



BANGKO SENTRAL NG PILIPINAS

MEMORANDUM NO. M-2021-062

OFFICE OF THE DEPUTY GOVERNOR FINANCIAL SUPERVISION SECTOR

To : ALL UNIVERSAL, COMMERCIAL AND THRIFT
BANKS

Subject : Frequently Asked Questions (FAQs) on the
Amendments to the Regulations on the Open
Foreign Exchange Position of Banks under
Circular No. 1120 dated 07 June 2021

Relative to the amendments to the net open foreign exchange position (NOP) limit framework for banks as set out under Circular No. 1120 dated 07 June 2021, additional guidance and clarifications are provided on the calculation of a bank's NOP and the preparation of the Consolidated Foreign Exchange Position Report (CFXNOP).

For information and compliance.


CHUCHI G. FONACIER
Deputy Governor

Digitally signed by
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01 December 2021

01 December 2021



BANGKO SENTRAL NG PILIPINAS

Frequently Asked Questions on the Amendments to Regulations on the Open Foreign Exchange Position of Banks under Circular No. 1120 dated 07 June 2021

Circular No. 1120 dated 07 June 2021 revised the net open foreign exchange (FX) limit framework for banks. Changes were implemented to, among others, the computation of a bank's net open FX position (NOP) and the reporting template for a bank's consolidated FX position.

To address various queries and requests for clarification related to Circular No. 1120, the BSP is posting the following responses to frequently asked questions (FAQs) for guidance.

1. Question. How is a bank's NOP calculated?

Answer. Under the revised framework, a bank's NOP is calculated using the shorthand approach. The bank shall first obtain the USD equivalent of the net position in each individual foreign currency. It shall then add all net long positions, and do the same for all net short positions. The higher of the absolute value of the aggregated net long position and the aggregated net short position will be the bank's NOP.

The table below provides an illustration. In the example, the sum of the bank's net long positions is USD60.0 million, while the sum of its net short positions (in absolute value) is USD85.0 million. The higher of the two sums - in this case, USD85.0 million - is the NOP. Annex D of Circular No. 1120 provides another example plotted in the Consolidated Foreign Exchange Position Report (CFXNOP) template.

	Amounts in USD Millions						Total
	USD	JPY	GBP	HKD	EUR	Others	
Net Long		20.0	10.0		30.0		60.0
Net Short	50.0			20.0		15.0	85.0
NOP							85.0

2. Question. What is the rationale for the adoption of the shorthand approach?

Answer. The adoption of the shorthand approach aligns the NOP computation methodology with the computation of a bank's FX position under the risk-based capital adequacy framework. The use of this approach is likewise preferred as it recognizes the

imperfect correlation between the different currencies that banks hold. In reality, a long position in one currency cannot be expected to perfectly offset a short position in another currency. The shorthand approach is also widely accepted and used by other jurisdictions and the International Monetary Fund.

3. **Question.** Are the FX positions of a bank's branches/offices, subsidiaries and affiliates abroad included in the NOP calculation? In what portion of the CFXNOP are these reported?

Answer. Yes. The FX positions of a bank's branches/offices, subsidiaries and affiliates abroad have been included in the calculation of a bank's consolidated NOP even prior to the issuance of Circular No. 1120. The Circular did not introduce changes in terms of the institutions covered in the reporting of consolidated positions.

The new reporting template largely consolidates the data already reported by banks in the prior version of the Consolidated Foreign Exchange Position Report and Schedule 13 of FX Form 1 into a single report. The main differences are the further disaggregation of the currencies presented and the breakdown of the FX positions of each qualified subsidiary and affiliate.

The FX positions of a bank's foreign branches/offices shall be reflected in Annex Q, while those of its subsidiaries and affiliates, whether domiciled in the Philippines or abroad, shall be reported in Annex Q.1 of the CFXNOP report.

4. **Question.** How are subsidiaries and affiliates defined?

Answer: *Subsidiary* and *affiliate* are defined in accordance with the Glossary of Terms in the Manual of Regulations on Foreign Exchange Transactions (FX Manual).

5. **Question.** How is the FX position of a branch/subsidiary/affiliate abroad defined?

Answer. For purposes of the computation and reporting of the consolidated NOP of the parent bank operating in the Philippines, the FX position of a branch/subsidiary/affiliate abroad includes its positions in all currencies other than the Philippine peso, including exposures to the host country's local currency. Therefore, the consolidated NOP of a bank with a subsidiary in Hong Kong shall take into account the net Hong Kong Dollar (HKD) assets or liabilities of its Hong Kong subsidiary. However, the subsidiary's FX position shall exclude the portion of its host country local currency

position that formally represents assigned capital.¹ This is consistent with the current exclusion from the parent bank's own FX position of its equity investments in foreign subsidiaries.

To illustrate, if the Hong Kong subsidiary has net HKD assets amounting to HKD21.0 million and assigned capital amounting to HKD20.0 million, the net FX position in HKD to be reported by the subsidiary would be a long position of HKD1.0 million (i.e., HKD21.0 million less HKD20.0 million). On the other hand, if the subsidiary has net HKD assets amounting to HKD 21.0 million and assigned capital amounting to HKD25.0 million, its net FX position in HKD shall be a short position of HKD4.0 million (i.e., HKD21.0 million less HKD25.0 million).

6. Question. How are derivatives reported in the CFXNOP?

Answer. The reporting of a derivative is based on its underlying.

Derivatives that have FX rates as underlying (e.g., deliverable or non-deliverable FX forwards or FX swaps) are reported based on notional amount.

For example, a plain vanilla FX swap transaction in which the bank is the foreign currency buyer in the far leg shall be recorded as (1) a short position in the foreign currency in the spot leg (Spot FX Sale) and (2) a long position in the foreign currency in the far leg (Forward FX Purchase), both in notional amount.

For options positions, the net delta weighted positions of the foreign currency options shall be reported if the bank has dealer authority to write options. A bank that does not have dealer authority will report the notional amount of all options positions that are in or at the money, and exclude those that are out of the money.

Meanwhile, derivatives denominated in foreign currency but referenced to underlying other than FX rates (e.g., FCY interest rate swaps or credit default swaps) are reported based on fair value. There is a separate line item in the CFXNOP for these other foreign currency-denominated derivatives, reflecting the difference between the positive fair value and the negative fair value of the contracts.

¹ This represents the amount of the parent bank's investment or ownership in the voting stock of the foreign subsidiary, or the amount assigned by the parent bank as capital of the branch abroad.

7. **Question:** Are FX positions recognized/accounted on a trade date or a settlement date basis?

Answer: Positions shall be reported on trade date basis, consistent with the approach applied in the risk-based capital adequacy framework.

8. **Question.** The basis for the NOP limit was changed from Unimpaired Capital to the Total Qualifying Capital (TQC). Should the TQC used in the calculation be on solo or consolidated basis?

Answer. Banks that are required by existing BSP regulations to submit a quarterly Consolidated Capital Adequacy Ratio (CAR) report shall use the consolidated TQC for purposes of calculating the NOP limit. Other banks shall use the solo TQC.

9. **Question.** The CAR Report is only required to be submitted to the BSP on a quarterly basis. Where will banks source the monthly TQC to be used in NOP limit computation and reporting?

Answer. Notwithstanding the current quarterly CAR reporting requirement, banks are expected to be capable of computing their qualifying capital on a more frequent basis in line with the objective of ensuring ongoing compliance with the minimum capital ratio requirements.

10. **Question.** What is the US Dollar/Philippine Peso rate that should be used to convert PHP Qualifying Capital to USD?

Answer. The USD/PHP exchange rate shall be based on the Philippine Dealing System (PDS) Closing Rate found in the BSP Reference Exchange Rate Bulletin. The translation of other currencies to USD shall be based on the New York closing prices published in the same Bulletin. The report for a particular banking day shall use the FX rates in the Bulletin issued on the next banking day.

11. **Question.** Are Schedules 8 and 13 of FX Form 1 still required to be submitted by universal and commercial banks (UKBs)?

Answer. Yes. UKBs are still required to submit Schedules 8 and 13 of FX Form 1.

Circular No. 1120 dated 7 June 2021 did not delete this requirement. Rather, Section 2 of the Circular only highlights amendments and additions to Section 101 of the FX Manual, including the expansion of the coverage of the submission requirement to include thrift banks.

It should be noted that the templates and line items of Schedules 8 and 13 of FX Form 1 remain unchanged.

12. **Question.** Are banks still required to submit the sworn certification under Annex P on a monthly basis even if they have no qualified subsidiaries/affiliates?

Answer. Yes. Annex P provides an alternative text for banks with no qualified subsidiaries and/or affiliates to report.

The requirement for the submission of a monthly Sworn Certification does not have the sole objective of ensuring that subsidiaries and affiliates are captured in the report. Rather, it also aims to ascertain that the NOP figures reported by the bank are truthful and correct.