



BANGKO SENTRAL NG PILIPINAS

MEMORANDUM NO. M-2021-055

OFFICE OF THE DEPUTY GOVERNOR
FINANCIAL SUPERVISION SECTOR

To : **All BSP-Supervised Financial Institutions (BSFIs)**

Subject : **Temporary Regulatory Relief on the Capital Treatment of Provisioning Requirements under the Philippine Financial Reporting Standard (PFRS) 9**

Cognizant of the ongoing Corona Virus Disease (COVID-19) situation, the Monetary Board (MB), in its Resolution No. 1402 dated 14 October 2021, approved the adoption of temporary regulatory relief on the capital treatment of provisioning requirements under Philippine Financial Reporting Standard (PFRS) 9.

Covered BSFIs will be allowed to add-back increase in Stage 1 and Stage 2 provisioning requirements booked under allowance for credit losses from end-December 2019 to Common Equity Tier 1 (CET 1) capital over a period of two (2) years starting 01 January 2022 reporting period, subject to a declining add-back factor (Table 1):

Table 1: Add-Back Factor

Availment Period	Add-back factor (%)
01 January 2022 to 31 December 2022	100
01 January 2023 To 31 December 2023	50

In determining the amount which will be added back to CET 1 capital, a covered BSFI shall compare the sum of its Stage 1 and Stage 2 provisioning booked under allowance for credit losses as of the current reporting period with the sum of its Stage 1 and Stage 2 provisioning booked under allowance for credit losses as of end-December 2019.

If the sum of Stage 1 and Stage 2 provisioning for the current reporting period is higher than that recorded as of end-December 2019, the add-back factor corresponding to the period of availment (Table 1) shall be applied on the resulting difference to determine the amount that may be added back to CET 1 capital. If the amount of Stage 1 and Stage 2 provisions for the current period is lower or equal to the amount recorded as of end-December 2019, no amount shall be added back to CET 1 capital.

The amount of general provisions (GP) (Stage 1 provisions) and Retained Earnings GP (RE-GP) that will be considered as Tier 2 capital shall be reduced by the amount of Stage 1 provisions added back to CET 1 capital. The amount that will be added to Tier 2 capital will continue to be subject to the maximum limit of 1.0 percent of credit risk-weighted assets (RWA).

Covered BSFIs that follow the provisioning requirements under Appendix 15 of the Manual of Regulations for Banks and Appendices Q-14, S-8 and N-11 of the Manual of Regulations for Non-Bank Financial Institutions shall be guided by the following:

- a. A covered BSFI shall determine its transitional adjustment amount which is the difference in its 1.0 percent general loan loss provisions (GLLP), equivalent to the BSFI's Stage 1 provisions that are charged to profit or loss, and Stage 2 provisions determined in accordance with the Bangko Sentral's guidelines from end-December 2019 to the current reporting period.
- b. If the transitional adjustment amount is greater than zero or represents an increase from the GLLP/Stage 1 and Stage 2 provisions recorded as of end-December 2019, an add-back factor corresponding to the period of availment (Table 1) shall be applied on the transitional adjustment amount. This amount shall be added back to CET 1 capital. If the transitional adjustment amount is less than or equal to zero, no amount shall be added back to CET 1 capital.
- c. The amount of GP (Stage 1 provisions) that will be considered by the BSFI as Tier 2 capital shall be reduced by the amount of Stage 1 provisions added back to CET 1 capital. The amount that will be added to Tier 2 capital will continue to be subject to the maximum limit of 1.0 percent of credit RWA.

To avail of the said regulatory relief, a covered BSFI shall comply with the following conditions:

- a. Submission of a letter-notification by the BSFI-stating its intention to avail of the regulatory relief on the capital treatment of provisioning requirements under PFRS 9, including a copy of the resolution of the Board of Directors authorizing the BSFI to avail of the said regulatory relief, to the appropriate supervising department of the Bangko Sentral;
- b. Submission of a supplemental Capital Adequacy Ratio (CAR) Report¹ during the period of availment of the relief measure;
- c. Exclusion of the amount added back to CET 1 capital from the amount available for discretionary distribution of earnings, including dividends, share buybacks, profit remittance, and bonus payments;
- d. Disclosure of the following information in the covered BSFI's annual report; (1) a description of the prudential relief measure on the capital treatment of provisioning requirements, including the financial year when the prudential relief measure is first applied and the duration of the application; and (2) comparison of the: (i) capital ratios computed in accordance with the prudential relief measure on the capital treatment of provisioning requirements; and (ii) capital ratios had said prudential relief measure not been applied;

¹ A Revised Supplemental CAR Report introduced under BSP Memorandum No. M-2020-061 dated 3 August 2020 shall subsequently be issued.

- e. Discontinuance of the staggered booking of allowance for credit losses by covered BSFIs which have availed themselves of subject relief measure; and
- f. Notification by the covered BSFI of its intent to no longer avail of the prudential relief measure on the capital treatment of provisioning requirements to the appropriate supervising department of the Bangko Sentral: *Provided*, That, the covered BSFI shall no longer be allowed to avail itself of the same in subsequent periods.

For guidance.

CHUCHI G. FONACIER
Deputy Governor

19 October 2021