



BANGKO SENTRAL NG PILIPINAS

OFFICE OF THE GOVERNOR

CIRCULAR NO. 790

Series of 2013

Subject: Macro-prudential Measure for Handling Non-Deliverable Forwards Involving the Philippine Peso

The Monetary Board, in its Resolution No. 365 dated 28 February 2013, approved the following governing guidelines on the macro-prudential measure for handling non-deliverable forwards (NDFs) involving the Philippine Peso.

Section 1. Subsection X625.7 (2008-X602.19 of the Manual of Regulations for Banks (MORB), is hereby amended to read as follows:

"§ X625.7 Non-deliverable forward contracts ~~with non-residents~~ involving the Philippine Peso. NDF contracts to sell FX to non-residents involving the Philippine Peso shall be covered by the provisions of ~~Subsection 1625.5~~ Appendix __ of the MORB."

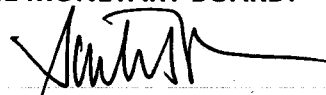
Section 2. Subsection 1625.5 (2008 – 1602) of the MORB, and Section 92 of the Manual of Regulations on Foreign Exchange Transactions requiring prior BSP clearance for forward contracts involving sale of foreign exchange to non-residents with no full delivery of principal, including cancellations, roll-overs/renewals, are hereby deleted.

Section 3. Transitory Provisions. Banks which are presently in excess of the NDF exposure limits shall be given two (2) months from the effectivity of this circular to comply with the prescribed limits.

However, banks with Peso NDF exposures at the time this circular takes effect but do not have at least a Type 2 derivatives license are not allowed to enter into further Peso NDF exposures except to close out said positions. Banks must demonstrate to the appropriate unit of the Supervision and Examination Sector that transactions under this situation are meant to directly square existing positions.

This Circular shall take effect immediately.

FOR THE MONETARY BOARD:


AMANDO M. TETANGCO, JR.
Governor

6 March 2013

APPENDIX __
GUIDELINES FOR THE TREATMENT OF NON-DELIVERABLE FORWARDS
INVOLVING THE PHILIPPINE PESO

Statement of Policy. The Bangko Sentral ng Pilipinas is cognizant that Non-Deliverable Forwards (NDFs) may, directly or indirectly, create system-wide risks even if there is no delivery of principal amounts and even when NDFs are used as a hedge. To mitigate the build up of systemic risks and protect against undue concentration in market usage, the following prudential guidelines are set in place.

Definition of Terms. As used in this section, the following terms are defined accordingly:

- a) **Peso Non-Deliverable Forwards (Peso NDFs)** – refer to a forward foreign exchange (FX) contract involving the value of the Philippine peso against a foreign currency at a specified maturity date on an agreed notional amount. Only the net difference between the contracted forward exchange rate and the spot exchange rate between the Philippine peso and the foreign currency at the fixing date shall be settled. NDFs may be transacted by a bank with offshore or onshore counterparties.
- b) **Peso NDF Purchase with Non-Residents** – refers to an NDF contract undertaken by the bank with a non-resident counterparty to receive foreign currency at an agreed forward exchange rate with the Philippine peso over a specified tenor.
- c) **Peso NDF Sale with Non-Residents** – refers to an NDF contract undertaken by the bank with a non-resident counterparty to deliver foreign currency at an agreed forward exchange rate with the Philippine peso over a specified tenor.
- d) **Onshore Non-Deliverable Forward** – refers to an NDF contract undertaken by the bank with a resident counterparty. It may be a NDF purchase or an NDF sale. All NDF contracts with residents shall be settled in Philippine pesos.
- e) **Fixing Date** – refers to the date at which the difference between the prevailing market exchange rate and the agreed upon exchange rate or the reference rate is calculated. NDF contracts shall not be pre-terminated before their fixing date.
- f) **Settlement Date** – refers to the date by which the payment of the difference is due to the party receiving payment.

Licensing Requirement. A bank must secure a Type 2 derivatives license before it can act as a dealer and/or broker of any NDF contract. The bank must likewise continuously comply with the provisions in Appendix 25 (Risk Management Guidelines for Derivatives) and Appendix 26 (Sales and Marketing Guidelines for Derivatives) of the Manual of Regulations for Banks.

A bank duly authorized to transact in and has outstanding exposures of NDF contracts but subsequently has been found to be in breach of:

- a) the requirements of a Type 2 derivatives license;
- b) the provisions of Appendix 25 (Risk Management Guidelines for Derivatives);
- c) the provisions of Appendix 26 (Sales and Marketing Guidelines for Derivatives)

is immediately prohibited from entering into further NDF transactions. Within 5 banking days, the bank shall present to the appropriate unit of the Supervision and Examination Sector (SES) a formal plan that will remedy the cited deficiencies and achieve the plan's objectives within a reasonable period. If the remedial plan is deemed unacceptable by the appropriate unit of the SES, the bank shall be directed to close all of its outstanding positions within two months.

Bank Limits on Peso NDF Exposures. To mitigate any potential build-up of systemic risks, bank's total gross exposures to all forms of Peso NDF transactions, *i.e. the sum of sales and purchases for both onshore and offshore transactions*, shall be limited to a fixed percentage of the bank's capital base. Unless otherwise amended, the said limit is 20 percent of unimpaired capital for domestic banks. Foreign bank branches shall have a limit equal to 100 percent of their unimpaired capital as defined under section X105.4 (Capital Requirements) of the Manual of Regulations.

Bilateral Netting. A bank which has purchase and sell positions against counterparty which are maturing at the same fixing date may consolidate said positions for the purpose of bilateral net settlement.

Reportorial Requirements. All NDFs transactions shall be covered by the appropriate reports prescribed by the Supervision and Examination Sector.

Sanctions. Any violation of the foregoing provisions shall constitute grounds for the imposition on the bank of the following:

a. First Offense

- i. Reprimand for the directors/officers responsible for the violation with a warning that subsequent violations will be subject to more severe sanctions.
- ii. Banks in breach of the limits shall be required to submit remedial plan to comply with the limits.

b. Subsequent Offense – Bank will be subject to any or all of the following, as may be recommended by the Supervision and Examination Sector to the Monetary Board:

- i. Restriction or prohibition on the bank from requesting new authority and/or licenses of any sort;
- ii. Restriction or prohibition on the bank from declaring dividends; and
- iii. Issuance of an order requiring the bank to cease and desist from conducting business in an unsafe and unsound manner and may further order that immediate action be taken to correct the conditions resulting from such unsafe or unsound practice;