



BANGKO SENTRAL NG PILIPINAS

OFFICE OF THE GOVERNOR

CIRCULAR NO. 994
Series of 2018

Subject: Amendments to the Manual of Regulations for Non-Bank Financial Institutions applicable to Non-Stock Savings and Loan Associations (MORNBFI-S) – Fund Investments

The Monetary Board, in its Resolution No. 20.A dated 5 January 2018, approved the amendments to the Manual of Regulations for Non-Bank Financial Institutions applicable to Non-Stock Savings and Loan Association (MORNBFI-S), as follows:

Section 1. Section 4391S is hereby amended to read as follows:

"Section 4391S Fund Investments. Consistent with the policies under the NSSLA Law (Republic Act No. 8367), NSSLAs shall primarily utilize the accumulated savings of its members for loans to service household needs of such members. However, temporary excess funds may be placed in safe and liquid investment outlets pending their deployment to support core operations. Excess funds generated from deposits and withdrawable capital contributions which the NSSLAs are unable to utilize for prudent lending activities may be returned to their contributing members at the discretion of the Board of Trustees, provided that, the Association, thereafter, remains compliant with the required capital-to-risk assets ratio and two percent (2%) withdrawable share reserve on total capital contributions.

The responsibility for supervising the NSSLAs investment account rests solely with the board of trustees. They have a fiduciary duty to the members and depositors, and are charged with an implied trust to use funds only for permitted purposes. They should ensure that risks in the investment portfolio should be minimized to ensure that liquidity and marketability are maintained. They must recognize that the investment account is primarily a secondary reserve for liquidity rather than a vehicle to generate speculative profits.

It is therefore imperative that the board of trustees adopt policies that clearly define the investment strategy and provide guidance to management on the direction and the level of risk the NSSLA is prepared to assume over its investments. It is through established objectives, strategies and policies that the board can actively monitor the appropriateness of NSSLA's risk profile and perform overall oversight function over its investment activities.

A written investment policy duly approved by the Board shall contain at the minimum, the following:

- a. An explicit statement that outlines the investment objectives, which shall be consistent with applicable law;
- b. Types of permissible investments taking into consideration the safety and liquidity of such investments;
- c. Approval authorities (placement and termination) and corresponding limits;
- d. Concentration limits;
- e. Procedures on monitoring the status of investments and the frequency of reporting to the Board of Trustees;
- f. Procedures to safekeep all relevant records and documents of the investment; and
- g. Periodic review and updating of the investment policy.

An NSSLA may invest its funds in any or all of the following:

- a. In sound non-speculative enterprises, as well as in bonds, securities, and other obligations issued by the Government of the Philippines, or any of its political subdivisions, instrumentalities, or corporations including government-owned or controlled corporations (hereinafter referred to as the "Government"), subject to the following conditions:
 - (1) The credit needs of the members shall be served/satisfied first;
 - (2) Investment other than those bonds, securities, and other obligations issued by the Government should meet all of the following criteria:
 - (a) Safe. The value of the investment is protected and/or guaranteed, i.e., the full amount invested can be collected with certainty;
 - (b) Readily marketable. The security is quoted in an active market and can readily be bought and sold. It can readily be converted into cash, or exchanged with ease in the market;
 - (c) High grade. The security must have the highest credit rating¹ given by a reputable credit rating agency recognized by Bangko Sentral²; and

¹ With credit rating of "Aaa" or its equivalent for long-term issuances and 1 (Best grade) or its equivalent for short-term issuances.

² The provisions of Subsections X931.6 and X932.1 of the Manual of Regulations for Banks (MORB), shall apply for purposes of identifying reputable credit rating agencies recognized by Bangko Sentral.

- (d) Locally-issued. Peso-denominated and issued by corporations created or organized in the Philippines under its laws; and
- (3) The total aggregate amount of investment shall not exceed ten percent (10%) of the NSSLAs' total assets. Investments in excess of ten percent (10%) shall require prior approval of the Bangko Sentral.

Transitory Provision. NSSLAs with outstanding investments that: (1) exceed the aggregate allowable limit except those previously authorized by Bangko Sentral; and/or (2) are not compliant with any of the conditions/provisions set forth above, shall be given ninety (90) days from the effectivity of this Circular to propose an action plan duly approved by the Board of Trustees to achieve full compliance.

The action plan, which is subject to monitoring by the Bangko Sentral, shall provide for the details of the outstanding investments of the NSSLAs with corresponding divestment timelines for those which are not compliant with any of the conditions/provisions of this Circular. Non-compliance with the action plan without justifiable cause/reason shall subject the Association and/or the responsible trustees/officers to applicable sanction/s.

- a. XXX
- b. XXX."

Section 2. Effectivity. This Circular shall take effect fifteen (15) days following its publication in the Official Gazette or in any newspaper of general circulation in the Philippines.

For the Monetary Board:


NESTOR A. ESPENILLA, JR.
Governor

29 January 2018