



Republic of the Philippines
DEPARTMENT OF FINANCE

Roxas Boulevard Corner Pablo Ocampo, Sr. Street
Manila 1004

DEPARTMENT CIRCULAR NO. 001-2016

APR 21 2016

TO : THE BOARD OF DIRECTORS/HEADS OF GOVERNMENT-OWNED OR CONTROLLED CORPORATIONS AND GOVERNMENT FINANCIAL INSTITUTIONS

SUBJECT : ADOPTION OF A RISK-BASED POLICY FRAMEWORK ON THE ISSUANCE AND PRICING OF GUARANTEE AND FOREIGN EXCHANGE RISK COVER FEES

1. PURPOSE

- 1.1.** To adopt a risk-based policy framework on the issuance and pricing of guarantee and foreign exchange risk cover (FXRC) fees;
- 1.2.** To promulgate guidelines and procedures governing the extension of guarantees by the National Government (NG) for borrowings of Government-Owned or Controlled Corporations (GOCCs) and Government Financial Institutions (GFIs).

2. COVERAGE

This Department Circular shall cover all borrowings of GOCCs for which NG guarantee and FXRC are requested. For purposes of this Circular, the term "GOCCs" shall include GFIs.

3. RATIONALE

The adoption of a risk-based policy framework is part of the prudent fiscal management of the NG particularly over risks arising from guarantees and FXRC to GOCC borrowings. It aims to improve the management of guaranteed debt, recognize the real cost of a guarantee and FXRC for the NG as it relates to the financial conditions of GOCCs, and align the guarantee framework to internationally recognized principles.

4. GENERAL GUIDELINES

- 4.1.** NG guarantee may be extended to GOCCs which are eligible for guarantee under the law.
- 4.2.** In addition to Section 4.1 of this Circular, the Department of Finance (DOF) shall look into the financial and operational performance, mandate, and developmental goals of the GOCC to arrive at the appropriate pricing for the guarantee fee.
- 4.3.** The DOF shall assess a GOCC's financial performance using a methodology that takes into consideration the GOCC's asset value, volatility, and average growth, and debt value, among others.
- 4.4.** FXRC may be extended to GFIs where proceeds of the borrowings will be for on-lending activities to fund developmental projects.

5. DOCUMENTARY REQUIREMENTS

GOCCs seeking NG guarantee and/or FXRC are required to submit the following documents to the DOF-Corporate Affairs Group (CAG) copy furnished the Liability Management Service (LMS) of the Bureau of the Treasury (BTr) and, in the case of requests for guarantee and/or FXRC of foreign loans, the DOF-International Finance Group (IFG).

5.1. GOCC's Financial and Operational Performance

- 5.1.1.** Five-year historical financial statements;
- 5.1.2.** Latest Performance Scorecard by the Governance Commission for GOCCs (GCG), if applicable; and
- 5.1.3.** Five-year plans and programs.

5.2. Loan Documents

- 5.2.1.** GOCC's Board Approval of the proposed loan, purpose, and terms and conditions;
- 5.2.2.** Endorsement of the proposed loan by the head of the line department or government agency with oversight functions over the particular GOCC, if applicable;
- 5.2.3.** Amortization schedule of the loan; and

5.2.4. Copy of the draft Loan Agreement.

5.3. Project Information (for project-type loans)

5.3.1. Purpose and Description of the Project;

5.3.2. Clearance from the NEDA Board on the project to be financed by the loan; and

5.3.3. Updated cash flow projections of the GOCC covering the debt servicing period or the life of the project.

5.4. Such other documents as may be required by the DOF-CAG and BTr-LMS.

6. PROCEDURAL GUIDELINES

In requests for NG guarantee and/or FXRC, upon submission by the GOCC of the documentary requirements to DOF-CAG, copy furnished the BTr-LMS and, in the case of foreign loans, the DOF-IFG, the following procedure shall be observed:

6.1. DOF-CAG shall review the pertinent documents under Section 5 to determine the GOCC's financial position. The BTr-LMS shall submit to DOF-CAG information on the debt service track record of the GOCC, and, when applicable, a certification that the request for guarantee is within the authorized ceiling on foreign borrowings under RA 4860.

6.2. BTr-LMS shall determine the GOCC's rating as provided for in Section 4.3 of this Circular, which will be used as one of the bases for the determination of the guarantee fee and will form part of DOF-CAG's assessment of the GOCC's financial position.

Annex A of this Circular provides the Schedule of Guarantee Fees to be charged annually by the NG depending on the rating assigned to a GOCC from a financial performance perspective. It does not reflect other qualitative factors such as the GOCC's governance rating, operational performance, developmental goals in relation to its mandate, and other factors that may be relevant under the circumstances. This Schedule is subject to annual review by the DOF and the BTr and may be revised through the issuance of a new Schedule by the DOF.

- 6.3. If an FXRC is requested, BTr-LMS shall likewise determine the corresponding FXRC fee following a risk-based methodology, taking into account applicable market rates, such as exchange rate and interest rate, and volatility thereof.
- 6.4. DOF-CAG in the case of domestic loans and the DOF-IFG in the case of foreign loans, shall endorse the request for guarantee and/or FXRC to the Secretary of Finance for approval. Once approved, the Secretary or a duly authorized signatory shall issue the willingness to guarantee and endorse the same to the Monetary Board for appropriate action on the GOCC borrowing.
- 6.5. Upon favourable action from the Monetary Board, the DOF-CAG in the case of domestic loans and the DOF-IFG in the case of foreign loans, shall review the submitted loan documents, and if found in order, shall then request for the Special Authority from the President authorizing the issuance of NG guarantee, among others. Once secured, DOF-CAG or DOF-IFG, as the case may be, shall issue the corresponding guarantee instrument.

7. REPEALING CLAUSE

DOF Order No. 35-89 dated 1 September 1989, DOF Memorandum Circular No. 1-91 dated 1 March 1991, and all other issuances inconsistent with this Circular are hereby repealed or amended accordingly.

8. EFFECTIVITY

This Circular shall take effect immediately.


CESAR V. PURISIMA
Secretary





ANNEX A

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SCHEDULE OF GUARANTEE FEES

Following the risk-based policy framework by the Department of Finance (DOF) through Department Circular No. 001-2016 dated APRIL 21, 2016, the following schedule of guarantee fees shall be charged to Government-Owned or Controlled Corporations (GOCCs) whose request for National Government (NG) guarantee has been approved by the DOF:

Rating	Guarantee Fee
1	0.25%
2	0.50%
3	1.00%
4	1.25%
5	1.50%

As provided for under Section 6.2 of the Circular, this Schedule does not reflect other qualitative factors such as the GOCC's governance rating, operational performance, developmental goals in relation to its mandate, and other factors that may be relevant under the circumstances, which may affect the final guarantee fee payable by a GOCC to the NG.


CESAR V. PURISIMA
Secretary

