



Bangko Sentral ng Pilipinas

OFFICE OF THE GOVERNOR

Circular No. 522
Series of 2006

Subject : Grant of FCDU License to Rural Banks/Cooperative Banks and Reduction of Minimum Capital Required for Thrift Banks to Operate an FCDU

Pursuant to Monetary Board Resolution No. 311 dated 10 March 2006, the following rules and regulations are hereby issued:

Section 1. Statement of Policy. It is the policy of the Bangko Sentral ng Pilipinas (BSP) to encourage the flow of foreign exchange into the banking system and to provide overseas Filipino workers (OFWs) with an option to maintain foreign currency deposits instead of immediately exchanging their remittance proceeds into local currency. Toward this end, qualified rural banks/cooperative banks may, subject to prior Monetary Board approval, be authorized to operate an FCDU to enhance their ability to play a meaningful role in the remittance business.

Section 2. Application for Authority to Operate an FCDU. A rural bank/cooperative bank desiring to operate an FCDU shall file an application with the Supervision and Examination Department IV (SED IV). The application shall be signed by the bank president or officer of equivalent rank and shall be accompanied by the following documents:

- a. Certified true copy of the resolution of the bank's board of directors authorizing the application.
- b. Certification signed by the president or the officer of equivalent rank that the bank has complied with all the conditions/ prerequisites for the grant of authority to operate an FCDU.

Section 3. Pre-requisites for the Grant of Authority to Operate an FCDU. A rural bank/cooperative bank applying for authority to operate an FCDU must comply with the following requirements:

- a. Minimum capital under Subsection X151.3 of the MORB or P20 million, whichever is higher;
- b. Risk-based capital adequacy ratio at the time of filing the application of at least twelve percent (12%);

PANANALAPING MATATAG, BANSANG PANATAG

- c. CAMELS composite rating in the latest examination of at least "3", with management component score not lower than "3";
- d. No outstanding major supervisory concerns on safety and soundness from last examination, such as, but not limited to:
 - 1. Unbooked valuation reserves
 - 2. Inadequate regular and liquidity reserves on deposits including government deposits and deposit substitutes 12 weeks
 - 3. DOSRI loans in excess of ceilings 3 months
 - 4. Poor asset quality.
 - 5. Violation of single borrower's loan limit and investment limits.
 - 6. Past due obligation with the BSP or with any financial institution
 - 7. Unsafe and unsound banking practices 6 months
 - 8. Inadequate accounting records, systems, procedures and internal controls
 - 9. Corporate governance
 - 10. Compliance with banking laws, rules and regulations, orders or instructions of the Monetary Board and/or BSP Management
 - 11. Membership with the Philippine Deposit Insurance Corporation

Section 4. Requirements for Operating an FCDU. In addition to requirements under existing regulations, a rural bank/cooperative bank authorized to operate an FCDU shall:

- a. Have the capacity to operate FCDU. A rural bank may, however, upgrade its capacity by appointing an Officer who will be in-charge of the FCDU

operations with actual experience in another bank as in-charge or assistant in-charge of the same operations for at least one (1) year; and

- b. Establish a risk management system appropriate to its operations, characterized by clear delineation of responsibility for risk management, adequate risk measurement system, appropriately structured risk limits, effective internal control system and complete, timely and efficient risk reporting system.

Section 5. Authorized Transactions. Rural banks and cooperative banks authorized to operate FCDUs shall be governed by the provisions of Circular 1389 dated 13 April 1993, as amended, and by all existing regulations applicable to FCDU. They may undertake all transactions which thrift banks with FCDUs are authorized to enter into, except the granting of loans to producers/manufacturers, including oil companies and public utility concerns.

Section 6. Amendatory Provisions. The provisions of Section 1 of Circular No. 322 dated 22 March 2002 and Subsection X501.2 b of the MORB are hereby amended to reduce the minimum capital required for a thrift bank with authority to operate an FCDU or those desiring to operate an FCDU from P650 million for thrift banks with head offices located in Metro Manila and P150 million for those head offices outside Metro Manila to P325 million and P52 million, respectively. It is, however, understood that thrift banks desiring to operate an FCDU shall strictly observe the pre-requisites therefore.

Section 7. Authority to Buy and Sell Foreign Exchange. Pursuant to the provisions of BSP Circular No. 1389, as amended, all categories of banks duly licensed by the BSP (including rural banks/cooperative banks) are considered authorized agent banks (AABs) and therefore, can buy and sell foreign exchange from the public even without an FCDU license and prior BSP approval. However, they are required to comply with the requirements under BSP Circular No. 302 dated 11 October 2001, particularly on the "Know Your Customer (KYC) rules", record keeping and reporting of covered and suspicious transactions.

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

FOR THE MONETARY BOARD:


AMANDO M. TETANGCO, JR.
Governor

23 March 2006