BANGKO SENTRAL NG PILIPINAS

OFFICE OF THE DEPUTY GOVERNOR
FINANCIAL SUPERVISION SECTOR

MEMORANDUM NO. M-2020-039

To	:	**All Universal and Commercial Banks and their Subsidiary Banks and Quasi-Banks**
Subject	:	**Utilization of Basel III Capital and Liquidity Buffers**

Universal and commercial banks (U/KBs), and their subsidiary banks and quasi-banks (QBs), are required to maintain regulatory capital and liquidity buffers under the Basel III risk-based capital adequacy and liquidity framework. These buffers are meant to be used to absorb shocks during periods of stress.

Owing to the BSP's adoption of the Basel III risk-based capital and liquidity standards, covered banks/QBs are largely seen to have entered the Corona Virus Disease (COVID-19) situation in the country with strong capital buffers and ample liquidity position to absorb potential shocks.

In this connection, a covered bank/QB which has built up its capital conservation buffer[1] and Liquidity Coverage Ratio (LCR)[2] buffer is allowed to utilize the same during this state of health emergency.

The use of the buffers is in line with the objective of the BSP's prudential framework; thus, the BSP encourages a covered bank/QB to act along this principle for purposes of absorbing losses and supporting the financing requirements of the overall economy. In view of this, a covered bank/QB is expected to integrate these regulatory flexibilities into its internal policies and processes to ensure that the buffers are efficiently utilized, as necessary.

1. Capital Conservation Buffer

   A covered bank/QB which draws down its 2.5 percent minimum capital conservation buffer will not be considered in breach of the Basel III risk-based capital adequacy framework. A covered bank/QB that utilizes its capital conservation buffer is restricted from making distributions in the form of dividends, profit remittance, in the case of a foreign bank branch, share buybacks, discretionary payments on other Tier 1 capital instruments, or discretionary bonus payments to staff, consistent with the provisions of Appendix 59/Q-45 of the MORB/MORNBFI.

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[1] Section 125/125-Q and Appendix 59/Q-45 of the Manual of Regulations for Banks (MORB)/Manual of Regulations for Non-Bank Financial Institutions (MORNBFI).

[2] Section 145/145-Q and Appendix 72/Q-82 of the MORB/MORNBFI.

2. Liquidity Coverage Ratio

A covered bank/QB may draw on its stock of liquid assets to meet liquidity demands to respond to the current circumstances, even if this may cause the covered bank/QB to maintain an LCR that is below the 100 percent minimum requirement.

A covered bank/QB that has recorded a shortfall in the stock of its High-Quality Liquid Assets for three (3) banking days within any two (2) - week rolling calendar period, thereby causing the LCR to fall below the 100 percent must notify the BSP of such a breach on the banking day immediately following the occurrence of the third liquidity shortfall.

Covered banks/QBs will be given a reasonable time period to restore their Basel III capital conservation and liquidity buffers after the COVID-19 crisis.

On a related matter, non-compliance by a covered bank/QB with the minimum risk-based capital adequacy ratios and the minimum 100 percent Net Stable Funding Ratio as a result of the COVID-19 situation will be handled on a case-by-case basis by the BSP. A covered bank/QB will be provided by the BSP with enough time to address regulatory breaches taking into account a forward-looking assessment of macroeconomic and financial conditions of the system as a whole and their potential impact on the supervised institution.

For guidance.

CHUCHI G. FONACIER
Deputy Governor

04 May 2020