[BSP CIRCULAR NO. 733 SERIES OF 2011, August 11, 2011]

PHILIPPINE FINANCIAL REPORTING STANDARDS 9

SUBJECT PHILIPPINE FINANCIAL REPORTING STANDARDS 9
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Pursuant to Monetary Board Resolution No. 1064 dated 14 July 2011, the guidelines on the implementation/early adoption of Philippine Financial Reporting Standards (PFRS) 9 *Financial Instruments* are hereby amended.

SECTION 1. The provisions of Circular No. 708 dated 10 January 2011 on the implementation/ early adoption of PFRS 9 are hereby amended, as follows:

"Section. 2. Classification and Measurement of Financial Assets and Financial Liabilities under PFRS 9

" PFRS 9 shall apply to financial assets and financial liabilities within the scope of Philippine Accounting Standards (PAS) 39. Financial institutions (FIs) shall classify and measure financial assets and financial liabilities in accordance with the provisions of PFRS 9 upon its initial application. FIs shall likewise observe the following guidelines in the implementation of PFRS 9:

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"3. **Financial assets measured at fair value through profit or loss. ***

"Financial assets measured at fair value through profit or loss shall consist of the following:

"a. Financial assets held for trading (HFT) as defined in PFRS 9;

" ***

"8. **Classification of financial liabilities.** Financial liabilities shall be classified as subsequently measured at amortized cost using the effective interest method, except for:

"a. Financial liabilities which are part of a hedging relationship, in which case the provisions of PAS 39 on hedge accounting shall apply;

"b. Financial liabilities measured at fair value through profit or loss; and

"c. The following financial liabilities which shall be

subsequently measured in accordance with the provision of PFRS 9:

"i. Financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies;

"ii. Financial guarantee contracts, as defined under Appendix A of PFRS 9; and

"iii. Commitments to provide a loan at a below-market interest rate.

"9. **Financial liabilities measured at fair value through profit or loss.** Financial liabilities measured at fair value through profit or loss shall consist of the following:

"a. Financial liabilities held for trading (HFT), including derivative liabilities that are not accounted for as hedging instruments, and

"b. Financial liabilities designated at fair value through profit or loss.

"10. **Financial liabilities designated at fair value through profit or loss (DFVPL).** An FI may, at initial recognition, irrevocably designate financial liabilities as measured at fair value through profit or loss subject to the conditions mentioned under PFRS 9 and the regulatory requirements for financial assets DFVPL under Item No. *"4"* above.

"Net unrealized gains/losses arising from changes in the fair value of financial liabilities DFVPL shall be recognized in profit or loss: *Provided,* that those net unrealized gains/losses that are attributable to changes in the liability's credit risk shall be recognized in " Other Comprehensive Income (OCI)": *Provided, however,* That if the recognition of net unrealized gains/ losses in OCI would create or enlarge an accounting mismatch in the FI's profit or loss, the FI shall present all net unrealized gains/losses on that financial liability DFVPL in profit or loss.

"11. **Reclassification of financial assets and financial liabilities.**

"a. Financial assets shall be reclassified when, and only when, an FI charges its business model for managing financial assets in accordance with the provisions of PFRS 9 and of this Circular. Reclassifications other than due to change in business model are not permitted.

" * * *

" An FI shall not effect a reclassification within the period of change in the business model. Any reclassification of financial assets due to change in business model should take effect

from the beginning of the next reporting period of the Fl's financial statements: *Provided,* That the change in business model shall be disclosed in the financial statements in the period of change consistent with PFRS 7 *Financial Instruments: Disclosures* which require among others the disclosure of an entity's objectives, policies and processes for managing the risk from financial instruments and any changes to those objectives, policies, and procedures.

"b. Financial liabilities shall not be reclassified.

"12. **Operations and Accounting Manual.** An Fl shall maintain an operations and accounting manual on the classification and measurement of financial assets and financial liabilities which shall be consistent with PFRS 9 and the provisions of this Circular. The said manual shall cover processes and procedures that will capture the reconfiguration and/or modification of existing systems, interface and data requirements, changes to the chart of accounts and implementation of new accounting/information systems to ensure compliance with the PFRS/PAS and the reportorial requirements of the SEC and the BSP, as applicable.

"Section 3.   Early Adoption of PFRS 9

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"3. **FRP reporting.** Banks shall report financial assets and financial liabilities in accordance with the following guidelines on the mapping of financial assets and financial liabilities (Annexes A and A-1) using the existing FRP template issued under Circular No. 512 dated 3 February 2006, as amended:

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   "d. Financial liabilities measured at fair value through profit or loss under PFRS 9 shall continue to be booked under the following accounts/sub-accounts:

   "i.   The "Financial Liabilities Held for Trading" account shall be used to record financial liabilities held for trading,

   • The "Derivatives with Negative Fair Value Held for Trading" account shall be used to record the negative fair value of derivatives, other than those that are designated and effective hedging instruments.

   • The sub-account "Derivatives with Negative Fair Value Held for Trading (stand-alone derivatives)" shall be used to record the negative fair value of stand-alone

derivatives, other than those that are designated and effective hedging instruments.

- The sub-account "Derivatives with Negative Fair Value Held for Trading (embedded derivatives)" shall be used to record the negative fair value of embedded derivatives where the host contract is a financial liability of the Fl.

- The "Liabilities for Short Position" account shall be used to record the (a) obligation of the purchaser/borrower of securities under Reverse Repurchase Agreements/Certificates of Assignment/Participation with Recourse/Securities Lending and Borrowing Agreements to return the securities purchased/ borrowed from the seller/lender, which the former sold to third parties.

"ii. The "Financial Liabilities Designated at Fair Value Through Profit of Loss' account shall be used to record financial liabilities that are designated as at fair value through profit or loss. The "Other Comprehensive Income-Others" account under the equity section of the balance sheet shall be used to record net unrealized gains/(losses) from charges in fair value attributable to own credit risk of financial liabilities DFVPL that are accounted for in accordance with PFRS 9.

"e. The following accounts/sub-accounts shall no longer be used upon initial application of PFRS 9:

" * * *

"f. All the required information in the main schedules, sub-schedules, and additional disclosures/information in the FRP shall be accomplished for completeness.

"4. **Consolidated Statement of Condition.** Quasi-banks and other non-bank financial institutions shall report financial assets and financial liabilities in accordance with the following guidelines on the mapping of financial assets and financial liabilities (Annexes B and B-1) using the existing CSOC template:

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"e. The Bills Payable - Others" accounts shall temporarily be used to record financial liabilities held for trading and financial liabilities DFVPL.

"f. Changes in fair value of financial liabilities DFVPL attributable to own credit risk shall temporarily be recorded in the account "Net Unrealized Gains/Losses on Available for Sale Financial Assets".

"g. The following sub-accounts in the balance sheet of the CSOC shall no longer be used upon initial application of PFRS 9:

"(i) Underwriting Accounts Debt Securities***

"5. **FRP for Trust Institutions (FRPTI) reporting. ***

"6. **Supplementary report.** Early adopters shall submit a Supplementary Report on Early Adoption of PFRS 9 which shall be a Category A-1 report to the SDC together with the prescribed monthly/ quarterly FRP/CSOC reports, as follows:

"a. Banks shall submit the solo and consolidated supplementary report (Annex D) in accordance with the submission frequency and deadline of the prescribed FRP.

"b. Non-bank FIs, other than trust institutions, shall submit the solo supplementary report (Annex E) in accordance with the submission frequency and deadline of the Consolidated Statement of Condition report.

"7. **Report on initial application of PFRS 9.** A bank/QB, and each of its subsidiary banks/QBs, that opt to early adopt PFRS 9 shall submit a one-time solo Report on hitial Application of PFRS 9 to the BSP through the SDC using the attached format (Annex F). The report which shall be considered a Category A-1 report shall be submitted to the BSP in accordance with the following timelines:

"a. For FIs which initially apply PFRS 9 on or before 31 December 2010 not later than 31 January 2011;

"b. For FIs which initially apply PFRS 9 in 2011- not later than fifteen (15) banking/business days from the end of the month when such initial adoption is reflected in their books, and

"c. For FIs which initially apply PFRS 9 in 2012- not later than fifteen (15) banking/business days from the end of the first month or quarter, in the case of rural banks/Coop Banks, of the calendar or fiscal year of initial application of PFRS 9.

"The report shall disclose the cumulative impact of the FI's adoption of PFRS 9 on selected balance sheet accounts, net income and capital position reckoned from the beginning of the FI's calendar or fiscal year, as applicable.