

[BSP CIRCULAR LETTER, October 24, 1997]

CANCELLATION OR NON-DELIVERY OF FORWARD SALES CONTRACTS

Pursuant to M.B. Res. No. 1302 dated October 8, 1997, all commercial banks shall report to the Foreign Exchange Department of the Bangko Sentral ng Pilipinas all cancellations or non-delivery of outstanding forward sales contracts not later than 2 banking days after the cancellation/non-delivery in the attached format.

Commercial banks with expanded derivatives licenses which transact non-deliverable forwards at the onset are exempt from such requirements but shall continue to be governed by Circulars 102, 135, and BSP Circular Letter dated July 22, 1997 unless otherwise amended.

The following are the guidelines to be adopted by the Foreign Exchange Department in determining validity of cancellations/roll-overs:

- a. Eligibility Test — deliverable forward sales of foreign exchange must be contracted, as evidenced by documents, in accordance with the provisions of BSP Circular 1389 (i.e., trade transactions, \$25,000 sale of foreign exchange, etc.)
- b. Frequency Test — the reasonableness of the roll-overs/cancellations shall be based on the results of the evaluation of the justification/explanation submitted by banks as evidenced by appropriate documents.
- c. Counterparty Test — the cancellation of forward sales contract must be duly acknowledged by the counterparty to the contract as shown in documents submitted by banks, e.g., there should be conforme of counterparty as evidenced by the counterparty signature on pertinent documents.
- d. Mark-to-Market Test — the booking or recording in the books of accounts of the profit or loss on contracted forward sales transactions and cash flows/settlement to counterparties must be fully supported by appropriate documents such as authenticated copy of debit/credit tickets, schedules showing among others, mark to market valuation computation, etc.

Administrative Sanctions

Failure to comply with the above requirements shall result in the exclusion of the forward sales contracts in the computation of the consolidated daily foreign exchange position of banks starting Day 1, i.e., when the individual contracts were entered into.

The following administrative sanctions provided under Circular Letter dated July 10, 1992, as amended by M.B. Resolution No. 868 dated July 16, 1997, shall be