

**[ BSP CIRCULAR NO. 475, S. 2005, February 14, 2005 ]**

**GUIDELINES ON THE ADOPTION OF THE RISK-BASED CAPITAL ADEQUACY FRAMEWORK AND GUIDELINES TO INCORPORATE MARKET RISK IN THE RISK-BASED CAPITAL ADEQUACY FRAMEWORK**

Pursuant to the Monetary Board Resolution No. 140 dated 3, February 2005, approving the amendments to (a) Circular No. 280 dated 29 March 2001, as amended, on the guidelines on the adoption of the risk-based capital adequacy framework, and (b) Circular No. 360 dated 3 December 2002 on the guidelines to incorporate market risk in the risk-based capital adequacy framework, the provisions of the Manual of Regulations for Banks are hereby amended, as follows:

A. Subsection X116.2 of the Manual is hereby amended to revise the risk weights applicable for claims on foreign incorporated and Philippine incorporated private enterprises, and past due claims, as follows:

"xxx

*20% risk weight -*

1. Checks and other cash items;
2. Claims on or portions of claims guaranteed by or collateralized by securities issued by non-central government public sector entities of foreign countries with the highest credit quality as defined in Subsec. X116.3;
3. Claims on or portions of claims guaranteed by Philippine incorporated banks/quasi-banks with the highest credit quality as defined in Subsec. X116.3;
4. Claims on or portions of claims guaranteed by foreign incorporated banks with the highest credit quality as defined in Subsec. X116.3;
5. **Claims on Philippine incorporated private enterprises with the highest credit quality as defined in Subsec. X116.3;**
6. **Claims on foreign incorporated private enterprises with the highest credit quality as defined in Subsec. X116.3;**

7. Loans to exporters to the extent guaranteed by Small Business Guarantee and Finance Corporation (SBGFC): Provided, That loans to exporters to the extent guaranteed by the Guarantee Fund for Small and Medium Enterprises (GFSME) outstanding as of the date of the effectivity of the merger of the SBGFC and GFSME shall continue to have a zero percent risk weight: Provided, further, That the zero percent risk weight shall not apply to loans renewed after the merger of the SBGFC and the GFSME; and
8. Foreign currency checks and other cash items denominated in currencies acceptable as international reserves;

*50% risk weight -*

1. Loans for housing purpose, fully secured by first mortgage on residential property that is or will be occupied or leased out by the borrower, **which are not classified as non-performing;** and
2. Local government unit (LGU) bonds which are covered by Deed of Assignment of Internal Revenue Allotment of the LGU and guaranteed by the LGU Guarantee Corporation;

*75% risk weight -*

1. Defined small and medium enterprise (SME) and microfinance loan portfolio xxx
2. **Non-performing loans for housing purpose, fully secured by first mortgage on residential property that is or will be occupied or leased out by the borrower; Provided, That risk weighting for such loans shall be increased to 100% in 2007;**

*125% risk weight -*

1. **All non-performing loans (except non-performing loans 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;**

*100% risk weight -*

All other assets including, among others, the following:

3. Claims on central governments and central banks of foreign countries other than those with the highest credit quality;
4. Claims on Philippine local government units;
5. Claims on non-central government public sector entities of foreign countries other than those with the highest credit quality;
6. Claims on government-owned or controlled commercial corporations;
7. Claims on Philippine incorporated banks/quasi-banks other than those with the highest credit quality;
8. Claims on foreign incorporated banks other than those with the highest credit quality;
- 9. Claims on Philippine incorporated private enterprises and claims on foreign incorporated private enterprises other than those with the highest credit quality;**
10. Loans to companies engaged in speculative residential building or property development;
11. Equity investments (except those deducted from capital);
12. Bank premises, furniture, fixtures and equipment (net);
13. Appraisal increment - bank premises, furniture, fixtures and equipment (net);
14. Real and other properties owned or acquired (net);
15. Foreign currency notes and coins on hand not acceptable as international reserves;
16. Gold bullion held in either own vaults, or in another's vaults on an allocated basis, that is not offset by gold bullion liabilities; and
17. Foreign currency checks and other cash items not denominated in foreign currencies acceptable as international reserves;

except those which are deducted from capital, as follows:

1. Unsecured credit accommodations, both direct and indirect, to DOSRI;
2. Deferred income tax;
3. Goodwill;

4. Sinking fund for redemption of limited life redeemable preferred stock with the replacement requirement upon redemption;
5. Sinking fund for redemption of limited life redeemable preferred stock without the replacement requirement upon redemption (limited to the balance of redeemable preferred stock after applying the cumulative discount factor);
6. Equity investments in unconsolidated subsidiary banks and other financial allied undertakings, but excluding insurance companies;
7. Investments in debt capital instruments of unconsolidated subsidiary banks;
8. Equity investments in subsidiary insurance companies and non-financial allied undertakings;
9. Reciprocal investments in equity of other banks/enterprises;
10. Reciprocal investments in unsecured subordinated term debt instruments of other banks/quasi-banks in excess of the lower of (i) an aggregate ceiling of 5% of total Tier 1 capital of the bank; or (ii) 10% of the total outstanding unsecured subordinated term debt issuance of the other bank/quasi-bank; and
11. Net due "from" head office, branches, subsidiaries and other offices outside the Philippines, if any (for foreign bank branches).

x x x."

B. Subsection X116.3 of the Manual is hereby amended to include the definition of a non-performing debt security, a private enterprise, a private enterprise with a highest credit quality, and to clarify the use of credit ratings for regulatory capital purposes, as follows:

"x x x

*1. Claims on foreign country and foreign incorporated bank/private enterprise and Philippine incorporated bank/quasi bank/private enterprise with the highest credit quality.* This refers to claims on a country, bank or private enterprise given the highest credit ratings by any of the following BSP-recognized credit rating agencies:

International rating agencies:

| <b><u>Rating agency</u></b> | <b><u>Highest rating</u></b> |
|-----------------------------|------------------------------|
| Moody's                     | "Aa3" and above              |