



BANGKO SENTRAL NG PILIPINAS

OFFICE OF THE GOVERNOR

**CIRCULAR NO. 1051
Series of 2019**

Subject: Amendments to the Framework for Dealing with Domestic Systemically Important Banks (D-SIBs)

The Monetary Board, in its Resolution No. 1314 dated 29 August 2019, approved the amendments to Section 128 and Appendices 110 and 111 of the Manual of Regulations for Banks (MORB) with parallel provisions in Subsection 4115Q.5 and Appendix Q-62 of the Manual of Regulations for Non-Bank Financial Institutions (MORNBFI) to reflect enhancements in the assessment methodology of Domestic Systemically Important Banks (D-SIBs).

Section 1. Section 128 of the MORB on D-SIBs is hereby amended, as follows:

128 Domestic systemically important banks (D-SIBs)

xxx

a. Assessment methodology

xxx. Nine indicators related to these categories shall be used to identify D-SIBs.
xxx

b. xxx

c. Intensive supervisory approach

xxx

The framework for dealing with D-SIBs including the guidelines on data requirements and reports, schedule of restriction on distribution of dividends during the phased-in implementation period of the Higher Loss Absorbency (HLA) requirement, and recovery plan are shown in Appendix 110.

Section 2. Appendix 110 under Section 128 of the MORB is amended as shown as Annex I of this circular.

Section 3. The provisions of Section 128 and Appendix 110 of the MORB under Sections 1 and 2 hereof shall be adopted as Subsection 4115Q.5 and Appendix Q-62 in the MORNBFI.

Section 4. All references to DSIB, DSIBs, GSIB, GSIBs, CET 1 in the MORB/MORNBFI shall be changed to D-SIB, D-SIBs, G-SIB, G-SIBs and CET1, respectively.

Section 5. Appendix 111 of the MORB is hereby deleted.

Section 6. Effectivity. This Circular shall take effect 15 calendar days following its publication either in the Official Gazette or in a newspaper of general circulation.

FOR THE MONETARY BOARD:



BENJAMIN E. DIOKNO
Governor

27 September 2019

FRAMEWORK FOR DEALING WITH DOMESTIC SYSTEMICALLY IMPORTANT BANKS
(Appendix to Sec. 128 on D-SIBs)

I. Introduction

xxx

II. Assessment Methodology

A. Indicator-Based Measurement Approach

1. xxx
2. xxx. Nine indicators related to these categories shall be used to identify D-SIBs. These indicators reflect the factors or criteria which make a bank xxx.
3. xxx. Each individual component (category/indicator) is given differential weights (Table 1). In particular, "size" and "interconnectedness" are given forty percent (40.0%) and thirty percent (30.0%) weight allocation, respectively, as these categories remain a key measure in determining a bank's systemic importance in the Philippines. Meanwhile, the remaining categories namely, "substitutability/financial institution infrastructure" and "complexity", each received an equal fifteen percent (15.0%) weight due to the relatively simple and less complex financial markets in the Philippines.

Table 1. Indicator-Based Measurement Approach

Category (and weighting)	Individual Indicator	Indicator Weighting
Size (40%)	Total Exposures as Defined for use in the Basel III Leverage Ratio	40%
Interconnectedness (30%)	Intra-Financial System Assets	11.36%
	Intra-Financial System Liabilities	6.60%
	Securities Outstanding	12.04%
Substitutability/ Financial Institution Infrastructure (15%)	Assets Under Custody	7.80%
	Payments Activity	2.38%
	Underwritten Transactions in Debt and Equity Markets	4.82%
Complexity (15%)	Notional Amount of Over-the-Counter (OTC) Derivatives	6.19%
	Financial Assets Measured at Fair Value Through Profit or Loss (FVPL) and Financial Assets Measured at Fair Value Through Other Comprehensive Income (FVOCI)	8.81%

4. For each bank, the score for a particular indicator is calculated by dividing the individual bank's outstanding amount for that indicator by the aggregate outstanding amount for the indicator summed across all banks in the sample. The resulting

percentage is then multiplied by 10,000 to express the indicator score in terms of basis points. The individual bank score is then multiplied by the indicator weighting. The category score for each bank is determined by adding the weighted scores of each indicator within that category. The resulting category score is then multiplied by the category weighting. The overall systemic importance score¹ for each bank is generated by adding the weighted score of each category.

5. xxx. The specific definition of the indicators can be found in Annex A which sets out the data requirements for the identification of D-SIBs. The guidelines and the line item instructions for the reporting template are set out in Annex B.

a. Size

xxx. One indicator is used to measure size: the measure of total exposures used in the Basel III leverage ratio².

xxx

d. Complexity

xxx. Two indicators are used to measure complexity:

- (i) notional amount of OTC derivatives; and
- (ii) Financial assets measured at FVPL and financial assets measured at FVOCI.

B. Bucketing Approach

6. Banks with overall systemic importance score (produced by the indicator-based measurement approach) that equals or exceeds a threshold (cut-off level) set by the Bangko Sentral shall be classified as D-SIBs. Supervisory judgment may also be applied when warranted under certain circumstances to add and/or remove banks to/from the list of D-SIBs. This judgment shall be exercised in coordination with the supervising departments of the Financial Supervision Sector (FSS) and in accordance with the principles set out in Item "II.C".
7. Banks designated as D-SIBs shall be grouped into different categories of systemic importance using cluster analysis based on the overall scores produced by the indicator-based measurement approach. The allocation of D-SIBs to different buckets of HLA requirement is based on the relative distribution of their systemic scores.
8. xxx
9. Each year, Bangko Sentral shall run the assessment, and reallocate D-SIBs into the categories of systemic importance based on their overall systemic importance scores.
xxx.
10. xxx

¹ The maximum overall systemic importance score that a bank would have if it were the only bank in the sample is 10,000 basis points i.e., 100%.

² To be computed based on Bangko Sentral guidelines on leverage ratio.

C. Supervisory Judgment

11. As stated earlier, supervisory judgment may be applied to add and/or remove banks to/from the list of D-SIBs. To ensure a high level of transparency and comparability, result of the annual D-SIB assessment shall be in coordination with the supervising departments. xxx.
12. xxx. This may include but not limited to the following: major expansion/contraction of a bank's operation; merger and acquisition; major change in the ownership/structure; xxx.

D. Periodic Review and Refinement

xxx

III. Higher Loss Absorbency (HLA) and Interaction with Other Elements of Basel III Framework

xxx

19. Table 2 sets out the buckets to which identified D-SIBs shall be allocated together with the corresponding HLA requirement. The minimum HLA requirement for the lower bucket (bucket 1) shall be one and a half percent (1.5%) of risk-weighted assets at all times. For the higher populated bucket (bucket 2), the HLA requirement shall range from above one and a half percent to two percent (above 1.5% to 2%) of risk-weighted assets. An empty top bucket with HLA requirement of two and a half percent (2.5%) of risk-weighted assets shall also be maintained.

Table 2. Bucketing Approach

Bucket	Minimum additional HLA requirement (CET1 capital as a percentage of risk-weighted assets)
3 (Empty)	2.5%
2	>1.5% to 2.0%
1	1.5%

The differentiated HLA requirement for D-SIBs slotted under bucket 2 shall be based on the ranking of a bank's overall systemic importance score produced by the indicator-based measurement approach. The additional loss absorbency requirement on D-SIBs slotted under bucket 2 shall be calculated as follows:

$$HLA\ requirement = 2.0\ percent - \frac{0.5\ percent}{n}(x - 1)$$

where:

2.0 percent = maximum HLA requirement under bucket 2

0.5 percent = difference in HLA requirement under bucket 2 and bucket 1

n = number of D-SIBs under bucket 2

x = ranking of a D-SIB under bucket 2

The ranking shall be assigned in descending order such that a D-SIB with the highest overall systemic importance score shall be assigned a ranking of "1" while a D-SIB with the lowest overall systemic importance score shall be assigned a ranking of "n".

20. If the empty top bucket should become populated in the future, a new bucket shall be added to maintain incentives for banks to avoid becoming more systemically important. Minimum HLA requirement for the new buckets shall increase in increments of a half percent (0.5%) of risk-weighted assets.
21. The HLA requirement shall be on top of the combined requirement for capital conservation buffer (CCB) and countercyclical capital buffer (CCyB) under Appendix 59. Table 3 shows a sample total CET1 capital requirement for banks identified as D-SIBs per bucket.

Table 3. Total CET1 Capital Requirement

A. CCyB rate is at 0%

	Bucket		
	3 (Empty)	2*	1
Minimum CET1 Capital Requirement (a)	6%	6%	6%
CCB (b)	2.5%	2.5%	2.5%
CCyB (c)	0%	0%	0%
D-SIB HLA Requirement (d)	2.5%	2%	1.5%
Total Additional CET1 Capital Requirement (b+c+d)	5%	4.5%	4%
Total Required CET1 Capital (a+b+c+d)	11%	10.5%	10%

* Assuming an HLA requirement of two percent (2.0%).

B. CCyB rate is at 2.5%

	Bucket		
	3 (Empty)	2*	1
Minimum CET1 Capital Requirement (a)	6%	6%	6%
CCB (b)	2.5%	2.5%	2.5%
CCyB (c)	2.5%	2.5%	2.5%
D-SIB HLA Requirement (d)	2.5%	2%	1.5%
Total Additional	7.5%	7%	6.5%

	Bucket		
	3 (Empty)	2*	1
CET1 Capital Requirement (b+c+d)			
Total Required CET1 Capital (a+b+c+d)	13.5%	13%	12.5%

* Assuming an HLA requirement of two percent (2.0%).

To help ensure that the banking sector can meet the higher capital requirements through reasonable earnings retention and capital raising activities, while still supporting lending to the economy, transitional arrangements for the HLA requirement shall be implemented. xxx.

xxx

22. To determine banks' compliance with the additional CET1 capital requirement xxx

23. xxx

24. xxx:

- a. Has positive retained earnings as of the preceding quarter and has complied with the requirements on declaration of dividends under Section 124;
- b. Has CET1 capital of more than xxx and D-SIBs HLA requirement) before the distribution; and
- c. xxx.

Table 5. Restriction on Distributions

A. CCyB rate is at 0%

Restriction on Distributions	Level of CET1 Capital	
	Bucket 1	Bucket 2*
No distribution (until the minimum CET1, the combined requirement for CCB and CCyB and more than 50% of D-SIB HLA requirements are met; and conditions "a" and "c" above are complied with)	<=9.25%	<=9.50%
50% of earnings may be distributed (if the minimum CET1, the combined requirement for CCB and CCyB and more than 50% of the D-SIB HLA requirements are met; and conditions "a" and "c" above are complied with)	> 9.25% - 10%	>9.50% - 10.50%

* Assuming an HLA requirement of two percent (2.0%).

B. CCyB rate is at 2.5%

Restriction on Distributions	Level of CET1 Capital	
	Bucket 1	Bucket 2*
No distribution (until the minimum CET1, the combined requirement for CCB and CCyB and more than 50% of D-SIB HLA requirements are met; and conditions "a" and "c" above are complied with)	<=11.75%	<=12.00%
50% of earnings may be distributed (if the minimum CET1, the combined requirement for CCB and CCyB and more than 50% of the D-SIB HLA requirements are met; and conditions "a" and "c" above are complied with)	> 11.75% - 12.50%	> 12.00% - 13.00%

* Assuming an HLA requirement of two percent (2.0%).

xxx. Annex C shows the restriction on distributions xxx.

25. Elements subject to xxx. Payments which do not result in the depletion of CET1 capital are not considered capital distributions.

26. Earnings refer to xxx.

IV. Intensive Supervisory Approach

27. Banks identified as xxx.

28. Moreover, the banks designated as xxx.

Annex A

DATA REQUIREMENTS FOR THE IDENTIFICATION OF DOMESTIC SYSTEMICALLY IMPORTANT BANKS (D-SIBs) (Appendix to Sec. 128 on D-SIBs)

I. Introduction

Under the indicator-based measurement approach, the nine indicators that relate to the four (4) categories set out under Principle 5 of the Domestic Systemically Important Banks (D-SIBs) Framework shall be used to measure a bank's systemic importance. xxx.

II. Data Sources

xxx

2. xxx

This report shall be submitted electronically by the covered banks on a consolidated basis³ to the Bangko Sentral's Department of Supervisory Analytics on a semi-annual basis, within thirty (30) banking days after end of the reference period. xxx.

xxx

III. Reporting Period/Date

xxx

IV. Summary of Data Requirements for the Identification of D-SIBs

Category	Individual Indicator	Data Source
xxx	xxx	xxx
Interconnectedness	Intra-Financial System Assets	FRP
		Schedule 1 – Outstanding Credit Facilities (D-SIBs Report)
	Intra-Financial System Liabilities	FRP
		Schedule 1 – Outstanding Credit Facilities (D-SIBs Report)
Securities Outstanding	FRP	
	Philippine Stock Exchange Website	
Substitutability/ Financial Institution Infrastructure	Assets Under Custody	FRP
	Payments Activity	Report from Bangko Sentral's Payments and Settlements Office
		Report from Philippine Clearing House Corp. (PCHC)
		Schedule 2 – Payments Coursed through Foreign Currency Settlement Banks (D-SIBs Report)
Underwritten Transactions in Debt and Equity Markets	Schedule 3 – Underwritten Transactions in Debt and Equity Markets (D-SIBs Report)	
Complexity	Notional Amount of Over-the-Counter Derivatives	FRP
	Financial Assets Measured at Fair Value Through Profit or Loss (FVPL) and Financial Assets Measured at Fair Value Through Other Comprehensive Income (FVOCI)	FRP

³ Consolidated basis shall refer to the combined data of parent bank and subsidiaries. xxx.

V. The Indicators

1. Size Indicator

The size indicator pertains to the total exposures as defined for use in the Basel III leverage ratio as provided under Section 129.

2. Interconnectedness Indicators

2.1 Intra-Financial System Assets

xxx

Data Source		Account
Report	Schedule	
FRP*	1	Checks and Other Cash Items
	2	Due from Other Banks
	3	Financial Assets HFT
	4a	Derivatives HFT (Positive Fair Value)
	5	Financial Assets DFVPL
	6	Financial Assets Measured at FVOCI
	7	Financial Assets Measured at Amortized Cost
	xxx	xxx

* For updating relative to Philippine Financial Reporting Standards (PFRS) 9 on financial instruments.

2.2 Intra-Financial System Liabilities

xxx

Data Source		Account
Report	Schedule	
FRP*	4a	Derivatives HFT (Negative Fair Value)
	xxx	xxx
D-SIBs Report	1	Outstanding Credit Facilities Obtained from Banks and Other Financial Institutions

* For updating relative to PFRS 9 on financial instruments.

2.3 Securities Outstanding

xxx

Data Source	Account
FRP*- Balance Sheet	Long-Term Negotiable Certificate of Deposit (LTNCD)
	Unsecured Subordinated Debt (net)
	Bills Payable (Other Deposit Substitutes and Others)
	Bonds Payable (net)
	Redeemable Preferred Shares
Philippine Stock Exchange/FRP*- Balance Sheet	Equity Market Capitalization/Total Equity (if equity market capitalization is not available)

* For updating relative to PFRS 9 on financial instruments.

3. Substitutability/Financial Institution Infrastructure Indicators

xxx

3.3. Underwritten Transactions in Debt and Equity Markets

xxx

4. Complexity Indicators

4.1 Notional Amount of OTC Derivatives

xxx

Data Source		Account
Report	Schedule	
FRP*	4	Derivatives HFT
	xxx	xxx

* For updating relative to PFRS 9 on financial instruments

4.2 Financial Assets Measured at Fair Value Through Profit or Loss (FVPL) and Financial Assets Measured at Fair Value Through Other Comprehensive Income (FVOCI).

This pertains to the total market value of all debt and equity securities (excluding any stand-alone or embedded derivatives) measured at FVPL and FVOCI, respectively, less the securities eligible for classification as high quality liquid assets (HQLA)

as of the reporting date. This indicator is computed as the sum of the following accounts less the securities eligible for classification as HQLA as provided under Section 145-A:

Data Source	Account
FRP* - Balance Sheet	Financial Assets Measured at FVPL
	Financial Assets Measured at FVOCI
Less:	
Liquidity Coverage Ratio Report	Securities eligible for classification as HQLA

* For updating relative to PFRS 9 on financial instruments

Annex B

**REPORT ON SELECTED ACCOUNTS AND ACTIVITIES FOR THE IDENTIFICATION OF
DOMESTIC SYSTEMICALLY IMPORTANT BANKS
(D-SIBs Report)
(Appendix to Sec. 128 on D-SIBs)**

xxx

Annex C

**SCHEDULE OF RESTRICTION ON DISTRIBUTION DURING THE PHASED-IN IMPLEMENTATION
PERIOD OF THE HIGHER LOSS ABSORBENCY REQUIREMENT*
(Appendix to Section 128 on D-SIBs)**

Restriction on Distribution	Level of CET1 Capital					
	Bucket 1			Bucket 2		
	01-Jan-2017 to 31-Dec-2017	01-Jan-2018 to 31-Dec-2018	01-Jan-2019 to 31-Dec-2019	01-Jan-2017 to 31-Dec-2017	01-Jan-2018 to 31-Dec-2018	01-Jan-2019 to 31-Dec-2019
No distribution (until the minimum CET1, the combined requirement for CCB and CCyB and more than 50% of D-SIB HLA are met; and conditions "a" and "c" of Paragraph 24 of Appendix 110 are complied with)	<= 8.75%	<= 9%	<= 9.25%	<= 8.8333 %	<= 9.1667 %	<= 9.5%
50% of earnings may be distributed (if the minimum CET1, the combined requirement for CCB and CCyB and more than 50% of D-SIB HLA are met; and conditions "a" and "c" of Paragraph 24 of Appendix 110 are complied with)	> 8.75% - 9%	> 9% - 9.5%	> 9.25% - 10%	> 8.8333 % - 9.1667 %	> 9.1667 % - 9.8333 %	> -9.5% - 10.50%

* Assuming there is no change in the bucket/required HLA during the phased-in implementation period, CCyB is at zero percent (0%) and an HLA requirement of two percent (2.0%) for D-SIBs slotted under bucket 2. In case of change in the HLA requirement during the phased-in period, the required HLA shall be distributed equally over the remaining period until the full implementation in 2019.

Annex D

**GUIDELINES ON RECOVERY PLAN OF A
DOMESTIC SYSTEMICALLY IMPORTANT BANKS (D-SIBs)
(Appendix to Sec. 128 on D-SIBs)**

xxx

3. Guiding Principles

xxx

3.2 The recovery plan shall, at the latest, be activated when the D-SIB breaches the total required Common Equity Tier 1 (CET1)⁴ capital and/or the minimum liquidity ratios as may be prescribed by the Bangko Sentral. xxx

xxx

3.4 The recovery plan is a detailed list of options or courses of action that will be taken by the D-SIB to address a range of severe stress scenarios to restore its financial strength and viability. It shall reflect the D-SIB's nature, size, interconnectedness, level of substitutability/financial institution infrastructure, and complexity. It shall have the following components to ensure effective and rapid execution:

xxx

4. Reporting Requirement and Review by the Bangko Sentral

4.1 xxx

4.2 Relative to paragraph 3.2, on breach of internally-set trigger level, the senior management shall submit, within three (3) banking days, to the appropriate supervising department of the Bangko Sentral sufficient information about the D-SIB's decision xxx

⁴ 6% CET1 capital + 2.5% CCB + 0% to 2.5% CCyB + 1.5% to 2.5% HLA