



Bangko Sentral ng Pilipinas

MAYNILA, PILIPINAS

OFFICE OF THE GOVERNOR

Circular No. 540
Series of 2006

Subject: Submission of Audited Financial Statements (AFS)

Pursuant to Monetary Board Resolution No. 899 dated 13 July 2006, the Manual of Regulations for Banks (MORB) is hereby amended, as follows:

Section 1. Section X164 and Subsections X164.1 and X164.2 are hereby amended to read, as follows:

"Sec. X164 Audited Financial Statements of Banks. The following rules shall govern the utilization and submission of audited financial statements (AFS) of banks.

For purposes of this Section, AFS SHALL INCLUDE THE BALANCE SHEETS, INCOME STATEMENTS, STATEMENTS OF CHANGES IN EQUITY, STATEMENTS OF CASH FLOWS AND NOTES TO FINANCIAL STATEMENTS WHICH SHALL INCLUDE AMONG OTHER INFORMATION, DISCLOSURE OF THE VOLUME OF PAST DUE LOANS AS WELL AS LOAN-LOSS PROVISIONS. ON THE OTHER HAND, FINANCIAL AUDIT REPORT SHALL REFER TO THE AFS AND THE OPINION OF THE AUDITOR. The AFS of banks with subsidiaries shall be presented side by side on a solo basis (PARENT) and on a consolidated basis (PARENT and subsidiaries).

Subsec. X164.1. Financial Audit. Banks shall cause an annual financial audit by an external auditor acceptable to the BSP not later than thirty (30) calendar days after the close of the calendar year or the fiscal year adopted by the bank. Report of such audit shall be submitted to the board of directors OR COUNTRY HEAD, IN THE CASE OF FOREIGN BANK BRANCHES, and the appropriate supervising and examining department of the BSP not later than ONE HUNDRED TWENTY (120) calendar days after the CLOSE OF THE CALENDAR YEAR OR THE FISCAL YEAR ADOPTED BY THE BANK. The report to the BSP shall be accompanied by the: (1) Certification by THE EXTERNAL AUDITOR on the: (a) dates of start and termination of audit;

PANANALAPING MATATAG, BANSANG PANATAG

(b) date of submission of the financial audit report and CERTIFICATION UNDER OATH STATING THAT NO MATERIAL WEAKNESS OR BREACH IN THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS WAS NOTED IN THE COURSE OF THE AUDIT OF THE BANK to the Board of Directors or Country Head; and (c) the absence of any direct or indirect financial interest and other circumstances that may impair the independence of the external auditor; (2) Reconciliation Statement between the AFS and the BALANCE SHEET and INCOME STATEMENT FOR BANK PROPER (REGULAR AND FCUDU) AND TRUST DEPARTMENT submitted to the BSP, INCLUDING COPIES OF ADJUSTING ENTRIES EFFECTED BY THE EXTERNAL AUDITOR; and (3) other information that may be required BY THE BSP.

In addition, the external auditor shall be required by the bank to submit TO THE BOARD OF DIRECTORS OR COUNTRY HEAD, a Letter of Comments (LOC) indicating any material weakness or breach in the institution's internal control and risk management systems within thirty (30) calendar days after submission of the financial audit report. If no material weakness or breach is noted to warrant the issuance of an LOC, a Certification UNDER OATH STATING THAT NO MATERIAL WEAKNESS OR BREACH IN THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS WAS NOTED IN THE COURSE OF THE AUDIT OF THE BANK shall be submitted in its stead, together with the financial audit report.

MATERIAL WEAKNESS SHALL BE DEFINED AS A SIGNIFICANT CONTROL DEFICIENCY, OR COMBINATION OF DEFICIENCIES, THAT RESULTS IN MORE THAN A REMOTE LIKELIHOOD THAT A MATERIAL MISSTATEMENT OF THE FINANCIAL STATEMENTS WILL NOT BE DETECTED OR PREVENTED BY THE ENTITY'S INTERNAL CONTROL. A MATERIAL WEAKNESS DOES NOT MEAN THAT A MATERIAL MISSTATEMENT HAS OCCURRED OR WILL OCCUR, BUT THAT IT COULD OCCUR. A CONTROL DEFICIENCY EXISTS WHEN THE DESIGN OR OPERATION OF A CONTROL DOES NOT ALLOW MANAGEMENT OR EMPLOYEES, IN THE NORMAL COURSE OF PERFORMING THEIR ASSIGNED FUNCTIONS, TO PREVENT OR DETECT MISSTATEMENTS ON A TIMELY BASIS. A SIGNIFICANT DEFICIENCY IS A CONTROL DEFICIENCY, OR COMBINATION OF CONTROL DEFICIENCIES, THAT ADVERSELY AFFECTS THE ENTITY'S ABILITY TO INITIATE, AUTHORIZE, RECORD, PROCESS, OR REPORT FINANCIAL DATA RELIABLY IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES. THE TERM MORE THAN REMOTE LIKELIHOOD SHALL MEAN THAT FUTURE EVENTS ARE LIKELY TO OCCUR OR ARE REASONABLY POSSIBLE TO OCCUR.

The board of directors, in a regular or special meeting, shall consider and act on the financial audit report and the CERTIFICATION UNDER OATH SUBMITTED IN LIEU OF THE LOC, and shall submit, within thirty (30) banking days after receipt of the reports, a copy of its resolution to the appropriate supervising and examining department of the BSP. The resolution shall show, among other things, the actions(s) taken on the reports and the names of the directors present and absent.

The board shall likewise consider and act on the LOC and shall submit, within thirty (30) banking days after receipt thereof, a copy of its resolution together with said LOC to the appropriate supervising and examining department of the BSP. The resolution shall show the action(s) taken on the findings and recommendations and, the names of the directors present and absent, among other things.

THE COUNTRY HEAD OF FOREIGN BANKS WITH BRANCHES IN THE PHILIPPINES SHALL SUBMIT A REPORT ON THE ACTION TAKEN BY MANAGEMENT (HEAD OFFICE, REGIONAL, OR COUNTRY, AS THE CASE MAY BE) ON THE FINANCIAL AUDIT REPORT AND THE CERTIFICATION UNDER OATH SUBMITTED IN LIEU OF THE LOC WITHIN THIRTY (30) BANKING DAYS AFTER RECEIPT THEREOF.

THE COUNTRY HEAD SHALL LIKEWISE SUBMIT A REPORT ON THE ACTION TAKEN BY MANAGEMENT ON THE LOC WITHIN THIRTY (30) BANKING DAYS AFTER RECEIPT THEREOF.

THE LOC SHALL BE ACCOMPANIED BY THE CERTIFICATION OF THE EXTERNAL AUDITOR OF THE DATE OF ITS SUBMISSION TO THE BOARD OF DIRECTORS OR COUNTRY HEAD, AS THE CASE MAY BE.

Government-owned or controlled banks, including their subsidiaries and affiliates, as well as other financial institutions under BSP supervision which are under the concurrent jurisdiction of the Commission on Audit (COA) shall be exempt from the aforementioned annual financial audit by an acceptable external auditor: *Provided*, That when warranted by supervisory concern such as material weakness/breach in internal control and/or risk management systems, the Monetary Board may, at the expense of the concerned institution and upon recommendation of the appropriate supervising and examining department of the Bangko Sentral, require the financial audit to be conducted by an external independent auditor acceptable to the BSP: *Provided Further*, That when circumstances such as loans from multilateral financial institutions, privatization, or public listing warrant, the financial audit of the concerned institution by an acceptable external auditor may also be allowed.

BANKS AS WELL AS EXTERNAL AUDITORS SHALL STRICTLY OBSERVE THE REQUIREMENTS IN THE SUBMISSION OF THE FINANCIAL AUDIT REPORT AND REPORTS REQUIRED TO BE SUBMITTED UNDER THE ATTACHED APPENDIX _.

THE REPORTS AND CERTIFICATIONS OF INSTITUTIONS CONCERNED, SCHEDULES AND ATTACHMENTS REQUIRED UNDER THIS SUBSECTION SHALL BE CONSIDERED CATEGORY B REPORTS DELAYED SUBMISSION OF WHICH SHALL BE SUBJECT TO THE PENALTIES UNDER SUBSEC. X162.2B(1)B OF THE MORB.

Subsec. X164.2 Posting of audited financial statements. LOCAL banks shall post in conspicuous places in THEIR HEAD OFFICES, all their branches and other banking offices, AS WELL AS IN THEIR RESPECTIVE WEBSITES, their latest FINANCIAL AUDIT REPORT.

THE ABOVE-MENTIONED DOCUMENTS SHALL ALSO BE POSTED BY FOREIGN BANK BRANCHES IN ALL THEIR BANKING OFFICES IN THE PHILIPPINES."

Section 2. The foregoing amendments under Section 1 are hereby adopted as amendments to the Q-Regulations, N-Regulations and S-Regulations of the Manual of Regulations for Non-Bank Financial Institutions.

This Circular shall take effect fifteen (15) days following its publication either in the Official Gazette or in a newspaper of general circulation.

FOR THE MONETARY BOARD:


AMANDO M. TETANGCO, JR.
Governor

9 August 2006