

627-A INVESTMENTS IN SECURITIES OVERLYING SECURITIZATION STRUCTURES

The following rules shall govern banks' investments in securities overlying securitization structures.

Policy statement. The Bangko Sentral aims to foster the development of a market for new financial products in the country and provide banks with expanded opportunities for investment diversification, while at the same time ensure that they hold sufficient capital commensurate to the risks inherent in these products.

Definition. *Securitization structures* refer to:

- a. structures where the cash flow from an underlying pool of exposures is used to service at least two (2) different stratified risk positions or tranches reflecting different degrees of credit risk (also known as traditional securitization); or
- b. structures with at least two (2) different stratified risk positions or tranches that reflect different degrees of credit risk, where credit risk of an underlying pool of exposures is transferred, in whole or in part, through the use of credit derivatives or guarantees that serve to hedge the credit risk of the portfolio (also known as synthetic securitization).

Qualified banks. UBs/KBs with expanded derivatives authority may invest in securities overlying any tranches of securitization structures. UBs/KBs without expanded derivatives authority may also invest but only in securities overlying tranches of securitization structures that are rated at least "A", or its equivalent, by a BSP- recognized credit rating agency.

Capital treatment of investments in securities overlying securitization structures.

a. Credit risk

(1) *Risk weights.* Capital charge for investments in securitization structures held in the banking book shall be based on the latest rating given by any of the following BSP-recognized credit rating agencies:

(a) International rating agencies:

- (i) Moody's;
- (ii) Standard & Poor's;
- (iii) Fitch IBCA; and
- (iv) Other international rating agencies as may be approved by the Monetary Board

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(b) Domestic rating agencies:

- (i) PhilRatings; and
- (ii) Other domestic rating agencies as may be approved by the Monetary Board. The assignment of risk weights corresponding to agency ratings shall be as follows:

Risk Weight	Moody's	Standard & Poor's	Fitch IBCA	PhilRatings
20%	Aaa to Aa3	AAA to AA-	AAA to AA-	Aaa to Aa
50%	A1 to A3	A+ to A-	A+ to A-	A
100%	Baa1+ to Baa3	BBB+ to BBB-	BBB+ to BBB-	Baa
Deduction from total of Tier 1 and Tier 2 Capital	Below Baa3	Below BBB-	Below BBB-	Below Baa
	Unrated			

(2) *Use of ratings.* Ratings of BSP recognized credit rating agencies shall be used as follows:

(a) Securities overlying securitization structures created within the Philippines may be rated by any BSP-recognized international or domestic credit rating agency, while securities overlying securitization structures created outside of the Philippines may only be rated by any of the international credit rating agencies that are recognized by the BSP; and

(b) In cases when overlying securities have split ratings which map into different risk weights, the higher risk weight should be used.

b. Market risk. Capital charge for securities overlying securitization structures held in the trading book shall be determined in accordance with *Appendix 42* and the use of agency ratings for such purpose shall be consistent with the above principles.

Bangko Sentral approval not required. No prior BSP approval is required to invest in securities overlying securitization structures. 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.