



Circular Letter (CL) No.:	2021-53
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Supersedes:	CL No. 2014-19 CL No. 2018-71
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CIRCULAR LETTER

TO : ALL INSURANCE/REINSURANCE COMPANIES AND MUTUAL BENEFIT ASSOCIATIONS AUTHORIZED TO TRANSACT BUSINESS IN THE PHILIPPINES

SUBJECT : OMNIBUS GUIDELINES ON FOREIGN CURRENCY DENOMINATED INVESTMENTS AND INSURANCE POLICIES

WHEREAS, Circular Letter (CL) No. 2014-21, dated 15 May 2014, provides the general guidelines and the list of investments that may be allowed under the Amended Insurance Code for all Insurance/Reinsurance companies and Mutual Benefit Associations authorized to transact business in the Philippines;

WHEREAS, Circular Letter (CL) No. 2018-71, dated 28 December 2018, provides that the aggregate investments in foreign currency denominated securities shall not exceed 50% of the company’s latest verified total admitted assets for a life insurance company and 50% of the net worth for a non-life insurance company;

WHEREAS, Circular Letter (CL) No. 2015-56, dated 1 December 2015, provides the guidelines governing investments in derivatives and limited the same to contracts in the form of forward and swaps;

WHEREAS, Circular Letter (CL) No. 2014-50, dated 11 December 2014, provides that investment in Mutual Funds and Unit Investment Trust Funds (UITF) may be allowed provided that the Mutual Fund had the prior approval of the Securities and Exchange Commission and the UITF had the prior approval of the Bangko Sentral ng Pilipinas;

WHEREAS, Circular Letter (CL) No. 2014-30, dated 08 July 2014, provides that investments in Exchange Traded Funds may be allowed as additional outlet, for insurance/reinsurance companies and mutual benefit associations, provided that prior approval of the Insurance Commission shall be obtained;

WHEREAS, the guidelines on foreign currency denominated investments requires expansion to recognize other investment products in the market not covered by current guidelines and to adopt with trends and development of the global financial market;

NOW, THEREFORE, in view of all the foregoing and in accordance with the Insurance Commissioner's power under Section 437 of the Insurance Code as amended by Republic Act No. 10607, the following guidelines are hereby promulgated:

Section 1. FOREIGN CURRENCIES ALLOWED

Only foreign currencies acceptable to the Bangko Sentral ng Pilipinas as part of its international reserves shall be allowed.

Section 2. INVESTMENTS

2.1. The following foreign currency denominated debt and equity securities may be allowed as investments by insurance/reinsurance and mutual benefit associations:

- 2.1.1 Issues of the Philippine government or Philippine government-owned or controlled corporations;
- 2.1.2 Issues of Philippine private corporations provided these shall have a minimum credit rating of **[B]** as rated by S&P, **[B2]** as rated by Moody's, **[B]** as rated by Fitch, or its equivalent as rated by other credit rating agencies acceptable to the Insurance Commission;
- 2.1.3 Issues of foreign governments provided these shall have a minimum credit rating of **[B]** as rated by S&P, **[B2]** as rated by Moody's, **[B]** as rated by Fitch, or its equivalent as rated by other credit rating agencies acceptable to the Insurance Commission;
- 2.1.4 Issues of foreign corporations provided these shall have a minimum credit rating of **[B]** as rated by S&P, **[B2]** as rated by Moody's, **[B]** as rated by Fitch, or its equivalent as rated by other credit rating agencies acceptable to the Insurance Commission;
- 2.1.5 Loans against mortgage on real properties outside the Philippines which shall be considered surplus investments and which shall be made only if the laws of the country where the property is located allow the lender to own real estate property in the event of foreclosure;
- 2.1.6 Loans granted to entities with minimum credit rating of **[B]** as rated by S&P, **[B2]** as rated by Moody's, **[B]** as rated by Fitch, or its equivalent as rated by other credit rating agencies acceptable to the Insurance Commission;

- 2.1.7 Loans granted to foreign entities and guaranteed by a local financial institution;
 - 2.1.8 Equity investments in venture capital which shall be considered as surplus investments if made in accordance with rules and regulations; and upon prior approval of the Insurance Commission;
 - 2.1.9 Investment Unit Instruments¹ issued by bankruptcy-remote Special Purpose Vehicles, where total return is a function of an underlying; with issues of the Philippine government, foreign government, local corporations and foreign corporations as the underlying plain vanilla host contract; and with derivative components to re-shape the risk-return pattern of the security and/or to hedge the cash flows to PHP;
 - 2.1.10 Instruments with characteristics of both equity and debt securities, issued by a foreign corporation, and with a fixed income and variable income component; provided, however, that it shall not be converted into common stock;
 - 2.1.11 Instruments with characteristics of both equity and debt securities, issued by a foreign corporation, and with a fixed income and variable income component, in connection to investments in venture capital which shall be considered as surplus investments if made in accordance with rules and regulations; and
 - 2.1.12 Investments in securities issued by local and foreign corporations, with fixed income component, and combined with derivative instruments to reshape the risk-return pattern of the security and/or to hedge the cash flows to PHP;
- 2.2 The following Collective Investment Schemes (CIS) may also be allowed as investments subject to prior approval of the Insurance Commission provided, however, that the underlying basket is fully or substantially composed of fixed-income securities or, when the basket is composed of equity securities, it must be that of a broad-market index²:
- 2.2.1 Mutual Funds;
 - 2.2.2 Unit Investment Trust Funds; and
 - 2.2.3 Exchange Traded Funds;
 - 2.2.4 Real Estate Investment Trusts
 - 2.2.5 Any future assets similar in nature subject to the approval of the Insurance Commission.

¹ R.A. 9182 or the SPV Act of 2002

² For purposes of this Circular, broad-market index shall be defined as an index designed to reflect movement of a group of stocks, an industry or an entire market.

2.3 The following unrated financial instruments may also be allowed:

2.3.1 Unrated foreign currency denominated financial instruments issued by a domestic entity may be allowed, provided, however, that the issue or its issuer is guaranteed by a third party foreign or domestic entity which shall have a minimum credit rating of [BB+] as rated by S&P, [Ba2] as rated by Moody's, [BB+] as rated by Fitch, or its equivalent as rated by other credit rating agencies acceptable to the Insurance Commission;

2.3.2 Unrated foreign currency denominated financial instruments issued by a foreign entity may be allowed, provided, however, that the issue or its issuer is guaranteed by a third party domestic entity which shall have a minimum credit rating of [BB+] as rated by S&P, [Ba2] as rated by Moody's, [BB+] as rated by Fitch, or its equivalent as rated by other credit rating agencies acceptable to the Insurance Commission; and

2.3.3 Unrated foreign currency denominated financial instruments issued by a foreign entity may be allowed, provided, however, that the issue or its issuer is guaranteed by a third party foreign entity which shall have a minimum credit rating of [BB+] as rated by S&P, [Ba2] as rated by Moody's, [BB+] as rated by Fitch, or its equivalent as rated by other credit rating agencies acceptable to the Insurance Commission.

2.4 Below investment grade and unrated financial instruments not guaranteed by any third party entity may be allowed, subject to the approval of the Insurance Commission, provided that it shall not exceed [5%] of the company's latest verified total admitted assets for a life insurance company and [5%] of the net worth for a non-life insurance company.

Section 3. ADDITIONAL ALLOWABLE DERIVATIVE INSTRUMENTS

In addition to Swaps and Forwards as allowable derivative instruments under IC Circular Letter No. 2015-56 dated 01 December 2015, the following derivative instruments may also be allowed, provided, however, that it shall be used for hedging the risk of foreign currency denominated assets:

3.1 Option - a financial instrument that gives one party the right, but not the obligation, to buy or sell an underlying asset from or to another party at a fixed price over a specific period of time; and

3.2 Futures - a standardized derivative contract created and traded on a futures exchange in which two parties agree that one party, the buyer, will purchase an underlying asset from the other party, the seller, at a later date and at a price agreed on by the two parties when the contract is initiated and in which there is a daily

settling of gains and losses and a credit guarantee by the futures exchange through its clearinghouse.

Section 4. INSURANCE POLICIES

- 4.1 All liabilities resulting from the issuance of a foreign currency denominated policy shall be valued in the same currency used in the insurance policy,
- 4.2 All foreign currency assets shall be booked in the currency stated in the underlying instrument/document. In the absence of any instruments/documents, it shall be booked in the currency of the country where the asset is physically located;
- 4.3 Only cash holdings in acceptable foreign currencies as defined in Section 1 shall be allowed;
- 4.4 Premium related taxes and documentary stamp taxes shall be based on the peso equivalent of the premium or Sum assured, as the case may be, at the time the taxes are due in accordance with BIR regulations;
- 4.5 Commissions shall be paid in accordance with the currency agreed upon in the agency contract;
- 4.6 Policy benefits and claims shall be payable in the currency of the insurance policy issued. However, payment may be made in another currency subject to the agreement between the claimant and the insurance company;
- 4.7 Premiums shall be billed in the same currency as the policy issued. However, payment may be made in another currency subject to the agreement between the policyholder and the insurance company;
- 4.8 Income arising from foreign currency investments shall be recognized in the currency of the instrument, unless such instrument specifies another currency, in which case the investment income shall be valued in that currency;
- 4.9 For purposes of booking the original transaction, all foreign currency assets and liabilities shall be recorded in their original currency as mentioned in items 3.1 and 3.2 above, converted to Philippine Peso based on the exchange rate being used by individual insurance company at the time they were acquired or incurred, provided however that these are revalued periodically as explained in item 4.10, below;
- 4.10 For purposes of periodic and annual reporting, the value of the foreign currency assets and liabilities shall be converted to

Philippine peso based on the BSP guiding rate at the end of the reporting period;

4.11 Foreign exchange gain or loss shall be recognized as income or loss in the Income Statement; and

4.12 Schedules showing balance sheet items in foreign currency values and their peso equivalent shall be submitted with the Annual Statement. In case an account consists of multiple currencies, a sub-schedule showing the currency breakdown shall likewise be submitted.

Section 5. AGGREGATE LIMITATIONS

5.1 Investments made for items under Section 2.1.2 to 2.3.3 may be considered as Reserve Investments up to [20%] of the company's latest verified total admitted assets for a life insurance company and [20%] of the net worth based on the submitted annual statement for a non-life insurance company. In any case where the portfolio valuation exceeds the valuation allowed with that of the [20%] limitations, the excess shall be considered as surplus investments regardless of whether the breach is brought about by active management or that of a passive one;

5.2 Aggregate investments made for items under Section 2.1.2 to 2.4 of this Circular shall not exceed [50%] of the company's latest verified total admitted assets for a life insurance company and [50%] of the net worth based on the submitted annual statement for a non-life insurance company. Investments made in excess of those provided in Section 5.1 shall be considered as Surplus Investments. And, in any case where the portfolio valuation exceeds the valuation allowed with that of the [50%] limitations, the excess shall be considered as subject to non-admittance regardless of whether the breach is brought about by active management or that of a passive one; and

5.3 Aggregate investments described under Section 2.3 shall not exceed [10%] of the aggregate limitations provided under Section 5.2 of this Circular.

5.4 Investments of separate variable account(s) shall not be taken into account in determining the aggregate limitations under this circular.

Section 6. RATIONALE FOR OFFSHORE INVESTMENTS AND ADDITION TO ALLOWABLE DERIVATIVES

6.1 Offshore investments described above may be allowed to enable insurance companies to achieve any or all of the following:

6.1.1 Risk diversification;

- 6.1.2 Enhanced portfolio liquidity;
- 6.1.3 Hedging;
- 6.1.4 Ability to sell foreign currency-denominated insurance products which offer clients a whole range of investment outlets from purely Philippine to non-Philippines risk or a combination of both, depending on the client's risk yield preferences; and
- 6.1.5 For other purposes as may be allowed by the Insurance Commission

Section 7. PRIOR APPROVAL OF THE INSURANCE COMMISSION

Consistent with the provisions under IC Circular Letter No. 2014-21 dated 15 May 2014 and IC Circular Letter No. 2015-56, dated 01 December 2015, foreign currency denominated investments described under Section 2.1.2 to 2.4 may only be allowed subject to the prior approval of the Insurance Commission.

Section 8. APPLICABILITY OF RELEVANT LAWS

The provisions under this circular are without prejudice to application of pertinent laws, rules and regulations being implemented by other government regulatory agencies.

Section 9. SEPARABILITY CLAUSE

If any provision of this Circular Letter shall be held unconstitutional or invalid, the other provisions not otherwise affected shall remain in full force and effect.

Section 10. REPEALING CLAUSE

All circulars, rules and regulations or parts thereof, which are inconsistent with the provisions of this Circular are deemed repealed, superseded or modified accordingly.

Section 11. EFFECTIVITY

This Circular shall take effect immediately.


DENNIS B. FUNA
Insurance Commissioner

