treasury Bond is repriced every quarter.

32. *Why are the time buckets exceeding one year blocked for Held for Trading (HFT) securities?*

HFT securities are acquired principally for the purpose of short-term profit-taking. Thus, the financial assets classified as HFT shall be reported under the earliest time bucket – up to one month or within a period of one month up to twelve months, depending on the bank's definition of short-term. Consequently, time buckets exceeding one year are blocked. For example, Bank A has a Treasury Bond booked under the HFT category. The bond has a fixed interest rate with a contractual maturity of 31 December 2010. For the reporting period 31 December 2007, the said instrument may be classified under the earliest time bucket (up to one month) or under the time buckets not exceeding one year in Schedules 39 and 40. The contractual maturity is disregarded since the bond is classified as HFT, as such the BSP deems that the maximum holding period for such instruments shall be one year.

33. *Should Loans and Receivables - Others classified as Items in Litigation be reported in Schedules 39 and 40?*

No. The schedules only require the reporting of performing financial assets.

34. *Should dormant deposit liabilities be included in Schedules 39 and 40 considering that the schedule requires the reporting of performing financial assets and liabilities?*

Yes, dormant accounts should be reported in Schedules 39 and 40 under the earliest time bucket. Dormant accounts are liabilities of banks which they are bound to pay once depositors show-up. After the prescription period, banks are required to turn this over to the National Government. Further, "performing" only refers to the status of financial assets.

35. *Should the total balances of the accounts reported under Schedule 39 tally with that in the balance sheet?*

Generally no because Schedule 39 only requires reporting of performing financial assets. It does not include non-performing financial assets which are included in the balance sheet totals.

36. *Bank A has a financial allied subsidiary, Company B. Company B has an insurance subsidiary, Company C. BSP rules on consolidation provide that insurance companies shall be consolidated using the equity method. In this case, how do we consolidate Company C in the FRP?*

For purposes of BSP reporting, Company C shall be consolidated in the books of Company B using the equity method (not on a line by line basis). Then, for purposes of Bank A consolidation, Company B shall be consolidated on a line by line basis.

37. *What is reported under the account Minority Interest in Profit/(Loss) of Subsidiaries in the Income Statement?*

The amount to be reported shall be the portion of profit/(loss) of a subsidiary attributable to equity interests that are not owned, directly or indirectly through subsidiaries, by the parent, which amounts are incorporated in the line by line consolidation of financial statements. Minority Interest in Profit/(Loss) of Subsidiaries shall only apply for purposes of preparing consolidated financial statements of the parent. Thus, for solo financial statements, no amount should be reported in the said account.

38. *How do we determine which currencies are acceptable as international reserves?*

The list of foreign currencies acceptable as international reserves is provided in the BSP website under www.bsp.gov.ph/statistics/spei/glossary.pdf

39. *Are BSP Circular Nos. 476 and 494 (PAS requirements) also applicable to financial assets being handled by the trust departments?*

Yes, Circular Nos. 476 and 494 are applicable to financial assets being handled by trust departments. Currently, the BSP and TOAP are working together to revise the trust reportorial requirements to align the same with PFRS/PAS.

40. *What is the proper presentation of the income and expense accounts of the Bank's Trust Department in the FRP?*

Under the FRP, income from Trust Department shall be presented at gross (i.e. not net of expenses) under the account Income from Fiduciary Activities. On the other hand, the expenses of the Trust Department shall be slotted to the corresponding expense accounts.

Thus, Memorandum dated 23 February 2005 which provides that income and expenses of the Trust Department should not be combined with the corresponding Bank Proper income and expenses is superseded.

41. What is the difference between dirty and clean pricing? What is the prescribed pricing mechanism by BSP?

In the secondary market, when a bond is sold between interest payment dates, the quoted price may be a clean or dirty price. Clean price is the price of a bond excluding any interest that has accrued since the bond is issued or the most recent coupon payment. On the other hand, the dirty price of a bond is the sum of a bond's clean price plus the accrued interest since the previous coupon date. The dirty price is also called the "full price."

Banks may use either the clean pricing or dirty pricing in marking-to-market the financial assets held for trading as long as the pricing employed is applied consistently.

42. Is the BSP provisioning similar to the impairment testing of PAS? What if the PAS provisioning is higher?

BSP provisioning is not similar to the impairment testing of PAS. The BSP adopts the expected loss (which necessarily includes incurred loss) concept in providing allowance for credit losses. This is based on the BASEL II framework. On the other hand, PAS 39 adopts the incurred loss concept.

For prudential reporting purposes, the provisioning requirement shall be the BSP recommended valuation or the PAS provisioning, whichever is higher. Thus, in cases where the allowance for credit losses under PAS is higher, the same shall be used for prudential reporting purposes.

43. What is Day One Gain?

Day one gain mainly arises in measuring financial instruments initially at fair value from transition. Some of the adjustments made in the financial statements during the transition to PFRS/PAS were generally due to the adjustments in the carrying value of financial instruments to restate it as if it were booked at fair value at initial recognition. However, not all day one gain is acceptable for prudential reporting purposes. An example of which is the recognition of day one gain arising from government grants with low interest rates as provided under Circular No. 572 dated 21 June 2007.

For information and guidance.


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