629 THE CURRENCY RATE RISK PROTECTION PROGRAM (CRPP) FACILITY

The CRPP Facility is a non-deliverable USD/PHP forward contract (NDF) between the Bangko Sentral and a UB/KB (the "Bank") in response to the request of bank clients desiring to hedge their eligible foreign currency obligations. Transactions under the CRPP facility are considered part of banks' Generally Authorized Derivatives Activities (GADA).

Banks' exposures arising from NDF transactions under the CRPP facility shall not be included in the computation of total gross NDF exposures for the purpose of determining compliance with the limit prescribed in *Appendix 104*. In addition, the market risk capital charge for the net open position for NDFs under this facility shall be calculated by applying the standard 125 percent multiplication factor instead of the 187.5 percent factor prescribed for other NDFs under *Appendix 42*.

Under the CRPP Facility, only the net difference between the contracted forward rate and the prevailing spot rate shall be settled in pesos at maturity of the contract. Should the eligible obligation be denominated in a foreign currency other than the US dollar, the CRPP contract shall be denominated in the US dollar equivalent using the exchange rate indicated in the Bangko Sentral Reference Exchange Rate Bulletin on deal date.

Coverage. Eligible obligations under the CRPP Facility shall refer to unhedged foreign currency obligations in amounts of not less than US$50,000.00 which are current and outstanding as of date of application. Past due foreign currency obligations are not eligible. The maximum tenor of the CRPP contracts is ninety (90) days.

For this purpose, *unhedged obligations* shall refer to those without outstanding hedge either through forward contracts, options or matched foreign currency assets.

Partially hedged foreign exchange obligations shall be evaluated on a case-to-case basis.

The following are considered eligible foreign exchange obligations:

a. BSP-reported short-term (ST) trade-related loans from banks operating in the Philippines [Foreign Currency Deposit Unit/Expanded Foreign Currency Deposit Unit (FCDU/EFCDU) and Regular Banking Unit (RBU)];

b. BSP-reported medium/long-term trade-related FCDU/RBU loans with payments maturing within ninety (90) days as of date of application;

c. BSP-reported/registered ST trade-related borrowings of oil companies from offshore banking units

(OBUs) and offshore banks/sources;

d. US dollar trust receipts;

e. Foreign currency import bill/customers' liabilities under acceptances; and

f. Documents against acceptance (DA)/open account (OA) import obligations duly reported by an AAB to Bangko Sentral under Schedule 10 – Import Letters of Credit (L/Cs) and DA-OA Import Availments and Extensions of FX Form 1.

Implementing Guidelines. The implementing guidelines covering the mechanics, documentary requirements and detailed procedural rules of the Facility are provided in *Appendix 135*.

Supervisory enforcement actions. The Bangko Sentral reserves the right to deploy its range of supervisory tools to promote adherence to the requirements set forth in the guidelines under this Section and bring about timely corrective actions and compliance with the Bangko Sentral directives.

In the performance by the Bangko Sentral of the post-verification of the CRPP contracts through on-site examination or off-site verification to ascertain the eligibility of the underlying foreign currency obligation with the CRPP Facility, the following enforcement actions and procedures shall be employed:

a. Pre-termination Requested by the Bank

(1) Should the post-verification by Bangko Sentral of pre-termination by the Bank show no proof of actual payment of the foreign exchange (FX) obligation, or the manner of payment was through the renewal of the loan under a new promissory note or by another form of FX obligation, the Bangko Sentral shall debit the Bank's regular demand deposit account with the Bangko Sentral for the amount received by the Bank from Bangko Sentral as a result of the pre-termination of the CRPP contract, if any, plus interest calculated using Bangko Sentral's overnight lending rate from the date the amount was received from the Bangko Sentral to the date the amount is returned to the Bangko Sentraal.

In addition, the Bank shall be liable to pay a monetary penalty of ₱30,000.00 per calendar day covering the period from the date of pre-termination up to the date the Bangko Sentral completed its post-verification of pre-termination or maturity of the contract, whichever comes earlier.

(2) Should the post-verification by Bangko Sentral show that the underlying FX obligation of a CRPP contract pre-terminated by the Bank is ineligible, the Bangko Sentral shall debit the

Bank's regular demand deposit account with the Bangko Sentral for the amount received by the Bank from Bangko Sentral as a result of the pre-termination of the CRPP contract, if any, plus interest calculated using Bangko Sentral's overnight lending rate from the date the amount was received from the Bangko Sentral to the date the amount is returned to the Bangko Sentral.

A monetary penalty of ₱30,000.00 per calendar day shall be imposed from contract date up to pre-termination date.

b. Pre-termination by the Bangko Sentral

(1) The Bangko Sentral shall pre-terminate existing CRPP contracts when the underlying FX obligation is found ineligible during post-verification by the Bangko Sentral. A monetary penalty of ₱30,000.00 per calendar day shall be imposed on the Bank from the contract date up to pre-termination date.

(2) The Bangko Sentral shall also pre-terminate CRPP contracts when the underlying FX obligation is paid before the maturity of the CRPP contract and the client failed to request for pre-termination. A monetary penalty of ₱30,000.00 per calendar day shall be imposed from the date of payment of the underlying FX obligation up to pre-termination date.

c. Post-verification of Matured Contracts

Should the post-verification of matured contracts show proof that the supporting FX obligation is fictitious or ineligible under the CRPP Facility, a monetary penalty of P30,000.00 per calendar day shall be imposed on the Bank for the whole duration of the contract. In addition, the Bangko Sentral shall debit the Bank's regular demand deposit account with the Bangko Sentral for any gains received by the Bank from the Bangko Sentral, if any, plus interest calculated using Bangko Sentral's overnight lending rate from the date the contract matured to the date the amount is returned to the Bangko Sentral.

d. Other Sanctions

In addition to the foregoing prescribed penalties, and subject to the confirmation by the Monetary Board, any violation of the provisions of this Section, including willful delay in the submission, non-submission and/or willful making of a false or misleading statement in the notarized certification required to be submitted to the Bangko Sentral under Sections A.3 and F.4 of *Appendix 135*, shall constitute grounds for the imposition on the Bank of the following:

(1) First Offense – Reprimand for the director/officers responsible for the violation with a warning that subsequent violations will be subject to more severe sanctions.
(2) Subsequent Offense – The Bank will be subject to any or all of the following, as may be recommended by the appropriate sector of the Bangko Sentral to the Monetary Board:

(a) Restriction or prohibition on the bank from requesting new authority and/or licenses within one year period reckoned from the date of offense; and

(b) Restriction or prohibition on the bank from declaring dividends for one year period reckoned from the date of offense; and

(c) Issuance of an order requiring the bank to cease and desist from performing and continuing to perform the acts, practices or transactions which is in violation of banking laws, rules and regulations, as well as an order directing the Bank to immediately stop the violation and take action to correct the conditions resulting from such act, practice or transaction.

(Circular Nos. 1015 dated 5 October 2018 and 1014 dated 24 September 2018)