



BANGKO SENTRAL NG PILIPINAS

OFFICE OF THE GOVERNOR

CIRCULAR NO. 1011

Series of 2018

Subject: Guidelines on the Adoption of the Philippine Financial Reporting Standard (PFRS) 9 – Financial Instruments

The Monetary Board in its Resolution No. 1226 dated 26 July 2018, approved the following guidelines governing the adoption of PFRS 9 - Financial Instruments.

Section 1. Subsection X191.3 of the Manual of Regulations for Banks (MORB), Subsection 4191Q.3 and Section 4161N of the Manual of Regulations for Non-Bank Financial Institutions (MORNBFII) are hereby amended to read as follows:

“Subsection X191.3/4191Q.3/Section 4161N Philippine Financial Reporting Standards (PFRS).

Statement of Policy. It is the thrust of the Bangko Sentral to align its financial reporting requirements with standards and practices that are widely accepted internationally to promote fairness, transparency, and accountability in the financial industry. In this light, the Bangko Sentral is issuing guidelines governing the adoption of the PFRS, aimed at ensuring consistency of application and comparability of financial reports across the industry.

a. *Adoption of PFRS.* BSP Supervised Financial Institutions (BSFIs) shall adopt PFRS in recording transactions and in the preparation of financial statements and reports to the Bangko Sentral. However, in cases where there are differences between Bangko Sentral regulations and PFRS as when more than one (1) option are allowed or certain maximum or minimum limits are prescribed by PFRS, the option or limit prescribed by the Bangko Sentral shall be adopted by BSFIs. These include the accounting treatment of “Government Grants”.

Government grants extended in the form of loans bearing nil or below-market rate of interest shall be measured upon initial recognition at its fair value (i.e. the present value of the future cash flows of the financial instrument discounted using the market interest rate). The difference between the fair value and the net proceeds of the loan shall be recorded under “Unearned Income-Others”, and shall be recognized as income on a systematic basis over the period of the loan necessary to match with the related cost for which the grants are intended to compensate.

b. *Preparation of prudential reports.* For prudential reporting, BSFIs shall adopt in all respect the PFRS except in the following cases:

(1) In preparing consolidated financial statements, only investments in financial allied subsidiaries except insurance subsidiaries shall be consolidated with the financial statements of the parent bank on a line-by-line basis; while insurance and non-financial allied subsidiaries shall be accounted for using the equity method. Investments in financial/non-financial allied/non-allied associates and joint ventures shall be accounted for using the equity method in accordance with the provisions of Philippine Accounting Standards (PAS) 28 "Investments in Associates and Joint Ventures".

In preparing solo/separate financial statements, investments in financial/non-financial allied/non-allied subsidiaries/associates, including insurance subsidiaries/associates, shall be accounted for using the equity method as described in PAS 28.

The rules on the preparation of solo financial statements as provided in *Appendix 77* shall apply to banks.

(2) BSFIs shall recognize adequate and timely allowance for credit losses at all times. In this respect, BSFIs shall adopt the principles provided under the Enhanced Standards on Credit Risk Management under Section X178/4178Q/4197N as well as the provisions of *Appendix 97/Q-56/N-16* of the MORB/MORNBFI in measuring credit losses.

c. *Preparation of Audited Financial Statements (AFS).* AFS shall in all respect be PFRS compliant and shall be submitted to the Bangko Sentral in accordance with the provisions of Subsection X190.1/4190Q/4172N of the MORB/MORNBFI.

BSFIs shall submit to the Bangko Sentral adjusting entries reconciling the balances in the financial statements for prudential reporting with those in the AFS.

d. *Guidelines on the adoption of PFRS 9 Financial Instruments.* BSFIs shall adopt, as part of the PFRS framework, PFRS 9: Financial Instruments upon its mandatory effectivity date of 01 January 2018.

For this purpose, BSFIs shall be governed by the following:

(1) Consistent with the duties and responsibilities of the board of directors provided under Subsection X143.1/4143Q.1 of the MORB/MORNBFI, the board of directors or any equivalent governing body in the case of branches of foreign banks, shall ensure that the BSFI appropriately and consistently adopts PFRS 9 as part of its reporting governance process. In this respect, the board shall assess the impact of PFRS 9 on business strategies and risk management systems and ensure availability of sufficient resources, including capacity building initiatives, in adopting the standard.

The board shall approve policies and guidelines relative to the adoption of PFRS 9, which shall cover responsibilities of the different units in the BSFI (e.g., Treasury, Risk Management, Financial Controllershship) as well as the extent of participation or involvement of third parties in the adoption process. The board shall likewise ensure that adequate control measures are in place to ensure the integrity of reports.

(2) Management shall implement the policies set by the board related to the adoption of PFRS 9 and ensure that sound professional judgment is exercised in implementing the provisions of the standard. Management shall provide feedback to the board on the effectiveness of implementation of PFRS 9.

(3) BSFIs shall be guided by the provisions of Appendix 33/Appendix Q-20 on "Guidelines on the Adoption of Philippine Financial Reporting Standards 9 (PFRS 9) – Classification and Measurement" and Appendix 97/Appendix Q-56/Appendix N-16 on "Impairment" in implementing the provisions of PFRS 9.

- e. *Enforcement Actions.* Consistent with Sec. X009/4009Q/4182N.6 of the MORB/MORNBFI, the Bangko Sentral reserves the right to deploy its range of supervisory tools and enforcement actions to promote adherence with the requirements set out in this Subsection and bring about timely corrective actions to ensure appropriate and consistent adoption of PFRS. In this respect, the Bangko Sentral may issue directives or impose sanctions on the BSFI and/or its directors, officers and/or employees concerned for noted supervisory issues on the adoption of PFRS 9.

Prudential reports affected by non-adherence to the provisions of this Subsection shall be subject to penalties/sanctions provided under Subsection X184.3/4192Q.2/4162N.3 of the MORB/MORNBFI.

- f. *Transitory Provisions.* BSFIs shall observe the following transition rules:

(1) BSFIs shall apply PFRS 9, retrospectively, in accordance with the transition requirements and guidance provided under PFRS 9 and PAS 8 "*Changes in Accounting Policies, Changes in Accounting Estimates and Errors*". BSFIs shall be guided by the provisions of PAS 8 if the retrospective application is impracticable.

(2) A BSFI that applied the earlier versions of PFRS 9 (2009), PFRS 9 (2010) or PFRS 9 (2013) shall be allowed to reclassify its financial assets provided that the reclassification requirements under the standard are met.

(3) A BSFI is expected to comply with the reportorial and disclosure requirements of the Securities and Exchange Commission on the adoption of PFRS 9.

Section 2. The provisions of Appendix 33 of the MORB and Appendix Q-20 of the MORNBF, including their Annexes are hereby deleted and replaced by "Guidelines on the Adoption of Philippine Financial Reporting Standards 9 (PFRS 9) – Classification and Measurement" as shown in Attachment 1.

Section 3. The provisions of Appendix 97 of the MORB and Appendix Q-56 of the MORNBF are hereby deleted and replaced by the "Guidelines on the Adoption of Philippine Financial Reporting Standards 9 (PFRS 9) – Impairment" as shown in Attachment 2. Appendix N-16 of the MORNBF is hereby created, which shall likewise contain the guidelines provided in Attachment 2.

Section 4. Appendix 18 of the MORB and Appendix Q10/N-11 of the MORNBF are hereby amended as shown in Attachment 3.

Section 5. Subsection X191.5 of the MORB and the last paragraph on penalties and sanctions under Subsection 4191Q.3 of the MORNBF are hereby deleted.

Section 6. The following pertinent Section and Subsections of the MORB and MORNBF are hereby amended to read as follows:

"Section 1389 Guidelines on the Investment of Universal Banks and Commercial Banks in Credit-Linked Notes (CLNs), Structured Products and Securities Overlying Securitization Structures. xxx

xxx

The guidelines on the accounting for investments in CLNs and other SPs are provided in Appendix 33 of the MORB. Appendix 66a of the MORB shall be deleted and the guidelines on the reclassification of CLNs and other similar instruments that are linked to the ROP under Bangko Sentral Memorandum No. M-2009-012 dated 16 April 2009 shall no longer apply to financial assets that are accounted for in accordance with PFRS 9."

"Subsection 1636.3 Other conditions. xxx

a. Maturity. xxx

xxx

c. *Booking.* Investments in structured products as herein defined shall be booked in accordance with Subsecs. X186.1, X388.5 and *Appendix 33.* xxx

d. Prudential limits - The total carrying value of all investments in structured products as defined herein at any given point in time must not exceed twenty percent (20%) of the total investment portfolio of the EFCDU."

xxx"

"Subsection X192.10 (2008 - X162.10) Consolidated financial statements of banks and their subsidiaries engaged in financial allied undertakings.

xxx

For purposes of preparing consolidated financial statements, the provisions of Subsec. X191.3 b (1) shall apply.

xxx"

"Subsection X394.2/4394Q.2 Booking

a. xxx

xxx

d. Financial assets, shall be reclassified and booked in accordance with Appendix 33 of the MORB/Appendix Q-20 of the MORNBFi, except interests in subsidiaries, associates and joint ventures, which shall be booked under Equity Investments in Subsidiaries, Associates and Joint Ventures and accounted for in accordance with Subsection X191.3 b (1)/4191Q.3 b (1).

xxx"

Section 7. Subsection X305.4 of the MORB and Subsections 4305Q.4, 4312N.6 of the MORNBFi, are hereby amended to read as follows:

"Subsection X305.4/4305Q.4/4312N.6 Accrual of interest earned on loans and other credit accommodations. Accrual of interest earned on non-performing loans and other credit accommodations shall not be allowed.

xxx."

Section 8. "PAS 39" as referred to in Subsections X119.9, X394.2, X394.3 and Appendices 25, 56a of the MORB and Subsections 4394Q.2, 4394Q.3 and Appendices Q-15, Q-28-a of the MORNBFi, shall be replaced by "PFRS 9".

Section 9. Prudential Reports. Pending the issuance of the revised Financial Reporting Package (FRP) template and other prudential reports, the BSFiS shall adopt the mapping matrix provided in Annex A of Appendix 33 and Q-20 of the MORB/MORNBFi effective for the reporting period ending September 2018. The guidelines governing the issuance of the revised electronic FRP shall be deployed through a Memorandum to all BSFiS.

Section 10. Effectivity. The Circular shall take effect 15 calendar days following its publication either in the Official Gazette or in a newspaper of general circulation.

FOR THE MONETARY BOARD:


NESTOR A. ESPENILLA, JR.
Governor

14 August 2018

**Guidelines on the Adoption of Philippine Financial Reporting Standards (PFRS 9) –
Classification and Measurement**

Section 1. Classification and Measurement of Financial Assets and Financial Liabilities

BSFIs shall classify and measure financial assets and financial liabilities, including those which are designated as hedged items, in accordance with the provisions of PFRS 9. In this respect, BSFIs shall observe the following:

A. Classification of Financial Assets - Financial assets shall be classified based on their contractual cash flow characteristics and the business model for holding the instruments.

(1). Financial assets that are debt instruments. Financial assets that are debt instruments shall be classified under any of the following categories:

- a. **Financial assets measured at fair value through profit or loss (FVPL).** A financial asset shall be measured at fair value through profit or loss, except in the following cases:
 - The financial asset is part of a hedging relationship, in which case, the provisions of PFRS 9 on hedge accounting shall apply;
 - The financial asset is measured at fair value through other comprehensive income (FVOCI); or
 - The financial asset that is a debt instrument is measured at amortized cost.

Financial assets measured at fair value through profit or loss shall consist of the following:

- i. Financial assets held for trading (HFT), which include stand-alone and/or embedded derivatives, except a derivative that is a financial guarantee contract or designated and effective hedging instruments, as defined in PFRS 9;
- ii. Financial assets designated at fair value through profit or loss (DFVPL) as defined in PFRS 9.

BSFIs may, at initial recognition, irrevocably designate financial assets that are debt instruments as measured at fair value through profit or loss in accordance with the condition mentioned under PFRS 9, subject to the following requirements:

- BSFIs shall have in place appropriate risk management systems including related risk management policies, procedures, and controls; and
- BSFIs shall apply the fair value option only to instruments for which fair values can be reliably estimated.

- iii. Other financial assets which are mandatorily measured at fair value through profit or loss (MMFVPL) refers to financial assets that are required to be measured at fair value through profit or loss under PFRS 9, other than those that are HFT and DFVPL.
 - b. **Financial Assets at Fair Value through Other Comprehensive Income (FVOCI).** A financial asset measured at FVOCI shall meet both of the following conditions:
 - The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
 - The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.
 - c. **Financial assets measured at amortized cost.** A financial asset that is a debt instrument, other than those that are designated at fair value through profit or loss, which meet both of the following conditions:
 - The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
 - The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
- (2) *Financial assets that are equity instruments.* Financial assets that are equity instruments shall be classified under any of the following categories:
- a. Financial assets measured at fair value through profit or loss which shall include financial assets HFT;
 - b. Financial Assets at Fair Value through Other Comprehensive Income (FVOCI) which shall consist of:
 - i. Financial asset designated at fair value through other comprehensive income (DFVOCI). BSFIs may, at initial recognition, irrevocably designate financial assets that are equity instruments that are neither held for trading nor contingent consideration recognized by an acquirer in a business combination to which PFRS 3 applies, as measured at fair value through other comprehensive income.
 - ii. Financial assets mandatorily measured at fair value. This includes investment in an equity instrument, previously accounted at cost per PAS 39, which does not have a quoted price in an active market for an identical instrument.

B. Classification of Financial Liabilities - Financial liabilities shall be classified and subsequently measured at amortized cost using the effective interest method, except for:

- (1) Financial liabilities measured at fair value through profit or loss. This shall consist of the following:
 - a. Financial liabilities HFT, including derivative liabilities that are not accounted for as hedging instruments; and

- b. Financial liabilities DFVPL. A BSFI may, at initial recognition, irrevocably designate financial liabilities as measured at fair value through profit or loss subject to the conditions mentioned under PFRS 9 and the regulatory requirements for financial assets DFVPL under Item "A (1) a ii" above.
 - (2) Financial liabilities which shall be subsequently measured in accordance with the provisions of PFRS 9, as follows:
 - a. Financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies;
 - b. Financial guarantee contracts, as defined under PFRS 9;
 - c. Commitments to provide a loan at a below-market interest rate; and
 - d. Contingent consideration recognized by an acquirer in a business combination.
- C. **Classification of hybrid contracts and derivatives** - Investments in hybrid securities, securities overlying securitization structures, other structured products and credit-linked notes (CLNs) and similar structured products with embedded credit derivatives, as defined under Section 1628 of the Manual of Regulations for Banks, shall be classified and measured in accordance with PFRS 9 based on the following guidelines:
 - (1) An entire hybrid contract, which contains a host that is an asset within the scope of PFRS 9, shall be classified in accordance with the requirements on the classification of financial assets.
 - (2) A hybrid contract, which contains a host that is not an asset within the scope of PFRS 9 shall require the separation of an embedded derivative from the host and the same shall be accounted for as a derivative based on the requirements and conditions provided under the standard. If an embedded derivative is separated, the host contract and the derivative, individually, shall be accounted for in accordance with appropriate standards.
 - (3) If a contract contains one or more embedded derivatives and the host is not an asset within the scope of this Standard, a BSFI may designate the entire hybrid contract as at fair value through profit or loss unless:
 - the embedded derivative(s) do(es) not significantly modify the cash flows that otherwise would be required by the contract; or
 - it is clear with little or no analysis when a similar hybrid instrument is first considered that the separation of the embedded derivative(s) is prohibited, such as a prepayment option embedded in a loan that permits the holder to prepay the loan for approximately its amortized cost.
 - (4) If a BSFI is unable to measure the embedded derivative separately either at acquisition or at the end of a subsequent financial reporting period, it shall designate the entire hybrid contract as at fair value through profit or loss.

Section 2. Business Model in Managing Financial Assets

Business model pertains to the manner by which a portfolio of financial assets will be managed to generate cash flows such as by collecting contractual cash flows or by both collecting contractual cash flows and selling the financial assets, among others. BSFIs shall determine the business model for a portfolio of financial assets based on scenarios that are

reasonably expected to occur, taking into consideration the expected changes to asset allocations or to balance sheet structure as a result of business strategies. In this respect, these scenarios do not include “worst case” or “stress case” scenarios.

- a) The criteria that will be used in determining the business model for managing financial assets shall be applied to a portfolio of financial assets and not on an instrument-by-instrument basis.
- b) Business models for managing financial assets shall be observed through specific activities being undertaken by the BSFI to achieve their stated objectives. A BSFI shall exercise sound judgment and shall use all relevant evidences available at the date of assessment in determining the business model for managing portfolios of financial assets. Such relevant evidences include but are not limited to:
 - Risks affecting the performance of financial assets and the business model and how these risks will be managed;
 - Frequency, volume, timing and nature of sales in prior periods, the reasons for such sales, and expectations about future sales activity;
 - The manner by which business model and the financial assets held within it are evaluated (e.g., based on trading income) and reported to the BSFI’s board of directors or any equivalent position in the case of branches of foreign banks and senior management; and
 - The basis for compensation of concerned personnel and/officers (e.g., whether the compensation is based on the fair value of the assets managed or the contractual cash flows collected).
- c) Business models for managing financial assets shall be approved by the board of directors and shall be adequately documented. The documentation for each business model shall include, among others, detailed description of specific business objectives (whether to hold in order to collect contractual cashflows, to sell or both); cases of sales and/or derecognition of financial assets and conditions for changes in business model that are considered consistent with the provisions of PFRS 9; and appropriate level of authority designated to approve determination of business model of specific portfolios of financial assets as well as the sales, derecognition, and changes in business model of financial assets.
- d) Changes in business model are expected to be rare and shall be determined as a result of external or internal changes which are significant to the BSFI’s operations and evident to external parties. Change in intention related to the management of particular financial assets does not constitute a change in business model. The change in business model shall be approved by the appropriate level of authority based on sound justifications and in accordance with accounting standards. The qualitative and quantitative impact of the change in business model shall be adequately documented and appropriately disclosed in the audited financial statements in line with the disclosure of risk management policies on the relevant risk exposure.

- e) All affected financial assets shall be reclassified when, and only when, a BSFI changes its business model for managing financial assets in accordance with the provisions of Item (d). Financial liabilities are not allowed to be reclassified.

If cash flows are realized in a way that is different from the expectations at the date at which the BSFI assessed the business model, it does not constitute a change in the classification of the remaining financial assets as long as the BSFI considered all relevant and objective information available when it initially made the business model assessment.

In cases where a BSFI changes a business model, the financial assets within the said model shall not be reclassified within the reporting period that the change in business model was made. The reclassification in this case shall only take effect in the next financial reporting month. In this respect, any previously recognized gains, losses or interest shall not be restated.

Section 3. Contractual Cash Flow Characteristics

- a) In order for a financial asset to be classified and measured at amortized cost or FVOCI, the contractual terms of the financial asset must give rise on specific dates to cash flows that are SPPI on the principal amount outstanding. A financial asset that does not meet the SPPI criterion shall be measured at FVPL, unless it is an equity instrument which shall be classified and measured at FVOCI.
- b) The cashflows that are considered SPPI are consistent with basic lending arrangement where the principal is the fair value of the financial asset at initial recognition and the interest represents consideration for the time value of money, credit risk, profit margin and other basic lending risks and costs associated with holding the financial asset for a particular period of time.
- c) A BSFI shall determine if the contractual cashflows are SPPI in accordance with the provisions of PFRS 9. In this respect, a BSFI shall assess the contractual terms of a financial instrument before investing in the same and determine if such instrument introduces exposure to risks or volatility that is unrelated to a basic lending arrangement.
- d) Policies and procedures shall include guidelines in performing the SPPI assessment, and shall identify the units responsible for conducting and reviewing the propriety of the assessment as well as the documentation supporting the classification of financial assets.

Section 4. Supervisory Expectations on Classification and Measurement of Financial Assets and Financial Liabilities

- a) The business model for managing financial assets shall be assessed in line with the BSFI's internal risk management policies such as credit, market and liquidity risk management. For instance, the financial assets classified and measured at FVPL are commonly

associated with the management of market risks since the business model objective is to actively trade the securities. On the other hand, financial assets which were classified and measured at amortized cost mostly relate to the management of credit risk and/or interest rate risk in the banking book since there is no intent to sell the financial asset prior to maturity.

- b) The business model for managing financial assets shall be assessed based on the objective information on the activities undertaken for the portfolios of financial assets. This shall include the comparison of frequency of sales activities across portfolios of financial assets. Portfolios of financial assets that are held for trading are expected to exhibit more frequent and higher turnover as compared with financial assets managed under a hold to collect cash flow and sell business model.
- c) The manner by which the performance of financial assets is measured given a specific business model shall be assessed. Key performance indicators should be consistent with the specific business models for portfolios of financial assets. For instance, the performance of financial assets accounted at fair value through profit or loss may be gauged through actual trading/capital gains since the objective is to optimize earnings from interest rate volatilities/price movements. Performance of financial assets classified at amortized cost may be measured through (net) interest income since the objective is to generate accrual income from long-term investments. The results of the impairment testing and credit review of accounts may likewise be considered.
- d) Bases for incentives or compensation granted to personnel involved in managing specific portfolios of financial assets shall be evaluated in line with the expected activities under a specific business model.
- e) The roles and responsibilities of units involved in the management, monitoring, and reporting of performance of financial assets for specific business models shall be clearly defined. Pursuant to Subsection X179.2 of the Manual of Regulations for Banks and Subsection 4179Q.2/4198N.2 of the Manual of Regulations for Non-Bank Financial Institutions, the Bangko Sentral shall assess the effective implementation of the three lines of defense, which shall include the evaluation of the propriety of segregation of functions.

For instance, part of the first line of defense is the trading desk which is expected to manage financial assets that are measured at FVPL as these assets are usually acquired for short term profit taking. On the other hand, the asset/liability management desk is expected to manage financial assets classified as FVOCI since the financial assets booked under said classification are being used to manage the BSFI's liquidity position or to maintain a particular interest yield profile or duration.

The delineation of the roles and responsibilities of the second and third lines of defense shall be evaluated as well as the effectiveness of the scope and frequency of their review. These lines of defense are expected to evaluate consistency of internal policies and practices with the provisions of PFRS 9 and adherence of the BSFI with established policies.

- f) The review of the second and third lines of defense shall cover, among others, the assessment of the following:
 - i. Comprehensiveness of reports submitted to the board or senior management. These should include the risks that may affect the performance of the business model; consistency of the performance of the financial assets held within the business model against strategic and financial objectives; and results of internal and external validation on management and monitoring of business model.
 - ii. Propriety of sales or derecognition of financial assets based on the business model for managing the same. For instance, the BSFI decides to sell a portion of a portfolio of financial assets held and measured at amortized cost, a review should be conducted to ascertain whether the business models has not changed as a result of such sale. In case of change in business model, the self-assessment functions shall look into the circumstances that triggered the decisions to change, consistency of said decision with internal policies and principles of the standard, propriety of the governance process, and adequacy of documentation.

Section 5. Reporting guidelines.

Prudential reports shall be prepared using the existing templates of the Financial Reporting Package (FRP). The mapping of PFRS 9 based accounts to the existing FRP/ Consolidated Statement of Condition (CSOC) and Consolidated Statement of Income and Expenses (CSIE) template is provided in Annex A.

**Mapping of Philippine Financial Reporting Standards 9 (PFRS 9) Accounts
in the Financial Reporting Package (FRP)**

Banks shall report financial assets and financial liabilities using the existing account titles of the FRP based on the mapping of accounts provided below:

Table 1. Financial Assets Measured at Fair Value Through Profit or Loss

PFRS 9 Accounts		FRP Accounts	
Balance Sheet Accounts			
1. Financial Assets Measured at Fair Value Through Profit or Loss			
a. Financial Assets Held for Trading (HFT)		1. Financial Assets Held for trading	
i. HFT Debt Securities		a. HFT Securities	
ii. HFT Equity Securities			
iii. Derivatives with Positive Fair Value Held for Trading (stand-alone and embedded derivatives)		b. Derivatives with Positive Fair Value Held for Trading	
(FRP Account will no longer be used)		c. Derivatives Carried at Cost	
b. Financial Assets Designated at Fair Value Through Profit or Loss (DFVPL)		2. Financial Assets Designated at Fair Value Through Profit or Loss	
c. Other Financial Assets Mandatorily Measured at Fair Value Through Profit or Loss (MMFVPL)			
Income Statement Accounts			
1. Interest Income		1. Interest Income	
a. Financial Assets Measured at Fair Value Through Profit or Loss		a. Financial Assets Held for Trading	
i. HFT Debt Securities		i. HFT Securities	
ii. Derivatives with Positive Fair Value Held for Trading (stand-alone and embedded derivatives)		ii. Derivatives with Positive Fair Value Held for Trading	
b. Financial Assets Designated at Fair Value Through Profit or Loss (DFVPL)		b. Financial Assets Designated at Fair Value Through Profit or Loss	
c. Other Financial Assets Mandatorily Measured at Fair Value Through Profit or Loss (MMFVPL)			
2. Gains/(Losses) on Financial Assets and Liabilities Held for Trading		2. Gains/(Losses) on Financial Assets and Liabilities Held for Trading	
a. Realized Gains/(Losses) from Sale or Derecognition of Financial Assets and Liabilities		a. Realized Gains/(Losses) from Sale or Derecognition of Financial Assets and Liabilities	

PFRS 9 Accounts	FRP Accounts
b. Unrealized Gains/(Losses) from Marking to Market	b. Unrealized Gains/(Losses) from Marking to Market
c. Realized Gains/(Losses) from Foreign Exchange Transactions	c. Realized Gains/(Losses) from Foreign Exchange Transactions
3. Gains/(Losses) on Financial Assets and Liabilities DFVPL	3. Gains/(Losses) on Financial Assets and Liabilities Designated at Fair Value Through Profit or Loss
a. Realized Gains/(Losses) from Sale or Derecognition of Financial Assets and Liabilities	a. Realized Gains/(Losses) from Sale or Derecognition of Financial Assets and Liabilities
b. Unrealized Gains/(Losses) from Marking to Market	b. Unrealized Gains/(Losses) from Marking to Market
4. Gains/(Losses) on Financial Assets and Liabilities MMFVPL	3. Gains/(Losses) on Financial Assets and Liabilities Designated at Fair Value Through Profit or Loss
a. Realized Gains/(Losses) from Sale or Derecognition of Financial Assets and Liabilities	a. Realized Gains/(Losses) from Sale or Derecognition of Financial Assets and Liabilities
b. Unrealized Gains/(Losses) from Marking to Market	b. Unrealized Gains/(Losses) from Marking to Market

Table 2. Financial Assets Measured at Fair Value Through other Comprehensive Income (FVOCI)

PFRS 9 Accounts	FRP Accounts
Balance Sheet Accounts	
1. Financial Assets Measured at Fair Value Through Other Comprehensive Income (FVOCI)	1. Available for Sale (AFS) Financial Assets
a. Debt Securities at FVOCI	a. AFS Debt Securities
b. Equity Securities at FVOCI	b. AFS Equity Securities
i. Designated at FVOCI	
ii. Mandatorily Measured at Fair Value	
(FRP Account will no longer be used)	2. Allowance for Credit Losses
2. FVOCI - Net of Accumulated market gains/losses	3. AFS Financial Assets - Net
3. Other Comprehensive Income	4. Other Comprehensive Income
a. Net Unrealized Gains/(Losses) on Financial Assets at FVOCI ¹	a. Net Unrealized Gains/(Losses) on AFS Financial Assets
i. Debt Securities at FVOCI	i. AFS Debt Securities
ii. Equity Securities at FVOCI	ii. AFS Equity Securities

¹ Loss allowance should also be recognized in Other Comprehensive Income

PFRS 9 Accounts	FRP Accounts
b. Realized and Cumulative/ Gains/(Losses) on Equity Securities Designated at FVOCI	b. Others
Income Statement Accounts	
1. Interest Income	1. Interest Income
a. Financial Assets Measured at Fair Value Through Other Comprehensive Income	a. Available for Sale (AFS) Financial Assets
2. Gains/(Losses) from Sale/ Redemption/ Derecognition of Financial Assets and Liabilities Measured at FVOCI	2. Gains/(Losses) from Sale/ Redemption/ Derecognition of Non-Trading Financial Assets and Liabilities
a. Realized Gains/(Losses) from Sale or Derecognition of Financial Assets and Liabilities	a. Realized Gains/(Losses) from Sale or Derecognition of Financial Assets and Liabilities
i. Debt Securities at FVOCI	
ii. Equity Securities Mandatorily Measured at Fair Value	
(FRP Account will no longer be used)	b. Gains/(Losses) on Reclassification from AFS to HTM

Table 3. Financial Assets Measured at Amortized Cost

PFRS 9 Accounts	FRP Accounts
Balance Sheet Accounts	
1. Debt Securities Measured at Amortized Cost	1. Held-to-Maturity (HTM) Financial Assets
(FRP Account will no longer be used)	2. Unquoted Debt Securities Classified as Loans
(FRP Account will no longer be used)	3. Investments in Non-Marketable Equity Securities
Income Statement Accounts	
1. Interest Income	1. Interest Income
a. Debt Securities at Amortized Cost	a. Held-to-Maturity (HTM) Financial Assets
	b. Unquoted Debt Securities at Amortised Cost
2. Gains/(Losses) from Sale/ Redemption/ Derecognition of Financial Assets and Liabilities Measured at Amortized Cost	2. Gains/(Losses) from Sale/ Redemption/ Derecognition of Non-Trading Financial Assets and Liabilities
a. Realized Gains/(Losses) from Sale or Derecognition of Financial Assets and Liabilities	a. Realized Gains/(Losses) from Sale or Derecognition of Financial Assets and Liabilities

Table 4. Financial Liabilities Measured at Amortized Cost

PFRS 9 Accounts	FRP Accounts
Balance Sheet Accounts - Financial liabilities measured at amortized cost under PFRS 9 shall be booked based on corresponding liability accounts in the FRP.	
Income Statement Accounts	
1. Gains/(Losses) from Sale/ Redemption/ Derecognition of Financial Assets and Liabilities Measured at Amortized Cost	1. Gains/(Losses) from Sale/ Redemption/ Derecognition of Non-Trading Financial Assets and Liabilities
a. Realized Gains/(Losses) from Sale or Derecognition of Financial Assets and Liabilities	a. Realized Gains/(Losses) from Sale or Derecognition of Financial Assets and Liabilities
i. Financial Liability at Amortized Cost	

Table 5. Financial Liabilities Measured at Fair Value Through Profit or Loss

PFRS 9 Accounts	FRP Accounts
Balance Sheet Accounts	
1. Financial Liabilities Measured at Fair Value Through Profit or Loss	
a. Financial Liabilities Held for Trading (HFT)	1. Financial Liabilities Held for trading
i. Derivatives with Negative Fair Value Held for Trading (stand-alone and embedded derivatives)	a. Derivatives with Negative Fair Value Held for Trading
i. Liability for Short Position	b. Liability for Short Position
b. Financial Liabilities Designated at Fair Value Through Profit or Loss (DFVPL)	2. Financial Liabilities Designated at Fair Value Through Profit or Loss
2. Other Comprehensive Income	3. Other Comprehensive Income
a. Net Unrealized Gains/(Losses) on Financial Liabilities Designated at FVPL attributable to changes in credit risk	a. Others
Income Statement Accounts	
1. Interest Expense	1. Interest Expense
a. Financial Liabilities Measured at Fair Value Through Profit or Loss	
i. Financial Liabilities Held For Trading	a. Financial Liabilities Held For Trading
• Derivatives with Negative Fair Value Held for Trading (stand-alone and embedded derivatives)	i. Derivatives with Negative Fair Value Held for Trading (stand-alone and embedded derivatives)
• Liability for Short Position	ii. Liability for Short Position

PFRS 9 Accounts	FRP Accounts
b. Financial Liabilities Designated at Fair Value Through Profit or Loss (DFVPL)	b. Financial Liabilities Designated at Fair Value Through Profit or Loss
2. Gains/(Losses) on Financial Assets and Liabilities Held for Trading	2. Gains/(Losses) on Financial Assets and Liabilities Held for Trading
a. Realized Gains/(Losses) from Sale or Derecognition of Financial Assets and Liabilities	a. Realized Gains/(Losses) from Sale or Derecognition of Financial Assets and Liabilities
b. Unrealized Gains/(Losses) from Marking to Market	b. Unrealized Gains/(Losses) from Marking to Market
c. Realized Gains/(Losses) from Foreign Exchange Transactions	c. Realized Gains/(Losses) from Foreign Exchange Transactions
3. Gains/(Losses) on Financial Assets and Liabilities DFVPL	3. Gains/(Losses) on Financial Assets and Liabilities DFVPL
a. Realized Gains/(Losses) from Sale or Derecognition of Financial Assets and Liabilities	a. Realized Gains/(Losses) from Sale or Derecognition of Financial Assets and Liabilities
b. Unrealized Gains/(Losses) from Marking to Market, except for changes in fair value attributable to changes in credit risk	b. Unrealized Gains/(Losses) from Marking to Market

**Mapping of Philippine Financial Reporting Standards 9 (PFRS 9) Accounts in the
Consolidated Statement of Condition (CSOC) and
Consolidated Statement of Income and Expenses (CSIE)**

Quasi-banks (QBs) and non-bank financial institutions (NBFIs) shall report financial assets and financial liabilities using the existing account titles of the CSOC/CSIE based on the mapping of accounts provided below:

Table 1. Financial Assets Measured at Fair Value Through Profit or Loss

PFRS 9 Accounts	CSOC/CSIE Accounts
Balance Sheet Accounts	
1. Financial Assets Measured at Fair Value Through Profit or Loss	
a. Financial Assets Held for Trading (HFT)	1. Trading Account Securities – Investment
i. HFT Debt Securities	a. Government Securities Purchased b. Gov. Sec. Sold under RA 2. Trading Account Securities – Loans a. Priv. Debt Sec. / Commercial Papers (CPs) Purchased
ii. HFT Equity Securities	3. Trading Account Securities – Equity
iii. Derivatives with Positive Fair Value Held for Trading (stand-alone and embedded derivatives)	
b. Financial Assets Designated at Fair Value Through Profit or Loss (DFVPL)	4. Underwriting Accounts – Debt Securities
c. Other Financial Assets Mandatorily Measured at Fair Value Through Profit or Loss (MMFVPL)	5. Underwriting Accounts – Equity Securities
(CSOC sub-accounts will no longer be used)	6. Underwritten Debt Sec. Purchased, 7. Accum. Market Gains/ (Losses) UA, 8. Receivables – Underwritten Debt Securities Sold
(CSOC sub-accounts will no longer be used)	9. Underwritten Equity Securities Purchased 10. Accum. Market Gains/(Losses) UA 11. Receivables – Underwritten Equity Securities Sold

PFRS 9 Accounts	CSOC/CSIE Accounts
(CSOC sub-accounts will no longer be used)	12. Private Debt Sec./Commercial Papers (CPs) Purchased, 13. Private Debt Sec./Commercial Papers (CPs) Sold Under Repurchase Agreements
Income Statement	
1. Interest Income	1. Interest Income
a. Financial Assets Measured at Fair Value Through Profit or Loss	a. TAS - Investments
i. HFT Debt Securities	
ii. Derivatives with Positive Fair Value Held for Trading (stand-alone and embedded derivatives)	
b. Financial Assets Designated at Fair Value Through Profit or Loss (DFVPL)	b. Underwritten Debt Securities Purchased
c. Other Financial Assets Mandatorily Measured at Fair Value Through Profit or Loss (MMFVPL)	
2. Gains/(Losses) on Financial Assets and Liabilities Held for Trading	2. Trading / Hedging Gain / Loss on:
a. Realized Gains/(Losses) from Sale or Derecognition of Financial Assets and Liabilities	a. Government Securities
	b. Private Debt / CPs/ Equity of Securities
	c. Financial Derivatives
b. Unrealized Gains/(Losses) from Marking to Market	3. Other Income
	a. Others
c. Realized Gains/(Losses) from Foreign Exchange Transactions	4. Other Expenses
3. Gains/(Losses) on Financial Assets and Liabilities DFVPL	5. Other Income
a. Realized Gains/(Losses) from Sale or Derecognition of Financial Assets and Liabilities	a. Foreign Exchange Profit (Loss)
	6. Trading / Hedging Gain / Loss on:
	a. Government Securities
b. Unrealized Gains/(Losses) from Marking to Market	b. Private Debt / CPs/ Equity of Securities
	c. Financial Derivatives
4. Gains/(Losses) on Financial Assets and Liabilities MMFVPL	7. Other Income
a. Realized Gains/(Losses) from Sale or Derecognition of Financial Assets and Liabilities	a. Others
	8. Other Expenses
	9. Trading / Hedging Gain / Loss on:
	a. Government Securities
	b. Private Debt / CPs/ Equity of Securities
	c. Financial Derivatives

PFRS 9 Accounts	CSOC/CSIE Accounts
b. Unrealized Gains/(Losses) from Marking to Market	10. Other Income a. Others 11. Other Expenses

Table 2. Financial Assets Measured at Fair Value Through other Comprehensive Income (FVOCI)

PFRS 9 Accounts	CSOC/CSIE Accounts
Balance Sheet Accounts	
1. Financial Assets Measured at Fair Value Through Other Comprehensive Income (FVOCI)	1. Available For Sale Securities (ASS) a. Available for Sale Securities – Gov't b. Available for Sale Securities – Private c. Available for Sale – Foreign
a. Debt Securities at FVOCI	
b. Equity Securities at FVOCI	
i. Designated at FVOCI	
ii. Mandatorily Measured at Fair Value	
2. Other Comprehensive Income	2. Net Unrealized Gains/Losses on Securities Available For Sale
a. Net Unrealized Gains/(Losses) on Financial Assets at FVOCI ¹	
i. Debt Securities at FVOCI	
ii. Equity Securities at FVOCI	
b. Realized and cumulative/ Gains/(Losses) on Equity Securities Designated at FVOCI	3. Retained Earnings a. Appropriated – Others
Income Statement Accounts	
1. Interest Income	1. Interest Income
a. Financial Assets Measured at Fair Value Through Other Comprehensive Income (FVOCI)	a. Available for Sale Securities
2. Gains/(Losses) from Sale/ Redemption/ Derecognition of Financial Assets and Liabilities Measured at FVOCI	2. Other Income a. Others
a. Realized Gains/(Losses) from Sale or Derecognition of Financial Assets and Liabilities	3. Other Expenses
i. Debt Securities at FVOCI	
ii. Equity Securities Mandatorily Measured at Fair Value	

¹ Loss allowance should also be recognized in Other Comprehensive Income

Table 3. Financial Assets Measured at Amortized Cost

PFRS 9 Accounts	CSOC/CSIE Accounts
Balance Sheet Accounts	
1. Debt Securities Measured at Amortised Cost	1. Investment in Bonds and Other Debt Instruments a. Government b. Private c. Foreign
2. Amortized cost of loans arising from repurchase agreements, certificates of assignment, participation with recourse transactions.	2. Trading Account Securities – Loans a. Gov't. Sec. Purchased under Resale Agreements b. Gov't. Sec. Purchased under Cert. Of Assignments (CA) / Participation with Recourse c. Gov't. Sec. Purchased under Reverse Rep. Agreements with BSP d. Priv. Debt Sec. / CPs Purchased under Resale Agreements e. Priv. Debt Sec. / CPs Purc. Under CA / Part. With Recourse
Income Statement Accounts	
1. Interest Income	1. Interest Income
a. Debt Securities at Amortised Cost	a. IBODI
2. Gains/(Losses) from Sale/ Redemption/ Derecognition of Financial Assets and Liabilities Measured at Amortized Cost	2. Other Income a. Others
a. Realized Gains/(Losses) from Sale or Derecognition of Financial Assets and Liabilities	3. Other Expenses

Table 4. Financial Liabilities Measured at Amortized Cost

PFRS 9 Accounts	CSOC/CSIE Accounts
Balance Sheet Accounts - Financial liabilities measured at amortized cost under PFRS 9 shall be booked based on corresponding liability accounts in the CSOC.	
Income Statement Accounts	
1. Gains/(Losses) from Sale/ Redemption/ Derecognition of Financial Assets and Liabilities Measured at Amortized Cost	1. Other Income a. Others

PFRS 9 Accounts	CSOC/CSIE Accounts
a. Realized Gains/(Losses) from Sale or Derecognition of Financial Assets and Liabilities	2. Other Expenses
i. Financial Liability at Amortised Cost	

Table 5. Financial Liabilities Measured at Fair Value Through Profit or Loss

PFRS 9 Accounts	CSOC/CSIE Accounts
Balance Sheet Accounts	
1. Financial Liabilities Measured at Fair Value Through Profit or Loss	1. Bills Payable a. Others
a. Financial Liabilities Held for Trading (HFT)	
i. Derivatives with Negative Fair Value Held for Trading (stand-alone and embedded derivatives)	
b. Financial Liabilities Designated at Fair Value Through Profit or Loss (DFVPL)	
2. Other Comprehensive Income	2. Net Unrealized Gains/Losses on Securities Available For Sale
a. Net Unrealized Gains/(Losses) on Financial Liabilities Designated at FVPL attributable to changes in credit risk	
Income Statement Accounts	
1. Interest Expense	1. Interest/Finance Charges on Borrowed Funds
a. Financial Liabilities Measured at Fair Value Through Profit or Loss	
i. Financial Liabilities Held For Trading	
• Derivatives with Negative Fair Value Held for Trading (stand-alone and embedded derivatives)	
• Liability for Short Position	
b. Financial Liabilities Designated at Fair Value Through Profit or Loss (DFVPL)	2. Trading / Hedging Gain / Loss on: a. Government Securities b. Private Debt / CPs/ Equity of Securities c. Financial Derivatives
2. Gains/(Losses) on Financial Assets and Liabilities Held for Trading	
a. Realized Gains/(Losses) from Sale or Derecognition of Financial Assets and Liabilities	
b. Unrealized Gains/(Losses) from	3. Other Income

PFRS 9 Accounts	CSOC/CSIE Accounts
Marking to Market	a. Others 4. Other Expenses
c. Realized Gains/(Losses) from Foreign Exchange Transactions	5. Other Income Foreign Exchange Profit (Loss)
7. Gains/(Losses) on Financial Assets and Liabilities DfVPL	6. Trading / Hedging Gain / Loss on: a. Government Securities b. Private Debt / CPs/ Equity of Securities c. Financial Derivatives
a. Realized Gains/(Losses) from Sale or Derecognition of Financial Assets and Liabilities	
b. Unrealized Gains/(Losses) from Marking to Market, except for changes in fair value attributable to changes in credit risk	7. Other Income a. Others 8. Other Expenses

**Guidelines on the Adoption of Philippine Financial Reporting Standards 9 (PFRS 9)
Financial Instruments – Impairment**

Section 1. Expected Credit Loss Model

Bangko Sentral supervised financial institutions (BSFIs) shall adopt the expected credit loss (ECL) model in measuring credit impairment, in accordance with the provisions of PFRS 9. In this respect, BSFIs shall recognize credit impairment/allowance for credit losses even before an objective evidence of impairment becomes apparent. BSFIs shall consider past events, current conditions, and forecasts of future economic conditions in assessing impairment.

- a) BSFIs shall apply the ECL model on credit exposures covered by PFRS 9, which include the following:
- loans and receivables that are measured at amortized cost;
 - investments in debt instruments that are measured at amortized cost or at fair value through other comprehensive income (FVOCI); and
 - credit commitments and financial guarantee contracts that are not measured at fair value through profit or loss (FVTPL).
- b) Credit exposures shall be classified into three stages using the following time horizons in measuring ECL:

Stage of credit impairment	Characteristics	Time horizon in measuring ECL
Stage 1	- Credit exposures that are considered “performing” and with no significant increase in credit risk since initial recognition or with low credit risk	Twelve (12) months
Stage 2	- Credit exposures that are considered “under-performing” or not yet non-performing but with significant increase in credit risk since initial recognition	Lifetime
Stage 3	- Credit exposures with objective evidence of impairment, thus, considered as “non-performing”	Lifetime

- c) BSFIs shall promptly recognize and maintain adequate allowance for credit losses at all times. It shall adopt the principles provided under the Enhanced Standards on Credit Risk Management¹ in implementing sound and robust credit risk measurement methodologies that adequately considers ECL. In this respect, the ECL methodology shall not be considered as a separate and distinct process but as an important element of the entire credit risk management process.

Section 2. Twelve (12)-Month ECL

- a) BSFIs shall consider reasonable and supportable information, including forward-looking information that affect credit risk in estimating the 12-month ECL. BSFIs shall exercise experienced credit judgment and consider both qualitative and quantitative information that may affect the assessment.
- b) Zero allowance for exposures under Stage 1 shall be rare. It shall be expected only for exposures with zero percent (0%) credit risk-weight under the Risk-Based Capital Adequacy Framework, such as Philippine peso-denominated exposures to the Philippine National Government and the Bangko Sentral.

Section 3. Lifetime ECL

- a) BSFIs shall evaluate the change in the risk of default occurring over the expected life of the exposures in assessing whether these shall be moved to a lifetime ECL measure.² Although collateral will be used to measure the loss given a default, this should not be primarily used in measuring risk of a default or in transferring to different stages.
- b) BSFIs shall measure lifetime ECL of the following:
- exposures that have significantly increased their credit risk from origination (Stage 2); and
 - non-performing exposures (Stage 3).

Section 4. Assessment of forward-looking information

BSFIs shall clearly demonstrate how forward-looking information, including macroeconomic factors, have been reflected in the ECL assessment and how these are linked to the credit risk drivers of the exposures. Experienced credit judgment is essential in assessing the soundness of forward-looking information and in ensuring that these are adequately supported.

¹ Section X178 and Section 4178Q/4197N of the Manual of Regulations for Banks (MORB) and the Manual of Regulations for Non-Bank Financial Institutions (MORNBFII), respectively.

² PFRS 9 paragraph 5.5.9 provides that the assessment should be made in terms of the risk of a default and not on the expected credit loss (i.e., before consideration of the effects of credit risk mitigants such as collaterals or guarantees).

Section 5. Transfers from Stage 1 to Stage 2 – Assessment of significant increase in credit risk

BSFIs shall transfer credit exposures from Stage 1 to Stage 2 if there is significant increase in credit risk from initial recognition.

- a) BSFIs shall establish well-defined criteria on what constitutes significant increase in credit risk. BSFIs shall consider a wide range of information, which includes among others, information on macroeconomic conditions, economic sector and the geographical region relevant to the borrower, and other factors that are borrower-specific. The criteria on what constitutes significant increase in credit risk shall consider, at a minimum, the list provided in PFRS 9.
- b) BSFIs shall classify exposures to Stage 2 if the exposures have potential weaknesses, based on current and/or forward-looking information, that warrant management's close attention. Said weaknesses, if left uncorrected, may affect the repayment of these exposures. BSFIs shall also classify exposures to Stage 2 if there are adverse or foreseen adverse economic or market conditions that may affect the counterparty's ability to meet the scheduled repayments in the future.
- c) The Bangko Sentral shall apply the following indicators of significant increase in credit risk in BSFIs noted to have weak credit loss methodologies:
 - exposures considered especially mentioned under Subsection X178.17/4178Q.17/4197N.16 of the MORB/MORNBFI;
 - exposures with missed payment for more than thirty (30) days; and
 - exposures with risk ratings downgraded by at least two (2) grades (e.g., exposure with risk rating of "3" on the origination date was downgraded to risk rating of "5" on the reporting date) for BSFIs with below fifteen (15)-risk rating grades, and three (3) grades for BSFIs with fifteen (15) or above risk rating grades.

Section 6. Transfers from Lifetime ECL to Twelve (12)-month ECL

BSFIs shall transfer the exposures from Stage 3 (non-performing) to Stage 1 (performing) when there is sufficient evidence to support their full collection. Exposures should exhibit both the quantitative and qualitative indicators of probable collection prior their transfer. The quantitative indicator is characterized by payments made within an observation period (e.g., regularly pays during the minimum observation period). The qualitative indicator pertains to the results of assessment of the borrower's financial capacity (e.g., improvement in counterparty's situation).

As a general rule, full collection is probable when payments of interest and/or principal are received for at least six (6) months.

BSFIs shall observe the following guidelines for exposures that were restructured:

- a) Non-performing restructured exposures that have exhibited improvement in creditworthiness of the counterparty may only be transferred from Stage 3 to Stage 1 after a total of one (1) year probation period [i.e., six (6) months in Stage 3 before transferring to Stage 2, and another six (6) months in Stage 2 before transferring to Stage 1; or directly from Stage 3 to Stage 1, without passing through Stage 2, after twelve (12) months]; and
- b) Restructured accounts classified as “performing” prior to restructuring shall be initially classified under Stage 2. The transfer from Stage 2 to Stage 1 will follow the six (6)-month rule mentioned in Item “a” of this Section.

Section 7. Multiple exposures to specific counterparties

In measuring the ECL of multiple exposures to a single counterparty or multiple exposures to counterparties belonging to a group of related entities, the following shall apply:

- a) *Exposures to non-retail counterparties.* BSFIs with multiple exposures to a non-retail counterparty shall measure ECL at the counterparty level. In particular, the BSFI shall consider all exposures to a counterparty as subject to lifetime ECL when any of its material exposure is subjected to lifetime ECL;
- b) *Exposures to a retail counterparty.* BSFIs with multiple exposures to a retail counterparty shall measure ECL at the transaction level. In particular, the BSFI may classify one transaction under Stage 1 and another transaction under Stage 3. However, BSFIs are not precluded from taking into account the potential of cross default, such that if one exposure is classified under Stage 3 all the other exposures may be classified under Stage 3; and
- c) *Exposures to counterparties belonging to a group of related entities.* BSFIs with multiple exposures to counterparties that belong to the same group of related entities shall measure ECL at the counterparty level (per entity). BSFIs shall likewise consider the status of the other counterparties belonging to the same group in determining the stage under which the exposures shall be classified.

Section 8. Recognition of Income

For purposes of preparing the prudential reports (e.g., Financial Reporting Package and Capital Adequacy Ratio report), BSFIs shall not recognize interest income on non-performing exposures, except when payment is received.

On the other hand, interest income recognized on non-performing exposures (Stage 3 accounts) for purposes of preparing the audited financial statements (AFS) shall be disclosed in the AFS. This shall likewise be included in the list of reconciling items between the prudential reports and the AFS that is being submitted to the Bangko Sentral.

Section 9. Off-balance sheet financial items

As a general rule, BSFIs shall recognize the ECLs on off-balance sheet exposures as a liability and booked as "Provisions - Others".

On credit facilities with partial drawdown (e.g., with loan balance and an undrawn commitment), BSFIs shall observe the following rules in accordance with PFRS 7 (Financial Instruments: Disclosures):

- a) If the BSFI cannot separately identify the ECL attributable to the drawn and undrawn commitment, the provision for ECL on the off-balance sheet accounts shall be presented together with the allowance for the financial asset (contra-asset); and
- b) If the combined ECL exceeds the gross carrying amount of the financial asset, the ECL should be recognized as "Provisions - Others" (liability).

BSFIs shall look beyond the contractual date when estimating the expected losses of facilities with both loan and undrawn commitment components such as the credit card portfolio.

Section 10. Application to simple BSFIs

BSFIs with simple operations shall adopt simple loan loss methodologies fundamentally anchored on the principle of recognizing ECL. In this respect, BSFIs shall look beyond the past due/missed amortizations in classifying exposures and in providing allowance for credit losses. On the other hand, BSFIs with credit operations that may not economically justify adoption of said simple loan loss estimation methodology that is compliant with PFRS 9 shall, at a minimum, be subject to the regulatory guidelines in setting up allowance for credit losses prescribed under the Appendix 18/Q10/N-11 of the MORB/MORNBFI.

Section 11. General and Specific Provisions for Loan Accounts

- a) BSFIs shall treat Stage 1 provisions for loan accounts as General Provision (GP), while Stages 2 and 3 provisions shall be treated as Specific Provisions (SP).
- b) BSFIs shall set up general loan loss provision (GLLP) equivalent to 1 percent (1%) of all outstanding Stage 1 on-balance sheet loans, except for accounts considered as credit risk-free under existing regulations. BSFIs are not required to provide a 1 percent (1%) GP on other credit exposures covered by PFRS 9 such as off-balance sheet accounts and investments.
- c) Allowance for credit losses for Stages 1, 2, and 3 accounts shall be recognized in the profit or loss statement. In cases when the computed allowance for credit losses on Stage 1 accounts is less than the 1 percent GP required, the deficiency shall be recognized by appropriating the Retained Earnings (RE)³ account. GP recognized in

³ BSFIs shall use Retained Earnings Reserve – Others as temporary account of Retained Earnings- General Provision (RE-GP).

profit or loss as allowance for credit losses for Stage 1 accounts and the amount appropriated in RE shall be considered as Tier 2 capital subject to the limit provided under the Capital Adequacy Ratio (CAR) framework⁴.

- d) BSFIs that use the guidelines provided under Appendix 18/Q10/N-11 of the MORB/MORNBFI in determining allowance for credit losses shall book the entire amount of GP in profit or loss.
- e) BSFIs shall charge against RE the increase in ECL – SP as of 01 January 2018 as a result of the change in accounting policy.

⁴ As a temporary presentation in CAR reports, the Retained Earnings (RE) included in Common Equity Tier (CET)/Core Tier 1 shall be net of RE-GP. In computing Tier 2 Capital, the General Loan Loss Provision (GLLP) shall include the RE-GP. However, the GLLP added back to on-balance sheet assets subject to risk-weight shall not include the RE-GP since when appropriating the RE, total assets is not affected.

Basic Guidelines in Setting Up of Allowance for Credit Losses
(Appendix to Subsec. X178.17/4178Q.17/4197N.16)

BSFIs with credit operations that may not economically justify a more sophisticated loan loss estimation methodology or where practices fall short of expected standards shall, at a minimum, be subject to the following guidelines:

As a general rule, Especially Mentioned and Substandard – Underperforming [e.g., substandard accounts that are unpaid or with missed payment of less than ninety (90) days] shall be considered as Stage 2 accounts, while Substandard Non-performing, Doubtful, and Loss accounts shall be considered as Stage 3 accounts.

I. Individually Assessed Credit Exposures¹

1. Loans and other credit exposures with unpaid principal and/or interest shall be classified and provided with allowance for credit losses (ACL) based on the number of days of missed payments as follows:

For unsecured loans and other credit exposures:

No. of Days Unpaid/with Missed Payment	Classification	Minimum ACL	Stage
31 – 90 days	Substandard (underperforming)	10%	2
91 – 120 days	Substandard (non-performing)	25%	3
121 – 180 days	Doubtful	50%	3
181 days and over	Loss	100%	3

For secured loans and other credit exposures:

No. of Days Unpaid/with Missed Payment	Classification	Minimum ACL	Stage
31 – 90 days*	Substandard (underperforming)	10%	2
91 – 180 days*	Substandard (non-performing)	10%	3
181 – 365 days	Substandard (non-performing)	25%	3

¹ Other credit exposures include exposures under the scope of PFRS 9, such as investments in debt securities measured at fair value through other comprehensive income and amortized cost, loan commitments, sales contract receivables, accounts receivables, accrued interest receivables, and advances.

No. of Days Unpaid/with Missed Payment	Classification	Minimum ACL	Stage
Over a year – 5 years	Doubtful	50%	3
Over 5 years	Loss	100%	3
<i>* When there is imminent possibility of foreclosure and expectation of loss, ACL shall be increased to 25%.</i>			

Provided, That where the quality of physical collaterals or financial guarantees securing the loans and advances are determined to be insufficient, weak or without recoverable values, such loans and advances shall be treated as if these are unsecured.

- Loans and other credit exposures that exhibit the characteristics for classified accounts described under Subsection X178.17/4178Q.17/4197N.16 shall be provided with ACL as follows:

Classification	Minimum ACL	Stage
Especially Mentioned	5%	2
Substandard – Secured	10%	2 or 3 ²
Substandard – Unsecured	25%	2 or 3 ²
Doubtful	50%	3
Loss	100%	3

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II. Collectively Assessed Loans³ and Other Credit Exposures

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- Loans and other credit exposures with unpaid principal and/or interest shall be classified and provided with ACL based on the number of days of missed payments as follows:

For unsecured loans and other credit exposures:

No. of Days Unpaid/with Missed Payment*	Classification	Minimum ACL	Stage
1 – 30 days	Especially Mentioned	2%	2
31 – 60 days /	Substandard	25%	2 or 3 ⁴

² The stage depends on whether the accounts are classified as non-performing (Stage 3) or underperforming (Stage 2).

³ This includes microfinance loans, micro enterprises and small business loans and consumer loans such as salary loans, credit card receivables, auto loans, housing loans and other consumption loans, and other loan types which fall below the FI's materiality threshold for individual assessment.

⁴ The stage depends on whether the accounts are classified as non-performing (Stage 3) or underperforming (Stage 2).

No. of Days Unpaid/with Missed Payment*	Classification	Minimum ACL	Stage
1 st restructuring			
61 – 90 days	Doubtful	50%	3 ⁵
91 days and over / 2 nd restructuring	Loss	100%	3

* Par for microfinance loans

For secured and other credit exposures:

No. of Days Unpaid/with Missed Payment	Classification	ACL %		Stage
		Other types of collateral	Secured by real estate	
31 – 90 days	Substandard (underperforming)	10	10	2
91 – 120 days	Substandard (non-performing)	25	15	3
121 – 360 days	Doubtful	50	25	3
361 days – 5 years	Loss	100	50	3
Over 5 years	Loss	100	100	3

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⁵ Subsection X306.2/4306Q.2/4306N.2 provides that doubtful accounts are considered as non-performing hence, shall be classified under Stage 3 notwithstanding the number of missed amortizations.