

424 SECURITY DEPOSIT FOR THE FAITHFUL PERFORMANCE OF INVESTMENT MANAGEMENT ACTIVITIES

Basic security deposit. Bangko Sentral-supervised financial institutions (BSFIs) authorized to engage in investment management activities shall deposit with the Bangko Sentral eligible government securities, pursuant to Sec. 417 (*Eligible securities*), as security for the faithful performance of its investment management activities equivalent to at least one percent (1%) of the book value of the total investment management assets: *Provided*, That at no time shall such deposit be less than P500 Thousand.

Scripless securities under the RoSS system of the BTr may be used as basic security deposit for the faithful performance of investment management activities using the guidelines enumerated in *Appendix 29*.

Eligible securities. The provisions of Sec. 417 (*Eligible securities*) shall govern the basic security deposit requirement for faithful performance of investment management activities.

Valuation of securities and basis of computation of the basic security deposit requirement.

For purposes of determining compliance with the basic security deposit under this Section:

a. Prior to 31 March 2018:

- (1) The amount of securities so deposited shall be based on their book value, that is, cost as increased or decreased by the corresponding discount or premium amortization.
- (2) The base amount for the basic security deposit shall be the average of the month-end balances of the total assets of the investment management funds of the immediately preceding calendar quarter.

Effective 31 March 2018, the provisions under Items "a.(1)" and "a.(2)" shall no longer apply.

b. The following provisions on the valuation of eligible assets and computation of the basic security deposit requirement shall be adopted starting 31 March 2018:

- (1) Government securities deposited with the Bangko Sentral shall be measured at fair value according to the marking-to-market guidelines for government securities under *Appendix 28*, subject to applicable haircuts.

The haircuts that shall be applied to the government securities shall be as follows:

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Residual Maturity of Government Security	Minimum Haircut (in percent) for Basic Security Deposit
3 years and below	0.0
>3 years up to 5 years	2.0
>5 years	4.0

(2) The base amount for the basic security deposit shall be the total investment management assets reported as of the end of the calendar quarter.

Compliance period; sanctions. The investment manager shall have thirty (30) calendar days after the end of every calendar quarter or a thirty (30)-calendar day grace period within which to deposit with the Bangko Sentral, the securities required under this Section.

Effective 31 March 2018, the investment manager shall also comply with the basic security deposit requirement in the following manner:

a. *Quarterly compliance.* The investment manager shall comply with the basic security deposit requirement on a quarterly basis. In determining quarterly compliance, the fair value of government securities used as compliance with the basic security deposit requirement shall be reckoned as of the end of the calendar quarter and the base amount for the basic security deposit requirement provided under this Section (*Valuation of securities and basis of computation of the basic security deposit requirement*) shall be applied.

Haircuts for government securities prescribed under this Section (*Valuation of securities and basis of computation of the basic security deposit requirement*) shall be applied on the fair value of the government securities used as compliance with the basic security deposit.

The investment manager shall have a thirty (30)-calendar day grace period after the end of every quarter within which to deposit with the Bangko Sentral, securities pursuant to existing regulations to comply with the basic security deposit requirement as of the preceding quarter-end.

b. *Compliance upon withdrawal, replacement or redemption.* The investment manager shall ensure that it will continue to comply with the basic security deposit requirement after every withdrawal, replacement or redemption of government securities within the quarter period. In determining compliance, the basic security deposit requirement shall be the amount computed as of the quarter-end preceding the date of withdrawal, replacement or redemption under this Section (*Valuation of securities and basis of computation of the basic security deposit requirement*). The fair value of the remaining government securities, adjusted for relevant haircuts, shall also be

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based on amounts reported as of the quarter-end preceding the date of withdrawal, replacement or redemption, pursuant to this Section (*Valuation of securities and basis of computation of the basic security deposit requirement*).

Banks shall develop and maintain systems to ensure compliance with the required basic security deposit as prescribed under existing regulations.

The following sanctions shall be imposed for any deficiency in the basic security deposit for the faithful performance of investment management activity:

a. On the bank:

(1) Monetary penalty/ies:

	Offense/Trust Asset Size		First	Second	Third and subsequent offense
Penalty per calendar day	TBs/RBs with Limited Trust Authority		P300.00	P400.00	P500.00
	UBs/KBs/TBs with Full Trust Authority and with Trust Assets of	Up to P500 million	P600.00	P700.00	P800.00
		Above P500 million but not exceeding P1 billion	P1,000.00	P1,250.00	P1,500.00
		Above P1 billion but not exceeding P10 billion	P2,000.00	P3,000.00	P4,000.00
		Above P10 billion but not exceeding P50 billion	P5,000.00	P6,000.00	P7,000.00
		Above P50 billion	P8,000.00	P9,000.00	P10,000.00

An investment manager which incurs a deficiency with the basic security deposit within the quarter, or reports a deficiency with the basic security deposit as of the end of the quarter and fails to deposit securities to comply with the said requirement within the thirty (30)-calendar day grace period, shall be considered deficient with the basic security deposit requirement from the date the deficiency is incurred up to the date the deficiency is corrected or the succeeding quarter-end, whichever comes earlier.

(2) Non-monetary penalty beginning with the third offense (all banks) - Prohibition against the acceptance of new IMAs and from renewing expiring investment management contracts up to the time the violation is corrected.

b. On the Head of the Investment Management Department and/or other officers responsible for the deficiency/ non-compliance:

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- (1) *First offense* - warning that subsequent violations shall be dealt with more severely;
- (2) *Second offense* - written reprimand with a stern warning that subsequent violations shall be subject to suspension;
- (3) *Third offense* - thirty (30) calendar day-suspension without pay; and
- (4) *Subsequent offense(s)* - sixty (60) calendar day-suspension without pay.

For purposes of determining the frequency of the violation, the bank's compliance profile for the immediately preceding three (3) years or twelve (12) quarters will be reviewed: *Provided*, That for purposes of determining appropriate penalty on the head of the Investment Management Department and/or other responsible officer(s), any offense committed outside the preceding three (3) year or twelve (12) quarter - period shall be considered as the first offense: *Provided, further*, That in the case of the head of the Investment Management Department, all offenses committed by him in the past as the head of the Investment Management Department of other institution(s) shall also be considered: *Provided, finally*, That if the offense cannot be attributed to any other officer of the bank, the head of the Investment Management Department shall be automatically held responsible since the ultimate responsibility for ensuring compliance with the regulation rests upon him, as evidence may warrant.

(Circular No. 998 dated 01 March 2018)