



BANGKO SENTRAL NG PILIPINAS
OFFICE OF THE GOVERNOR

CIRCULAR NO. 1095
Series of 2020

Subject: Bangko Sentral Issued Securities as an Additional Instrument of Monetary Operations under the Interest Rate Corridor (IRC) System

In its Resolution No. 1108 dated 3 September 2020, the Monetary Board approved the following amendments to the Manual of Regulations for Banks (MORB) and the Manual of Regulations for Non-Bank Financial Institutions (MORNBFI) to operationalize the additional instrument for the Bangko Sentral monetary operations, particularly the inclusion of the Bangko Sentral Issued Securities (Bills and Bonds), under the IRC system:

Section 1. Section 231 of the MORB on Acceptance of Government Deposits shall be amended to refer to the new monetary instrument of the Bangko Sentral as follows:

"231 Acceptance of Government Deposits

xxx

Liquidity Floor. xxx

Also eligible for liquidity floor are the following:

xxx

a. xxx

b. Placement of banks in the Bangko Sentral's Term Deposit Facility, Overnight Deposit Facility, and issued Securities (Bills and Bonds) Facility.

xxx"

Section 2. Sections 601/601-Q of the MORB/MORNBFI on Monetary Operations are hereby amended, as follows:

"601/601-Q Monetary Operations

xxx

Reverse repurchase agreements with the Bangko Sentral. xxx

xxx

The Bangko Sentral shall withhold twenty percent (20%) Final Withholding Tax (FWT) on its interest payments on RRP, under the following guidelines:

- (1) All overnight RRP with the Bangko Sentral shall be subject to the twenty percent (20%) FWT, which is deducted from interest payments on each maturity date, for remittance to the BIR; and
- (2) The Bangko Sentral shall withhold the twenty percent (20%) FWT from the concerned banks/QBs interest income from RRP with the Bangko Sentral upon payment or accrual, whichever comes first.

The concerned banks/QBs shall bear the direct liability for, and the payment of, the Gross Receipts Tax (GRT) due on the interest payments above.

xxx

Overnight deposits with Bangko Sentral. xxx

xxx

The Bangko Sentral shall withhold the twenty percent (20%) FWT on its interest payments on overnight deposit transactions, under the following guidelines:

- (1) All overnight deposit transactions with the Bangko Sentral shall be subject to the twenty percent (20%) FWT, which is deducted from interest payments on each maturity date, for remittance to the BIR; and
- (2) The Bangko Sentral shall withhold the twenty percent (20%) FWT from the concerned banks/QBs interest income from overnight deposits with the Bangko Sentral upon payment or accrual, whichever comes first.

The concerned banks/QBs shall bear the direct liability for, and the payment of, the GRT due on the interest payments above.

The Bangko Sentral Term Deposit Facility (TDF). xxx

xxx

The Bangko Sentral shall withhold the twenty percent (20%) FWT on its interest payments on term deposit transactions, under the following guidelines:

- (1) All term deposit transactions with the Bangko Sentral shall be subject to the twenty percent (20%) FWT, which is deducted from interest payments on each maturity date, for remittance to the BIR; and
- (2) The Bangko Sentral shall withhold the twenty percent (20%) FWT from the

concerned banks/QBs interest income from term deposits with the Bangko Sentral upon payment or accrual, whichever comes first.

The concerned banks/QBs shall bear the direct liability for, and the payment of, the GRT due on the interest payments above.

The Bangko Sentral Issued Securities (Bills and Bonds). The issuance of Bangko Sentral Securities is an additional monetary instrument for liquidity management. Issued Bangko Sentral Securities shall be offered to banks (UBs, KBs, and TBs)/QBs, subject to the rules and guidelines issued by the Bangko Sentral. The Bangko Sentral issued Securities shall be subject to the following terms and conditions:

- a. Rate. The interest rates shall be determined by auction, based on the guidelines as prescribed by the Bangko Sentral.
- b. Term. The tenor of the issued Bangko Sentral Securities shall be set by the Bangko Sentral.
- c. Auction Schedule. Issued Bangko Sentral Securities shall be held on a weekly basis or as determined by the Bangko Sentral.
- d. Volume. The auction size shall be determined by the Bangko Sentral and to be announced with sufficient lead time ahead of the auction date.
- e. Placements in the Bangko Sentral Securities Facility (BSP-SF) shall be governed by guidelines issued by the Bangko Sentral.
- f. Currency. Denomination shall be in Philippine peso.
- g. Buy-back/Early Redemption Feature. The Bangko Sentral has the right to buyback or redeem Bangko Sentral Securities. The Bangko Sentral shall announce its intent to buy-back or redeem outstanding Bangko Sentral Securities prior to its Maturity Date, at par and by lot, subject to the terms and conditions as may be determined by the Bangko Sentral.
- h. Secondary market trading. Issued Bangko Sentral Securities shall be available for trading in the secondary market and shall be done on the trading platform operated by the Philippine Dealing and Exchange Corporation (PDEX). Banks (UBs, KBs, and TBs)/QBs are eligible traders of BSP Securities in the secondary market, subject to the rules and guidelines issued by the Bangko Sentral. The trading and Settlement Window/Timeline for secondary market transactions shall follow the Self-Regulatory Organization (SRO) Rules, Guidelines and Conventions. In case of extensions or amendments related trading and settlement hours, these shall be made in close coordination with SEC, PDEX and related parties in the secondary market.

The Bangko Sentral shall withhold the twenty percent (20%) FWT on its coupon payments and discounts on issued Bangko Sentral Securities transactions, under the following guidelines:

- (1) Coupon earned on all issued Bangko Sentral Securities transactions with the Bangko Sentral shall be subject to the twenty percent (20%) FWT, which tax is deducted on each maturity date and remitted to the BIR;
- (2) Discount on issued Bangko Sentral Securities shall be subject to the twenty

percent (20%) FWT, which tax shall be paid upon issuance of the issued Bangko Sentral Security to form part of the net settlement amount; and

- (3) The Bangko Sentral shall withhold the twenty percent (20%) FWT from the concerned banks/QBs coupon receipts from issued Bangko Sentral Securities transactions upon payment or accrual, whichever comes first.

The concerned banks/QBs shall bear the direct liability for, and payment of, the GRT due on the coupon payments above.

Bangko Sentral trading windows and services during Philippine holidays. The guidelines on Bangko Sentral's trading windows and services during Philippine holidays are shown in Appendix 88/Q-51.

Prohibition against funds from non-residents being accepted in the TDF, ODF, and BSP-SF (primary and secondary markets). The TDF, ODF, and BSP-SF are monetary instruments deployed by the Bangko Sentral for the purpose of managing domestic liquidity in the financial system. These facilities should not be made available for opportunistic investment activities funded from non-resident sources. Further, placements in the TDF, the ODF and the BSP-SF are contractual in nature and thus shall be governed by the intent of the contracting parties. In keeping with the nature of these facilities, counterparties of the Bangko Sentral shall comply with the Guidelines on the Prohibition Against the Use of Funds from Non-Resident Sources for Placements in the Bangko Sentral's TDF, the ODF and the BSP-SF, as shown in Appendix 82/Q-48.

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Section 3. Annexes A-1, A-2 and A-3 of this Circular shall replace the corresponding Appendices of the MORB/MORNBFI, as follows:

- a. **Annexes A-1 and A-2¹** of this Circular shall replace Appendix 82 of the MORB/Q-48 of the MORNBFI, respectively.
- b. **Annex A-3²** shall replace Appendix 88 of the MORB/Q-51 of the MORNBFI.

Section 4. Appendix T-1 of the MORNBFI is amended to refer to the revised appendices, as follows:

Appendix		Reference in T Regulations
xxx	xxx	xxx

¹ Appendices on the Guidelines on the Prohibition against the Use of Funds from Non-Resident Sources for Placements in the Bangko Sentral's Term Deposit Auction Facility (TDF), the Overnight Deposit Facility (ODF) and the Bangko Sentral Securities (Bills and Bonds), and for Engaging in Reverse Repurchase Agreements (RRP) with the Bangko Sentral

² Appendix on Standard Operating Procedures for Philippine Holiday

Q-48	Guidelines on the Prohibition Against the Use of Funds from Non-Resident Sources for Placements in the Bangko Sentral's Term Deposit Facility (TDF), the Overnight Deposit Facility (ODF) and the Bangko Sentral Securities Facility (BSP-SF)	Sec. 302-T
xxx	xxx	xxx

Section 5. Prudential Reports

The recording and reporting of the issued Bangko Sentral Securities shall adhere to the standards under Section 172 and Appendix 27 of the MORB, or Section 171-Q and Appendix Q-22 of the MORNBFi, as may be applicable. Pending the issuance of the revised Financial Reporting Package (FRP) template and other prudential reports, the Bangko Sentral supervised financial institutions (BSFIs) shall adopt the mapping matrix provided in Annex A of Appendix 27/Q-22 of the MORB/MORNBFi. The guidelines governing the issuance of the revised electronic FRP shall be covered by a separate Memorandum to all BSFIs.

Section 6. This Circular shall take effect on 11 September 2020.

FOR THE MONETARY BOARD:



BENJAMIN E. DIOKNO
Governor


September 2020

**GUIDELINES ON THE PROHIBITION AGAINST THE USE OF FUNDS FROM
NON-RESIDENT SOURCES FOR PLACEMENTS IN THE BANGKO SENTRAL'S
TERM DEPOSIT FACILITY (TDF), AND OVERNIGHT DEPOSIT FACILITY
(ODF), AND BANGKO SENTRAL SECURITIES FACILITY (BSP-SF)**

*[Appendix to Section 601 (Prohibition against funds from non-residents
being accepted in the TDF, ODF, and BSP-SF)]*

The TDF, ODF, and BSP-SF are monetary policy instruments deployed by the Bangko Sentral for the purpose of managing domestic liquidity in the financial system. These facilities should not be made available for opportunistic investment activities funded from non-resident sources. Furthermore, placements in the TDF, the ODF, and BSP-SF are contractual in nature and thus, shall be governed by the intent of the contracting parties. In keeping with the nature of this facility, all eligible banks shall not place in the TDF, ODF, and BSP-SF (primary and secondary markets) funds obtained, directly or indirectly, from non-residents: *Provided*, That funds inwardly remitted by a foreign bank intended as capital of its branch or subsidiary in the Philippines shall be eligible for placement in the TDF, the ODF, and the BSP-SF (primary and secondary markets) of the Bangko Sentral.

An eligible bank is required to submit to the Bangko Sentral's Financial Market Operations Sub-Sector a notarized Letter of Undertaking (LOU) (Annex "A") committing it is qualified as a counterparty of the Bangko Sentral TDF, ODF, and BSP-SF.

It is the responsibility of an eligible bank to have in place the appropriate internal policies and monitoring and assurance mechanisms consistent with its LOU.

The Bangko Sentral reserves the right to verify compliance with the above conditions. Whenever the Bangko Sentral has reason to believe that an eligible bank is unable or unwilling to comply with the terms and conditions for the access to the TDF, the ODF, and the BSP-SF, the Bangko Sentral may limit, suspend, or deny access by the subject bank to the TDF, the ODF and/or the BSP-SF.

The eligible bank shall report to the appropriate supervising department of the Bangko Sentral all existing TDF, ODF and BSP-SF placements not consistent with these guidelines. Such placements shall not be renewed and shall be terminated upon maturity.

ANNEX A-1

Annex A

(Institution's Letterhead)

Date: _____

The Financial Market Operations Sub-Sector
Bangko Sentral ng Pilipinas
A. Mabini St., Malate, Manila

Letter of Undertaking

Pursuant to Sec. 601, which prohibits the use of funds sourced from non-residents from being placed in the Term Deposit Facility (TDF), the Overnight Deposit Facility (ODF) and the Bangko Sentral Securities Facility (BSP-SF) of the Bangko Sentral, the _____ (Name of Institution) hereby undertakes not to place in the TDF, the ODF and the BSP-SF, as applicable, funds obtained from non-residents.

The _____ (Name of Institution) shall put in place appropriate internal policies and monitoring and assurance mechanisms consistent with the above conditions. Furthermore, it shall make available pertinent information and documents requested by the Bangko Sentral to verify compliance with the terms and conditions on its access to the Bangko Sentral's TDF, ODF and BSP-SF.

(Treasurer)
Signature Over Printed Name

(President or Equivalent Position)
Signature Over Printed Name

SUBSCRIBED AND SWORN TO before me this day of _____ at _____, affiant/s exhibiting their _____, to wit:

NOTARY PUBLIC

Doc. No. _____;
Page No _____;
Book No _____;
Series of 20 _____;

ANNEX A-1

Annex B

(Institution's Letterhead)

Date: _____

The Financial Market Operations Sub-Sector
Department Bangko Sentral ng Pilipinas
A. Mabini St., Malate, Manila

Letter of Undertaking

Pursuant to Sec. 601, which prohibits the use of funds sourced from non-residents from being placed in the Term Deposit Facility (TDF), the Overnight Deposit Facility (ODF) and the Bangko Sentral Securities Facility (BSP-SF) of the Bangko Sentral, the (Name of Trust Department/Trust Entity) hereby undertakes not to place in the TDF, the ODF and the BSP-SF, as applicable, funds obtained from non-residents.

The (Name of Trust Department/Trust Entity) shall put in place appropriate internal policies and monitoring and assurance mechanisms consistent with the above conditions. Furthermore, it shall make available pertinent information and documents requested by the Bangko Sentral to verify compliance with the terms and conditions on its access to the Bangko Sentral's TDF, ODF and BSP-SF.

(Treasurer)
Signature Over Printed Name

(President or Equivalent Position)
Signature Over Printed Name

SUBSCRIBED AND SWORN TO before me this day of _____ at _____,
affiant/s exhibiting their _____, to wit:

NOTARY PUBLIC

Doc. No. _____;
Page No _____;
Book No _____;
Series of 20 _____;

**GUIDELINES ON THE PROHIBITION AGAINST THE USE OF FUNDS FROM NON-RESIDENT SOURCES FOR
PLACEMENTS IN THE BANGKO SENTRAL'S TDF, ODF, and BSP-SF**

***[Appendix to Sec. 601-Q (Prohibition against funds from non-residents being accepted in the TDF,
ODF, and BSP-SF)]***

The TDF, ODF, and BSP-SF are monetary instruments deployed by the Bangko Sentral for the purpose of managing domestic liquidity in the financial system. These facilities should not be made available for opportunistic investment activities funded from non-resident sources. Furthermore, placements in the TDF, the ODF, and the BSP-SF are contractual in nature and thus, shall be governed by the intent of the contracting parties. In keeping with the nature of this facility, all eligible banks shall not place in the TDF, the ODF, and the BSP-SF (primary and secondary markets) funds obtained, directly or indirectly, from non-residents.

An eligible QB is required to submit to the Bangko Sentral's Financial Market Operations Sub-Sector a notarized Letter of Undertaking (LOU) (Annex "A") committing it is qualified as a counterparty of the Bangko Sentral TDF, the ODF, and the BSP-SF.

It is the responsibility of an eligible QB to have in place the appropriate internal policies and monitoring and assurance mechanisms consistent with its LOU.

The Bangko Sentral reserves the right to verify compliance with the above conditions. Whenever the Bangko Sentral has reason to believe that an eligible QB is unable or unwilling to comply with the terms and conditions for the access to the TDF, the ODF, or the BSP-SF, the Bangko Sentral may limit, suspend, or deny access by the subject QB to the TDF, the ODF, and/or BSP-SF.

The eligible QB shall report to the appropriate supervising department of the Bangko Sentral all existing TDF, ODF, and BSP-SF placements not consistent with these guidelines. Such placements shall not be renewed and shall be terminated upon maturity.

STANDARD OPERATING PROCEDURES FOR PHILIPPINE HOLIDAYS

Annex A-3

Appendix 88/Q-51

[Appendix to Sec. 601/601-Q (Bangko Sentral trading windows and services during Philippine holidays)]

Type of Holiday	Bangko Sentral ng Pilipinas						PhilPaSS	Cash Dept Withdrawal	Reserve Position	Regional Offices and Branches (ROBs)	BTr / BAP / MART / PDS	PDTC EQ Depository PDTC FI Depository DVP PSSC PVP	PCHC
	Financial Market Operations Sub-Sector												
	Trading and Settlement												
	ODF	OLF	TDF	BSP-SF	Overnig ht RRP Facility	USD/PHP							
1. Malacañang declared regular and special (non-working) holidays, including: xxx	xxx						xxx	xxx	xxx	xxx	xxx	xxx	xxx
2. Malacañang declared non-working days for both public and private sectors xxx	xxx						xxx	xxx	xxx	xxx	xxx	xxx	xxx
3. Non-working days for public sector alone xxx	xxx						xxx	xxx	xxx	xxx	xxx	xxx	xxx
4. Trading holiday declared by the BSP Governor due to emergency situations such as infectious diseases outbreak, lockdown, and other similar situations. xxx	xxx						xxx	xxx	xxx	xxx	xxx	xxx	xxx