

**[ BSP CIRCULAR NO. 691(SERIES OF 2010), June 23, 2010 ]**

**AMENDMENTS TO THE GUIDELINES ON THE TRANSFER OF FCDU/EFCDU PROFITS (LOSSES) TO THE RBU BOOK AND TO THE SELECTED ACCOUNTS AND SCHEDULES OF THE FINANCIAL REPORTING PACKAGE**

The Monetary Board in its Resolution No. 765 dated 4 June 2010, approved the following amendments to the guidelines on the transfer of Foreign Currency Deposit Unit (FCDU)/Expanded FCDU to the Regular Banking Unit (RBU) book and to the selected accounts and schedules of the Financial Reporting Package (FRP).

**Section 1. Guidelines on the Transfer of FCDU/EFCDU Profits/(Losses) to the RBU Book.** Section X564 of the Manual of Regulations for Banks (MORB) and Appendix 16 of the Manual of Regulations on Foreign Exchange Transactions (MORFXT) issued under Circular No. 645 dated 13 February 2009 are hereby amended as follows:

“Following are the guidelines on the transfer of ‘Net Realized/Unrealized Losses Recognized in Profit or Loss and in Equity’ and ‘Undivided Profits/(Losses)’ from the FCDU/EFCDU to the RBU book:

1. ‘Net Realized/Unrealized Losses Recognized in Profit or Loss and in Equity’. Whenever the total of the following:

- a. ‘Retained Earnings Free – FCDU/EFCDU’;
- b. ‘Undivided Profits/(Losses) - FCDU/EFCDU’ comprising of the following:

- (1) Net realized profits/(losses);
- (2) ‘Net Unrealized Gains/(Losses) from Operations’ as defined in Item 2 of this Section.

c. Net unrealized gains/(losses) recognized directly in equity comprising of the following:

- (1) ‘Net Unrealized Gains/(Losses) on AFS Financial Assets – FCDU/EFCDU’ recognized directly in equity; and
- (2) ‘Gains/(Losses) on Fair Value Adjustments of Hedging Instruments – FCDU/EFCDU’ recognized directly in equity.

results to a net debit balance (referred to as ‘Net Realized/Unrealized Losses Recognized in Profit or Loss and in Equity’ in this Section), the bank shall immediately transfer from the RBU book to the FCDU/EFCDU book eligible foreign currency assets by a credit to ‘Due to RBU – FCDU/EFCDU Net Realized/Unrealized Losses Recognized in Profit or Loss and in Equity’, which account shall not be subject to asset and liquid asset cover requirements.

For purposes of this Section, a net credit balance in the total of the foregoing Items 1.a, 1.b and 1.c shall be considered as a zero balance in 'Net Realized/Unrealized Losses Recognized in Profit or Loss and in Equity'.

The amount of eligible foreign currency assets to be transferred from the RBU book to the FCDU/EFCDU book shall be that which will bring the balance of 'Due to RBU – FCDU/EFCDU Net Realized/Unrealized Losses Recognized in Profit or Loss and in Equity' equal to the 'Net Realized/Unrealized Losses Recognized in Profit or Loss and in Equity'.

Whenever the balance of 'Due to RBU – FCDU/EFCDU Net Realized/Unrealized Losses Recognized in Profit or Loss and in Equity' exceeds the 'Net Realized/Unrealized Losses Recognized in Profit or Loss and in Equity', the excess shall be settled at the end of the reference month by the FCDU/EFCDU to the RBU book by a debit to 'Due to RBU – FCDU/EFCDU Net Realized/Unrealized Losses Recognized in Profit or Loss and in Equity' and a credit to the eligible foreign currency assets.

For purposes of this Section, the eligible foreign currency assets shall be in the form of:

- a. Due from BSP – Foreign Currency;
- b. Due from other banks (Other FCDUs/EFCDUs, OBUs and non-resident banks);
- c. Investments in readily marketable foreign currency denominated debt instruments, except for the following:

(1) those which are sold/lent in repurchase agreement/securities lending and borrowing transactions and those used as additional collateral in repurchase agreements or as collateral of the borrowing bank in securities lending and borrowing transactions;

(2) those investments in structured products; and

(3) those Philippine debt papers which were restructured during the period of moratorium in the payment of external debt.

Provided, That these shall likewise be booked under the same category in the RBU book/(in the FCDU/EFCDU book) as they were before the transfer from the FCDU/EFCDU book/(from the RBU book).

**2. Undivided Profits/(Losses).** The transfer of 'Undivided Profits/(Losses) – FCDU/ EFCDU' to the 'Retained Earnings Free' account in the RBU book at the end of calendar or fiscal year adopted by the bank shall refer to net realized profits/(losses) only and shall exclude the following:

- a. 'Unrealized Gains/(Losses) from Marking to Market of Financial Assets and Liabilities Held for Trading (HFT)';
- b. 'Unrealized Gains/(Losses) from Marking to Market of Financial Assets and Liabilities Designated at Fair Value through Profit or Loss (DFVPL)';
- c. 'Foreign Exchange Profit/(Loss)', (i.e., arising from revaluation of foreign exchange transactions);

d. 'Unrealized Gains/(Losses) from Remeasurement of Hedging Instruments', and

e. 'Unrealized Gains/(Losses) from Remeasurement of Hedged Items'

(collectively referred to as 'Net Unrealized Gains/(Losses) from Operations' in this Section): Provided, That prior to the transfer of net realized FCDU/EFCDU profits/(losses) to the 'Retained Earnings Free' in the RBU book, the FCDU/EFCDU shall fully comply with BSP's provisioning requirements.

The net realized and unrealized FCDU/EFCDU profits/(losses) shall be credited/(debited) to 'Undivided Profits/(Losses) – FCDU/EFCDU' at the end of each reference month which account shall be credited/(debited) to 'Retained Earnings Free - FCDU/EFCDU' at the end of calendar or fiscal year adopted by the bank.

The transfer of net realized FCDU/EFCDU profits/(losses) to the RBU shall be made by a debit/(credit) to 'Retained Earnings Free – FCDU/EFCDU' and a corresponding transfer of eligible foreign currency assets from the FCDU/EFCDU to the RBU book/(from the RBU to the FCDU/EFCDU book) within a period of one month from the end of the calendar or fiscal year adopted by the bank: Provided, however, That if after the transfer of net realized FCDU/EFCDU profits/(losses) the balance of 'Net Realized/Unrealized Losses Recognized in Profit or Loss and in Equity' exceeds the balance of 'Due to RBU – FCDU/EFCDU Net Realized/Unrealized Losses Recognized in Profit or Loss and in Equity', the bank shall transfer eligible foreign currency assets from the RBU to the FCDU/EFCDU book on the same date of transfer of the net realized FCDU/EFCDU profits/(losses) by a credit to 'Due to RBU – FCDU/EFCDU Net Realized/Unrealized Losses Recognized in Profit or Loss and in Equity': Provided, further, That if after the transfer of net realized FCDU/EFCDU profits/(losses) the balance of 'Due to RBU – FCDU/EFCDU Net Realized/ Unrealized Losses Recognized in Profit or Loss and in Equity' exceeds the balance of 'Net Realized/Unrealized Losses Recognized in Profit or Loss and in Equity', the bank shall transfer eligible foreign currency assets from the FCDU/EFCDU to the RBU book on the same date of transfer of the net realized FCDU/EFCDU profits/(losses) by a debit to 'Due to RBU – FCDU/EFCDU Net Realized/Unrealized Losses Recognized in Profit or Loss and in Equity'. The amount of eligible foreign currency assets to be transferred from the RBU to the FCDU/EFCDU book or from the FCDU/EFCDU to the RBU book, as the case may be, shall be that which will bring the balance of 'Due to RBU – FCDU/EFCDU Net Realized/Unrealized Losses Recognized in Profit or Loss and in Equity' equal to the 'Net Realized/Unrealized Losses Recognized in Profit or Loss and in Equity'.

The balance of 'Retained Earnings Free – FCDU/EFCDU' account shall, after the transfer of net realized FCDU/EFCDU profits/(losses) to the RBU book, correspond to the cumulative unrealized gains/(losses) from operations from prior years arising from the following:

a. Marking-to-market of 'Financial Assets and Liabilities Held for Trading (HFT)';

b. Marking-to-market of 'Financial Assets and Liabilities Designated at Fair Value through Profit or Loss (DFVPL)';