



CIRCULAR No. 611
Series of 2008

Subject : Guidelines on Securities Borrowing and Lending (SBL) Transactions in the Philippine Stock Exchange (PSE) Involving Borrowings by Foreign Entities of PSE-Listed Shares from Local Investors/Lenders

Pursuant to Monetary Board Resolution No. 585 dated 15 May 2008, custodian banks are authorized to issue special Bangko Sentral Registration Documents (BSRDs) to cover the PSE-listed shares of stock borrowed by foreign entities from local investors/lenders, to allow said foreign borrowers to purchase foreign exchange (FX) from the banking system for remittance abroad using the peso sales proceeds of the borrowed shares including the related income from SBL transactions, i.e., rebates or share in the income earned on the reinvestment of the cash collateral, interest and dividends earned on the peso-denominated government securities (GS) and PSE-listed shares used as collaterals, subject to the following conditions:

- a. Borrower shall provide collateral/s in line with the requirements of the Securities and Exchange Commission under its Memorandum Circular No. 7 dated 9 June 2006 prescribing the rules on SBL transactions. The value of the collateral/s must be maintained at levels agreed upon by the parties; Provided, that the value of said collateral/s shall be maintained at the following minimum levels:
 - 1) At an amount not less than 102 percent of the current market value of the borrowed shares, if the collateral is in the form of cash or GS; and
 - 2) At an amount not less than 105 percent of the current market value of the borrowed shares, if the collateral is in the form of equity securities.
- b. The collateral/s may be in the form of cash (peso or foreign currency funded by FX inward remittance thru the Philippine banking system), foreign borrower's investments in interim peso deposits, peso-denominated GS or PSE-listed shares that are covered with BSRDs for the account of the foreign borrower;

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- c. These investment instruments (i.e., interim peso deposits, peso-denominated GS or PSE-listed shares) shall be deducted from the outstanding Bangko Sentral ng Pilipinas (BSP)-registered investments of the foreign borrower and shall not be eligible for capital repatriation while assigned as collateral for the borrowed shares. After return of the shares, the particular collateral shall be credited back to the foreign borrower's account duly supported with pertinent documents and reported to the BSP-ID in accordance with Circular-Letter dated 23 April 2003 and Circular No. 1389 dated 13 April 1993, as amended;
- d. At the termination of the particular SBL transaction, the foreign borrower shall return the equivalent shares purchased in the market which shall not be eligible for registration as foreign investments. Funding for said equivalent shares may come from inward remittance of FX converted to pesos; or the foreign borrower's interim peso deposits, peso sales proceeds of borrower's GS or PSE-listed shares that are covered with BSRDs; or peso sales proceeds of the borrowed shares temporarily placed in the BSP-registered interim peso deposits;
- e. Submission to the special BSRD-issuing custodian bank of the following:
 - 1) Certified copy of the SBL Confirmation Notice containing information such as: BIR-Master Securities Lending Agreement number, names of lender and borrower; name, number and market value of shares borrowed; type and amount/value of collateral given; terms and settlement date of borrowing; and
 - 2) Original bank certificate of inward remittance (CIR) of FX funding the cash collaterals for the SBL transactions; and covering original BSRD letters-advice for interim peso deposits and PSE-listed equity securities, and covering original BSRD for GS used as collaterals.
- f. The special BSRDs issued for such SBL transactions shall be marked "*For SBL Transactions Only*", and shall be especially coded to distinguish those from the BSRDs issued for foreign investments in the regular buy transactions in the PSE; and shall not be treated as pertaining to additional foreign investments in PSE-listed shares;

- g. The special BSRDs authorized herein to be issued by custodian banks and all transactions pertaining to special BSRD-covered shares acquired through the SBL facility including any related movements in the foreign borrower's investment accounts pertaining to interim peso deposits, GS and PSE-listed securities to fund any collaterals therefor shall be reported to the BSP-International Department, electronically as well as in hard copy (including supporting documents for validation purposes), through the Foreign Portfolio Investment Monitoring System (FPIMS) under Circular-Letter dated 23 April 2003, within two (2) banking days from date of transaction in accordance with the reporting requirements under Section 89.G of Circular No. 1389, as amended, and aforesaid Circular-Letter; and
- h. The BSP shall be represented in any committee/body that shall be tasked to amend or finalize, revise or make further amendments in the rules and operational procedures governing SBL transactions with the end in view of minimizing any adverse impact of SBL transactions on the FX market.

Violations of this Circular shall be subject to the penalty provisions under R.A. No. 7653 (The New Central Bank Act) and other existing banking laws and regulations.

For purposes of imposing sanctions for delayed, erroneous or unsubmitted reports, reports required under Items (c) and (g) hereof are classified as Category B reports and subject to corresponding penalties prescribed under the BSP Manual of Regulations for Banks.

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

FOR THE MONETARY BOARD:


AMANDO M. TETANGCO, JR.
Governor

30 May 2008