



BANGKO SENTRAL NG PILIPINAS

OFFICE OF THE GOVERNOR

CIRCULAR NO. 998

Series of 2018

Subject: Amendments to the Basic Security Deposit Requirements

The Monetary Board in its Resolution No. 141 dated 25 January 2018, approved the following amendments to the guidelines governing the basic security deposit requirement for the faithful performance of trust and other fiduciary duties, investment management activities, securities custodianship operations, and duties of Personal Equity Retirement Account (PERA) Administrators.

Section 1. Coverage and Scope. All BSP-supervised financial institutions (BSFIs), authorized to engage in trust and other fiduciary business, investment management activities or securities custodianship operations, or accredited by the Bangko Sentral as PERA Administrator are covered by this Circular.

Section 2. Compliance with the Basic Security Deposit for the Faithful Performance of (1) Trust and Other Fiduciary Activities and (2) Investment Management Activities of Banks, Quasi-Banks and Trust Corporations. Subsections X405.1 and 4405Q.1 of the Manual of Regulations for Banks (MORB)/Manual of Regulations for Non-Bank Financial Institutions (MORNBFI) on the basic security deposit for the faithful performance of trust and other fiduciary business, Subsections X415.1 and 4415Q.1 of the MORB/MORNBFI on the basic security deposit for the faithful performance of investment management activities, and Subsection 4112T.1 of the MORNBFI on the basic security deposit for the faithful performance of trust and other fiduciary business and investment management activities of trust corporations, are amended to clarify the guidelines on the basic security deposit requirement, as follows:

- a. **"Subsection X405.1/4405Q.1 Basic security deposit.** Bangko Sentral-supervised financial institutions (BSFIs) authorized to engage in trust and other fiduciary business shall deposit with the Bangko Sentral eligible government securities, pursuant to Subsection X405.2/4405Q.2, as security for the faithful performance of its trust and other fiduciary duties equivalent to at least one percent (1%) of the book value of the total trust, other fiduciary and investment management assets: *Provided*, That at no time shall such deposit be less than P500,000.

"xxx"

- b. **"Subsection X415.1/4415Q.1 Basic security deposit.** Bangko Sentral-supervised financial institutions (BSFIs) authorized to engage in investment management activities shall deposit with the Bangko Sentral eligible government securities, pursuant to Subsections X405.2/4405Q.2, as security for the faithful performance of its investment management activities equivalent to at least one percent (1%) of the

book value of the total investment management assets: *Provided*, That at no time shall such deposit be less than P500,000.

“xxx”

- c. **“Subsection 4112T.1 Basic security deposit.** Trust Corporations duly authorized by the Monetary Board, shall deposit with the Bangko Sentral eligible government securities, pursuant to Subsection 4112T.2, as security for the faithful performance of trust and other fiduciary duties and investment management activities equivalent to 0.05% of the total book value of the AUM: *Provided*, That at no time shall the basic security deposit be less than P500,000. *Provided, further*, That after the first year of operation, the basic security deposit shall be based on the trust rating of the most recent report of examination of the Trust Corporation, as shown in the table below:

Trust Rating	Required Basic Security Deposit
4	P500,000 or 0.03% of the total book value of the AUM, whichever is higher.
3	P500,000 or 0.05% of the total book value of the AUM, whichever is higher.
2	P500,000 or 0.10% of the total book value of the AUM, whichever is higher.
1	P500,000 or 0.20% of the total book value of the AUM, whichever is higher.

“The basic security deposit shall be in the form of government securities acceptable to the Bangko Sentral, pursuant to Subsection 4112T.2: *Provided*, That the Trust Corporation shall not withdraw, transfer or replace such earmarked securities, without prior written approval of the Bangko Sentral.

“xxx”

Section 3. Assets Eligible as Compliance with the Basic Security Deposit for the Faithful Performance of (1) Trust and Other Fiduciary Business; (2) Investment Management Activities; and (3) Securities Custodianship Operations. Subsections X405.2 and 4405Q.2 of the MORB/MORNBF on the basic security deposit for the faithful performance of trust and other fiduciary business, Subsections X415.2 and 4415Q.2 of the MORB/MORNBF on the basic security deposit for the faithful performance of investment management activities, Subsections X441.13/4441Q.13/4144N.13 of the MORB/MORNBF on the basic security deposit for the faithful performance of securities custodianship operations, and Subsection 4112T.2 of the MORNBF on the basic security deposit for the faithful performance of trust and other fiduciary business and investment management activities of trust corporations, are amended to 1) delete unavailable securities, effective immediately, from the enumeration of assets eligible as compliance with the basic security deposit requirement, and 2) allow government securities, regardless of tenor, as mode of compliance with the basic security deposit requirement, effective 31 March 2018.

a. **"Subsection X405.2/4405Q.2. Eligible securities.**

Government securities which shall be deposited in compliance with the above basic security deposit shall consist of evidence of indebtedness of the Republic of the Philippines or of the Bangko Sentral or any other evidence of indebtedness or obligations the servicing and repayment of which are fully guaranteed by the Republic of the Philippines; or such other kinds of securities which may be declared eligible by the Monetary Board: *Provided*, That such securities shall be free, unencumbered, and not utilized for any other purpose: *Provided, further*, That such government securities shall have remaining maturity of not more than three (3) years from the date of deposit with the Bangko Sentral.

"The requirement for the abovementioned government securities to have remaining maturity of not more than three (3) years from the date of deposit with the Bangko Sentral shall no longer apply starting 31 March 2018."

b. **"Subsection X415.2/4415Q.2. Eligible securities.** The provisions of Subsections X405.2/4405Q.2 on eligible securities shall govern the basic security deposit requirement for faithful performance of investment management activities."

c. **"Subsection X441.13/4441Q.13/4144N.13. Basic security deposit.** Securities held under custodianship whether booked in the Trust Department or carried in the regular books of the bank/quasi-bank/trust entity/NBFI shall be subject to a security deposit for faithful performance of duties at the rate of 1/25 of one percent (1%) of the total face value of securities held under custodianship, or P500,000 whichever is higher.

"However, securities held under custodianship where the custodian also performs securities lending as agent shall be subject to a higher basic security deposit of one percent (1%) of the total face value of securities held under custodianship.

"Compliance shall be in the form of eligible government securities deposited with the Bangko Sentral, pursuant to existing regulations governing security for the faithful performance of trust and other fiduciary business under Subsections X405.2 to X405.4/4405Q.2 to 4405Q.4."

d. **"Subsection 4112T.2. Eligible Securities.** The provisions of Subsection 4405Q.2 on eligible securities shall govern the basic security deposit requirement for faithful performance of trust and other fiduciary business and investment management activities of trust corporations."

Section 4. Methodology in Determining Compliance with the Basic Security Deposit for the Faithful Performance of Trust and Other Fiduciary Duties and Investment Management Activities. Subsections X405.3 and 4405Q.3 of the MORB/MORNBFI on the valuation of securities and basis of computation of basic security deposit requirement for trust and other fiduciary business, and Subsections X415.3/4415Q.3 of the MORB/MORNBFI on the valuation of securities and basis of computation of basic security deposit requirement

for investment management activities, are amended to prescribe the methodology in determining compliance with the basic security deposit for the faithful performance of trust and other fiduciary business and investment management activities, effective 31 March 2018:

1. Government securities used as compliance with the basic security deposit shall be valued using fair value methodology, subject to applicable haircuts, instead of amortized cost; and
 2. The base amount upon which the basic security deposit rate shall be applied shall be the quarter-end balance of total trust, investment management and other fiduciary assets, instead of the average of the month-end balances of total trust, investment management and other fiduciary assets of the preceding calendar quarter.
- a. ***“Subsection X405.3/4405Q.3. Valuation of securities and basis of computation of the basic security deposit requirement.***

“For purposes of determining compliance with the basic security deposit under this Section:

“a. Prior to 31 March 2018:

- (1) The amount of securities so deposited shall be based on their book value, that is, cost as increased or decreased by the corresponding discount or premium amortization.
- (2) The base amount for the basic security deposit shall be the average of the month-end balances of total trust, investment management and other fiduciary assets of the immediately preceding calendar quarter.

“Effective 31 March 2018, the provisions under Items “a.(1)” and “a.(2)” shall no longer apply.

“b. The following provisions on the valuation of eligible assets and computation of the basic security deposit requirement shall be adopted starting 31 March 2018:

- (1) Government securities deposited with the Bangko Sentral shall be measured at fair value according to the marking-to-market guidelines for government securities prescribed under *Appendix 33a/Q-20*, subject to applicable haircuts.

The haircuts that shall be applied to the government securities shall be, as follows:

Residual Maturity of Government Security	Minimum Haircut (in Percent) for Basic Security Deposit
3 years and below	0.0
> 3 years up to 5 years	2.0
> 5 years	4.0

- (2) The base amount for the basic security deposit shall be the total trust, investment management and other fiduciary assets reported as of the end of the calendar quarter."

b. **"Subsection X415.3/4415Q.3. Valuation of securities and basis of computation of the basic security deposit requirement.**

"For purposes of determining compliance with the basic security deposit under this Section:

"a. Prior to 31 March 2018:

- (1) The amount of securities so deposited shall be based on their book value, that is, cost as increased or decreased by the corresponding discount or premium amortization.
- (2) The base amount for the basic security deposit shall be the average of the month-end balances of the total assets of the investment management funds of the immediately preceding calendar quarter.

"Effective 31 March 2018, the provisions under Items "a.(1)" and "a.(2)" shall no longer apply.

"b. The following provisions on the valuation of eligible assets and computation of the basic security deposit requirement shall be adopted starting 31 March 2018:

- (1) Government securities deposited with the Bangko Sentral shall be measured at fair value according to the marking-to-market guidelines for government securities under *Appendix 33a/Q-20*, subject to applicable haircuts.

The haircuts that shall be applied to the government securities shall be as follows:

Residual Maturity of Government Security	Minimum Haircut (in Percent) for Basic Security Deposit
3 years and below	0.0
> 3 years up to 5 years	2.0
> 5 years	4.0

- (2) The base amount for the basic security deposit shall be the total investment management assets reported as of the end of the calendar quarter.”

Section 5. Compliance with the Basic Security Deposit Requirements. Subsections X405.4 and 4405Q.4 of the MORB/MORNBFI on compliance period for the trustee or fiduciary, Subsections X415.4 and 4415Q.4 of the MORB/MORNBFI on compliance period for the investment manager, and Subsection 4112.T.4 of the MORNBFI on compliance period for the trust corporation, are amended to require banks/quasi-banks/trust corporations that are authorized to engage in trust and other fiduciary business and investment management activities, to comply with the basic security deposit requirement on a quarterly basis as well as at the time of withdrawal, replacement or redemption of the government securities deposited with the Bangko Sentral within the quarter period.

- a. **“Subsection X405.4/4405Q.4. *Compliance period; sanctions.*** The trustee or fiduciary shall have thirty (30) calendar days after the end of every calendar quarter or a thirty (30)-calendar day grace period within which to deposit with the Bangko Sentral, the securities required under this Section.

“Effective 31 March 2018, the trustee or fiduciary shall also comply with the basic security deposit requirement in the following manner:

- “a. *Quarterly compliance.* The trustee or fiduciary shall comply with the basic security deposit requirement on a quarterly basis. In determining quarterly compliance, the fair value of government securities used as compliance with the basic security deposit requirement shall be reckoned as of the end of the calendar quarter and the base amount for the basic security deposit requirement provided under X405.3/4405Q.3 shall be applied.

“Haircuts for government securities prescribed under Subsection X405.3/4405Q.3 shall be applied on the fair value of the government securities used as compliance with the basic security deposit.

“The trustee or fiduciary shall have a thirty (30)-calendar day grace period after the end of every quarter within which to deposit with the Bangko Sentral, government securities pursuant to existing regulations to comply with the basic security deposit requirement as of the preceding quarter-end.

- “b. *Compliance upon withdrawal, replacement or redemption.* The trustee or fiduciary shall ensure that it will continue to comply with the basic security deposit requirement after every withdrawal, replacement or redemption of government securities within the quarter period. In determining compliance, the basic security deposit requirement shall be the amount computed as of the quarter-end preceding the date of withdrawal, replacement or redemption pursuant to Subsection X405.3/4405Q.3. The fair value of the remaining government securities, adjusted for relevant haircuts, shall also be based on

amounts reported as of the quarter-end preceding the date of withdrawal, replacement or redemption, pursuant to Subsection X405.3/4405Q.3.

“Banks/quasi-banks/trust entities shall develop and maintain systems to ensure compliance with the required basic security deposit as prescribed under existing regulations.

“The following sanctions shall be imposed for any deficiency in the basic security deposit for the faithful performance of trust, investment management and other fiduciary duties:

“a. On the bank/QB:

“i. Monetary penalty/ies:

Penalty per calendar day	Offense/ Trust Asset Size		First	Second	Third and subsequent offense
	TBs/RBs with Limited Trust Authority		P300.00	P400.00	P500.00
	UBs/KBs/TBs with Full Trust	Up to P500 million	P600.00	P700.00	P800.00
		Above P500 million but not exceeding P1 billion	P1,000.00	P1,250.00	P1,500.00
		Above P1 billion but not exceeding P10 billion	P2,000.00	P3,000.00	P4,000.00
		Above P10 billion but not exceeding P50 billion	P5,000.00	P6,000.00	P7,000.00
		Above P50 billion.	P8,000.00	P9,000.00	P10,000.00

“A bank or quasi-bank/trust entity which incurs a deficiency with the basic security deposit within the quarter, or reports a deficiency with the basic security deposit as of the end of the quarter and fails to deposit government securities to comply with the said requirement within the thirty (30)-calendar day grace period, shall be considered deficient with the basic security deposit requirement from the date the deficiency is incurred up to the date the deficiency is corrected or the succeeding quarter-end, whichever comes earlier.

“ii. Non-monetary penalty beginning with the third offense (all banks) – Prohibition against the acceptance of new trust and other fiduciary accounts and from renewing expiring trust and other fiduciary contracts up to the time the violation is corrected.

“xxx”

- b. **"Subsection X415.4/4415Q.4 Compliance period; sanctions.** The investment manager shall have thirty (30) calendar days after the end of every calendar quarter or a thirty (30)-calendar day grace period within which to deposit with the Bangko Sentral, the securities required under this Section.

"Effective 31 March 2018, the investment manager shall also comply with the basic security deposit requirement in the following manner:

- "a. *Quarterly compliance.* The investment manager shall comply with the basic security deposit requirement on a quarterly basis. In determining quarterly compliance, the fair value of government securities used as compliance with the basic security deposit requirement shall be reckoned as of the end of the calendar quarter and the base amount for the basic security deposit requirement provided under Subsection X415.3/4415Q.3 shall be applied.

"Haircuts for government securities prescribed under Subsection X415.3/4415Q.3 shall be applied on the fair value of the government securities used as compliance with the basic security deposit.

"The investment manager shall have a thirty (30)-calendar day grace period after the end of every quarter within which to deposit with the Bangko Sentral, securities pursuant to existing regulations to comply with the basic security deposit requirement as of the preceding quarter-end.

- "b. *Compliance upon withdrawal, replacement or redemption.* The investment manager shall ensure that it will continue to comply with the basic security deposit requirement after every withdrawal, replacement or redemption of government securities within the quarter period. In determining compliance, the basic security deposit requirement shall be the amount computed as of the quarter-end preceding the date of withdrawal, replacement or redemption pursuant to Subsection X415.3/4415Q.3. The fair value of the remaining government securities, adjusted for relevant haircuts, shall also be based on amounts reported as of the quarter-end preceding the date of withdrawal, replacement or redemption, pursuant to Subsection X415.3/4415Q.3.

"Banks or quasi-banks/trust entities shall develop and maintain systems to ensure compliance with the required basic security deposit as prescribed under existing regulations.

"The following sanctions shall be imposed for any deficiency in the basic security deposit for the faithful performance of investment management activity:

"a. On the bank/QB:

"i. Monetary penalty/ies:

Penalty per calendar day	Offense / Trust Asset Size		First	Second	Third and subsequent offense
	TBs/RBs with Limited Trust Authority		P300.00	P400.00	P500.00
	UBs/KBs/TBs with Full Trust Authority and	Up to P500 million	P600.00	P700.00	P800.00
		Above P500 million but not exceeding P1 billion	P1,000.00	P1,250.00	P1,500.00
		Above P1 billion but not exceeding P10 billion	P2,000.00	P3,000.00	P4,000.00
		Above P10 billion but not exceeding P50 billion	P5,000.00	P6,000.00	P7,000.00
		Above P50 billion.	P8,000.00	P9,000.00	P10,000.00

"An investment manager which incurs a deficiency with the basic security deposit within the quarter, or reports a deficiency with the basic security deposit as of the end of the quarter and fails to deposit securities to comply with the said requirement within the thirty (30)-calendar day grace period, shall be considered deficient with the basic security deposit requirement from the date the deficiency is incurred up to the date the deficiency is corrected or the succeeding quarter-end, whichever comes earlier.

"xxx"

- c. **"Subsection 4112T.4 Compliance period.** The Trust Corporation shall have thirty (30) calendar days after the end of every calendar quarter or a thirty (30)-calendar day grace period within which to deposit with the Bangko Sentral additional securities required due to increase in the AUM. In cases of changes in the trust rating, the reckoning period of the thirty (30) days shall be the quarter-end from receipt of the Report of Examination. Appropriate sanctions provided below shall be imposed on the Trust Corporation and/or the erring officer for failure to deposit the required securities within said period or for incurring any deficiency during a particular quarter due to failure to replace matured and/or withdrawn securities deposits.

"Effective 31 March 2018, the trust corporation shall also comply with the basic security deposit requirement in the following manner:

- "a. *Quarterly compliance.* The trust corporation shall comply with the basic security deposit requirement on a quarterly basis. In determining quarterly compliance, the fair value of government securities used as compliance with the basic security deposit requirement shall be reckoned as of the end of the calendar

quarter and the base amount for the basic security deposit requirement provided under Subsection 4112T.3 shall be applied.

"Haircuts for government securities prescribed under Subsection 4112T.3 shall be applied on the fair value of the government securities used as compliance with the basic security deposit.

"The trust corporation shall have a thirty (30)-calendar day grace period after the end of every quarter within which to deposit with the Bangko Sentral, securities pursuant to existing regulations to comply with the basic security deposit requirement as of the preceding quarter-end.

- "b. *Compliance upon withdrawal, replacement or redemption.* The trust corporation shall ensure that it will continue to comply with the basic security deposit requirement after every withdrawal, replacement or redemption of government securities within the quarter period. In determining compliance, the basic security deposit requirement shall be the amount computed as of the quarter-end preceding the date of withdrawal, replacement or redemption pursuant to Subsection 4112T.3. The fair value of the remaining government securities, adjusted for relevant haircuts, shall also be based on amounts reported as of the quarter end preceding the date of withdrawal, replacement or redemption pursuant to Subsection 4112T.3.

"Trust corporations shall develop and maintain systems to ensure compliance with the required basic security deposit as prescribed under existing regulations."

Section 6. Compliance with the Basic Security Deposit Requirements. Subsection 4112T.5 of the MORNBFIs is amended to align regulations on the imposition of sanctions on trust corporations with that of other BSP-supervised financial institutions.

"Subsection 4112T.5 Sanctions. Without prejudice to the imposition of sanctions for capital deficiency, the following sanctions shall be imposed for any deficiency in the basic security deposit for the faithful performance of trust and other fiduciary duties and investment management activities:

"a. On the Trust Corporation

- "(1) Daily monetary penalty of P1,000 or one tenth of one percent (1/10 of 1%) on the amount of the deficiency reckoned per calendar day, whichever is higher but not to exceed P10,000 per calendar day, shall be assessed on the Trust Corporation. A trust corporation which incurs a deficiency with the basic security deposit within the quarter, or reports a deficiency with the basic security deposit as of the end of the quarter and fails to deposit securities to comply with the said requirement within the thirty (30)-calendar day grace period, shall be considered deficient with the basic security deposit requirement from the date the deficiency is incurred up to

the date the deficiency is corrected or the succeeding quarter-end, whichever comes earlier.

“(2) xxx

“xxx”

Section 7. Compliance with the Basic Security Deposit for the Faithful Performance of Trust and Other Fiduciary Activities. Subsections X960.5/4960Q.5 of the MORB/MORNBF are amended to align regulations on compliance with the basic security deposit requirement for administrators of Personal Equity and Retirement Account with that of other BSP-supervised financial institutions.

“Subsection X960.5/4960Q.5. Security for the faithful performance of administrators. xxx”

“For this purpose, eligible government securities shall consist of evidence of indebtedness of the Republic of the Philippines or of the Bangko Sentral or any other evidence of indebtedness or obligations the servicing and repayment of which are fully guaranteed by the Republic of the Philippines or such other kinds of securities which may be declared eligible by the Monetary Board: *Provided*, That such securities shall be free, unencumbered, and not utilized for any other purpose: *Provided, further*, That such government securities shall have remaining maturities of not more than three (3) years from the date the securities have been earmarked in favor of the Bangko Sentral.

“The requirement for the above-mentioned government securities to have remaining maturity of not more than three (3) years from the date of deposit with the Bangko Sentral shall no longer apply starting 31 March 2018.

“a. Valuation of securities and basis of computation of the basic security deposit requirement.

“Prior to 31 March 2018:

“(i) For purposes of determining compliance with the security for the faithful performance of Administrators under the PERA Act, the amount of securities so earmarked shall be based on their book value, that is, cost as increased or decreased by the corresponding discount or premium amortization.

“(ii) The base amount for the basic security deposit shall be the average of the month-end balances of administered assets for the immediately preceding calendar quarter.

“Effective 31 March 2018, the provisions under Item *“a(i)”* above shall no longer apply. The following provisions on the valuation of government securities shall be adopted starting 31 March 2018:

“Government securities deposited with the Bangko Sentral shall be measured at fair value according to the marking-to-market guidelines for government securities under Appendix 33a/Q-20, subject to applicable haircuts.

“The haircuts that shall be applied to the government securities shall be as follows:

Residual Maturity	Minimum Haircut (in Percent) for Basic Security Deposit
3 years and below	0.0
> 3 years up to 5 years	2.0
> 5 years	4.0

“b. *Compliance period; Sanctions.* The Administrator shall have one (1) week from the end of every calendar quarter within which to replenish any deficiency in the security requirements as abovementioned, by depositing with the Bangko Sentral, government securities pursuant to existing regulations to comply with the basic security deposit requirement.

“Effective 31 March 2018, the Administrator shall also comply with the basic security deposit requirement in the following manner:

- “i. *Quarterly compliance.* The Administrator shall comply with the basic security deposit requirement on a quarterly basis. In determining quarterly compliance, the fair value of government securities used as compliance with the basic security deposit requirement shall be reckoned as of the end of the calendar quarter and the base amount for the basic security deposit requirement provided under Item “a” of this Subsection shall be applied.

“Haircuts for government securities as provided under Item “a” of this Subsection shall be applied on the fair value of the government securities used as compliance with the basic security deposit.

- “ii. *Compliance upon withdrawal, replacement or redemption.* The Administrator shall ensure that it will continue to comply with the basic security deposit requirement after every withdrawal, replacement or redemption of government securities within the quarter period. In determining compliance, the basic security deposit requirement shall be the amount computed as of the quarter-end preceding the date of withdrawal, replacement or redemption pursuant to Item “a” of this Subsection. The fair value of the remaining government securities, adjusted for the relevant haircuts, shall also be based on amounts reported as of the quarter-end preceding the date of withdrawal, replacement or redemption pursuant to Item “a” of this Subsection.

“Administrators shall develop and maintain systems to ensure compliance with the required basic security deposit as prescribed under existing regulations.

"An Administrator which incurs a deficiency with the basic security deposit within the quarter, or reports a deficiency with the basic security deposit as of the end of the quarter and fails to deposit securities to comply with the said requirement within the one (1)-week grace period, shall be considered deficient with the basic security deposit requirement from the date the deficiency is incurred up to the date the deficiency is corrected or the succeeding quarter-end, whichever comes earlier.

"Any non-compliance with the security requirements shall be subject to Sections 36 and 37 of R.A. No. 7653 also known as the New Central Bank Act without prejudice to the imposition of other sanctions as the Monetary Board may consider warranted under the circumstances that may include the suspension or revocation of the entity's authority to engage in PERA administration, and such other sanctions as may be provided by law."

Section 8. Effectivity. This Circular shall take effect fifteen (15) calendar days following its publication either in the Official Gazette or in any newspaper of general circulation in the Philippines.

FOR THE MONETARY BOARD:


NESTOR A. ESPENILLA, JR.
Governor

01 March 2018