[BSP MEMORANDUM, May 11, 2005]

PROCEDURES TO BE OBSERVED IN INVESTING IN CREDIT-LINKED NOTES, STRUCTURED PRODUCTS AND SECURITIES OVERLYING SECURITIZATION STRUCTURES

In line with the policy of encouraging banks to diversify their investment portfolios and to foster the development of a market for new financial products, the BSP has issued guidelines on the investment of Universal Banks (UBs) and Commercial Banks (KBs) in (1) credit-linked notes and similar products (Circular No. 417 dated 28 January 2004), (2) foreign currency denominated structured products (Circular Nos. 466 and 469 dated 05 and 13 January 2005, respectively) and (3) securities overlying securitization structures (Circular No. 468 dated 12 January 2005).

No prior BSP approval is required to enter into authorized transactions. However, it shall be the responsibility of UBs/KBs to fully comply with appropriate risk management standards including, as a minimum, those prescribed under relevant Circulars. The following regulatory requirements shall be fully complied with UBs/KBs investing in products allowed under Circulars Nos. 417, 466/469 and 468:

1. Submit the following documents to the appropriate supervision and examination department of the BSP within five (5) banking days after the date of its initial investment in credit-linked notes, structured products and/or securities overlying securitization structures --

a. A notarized certification in the attached format (refer to Annexes "A" and "B") duly signed by the President/Chief Executive Officer or its equivalent, the Treasurer and Compliance Officer, stating that the bank's investments are in compliance with relevant BSP rules and regulations, and that the bank has an adequate risk management system in place; and

b. Terms and conditions and/or product manuals on the credit-linked notes, structured products and/or securities, overlying securitization structures, which as a minimum should cover the following:

i. Description of relevant financial product;

ii. Analysis of the proposed investments'-

1) reasonableness vis-a-vis the institution's overall financial condition and capital levels; and

2) consistency with the institution's business strategies and objectives;

iii. Analysis of the risks that may arise from the investments and the corresponding impact on the bank's risk profile;