REPUBLIKA NG PILIPINAS
KAGAWARAN NG PANANALAPI
KAWANIHAN NG INGATANG-YAMAN
(BUREAU OF THE TREASURY)
Intramuros, Manila

Funding the Republic

TREASURY CIRCULAR NO. 3 - 2019
10 MAY, 2019

TO	:	**All Heads of Departments/Agencies and Other Offices of the National Government, Budget Officers and Heads of Accounting Units, COA Auditors, Heads of Modified Disbursement System - Government Servicing Banks (MDS-GSBs), and All Others Concerned**
SUBJECT	:	**Banking Arrangements on the Use of Letter of Credit**

1. BACKGROUND

1.1. As part of the Budget Reform Program (BRP) of the National Government through the Department of Budget and Management, the Bureau of the Treasury (BTr) continues to streamline processes, to promote stronger financial accountability, and to ensure availability of resources for the full execution of the authorized annual appropriations that will promote growth and will reduce poverty;

1.2. In addition to proactive and prudent management of the financial resources of the National Treasury, a key objective of the PFM Reform Program is to strengthen and modernize cash management in government to allow the BTr to improve the monitoring and management of government funds maintained outside of the Treasury Single Account (TSA) and the Modified Disbursement Scheme (MDS);

1.3. There are national government agencies (NGAs) that in the performance of their mandates procure goods and services in other countries and make use of a letter of credit (LC). An LC is a document issued by a bank to guarantee, on behalf of the procuring NGA or buyer timely payment to the seller or exporter against the receipt of complying stipulated documents. The use of LC is common in international trade to provide the seller or supplier protection through the payment guarantee from banks by buyers.

1.4. However, the use of domestic and foreign LCs already resulted in actual cash already released from the MDS accounts of procuring agencies to the GSBs, thus there is a carrying cost for the government for using an LC especially if delivery of goods will take longer. Total outstanding government LCs with the GSBs as of 31 December 2018 amount to over twenty billion pesos. Hence, there is scope for significant efficiencies in fund management and cost savings which can be realized by the Treasury.

2. OBJECTIVE

The BTr is establishing banking arrangements with the Government Servicing Banks (GSBs) for the following:

2.1 To clarify the use of LCs in NGA operations.

2.2 To provide assistance to the government agencies in the opening of LCs; and

2.3 To efficiently manage the government's cash resources.

3. COVERAGE

This Circular covers all NGAs and GSBs.

4. GENERAL GUIDELINES

4.1 The use of LC shall be limited to foreign importation. In case a procuring entity shall use LC for payment, the cost of opening an LC shall be borne by the supplier as provided for in RA 9184 and its associated rules and regulations. In case a contract executed by an NGA with a supplier for foreign importation is denominated in local currency or peso, the FX risk shall be borne by the supplier.

4.2 This new banking arrangement will be covered by a Memorandum of Agreement between BTr and the GSBs to establish, standardize, and negotiate terms and conditions for all outstanding and new LC.

4.3 For foreign currency (FX) requirements to fund the LC, the BTr shall help the NGAs negotiate on the fx selling rate to be quoted to the NGAs by the GSBs and shall be the basis for the peso equivalent to be transferred by the NGAs. This shall be closely coordinated with the NGAs on the amount to be transferred to service the LC.

Purchase of foreign currency (FX) requirement in securing an LC maybe done from other GSBs, if deemed advantageous to the national government.

4.4 Concerned NGAs shall follow existing procedures on LC opening with the GSB including use of existing accounting and booking entries.

4.5 The BTr shall negotiate the interest on the fund while waiting negotiation of the outstanding LC. GSBs shall remit monthly interest earnings to the account that will be designated by BTr. Said interest income unless expressly provided by law shall be remitted to the General Fund.

4.6 The concerned GSBs shall provide BTr and DBM status of outstanding LCs monthly.

4.7 NGAs shall be responsible in closing outstanding amount of LC if goods/services are already fully delivered/rendered. In addition, GSB shall recommend closure of LC outstanding for goods/services already delivered/rendered based on documents submitted by the NGAs.

4.8 In case of cancellation of the LC, the GSB shall refund any unutilized balance. For expired LC without request for extension from an NGA, the GSB shall refund not earlier than 6 months any unutilized balance. In both instances, the GSB shall remit unutilized balance to the account of BTr.

4.9 Extensions of amendments to the LC terms and conditions shall be made with the signed conformity of the NGA authorized signatory/ies. Amendment fees/charges shall be borne by the beneficiary/supplier.

5. TRANSITORY PROVISION

5.1 The BTr shall negotiate with the GSB concerned interest on the amount of outstanding LCs.

5.2 Concerned NGAs shall be required to review their outstanding LCs and revert any balances for those LC already fully delivered, those without movement or activities and those that are no longer valid. Review and action to be taken shall be done within one (1) month after issuance of this Circular. In addition, GSB shall recommend closure of those outstanding LC with order fully delivered/paid based on documents submitted by the NGAs.

5.3 All existing agreements relating to LCs shall be superseded and shall be covered by a new Memorandum of Agreement pursuant to 4.2 of this Circular.

5.4 All concerned agencies, such as but not limited to GPPB, shall issue revised guidelines or issuance to conform with this Circular.

6. EFFECTIVITY

This Circular shall take effect immediately.

For the guidance of all concerned

ROSALIA V. DE LEON
Treasurer of the Philippines

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