



OFFICE OF THE GOVERNOR

**Circular No. 395
Series of 2003**

Pursuant to Monetary Board Resolution No. 1060 dated 31 July 2003, the provisions of BSP Circular No. 1389 dated 13 April 1993, The Manual of Accounts for Expanded Commercial Banks and Commercial Banks, and the Manual of Accounts for Thrift Banks are hereby amended as follows:

Section 1. Items 1 and 2 of Section 72 of BSP Circular No. 1389 are hereby amended by adding the following provisions:

"Engage in securities lending activities as lender subject to the following conditions:

- a. The securities to be lent shall be limited to securities lodged under the account "Trading Account Securities (TAS) – Investments" (for universal banks and commercial banks only) and "Available for Sale Securities (ASS) – Foreign";
- b. The lending activity shall have prior approval of the bank's board of directors and shall be governed by adequate written policies and procedures duly approved by the board of directors;
- c. The securities lending shall be done through reputable internationally recognized and experienced third-party lending agent/intermediary which must be a regulated entity in its country of operation;
- d. The securities lending transaction shall be subject to a written legal agreement between the lending bank and the lending agent which must clearly specify the –
 1. relationship as well as the respective duties and responsibilities of each counterparty;
 2. obligation of the borrower to redeliver a like quantity of the same issue or series as the loaned securities;

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3. guidelines for selecting investments for cash collateral, which shall include a provision that cash collateral will not be reinvested in liabilities of the lender, its subsidiaries or affiliates;
4. lending fee or compensation;
- e. The loaned securities must be fully secured by debt securities of countries or entities with highest credit quality, cash in currencies acceptable as part of international reserves, letters of credit and certificates of deposits issued by banks with highest credit quality. For this purpose, a foreign country and a bank with highest credit quality refer to a foreign country and a bank given the highest credit rating by any two (2) of the following internationally accepted rating agencies:

<u>Rating Agencies</u>	<u>Highest Rating</u>
Moody's	"Aa3" and above
Standard and Poor's	"AA" and above
Fitch IBCA	"AA" and above
Others as may be approved by the Monetary Board	

Collateral value shall initially be at least 102% of the current market value of the loaned securities and maintained at 100% of the value of the loaned securities plus accrued interest thereon during the course of the loan;

- f. The lender shall do daily mark-to-market on the loaned securities and on the securities where cash collateral is invested / reinvested;
- g. The lender shall require from the lending agent/intermediary timely and comprehensive reports on the lending activity;
- h. For proper identification and monitoring, the outstanding book balance on the loaned securities shall be reclassified to "Government Securities Lent under Securities Lending Agreements";
- i. The bank has in place a risk management system commensurate to the nature, volume and complexity of its operations and characterized by clear delineation of responsibility for risk management, adequate risk measurement systems, appropriately structured risk limits, effective internal controls and complete, timely and efficient risk reporting system: Provided, That this requirement shall be

automatically considered complied with by banks with derivatives license; and

- j. The bank's CAMELS composite rating in the last Bangko Sentral ng Pilipinas regular examination is at least "3", with a minimum score of "3" on management."

Section 2. Items 1 and 2 of Section 73 of Circular No. 1389 are hereby amended by adding the following as eligible asset cover for FCDU / EFCDU liabilities:

- "c. Government Securities lent under a securities lending agreement."

Section 3. The Manual of Accounts for Expanded Commercial Banks and Commercial Banks is hereby amended so as to create subsidiary ledger accounts under the general ledger accounts "Trading Accounts Securities (TAS) – Investments" and "Available for Sale Securities (ASS)," as follows:

- a. Under "TRADING ACCOUNTS SECURITIES (TAS) – INVESTMENTS"

1. "Government Securities Lent under Securities Lending Agreement – Foreign Regular

This represents the carrying amount of foreign currency denominated government securities lent under securities lending agreement whereby the borrower is under obligation to redeliver a like quantity of the same issue or series as the loaned security at the agreed future date."

2. "Government Securities Purchased Lent Under Securities Lending Agreement – FCDU / EFCDU

This represents the carrying amount of foreign currency denominated securities purchased by the FCDU / EFCDU for its trading activities which were lent under securities lending agreement whereby the borrower is under obligation to redeliver a like quantity of the same issue or series as the loaned security at the agreed future date."

b. Under "AVAILABLE FOR SALE SECURITIES (ASS)"

1. "Available for Sale Securities Lent Under Securities Lending Agreement – Foreign Regular

This represents the cost of foreign currency-denominated bonds and other debt instruments, such as US Treasury Notes and Bonds lent under securities lending agreement whereby the borrower is under obligation to redeliver a like quantity of the same issue or series as the loaned security at the agreed future date. Sub-control accounts shall be maintained for: (a) ASS issued by residents; and (b) ASS issued by non-residents."

2. "Available for Sale Securities Lent Under Securities Lending Agreement – FCDO / EFCDO

This represents the cost of investments in foreign currency denominated bonds and other debt instruments lent under securities lending agreement whereby the borrower is under obligation to redeliver a like quantity of the same issue or series as the loaned security at the agreed future date. Sub-control accounts shall be maintained for (a) ASS issued by non-residents and (b) ASS issued by non-residents."

Section 4. The Manual of Accounts for Thrift Banks is hereby amended so as to create subsidiary accounts under the general ledger accounts "Available for Sale Securities (ASS)", as follows:

a. "Available for Sale Securities Lent Under Securities Lending Agreement – FCDO

This represents the cost of short term, readily marketable, foreign currency denominated debt instruments lent under securities lending agreement whereby the borrower is under obligation to redeliver a like quantity of the same issue or series as the loaned security at the agreed future date. Sub-control accounts shall be maintained for: (a) ASS issued by residents; and (b) ASS issued by non-residents."

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

FOR THE MONETARY BOARD:

A handwritten signature in dark ink, appearing to read 'A. Suratos', with a long, sweeping horizontal stroke extending to the right.

ARMANDO L. SURATOS
Officer-in-Charge

August 19, 2003