

## [ BSP MEMORANDUM, November 10, 1995 ]

### **CLARIFICATION ON THE PROVISIONS OF CIRCULAR NO. 73 ISSUED ON MAY 15, 1995 AND EFFECTIVE MAY 31, 1995, ON RESERVE REQUIREMENTS AGAINST PESO DEPOSITS AND DEPOSIT SUBSTITUTE LIABILITIES OF FINANCIAL INTERMEDIARIES**

Pursuant to Monetary Board Resolution No. 1162 dated October 11, 1995 in relation to Monetary Board Resolution No. 427 dated April 26, 1995, the provisions of Circular No. 73 issued on May 15, 1995 and effective May 31, 1995 on reserve requirements against peso deposits and deposit substitute liabilities of financial intermediaries are hereby clarified as follows:

I. *Reduction in Reserve Requirements and Form of Reserves* - The required reserves against peso deposit and/or deposit substitute liabilities of the following financial intermediaries shall be reduced to levels enumerated below:

	Legal Reserve Ratio (%)	
	From	To
<i>A. Banks with Expanded Commercial Banking Authority, Commercial Banks (including Land bank of the Philippines, Philippine Amanah Bank and Development Bank of the Philippines</i>		
Peso demand and savings deposits, NOW accounts, time deposits and deposit substitute liabilities regardless of maturity	17	15
<i>B. Thrift Banks</i>		
1. demand deposits/NOW/accounts/deposit substitutes regardless of maturity	17	15
2. time deposits/negotiable certificates of time deposits (NCTDs)/savings deposits	14	13

*C. Rural Banks*

1. demand deposits/NOW accounts	17	15
2. savings and time deposits	9	7

*D. Non-Bank Financial Intermediaries  
with Quasi-Banking Functions*

Deposit substitutes regardless of maturity	17	15
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In addition to the legal reserve ratios, a two percent (2%) liquidity reserve is also imposed against the combined deposit and/or deposit substitute liabilities (of each type of financial intermediary) which may be held in the form of short-term market-yielding government securities purchased directly from the Bangko Sentral ng Pilipinas (BSP). This is pursuant to Circular No. 10, dated December 29, 1993 and the supporting memorandum to all banks and non-banks with quasi-banking functions issued January 10, 1994.

II. *Interest Income on Allowed Reserve Deposits with BSP* - The allowed reserve deposits with BSP which will earn 4% per annum (based on the average daily balance of said deposits to be credited quarterly) shall be limited to 40% of the reserve requirement (net of short-term market-yielding government securities purchased directly from the BSP) or actual reserve deposits with BSP, whichever is lower.

The following examples may serve as guide in the interpretation of Sections 12 and 13 of Circular No. 73 on the computation of interest income on reserve deposits:

*A. Banks with Expanded Commercial Banking Authority/Commercial Banks*

Ex. P200,000 total deposit and deposit substitute liabilities distributed as follows:

P50,000 each for demand/NOW, time, savings and deposit substitute liabilities

1. *Total required reserves* *P34,000*

P200,000 x 15%	P30,000
plus a maximum 2% of P200,000 which may be in the form of short-term market-yielding government securities purchased directly from BSP	P 4,000

2. *Actual reserve deposits with BSP*

(Note: A minimum proportion of 25% of required reserve for each type of deposit is allowed in the form of balances with BSP).

25% of P34,000	P 8,500
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3. *Reserve Deposits with BSP which can earn 4% per annum based on the average daily balance of said deposits to be credited quarterly*

Total reserve requirements	P34,000
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Less: Holdings of short-term market-yielding government securities purchased directly from the BSP	P 4,000
(Assumed at maximum 2% of P200,000)	

(Note: Actual securities held may be less than the maximum 2% of the combined deposit and deposit substitute liabilities).

<i>Equals:</i> Reserve requirement net of short-term government securities purchased from BSP	P30,000
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*Computation of the allowed reserve deposits with BSP to earn 4% interest*

40% of P30,000	P12,000
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(Note: Maximum proportion of reserve deposits with BSP that can earn 4%)

Actual reserve deposits with BSP	P 8,500
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Reserve deposits allowed to earn 4%	P 8,500
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Interest income from BSP (P8,500 x 4%) =	P 340
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#### B. Thrift Banks

Ex. Deposit/Deposit Substitute Liabilities	P100,000
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Demand Deposits/NOW Accounts	P 25,000
Demand Substitutes	P 25,000
Time/NCTDs	P 25,000
Savings Deposits	P 25,000

1. Total required reserves	P 16,000
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