

64th Charter Anniversary Symposium

Rural Bankers Association of the Philippines

Rural Banks: Strengthening the Economic Frontliners of the Countryside

10 November 2021

BANGKO SENTRAL NG PILIPINAS

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ASSISTANT GOVERNOR

FINANCIAL SUPERVISION SUB-SECTOR III



PRESENTATION OUTLINE

- ❑ Mandate of the BSP
- ❑ Supervisory Assessment Framework (SAFr) - Design and Key Concepts
- ❑ FSS' Virtual or Blended Examination
- ❑ Other Relevant Issuances
 - Regulatory Treatment of Restructured Loans
 - Salient features of Circular No. 1125 or the Revised Guidelines on the Imposition of Monetary Penalties
 - Merger, Consolidation, and Acquisition and Incentives thereon



BSP MANDATE

**Section 3 of Republic Act (R.A.) No. 7653
(The New Central Bank Act), as amended by
R.A. No. 11211**

Responsibility and Primary Objective

- ✓ Maintain price stability
- ✓ Promote financial stability
- ✓ Oversee the payment and settlements system
- ✓ Supervision over operations of banks



SUPERVISORY POWERS

Section 4 of R.A. No. 8791 (The General Banking Law of 2000)

Supervisory Powers

- ✓ Issue rules
- ✓ Conduct examination and investigation
- ✓ Oversee compliance with laws and regulations
- ✓ Inquire into the solvency and liquidity of institution
- ✓ Enforce prompt corrective action



RISK-BASED SUPERVISION

Risk-taking is integral to a financial institution's business.



Ability to effectively manage risk exposure to ensure **SAFETY AND SOUNDNESS** of operations.



SUPERVISORY ASSESSMENT FRAMEWORK

Took effect on 1 January 2021

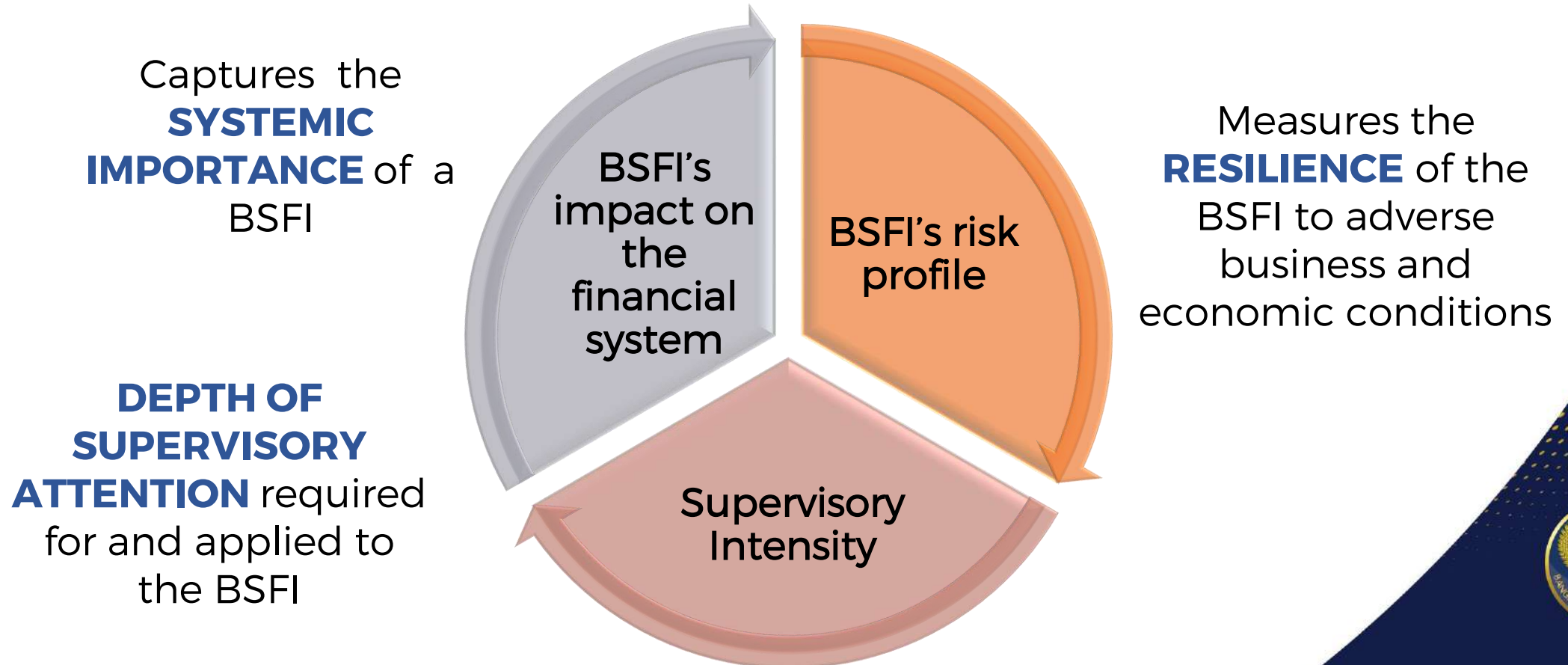
Better aligned with International
Standards

Facilitates a **ROBUST, DYNAMIC
AND FORWARD-LOOKING**
assessment of BSP-supervised financial
institutions



SUPERVISORY ASSESSMENT FRAMEWORK

Major Elements



SUPERVISORY ASSESSMENT FRAMEWORK

Major Elements

1. Impact Assessment



- ✓ Two-step approach to determine impact rating, i.e., **quantitative** and **qualitative** scoring
- ✓ Indicator - based measurement approach uses financial and non-financial data to construct quantitative indicators
- ✓ Use of guided discretion to enhance assessment on the basis of qualitative information



SUPERVISORY ASSESSMENT FRAMEWORK

Major Elements

2. Risk Assessment

- ✓ BSFI's risk profile is anchored on the identification of significant business activity
- ✓ Each significant activity is assigned a weight & assessed in terms of the risks that it generates and the effectiveness of the compliance and internal audit functions for that particular activity
- ✓ Institutional Level Support or the BSFI's risk buffers are also assessed, i.e., capital, earnings, liquidity & governance



SUPERVISORY ASSESSMENT FRAMEWORK

Major Elements

3. Supervisory Intensity

- ✓ Anchored on the BSFI's impact on the financial system and risk profile
- ✓ Examples of supervisory activities employed by BSP:



Requirement for Additional Reports

Meetings with Pertinent Stakeholders

On-site Examination

Periodic Risk Assessment



VIRTUAL OR BLENDED EXAMINATION

Allows the FSS to carry out effective supervision of BSFIs during the COVID-19 pandemic

A. Pre-Examination Activities

- ✓ Prior to the conduct of the actual virtual or blended examination, certain activities are undertaken to ensure:

- Proper scoping of the examination

- Efficient communication and document exchanges

- Observance of confidentiality of information at all times



VIRTUAL OR BLENDED EXAMINATION

Allows the FSS to carry out effective supervision of BSFIs during the COVID-19 pandemic

B. Examination Proper

- ✓ The usual appropriate examination procedures, which form part of the onsite examination, are still undertaken under the blended or virtual approach.
- ✓ The primary change is on the platform by which meetings are conducted and documents are exchanged.



Microsoft Teams



VIRTUAL OR BLENDED EXAMINATION

Challenges



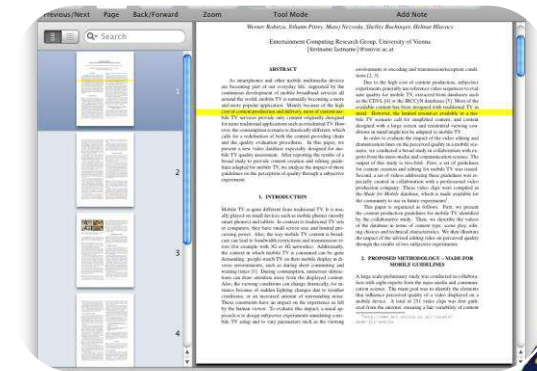
Unstable internet connections



Unavailability of Personnel



Unobservable body Language during meetings



Inconvenience in reviewing documents



OTHER RELEVANT ISSUANCES

Memorandum No. M-2021-056

Regulatory Treatment of Restructured Loans for Purposes of Measuring Expected Credit Losses amid the Pandemic

M-2021-056 provides guidance on the regulatory treatment of **loans with terms and conditions that have been modified** due to the impact of the pandemic, especially consumption loans, for purposes of **measuring expected credit losses (ECL) and classifying the accounts as non-performing**.

Approved by
the MB, in its
Resolution No.
1401 dated 14
October 2021



OTHER RELEVANT ISSUANCES

Memorandum No. M-2021-056

Regulatory Treatment of Restructured Loans for Purposes of Measuring Expected Credit Losses amid the Pandemic

Section 1.
Assessment
of
Significant
Increase in
Credit Risk.

Section 2.
Treatment
of
Restructur
ed Loans

1

Section 3.
Regulatory
Reporting

Section 4.
Effectivity

2

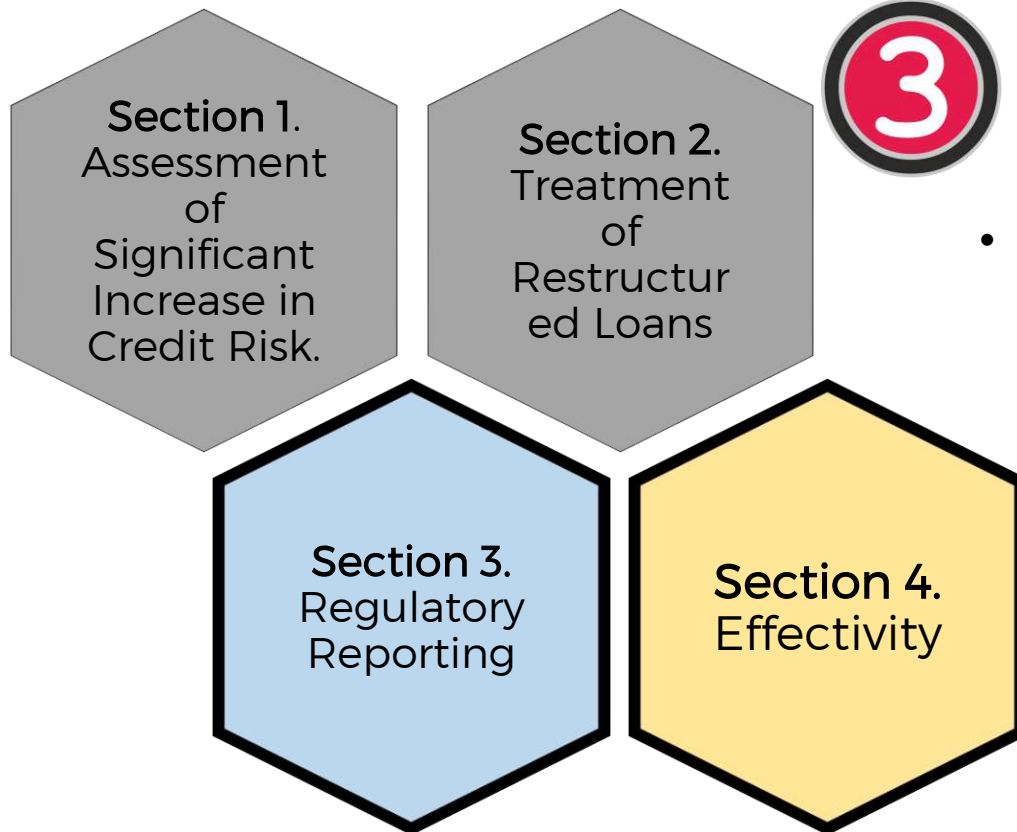
- BSFIs are expected to take a more **flexible and systematic approach** in modifying terms of loan agreements and should **establish prudent criteria** thereon
- Classification of modified loans shall be based on assessment of the **extent of financial difficulty and ability to fully pay the loan**
- Restructured loans should **not automatically** be considered as credit-impaired that warrant classification as non-performing
- BSFIs are expected to **holistically assess** the borrower's repayment capacity, cash flows, and financial position



OTHER RELEVANT ISSUANCES

Memorandum No. M-2021-056

Regulatory Treatment of Restructured Loans for Purposes of Measuring Expected Credit Losses amid the Pandemic



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- BSFIs shall **maintain an updated record** and **report the level of restructured loans** based on the provisions of this issuance in the Financial Reporting Package
- The **BSP shall issue separate guidelines** on the submission of a supplemental report that captures the details of these restructured accounts.

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- The guidelines shall be **effective until 31 December 2022.**

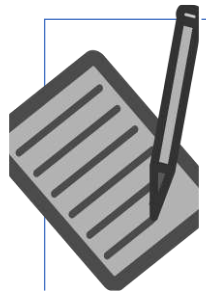


OTHER RELEVANT ISSUANCES

Circular No. 1125

Revised Guidelines on the Imposition of Monetary Penalties on BSFIs, and/or their Directors/Trustees, Officers and/or Employees

Objectives



To align with Republic Act No. 11211 amending R.A. No. 7653 (The New Central Bank Act)



To hold the BSFIs and their directors or trustees, officers and employees accountable



To achieve the overarching supervisory objectives of changed behavior and mitigated risks



Salient Features

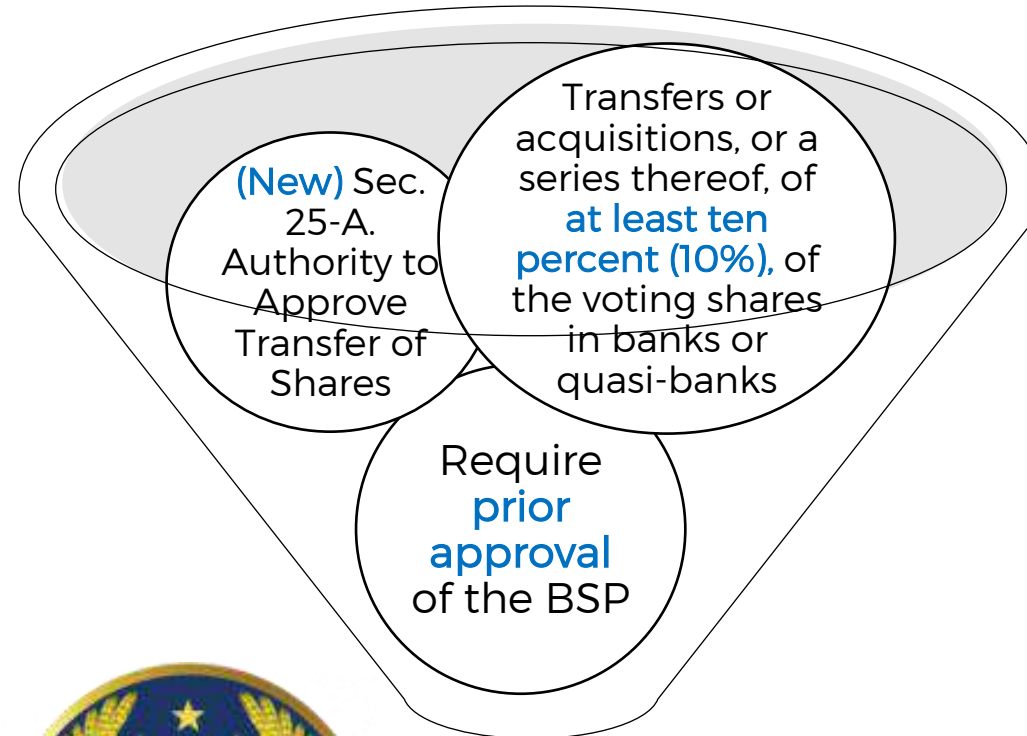
(Amendment to Sec. 37 of R.A. No. 7653)

- Covered all BSFIs, and their directors/trustees, officers and employees
- Monetary penalty of ₱1.0 million for transactional violation and ₱100,000.00 per calendar day for continuing violation
- Amount of penalty within the Governor's authority to approve – ₱100,000.00 for transactional violation and ₱30,000.00 per calendar day for continuing violation
- In case profit is gained or loss is avoided as a result of commission of violation, a fine of no more than three (3) times the profit gained or loss avoided may be imposed.



Other Amendments to R.A. No. 7653

GOOD
TO KNOW



OTHER RELEVANT ISSUANCES

Mergers, Consolidations, and Acquisitions

Samples of Incentives that may be granted

Staggered booking of unbooked valuation reserves over a maximum period of 5 years

Conversion/upgrading of head offices, branches, and other offices

Condonation of liquidated damages/penalties

Relocation of branches/offices

Reasonable period to comply with real estate loan limits

Concurrent officership and concurrent directorship

Continued effectivity of right or privilege under a rehabilitation program or special authority granted by the MB



OTHER RELEVANT ISSUANCES

Financial Regulators Sign Accord to Promote Ease of Bank Mergers, Consolidations, and Acquisitions



Securities and
Exchange
Commission
PHILIPPINES



PHILIPPINE
COMPETITION
COMMISSION



THANK YOU.

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