Limitations on Equity Investments of Banks

Lifted from 2021 Manual of Regulations for Banks (MORB), as amended

Scope

Banks may invest in equities of allied or non-allied undertakings, including corporate affiliations or structures, subject to approval of the Bangko Sentral and compliance with the prudential criteria provided under Sections 111 and 378 of the MORB. Non-compliance to the required registrations to the BSP, breach in the limitations set forth in the MORB, or non-compliance to other applicable laws and regulations, will lead to sanctions to be imposed to the bank and to the directors of the entity who approved the investment. The bank will also be directed to divest the equity investment per Section 379 of the MORB.

For the purpose of identifying the grounds for the divestment of equity investments, the following provisions were lifted from the MORB.

Approval Requirements

A bank applying for approval to invest in allied or non-allied undertakings shall submit the following documents to the appropriate supervising department of the Bangko Sentral (Sec. 371):

a) Application letter signed by the president or officer of equivalent rank indicating the justifications on how the investment is aligned with the bank's business model and strategic direction. The application letter shall likewise provide the following information:
    i. Name of the investee company;
    ii. Type of business activities; and
    iii. Interest to be held by the bank and the manner in which such interest will be held;
b) Corporate secretary's certificate on the approval of the stockholders, when required under the Corporation Code, and the board of directors (or equivalent management committee in the case of foreign bank branches) of the proposed investment;
c) Certification signed by the president or officer of equivalent rank and the chief compliance officer that the bank has complied with (i)all the prudential criteria prescribed under Sec. 111 (Prudential Criteria), (ii) the minimum capital required under Sec. 121 (Minimum Capitalization), (iii) the criteria on major investments under Sec. 371 (Guidelines for Major Investment, Item "(b)"), as applicable, and (iv) other pertinent banking laws, rules, and regulations;
d) Information on the non-bank allied/non-allied undertaking, as follows:
    i. Financial projections (e.g., balance sheets and income statements) for the first three years of operation in case of establishment of a new allied or non-allied undertaking, or audited financial statements for the last three (3) years, in case of new or additional equity investments in an existing company; and
    ii. List of the members of the board of directors and senior officers;
e) Articles of incorporation of the investee company;

f) Corporate secretary's certificate on the approval of the stockholders, when required under the Corporation Code, and the board of directors of the investee company to allow the Bangko Sentral to examine its books; and
g) Favorable ruling/no-objection ruling or exemption from compulsory notification requirement, as applicable, from the Philippine Competition Commission.

Note: The Bangko Sentral may impose conditions on any approval, including conditions to address financial, managerial, safety and soundness, compliance, or other concerns. Further, the Bangko Sentral may disapprove a proposed investment if it finds that the proposal would constitute an unsafe or unsound banking, or would violate any law, regulation, Monetary Board directive, or any condition imposed by, or written agreement with, the BSP.

Limitations on Financial Allied Undertakings

With prior BSP approval, banks may invest in equities of the following financial allied undertakings (Sec. 372):

a) Leasing companies including leasing of stalls and spaces in a commercial establishment: Provided, That bank investment in/acquisition of shares of such leasing company shall be limited/applicable only in cases of conversion of outstanding loan obligations into equity;
b) Banks;
c) Investment Houses;
d) Financing companies;
e) Credit card companies;
f) FIs catering to small and medium scale industries including venture capital corporation (VCC), subject to the provisions of Sec. 374;
g) Companies engaged in stock brokerage/securities dealership; and
h) Companies engaged in foreign exchange dealership/brokerage.

In addition, UBs may invest in the following as financial allied undertakings:

a) Insurance companies; and
b) Holding company; provided, that the investments of such holding company are confined to the equities of allied undertakings and/or non-allied undertakings of UBs allowed under Bangko Sentral regulations.

The equity investment of a bank in a single financial allied undertaking shall be within the following ratios in relation to the total subscribed capital stock and to the total voting stock of the allied undertaking (Sec. 373):

ACTIVITIES	INVESTOR						
Allied Enterprises	UB		KB		TB	RB	Coop Banks
Financial Allied Undertaking	Publicly-listed	Not listed	Publicly-listed	Not listed			
UBs	100%	49%	100%	49%	49%	49%	49%
KBs	100	49	100	49	49	49	49
Digital Banks	100		49		49	49	49
TBs	100		100		49	49	49
RBs	100		100		49	49	100
Coop Banks	NA		NA		NA	NA	30
Insurance Companies	100		NA		NA	NA	NA
VCCs	60		60		60	49	49
Trust Corporation	100		49		40	40	40
Others	100		49		40	40	40

Lifted from MORB 2021 – Sec 373

To promote competitive conditions, the Monetary Board may further limit the equity investments in QBs of UBs and KBs to forty percent (40%). A publicly-listed UB or KB may own up to 100% of the voting stock of only one (1) other UB or KB. Otherwise, it shall be limited to a minority holding.

Limitations on Investment in Venture Capital Corporations

The following rules and regulations shall implement Presidential Decree No. 1688 entitled "Authorizing Banks to Invest in the Equity of Venture Capital Corporations (VCCs) to Assist Small and Medium-Scale Enterprises" (Sec. 374).

Requirements for investors. Banks may invest in a VCC organized to assist small and medium-scale enterprises, subject to the following conditions:

a) The bank shall have a minimum capital of P100.0 million as defined in Sec. 121;
b) Two (2) or more banks may own up to sixty percent (60%) of the total voting equity and of the total equity of a VCC. A bank shall not be allowed to invest in the equity of more than one VCC;
c) The initial paid-in capital of VCC shall not exceed P5.0 million. Any subsequent increase in paid-in capital of the VCC in which a bank owns equity shall be subject to prior approval of the Monetary Board;
d) Loans which the investor-bank may grant to a VCC shall be limited to such amounts as would enable the VCC to promote equity financing to viable small and medium scale enterprise: Provided, however, That unless otherwise authorized by the Monetary Board, the aggregate outstanding loans of such bank to a VCC shall not exceed twice the amount of its equity investment in the VCC: Provided, further, That loans to the VCC, or the small and medium-scale enterprises shall not be subject to the ceilings on DOSRI, except where bank DOSRI are likewise stockholders in the VCC or in the small and medium-scale enterprise;
e) The combined equity investments in, and loans of, the bank to its VCC shall not exceed fifteen percent (15%) of the bank's net worth; and
f) The aggregate investments in equities by a bank, including equity investments in a VCC, shall not exceed the prescribed ceilings under Sec. 378 on other limitations and restrictions.

Limitations on Non-financial Allied Undertakings

A bank may acquire up to 100% of the equity of a non-financial allied undertaking: Provided, That the equity investment of a TB/RB in any single enterprise shall remain less than fifty percent (50%) of the voting shares in that enterprise: Provided, further, That prior Monetary Board approval is required if the investment is in excess of forty percent (40%) of the total voting stock of such allied undertaking (Sec. 375).

UBs/KBs and TBs may invest in equities of the following non-financial allied undertakings:

1. Warehousing companies;
2. Storage companies;
3. Safe deposit box companies;
4. Companies primarily engaged in the management of mutual funds but not in the mutual funds themselves;
5. Management corporations engaged or to be engaged in an activity similar to the management of mutual funds;
6. Companies engaged in providing computer services;
7. Insurance agencies/brokerages;
8. Companies engaged in home building and home development;

9. Companies providing drying and/or milling facilities for agricultural crops such as rice and corn;
10. Service bureaus, organized to perform for and in behalf of banks and NBFIs the services allowed to be outsourced enumerated in Sec. 112: Provided, That data processing companies may be allowed to invest up to forty percent (40%) in the equity of service bureaus;
11. Philippine Clearing House Corporation (PCHC), Philippine Central Depository, Inc. and Fixed Income Exchange;
12. Companies engaged in merchant acquiring business;
13. Such other similar activities as the Monetary Board may declare as non- financial allied undertakings of banks. UBs may further invest in health maintenance organizations (HMOs). In addition, TBs may also invest in the equities of companies enumerated in Item "b" of this Section.

RBs/Coop Banks may invest, as a non-financial undertaking, in the equities of companies engaged in the following:

1. Warehousing and other postharvest facilities;
2. Fertilizer and agricultural chemical and pesticides distribution;
3. Farm equipment distribution;
4. Trucking and transportation of agricultural products;
5. Marketing of agricultural products;
6. Leasing;
7. Automated Teller Machine (ATM) networks; and
8. Other undertakings as may be determined by the Monetary Board.

Investments in Non-allied or Non-related Undertakings

Only UBs may invest in the equity of an enterprise engaged in non-allied or non-related activities. Non-allied undertakings eligible for investment by universal banks. The broad category of non-allied undertakings in which a UB may invest directly or through its subsidiary shall require prior approval of the Monetary Board: Provided, that individual equity investments in the following broad categories shall not require prior Monetary Board approval, except as may be required in Sec. 371 of the MORB (Sec. 376).

Prudential Limits and Restrictions on Equity Investments

The following limitations and restrictions shall also apply regarding equity investments of banks (Sec. 378).

a) In any single enterprise. The equity investments of UBs and KBs in any single enterprise shall not exceed at any time twenty-five percent (25%) of the net worth of the investing banks as defined in Secs. 121 and 103 (Capital requirements of foreign banks, Item "b").
b) Aggregate limits. The total amount of investments in equities in all enterprises shall not exceed the following ratios in relation to the net worth of the investing bank:

	UB	KB	TB	RB	Coop Bank
LIMIT:	50%	35%	25%	25%	25%

c) Exclusion of underwriting exposure from ceiling. The exposure of a bank with UB authority arising from the firm underwriting of equity securities of enterprises shall not be counted in determining compliance with the ceilings prescribed in this Section and Sec. 376-A (Limits on investments in non-allied enterprises) for a period of ninety (90) calendar days from the issuance of such equity securities.