

625-A BANK'S EXPOSURES TO STRUCTURED PRODUCTS

The following rules and regulations shall govern the capital treatment of banks' exposures to structured products.

Statement of policy. The Bangko Sentral aims to foster the development of a market for new financial products in the country, while at the same time ensure that banks hold sufficient capital commensurate to the risks inherent in these products.

Definition. A *structured product* refers to a financial instrument where the return is a function of one (1) or more underlying indices, such as interest rates, equities and exchange rates. There may also be embedded derivatives such as swaps, forwards, options, caps, and floors that reshape the risk-return pattern. For purposes of this Section, structured products do not include asset-backed securities, credit-linked notes and other similar instruments.

Qualified banks. As a general rule, only UBs and KBs with expanded derivatives license may obtain exposures in structured products. Banks without expanded derivatives license may only invest in structured products duly approved by the Bangko Sentral.

Capital treatment of banks' exposures to structured products.

a. *Banking book*

(1) Risk weights. Capital charge for structured products held in the banking book shall depend on the rating of the issuing entity, or rating of the collateral in case of structured products issued by special purpose vehicles (SPVs), given by the following Bangko Sentral-recognized international credit rating agencies:

- (a) Moody's;
- (b) Standard & Poor's;
- (c) Fitch Ratings; and
- (d) Such other international rating agencies as may be approved by the Monetary Board.

In cases where there are two (2) or more types of collateral, capital charge shall depend on the lowest rated collateral.

The mapping of ratings to the corresponding risk weights shall be as follows:

Risk Weight	Moody's	Standard & Poor's	Fitch Ratings
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50%	Aaa to Aa3	AAA to AA-	AAA to AA-
100%	A1 to A3	A+ to A-	A+ to A-
150%	Baa1 to Baa3	BBB+ to BBB-	BBB+ to BBB-
Deduction from total of Tier 1 and Tier 2 Capital	Below Baa3	Below BBB-	Below BBB-
	Unrated		

(2) *Use of ratings.* If an issuer of a structured product has only one (1) rating by any of the Bangko Sentral-recognized international rating agencies, that rating shall be used to determine the risk weight of the product; in cases where there are two (2) or more ratings which map into different risk weights, the higher of the lowest two (2) risk weights should be used.

b. *Trading book.* Capital charge for structured products held in the trading book shall be determined in accordance with *Appendix 42*.

Bangko Sentral approval not required. No prior Bangko Sentral approval is required to enter into authorized transactions. However, it shall be the responsibility of UBs/KBs to fully comply with appropriate risk management standards including, as a minimum, those prescribed under this Section. The regulatory requirements enumerated in *Appendix 64* shall be fully complied with by UBs/KBs investing in products allowed under this Section.