



BANGKO SENTRAL NG PILIPINAS
OFFICE OF THE GOVERNOR

CIRCULAR NO. 786

Series of 2013

Subject: Risk Disclosure Requirements on Loss Absorbency Features of Capital Instruments

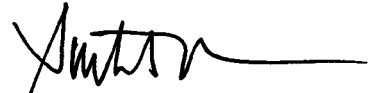
The Monetary Board, in its Resolution No. 164 dated 25 January 2013, approved the risk disclosure requirements on the loss absorbency features of Additional Tier 1 and Tier 2 capital instruments eligible under the Basel III framework. Said requirements uphold investor protection through enhanced disclosure and transparency.

Section 1. When marketing, selling and distributing Additional Tier 1 and Tier 2 instruments eligible as capital under the Basel III framework, banks/quasi-banks must:

1. *Subject investors to a client suitability test to determine their understanding of the specific risks related to these investments and their ability to absorb risks arising from these instruments;*
2. *Provide the appropriate Risk Disclosure Statement for the issuance of Additional Tier 1 and Tier 2 capital instruments. The said disclosure statement shall explain the loss absorbency feature for Additional Tier 1 and Tier 2 capital instruments as well as the resulting processes that will be effected when the triggers for loss absorbency are breached;*
3. *Secure a written certification from each investor stating that:*
 - a. *the investor has been provided a Risk Disclosure Statement which, among others, explains the concept of loss absorbency for Additional Tier 1 and Tier 2 capital instruments as well as the resulting processes should the case triggers are breached;*
 - b. *the investor has read and understood the terms and conditions of the issuance;*
 - c. *the investor is aware of the risks associated with the capital instruments; and*
 - d. *said risks include permanent write-down or conversion of the debt instrument into common equity at a specific discount;*
4. *Make available to the BSP, as may be required, the:*
 - a. *Risk Disclosure Statement;*
 - b. *Certification cited in item 3 above duly signed by the investor; and*
 - c. *Client Suitability Test of the investor.*

Section 2. 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 'A. Tetangco, Jr.', with a long horizontal flourish extending to the right.

AMANDO M. TETANGCO, JR.
Governor

15 February 2013