



Bangko Sentral ng Pilipinas

OFFICE OF THE GOVERNOR

MEMORANDUM NO. M – 2007 – 006

To : **ALL BANKS AND OTHER BSP-SUPERVISED FINANCIAL INSTITUTIONS**

Subject : **Mark-to-Market Valuation of Debt and Equity Securities – Benchmark/Reference Prices**

The Monetary Board in its Resolution No. 177 dated 8 February 2007 hereby promulgates the general guidelines on the mark-to-market valuation of debt and equity securities as required under Circular Nos. 476 and 538, dated 16 February 2005 and 04 August 2006, as amended.

General Principle

As a general rule, to the extent a credible market pricing mechanism as determined by the Bangko Sentral ng Pilipinas (BSP) exists for a given security, that market price shall be the basis of marking-to-market. However, in the absence of a market price, a calculated price shall be used as prescribed in this Memorandum.

Marking-to-Market Guidelines

To ensure consistency, the following shall be used as bases in marking-to-market debt and equity securities:

Type of Security

Market Price Basis

A. Equity Securities Listed in the Stock Exchange

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|------------------------------|--|
| 1. Traded in the Philippines | Same day closing price as quoted at the Philippine Stock Exchange. In case of halt trading/suspension or holidays, use the last available closing price. |
| 2. Traded Abroad | Latest available closing price from the exchange where the securities are traded. |

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B. Foreign Currency-Denominated Debt Securities Quoted in Major Information Systems (e.g. Bloomberg, Reuters)

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|--|--|
| 1. US Treasuries | Price as of end of day, Manila time. |
| 2. US Agency papers (e.g., Fannie Maes, Freddie Macs, Ginnie Maes, Municipal papers) | Latest available price for the day, Manila time. In the absence of a price, use average quotes of at least three regular brokers/market makers*. |
| 3. Brady Bonds | Same as B.2. |
| 4. For all US\$-denominated government and corporate securities | Same as B.2. |
| 5. Other foreign-currency securities | Same as B.2. |

C. Foreign Currency Denominated Debt Securities Traded in a Local Registered Exchange or Market

The basis for marking-to-market foreign currency-denominated debt securities traded in a local registered exchange or market shall be the same as those used in Peso-Denominated Government Securities in Section D below.

D. Peso-Denominated Government Securities

The benchmark or reference prices shall be based on the weighted average of done or executed deals in a trading market registered with the Securities and Exchange Commission (SEC). In the absence of done deals, the best firm bid per benchmark tenor shall be used in calculating the benchmark; provided that the best firm offer per benchmark tenor shall likewise be included as soon as permissible under securities laws and regulations.

The benchmark or reference rate shall be computed and published in accordance with prescribed guidelines on the computation of reference rates by a Calculation Agent which is recognized by the Bankers Association of the Philippines (BAP), provided that both the Calculation Agent and its method of computation are acceptable to the BSP.

To ensure the integrity of the benchmark or reference prices, the Calculation Agent shall perform the following:

* Based on done rates if available. If done rates are not available, use the mid-rate between bid and offer. If no mid-rates are available, use the bid rate.

1. Monitor the quality of the contributed source rates for the benchmark;
2. Monitor the data contributors and replace participants, upon consultation with the BAP, that fail to meet commitments to the benchmark;
3. Monitor the activities of the participants to ensure compliance with their commitments and for possible market manipulation and enforce sanctions on errant participants and immediately inform BAP and the BSP thereon; and
4. Review and upgrade the benchmark setting methodology upon consultation with BAP on a continuing basis, including documentation and publications thereof.

Accordingly, all data on done and firm bids/offers must be credible and verifiable and preferably sourced from trade executions and reporting systems that are part of a regulated and organized market duly licensed by the SEC where the data contributors are bound to uphold the principles of transparency, fair trading and best execution.

E. Peso-Denominated Private Debt Securities

The basis for marking-to-market peso-denominated debt securities traded in an organized market shall be the same as those used in Peso-Denominated Government Securities in Section D above.

For private debt securities which are not traded in an organized market, the marked to market value shall be based on the corresponding government security benchmark plus risk premium. The corresponding government security benchmark shall be determined according to Section D above. In determining the risk premium, the credit risk rating of the securities involved given by a BSP-recognized credit risk rating agency shall be established and taken into account whenever available. In the absence of such credit risk rating, alternative analyses may be used provided these are well-justified by sound risk analysis principles.

Other Guidelines

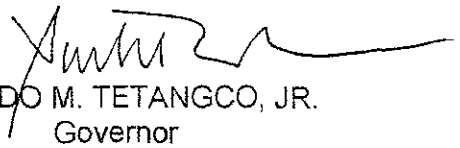
For the market valuation of securities with odd tenors, interpolated yields derived from the benchmark or reference rates in accordance with the BSP-approved guidelines for computation of reference rates in Section D above shall be used.

Penalties and Sanctions

Financial institutions and the concerned officers found to have violated the provisions of these regulations shall be subject to the penalties prescribed under Circular No. 476, as amended, provided that non-compliance with the above guidelines may be a basis for a finding of unsafe and unsound banking practice.

This Memorandum supersedes Circular Letter to All Commercial/Thrift Banks/Non-Bank Financial Institutions with Quasi-Banking Functions dated 29 December 2000 in its entirety.

This Memorandum shall take effect immediately upon its publication either in the Official Gazette or in a newspaper of general circulation.


AMANDO M. TETANGCO, JR.
Governor

28 February 2007