

**[ CIRCULAR NO. 998, March 13, 2018 ]**

**AMENDMENTS TO THE BASIC SECURITY DEPOSIT  
REQUIREMENTS**

*Adopted: 01 March 2018  
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The Monetary Board in its Resolution No. 141 dated 25 January 2018, approved the following amendments to the guidelines governing the basic security deposit requirement for the faithful performance of trust and other fiduciary duties, investment management activities, securities custodianship operations, and duties of personal Equity Retirement Account (PERA) Administrators.

**Section 1. Coverage and Scope.** All BSP-supervised financial institutions (BSFIs), authorized to engage in trust and other fiduciary business, investment management activities or securities custodianship operations, or accredited by the Bangko Sentral as PERA Administrator are covered by this Circular.

**Section 2. Compliance with the Basic Security Deposit for the Faithful performance of (1) Trust and other Fiduciary Activities and (2) Investment Management Activities of Banks, Quasi-Banks and Trust Corporations.** subsections X405.1 and 4405Q.1 of the Manual of Regulations for Banks (MORB)/Manual of Regulations for Non-Bank Financial Institutions (MORNBFI) on the basic security deposit for the faithful performance of trust and other fiduciary business, subsections X415.1 and 4415Q.1 of the MORB/MORNBFI on the basic security deposit for the faithful performance of investment management activities, and subsection 4112T.1 of the MORNBFI on the basic security deposit for the faithful performance of trust and other fiduciary business and investment management activities of trust corporations, are amended to clarify the guidelines on the basic security deposit requirement, as follows:

a. **"Subsection X405.1/4405Q.1 Basic security deposit.** Bangko Sentral- supervised financial institutions (BSFIs) authorized to engage in trust and other fiduciary business shall deposit with the Bangko Sentral eligible government securities, pursuant to subsection X405.2 /4405Q.2, as security for the faithful performance of its trust and other fiduciary duties equivalent to at least one percent (1%) of the book value of the total trust, other fiduciary and investment management assets: provided, That at no time shall such deposit be less than P500,000.

"xxx"

b. **"Subsection X415.1/4415Q.1 Basic security deposit.** Bangko Sentral- supervised financial institutions (BSFIs) authorized to

engage in investment management activities shall deposit with the Bangko Sentral eligible government securities, pursuant to Subsections X405.2 /4405Q.2, as security for the faithful performance of its investment management activities equivalent to at least one percent (1%) of the book value of the total investment management assets: Provided, that at no time shall such deposit be less than P500,000.

“xxx”

c. **“Subsection 4112T.1 Basic security deposit.** Trust Corporations duly authorized by the Monetary Board, shall deposit with the Bangko Sentral eligible government securities, pursuant to Subsection 4112T.2, as security for the faithful performance of trust and other fiduciary duties and investment management activities equivalent to 0.05% of the total book value of the AUM: Provided, That at no time shall the basic security deposit be less than P500,000. Provided, further, That after the first year of operation, the basic security deposit shall be based on the trust rating of the most recent report of examination of the Trust Corporation, as shown in the table below:

Trust Rating	Required Basic Security Deposit
4	P500, 000 or 0. 03% of the total book value of t he AUM, whichever is higher
3	P500, 000 or 0. 05% of the total book value of t he AUM, whichever is higher
2	P500, 000 or 0. 10% of the total book value of t he AUM, whichever is higher
1	P500, 000 or 0. 20% of t he total book value of t he AUM, whichever is higher

“The basic security deposit shall be in the form of government securities acceptable to the Bangko Sentral, pursuant to Subsection 4112T.2: provided That the Trust Corporation shall not withdraw, transfer or replace such earmarked securities, without prior written approval of the Bangko Sentral.

“xxx”

**Section 3. Assets Eligible as Compliance with the Basic Security Deposit for the Faithful Performance of (1) Trust and other Fiduciary Business; (2) Investment Management Activities; and (3) Securities Custodianship Operations.** Subsections X405.2 and 4405Q.2 of the MORB/MORNBFi on the basic security deposit for the faithful performance of trust and other fiduciary business, Subsections X415.2 and 4415Q.2 of the MORB/MORNBFi on the basic security deposit for the faithful performance of investment management activities, Subsections X441.13/4441Q.13/4144N.13 of the MORB/MORNBFi on the basic security deposit for the faithful performance of securities custodianship operations, and Subsection 4112T.2 of the MORNBFi on the basic security deposit for the faithful performance of trust and other fiduciary business and investment management activities of trust corporations, are amended to 1) delete unavailable securities, effective immediately, from the enumeration of assets eligible as compliance with the basic security deposit requirement, and 2) allow

government securities, regardless of tenor, as mode of compliance with the basic security deposit requirement, effective 31 March 2018.

a. **"Subsection X405.2/4405Q.2. Eligible securities.**

Government securities which shall be deposited in compliance with the above basic security deposit shall consist of evidence of indebtedness of the Republic of the Philippines or of the Bangko Sentral or any other evidence of indebtedness or obligations the servicing and repayment of which are fully guaranteed by the Republic of the Philippines; or such other kinds of securities which may be declared eligible by the Monetary Board: Provided, That such securities shall be free, unencumbered, and not utilized for any other purpose: Provided, further, That such government securities shall have remaining maturity of not more than three (3) years from the date of deposit with the Bangko Sentral.

"The requirement for the abovementioned government securities to have remaining maturity of not more than three (3) years from the date of deposit with the Bangko Sentral shall no longer apply starting 31 March 2018."

b. **"Subsection X415.2/4415Q.2. Eligible securities.** The provisions of Subsections X405.2/4405Q.2 on eligible securities shall govern the basic security deposit requirement for faithful performance of investment management activities."

c. **"Subsection X441.13/4441Q.13/4144N.13. Basic security deposit.** Securities held under custodianship whether booked in the Trust Department or carried in the regular books of the bank/quasi-bank/trust entity/NBFI shall be subject to a security deposit for faithful performance of duties at the rate of 1/25 of one percent (1%) of the total face value of securities held under custodianship, or P500,000 whichever is higher.

"However, securities held under custodianship where the custodian also performs securities lending as agent shall be subject to a higher basic security deposit of one percent (1%) of the total face value of securities held under custodianship.

"Compliance shall be in the form of eligible government securities deposited with the Bangko Sentral, pursuant to existing regulations governing security for the faithful performance of trust and other fiduciary business under Subsections X405.2 to X405.4 / 4405Q.2 to 4405Q.4."

d. **"Subsection 4112T.2. Eligible Securities.** The provisions of Subsection 4405Q.2 on eligible securities shall govern the basic security deposit requirement for faithful performance of trust and other fiduciary business and investment management activities of trust corporations."

**Section 4. Methodology in Determining Compliance with the Basic Security Deposit for the Faithful Performance of Trust and other Fiduciary Duties**

**and Investment Management Activities.** Subsections X405.3 and 4405Q.3 of the MORB/MORNBFI on the valuation of securities and basis of computation of basic security deposit requirement for trust and other fiduciary business, and subsections X415.3/4415Q.3 of the MORB/MORNBFI on the valuation of securities and basis of computation of basic security deposit requirement for investment management activities, are amended to prescribe the methodology in determining compliance with the basic security deposit for the faithful performance of trust and other fiduciary business and investment management activities, effective 31 March 2018:

1. Government securities used as compliance with the basic security deposit shall be valued using fair value methodology, subject to applicable haircuts, instead of amortized cost; and

2. The base amount upon which the basic security deposit rate shall be applied shall be the quarter-end balance of total trust, investment management and other fiduciary assets, instead of the average of the month-end balances of total trust, investment management and other fiduciary assets of the preceding calendar quarter.

a. "Subsection X405.3/4405Q.3. Valuation of securities and basis of computation of the basic security deposit requirement.

"For purposes of determining compliance with the basic security deposit under this Section:

"a. Prior to 31 March 2018:

(1) The amount of securities so deposited shall be based on their book value, that is, cost as increased or decreased by the corresponding discount or premium amortization.

(2) The base amount for the basic security deposit shall be the average of the month-end balances of total trust, investment management and other fiduciary assets of the immediately preceding calendar quarter.

"Effective 31 March 2018, the provisions under Items "a.(1), and "a.(2)", shall no longer apply.

"b. The following provisions on the valuation of eligible assets and computation of the basic security deposit requirement shall be adopted starting 31 March 2018:

(1) Government securities deposited with the Bangko Sentral shall be measured at fair value according to the marking-to-market guidelines for government securities prescribed under Appendix 33a/Q-20, subject to applicable haircuts.

The haircuts that shall be applied to the government securities shall be, as follows:

Residual Maturity of	Minimum Haircut (in
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Government Security	Percent) for Basic Security Deposit
3 years and below	0 . 0
> 3 years up to 5 years	2 . 0
> 5 years	4 . 0

(2) The base amount for the basic security deposit shall be the total trust, investment management and other fiduciary assets reported as of the end of the calendar quarter.”

b. “Subsection X415.3/4415Q.3. Valuation of securities and basis of computation of the basic security deposit requirement.

“For purposes of determining compliance with the basic security deposit under this Section:

“a. Prior to 31 March 2018:

(1) The amount of securities so deposited shall be based on their book value, that is, cost as increased or decreased by the corresponding discount or premium amortization.

(2) The base amount for the basic security deposit shall be the average of the month-end balances of the total assets of the investment management funds of the immediately preceding calendar quarter.

“Effective 31 March 2018, the provisions under Items “a.(1), and “a.(2)” shall no longer apply.

“b. The following provisions on the valuation of eligible assets and computation of the basic security deposit requirement shall be adopted starting 31 March 2018:

(1) Government securities deposited with the Bangko Sentral shall be measured at fair value according to the marking-to-market guidelines for government securities under Appendix 33a/Q-20, subject to applicable haircuts.

The haircuts that shall be applied to the government securities shall be as follows:

Residual Maturity of Government Security	Minimum Haircut ( in Percent) for Basic Security Deposit
3 years and below	0 . 0
> 3 years up to 5 years	2 . 0
> 5 years	4 . 0

(2) The base amount for the basic security deposit shall be the total investment management assets reported as of the end of the calendar quarter.”