



OFFICE OF THE GOVERNOR

CIRCULAR NO. 1087

Series of 2020

Subject: Alternative Compliance with the Reserve Requirements of Banks and Non-Bank Financial Institutions with Quasi-Banking Functions (NBQBs)

The Monetary Board in its Resolution No. 672 dated 21 May 2020, approved the following amendments to the Manual of Regulations for Banks (MORB) and the Manual of Regulations for Non-Bank Financial Institutions (MORNBFI) on the allowable modes of alternative compliance with the reserve requirements.

Section 1. Section 252 of the MORB, as amended by Circular No. 1083 dated 22 April 2020, is hereby amended to read, as follows:

252 COMPOSITION OF RESERVES

Composition of required reserves. The required reserves shall be kept in the form of deposits maintained by banks in the demand deposit account (DDA) with the Bangko Sentral.

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Allowable modes of alternative compliance. The following alternative modes of compliance with the required reserves against deposit and deposit substitute liabilities shall be allowed:

a. Peso-denominated loans that are granted to micro-, small- and medium enterprises (MSMEs), as defined under Sec. 332 (*Definition of Terms*), excluding banks and NBQBs that meet the definition of a small- and medium enterprise, subject to the following conditions:

- (1) The MSME loan was granted, renewed or restructured after 15 March 2020;
- (2) An MSME loan that was granted on or before 15 March 2020 but has been renewed or restructured after 15 March 2020 may be used as alternative compliance with the reserve requirements: *Provided*, That the bank demonstrates an increase in its MSME loan portfolio during the month preceding the reserve day. For purposes of determining the increase in the bank's MSME loan portfolio, the bank shall exclude accrued interest and accumulated charges which have been capitalized or made part of the principal of restructured MSME loans; and
- (3) The MSME loan is not hypothecated or encumbered in any way, or rediscounted with the Bangko Sentral or earmarked for any other purpose.

For purposes of computing the reserve position of the current reserve day, qualified MSME loans shall be based on amounts reported as of one (1) banking day prior to the current reserve day. The MSME loans shall be valued at amortized cost, gross of

allowance for credit losses, but shall exclude amounts equivalent to accrued interest and accumulated charges which have been capitalized or made part of the principal of restructured MSME loans.

The use of MSME loans as allowable alternative compliance with the reserve requirement shall be available to banks from 24 April 2020 to 30 December 2021.

- b. Peso-denominated loans that are granted to large enterprises, excluding banks and NBQBs that meet the definition of a large enterprise, subject to the following conditions:
- (1) The loan to the large enterprise was granted, renewed or restructured after 15 March 2020;
 - (2) A loan to a large enterprise that was granted on or before 15 March 2020 but has been renewed or restructured after 15 March 2020 may be used as alternative compliance with the reserve requirements: *Provided*, That the bank demonstrates an increase in its loan portfolio to large enterprises during the month preceding the reserve day. For purposes of determining the increase in the bank's loan portfolio to large enterprises, the bank shall exclude accrued interest and accumulated charges which have been capitalized or made part of the principal of restructured loans to large enterprises; and
 - (3) The loan to a large enterprise is not hypothecated or encumbered in any way, or rediscounted with the Bangko Sentral or earmarked for any other purpose.

For purposes of computing the reserve position of the current reserve day, qualified loans to a large enterprise shall be based on amounts reported as of one (1) banking day prior to the current reserve day. The loans to large enterprises shall be valued at amortized cost, gross of allowance for credit losses, but shall exclude amounts equivalent to accrued interest and accumulated charges which have been capitalized or made part of the principal of restructured loans to large enterprises.

For purposes of determining compliance with the provisions in this Section, a large enterprise shall refer to a sole proprietorship, partnership, corporation or cooperative that meets all of the following criteria:

- a. It does not belong to a conglomerate structure;
- b. It has an asset size (less land) of more than P100 million and an employment size of 200 employees or more; and
- c. It is a critically-impacted business enterprise that has been directly and adversely impacted by the Covid-19 outbreak such that (i) its liabilities has become more than its assets, or (ii) it has experienced at least a fifty percent (50%) decline in gross receipts for at least one calendar quarter; and in either instance, is generally unable to pay or perform its obligations as they fall due in the ordinary course of business, as a result of the Covid-19 outbreak, or as determined by the appropriate regulatory agency/ies, if applicable. A critically-impacted business shall include the transport industry, tourism industry and export-import industry but shall exclude banks and other financial institutions under the supervision of the Bangko Sentral.



The use of loans to a large enterprise as allowable alternative compliance with the reserve requirements shall be available to banks from 29 May 2020 to 30 December 2021.

The reporting of MSME loans and loans to large enterprises that are utilized as alternative compliance shall be subject to the provisions of Sec. 171. The willful making of a false or misleading statement shall subject the bank and the directors/officers responsible for the violation to the sanctions prescribed under Sections 35 and 37 of Republic Act (R.A.) No. 7653 (The New Central Bank Act), as amended by R.A. No. 11211.

Section 2. Section 254 of the MORB is hereby amended to read, as follows:

254 COMPUTATION OF RESERVE POSITION

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Measurement of reserve requirement and alternative modes of compliance. The required reserves and the alternative modes of compliance with the required reserves in the current period (reference reserve week) shall be computed based on the corresponding levels of deposit and deposit substitute liabilities of the prior week.

Section 3. Section 211-Q of the Manual of Regulations for Non-Bank Financial Institutions (MORNBFI) on required reserves against deposit substitute liabilities, as amended by Circular Nos. 1041 dated 29 May 2019, 1054 dated 11 October 2019, 1061 dated 25 November 2019, 1063 dated 3 December 2019 and 1082 dated 31 March 2020 is hereby amended to read, as follows:

211-Q RESERVES AGAINST DEPOSIT SUBSTITUTES.

NBQBs shall maintain required reserves equivalent to twelve percent (12%) of peso-denominated deposit substitute liabilities as defined in Section 95 of R.A. No. 7653, as amended by R.A. No. 11211, regardless of maturities except:

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Section 4. Section 212-Q of the MORNBFI, as amended by Circular No. 1083 dated 22 April 2020, is hereby amended to read, as follows:

212-Q COMPOSITION OF RESERVES

Composition of required reserves. The required reserves shall be kept in the form of deposits maintained by NBQBs in the DDA with the Bangko Sentral.

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Allowable modes of alternative compliance. The following alternative modes of compliance with the required reserves against deposit and deposit substitute liabilities shall be allowed:

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05/28/2020
RYA ROSED NUÑEZ
Manager, RMD

Administrative Services Department

a. Peso-denominated loans that are granted to micro-, small- and medium enterprises (MSMEs), as defined under Sec. 332 (*Definition of Terms*) of the MORB, excluding banks and NBQBs that meet the definition of a small- and medium enterprise, subject to the following conditions:

- (1) The MSME loan was granted, renewed or restructured after 15 March 2020;
- (2) An MSME loan that was granted on or before 15 March 2020 but has been renewed or restructured after 15 March 2020 may be used as alternative compliance with the reserve requirements: *Provided*, That the NBQB demonstrates an increase in its MSME loan portfolio during the month preceding the reserve day. For purposes of determining the increase in the NBQB's MSME loan portfolio, the NBQB shall exclude accrued interest and accumulated charges which have been capitalized or made part of the principal of restructured MSME loans; and
- (3) The MSME loan is not hypothecated or encumbered in any way or earmarked for any other purpose.

For purposes of computing the reserve position of the current reserve day, qualified MSME loans shall be based on amounts reported as of one (1) business day prior to the current reserve day. The MSME loans shall be valued at amortized cost, gross of allowance for credit losses, but shall exclude amounts equivalent to accrued interest and accumulated charges which have been capitalized or made part of the principal of restructured MSME loans.

The use of MSME loans as allowable alternative compliance with the reserve requirements shall be available to NBQBs from 24 April 2020 to 30 December 2021.

b. Peso-denominated loans that are granted to a large enterprise, excluding banks and NBQBs that meet the definition of a large enterprise, subject to the following conditions:

- (1) The loan to the large enterprise was granted, renewed or restructured after 15 March 2020;
- (2) A loan to a large enterprise that was granted on or before 15 March 2020 but has been renewed or restructured after 15 March 2020 may be used as alternative compliance with the reserve requirements: *Provided*, That the NBQB demonstrates an increase in its loan portfolio to large enterprises during the month preceding the reserve day. For purposes of determining the increase in the NBQB's loan portfolio to large enterprises, the NBQB shall exclude accrued interest and accumulated charges which have been capitalized or made part of the principal of restructured loans to large enterprises; and
- (3) The loan to a large enterprise is not hypothecated or encumbered in any way or earmarked for any other purpose.

For purposes of computing the reserve position of the current reserve day, qualified loans to a large enterprise shall be based on amounts reported as of one (1) business day prior to the current reserve day. The loans to large enterprises shall be valued at amortized cost, gross of allowance for credit losses, but shall exclude amounts

equivalent to accrued interest and accumulated charges which have been capitalized or made part of the principal of restructured loans to large enterprises.

For purposes of determining compliance with the provisions in this Section, a large enterprise shall refer to a sole proprietorship, partnership, corporation or cooperative that meets all of the following criteria:

- a. It does not belong to a conglomerate structure;
- b. It has an asset size (less land) of more than P100 million and an employment size of 200 employees or more; and
- c. It is a critically-impacted business enterprise that has been directly and adversely impacted by the Covid-19 outbreak such that (i) its liabilities has become more than its assets, or (ii) it has experienced at least a fifty percent (50%) decline in gross receipts for at least one calendar quarter; and in either instance, is generally unable to pay or perform its obligations as they fall due in the ordinary course of business, as a result of the Covid-19 outbreak, or as determined by the appropriate regulatory agency/ies, if applicable. A critically-impacted business shall include the transport industry, tourism industry and export-import industry but shall exclude banks and other financial institutions under the supervision of the Bangko Sentral.

The use of loans to a large enterprise as allowable alternative compliance with the reserve requirements shall be available to NBQBs from 29 May 2020 to 30 December 2021.

The reporting of MSME loans and loans to large enterprises that are utilized as alternative compliance shall be subject to the provisions of Sec. 172-Q. The willful making of a false or misleading statement shall subject the NBQB and the directors/officers responsible for the violation to the sanctions prescribed under Sections 35 and 37 of R.A. No. 7653 (The New Central Bank Act), as amended by R.A. No. 11211.

Section 5. Section 214-Q of the MORNBFBI is hereby amended to read, as follows:

214-Q COMPUTATION OF RESERVE POSITION

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The required reserves and the alternative modes of compliance with the required reserves in the current period (reference reserve week) shall be computed based on the corresponding levels of deposit substitute liabilities of the prior week.

Section 6. This Circular shall take effect on 29 May 2020 after its publication either in the Official Gazette or in a newspaper of general circulation.

FOR THE MONETARY BOARD:



BENJAMIN E. DIOKNO
Governor

27 May 2020