



# BANGKO SENTRAL NG PILIPINAS

## OFFICE OF THE GOVERNOR

CIRCULAR NO. **1194**  
Series of 2024

**Subject: Amendments to Derivatives Regulations of Banks, Quasi-Banks and Trust Entities**

The Monetary Board, in its Resolution No. 552 dated 16 May 2024, approved amendments to the regulations governing the derivatives activities of banks under Section 613 of the Manual of Regulations for Banks (MORB) and of quasi-banks and of trust corporations under Section 613-Q of the Manual of Regulations for Non-Bank Financial Institutions (MORNBFI). The amended provisions will likewise apply to trust corporations by virtue of Section 302-T of the MORNBFI.

**Section 1.** Section 613 of the MORB, as amended by Circular No. 1119 dated 07 June 2021 and Circular No. 1154 dated 14 September 2022, is hereby amended to read, as follows:

### **"613 DERIVATIVES ACTIVITIES**

XXX

#### ***Definition of terms.***

- a. *Credit default swaps (CDS)*- XXX
- b. *Credit derivative* - a contract wherein one party called the protection buyer or credit risk seller transfers the credit risk of a reference asset or assets issued by a reference entity or entities, which it may or may not own, to another party called the protection seller or credit risk buyer. In return, the protection buyer pays a premium or interest-related payments of the protection seller reflecting the underlying credit risk of the reference asset/s. Under these regulations, credit default swaps and total return swaps are considered credit derivatives.
- c. *Credit-linked note (CLN)*  
XXX
- g. *Forward rate agreement (FRA)*- XXX
- h. *FX option* - refers to a contract that gives one party the right but not the obligation to buy or sell one currency against another by a certain time for a certain price.
- i. *FX swaps*- XXX  
XXX
- m. *Non-deliverable swap* - refers to a variation of an FX swap agreement wherein there is no exchange of the two currency cash flows; instead, the net difference between the contracted rate in the swap contract and the spot rate is paid by one party to the other.
- n. *Structured product (SP)*- XXX

- o. *ROP's Paired Warrants Program* – refers to instruments that gives the holders the right to convert or exchange their Republic of the Philippines (ROP) Global Bond holdings into Peso GS at pre-determined tenors and exchange prices (par for par) at pre-agreed coupons. This right can only be exercised upon a ROP Event of Default on its foreign currency debt.
- p. *Total return swap (TRS)* - refers to a credit derivative wherein the parties agree to exchange cash flows on interest payments and capital gains/losses at certain times in the future according to an agreed upon formula.

***Generally authorized derivatives activities.*** A bank may engage in the following derivatives activities without need of prior Bangko Sentral approval: *Provided*, That it observes the provisions of Appendix 22 and meets the following conditions:

- a. UBs and KBs may transact in the following derivatives in the capacities specified:
  - (1) As a dealer. A UB or KB may originate, distribute or act as market maker for the following financial derivatives: *Provided*, That the UB or KB complies with applicable market conventions and mechanisms for transparency and disclosure:
    - (a) Deliverable FX forwards and FX swaps;
    - (b) Non-deliverable FX forwards and FX swaps;
    - (c) Currency swaps;
    - (d) Interest rate swaps and forward rate agreements;
    - (e) Interest rate and currency futures; and
    - (f) Any financial derivative that is traded in an *organized market* where the UB or KB is recognized as a dealing participant or member. For this purpose, an *organized market* refers to an exchange or a Bangko Sentral-recognized over-the-counter market governed by transparent and binding market conventions on price transparency, trade reporting, market surveillance and orderly conduct/operations.

*Provided, further*, That the issuance of a sub-participation in any derivatives held as an end-user shall be deemed as undertaking the role of a dealer: *Provided, finally*, That the dealer UB or KB observes the provisions of Section 612 and other pertinent securities laws, rules and regulations.

- (2) As end-user. XXX
- (3) As a broker. XXX
- b. Digital Banks, TBs, RBs and Coop Banks may transact in the following derivatives transactions as end-user:
 

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- c. A trust department of a UB or KB may transact as an institutional counterparty in the following financial derivatives instruments on behalf of its trustor/principal/s as may be authorized by such trustor/principal/s: *Provided*, That the trust department observes the relevant provisions of Appendix 22 and Appendix 86:
 

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- (4) Principal-protected foreign-currency denominated SPs, the revenue streams of which are linked to interest rate indices, interest rate instruments, listed equity share or indices, FX rates, credit rating or index, or gold: *Provided*, That the maximum contractual maturity shall be five (5) years; and
- (5) Plain vanilla single-name CLNs where the reference asset is an obligation issued or guaranteed by the Republic of the Philippines;

*Provided*, That the total carrying value of investment in SPs and CLNs, including those held under the trust department's Type 3 authority, shall not exceed twenty percent (20%) of the assets being managed by the trust department.

***Activities requiring additional derivatives authority. XXX***

**Activities requiring notification.** A bank or its trust department shall notify the Bangko Sentral prior to engaging in any of the derivative instruments below:

- a. Any variant of a stand-alone derivative (i) which a UB or KB is allowed to transact in as part of its Generally authorized derivatives activities as dealer; (ii) for which a bank has an existing type 2 or type 3 additional derivatives authority; (iii) which a trust department of a UB or KB is allowed to transact in as part of its Generally authorized derivatives activities; or (iv) for which a trust department has an existing type 3 additional derivatives authority.

For this purpose, a variant refers to an instrument where the features of the authorized product are altered to effect a change in the timing and amount of cash flows, the commencement of the contract, or the basis of payments (e.g., amortizing or accreting notional amount). The adoption of a different underlying for a previously-authorized product (e.g., a different reference entity of a credit default swap, if the latter has been approved under a Type 2 or Type 3 authority) would likewise result in the creation of a variant;

- b. A structure or combination of (i) two or more separate stand-alone derivatives contracts, or (ii) stand-alone derivatives contract/s and a plain vanilla cash instrument, where the instruments are offered or distributed together, and where (all of) the derivative(s) is (are) either part of a UB/KB's Generally authorized derivatives activities as dealer or a bank's existing type 2 or type 3 additional derivatives authority, or part of a trust department's Generally authorized derivatives activities or its existing type 3 additional derivatives authority; and
- c. A structured product where the embedded derivative/s differs from that of the product approved under a bank's existing type 2, type 3, or type 4 additional derivatives authority or a trust department's existing type 3 additional derivatives authority.

The notification requirement does not apply to banks that have been granted a Type 1 expanded dealer authority.

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**Section 2.** Section 613-Q of the MORNBF, as amended by Circular No. 1119 dated 8 June 2021, is hereby amended to read as follows:

**"613-Q DERIVATIVES ACTIVITIES**

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**Activities requiring notification.** A QB or its trust department shall notify the Bangko Sentral prior to engaging in any of the derivative instruments below:

- a. Any variant of a stand-alone derivative for which a QB has an existing type 2 or type 3 additional derivatives authority; or for which a trust department has an existing type 3 additional derivatives authority.

For this purpose, a variant refers to an instrument where the features of the authorized product are altered to effect a change in the timing of cash flows, the commencement of the contract, or the basis of payments (e.g., amortizing or accreting notional amount). The adoption of a different underlying for a previously-authorized product (e.g., a different reference entity of a credit default swap, if the latter has been approved under a Type 2 or Type 3 authority) would likewise result in the creation of a variant;


- b. A structure or combination of (i) two or more separate stand-alone derivatives contracts, or (ii) stand-alone derivatives contract/s and a plain vanilla cash instrument, where the instruments are offered or distributed together, where (all of) the derivative(s) is (are) part of a QB's existing type 2 or type 3 additional derivatives authority or part of a trust department's existing type 3 additional derivatives authority; and
- c. A structured product where the embedded derivative/s differs from that of the product approved under a QB's existing type 2 or type 3 additional derivatives authority or a trust department's existing type 3 additional derivatives authority.

The QB or trust department shall only transact in the instruments that are the subject of its notification to the Bangko Sentral in the capacity allowed for the previously-authorized product.

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**Section 3.** This Circular shall take effect fifteen (15) calendar days following its publication either in the Official Gazette or in a newspaper of general circulation.

FOR THE MONETARY BOARD:

  
MAMERTO E. TANGONAN  
Officer-in-Charge

29 May 2024