MEMORANDUM NO. M-2021-014

To	:	**ALL UNIVERSAL AND COMMERCIAL BANKS AND THEIR SUBSIDIARY BANKS**
Subject	:	**Frequently Asked Questions on the Report on LIBOR-Related Exposures under Memorandum to All Banks No. M-2020-083 dated 17 November 2020**

Relative to the requirement for the submission of the Report on LIBOR-Related Exposures issued under Memorandum No. M-2020-083 dated 17 November 2020, additional guidance and clarifications are provided on the preparation of the Report in the attached document.

For information and compliance.

Digitally signed
by Chuchi G.
Fonacier
Date: 2021.03.04
14:45:41 +08'00'

CHUCHI G. FONACIER
Deputy Governor

04 March 2021

BANGKO SENTRAL NG PILIPINAS

**Frequently Asked Questions on the Report on LIBOR-Related Exposures (RLRE)
under Memorandum to All Banks No. M-2020-083 dated 17 November 2020**

Memorandum No. 2020-083 dated 17 November 2020 sets forth the BSP's expectations from all supervised financial institutions regarding the transition from the London Inter-Bank Offered Rate, or LIBOR. BSP-supervised financial institutions (BSFIs) with LIBOR or LIBOR-related exposures shall have viable transition plans in place for the cessation of LIBOR, including strategies for actively reducing reliance on the benchmark sufficiently in advance of its discontinuation.

The RLRE is intended to aid the BSP and banks in monitoring of the progress of banks in transitioning away from LIBOR. To address various concerns related to the report, the BSP is posting the following responses to frequently asked questions for guidance.

1. **Question.** Are all BSFIs required to submit the RLRE?

   Answer. Only universal and commercial banks and their subsidiary banks operating in the Philippines are required to submit the RLRE.

   However, in accordance with the requirement for reporting on a solo basis, the exposures of overseas branches and other offices of covered banks shall be consolidated in the report submitted by the head office.

2. **Question.** Which reference rates does the report focus on?

   Answer. The first sheet of the data entry template centers on exposures to LIBOR, which is a widely-used benchmark for short-term interest rates in five currencies, calculated by the Intercontinental Exchange from estimates submitted by leading banks in London.

   The second sheet centers on exposures to the Philippine Interbank Reference Rate or "PHIREF." PHIREF is the implied PHP interest rate derived from done deals in the interbank foreign exchange (FX) swap market, used as the benchmark for the reset value for the PHP floating leg of an interest rate swap. It is LIBOR-related because the rate is computed using USD LIBOR. As such, PHIREF in its current iteration will also be discontinued when USD LIBOR ceases.

3. **Question.** What transactions are covered by the report?

   Answer. The report covers all derivatives transactions, as well as all assets and liabilities that are interest-bearing or are revalued/marked-to-market for purposes of reporting in the Financial Reporting Package (FRP). Outstanding derivatives transactions and interest-bearing or revalued assets or liabilities that are not identified as specific product types in the template shall be reported in the rows pertaining to "Others."

   Assets and liabilities that do not meet either of the above criterion, such as fixed assets and accrued interest receivable/payable, need not be included in the report.

4. **Question**. What details shall be specified for exposures classified under "Others"? How will these details be provided?

   Answer. The bank shall provide information on the breakdown of the amount and number of contracts reported in the "Others" rows in footnotes below the table.

5. **Question**. Which contracts qualify for reporting under "contracts referencing LIBOR/PHIREF" in Columns C to F, and H to K of both sheets?

   Answer. A contract is said to "reference" LIBOR/PHIREF if the bank uses the said benchmark to price or value the transaction. As such, if the benchmark is used by the bank to mark-to-market or discount the cash flows of an existing contract, the contract will be reported according to the relevant maturity date in Columns C to E, and H to J. It will likewise be included in the totals reported in Columns F and K.

6. **Question**. Which contracts qualify for reporting under "all outstanding contracts" in Columns G and L of both sheets?

   Answer. The balances in Column G and numbers in Column L shall cover *all existing contracts for a given product type* (e.g., all cross-currency swaps bought or sold, all corporate loans, and all deposits), regardless of currency, reference rate or booking unit.

   This means that the contracts included in Column G in the LIBOR Exposures sheet shall be the same contracts included in Column G of the PHIREF Exposures sheet. However, the balances shall be reported *in USD million equivalent in the LIBOR Exposures sheet* and *in PHP million equivalent in the PHIREF Exposures sheet*. Moreover, the content of Column L, which refers to the "number of all outstanding contracts," should be the same across both sheets for a given product.

   Information on all outstanding contracts is being required to aid in quantifying outstanding LIBOR/PHIREF exposures as a portion of total derivative exposures, assets and liabilities on the individual bank level and on the aggregate. As such, even if a bank has no outstanding LIBOR and PHIREF exposures in a given period, the bank is expected to report the relevant amount and number of all its outstanding contracts for each product type under Columns G and L in both sheets.

7. **Question**. Are the balances in Column G expected to tally with those reported in the FRP?

   Answer. Total assets and total liabilities are not expected to match the FRP balances due to exclusions (e.g., fixed assets, accrued interest payable/receivable).

8. **Question**. What exchange rates shall be used to convert non-USD exposures to USD for reporting in the LIBOR Exposures sheet and to convert non-PHP exposures to PHP for reporting in the PHIREF Exposures sheet?

   Answer. The amount of non-USD contracts shall be converted to USD millions for reporting in Column G of the LIBOR Exposures sheet and the amount of non-PHP contracts shall be converted to PHP millions for reporting in Column G of the PHIREF Exposures sheet using the Philippine Dealing System Peso/US Dollar closing rate and the New York US Dollar/ Third Currencies closing rate for the given reference date. These are the same rates used in computing USD and PHP equivalents for reporting in the FRP.

9. **Question**. What shall be reported in the "of which, with fallback" rows of the LIBOR Exposures sheet?

   Answer. The notional amount and number of contracts with fallback language shall be separately identified in the "of which, with fallback" rows of the LIBOR Exposures sheet. Fallback language refers to provisions in written contracts/agreements that set forth the process through which a viable replacement rate can be identified and applied if the contracted reference rate is unavailable. The data reported shall cover the contracts that are currently referenced to LIBOR but have suitable documented fallback provisions.

   Contracts reported in an "of which, with fallback" row are expected to be a subset of the contracts referencing LIBOR reported in the preceding row.

10. **Question**. How will "Number of Contracts" be counted?

    Answer. The number of contracts refers to the number of unique transactions, each subject to a single set of terms, including the reference rate. For instance, loan contracts may be reported according to the number of promissory notes, while deposits may be reported according to the number of deposit accounts. For holdings of bonds and bonds payable, the number of contracts may reflect the number of unique International Securities Identification Numbers or ISINs.

11. **Question**. The headers in Columns C to G require exposures to be reported in "Notional Amount." What does this mean for different types of products?

    Answer. Transactions shall be reported similarly to their reporting in the FRP. Derivatives shall be reported in notional amount. Loans shall be reported at amortized cost, gross of allowances. Investments in securities shall be reported at amortized cost or fair value, depending on classification.

12. **Question**. How will the following items be reflected in the report?
    a. Holdings of securities

    Answer. Holdings of medium- to long-term securities, or those with tenors of more than one year, shall be reported under "Bonds and Notes," regardless of classification (i.e.,

whether these are in the trading book or the banking book). However, Treasury bills and short-term commercial papers may be reported under "Short-Term Instruments."

b. Due from BSP

Answer. Due from BSP balances shall be reported under "Other" Assets.

c. Due from Head Office

Answer. Items under the Due from Head Office account shall be reported under "Other" Assets, apart from lending to the head office and other branches with tenors of one year or less, which shall be reported under "Short-Term Instruments."

d. Due to Head Office

Answer. Items under the Due to Head Office account shall be reported under "Other" Liabilities, apart from borrowings from the head office and other branches, which shall be reported under "Bills Payable."

e. Interbank borrowings

Answer. Borrowings from other banks shall be reported under "Bills Payable."

f. FX spot transactions

Answer. Spot transactions that are components of derivatives (e.g., the spot leg of a swap) shall be reported under "OTC Derivatives – Others." Simple FX spot transactions that are not components of derivatives need not be reported, with the view that these are not referenced to LIBOR, PHIREF or any other interest rate benchmark.

13. **Question.** Is the reporting of deposits limited to time deposit accounts?

Answer. All interest-bearing deposit accounts, including current and savings accounts, shall be covered in the report.

14. **Question.** In which tenor bucket shall deposits without stated maturity be reported?

Answer. Non-maturity accounts referencing LIBOR/PHIREF shall generally be reported in the earliest tenor bucket.