



Republic of the Philippines
Department of Finance
INSURANCE COMMISSION
1071 United Nations Avenue
Manila



Circular Letter (CL) No.:	2019-45
Date:	04 September 2019
Supersedes:	Advisory deferring CL No. 2014-31 and CL No. 2014-31 dated 08 July 2014

CIRCULAR LETTER

TO : ALL INSURANCE AND PROFESSIONAL REINSURANCE COMPANIES AUTHORIZED TO TRANSACT BUSINESS IN THE PHILIPPINES

SUBJECT : AMENDED GUIDELINES FOR SECURITIES BORROWING AND LENDING TRANSACTIONS

WHEREAS, Section 437 of the Insurance Code, as amended by Republic Act (RA) No. 10607, authorizes the Insurance Commission (IC) to issue such rulings, instructions, circulars, orders and decisions as maybe deemed necessary to secure the enforcement of the provisions of the Code, to ensure the efficient regulation of the insurance industry in accordance with global best practices and to protect the insuring public;

WHEREAS, Section 1 of the Securities and Exchange Commission (SEC) Memorandum Circular (MC) No. 7, series of 2006 includes insurance companies to the entities that may be engaged or involved in securities borrowing and lending (SBL) transactions;

NOW, THEREFORE, pursuant to the powers vested in the Insurance Commission under Section 437 of the Amended Insurance Code, the following amended guidelines on SBL transactions of insurance and professional reinsurance companies are hereby adopted and promulgated;

Section 1. Coverage

- This Circular Letter (CL) provides guidelines for SBL transactions that an insurance and professional reinsurance company may undertake.
- Insurance and professional reinsurance company may act as a Lender on SBL transactions.

Section 2. Definition of Terms

The following terms shall have the meaning indicated, unless the context provides otherwise:

- a. **Beneficial Owner** refers to any person who, by way of any contract, arrangement or other means, is entitled to the rights of ownership over a security including the power to vote or to direct the voting of said security and the power to dispose of or to direct the disposition of said security. In the context of securities, this term is generally used to distinguish this party from the legal owner (e.g., a nominee) who holds the securities for the beneficial owner.
- b. **Borrower** refers to a person who borrows securities from a lender's portfolio in order to support his trading activities.
- c. **Borrowing Period or Lending Period** refers to a specified period agreed upon by the parties during which the SBL transaction remains outstanding.
- d. **Collateral** refers to cash or property with ascertainable value permitted under these rules to be used as security for borrowed securities for the period until the borrowed securities are returned or paid.
- e. **Direct Lender** refers to an entity that lends, by way of formal loan agreement, its own securities directly to the borrower and not through an intermediary or lending agent. The direct lender is either the beneficial owner or legal owner of the securities subject of loan.
- f. **Intermediary** refers to a third party institution that facilitates the SBL transaction.
- g. **Lender** means a person who lends securities from his own portfolio or from the assets of his clients by way of formal loan agreement. A lender may be a direct lender or a lending agent.
- h. **Lending Agent** means a juridical person which acts on behalf of a client with respect to the lending of securities.
- i. **Margin Call** refers to the notice issued to the borrower to increase the amount of collateral to cover the amount of the outstanding borrowed securities.
- j. **Margin Release** refers to the act of releasing to the borrower of the excess collateral.
- k. **Mark-to-Market (MTM)** means the practice of periodically valuing borrowed securities and securities used as collateral based on their current market prices in order to reflect their current market value.
- l. **Master Securities Lending Agreement (MSLA)** refers to the agreement between the lender and the borrower that embodies the terms and conditions by which securities are lent or borrowed.

- m. **Securities Borrowing and Lending (SBL)** means the lending of securities from a lender's portfolio on a given date to a borrower's portfolio to support the borrower's trading activities with the commitment of the borrower to return or deliver said securities or equivalent to the lender on a determined future date. This is also referred to as a Securities Lending Transaction (SLT). Notwithstanding the use of expressions such as "borrow", "lend", "loan", "return", "redeliver", in SBL transactions, title to securities "borrowed" or "lent" shall pass from one party to another, and the party obtaining such title is obliged to redeliver or return equivalent securities.
- n. **Securities Custodian** refers to a juridical entity that performs the functions of safekeeping securities for clients, holding title to the securities as nominee, valuing securities, administering dividend, reporting and other services.
- o. **Securities Lending Authorization Agreement (SLAA)** refers to the contract between the beneficial owner of securities and his agent by which the former authorizes the latter to offer his securities for lending under the terms agreed between them.

Section 3. Modes of Conducting SBL

For insurance and professional reinsurance company, securities lending may be conducted through direct lending, lending agent, lending pool system or other schemes subject to the evaluation and approval of the Insurance Commission; Provided that, the parties to a SBL transaction shall comply with the required documentation, valuation, collateral management, settlement, record keeping, reporting, accounting standard and other requirements as prescribed by the Insurance Commission.

Section 4. Lending or Borrowing Period

The lending or borrowing period for any loan of securities shall in no case exceed two (2) years from the date of execution of the SBL Confirmation Notice.

Section 5. Eligible Securities

The following are the eligible securities for SBL transaction:

- a. Securities listed in the Exchange (i.e. PSE and PDex);
- b. Securities issued by the Bureau of Treasury (BTR); and
- c. Securities issued by the Bangko Sentral ng Pilipinas (BSP).

The above securities, at the time of SBL transaction, must be free from any liens and encumbrances.

Section 6. Eligible Collaterals

The following may be accepted by insurance and professional reinsurance company as collateral for their SBL transaction:

- a. Cash denominated in peso;
- b. Irrevocable and negotiable letters of credit issued by a commercial bank;
- c. Bonds or other instruments of indebtedness issued by the Government of the Philippines or its political subdivisions or instrumentalities, or government-owned or controlled corporations and entities, including the BSP, which securities must be free from any lien or encumbrances;
- d. Bonds, debentures or other instruments of indebtedness of any solvent corporation or institution created or existing under the laws of the Philippines;
- e. Securities listed in the Philippine Stock Exchange (PSE); and/or
- f. Any combination thereof, or other forms of collateral that may be allowed by the IC.

Section 7. Marking to Market; Valuation; Margin Call; Margin Release

- a. The borrowed and collateral securities must be marked-to-market at least once daily based on the valuation method as indicated by the parties in the MSLA. In the absence of such agreement, valuation shall be based on current market price.
- b. If the collateral is in the form of cash or letters of credit, the value of the collateral delivered shall be maintained at an amount not less than 102% of the current market value of the securities borrowed.
- c. If the collateral is in the form of bonds or other instruments of indebtedness issued by the Government of the Philippines, the value of the collateral delivered shall be maintained at an amount not less than 105% of the current market value of the securities borrowed.
- d. If the collateral is in the form of bonds, debentures or other instruments of indebtedness of any solvent corporation or institution, the value of the collateral delivered shall be maintained at an amount not less than 110% of the current market value of the securities borrowed.
- e. If the collateral is in the form of equity shares listed in the PSE, the value of the collateral delivered shall be maintained at an amount not less than 130% of the current market value of the securities borrowed.
- f. When that value of collateral becomes less than the current market value of the borrowed securities, a margin call must be issued, and the borrower shall promptly increase that amount of collateral to at least the percentage required of the current market value of the borrowed securities.
- g. However, when the value of collateral becomes greater than the current market value of the borrowed securities, the borrower may require the lender to release

the collateral which is in excess of the required percentage of the current market value of the borrowed securities. The parties shall specify in the Master Securities Lending Agreement (MSLA) or Multilateral MSLA that threshold level which the borrower may require the release of excess collateral.

Section 8. Documentary Requirements

Insurance or professional reinsurance company seeking approval of its investment in SBL transaction shall submit the following documents for the Insurance Commission's evaluation and assessment, to wit:

- a. Copy of Master Securities Lending Agreement;
- b. Board Resolution/Authorization approving the investment in SBL transaction;
- c. Copy of Securities Lending Authorization Agreement;
- d. Copy of License, certificate of authority or the equivalent license/authority of the lending agent, lending pool system or other intermediaries duly approved by the SEC, the BIR or the BSP; and
- e. Other documents as may be required by the Insurance Commission for evaluation and assessment.

Section 9. Investment Limitations

The following investment limitations shall be strictly observed:

- a. For life insurance companies: The total allowed investments in the SBL transactions shall not exceed five percent (5%) of the total admitted assets as per the latest approved Annual Statement; and
- b. For non-life insurance and professional reinsurance companies: The total allowed investments in the SBL transactions shall not exceed ten percent (10%) of the net worth as per the latest approved Annual Statement.

Investments in the SBL transactions may be considered as reserve investments.

Section 10. Financial Reporting

The following shall be the basis for the reporting and presentation of eligible securities and collaterals under SBL transaction:

- a. For the lending transaction, the eligible security shall be reported and presented in the Statement of Financial Position as a financial asset based on the classification under Financial Reporting Framework (CL No. 2016-65).
- b. For the collaterals, the eligible collaterals received shall be reported and presented in the Statement of Financial Position as a financial asset and a

financial liability shall be recognized based on the classification under Financial Reporting Framework (CL No. 2016-65).

Section 11. Net Worth and Risk-Based Capital Considerations

- a. For net worth computation, only investment in SBL transaction approved by the Insurance Commission shall be considered as admitted assets of the insurance and professional reinsurance companies.
- b. In calculating the capital charge relating to investment in SBL transaction, the risk charge for eligible security and eligible collateral is equivalent to the risk factor applied to the financial asset where the eligible security and eligible collateral have been reported and presented.

Section 12. Compliance with other Government Agencies Requirement

The parties shall ensure that the SBL transaction complies with the existing rules and regulations of other government agencies such as the SEC, the BIR and the BSP.

Section 13. Effectivity

This Circular Letter shall take effect immediately.

For strict compliance.

DENNIS B. FUNA
Insurance Commissioner

