



MEMORANDUM NO. M-2022-028

To : All BSP-Supervised Financial Institutions (BSFIs)

Subject : Prudential Relief on the Treatment of Loss Arising from the Sale/Transfer of Non-Performing Assets under Republic Act No. 11523, otherwise known as the Financial Institutions Strategic Transfer Act

The Monetary Board, in its Resolution No. 742 dated 26 May 2022, approved the prudential relief on the treatment of loss arising from the sale/transfer of non-performing assets (NPAs) under Republic Act No. 11523, otherwise known as the Financial Institutions Strategic Transfer (FIST) Act and its Implementing Rules and Regulations (IRR).

1. Prudential Relief on the Treatment of Loss Arising from the Sale/Transfer of Non-Performing Assets Under the FIST Act

A BSP-supervised financial institution (BSFI) has the option to defer loss arising from the sale/transfer of NPAs under the FIST Act up to a maximum period of five (5) years from the date of sale/transfer of the NPAs for prudential reporting purposes, subject to prior approval of the Bangko Sentral.

In determining the gain/loss on sale/transfer of NPAs to a Financial Institutions Strategic Transfer Corporation, financial instruments that are received by a BSFI as consideration for the sale/transfer of NPAs shall be recorded in accordance with the provisions of Philippine Financial Reporting Standards (PFRS) 9, *Financial Instruments*. If the fair value of the said financial instrument/s cannot be readily determined due to the absence of a quoted price, the BSFI shall ensure that it can provide the BSP with the basis for the fair valuation of such financial instrument/s in accordance with the provisions of PFRS 13, *Fair Value Measurement*. Such basis shall be supported by the opinion of a third-party external auditor acceptable to the BSP and shall be made available to the appropriate supervising department of the BSP upon request. If the fair value of financial instrument/s received as consideration for the NPAs sold/transferred under the FIST Act cannot be established in accordance with these requirements, the BSFI shall record these financial instrument/s upon initial recognition at the net carrying amount of the NPAs sold/transferred less cash received. No gain or loss shall be recorded by the BSFI on the sale/transfer transaction.

A financial instrument that is received as consideration from the sale/transfer of NPAs by a BSFI shall subsequently be measured in accordance with the provisions of PFRS 9, *Financial Instruments*. In this regard, BSFIs are expected to be able to provide basis for valuation of financial instruments that are

classified at fair value in accordance with PFRS 13, *Fair Value Measurement*. In the absence of a quoted price, the valuation of such financial instrument/s shall be supported by the opinion of a third-party auditor acceptable to the BSP. Moreover, these financial instruments shall be subject to impairment if these are classified at fair value through other comprehensive income or at amortized cost consistent with PFRS 9, *Financial Instruments*.

A BSFI that is allowed by the BSP to avail of the prudential relief measure under this Memorandum shall record the loss arising from the sale/transfer of non-performing assets that was deferred under the "Deferred Charges" account which should be written down uniformly over the period allowed by the BSP, starting from the date of sale/transfer transaction.

The amount of "Deferred Charges", net of write-down shall be booked as "*Deferred Charges*" under the "*Other Assets*" portion of the Financial Reporting Package (FRP) and other related prudential reports.

2. Amendment to the Manual of Accounts in the Financial Reporting Package

The definition of "Deferred Charges" in the Manual of Accounts shall be amended, as follows:

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24. Other Assets

- (a) Deferred Charges - This refers to the actual loss incurred on the sale/transfer of non-performing assets (NPAs) to Financial Institutions Strategic Transfer Corporations (FISTCs) under the "Financial Institutions Strategic Transfer (FIST) Act", which should be written down up to a maximum period of five (5) years in accordance with existing regulations.

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3. Compliance with the BSP Prudential Requirements

A BSFI that is allowed by the BSP to defer the recording of loss on the sale/transfer of NPAs under the FIST Act and write it down uniformly over the period allowed by the BSP, shall, likewise, adopt the same in determining compliance with prudential requirements such as minimum capital requirements, risk-based capital adequacy ratio, and in computing adjusted net worth for purposes of complying with minimum prudential requirements such as the single borrower's limit, among other prudential requirements. Said BSFI, however, shall exclude the amount of losses that were deferred, or in effect retained as part of capital, from the amount available for discretionary distribution of earnings, including dividends, share buybacks, profit remittance, and bonus payments. The said BSFI shall also reflect the staggered booking of the said loss in its other prudential reports, e.g., Risk-Based Capital Adequacy Report (CAR).

4. Transparency and Disclosure

Banks that are allowed to avail of the prudential relief measure under the FIST Act shall provide the following disclosures pursuant to the provisions of Section 175 of the Manual of Regulations for Banks (MORB):

- a. In the Published Balance Sheet, the amount of Deferred Charges not yet written down as of the reporting period; and
- b. In the Annual Report, the following information shall be disclosed:
 - i. A description of the prudential relief measure under the FIST Act, including the financial year when the prudential relief measure is first applied and the duration of the application;
 - ii. Impact on the financial statements: a) affected line items if the loss arising from the sale/transfer of NPAs was measured and recorded in accordance with PFRS (e.g., loss on sale of NPAs, deferred charges representing loss on sale/transfer of NPAs that has not yet been written down, total assets, profit or loss, earnings per share [for listed BSFIs], etc.), b) amount of loss on sale/transfer of NPAs recognized for the period, and c) balance of deferred charges; and
 - iii. Comparison of the: (1) risk-based capital adequacy ratios computed in accordance with the prudential relief measure; and (2) risk-based capital adequacy ratios had said prudential relief measure not been applied.

A BSFI that is allowed by the BSP to avail of the prudential relief may opt to use full PFRS 9, *Financial Instruments* or PFRS 9, *Financial Instruments*, as modified by the application of the prudential relief measure under this BSP Memorandum, in preparing their audited financial statements, *Provided*, That in the case of the latter option, the BSFI shall comply with the provisions of the Securities and Exchange Commission Memorandum Circular No. 32 dated 17 November 2020.

For guidance.

 Digitally signed by
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CHUCHI G. FONACIER
Deputy Governor

06 June 2022