



MEMORANDUM – 2024-017

TO : ALL TRADING PARTICIPANTS
SUBJECT : REVISIONS TO THE RBCA EXCEL TEMPLATE
DATE : 24 June 2024

The Securities and Exchange Commission (“SEC” or “Commission”) and the Capital Markets Integrity Corporation (“CMIC”) have discussed the concerns on the treatment of several risk-based capital adequacy (“RBCA”) factors of the trading participants. These matters include: 1) revaluation reserves; 2) deferred tax liability arising from purchase of Philippine Stock Exchange (“PSE”) shares; 3) customer accounts with computed credit risk requirements (“CRR”); 4) retained earnings appropriated for reserve fund; and 5) unimpaired paid-up capital (“UPC”).

Relative to the abovementioned discussion, the trading participants are requested to provide comments on the attached *RBCA Excel Template V3* **on or before 31 July 2024**. It is recommended that the trading participants test the template to support the comments. The draft *RBCA Excel Template V3* can be accessed through the link below:

<https://tinyurl.com/RBCANewTemplate>

Thus, please refer to the following:

- **Annex “A”** for the changes made to the RBCA Excel Template.
- **Annex “B”** for the results of the discussion on the concerns on the RBCA factors.
- **Annex “C”** for the proposed timeline material to the *RBCA Excel Template V3* revision.

For your information and compliance.

(original signed)

GERARD B. SANVICTORES

President

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1. RBC tab

- Deleted the row pertaining to "Revaluation Reserves" as part of the "Adjustments to Equity per books."
- Corrected the formula in cell C28 or the corresponding amount of "c. Fixed Assets, net of accumulated and excluding those used as collateral." This is for the deleted "Appraisal Increase"¹ account.
- Revised the alert indicators for the compliance requirements at the end of the computation table. The conditions of the RBCA ratio, the Aggregate Indebtedness (AI) to Net Liquid Capital (NLC) ratio, and the NLC balance in relation to its minimum amount to be maintained are presented whether these figures are either normal, breached, and need to be reported, or the cell containing the figure has some issue with its formula.

2. Financial Statements tab

- Deleted the row pertaining to "A.6.7.2 Appraisal Increase."

3. Trial Balance tab

- Deleted the "Fixed Assets - Appraisal Increase" at cell A70, but retained the row.

4. UPC tab

- Revised the date used from 15 November 2015 to 01 January 2001 or the effectivity date of the 2000 Implementing Rules and Regulations of the Securities Regulation Code as the reckoning period for the One Hundred Million Pesos (Php100,000,000.00) minimum UPC requirement.
- Retained the formula in cell B32 that automatically shows whether the trading participant is compliant or not with the minimum UPC requirement. In case of non-compliance with the minimum UPC requirement, cell B32 becomes red with a corresponding "NON-COMPLIANT: Report immediately to SEC & CMIC" text to alert the trading participant that it has breached the minimum UPC requirement. If minimum UPC requirement at cell B10 is still set at zero since no date is encoded for cell B8 while there is already a figure for Unimpaired Paid-Up

¹ Any appraisal increase of assets will still be recorded in the books based on the corresponding accounting standards.

Capital at cell D28, cell B32 will be highlighted in yellow and a text will appear stating: "ERROR: Please encode a date on cell #B8."

- Placed a text at cell D8: "insert mm/dd/yyyy date format."
- Inserted a note for cell B8 which states "Original date of broker/dealer license. This will determine the minimum UPC requirement."
- Inserted a note for cell B10 which states "Date of effectivity of Php100,000,000 UPC is set on January 1, 2001."
- Inserted a note for cell B32 which states "If 'NON-COMPLIANT': Kindly ascertain if indeed not compliant with the required minimum UPC by first checking the correctness of the minimum UPC requirement at cell #B10 and the actual UPC at cell #D28."

5. Receivables tab

- Added additional row below "Others" row for "T + 2 to T + 12 of counterparty" and "T +13 to T + 30 of counterparty" tables. Cells A18 and A27 of the added rows are named: "Others (*with computed CRR*)."
- These rows are for the customer receivable balances with positive net counterparty exposure or with computed CRR (Counterparty Risk Requirement).
- Inserted notes for cells A18 and A27 which state: "For customer receivables with positive Net Counterparty Exposure (or computed CRR)."

1. Revaluation reserves

Exclusion of the revaluation reserves from the "Adjustments to Equity per books" section in the RBCA computation.

Retention of the recording of any appraisal increase of assets in the books based on the corresponding accounting standards.

2. Deferred tax liability arising from purchase of PSE shares

Exclusion of the deferred tax liability arising from unrealized gain of PSE shares which are classified as Fair Value through Other Comprehensive Income.

3. Customer accounts with computed CRR

Revision of the RBCA Excel Template to incorporate the customer accounts with computed CRR by adding another row or line item "Others (With computed CRR)" under the age groups "T+2 to T+12 of the counterparty" and "T+13 to T+30 of the counterparty."

4. Retained earnings appropriated for reserve fund

Transfer of the appropriated retained earnings to the unappropriated retained earnings or capital account for consistent deficit of retained earnings in relation to Rule 49.1 (B) (1) and (3) of the SEC Memorandum Circular No. 16².

5. UPC

Recognition of the condition that the effectivity date of the One Hundred Million Pesos (Php100,000,000.00) UPC is 01 January 2001, which is the implementation date of the 2000 Implementing Rules and Regulations of Securities Regulation Code.

² Rule 49.1 (B) (1) and (3) of the SEC Memorandum Circular No. 16 states the following: (1) *Every Broker Dealer shall annually appropriate a certain minimum percentage of its audited profit after tax and transfer the same to the Appropriated Retained Earnings Account xxx*

xxx xxx

(3) *Where in any financial year the Broker Dealer's paid up capital is impaired, the Broker Dealer, is required to transfer from the Appropriate Retained Earnings to the capital account an amount equivalent to the impairment. xxx*

**PROPOSED TIMELINE ON THE RBCA EXCEL TEMPLATE
V3 REVISION**

ANNEX "C"

ACTIVITY	TARGET DATE
Trading participants to test the <i>RBCA Excel Template V3</i>	25 June to 24 July 2024
Trading participants to provide comments on the <i>RBCA Excel Template V3</i> to CMIC	25 to 31 July 2024
CMIC to post the SEC-approved <i>RBCA Excel Template V3</i> on its website for use by the trading participants	19 August 2024