



BANGKO SENTRAL NG PILIPINAS

OFFICE OF THE GOVERNOR

CIRCULAR NO. 717
Series of 2011

Subject: Risk weight of credit exposures guaranteed by the LGU Guarantee Corporation (LGUGC); and Treatment of guarantees under the risk-based capital adequacy framework of stand-alone thrift banks, rural banks and cooperative banks

Pursuant to Monetary Board Resolution No. 319 dated 3 March 2011, pertinent provisions of the Manual of Regulations of Banks (MORB), Circular No. 688 dated 26 May 2010, are hereby amended.

Section 1. Part III of Appendix 63b (Appendix to Sec. X115 on the Basel II Risk-Based Capital) of the MORB on credit risk-weighted assets is hereby amended, as follows:

" Part III. Credit risk-weighted assets

" A. Risk-weighting

" x x x

" *Exposures to Local Government Units*

" 6. These include all exposures to non-central government public sector entities.

" x x x "

Section 2. Subsec X116.3 of the MORB on the risk-weighted assets is hereby amended, as follows:

" Subsec. X116.3 *Risk-weighted assets*

" x x x

" a. On-balance sheet assets.

" x x x

" (2) Twenty percent (20%) risk weight –

" x x x

" (e) Claims on or portion of claims guaranteed by Philippine incorporated private enterprises with the highest credit quality as defined in Subsec. X116.4;

" (f) Claims on or portion of claims guaranteed by foreign incorporated private enterprises with the highest credit quality as defined in Subsec. X116.4;

" x x x

" (3) Fifty percent (50%) risk weight –

" x x x

" (b) Housing microfinance loans under Subsec. X361.5 other than those guaranteed by the HGC.

" x x x

" (6) One hundred twenty five percent (125%) risk weight –

" All NPLs (except NPLs for housing purpose, fully secured by first mortgage on residential property that is or will be occupied or leased out by the borrower) and all non-performing debt securities: *Provided*, That risk weighting for such exposures shall be increased to 150% in 2007.

" NPLs, which are secured by eligible collaterals or guaranteed by eligible guarantors below, shall be assigned the risk weight of the collateral or guarantor, except for NPLs granted to small farmer and fisherfolk engaged in palay and/or food production projects/activities to the extent guaranteed by the AGFP, which shall be assigned a risk weight of 20%, subject to the conditions in item (2) (h) above: *Provided*, That in cases of guarantees, the bank is able to pursue the guarantor of any monies outstanding within the period of time stipulated in the guarantee contract. Otherwise, the loan in question shall be assigned the risk weight applicable for NPLs.

" (a) List of eligible collaterals

"x x x

" (b) List of eligible guarantors

"x x x

"(x) Philippine incorporated private enterprises with the highest credit quality as defined in Subsec. X116.4;

"(xi) Foreign incorporated private enterprises with the highest credit quality as defined in Subsec. X116.4; and

"(xii) The Agricultural Guarantee Fund Pool (AGFP) created under Administrative Order No. 225-A dated 26 May 2008.

" b. Off-balance sheet items.

" x x x

" c. Derivatives contracts.

" x x x

" The credit equivalent amount shall be treated like any on-balance sheet asset, and shall be assigned the appropriate risk weight, i.e., according to the obligor, or if relevant, the qualified guarantor or the nature of collateral: *Provided*, That a fifty percent (50%) risk weight shall be applied in respect of obligors which would otherwise attract a 100% risk weight.

" d. Claims with eligible collateral/guarantees

" In order to obtain capital relief, all documentation used in collateralized transactions and for documenting guarantees must be binding on all parties and legally enforceable in all relevant jurisdictions.

" A guarantee must represent a direct claim on the protection provider and must be explicitly referenced to specific exposures or a pool of exposures, so that the extent of the cover is clearly defined and incontrovertible. Other than the non-payment by a protection purchaser of money due in respect of the credit protection contract, the guarantee must be irrevocable; there must be no clause in the contract that would allow the protection provider unilaterally to cancel the credit cover or that would increase the effective cost of cover as a result of deteriorating credit quality in the hedged exposure. It must also be unconditional; there should be no clause in the protection contract outside the direct control of the bank that could prevent the protection provider from being obliged to pay out in a timely manner in the event that the original counterparty fails to make the payment(s) due.

" The extent to which a claim is guaranteed/collateralized shall be determined by the amount of guarantee coverage/current market value of securities pledged, in comparison with the carrying amount of the on-balance sheet asset or the notional principal amount of the off-balance sheet exposure, except for derivatives contracts for which determination is generally made in relation to credit equivalent amount."

Section 3. Part III of Circular No. 688 dated 26 May 2010 on credit risk- weighted assets is hereby amended as follows:

" Part III. Credit Risk-Weighted Assets

" x x x

"A. On-Balance Sheet Assets

" x x x

" b) 20% risk weight –

" x x x

" vii. Claims on or portion of claims guaranteed by Philippine incorporated private enterprises (including claims on government corporations and on MSME not qualifying under highly diversified loan portfolio as defined in Item "d" below) with the highest credit quality as defined in Part VI;

" viii. Claims on or portion of claims guaranteed by foreign incorporated private enterprises (including claims on government corporations) with the highest credit quality as defined in Part VI; and

" ix. x x x

" c) 50% risk weight –

" Loans to individuals for housing purpose, fully secured by first mortgage on residential property that is or will be occupied by the borrower which are not classified as non-performing;

" d) 75% risk weight –

" x x x"

"C. Claims with Eligible Collateral/Guarantees

" x x x

"8. The following are the eligible guarantors:

- "a) Philippine National Government and the BSP;
- "b) Multilateral development banks;
- "c) Guarantors with the highest credit quality as defined in Part VI:
 - "i. Central government and central banks of foreign countries;
 - "ii. Philippine local government units;
 - "iii. Non-central government public sector entities of foreign countries;
 - "iv. Philippine incorporated banks/quasi-banks;
 - "v. Foreign incorporated banks;
 - "vi. Philippine incorporated private enterprises (including government corporations);
 - "vii. Foreign incorporated private enterprises (including government corporations); and
- "d) The Agricultural Guarantee Fund Pool created under Administrative Order No. 225-A dated 26 May 2008.

"9. x x x"

" Part VI. Definitions

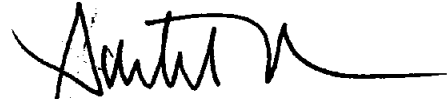
" x x x

"6. Claims on (a) central government and central bank and non-central government public sector entities of foreign country and foreign incorporated bank/private enterprise; (b) multilateral development banks; (c) local government units and Philippine incorporated bank/quasi-bank/private enterprise with the highest credit quality. This refers to claims on governments, banks/quasi-banks, private enterprises given the highest credit rating by any of the following BSP-recognized credit rating agencies:

x x x"

Section 4. This Circular shall take effect fifteen (15) calendar days following its publication either in the Official Gazette or in a newspaper of general circulation.

FOR THE MONETARY BOARD:

A handwritten signature in black ink, appearing to read 'Amando M. Tetangco, Jr.', with a long horizontal flourish extending to the right.

AMANDO M. TETANGCO. JR.
Governor

25 March 2011