

GUIDELINES IN DETERMINING COMPLIANCE WITH CEILINGS ON EQUITY INVESTMENTS

(Appendix to Secs. 373, 374, 375, 376-A and 378)

The following are the guidelines in determining compliance with ceilings on equity investments prescribed under Sections 373, 374, 375, 376-A and 378, in view of the adoption of the PFRS/PAS:

- a. Components of equity investment. Equity securities booked under the Designated at Fair Value Through Profit or Loss (DFVPL), Available-For-Sale, Investment in Non-Marketable Equity Securities (INMES) and Equity Investments in Subsidiaries/Associates/Joint Ventures categories shall all be considered in computing for compliance with the ceilings on equity investments prescribed under Secs. 378 and 374: *Provided*, That Underwritten equity securities booked under the Available-For-Sale category shall be excluded from total equity investments for a period of ninety (90) calendar days from the date of issuance thereof: *Provided, further*, That upon prescription of the 90- calendar day period, such equity securities shall be booked according to intention and shall then be included in the computation of compliance with the prescribed ceilings.

For this purpose, the following financial instruments shall likewise be included in the computation of compliance with the prescribed ceilings:

- (1) Equity securities including those accounted for as debt instruments booked under the Held for Trading (HFT) category, which remain unsold for more than one (1) year.
 - (2) Mandatorily redeemable preferred shares and preferred shares of similar nature that are accounted for as debt instruments, which may also be booked under the HTM or Unquoted Debt Securities Classified as Loans (UDSCL) categories.
 - (3) Investments in Hybrid Tier 1 securities that are issued in the form of perpetual preferred shares.
- b. Shares of stock acquired in settlement of loans. Shares of stock of another corporation acquired in settlement of loans shall be excluded from total equity investments for purposes of determining compliance with the prescribed ceilings on equity investments under Secs. 373, 374, 375, 376-A and 378: *Provided*, That confirmation of the Monetary Board shall be required in the following cases within thirty (30) days from the date of acquisition thereof:
- (1) Acquisition of shares of stock of non-allied enterprises by banks without universal banking authority, otherwise prohibited in Sec. 376-A;

- (2) Acquisition of shares of stock of non-allied enterprises other than those specified under Sec. 376-A by banks with universal banking authority, otherwise requiring prior Monetary Board approval;
- (3) Acquisition of shares of stock of non-allied enterprises by UBs in excess of limits provided in Sec. 376-A;
- (4) Acquisition of shares of stock of venture capital corporation in excess of limits provided in Sec. 374;
- (5) Acquisition of shares of stock of financial allied enterprises by banks, in excess of limits provided in Sec. 373;
- (6) Acquisition of shares of stock of non-financial allied enterprises by TBs and RBs in excess of limit provided in Sec. 375; and
- (7) Acquisition of shares of stock in excess of limits provided in Sec. 378;

Provided, further, That said confirmation shall be subject, among others, to the condition that such shares of stock shall be disposed of within a reasonable period not to exceed five (5) years from the date of acquisition thereof.

- c. Basis of computation. Compliance with the prescribed ceilings on equity investments shall be determined at each time additional equity securities are acquired or shall be considered in the computation as in the case of prescription of the two (2) year period for underwritten equity securities or in the case of equity securities booked under the HFT category, which remain unsold for more than one (1) year. Further, this shall be computed using the carrying amount of the equity securities, which shall be the fair value (marked-to-market amount) for those investments booked under HFT, DFVPL and Available- For-Sale, amortized cost for those investments booked under HTM and UDSCL or the cost and adjusted cost for those booked under INMES and Equity Investment in Subsidiaries/Associates/Joint Ventures, respectively, net of Allowance for Credit Losses where applicable.

For this purpose, adjusted cost shall refer to the acquisition cost of Investments in Subsidiaries/Associates/Joint Ventures adjusted for the investor's share of the profit or loss of investee after the date of acquisition and other adjustments to the carrying amount of the investment.

- d. Transitory Provisions. Banks with acquired shares of stock in settlement of loans that fall under any of the following cases, which have not been previously confirmed by the Monetary Board, shall seek confirmation by the Monetary Board of such acquisition not later than ninety (90) banking days from 05 October 2007.

- (1) Those without universal banking authority with acquired shares of stocks of non-allied

- enterprises in settlement of loans prohibited in Sec. 376-A;
- (2) Those with universal banking authority with acquired shares of stock non- allied enterprises in settlement of loans other than those specified under Sec. 376-A;
 - (3) Those with universal banking authority with acquired shares of stock of non-allied enterprises in settlement of loans that are in excess of limits prescribed in Sec. 376-A;
 - (4) Those with acquired shares of stock of financial allied enterprises in settlement of loans that are in excess of limits provided in Sec. 373; and
 - (5) TBs and RBs with acquired shares of stock of non-financial allied enterprises in settlement of loans that are in excess of limit provided in Sec. 375.

Provided, That said confirmation shall be subject, among others, to the condition that such shares of stock shall be disposed of within a reasonable period not to exceed five (5) years from 05 October 2007.