

[BSP CIRCULAR NO. 468, S. 2005, January 12, 2005]

TO APPROVE RULES AND REGULATIONS THAT SHALL GOVERN BANKS' INVESTMENTS IN SECURITIES OVERLYING SECURITIZATION STRUCTURES

The Monetary Board in its Resolution No. 13 dated 6 January 2005, approved the following rules and regulations that shall govern banks' investments in securities overlying securitization structures:

Section 1. Statement of Policy. The Bangko Sentral ng Pilipinas (BSP) aims to foster the development of a market for new financial products in the country and provide banks with expanded opportunities for investment diversification, while at the same time ensure that they hold sufficient capital commensurate to the risks inherent in these products.

Section 2. Definition. Securitization structures refer to:

1) structures where the cash flow from an underlying pool of exposures is used to service at least two different stratified risk positions or tranches reflecting different degrees of credit risk (also known as traditional securitization); or

2) structures with at least two different stratified risk positions or tranches that reflect different degrees of credit risk, where credit risk of an underlying pool of exposures is transferred, in whole or in part, through the use of credit derivatives or guarantees that serve to hedge the credit risk of the portfolio (also known as synthetic securitization).

Section 3. Qualified Banks. All universal/commercial banks with expanded derivatives authority may invest in securities overlying any tranche of securitization structures. Universal/commercial banks without expanded derivatives authority may also invest but only in securities overlying tranches of securitization structures that are rated at least A, or its equivalent, by a BSP-recognized credit rating agency.

Section 4. Capital Treatment.

1. Credit risk

A. Risk weights. Capital charge for investments in securitization structures held in the banking book shall be based on the latest rating given by any of the following BSP-recognized credit rating agencies: