



Bangko Sentral ng Pilipinas

OFFICE OF THE DEPUTY GOVERNOR
SUPERVISION AND EXAMINATION SECTOR

MEMORANDUM NO. M - 2009 - 012

To : **All Banks and Other BSP-Supervised Financial Institutions**

Subject : **Frequently Asked Questions on the Preparation of Prudential Reports**

In order to provide banks and other BSP- supervised financial institutions (FIs) additional guidance in the preparation of prudential reports, the following clarifications are hereby issued:

A. Reclassification of Financial Instruments

Circular No. 626 dated 23 October 2008 and Circular No. 628 dated 31 October 2008

- 1. When reclassifying credit-linked notes (CLNs) and other similar instruments that are linked to ROPs out of the Held for Trading (HFT) and Available for Sale (AFS) categories, are the embedded derivatives of these instruments, likewise, allowed to be reclassified together with the host contract?***

Yes. When reclassifying CLNs and other similar instruments that are linked to ROPs out of the HFT category, a financial institution need not bifurcate the embedded derivatives of these instruments from the host contract.

When reclassifying CLNs and other similar instruments that are linked to ROPs out of the AFS category, a financial institution may, likewise, reclassify the embedded derivatives of these instruments which are booked under the HFT category together with the host contract. The transfer of the embedded derivative should be value-dated as of the effective date of reclassification of the host contract using the derivative's fair value as of the said date; i.e., effective date of reclassification.

- 2. Can a financial institution (FI) retrospectively reclassify securities which were not outstanding as of its chosen effective date of reclassification?***

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No. An FI may only retrospectively reclassify securities which were outstanding as of its chosen effective date of reclassification.

3. *Can an FI retrospectively reclassify financial assets which have already been derecognized in its books?*

No. An FI may only retrospectively reclassify financial assets that are outstanding in its books as of the date of reclassification.

4. *Is there a need to submit amended reports to the BSP to reflect the reclassified financial assets?*

No. FIs, however, should maintain their own accounting and reporting systems which shall allow them to comply with the disclosure requirements provided under the amendments to Philippine Accounting Standards (PAS) 39 and Philippine Financial Reporting Standards (PFRS) 7.

Under the amendments to PAS 39 and PFRS 7, FIs are required to disclose, among other things, their financial results had there been no reclassification made for each reporting period, until derecognition of the reclassified financial assets.

B. The Financial Reporting Package (FRP)

Circular No. 512 dated 3 February 2006, as amended

5. *In accomplishing the Additional Information section of Schedule 11a and its sub-schedules, should a bank include loans granted under its fringe benefit program in Item Nos. "1.a." (DOSRI Loans – Secured) and "1.b." (DOSRI Loans – Unsecured)?*

Only loans extended to officers under the bank's fringe benefit program should be reported under Item Nos. "1.a." and "1.b." of Schedule 11a and its sub-schedules.

6. *Will the gross and net carrying amount of loans reported under Schedule 11e tally with that reported in the bank's balance sheet and other FRP loan schedules?*

Schedule 11e and its sub-schedules classify loans and receivables in accordance with the provisioning and disclosure requirements of PAS 39 and PFRS 7. Under said schedules, loans and receivables are required to be presented in accordance with the following classifications:

- a. Column one (1) - Carrying amount of loans that are neither past due nor impaired;

- b. Columns two (2) to six (6) – Aging of loans that are past due but not impaired; and
- c. Column seven (7) - Carrying amount financial assets that are individually determined to be impaired.

The amortized cost of the loan accounts, gross of allowance for credit losses, in Schedule 11e and its sub-schedules should tally with that reported in the balance sheet and other FRP loan schedules. On the other hand, in view that BSP loan loss provisioning guidelines require banks to report the higher of the BSP recommended valuation reserves or the PAS provisioning, it is not necessary for the balance of the allowance for credit losses in Schedule 11e and its sub-schedules to tally with that reported in the bank's balance sheet and other FRP loan schedules.

Consequently, the net carrying amount of the loans reported under Schedule 11e and its sub-schedules will, likewise, not necessarily be the same as that reported in the balance sheet and other FRP loan schedules.

7. *Where should loans to micro-enterprises; i.e., enterprises with total assets of up to P3 million, excluding the land for which the business entity's office, plant and equipment are situated, be reported under Schedule 11?*

Loans to micro-enterprises shall be shown under the line item "Microfinance Loans".

Under the Report on Compliance with the Mandatory Credit Allocation Required under R.A. No. 6977 prescribed under Circular No. 625 dated 14 October 2008, said loans shall be classified as "Micro" enterprises.

8. *In reporting "Loans and Receivables – Others" according to status in the FRP (Schedules 11a and 11b as well as their sub-schedules), should banks follow the guidelines on the classification of non-performing loans (NPL) provided under Circular No. 351 dated 19 September 2002?*

No. Banks should report their NPL levels in accordance with the provisions of Circular No. 202 dated 27 May 1999.

Banks are, likewise, required to disclose the following additional information in Schedule 11 of the FRP:

- a. Loans previously classified as "Loss" in the latest examination of the BSP which are fully covered by allowance for probable losses, net of write-offs, recoveries and collections;

- b. Amortized cost of credit card receivables classified as "Loss" in the latest examination of the BSP, net of write-offs, recoveries and collections; and
- c. Amortized cost of credit card receivables classified as "Loss" by the bank from the cut-off date of the latest BSP examination.

The information presented will serve as basis by the BSP for re-computing the level of the bank's NPL portfolio in accordance with the provisions of Circular No. 351, provided they meet the conditions under said Circular, i.e., no unbooked valuation reserves and capital adjustments, even if approved on a staggered basis.

C. Report on Compliance with FCDU/EFCDU Cover Requirements

Circular No. 601 dated 13 February 2008

- 9. *Are investments in structured products (e.g., CLNs) booked under the HFT or Designated at Fair Value Through Profit or Loss category considered as eligible liquid asset cover for purposes of determining compliance with the 30% liquid asset cover requirement?***

No. Investment in structured products, regardless of booking, are not eligible liquid asset cover for purposes of determining compliance with the 30% liquid asset cover requirement.

- 10. *Are top-up payments on structured products (i.e., additional investments/payments to meet margin calls), considered as eligible liquid asset cover?***

No. Top-up payments on structured products are considered as encumbered assets, hence, not eligible as liquid asset cover.

- 11. *How do we translate FCDU/EFCDU balances into the presentation currency?***

FCDU/EFCDU balances shall be translated from the functional currency, i.e., US Dollar, into the presentation currency, i.e., Philippine Peso using the Philippine Dealing System Peso/US Dollar closing rate, with the resulting exchange difference recognized as a separate component of equity.

This shall, likewise, be observed in the preparation of audited financial statements.

D. Report on Compliance with the Mandatory Credit Allocation Required under R.A. No. 6977 (Magna Carta for MSMEs)

Circular No. 625 dated 14 October 2008

12. Is the parent bank still required to submit a consolidated MSME report even if the parent bank and its majority-owned subsidiary banks are individually fully compliant with the MSME requirement?

No. The consolidated MSME report is an option for banks with majority-owned subsidiary banks to be able to use the excess compliance of any bank in the group as compliance for any deficient bank in the group. Banks that opt to report on a consolidated basis are still required to submit the individual reports of the bank and its subsidiary bank/s duly signed by each bank's authorized signatory.

13. Can a bank use loans granted to Barangay Microbusiness Enterprises (BMBEs) that are funded by government-owned banks and other government FIs as compliance for both the Agri-Agra and MSME mandatory credits?

Loans funded by government-owned banks and other government FIs for relending to BMBEs can be used for MSME and Agri-Agra compliance at the same time but only up to a maximum aggregate amount of 100% of the outstanding balance of loans granted to BMBEs. Hence, if 100% of the aforementioned loans were already utilized for MSME, the same can no longer be used as compliance for Agri-Agra.

14. In Schedules 1A and 1B, what do the following line items mean?

a. wholesale lending granted to conduit banks/quasi-banks for on-lending to MSMEs (Schedule 1A – Item II.1), and

b. rediscounting facility granted to another bank for on-lending to MSMEs, other than to BMBEs (Schedule 1B – Item 4).

Item No. 14.a refers to interbank loans granted by a bank (lender) to another bank or quasi-bank (borrower) for purposes of relending by the borrower bank/quasi-bank to MSMEs, which shall be considered part of Total Loan Portfolio.

Item No. 14.b, on the other hand, refers to interbank loans granted by a bank (lender) to another bank (borrower) through the rediscounting facility of the lender bank for purposes of relending of the borrower bank to MSMEs, other than to BMBEs, which shall be considered by the lender bank as compliance with the required credit allocation for MSMEs.

15. How will the following hypothetical cases be reported under the indicated Schedules?

- a. Bank A has interbank loans receivable of P30 million, P10 million of which comprise wholesale lending to Bank B for purposes of relending to MSMEs. If Bank A's total loan portfolio is P100 million (including the interbank loans receivable of P30 million), how should Bank A report this under Schedule 1A, assuming there are no other exclusions from its total loan portfolio?**

Schedule 1A Computation of Total Loan Portfolio for Purposes of Determining Amount of Mandatory Credit Allocation for Micro, Small and Medium Enterprises

	Outstanding Loans as of Previous Quarter
I. Total Loan Portfolio	P100,000,000
xxx	
II. Less: Exclusions from Total Loan Portfolio	
1. Interbank loans receivable other than (a) wholesale lending of a bank to conduit banks/quasi-banks for on-lending to MSMEs, and (b) rediscounting facility granted to another bank for loans to MSMEs.	20,000,000 ^{1/}
xxx	
III. Total Loan Portfolio Net of Exclusions	P80,000,000

^{1/} Total interbank loans receivable of P30,000,000 minus wholesale lending of P10,000,000.

- b. A P10 million wholesale loan granted by Bank A to Bank B was re-lent by Bank B to small enterprises. Total lending of Bank B to small enterprises totaled P15 million, P10 million of which was funded by the loan proceeds from Bank A while the remaining P5 million was obtained from its own funds, as counterpart funding. How should Banks A and B report the transactions under Schedules 1B-2 and 1B-1, respectively?**

Bank A shall report its interbank loans to Bank B in Schedule 1B-2 as follows:

Schedule 1B-2 Wholesale Lending or Rediscounting Facility Granted to Participating Financial Institutions for On-Lending to Micro Small and Medium Enterprises other than to BMBEs

I. Name of Bank/Quasi-Bank	Amount Granted/Rediscounted
A. Which Received Wholesale Loans	
1. Bank B	P10,000,000
xxx	

Bank B, on the other hand, shall report the loans granted to small enterprises under Schedule 1B-1, as follows:

**Schedule 1B-1 Loans Granted to MSMEs other than to BMBEs which are
Funded by Wholesale Lending or Rediscounted with Another Bank**

Name of Bank	Small Enterprises		
	Wholesaler's Funds	Own Funds	Total
A. Which Granted Wholesale Loans			
1. Bank A	10,000,000	5,000,000	15,000,000
xxx			
B. Which Granted Rediscounting Facility			
xxx			

Bank B will forward the information reported under Schedule 1B-1 to Schedule 1A-3 of its MSME report for the immediately succeeding quarter.

c. How should a bank report the following transactions under Schedule 1B?

- i. Purchase of P100 thousand customers' receivable of JKL Co., a small enterprise, subject to the condition that JKL Co. shall remain liable in case the customers are not able to pay the balance;**

**Schedule 1- B Details of Eligible Investments for Compliance with the
Required Credit Allocation for MSMEs**

	Small Enterprises	Total
I. Direct Compliance	P100,000	P100,000
xxx		
3. Purchase/discount on a "with or without recourse" basis of MSME receivables other than BMBE receivables		
a. With recourse basis	P100,000	P100,000
b. xxx		

- ii. Purchase of receivables amounting to P50 thousand from XYZ Co. (a large enterprise) representing its claims against a small enterprise customer, JJJ Enterprise, on a without recourse basis;**

**Schedule 1- B Details of Eligible Investments for Compliance with the
Required Credit Allocation for MSMEs**

	Small Enterprises	Total
I. Direct Compliance	P50,000	P50,000
xxx		
3. Purchase/discount on a "with or without recourse" basis of MSME receivables other than BMBE receivables		
a. xxx		
b. Without recourse basis	P50,000	P50,000
xxx		

- d. **Bank C, a government-owned bank, lends P3 million to Bank D, a private bank, for on-lending to BMBEs. How should Banks C and D report this under Schedule 2?**

Bank C shall report its interbank loans receivable under Item II.1, as follows:

Schedule 2 Loans Granted to BMBEs

	Outstanding Loans to BMBEs	Maximum Amount Eligible for RA 6977 and/or PD 717 Compliance	Amount Used as Compliance		
			MSE	ME	PD 717
xxx					
2. Loans Granted by or Rediscounted with Government Owned Banks by Accredited Private Banking and Other Financial Institutions for On-Lending to BMBEs					
1. Banks/quasi-banks	P3,000,000	P3,000,000	P3,000,000 ^{1/}	-	-
xxx					

^{1/} May also be used as compliance for ME or PD 717, provided the total amount used for MSE, ME or PD 717 shall not exceed the outstanding amount of loans

Item II of Schedule 2 only applies to government-owned banks.

Bank D's lending to BMBEs shall be reported under Item I.2, as follows:

Schedule 2 Loans Granted to BMBEs

	Outstanding Loans to BMBEs	Maximum Amount Eligible for RA 6977 and/or PD 717 Compliance	Amount Used as Compliance		
			MSE	ME	PD 717
1. Loans Directly Granted to BMBEs					
1. Own funds					
2. Funds from government-owned funds and other government financial institutions	P3,000,000	P3,000,000	P3,000,000 ^{1/}	-	-
xxx					

^{1/} May also be used as compliance for ME or PD 717, provided the total amount used for MSE, ME or PD 717 shall not exceed the outstanding amount of loans

E. Report of Selected Branch Accounts*Circular No. 613 dated 18 June 2008***16. What shall form part of the loans and receivables account required to be disclosed in page one (1) of the report?**

Loans and receivables refer to the following accounts, net of allowance for credit losses and general loan loss provision:

- a. Loans to BSP,
- b. Interbank Loans Receivable,
- c. Loans and Receivables – Others, and
- d. Loans and Receivables Arising from Repurchase Agreements, Certificates of Assignment/Participation with Recourse and Securities Lending and Borrowing.

17. Are Philippine branches of a foreign bank required to report the balance of its "Due From/To Head Office (HO)/Branches/Agencies Abroad" account under the "Due From/To Branch/Head Office (HO)/Agencies" column in the branch report?

No. The "Due From/To Head Office (HO)/Branches/Agencies" account in the branch report does not refer to the clearing account maintained by a Philippine branch of a foreign bank for transactions with its HO/branches/agencies abroad.

18. How will a negative balance in the "Due From/To Branch/Head Office/Agencies" inter-office float item account be reported?

A negative balance in a branch's "Due From/To Branch/Head Office/Agencies", which represents the excess of "Due To HO/Branches/Agencies" over the "Due From HO/Branches/Agencies" shall be reported under the liability account "Due To HO/Branches/Agencies".

19. Should the sum of the assets and liabilities reported by each branch equal the total assets and total liabilities reported in the FRP?

Yes. The sum of the assets and liabilities reported by each branch in the branch report should equal the total assets and total liabilities, respectively, in the FRP. A bank should present total assets and total liabilities of each branch, net of responded inter-office clearing account items.

20. Loans and receivables-others are required to be classified according to type of borrower and security in page three (3) of the branch report. Are these required to be disclosed gross or net of allowance for credit losses?

Banks are required to classify "Loans and Receivables – Others" according to type of borrower and security in page three (3) of the report based on amounts which are gross of specific allowance for credit losses.

21. How should the FCDU/EFCDU deposit liabilities be reported on page four (4)?

FCDU/EFCDU deposit liabilities should be reported at their local currency equivalent using the Philippine Dealing System Peso/US Dollar closing rate and the New York US Dollar/Third Currencies closing rate.

22. Should the regional breakdown of a bank's loan portfolio for purposes of computing its Loans-to-Deposits Ratio (LDR) tally with the regional breakdown of its loan portfolio in other pages of the branch report?

No. As a general rule, all pages of the branch report, except for page five (5), should present selected balance sheet (including details of the bank's loan portfolio) and income statement accounts on a regional basis according to branch location.

The loan and deposit accounts reported in page five (5) of the report, on the other hand, shall be presented in accordance with the guidelines under Circular No. 613 on the computation of the LDR.

Under the said Circular, loans shall refer to that booked as "Loans and Receivables – Others" in the bank's Regular Banking Unit book which shall be grouped according to the region where the loans have been utilized. Deposit liabilities, on the other hand, shall be reported in the region where these were generated. Thus, the regional breakdown of the loans and deposits reported in page five (5) of the branch report need not tally with that reported in the other pages of the branch report.

23. Is there a need to report all the details of the inter-office float item account in page six (6) of the report?

Only inter-office float items which have been outstanding for more than six (6) months are required to be reported in page six (6) of the report. For each outstanding unresponded item, the bank should disclose whether this has been lodged as a "Due From" or a "Due To" account in the branch, the amount involved and a brief explanation of the nature of the inter-office transaction.

F. Published Balance Sheet (PBS)

Subsection X162.9 of the Manual of Regulations for Banks

24. For branches of foreign banks, how shall the "Retained Earnings – Free" account pertaining to prior year's unrealized profits/losses under the FCDU/EFCDU book be presented?

The "Retained Earnings – Free" account under the E/FCDU book of branches of foreign banks which pertains to prior year's unrealized profits/losses shall be reported as part of the "Net Due to Head Office/Branches/Agencies" account.

25. How should NPL be computed?

Banks should report their NPL level in accordance with the provisions of Circular No. 351 dated 19 September 2002, provided that they meet the conditions under said Circular.

26. What accounts comprise "Other Financial Assets" and "Other Financial Liabilities" in the PBS?

The account "Other Financial Assets" shall consist of the following:

- a. Derivatives with Positive Fair Value Held for Hedging,
- b. Revaluation of Hedged Assets in Portfolio Hedge of Interest Rate Risk,
- c. Sales Contract Receivable, net, and
- d. Accrued Interest Income from Financial Assets, net.

The account "Other Financial Liabilities", on the other hand, shall comprise of the following:

- a. Financial Liabilities Associated with Transferred Assets,
- b. Derivatives with Negative Fair Value Held for Hedging,
- c. Revaluation of Hedged Liabilities in Portfolio Hedge of Interest Rate Risk,
- d. Accrued Interest Expense on Financial Liabilities,
- e. Finance Lease Payment Payable,
- f. Due to Treasurer of the Philippines,
- g. Treasurer/Cashier/Manager's Checks,
- h. Payment Orders Payable,
- i. Margin Deposits on LCs and Customer's Liability on Bills/Drafts under LCs and/or TRs,
- j. Cash Letters of Credit,
- k. Outstanding Acceptances Executed by or for Account of this Bank,
- l. Due to Philippine Deposit Insurance Corporation,
- m. Due to Philippine Crop Insurance Corporation,
- n. Income Tax Payable, and
- o. Other Taxes and Licenses Payable.

27. How should the Capital Adequacy Ratio (CAR); i.e., Total CAR and Tier 1 CAR, be presented?

CAR should be expressed in percentage form.

G. The Financial Reporting Package for Trust Institutions (FRPTI)
Circular No. 609 dated 26 May 2008, as amended

28. Why are the cells pertaining to assets and liabilities of FCDU/EFCDU agency accounts blocked in the FRPTI?

Current regulations prohibit the acceptance by TIs of foreign currency denominated investment management accounts; thus, a TI should not be reporting an FCDU/EFCDU agency account.

29. How shall investments in common trust funds (CTFs) be reported in the FRPTI?

Unclaimed participations in regular CTFs, which were phased out in 2006, should be reported under "Other Institutional Trusts".

Long-term (LT) CTFs, on the other hand, should be reported as UITF accounts. In the event that an LT CTF has investments in loans and receivables, said loans and receivables shall be reported under the "Designated at Fair Value Through Profit or Loss" account in the FRPTI.

30. Given that gross income from the trust department is presented under the account "Income from Fiduciary Activities" in the FRP, will gross income earned on FCDU/EFCDU trust accounts be reported in the FRP as income from fiduciary activities in the bank's FCDU/EFCDU books as well?

Yes. Gross income earned on FCDU/EFCDU trust accounts should be reported in the FRP as income from fiduciary activities in the FCDU/EFCDU book of the bank.

31. How shall a TI report number of trust accounts in the Additional Information Section of the FRPTI in Schedules A-1 (Peso accounts) and A-2 (FCDU/EFCDU accounts) if the trust account being administered is invested in both peso and foreign currency denominated investments?

The number of trust accounts shall be reported based on the type of trust account opened by a client with the TI. A peso-denominated trust account which is invested in both peso- and foreign currency-denominated investments shall be counted as one (1) and reported as part of the TI's peso-denominated portfolio.

32. How shall asset and liability accounts which are denominated in third currency be reported in the FRPTI?

Accounts denominated in third currency shall first be converted into their US dollar equivalent using the New York US Dollar/Third Currencies closing rate and then converted into their local currency equivalent using the Philippine Dealing System Peso/US Dollar closing rate.

33. Under what type of trust agreement will individual pre-need trust accounts form part of?

Individual pre-need trust agreements wherein regular contributions are made solely for the trustor's benefit and future needs concerning hospitalization and related medical requirements as well as funeral and memorial services shall be reported under the category Personal-Retirement Trust account. The specific purpose of the trustor for opening the account should be stated in the trust agreement.

34. How shall the following accounts be presented in the FRPTI?

- a. "Due From Stockbrokers",
- b. "Due To Stockbrokers",
- c. "Subscriptions Payable (UITF)" and
- d. "Liability for Bond Sinking Fund".

The above-mentioned accounts shall be presented under the following account categories:

- a. Miscellaneous Assets
 - i. "Due From Stockbrokers",
- b. Miscellaneous Liabilities
 - i. "Due To Stockbrokers",
 - ii. "Subscriptions Payable (UITF)"
- c. Other Fiduciary Services – Trust Indenture
 - i. "Liability for Bond Sinking Fund".

For information and guidance.


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 Deputy Governor

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