



BANGKO SENTRAL NG PILIPINAS

OFFICE OF THE GOVERNOR

CIRCULAR NO. 1024

Series of 2018

Subject: Philippine Adoption of the Basel III Countercyclical Capital Buffer

The Monetary Board, in its Resolution No. 2019 dated 29 November 2018, approved the Philippine adoption of the Basel III countercyclical capital buffer.

Section 1. Subsection X115.1 of the Manual of Regulations for Banks (MORB) is hereby deleted and Section X115/4115Q of the MORB/ Manual of Regulations for Non-Bank Financial Institutions (MORNBFI) are hereby amended and shall now read as follows:

Sec. X115 Basel III Risk-Based Capital. xxx

These guidelines apply to all Universal Banks (UBs) and Commercial Banks (KBs) as well as their subsidiary banks and QBs. The risk-based capital ratio of a bank, expressed as a percentage of qualifying capital to risk-weighted assets, shall not be less than ten percent (10%) for both solo basis (head office plus branches) and consolidated basis (parent bank plus subsidiary financial allied undertakings, but excluding insurance companies). Other minimum capital ratios include Common Equity Tier (CET) 1 ratio and Tier 1 capital ratios of six percent (6.0%) and seven and a half percent (7.5%), respectively. With respect to the CET1 requirement, in addition to the minimum, the following capital buffers shall likewise be imposed:

- a. Capital conservation buffer (CCB) of two and a half percent (2.5%); and
- b. Countercyclical capital buffer (CCyB) of zero percent (0%) subject to upward adjustment to a rate determined by the Monetary Board when systemic conditions warrant but not to exceed two and a half percent (2.5%). Any increase in the CCyB rate shall be effective 12 months after its announcement. Decreases shall be effective immediately.

The prescribed ratios shall be maintained at all times.

Existing capital instruments as of 31 December 2010 xxx

xxx

Sec. 4115Q Basel III Risk-Based Capital. xxx

These guidelines apply to all Universal Banks (UBs) and Commercial Banks (KBs) as well as their subsidiary banks and QBs. The risk-based capital ratio of a QB, expressed as a percentage of qualifying capital to risk-weighted assets, shall not be less than ten percent (10%) for both solo basis (head office plus branches) and consolidated basis (parent QB plus subsidiary financial allied undertakings, but excluding insurance companies). Other minimum capital ratios include Common Equity Tier 1 ratio and Tier 1 capital ratios of 6.0% and 7.5%, respectively. With respect to the CET1 requirement, in addition to the minimum, the following capital buffers shall likewise be imposed:

- a. Capital conservation buffer (CCB) of two and a half percent (2.5%); and
- b. Countercyclical capital buffer (CCyB) of zero percent (0%) subject to upward adjustment to a rate determined by the Monetary Board when systemic conditions warrant but not to exceed two and a half percent (2.5%). Any increase in the CCyB rate shall be effective 12 months after its announcement. Decreases shall be effective immediately.

The prescribed ratios shall be maintained at all times.

Section 2. Subsection X136.2 and Appendices 3, 107, 107a, and 114 of the MORB, and Subsection 4136Q.2 and Appendices Q-62 and Q-68 of the MORNBF shall also be amended to reflect the Common Equity Tier 1 requirement of the countercyclical capital buffer.

Subsec. X136.2 Requirements on the declaration of dividends. xxx

a. xxx;

xxx

- d. The combined requirement for capital conservation buffer and the countercyclical capital buffer as defined in *Appendix 63b*, for universal and commercial banks (UBs/KBs) and their subsidiary banks and quasi-banks (QBs);

xxx

Subsec. 4136Q.2. Requirements on the declaration of dividends/net amount available for dividends.

a. *Requirements on the declaration of dividends.* xxx

(1) xxx;

xxx

- (3) The combined requirement for capital conservation buffer and the countercyclical capital buffer as defined in *Appendix Q-46*, for QBs that are subsidiaries of universal and commercial banks (UBs/KBs);

xxx

Appendix 3. Guidelines for the Issuance of a Universal Banking Authority for Branches of Foreign Banks

I. Qualification and Documentation Requirements

A. Minimum Capital Required.

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- B. Financial Resources, Past Performance and General Compliance with Banking Laws and Regulations.** Applicant bank shall comply with capital adequacy ratios (Common Equity Tier 1, Tier 1, Capital Adequacy Ratio, and the combined requirement for the Capital Conservation Buffer and Countercyclical Capital Buffer) under Section 34 of R.A. No. 8791, Subsec. X105.6 and *Appendix 63b*, xxx

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Appendix 107/Q-62 of the MORB/MORNBFI. Framework for Dealing with Domestic Systemically Important Banks.

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Part II. Higher Loss Absorbency (HLA) and Interaction with Other Elements of Basel III Framework.

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21. The HLA requirement shall be on top of the combined requirement for capital conservation buffer (CCB) and Countercyclical Capital Buffer (CCyB) under *Appendix 63b/Q-46*. Table 3 shows a sample total CET1 capital requirement for banks identified as DSIBs per bucket.

Table 3. Sample Total CET1 Capital Requirement when:

A. CCyB rate is at 0%

Bucket	3 (Empty)	2	1
Minimum CET1 Requirement (a)	6.0%	6.0%	6.0%
Capital Conservation buffer (b)	2.5%	2.5%	2.5%
Countercyclical Capital Buffer (c)	0%	0%	0%
DSIB HLA Requirement (d)	3.5%	2.5%	1.5%
Total Additional CET1 Requirement (b+c+d)	6.0%	5.0%	4.0%
Total Required CET1 (a+b+c+d)	12.0%	11.0%	10.0%

B. CCyB rate is at 2.5%

Bucket	3 (Empty)	2	1
Minimum CET1 Requirement (a)	6.0%	6.0%	6.0%
Capital Conservation buffer (b)	2.5%	2.5%	2.5%
Countercyclical Capital Buffer (c)	2.5%	2.5%	2.5%
DSIB HLA Requirement (d)	3.5%	2.5%	1.5%
Total Additional CET1 Requirement (b+c+d)	8.5%	7.5%	6.5%
Total Required CET1 (a+b+c+d)	14.5%	13.5%	12.5%

xxx

24. Capital distribution constraints shall be imposed when capital levels fall within certain range as illustrated in Table 5 below. Conversely, a DSIB shall not be subject to any restriction on distribution if the following conditions are met:

- a. xxx;
- b. Has CET1 of more than the total required (minimum CET1 ratio of six percent [6.0%] plus the combined requirement for CCB of two and a half percent [2.5%] and the CCyB at the rate determined by the Monetary Board – zero percent [0%] to two and a half percent [2.5%], and DSIBs HLA requirement) before the distribution; and

xxx

Table 5. Sample Restrictions on Distributions when

A. CCyB rate is at 0%

Restriction on Distributions	Level of CET1 Capital	
	Bucket 1	Bucket 2
No distribution (until the minimum CET1 requirement, the combined requirement for CCB and CCyB and more than 50% of DSIB HLA requirement are met; and conditions "a" and "c" above are complied with)	< = 9.25%	< = 9.75%
50% of earnings may be distributed (if the minimum CET1 requirement, the combined requirement for CCB and CCyB and more than 50% of DSIB HLA requirement are met; and conditions "a" and "c" above are complied with)	> = 9.25% - 10.00%	< = 9.75% - 11.00%

B. CCyB rate is at 2.5%

Restriction on Distributions	Level of CET1 Capital	
	Bucket 1	Bucket 2
No distribution (until the minimum CET1 requirement, the combined requirement for CCB and CCyB and more than 50% of DSIB HLA requirement are met; and conditions "a" and "c" above are complied with)	< = 11.75%	< = 12.25%
50% of earnings may be distributed (if the minimum CET1 requirement, the combined requirement for CCB and CCyB and more than 50% of DSIB HLA requirement are met; and conditions "a" and "c" above are complied with)	> = 11.75% to 12.50%	< = 12.25% to 13.50%

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Appendix 107a. Guidelines on Recovery Plan of a Domestic Systemically Important Bank (DSIB)

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3.2 The recovery plan shall, at the latest, be activated when the DSIB breaches the total required Common Equity Tier 1 (CET1)¹ capital and/or the minimum liquidity ratios as may be prescribed by the Bangko Sentral. xxx

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¹ 6 percent CET1 capital + 2.5 percent Capital Conservation Buffer + Countercyclical Capital Buffer at the rate determined by the Monetary Board (0 to 2.5 percent) + 1.5 or 2.5 percent Higher Loss Absorbency Requirement”

Appendix 114/Q-68. Format Certification on Compliance with Requirements on Dividend Declaration

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We further certify that at the time of dividend declaration, the bank/QB has complied with the following:

a. xxx;

xxx

d. The combined requirement for capital conservation buffer and the countercyclical capital buffer, as defined in *Appendix 63b/Q-46 ; (for UBs/KBs and their subsidiary banks and QBs)*

xxx”

Section 3. *Appendix 63b* and *Q-46* of the MORB and MORNBF, respectively, are hereby amended to contain the guidelines on countercyclical capital buffer and include the countercyclical capital buffer in the required disclosure related to the banks’ capital structure and capital adequacy.

- a. The guidelines on countercyclical capital buffer which shall be included in to *Appendix 63b/Q-46* of the MORB/MORNBF are contained in Attachment A. Effectively, the contents of the respective appendices are renumbered as follows:

Contents	From	To
Risk-Based Capital Adequacy Ratio	Part I	Part I
Qualifying Capital	Part II	Part II
Capital Conservation Buffer	Part III	Part III
Countercyclical Capital Buffer	-	Part IV
Credit Risk-Weighted Assets	Part IV	Part V
Credit Derivatives	Part V	Part VI
Securitization	Part VI	Part VII
Market Risk-Weighted Assets	Part VII	Part VIII
Operational Risk-Weighted Assets	Part VIII	Part IX
Disclosures in the Annual Reports and Published Financial Statements	Part IX	Part X
Enforcement	Part X	Part XI

- b. Further, the required disclosures on banks' capital structure and capital adequacy shall be amended as follows:

Part IX. Disclosures in the Annual Reports and Published Financial Statements

1. This section lists the specific information that banks have to disclose, at a minimum, in their Annual Reports, except Item "j", paragraph 3 which should also be disclosed in banks' quarterly Published Balance Sheet.

xxx

A. Capital structure and capital adequacy

3. The following information with regard to banks' capital structure and capital adequacy shall be disclosed in banks' Annual Reports, except Item "j" below which should also be disclosed in banks' quarterly published Balance Sheet:

a) xxx;

xxx

f) Countercyclical capital buffer;

g) Capital requirements for credit risk (including securitization exposures);

h) Capital requirements for market risk;

- i) Capital requirements for operational risk; and
- j) Total CAR, Tier 1 and CET1 ratios on both solo and consolidated bases.

xxx"

Section 4. This Circular shall take effect 15 calendar days following its publication in the Official Gazette or in a newspaper of general circulation.

FOR THE MONETARY BOARD:


NESTOR A. ESPENILLA JR.
Governor

06 December 2018

PART IV. COUNTERCYCLICAL CAPITAL BUFFER

1. A Countercyclical Capital Buffer (CCyB) set as percent of risk-weighted assets shall be required of UBs/KBs and their subsidiary banks and quasi-banks. It shall be comprised of CET1 capital.
2. The buffer is meant to ensure that banking sector capital requirements take account of the macrofinancial environment in which banks operate. The primary aim of the countercyclical capital buffer regime is to use a buffer of capital to achieve the broader macroprudential goal of protecting the banking sector from the build-up of systemic vulnerabilities. Protecting the banking sector in this context is not simply ensuring that individual banks remain solvent through a period of stress, as the minimum capital requirement and capital conservation buffer are together designed to fulfill this objective. Rather, the aim is to ensure that the banking sector in aggregate has the capital on hand to help maintain the flow of credit in the economy without its solvency being questioned, when the broader financial system experiences stress.
3. The countercyclical buffer requirement will extend the size of the capital conservation buffer. The bank shall not be subject to any restriction on distribution if the following conditions are met:
 - a. Has positive retained earnings as of the preceding quarter and has complied with the requirements on the declaration of dividends as provided in the MORB/MORNBFI.
 - b. Has CET1 of more than the total required (minimum CET1 ratio of 6.0 percent plus CCB of 2.5 percent plus CCyB at the rate determined by the Monetary Board) before the distribution; and
 - c. Has complied with the minimum capital ratios (CET1 ratio of 6.0 percent, Tier 1 ratio of 7.5 percent and 10 percent CAR) after the distribution.

Otherwise, the policy framework of the capital conservation buffer on the restriction on distributions shall apply, except for drawdowns. Thresholds on the restriction on distribution shall consider the CCyB requirement as an extension of the capital conservation buffer.

4. Drawdowns on the CCyB are not allowed unless the Bangko Sentral announces a decision to lower the buffer rate. The capital surplus created when the CCyB is lowered should be unfettered, i.e., there are no restrictions on distributions when the buffer is released.
5. The uniformly applicable rate of the countercyclical buffer shall initially be set at zero percent (0%), subject to recalibration as determined by the Monetary Board. CCyB decisions shall be based on a set of indicators including, but not limited to, the credit-to-GDP gap as well as the growth and quality of credit, among others.

6. Any increase in the countercyclical buffer shall have a preannouncement period of twelve (12) months in consideration of the capital planning process of banks while reductions in the buffer would take effect immediately to help reduce the risk of the supply of credit being constrained by regulatory capital requirements.