



BANGKO SENTRAL NG PILIPINAS

OFFICE OF THE GOVERNOR

CIRCULAR NO. 1023

Series of 2018

Subject: Guidelines on the Adoption of Philippine Financial Reporting Standards 9 (PFRS 9) – Financial Instruments under management of Trust Entities

The Monetary Board, in its Resolution No. 1964 dated 22 November 2018, approved the following amendments to Appendices 33/Q-20, 97/Q-56/N-16,T-1, and Section 4161N of the Manual of Regulations for Banks (MORB)/Manual of Regulations for Non-Bank Financial Institutions (MORNBFi), as amended under Circular No. 1011 dated 14 August 2018, on the guidelines governing the adoption of PFRS 9 - Financial Instruments under management of Trust Entities (TEs).

Section 1. The provisions of Appendix 33 of the MORB and Appendix Q-20 of the MORNBFi, including their Annexes, are hereby amended as shown in Attachment 1.

Section 2. The provisions of Appendix 97 of the MORB and Appendix Q-56/N-16 of the MORNBFi are hereby amended as shown in Attachment 2.

Section 3. The provisions of Section 4161N of the MORNBFi are further revised as follows:

“Section 4161N Philippine Financial Reporting Standards (PFRS).

xxx

e. Enforcement Actions. Consistent with Sec. 4009Q of the MORNBFi, the Bangko Sentral reserves the right xxx.”

Section 4. The provisions of Appendix T-1 of the MORNBFi are amended as follows:

“List of Appendices of MORB/Q Regulations Applicable to Trust Corporations

Appendix		Reference in T Regulations
Xxx		
Q-20	Guidelines on the Adoption of Philippine Financial Reporting Standards 9 (PFRS 9) – Classification and Measurement	Sec. 4304T Applicable Regulations on Credit and Investment Operations Sec. 4388Q Purchase of Receivables and Other Obligations

Section 5. Prudential Reports. The Financial Reporting Package (FRP) for Trust Corporations and FRP for Trust Institutions (FRPTI), respectively, required under Section 4191T of the MORNBF and X421/4421Q of the MORB/MORBNBF, including the affected prudential reports, shall be amended to align the same with the suggested account titles under PFRS 9. Pending the issuance of the revised FRP/FRPTI template and other prudential reports, the TEs shall adopt the mapping matrix provided under Annex A of Appendix 33 of the MORB and Annex A of Q-20 of the MORNBF effective for the reporting period ending December 2018.

Section 6. 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

04 December 2018

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

Xxx.

Section 5. Financial Instruments Under Management of Trust Entities

Consistent with the expectations from BSFIs on the adoption of PFRS 9, as provided under item “d” of Subsection X191.3 of the MORB, Subsection 4191Q.3 and Section 4161N of the MORNBF, the board of directors of a trust entity (TE) shall ensure that the TE appropriately and consistently adopts PFRS 9 as part of its reporting governance process.

In this respect, the board of directors shall approve policies and guidelines relative to the classification and measurement of financial assets under management of the TE.

The TE shall adhere to the provisions of Sections 1 to 4 of these guidelines on the classification and measurement of financial assets, to the extent applicable to trust operations. In addition, considering that the management of financial assets under the administration of the TE shall vary for each client, the TE shall be governed by the following:

- a) The board of directors shall approve the business models that will be adopted by the TE for managing the financial assets of clients under its administration. Such business models shall be in accordance with pre-defined investment objectives. For this purpose, the TE may use as guide the industry convention on the mapping of investment objectives to the corresponding business models.
- b) The TE shall use only the board-approved business models in determining the business model/s for each client’s financial assets. The assignment of the applicable business model/s, which shall be consistent with the client’s investment objectives, liquidity requirement, and investment horizon, shall no longer require a separate approval. The classification of financial assets for each client shall be aligned with the business model/s determined by the TE.
- c) For existing accounts, the TE shall assess the impact of the new classification of financial assets on the performance indicator/s set for the client.
 - i. If the new classification will have a significant unfavorable impact on the performance indicator/s set for the client, a consent or conforme shall be obtained from the client or the authorized signatory/ies of the client, as applicable. The consent or conforme shall document in plain and clearly

understandable language: (a) the business model/s determined by the TE in the management of the client's financial assets; (b) a brief description of the new classification; and (c) the corresponding impact on the performance indicator/s set for the client.

A negative consent or conforme may be allowed, subject to the following conditions:

- (a) the TE has an adequate monitoring process to ensure actual receipt of the notification by the client;
 - (b) the client shall be given a reasonable time to respond to the negative consent or conforme or to raise concern/query, if any; and
 - (c) the client is allowed to amend the business model determined by the TE in the management of the client's portfolio within a reasonable period.
- ii. If the new classification will not have a significant unfavorable impact on the performance indicator/s set for the client, the TE shall provide appropriate disclosure in the financial reports provided or made available to the client. The disclosure shall document in plain and clearly understandable language: (a) the business model/s determined by the TE in the management of the client's financial assets; and (b) a statement allowing the client to discuss with the TE any concern/query on the change in the classification of the financial assets of the client.
- d) For new accounts opened after the effectivity of these guidelines, the business model/s determined by the TE in the management of the client's financial assets shall be documented in plain and clearly understandable language in the investment policy statement or letter of instruction, whichever is applicable.
- e) Reclassification of assets may be allowed if there is a change in the business model/s determined in the management of the client's financial assets.

Any change in the business model/s determined by the TE in the management of the client's financial assets shall be supported by a change in the client's investment objective. In order to strengthen controls and prevent potential abuse, the TE shall have adequate policies and procedures, duly approved by the board of directors, covering, among others, the review process, minimum required documentation, and monitoring mechanism for the change in the business model/s determined by the TE in the management of each client's financial asset/s.

Section 6. Reporting guidelines.

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

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

Xxx.

Section 12. Expectations from Trust Entities

Consistent with the expectations from BSFIs on the adoption of PFRS 9, as provided under item “d” of Subsection X191.3 of the MORB, Subsection 4191Q.3 and Section 4161N of the MORNBF, the board of directors of a trust entity (TE) shall ensure that the TE appropriately and consistently adopts PFRS 9 as part of its reporting governance process.

In this respect, the board of directors shall approve policies and guidelines relative to the impairment of financial assets under management of the TE.

The TE shall adhere to the requirements of PFRS 9 on impairment and the guidelines provided herein, to the extent applicable to the trust operations. Pursuant to item c of Section 1 of these guidelines (Expected Credit Loss Model), a TE shall promptly recognize and maintain adequate allowance for credit losses at all times.

Consistent with the provisions under Section 10 of these guidelines (Application to simple BSFIs), the following provisions shall apply to TEs:

- a) A TE with simple operations shall adopt simple loan loss methodologies fundamentally anchored on the principle of recognizing ECL. In this respect, the TE shall look beyond the past due/missed amortizations in classifying exposures and in providing allowance for credit losses.
- b) A TE 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 revised Appendix 18/Q-10/N-11 of the MORB/MORNBF.

**Mapping of Philippine Financial Reporting Standards 9 (PFRS 9) Accounts
in the Financial Reporting Package (FRP)/FRP for Trust Institutions (FRPTI)**

Banks, including their trust departments, shall report financial assets and financial liabilities using the existing account titles of the FRP/FRPTI based on the mapping of accounts provided below:

1. Banks

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

Xxx

2. Trust Departments

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

PFRS 9 Accounts	FRPTI Accounts
Financial Assets Measured at Fair Value through Profit or Loss	Financial Assets at Fair Value through Profit or Loss
a. Debt and Equity Securities	a. Debt and Equity Securities
b. Derivatives with Positive Fair Value	b. Derivatives with Positive Fair Value

Table 2. Financial Assets Measured at Fair Value through Other Comprehensive Income (FVOCI)

PFRS 9 Accounts	FRPTI 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
Unamortized Discount/Premium	Unamortized Discount/Premium
Debt Securities at FVOCI (at amortized cost)	AFS Debt Securities (at amortized cost)
Accumulated Market Gains/Losses	Accumulated Market Gains/Losses
Debt Securities at FVOCI (Fair Value)	AFS Debt Securities (Fair Value)
(b) Equity Securities at FVOCI	(b) AFS Equity Securities
i. Designated at FVOCI	
ii. Mandatorily Measured at Fair Value	
Accumulated Market Gains/Losses	Accumulated Market Gains/Losses
Equity Securities at FVOCI (Fair Value)	AFS Equity Securities (Fair Value)
(FRP Account will no longer be used)	Allowance for Credit Losses
FVOCI - Net of Accumulated market gains/losses	AFS Financial Assets - Net

PFRS 9 Accounts	FRPTI Accounts
Accountabilities	Accountabilities
1. Net Unrealized Gains/(Losses) on Financial Assets at FVOCI ¹	1. Net Unrealized Gains/(Losses) on AFS Financial Assets
a. Debt Securities at FVOCI	a. Debt Securities
b. Equity Securities at FVOCI	b. Equity Securities
2. Realized and Cumulative/ Gains/(Losses) on Equity Securities Designated at FVOCI	2. Miscellaneous Liabilities

Table 3. Financial Assets Measured at Amortized Cost

PFRS 9 Accounts	FRPTI Accounts
1. Debt Securities Measured at Amortized Cost	1. Held-to-Maturity (HTM) Financial Assets
Unamortized Discount/Premium	Unamortized Discount/Premium
Debt Securities Measured at Amortized Cost – Net of Amortization	HTM Financial Assets – Net of Amortization
Less: Allowance for Credit Losses	Less: Allowance for Credit Losses
Debt Securities Measured at Amortized Cost - Net	HTM Financial Assets – Net
(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

¹ Loss allowance should also be recognized in Other Comprehensive Income

Annex A

Mapping of Philippine Financial Reporting Standards 9 (PFRS 9) Accounts in the Consolidated Statement of Condition (CSOC), Consolidated Statement of Income and Expenses (CSIE), Financial Reporting Package (FRP) and FRP for Trust Institutions (FRPTI)

Quasi-banks (QBs), non-bank financial institutions (NBFIs), stand-alone Trust Corporations and trust departments of NBFIs shall report financial assets and financial liabilities using the existing account titles of the CSOC/CSIE/FRP/FRPTI based on the mapping of accounts provided below:

1. Quasi-banks (QBs) and non-bank financial institutions (NBFIs)

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

Xxx.

2. Trust Corporations (proprietary assets and liabilities)

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

PFRS 9 Accounts	FRP Accounts
Balance Sheet Accounts	
Financial Assets Measured at Fair Value through Profit or Loss	Financial Assets Designated at Fair Value through Profit or Loss

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
Securities at FVOCI	AFS Securities
Unamortized Discount/Premium	Unamortized Discount/Premium
Securities at FVOCI Net of Amortization	AFS-Securities Net of Amortization
Accumulated Market Gains/(Losses)	Accumulated Market Gains/(Losses)
(FRP Account will no longer be used)	Allowance for Credit Losses
Securities at FVOCI (Fair Value)	AFS Financial Assets – Net
2. Other Comprehensive Income	2. Other Comprehensive Income
a. Net Unrealized Gains/(Losses) on Financial Assets at FVOCI ¹	a. Net Unrealized Gains/(Losses) on AFS Financial Assets

Table 3. Financial Assets Measured at Amortized Cost

PFRS 9 Accounts	FRP Accounts
1. Debt Securities Measured at Amortized Cost	1. Held-to-Maturity (HTM) Financial Assets

¹ Loss allowance should also be recognized in Other Comprehensive Income

PFRS 9 Accounts	FRP Accounts
Unamortized Discount/Premium	Unamortized Discount/Premium
Debt Securities Measured at Amortized Cost – Net of Amortization	HTM Financial Assets – Net of Amortization
Less: Allowance for Credit Losses	Less: Allowance for Credit Losses
Debt Securities Measured at Amortized Cost - Net	HTM Financial Assets – Net
(FRP Account will no longer be used)	2. Unquoted Debt Securities Classified as Loans

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.	

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	1. Financial Liabilities Designated at Fair Value through Profit or Loss
2. Other Comprehensive Income	2. Other Comprehensive Income
a. Net Unrealized Gains/(Losses) on Financial Liabilities Designated at FVPL attributable to changes in credit risk	a. Others

3. Trust Corporations and trust departments of NBFIs, with or without QB license (assets under management).

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

PFRS 9 Accounts	FRPTI Accounts
Financial Assets Measured at Fair Value through Profit or Loss	Financial Assets at Fair Value through Profit or Loss
a. Debt and Equity Securities	a. Debt and Equity Securities
b. Derivatives with Positive Fair Value	b. Derivatives with Positive Fair Value

Table 2. Financial Assets Measured at Fair Value through Other Comprehensive Income (FVOCI)

PFRS 9 Accounts	FRPTI 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
Unamortized Discount/Premium	Unamortized Discount/Premium
Debt Securities at FVOCI(at amortized cost)	AFS Debt Securities (at amortized cost)
Accumulated Market Gains/Losses	Accumulated Market Gains/Losses
Debt Securities at FVOCI(Fair Value)	AFS Debt Securities (Fair Value)
(b) Equity Securities at FVOCI	(b) AFS Equity Securities
i. Designated at FVOCI	
ii. Mandatorily Measured at Fair Value	

PFRS 9 Accounts	FRPTI Accounts
Accumulated Market Gains/Losses	Accumulated Market Gains/Losses
Equity Securities at FVOCI(Fair Value)	AFS Equity Securities (Fair Value)
(FRP Account will no longer be used)	Allowance for Credit Losses
FVOCI - Net of Accumulated market gains/losses	AFS Financial Assets – Net
Accountabilities	Accountabilities
1. Net Unrealized Gains/(Losses) on Financial Assets at FVOCI ²	1. Net Unrealized Gains/(Losses) on AFS Financial Assets
a. Debt Securities at FVOCI	a. Debt Securities
b. Equity Securities at FVOCI	b. Equity Securities
2. Realized and Cumulative/ Gains/(Losses) on Equity Securities Designated at FVOCI	2. Miscellaneous Liabilities

Table 3. Financial Assets Measured at Amortized Cost

PFRS 9 Accounts	FRPTI Accounts
1. Debt Securities Measured at Amortized Cost	1. Held-to-Maturity (HTM) Financial Assets
Unamortized Discount/Premium	Unamortized Discount/Premium
Debt Securities Measured at Amortized Cost - Net of Amortization	HTM Financial Assets – Net of Amortization
Less: Allowance for Credit Losses	Less: Allowance for Credit Losses
Debt Securities Measured at Amortized Cost - Net	HTM Financial Assets – Net
(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

² Loss allowance should also be recognized in Other Comprehensive Income