



BANGKO SENTRAL NG PILIPINAS

OFFICE OF THE GOVERNOR

CIRCULAR NO. 979
Series of 2017

Subject: Risk-Weighting of Bank Loans to the Extent Guaranteed by Credit Surety Fund (CSF) Cooperatives

The Monetary Board, in its Resolution No. 745 dated 12 May 2017, approved the assignment of a preferential 20 percent risk weight on bank loans to micro, small and medium enterprises (MSMEs) to the extent guaranteed by a qualified Credit Surety Fund (CSF) Cooperative, and recognition of the same as one of the eligible guarantors under the Risk-Based Capital Adequacy Frameworks for universal and commercial banks and their subsidiary banks and quasi-banks as well as stand-alone thrift, rural and cooperative banks.

Section 1. Part IV of Appendix 63b (Appendix to Sec. X115) of the Manual of Regulations for Banks (MORB) is hereby amended to read as follows:

"Part IV. Credit risk-weighted assets

"A. Risk-weighting

"x x x

"Other Assets

"16. The standard risk weight for all other assets, including bank premises, furniture, fixtures and equipment, will be 100%, except in the following cases:

"a) x x x

"b) x x x

"c) Loans to small farmer and fisherfolk engaged in palay and/or food production projects/activities to the extent guaranteed by the Agricultural Guarantee Fund Pool (AGFP) created under Administrative Order No. 225-A dated 26 May 2008, which shall be risk weighted at twenty percent (20%): *Provided*, That a separate fund is maintained to guarantee the loans originated by banks: *Provided, further*, That the maximum allowable leveraging ratio of the fund maintained to guarantee bank loans shall be three (3), i.e., the maximum amount of loans guaranteed by the fund is thrice the amount of money in the fund: *Provided, furthermore*, That the fund maintained to guarantee bank loans is invested in

assets that are zero percent (0%) risk-weighted under this risk-based capital adequacy framework.

"d) Loans to MSMEs, which are performing, to the extent guaranteed by a qualified Credit Surety Fund (CSF) Cooperative, which shall be risk-weighted at twenty percent (20%). A qualified CSF Cooperative refers to a cooperative that is organized consistent with the provisions of Republic Act (R.A.) No. 10744 and its implementing rules and regulations (IRR): *Provided*, That the maximum allowable leveraging ratio of the CSF Cooperative to guarantee bank loans shall be three (3); *Provided further*, That said leverage ratio shall be subject to periodic review for progressive increase as warranted by the CSF Cooperative's performance but not to exceed 5x the CSF Cooperative's Restricted Capital for Surety.

"Accruals on a claim shall be classified and risk-weighted in the same way as the claim. Bills purchased shall be classified and risk-weighted as claims on the drawee bank. The treatments of credit derivatives and securitization exposures are presented separately in Parts V and VI, respectively. Investments in equity or other regulatory capital instruments issued by banks or other financial/non-financial allied/non-allied undertakings will be risk-weighted at 100%, unless deductible from the capital base as required in Part II.

"Off-balance sheet items

"x x x

"Guarantees

"42. Where guarantees are direct, explicit, irrevocable and unconditional, banks may be allowed to take account of such credit protection in calculating capital requirements.

"43. x x x

"44. x x x

"45. x x x

"46. x x x

"47. The following are the eligible guarantors:

- a) Philippine NG and the Bangko Sentral;
- b) Central governments and central banks and PSEs of foreign countries as well as MDBs with a lower risk weight than the counterparty;
- c) Banks with a lower risk weight than the counterparty;
- d) Other entities with external credit assessment of at least A- or its equivalent;

e) The Agricultural Guarantee Fund Pool (AGFP) created under Administrative Order No. 225-A dated 26 May 2008; and

f) Qualified Credit Surety Fund (CSF) Cooperative as defined in Part IV. A.

“48. x x x

x x x”

Section 2. Part III of Appendix 63c (Appendix to Sec. X118) of the MORB is hereby amended to read as follows:

“Part III. Credit Risk-Weighted Assets

“x x x

“A. On-Balance Sheet Assets

“2. x x x

“a) 0% risk weight –

“x x x

“b) 20% risk weight –

“i. x x x

“ii. x x x

“iii. x x x

“iv. x x x

“v. x x x

“vi. x x x

“vii. x x x

“viii. x x x

“ix. Loans to small farmer and fisherfolk engaged in palay and/or food production projects/activities to the extent guaranteed by the Agricultural Guarantee Fund Pool (AGFP) created under Administrative Order No. 225-A dated 26 May 2008: *Provided*, That a separate fund is maintained to guarantee the loans originated by banks: *Provided, further*, That the maximum allowable leveraging ratio of the fund maintained to guarantee bank loans shall be three (3), i.e., the maximum amount of loans guaranteed by the fund is thrice the amount of money in the fund: *Provided, furthermore*, That the fund maintained to guarantee bank loans is

invested in assets that are zero percent (0%) risk weighted under this risk-based capital adequacy framework.

"x. Loans to MSMEs, which are performing, to the extent guaranteed by a qualified Credit Surety Fund (CSF) Cooperative. A qualified CSF Cooperative refers to a cooperative that is organized consistent with the provisions of Republic Act (R.A.) No. 10744 and its implementing rules and regulations (IRR): *Provided*, That the maximum allowable leveraging ratio of the CSF Cooperative to guarantee bank loans shall be three (3); *Provided further*, That said leverage ratio shall be subject to periodic review for progressive increase as warranted by the CSF Cooperative's performance, but not to exceed 5x the CSF Cooperative's Restricted Capital for Surety.

"c) 50% risk weight –

"x x x

"B. Off-Balance Sheet Assets

"3. x x x

"x x x

"C. Claims with Eligible Collateral/Guarantees

"4. x x x

"5. x x x

"6. x x x

"7. x x x

"8. The following are the eligible guarantors:

a) x x x

b) x x x

c) Guarantors with the highest credit quality as defined in Part VI:

i. Central government and central banks of foreign countries;

ii. Philippine local government units;

iii. Non-central government public sector entities of foreign countries;

iv. Philippine incorporated banks/QBs;

v. Foreign incorporated banks;

vi. Philippine incorporated private enterprises (including government corporations); and

- vii. Foreign incorporated private enterprises (including government corporations);
- d) The Agricultural Guarantee Fund Pool created under Administrative Order No. 225-4 dated 26 May 2008; and
- e) Qualified Credit Surety Fund (CSF) Cooperative as defined in Part III.A.

"9. The extent to which a claim is guaranteed/collateralized shall be determined by the amount of current market value of securities pledged/guarantee coverage, in comparison with the carrying amount of the on-balance sheet claim or the notional principal amount of the off-balance sheet exposure.

x x x"

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

FOR THE MONETARY BOARD:


NESTOR A. ESPENILLA, JR.
Governor

25 October 2017