BSP Exempts Reclassification of Foreign Currency Denominated Philippine National Government (NG) / BSP Bonds from "Tainting" Rule

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The Monetary Board approved on 11 January 2007 the guidelines exempting the reclassification of foreign currency denominated National Government (NG)/Bangko Sentral ng Pilipinas (BSP) bonds booked under the Held to Maturity (HTM) category from the tainting rule provided under Circular No. 476 dated 16 February 2005, in view of the increase in risk-weights of said securities under Circular No. 538 dated 4 August 2006, set to take effect on 1 July 2007.

Under the said guidelines foreign currency denominated NG/BSP bonds/debt securities reclassified due to the increase in risk weights shall not be considered a violation of the "tainting" rule, provided, that such reclassification shall only cover HTM securities outstanding as of the effectivity date of the Circular and shall be made anytime within 30 days from the effectivity date of the same issuance. The guidelines further provide that the concerned securities once reclassified shall be accounted for in accordance with its new category (i.e. Available for Sale Securities).

The BSP allowed banks to reclassify aforementioned securities out of the HTM category instead of prescribing that the same be disposed of within a specified period in order to give banks more flexibility in managing their investment portfolio.

Foreign currency denominated NG/BSP bonds/debt securities which previously enjoy a zero percent risk weight shall now be risk-weighted according to the NG's external credit rating, applied on a staggered basis, i.e. one-third (1/3), two-thirds (2/3) and 100 percent (100%) beginning 1 July 2007, 1 January 2008 and 1 January 2009, respectively. Said increase in risk weights for regulatory risk-based capital purposes is one of the exemptions from the tainting rule cited under Circular No. 476.

The tainting provision prohibits financial institutions from using the HTM category during the reporting year and for the succeeding two full financial years whenever it sells or reclassifies more than an insignificant amount of HTM investments before maturity. Once violated, the entire HTM portfolio is required to be reclassified to the Available for Sale category and valued at its fair value with any revaluation gains/losses reflected in the Equity section of the balance sheet.