

## 601 MONETARY OPERATIONS

Monetary operations refer to the buying/selling of government securities, lending/borrowing against underlying assets as collateral, acceptance of fixed-term deposits, foreign exchange swaps, and other monetary instruments of the Bangko Sentral aimed at influencing the underlying demand and supply conditions for money.

The following rules and regulations shall govern the buying and selling of government securities in the open market, pursuant to Section 91 of R.A. No. 7653:

a. The Bangko Sentral may buy and sell in the open market for its own account:

- (1) Evidences of indebtedness issued directly by the Government of the Philippines or its political subdivisions; and
- (2) Evidences of indebtedness issued by government instrumentalities and fully guaranteed by the Government.

The above evidences of indebtedness must be freely negotiable and regularly serviced. Purchases and sales in the open market shall be made through banks, QBs and accredited government securities dealers.

b. Outright purchases and sales of government securities shall be effected at prevailing market prices.

c. Repo agreements shall be open to banks (except RBs), QBs, and accredited government securities dealers and shall be made under the terms provided for under this Section on Repurchase agreements with Bangko Sentral and the following:

- (1) The repo agreement may be paid at any time before maturity, subject to mutual agreement of both parties;
- (2) In the event the securities covered by the repo agreement are not repurchased by the issuer of such agreement, the same may be sold in the open market or transferred to the Bangko Sentral portfolio; and
- (3) Should an issuer of a repo agreement become no longer qualified as such, its outstanding repo agreement shall immediately become due and payable. If settlement of the amount due is not made within three (3) days from the date of its disqualification, the Bangko Sentral shall proceed to collect said amount in accordance with the preceding paragraph.

- d. Reverse repo agreements covering the sale of portion of the security holdings of the Bangko Sentral portfolio may be made under the terms provided for under this Section on Reverse repurchase agreements with Bangko Sentral.
- e. The purchase and sale of government securities by the National Treasury and government-owned or -controlled corporations shall be made only with (a) the Bangko Sentral; (b) the DBP, the LBP, the SSS, the GSIS, the Al-Amanah Islamic Investment Bank of the Philippines and banks that are wholly-owned or -controlled by these institutions; and (c) the Philippine Veterans Bank. Transactions shall be done with the bank proper and not through its trust department.

***Repurchase agreements with Bangko Sentral.***

- a. Repo agreements may be entered into with the Bangko Sentral, subject to the following terms and conditions:
  - (1) *Rate.* The rates on repo transactions shall be determined by auction, based on guidelines as prescribed by the Bangko Sentral.
  - (2) *Term.* The tenor of the repo agreement shall be set by the Bangko Sentral.
  - (3) *Security.* Only direct obligations of the National Government and its instrumentalities and political subdivisions, which are fully guaranteed by the Government, with a remaining maturity of at least six (6) days and longer than the tenor of the Repo Agreement and which are freely negotiable, unencumbered, and regularly serviced, shall be eligible as underlying instruments for repo agreements, subject to the collateral requirement prescribed by the Bangko Sentral.
  - (4) *Delivery.* Delivery of the underlying instruments shall be made to the Bangko Sentral at the prescribed time based on guidelines issued by the Bangko Sentral.
  - (5) At the maturity of the repo agreement, the Bangko Sentral Financial Market Operations Sub-sector shall return the underlying instruments to the issuer of such agreement.
- b. US dollar (USD) denominated repo agreement facility may likewise be entered into with the Bangko Sentral, subject to the following terms and conditions, and as may be provided under the repo agreement facility:
  - (1) *Eligible borrowers.* The USD-denominated repo facility shall only be available to banks with

legitimate foreign currency denominated funding needs as may be provided under the repo facility: *Provided*, That the borrowing shall be for the account of the applicant bank and shall not be used to fund liquidity requirements of foreign branches, affiliates, or subsidiaries.

- (2) *Security*. Only USD-denominated obligations of the National Government of the Republic of the Philippines shall be eligible as collateral.
- (3) The guidelines on the availment of USD repo agreement with the Bangko Sentral are shown in *Appendix 89*.

The Monetary Board may, at its discretion, impose any or all of the following sanctions to a bank and/or its director/s or officer/s found to be responsible for violation of the provisions on the terms and conditions of the USD-denominated repo agreement with the Bangko Sentral:

- (1) Termination of eligibility and pre-termination of any outstanding balance through repayment and/or sale of the collateral;
- (2) Fine of up to P30,000 per transaction per day of violation reckoned from the time the violation was committed up to the date it is corrected;
- (3) Suspension of interbank clearing privileges/immediate exclusion from clearing;
- (4) Suspension of access to Bangko Sentral rediscounting facilities;
- (5) Suspension of lending or foreign exchange operations or authority to accept new deposits or make new investments;
- (6) Revocation of authority to perform trust operations;
- (7) Revocation of quasi-banking license;
- (8) Suspension for 120 days without pay of the officers and/or directors responsible for the violation; and
- (9) Other sanctions as may be provided by law.

**Reverse repurchase agreements with the Bangko Sentral.** *Reverse Repurchase Agreement (RRP)* refers to the Bangko Sentral's monetary instrument where the Bangko Sentral sells government securities with a commitment to buy them back at a later date. RRP's shall be open to banks (UBs/KBs and TBs) and NBQBs. These counterparties may enter into RRP transactions with the Bangko Sentral by participating in the RRP auction operation and said transactions with the Bangko Sentral shall be subject to the following terms and conditions:

- a. *Rate*. The interest rate on the RRP facility shall be set by the Bangko Sentral in accordance with its monetary policy decision making.
- b. *Term*. Tenors shall be set at a minimum of one (1) day (overnight) and a maximum of 364 days,

or as determined by the Bangko Sentral.

- c. *Auction schedule.* RRP auctions will be held regularly based on a schedule prescribed by the Bangko Sentral.
- d. *Volume.* The auction size will be determined by the Bangko Sentral based on its assessment of liquidity conditions.
- e. *Eligible security.* The underlying securities shall consist of securities representing obligations of the National Government. Such securities shall be valued at 100%. The Bangko Sentral shall prescribe the rules for the constructive delivery of securities.
- f. Access to the RRP facility shall be governed by guidelines issued by the Bangko Sentral.

RRPs entered into by the Bangko Sentral with any AAB are included in the definition of the term “deposit substitutes” under Sec. 22 (y) Chapter 1 of the National Internal Revenue Code of 1997.

The Bangko Sentral shall withhold twenty percent (20%) Final Withholding Tax (FWT) and five percent (5%) Gross Receipt Tax on its RRP, under the following guidelines:

- (1) All overnight RRP with the Bangko Sentral shall be subject to the twenty percent (20%) FWT and five percent (5%) Gross Receipts Tax (GRT) in the same manner as term RRP, which tax is deducted on each maturity date and remitted to the BIR. These taxes shall be automatically withheld; and
- (2) Concerned banks shall issue the corresponding debit authority to the Bangko Sentral to cover the twenty percent (20%) FWT on their RRP with the Bangko Sentral.

**Settlement procedures on the purchase and sale of government securities under repurchase agreements with the Bangko Sentral.** Purchase and sale of government securities under repo agreements (GS/repo agreements) between and among banks and QBs and Bangko Sentral in connection with the latter’s open market operations shall be settled in accordance with the provisions of the agreement for the PhilPaSS executed on 12 December 2002 between the Bangko Sentral and BAP/CTB/RBAP and any subsequent amendments thereto.

**Borrowings from the Overnight Lending Facility (OLF) of the Bangko Sentral.** The OLF is a Bangko Sentral standing facility which allows counterparties to obtain overnight liquidity from the Bangko Sentral on an open-volume basis against eligible collateral in order to cover short-term liquidity

requirements. The OLF shall be open to banks (UBs/KBs and TBs) and NBQBs.

Counterparties may avail of borrowings from the Bangko Sentral's OLF subject to the following terms and conditions:

- a. *Rate.* The interest rate on borrowings from the OLF shall be set by the Bangko Sentral in relation to the policy interest rate.
- b. *Term.* Tenor shall be for one (1) day only.
- c. *Volume.* Open volume, limited only by the eligible collateral offered by the availing counterparties.
- d. *Eligible collateral.* Only direct obligations of the National Government or of its instrumentalities and political subdivisions which are fully guaranteed by the Government, with a remaining maturity of not less than six (6) days and which are freely negotiable and are unencumbered, shall be eligible as collateral. The Bangko Sentral shall prescribe rules for the delivery of collateral.
- e. *Operating hours.* The OLF is available on demand to eligible counterparties during trading hours as prescribed by the Bangko Sentral.

**Overnight deposits with Bangko Sentral.**<sup>1</sup> The Overnight Deposit Facility (ODF) is a Bangko Sentral standing facility which allows banks (UBs/KBs and TBs), and NBQBs to place overnight deposits with the Bangko Sentral, subject to the following terms and conditions:

- a. *Rate.* The interest rate on the overnight deposit facility shall be set by the Bangko Sentral in relation to the policy interest rate.
- b. *Term.* Tenor shall be one (1) day only.
- c. *Volume.* No limit.
- d. *Operating hours.* The ODF is available on demand to eligible counterparties during trading hours as prescribed by the Bangko Sentral.
- e. Access to the ODF shall be governed by guidelines issued by the Bangko Sentral.

The Bangko Sentral shall withhold the twenty percent (20%) FWT and the five percent (5%) GRT on its overnight deposit transactions, under the following guidelines:

- (1) All overnight deposit transactions with the Bangko Sentral shall be subject to the twenty percent (20%) FWT and the five percent (5%) GRT which tax is deducted on each maturity

date and remitted to the BIR; and

- (2) The Bangko Sentral Financial Market Operations Sub-sector shall automatically withhold the twenty percent (20%) FWT and the five percent (5%) GRT on the overnight deposit of eligible counterparties with the Bangko Sentral.

**The Bangko Sentral Term Deposit Facility (TDF)** <sup>2</sup>. The TDF is a key liquidity absorption facility of the Bangko Sentral used to withdraw liquidity from the system in bulk <sup>3</sup> Term deposit transactions shall be open to banks (UBs/KBs and TBs), and NBQBs and may be effected with the Bangko Sentral subject to the following terms and conditions:

- a. *Rate*. The interest rates shall be determined by auction, based on guidelines as prescribed by the Bangko Sentral.
- b. *Term*. The tenor of term deposits shall be set by the Bangko Sentral.
- c. *Auction Schedule*. TDF auctions will be held on a weekly basis or as determined by the Bangko Sentral.
- d. *Volume*. The auction size will be determined by the Bangko Sentral and announced with an appropriate lead time ahead of the auction date.
- e. Placements in the TDF shall be governed by guidelines issued by the Financial Market Operations Sub-sector of the Bangko Sentral.

The Bangko Sentral shall withhold the twenty percent (20%) FWT and the five percent (5%) GRT on its term deposit transactions, under the following guidelines:

- (1) All term deposit transactions with the Bangko Sentral shall be subject to the twenty percent (20%) FWT and the five percent (5%) GRT which tax is deducted on each maturity date and remitted to the BIR; and
- (2) The Bangko Sentral Financial Market Operations Sub-sector shall automatically withhold the twenty percent (20%) FWT and the five percent (5%) GRT on the term deposit of eligible counterparties with the Bangko Sentral.

**Bangko Sentral trading windows and services during public sector holidays**. The guidelines on Bangko Sentral's trading windows and services during public sector holidays are shown in *Appendix 88*.

**Prohibition against funds from non-residents from being accepted in the TDF and ODF**. The TDF and ODF are monetary instruments deployed by the Bangko Sentral for the purpose of managing domestic liquidity in the financial system. These facilities should not be made available for opportunistic investment activities funded from non-resident sources. In the case of funds inwardly

remitted by a foreign bank intended as capital of its branch or subsidiary in the Philippines, the same funds shall be eligible to be accepted in the TDF and the ODF of the Bangko Sentral. Further, placements in the TDF and the ODF are contractual in nature and thus shall be governed by the intent of the contracting parties. In keeping with the nature of these facilities, counterparties of the Bangko Sentral, shall comply with the Guidelines on the Prohibition Against the Use of Funds from Non-Resident Sources for Placements in the Bangko Sentral's TDF and the ODF shown in *Appendix 82*.

*(Circular No. 995 dated 5 February 2018, 961 dated 02 June 2017, M-2016-016 dated 18 November 2016 , Circular Nos. 921 dated 22 August 2016, and 913 dated 02 June 2016)*

#### Footnotes

1. The Monetary Board, in its Resolution No. 1945 dated 27 October 2016 approved the discontinuance of access of trust entities to the Bangko Sentral deposit facilities. Trust entities shall no longer have outstanding placement in the ODF and TDF by 30 June 2017.
2. The Monetary Board, in its Resolution No. 1945 dated 27 October 2016 approved the discontinuance of access of trust entities to the Bangko Sentral deposit facilities. Trust entities shall no longer have outstanding placement in the ODF and TDF by 30 June 2017.
3. The TDF also refers to the Term Deposit Auction Facility in Participation Agreements and Rules and Regulation pertaining to the Bangko Sentral facilities under the Monetary Operations System.