



Bangko Sentral ng Pilipinas

MAYNILA, PILIPINAS

OFFICE OF THE GOVERNOR

Circular No. 628
(Series of 2008)

Subject: Guidelines on the Reclassification of Financial Assets Between Categories

Further to Circular No. 626 dated 23 October 2008, the Monetary Board, in its Resolution No. 1423 dated 30 October 2008 approved the following additional guidelines on the reclassification of financial assets between categories:

Section 1. Clarification on the provisions of Amendments to IAS 39 and IFRS 7. The following additional guidelines shall govern the reclassification of financial assets between categories in accordance with the provisions of the Amendments to International Accounting Standards 39 Financial Instruments: *Recognition and Measurement* and International Financial Reporting Standards 7 Financial Instruments: *Disclosures*:

- (1) Only non-derivative financial assets may be reclassified from Held for Trading (HFT) to Available for Sale (AFS), Held to Maturity (HTM) or Unquoted Debt Securities Classified as Loans (UDSCL). This shall however exclude those that are Designated at Fair Value through Profit or Loss (DFVPL).
- (2) A financial asset may be reclassified out of HFT into AFS/HTM/UDSCL only in rare circumstances and if there is a change in intention (i.e., the financial asset is no longer held for the purpose of selling or repurchasing it in the near term). The financial assets shall be reclassified at their fair values on the effective date of reclassification all at the same time. Any gain or loss already recognized in profit or loss shall not be reversed. The fair value of a financial asset on the effective date of reclassification becomes its new cost or amortized cost, as applicable.

For the purpose of this Circular, a financial institution (FI) may reclassify all or a portion of its financial assets from HFT to AFS/HTM/UDSCL as of the same date which shall be any day from 1 July 2008 to 14 November 2008. For example, an FI may choose to reclassify all financial assets booked under HFT to AFS/HTM/UDSCL as of 1 July 2008 using their fair values as of 1 July 2008. Another FI may choose to reclassify all financial assets booked under HFT to AFS/HTM/UDSCL as of 14 November 2008 using their fair values as of 14 November 2008.

Thereafter, the FI shall not be allowed to "retrospectively" reclassify HFT to AFS/HTM/UDSCL. Any reclassification on or after 15 November 2008 shall take effect only from the date when the reclassification is made.

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- (3) A financial asset booked under HFT that would have also met the definition of UDSCL if the financial asset had not been required to be classified as HFT at initial recognition, may be reclassified from HFT to UDSCL if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity. The financial assets shall be reclassified at their fair values on the effective date of reclassification, not necessarily all at the same time. Any gain or loss already recognized in profit or loss shall not be reversed. The fair value of a financial asset on the effective date of reclassification becomes its new cost or amortized cost, as applicable.

For the purpose of this Circular, an FI may reclassify said financial assets from HFT to UDSCL as of any date from 1 July 2008 to 14 November 2008. Thereafter, the FI shall not be allowed to "retrospectively" reclassify HFT to UDSCL. Any reclassification on or after 15 November 2008 shall take effect only from the date when the reclassification is made.

- (4) A financial asset booked under AFS that would have also met the definition of UDSCL if the financial asset had not been designated as AFS, may be reclassified from AFS to UDSCL if the FI has the intention and ability to hold the financial assets for the foreseeable future or until the maturity. The financial assets shall be reclassified at their fair values on the effective date of reclassification, not necessarily all at the same time. Any gain or loss that has been recognized in other comprehensive income shall not be reversed. The fair value of a financial asset on the effective date of reclassification becomes its new cost or amortized cost, as applicable.

For the purpose of this Circular, an FI may reclassify said financial assets from AFS to UDSCL as of any day from 1 July 2008 to 14 November 2008. Thereafter, the FI shall not be allowed to "retrospectively" reclassify AFS to UDSCL. Any reclassification on or after 15 November 2008 shall take effect only from the date when the reclassification is made.

- (5) The financial asset reclassified in accordance with Items 2, 3 or 4 above shall thereafter be treated in accordance with the guidelines provided in Circular No. 476 dated 13 February 2005, as amended on the Classification, Accounting Procedures, Valuation and Sales and Transfers of Investments in all Debt Securities and Marketable Equity Securities (incorporated in the Manual of Regulations for Banks and Non-Bank Financial Institutions as Appendices 33 and Q-20, respectively): *Provided*, however, that if an FI subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase shall be recognized as an adjustment to the effective interest rate from the date of the change in estimate rather than as an adjustment to the carrying amount of the asset at the date of the change in estimate.
- (6) FIs that shall reclassify based on the provision of this Section shall comply with the disclosure requirements under the Amendments to IAS 39 and IFRS 7 in preparing their audited financial statements.

Section 2. Alternative accounting treatment for prudential reporting purposes. The following may be adopted for purposes of prudential reports:

- (1) A financial asset booked under AFS may be reclassified from AFS to HTM/UDSCL if the FI has the intention and ability to hold the financial assets for the foreseeable future or until the maturity using the fair value carrying amount of the financial assets as of the effective date of reclassification.

For the purpose of this Circular, an FI may reclassify said financial assets from AFS to HTM/UDSCL as of any day from 1 July 2008 to 14 November 2008. Thereafter, the FI shall not be allowed to "retrospectively" reclassify AFS to HTM/UDSCL. Any reclassification on or after 15 November 2008 shall take effect only from the date when the reclassification is made

- (2) Financial assets that are booked under the AFS category because of the tainting of the HTM portfolio may be reclassified to HTM or UDSCL using the fair value carrying amount of the financial assets as of the effective date of reclassification.

For the purpose of this Circular, an FI may reclassify said financial assets from AFS to HTM/UDSCL as of any day from 1 July 2008 to 14 November 2008.

- (3) Hybrid financial assets (other than CLNs) may be included among the financial assets that may be reclassified out of the HFT and into the AFS/HTM/UDSCL in accordance with Items 2 and 3 of Section 1 above by, first, bifurcating the embedded derivative from the host instrument and booking the derivatives under Derivatives with Positive/Negative Fair Value; and second, reclassifying the host contract to AFS/HTM/UDSCL.

- (4) CLNs and other similar instruments that are linked to ROPs, on the other hand, may be included among the financial assets that may be reclassified (a) out of the HFT into AFS/HTM/UDSCL in accordance with Items 2 and 3 of Section 1 above; or (b) from AFS to UDSCL or HTM in accordance with Item 4 of Section 1 above and Item 1 hereof, without bifurcating the embedded derivatives from the host instrument: *Provided*, That this shall only apply for CLNs that are outstanding as of the effective date of reclassification, which shall not be on or later than 15 November 2008.

Section 3. Applicability to Trust Institutions. The provisions of this Circular shall likewise be applicable to trust institutions except for the following accounts:

- (1) Unit Investment Trust Funds (UITFs); and
- (2) Pre-need, escrow and other accounts whose investments are regulated by or require approval from other regulatory agencies:

Provided, That prior to the reclassification, the trust institutions shall secure the client's written approval/consent and reflect the change in client's investment profile in the revised Investment Policy Statement as provided in Appendix "A" (Basic Standards in the Administration of Trust, Other Fiduciary and Investment

Management Accounts) of Circular No. 618 dated 20 August 2008. *Provided*, further, That in the case of managed retirement funds/employee benefit trust accounts, such reclassification shall be aligned with the liquidity requirements resulting from the latest actuarial valuation of the fund/account.

Section 4. Reportorial Requirements. FIs that reclassify financial assets out of the HFT/AFS categories shall submit a report using the format prescribed in Annex A to the Supervisory Data Center, Supervision and Examination Sector on or before 30 November 2008.

Section 5. Amendments to Circular No. 626. Item 4 of Circular No. 626 shall be amended to read as follows:

"Financial institutions may reclassify from HFT/AFS to ~~AFS/HTM/UDSCL~~ effective 1 July 2008: *Provided*, That any reclassification made in periods beginning on or after 15 November 2008 shall take effect from the date when the reclassification is made: ~~Provided, Further That, financial institutions may only reclassify from HFT/AFS to HTM/UDSCL until 31 December 2008.~~"

This Circular shall take effect immediately.

FOR THE MONETARY BOARD:


AMANDO M. TETANGCO, JR.
Governor

31 October 2008

Category: **Category A-1**
Deadline: **30 November 2008**
Submission: cc: Mail - SDC

FOR ALL BANKS/QUASI-BANKS/NON-BANK FINANCIAL INSTITUTIONS

Name of Bank/QB/NBFI	Code
Address	

Report on Reclassification of Financial Assets Between Categories

As of _____ (Effective Date of Reclassification)

REPUBLIC OF THE PHILIPPINES)
_____) S.S.

I solemnly swear that all matters set forth in this report are true and correct, to the best of my knowledge and belief.

(Signature of Chief Executive Officer/Executive Vice President/
Comptroller/Chief Accountant/Officer of Equivalent Position)

SUBSCRIBED AND SWORN TO BEFORE ME this _____ day of _____
_____ 20____, affiant exhibiting to me his
Community Tax Certificate No. _____ issued at _____
on _____ 20____.

Notary Public
Until December 31, 200 _____
PTR No. _____
Place _____

Doc. No. _____
Page No. _____
Book No. _____
Series of _____

Financial Assets Reclassified Out of the Held-for-Trading Category
 Name of Bank/QB/NBF: Banco/GB/NBFI Code
 Effective Date of Reclassification

Financial Assets	FROM: FINANCIAL ASSETS HELD-FOR-TRADING						TO: AVAILABLE FOR SALE FINANCIAL ASSETS						UNQUOTE DEBT SECURITIES CLASSIFIED AS LOANS					
	Fair Value						Amortized Cost											
	Peso	Foreign Regular	FCDU/EFCDU	Total	Peso	Foreign Regular	FCDU/EFCDU	Total	Peso	Foreign Regular	FCDU/EFCDU	Total	Peso	Foreign Regular	FCDU/EFCDU	Total		
In	Equivalent	In	Equivalent	In	Equivalent	In	Equivalent	In	Equivalent	In	Equivalent	In	Equivalent	In	Equivalent	In	Equivalent	
Debt Securities																		
1. Resident																		
A. Government																		
a. National Government																		
b. Treasury Bills																		
c. Other Securities & Bonds																		
B. Other Financial Institutions																		
a. Banks																		
b. Other Financial Institutions																		
2. Non-Resident																		
a. Banks																		
b. Other Financial Institutions																		
c. Central Governmental Entities																		
d. Public Sector Entities																		
e. Other																		
f. Multilateral Agencies																		
Subtotal																		

Subsequent to the reclassification, the financial assets should be reclassified to the appropriate category of financial assets held for sale, held for trading, or held to maturity.

Financial Assets Reclassified Out of the Held-for-Trading Category

Name of Bank/BNBFI

Effective Date of Reclassification

Financial Assets	FROM						TO					
	FINANCIAL ASSETS HELD-FOR-TRADING						HELD-TO-MATURITY FINANCIAL ASSETS					
	Fair Value						Amortized Cost					
	Foreign Regular		Peso		Total		Foreign Regular		Peso		Total	
	US\$	Equivalent	US\$	Equivalent	US\$	Equivalent	US\$	Equivalent	US\$	Equivalent	US\$	Equivalent
1. Equity Securities												
A. Resident												
B. Non-Resident												
2. Debt Securities												
A. Held-for-Trading												
B. Held-to-Maturity												
3. Loans												
A. Held-for-Trading												
B. Held-to-Maturity												
4. Other Assets												
A. Held-for-Trading												
B. Held-to-Maturity												
5. Subtotal												
6. Total												
7. Additional Information:												
A. Financial assets with a carrying amount of \$50 million												
B. Financial assets with a carrying amount of \$10 million												
C. Financial assets with a carrying amount of \$5 million												
D. Financial assets with a carrying amount of \$1 million												
E. Financial assets with a carrying amount of \$500,000												
F. Financial assets with a carrying amount of \$250,000												
G. Financial assets with a carrying amount of \$125,000												
H. Financial assets with a carrying amount of \$62,500												
I. Financial assets with a carrying amount of \$31,250												
J. Financial assets with a carrying amount of \$15,625												
K. Financial assets with a carrying amount of \$7,812												
L. Financial assets with a carrying amount of \$3,906												
M. Financial assets with a carrying amount of \$1,953												
N. Financial assets with a carrying amount of \$976												
O. Financial assets with a carrying amount of \$488												
P. Financial assets with a carrying amount of \$244												
Q. Financial assets with a carrying amount of \$122												
R. Financial assets with a carrying amount of \$61												
S. Financial assets with a carrying amount of \$30												
T. Financial assets with a carrying amount of \$15												
U. Financial assets with a carrying amount of \$7												
V. Financial assets with a carrying amount of \$3												
W. Financial assets with a carrying amount of \$1												
X. Financial assets with a carrying amount of \$0												

Quarterly returns of US\$ 100 million or more of financial assets held for trading, held-to-maturity, and available-for-sale, including a breakdown of the amount of such assets held for trading, held-to-maturity, and available-for-sale, shall be provided to the Board of Directors of the Bank.

Financial Assets Reclassified Out of the Available for Sale Financial Asset Category

Name of Bank/GBIN/BFI: _____ Bank/GBIN/BFI Code

Effective Date of Reclassification: _____

Debt Securities	FROM				TO									
	AVAILABLE FOR SALE FINANCIAL ASSETS				HELD-TO-MATURITY FINANCIAL ASSETS									
	Foreign Regular In US\$	Peso Equivalent	FCDU/EFCDU In US\$	Total	Foreign Regular In US\$	Peso Equival	FCDU/EFCDU In US\$	Total						
1. Resident														
A. Government														
(1) National Government														
a. Treasury Bills														
b. Treasury Bonds														
c. Others (Specify e.g. Retail Bonds)														
(2) LGUs														
(3) SOCC														
a. State Security Institutions														
b. Other Financial														
c. Non-Financial														
B. BSP														
C. Banks														
(1) US Banks														
(2) Other Banks														
D. Private Corporations														
(1) Financial														
a. NEOBs														
b. Others														
(2) Non-Financial														
2. Non-Resident														
A. Central Government/Utility Bonds														
B. Public Sector Entities														
C. Banks														
(1) US Banks														
(2) Other Banks														
D. Corporations														
3. Multilateral Agencies														

Outstanding balance of AFS Financial Assets as of effective date of reclassification

Outstanding balance of AFS Financial Assets reclassified out of AFS as of effective date of reclassification

Financial Assets Reclassified Out of the Available for Sale Financial Asset Category

Name of Bank(QB/NBFI) _____ Bank(QB/NBFI) Code _____

Effective Date of Reclassification _____

	FROM ¹⁾ AVAILABLE FOR SALE FINANCIAL ASSETS				HELD-TO-MATURITY FINANCIAL ASSETS				TO ²⁾ UNQUOTE DEBT SECURITIES CLASSIFIED AS LOANS			
	Foreign Regular		FCDU/EFCDU		Foreign Regular		FCDU/EFCDU		Foreign Regular		FCDU/EFCDU	
	In US\$	Peso Equivalent	In US\$	Peso Equivalent	In US\$	Peso Equivalent	In US\$	Peso Equivalent	In US\$	Peso Equivalent	In US\$	Peso Equivalent
	Total	Amortized Cost		Total	Amortized Cost		Total	Amortized Cost		Total	Amortized Cost	
Debt Securities												
Additional Information:												
1. AFS financial assets which meet definition of UDSCs at initial recognition												
A. Outstanding Balance												
B. Reclassified out of AFS												
2. AFS financial assets booked under AFS category due to tenting provision												
A. Outstanding Balance												
B. Reclassified out of AFS												
3. CLNs linked to ROPs												
A. Outstanding Balance												
B. Reclassified out of AFS												
4. Hybrid AFS securities (other than CLNs)												
A. Outstanding Balance												
B. Reclassified out of AFS												
5. AFS which now meet the definition of HTM/UDSCL												
A. Outstanding Balance												
B. Reclassified out of AFS												

¹⁾ Outstanding balance of AFS Financial Assets as of effective date of reclassification.

²⁾ Outstanding balance of AFS Financial Assets reclassified out of AFS as of effective date of reclassification.