



BANGKO SENTRAL NG PILIPINAS

OFFICE OF THE GOVERNOR

CIRCULAR NO. 969

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Subject: Enhanced Corporate Governance Guidelines for BSP-Supervised Financial Institutions

The Monetary Board, in its Resolution No. 1326 dated 3 August 2017, approved the revisions to guidelines in strengthening corporate governance in BSP Supervised Financial Institutions amending relevant provisions of the Manual of Regulations for Banks (MORB) as follows:

Section 1. Chapter H of Part One of the MORB on Directors, Officers and Employees is hereby retitled as "Corporate Governance Guidelines".

Section 2. Section X141 and Subsections X141.1 are hereby amended, and Subsections X141.2 to X141.5 and Subsections X141.9 to X141.10 are deleted, to read as follows:

Sec. X141 Policy Statement. It is the thrust of the Bangko Sentral to continuously strengthen corporate governance in its supervised financial institutions cognizant that this is central in sustaining the resiliency and stability of the financial system. In this light, the Bangko Sentral is aligning its existing regulations with the Code of Corporate Governance for Publicly-Listed Companies issued by the Securities and Exchange Commission as well as with best practices and standards issued by globally recognized standard setting bodies.

Subsec. X141.1 Definition of terms. For purposes of these regulations, the following definitions shall apply:

- a. *Affiliate* shall refer to an entity linked directly or indirectly to a Bangko Sentral-Supervised Financial Institutions (BSFI) by means of:
 - (1) Ownership, control as defined under Item "d" of this Subsection, or power to vote of at least twenty percent (20%) of the outstanding voting stock of the entity, or vice-versa;
 - (2) Interlocking directorship or officership, where the director or officer concerned owns, controls, as defined under Item "d" of this Subsection, or has the power to vote, at least twenty percent (20%) of the outstanding voting stock of the entity;
 - (3) Common ownership, whereby the common stockholders own at least ten percent (10%) of the outstanding voting stock of the BSFI and at least twenty percent (20%) of the outstanding voting stock of the entity;

- (4) Management contract or any arrangement granting power to the BSFI to direct or cause the direction of management and policies of the entity; or
 - (5) Permanent proxy or voting trusts in favor of the BSFI constituting at least twenty percent (20%) of the outstanding voting stock of the entity, or vice versa.
- b. *Close family members* shall refer to persons related to the BSFI's directors, officers and stockholders (DOS) within the second degree of consanguinity or affinity, legitimate or common-law. These shall include the spouse, parent, child, brother, sister, grandparent, grandchild, parent-in-law, son-/daughter-in-law, brother/sister-in-law, grandparent-in-law, and grandchild-in-law of the BSFI's DOS.
- c. *Complex banks* shall refer to universal/commercial banks (UBs/KBs). Nonetheless, a UB/KB may apply with the Bangko Sentral for a reclassification as simple or non-complex bank in order to avail of the reduced minimum requirement on the constitution of board committees. The Bangko Sentral may likewise declare thrift banks (TBs), rural banks (RBs) or cooperative banks (Coop Banks) as complex. Any TB, RB or Coop Bank having at least three (3) of the following characteristics shall be deemed a complex bank:
- (1) Total assets of at least P6 billion;
 - (2) Extensive branch network;
 - (3) Non-traditional financial products and services by virtue of special authorities (e.g., trust, quasi-banking derivatives licenses), as well as distinctive products like credit cards, remittance, trade-related services, contract-to-sell (CTS) financing, among other financial services;
 - (4) Use of non-conventional business model, such as those using non-traditional delivery platform such as electronic platforms; and
 - (5) Business strategy characterized by risk appetite that is aggressive and risk exposures which are increasing such as those with robust branch expansion programs or acquisition plans as determined by the Bangko Sentral.
- d. *Control* of an enterprise exists when there is:
- (1) Power over more than one-half of the voting rights by virtue of an agreement with other stockholders; or
 - (2) Power to govern the financial and operating policies of the enterprise under a statute or an agreement; or
 - (3) Power to appoint or remove the majority of the members of the board of directors or equivalent governing body; or
 - (4) Power to cast the majority votes at meetings of the board of directors or equivalent governing body; or
 - (5) Any other arrangement similar to any of the above.

Control is presumed to exist if there is ownership or holding, whether direct or indirect, of twenty percent (20%) or more of a class of voting shares of a company.

Should the BSFI choose to disclaim or rebut the presumption, it should provide facts sufficient to show that there is indeed no control. Further, the BSFI shall submit a written commitment that: (a) shares owned or held are exclusively for

investment purposes; (b) the BSFI-stockholder will not serve on the board of directors and will not nominate any candidate to serve on the board of directors or otherwise seek board representation; (c) the BSFI-stockholder will have only limited contacts with BSFI management that are customary for interested shareholders; (d) the BSFI-stockholder will engage only in normal and customary transactions with the enterprise; and (e) the BSFI will not pledge the shares acquired to secure a loan with any institution.

- e. *Corresponding persons in affiliated companies* shall refer to the DOS of the affiliated companies and their close family members.
- f. *Directors.* Directors shall include:
 - (1) directors who are named as such in the articles of incorporation;
 - (2) directors duly elected in subsequent meetings of the stockholders or those appointed by virtue of the charter of government-owned BSFIs; and
 - (3) those elected to fill vacancies in the board of directors.
- g. *Independent directors.* An independent director shall refer to a person who –
 - (1) is not or was not a director, officer or employee of the BSFI, its subsidiaries, affiliates or related interests during the past three (3) years counted from the date of his election/appointment;
 - (2) is not or was not a director, officer, or employee of the BSFI's substantial stockholders and their related companies during the past three (3) years counted from the date of his election/appointment;
 - (3) is not an owner of more than two percent (2%) of the outstanding shares or a stockholder with shares of stock sufficient to elect one (1) seat in the board of directors of the institution, or in any of its related companies or of its majority corporate shareholders;
 - (4) is not a close family member of any director, officer or stockholder holding shares of stock sufficient to elect one (1) seat in the board of directors of the BSFI or any of its related companies or of any of its substantial stockholders;
 - (5) is not acting as a nominee or representative of any director or substantial shareholder of the BSFI, any of its related companies or any of its substantial shareholders;
 - (6) is not or was not retained as professional adviser, consultant, agent or counsel of the BSFI, any of its related companies or any of its substantial shareholders, either in his personal capacity or through his firm during the past three (3) years counted from the date of his election;
 - (7) is independent of management and free from any business or other relationship, has not engaged and does not engage in any transaction with the BSFI or with any of its related companies or with any of its substantial shareholders, whether by himself or with other persons or through a firm of which he is a partner or a company of which he is a director or substantial shareholder, other than transactions which are conducted at arm's length and could not materially interfere with or influence the exercise of his judgment;

- (8) was not appointed in the BSFI, its subsidiaries, affiliates or related interests as Chairman "Emeritus", "Ex-Officio", Directors/Officers or Members of any Advisory Board, or otherwise appointed in a capacity to assist the board of directors in the performance of its duties and responsibilities during the past three (3) years counted from the date of his appointment;
 - (9) is not affiliated with any non-profit organization that receives significant funding from the BSFI or any of its related companies or substantial shareholders; and
 - (10) is not employed as an executive officer of another company where any of the BSFI's executives serve as directors.
- h. *Majority stockholder or majority shareholder* shall refer to a person, whether natural or juridical, owning more than fifty percent (50%) of the voting stock of a BSFI.
 - i. *Non-executive directors* shall refer to those who are not part of the day to day management of operations and shall include the independent directors. However, not all non-executive directors are considered independent directors.
 - j. *Officers* shall include the Chief Executive Officer (CEO)^{1/}, executive vice president, senior vice-president, vice president, general manager, treasurer, secretary, trust officer and others mentioned as officers of the BSFI, or those whose duties as such are defined in the by-laws, or are generally known to be the officers of the BSFI (or any of its branches and offices other than the head office) either through announcement, representation, publication or any kind of communication made by the BSFI: *Provided*, That a person holding the position of chairman or vice-chairman of the board of directors or another position in the board of directors shall not be considered as an officer unless the duties of his position in the board of directors include functions of management such as those ordinarily performed by regular officers: *Provided, further*, That members of a group or committee, including sub-groups or sub-committees, whose duties include functions of management such as those ordinarily performed by regular officers, and are not purely recommendatory or advisory, shall likewise be considered as officers.
- ^{1/} Shall also refer to the President or any other title referring to the top management post in the BSFI
- k. *Parent* shall refer to a corporation which has control over another corporation directly or indirectly through one (1) or more intermediaries;
 - l. *Related company* shall refer to another company which is:
 - (1) Its parent or holding company;
 - (2) Its subsidiary or affiliate; or
 - (3) A corporation where a BSFI or its majority stockholder own such number of shares that will allow/enable such person or group to elect at least one (1) member of the board of directors or a partnership where such majority stockholder is a partner.

m. *Related interest* shall refer to any of the following:

- (1) Spouse or relative within the first degree of consanguinity or affinity, or relative by legal adoption, of a director, officer or stockholder of the BSFI;
- (2) Partnership of which a director, officer, or stockholder of a BSFI or his spouse or relative within the first degree of consanguinity or affinity, or relative by legal adoption, is a general partner;
- (3) Co-owner with the director, officer, stockholder or his spouse or relative within the first degree of consanguinity or affinity, or relative by legal adoption, of the property or interest or right mortgaged, pledged or assigned to secure the loans or other credit accommodations, except when the mortgage, pledge or assignment covers only said co-owner's undivided interest;
- (4) Corporation, association or firm of which any or a group of directors, officers, stockholders of the BSFI and/or their spouses or relatives within the first degree of consanguinity or affinity, or relative by legal adoption, hold or own at least twenty percent (20%) of the subscribed capital of such corporation, or of the equity of such association or firm;
- (5) Corporation, association or firm wholly or majority-owned or controlled by any related entity or a group of related entities mentioned in Items "m(2)" and "m(4)" of this Subsection;
- (6) Corporation, association or firm which owns or controls directly or indirectly whether singly or as part of a group of related interest at least twenty percent (20%) of the subscribed capital of a substantial stockholder of the BSFI or which controls majority interest of the BSFI pursuant to Subsec. X303.1g;
- (7) Corporation, association or firm which has an existing management contract or any similar arrangement with the parent of the BSFI; and
- (8) Non-governmental organizations (NGOs)/ foundations that are engaged in retail microfinance operations which are incorporated by any of the stockholders and/or directors and/or officers or related BSFIs.

The general principles and standards that will govern the business relationships between BSFIs and their related NGOs/foundations engaged in retail microfinance are found in *Appendix 27*.

n. *Related parties* shall cover the BSFI's subsidiaries as well as affiliates and any party (including their subsidiaries, affiliates and special purpose entities) that the BSFI exerts direct/indirect control over or that exerts direct/indirect control over the BSFI; the BSFI's directors, officers, stockholders, and their related interests (DOSRI), and their close family members, as well as corresponding persons in affiliated companies. This shall also include such other person/juridical entity whose interests may pose potential conflict with the interest of the BSFI, hence, is identified as a related party.

The above definition shall also include direct or indirect linkages to a BSFI identified as follows:

- (1) Ownership, control or power to vote, of ten percent (10%) to less than twenty percent (20%) of the outstanding voting stock of the borrowing entity, or vice versa;

- (2) Interlocking directorship or officership, except in cases involving independent directors as defined under existing regulations or directors holding nominal share in the borrowing corporation;
 - (3) Common stockholders owning at least ten percent (10%) of the outstanding voting stock of the BSFI and ten percent (10%) to less than twenty percent (20%) of the outstanding voting stock of the borrowing entity; or
 - (4) Permanent proxy or voting trusts in favor of the BSFI constituting ten percent (10%) to less than twenty percent (20%) of the outstanding voting stock of the borrowing entity, or vice versa.
- o. *Related party transactions (RPTs)* shall refer to transactions or dealings with related parties of the BSFI, including its trust department regardless of whether or not a price is charged. These shall include, but not limited to the following:
- (1) On- and off-balance sheet credit exposures and claims and write-offs;
 - (2) Investments and/or subscriptions for debt/equity issuances;
 - (3) Consulting, professional, agency and other service arrangements/contracts;
 - (4) Purchases and sales of assets, including transfer of technology and intangible items (e.g., research and development, trademarks and license agreements);
 - (5) Construction arrangements/contracts;
 - (6) Lease arrangements/contracts;
 - (7) Trading and derivative transactions;
 - (8) Borrowings, commitments, fund transfers and guarantees;
 - (9) Sale, purchase or supply of any goods or materials; and
 - (10) Establishment of joint venture entities.

RPTs shall be interpreted broadly to include not only transactions that are entered into with related parties but also outstanding transactions that were entered into with an unrelated party that subsequently becomes a related party.

- p. *Risk appetite statement* shall refer to the articulation in written form of the aggregate level and types of risk that a BSFI is willing to accept, or to avoid, in order to achieve its business objectives. It includes qualitative statements as well as quantitative measures expressed relative to earnings, capital, risk measures, liquidity and other relevant measures as appropriate.
- q. *Risk governance framework* shall refer to the framework through which the board of directors and management establish the BSFI's strategy; articulate and monitor adherence to risk appetite and risk limits; and identify, measure, and manage risks.
- r. *Risk limits* shall refer to the allocation of the BSFI's risk appetite statement to: specific risk categories (e.g., credit, market, liquidity, operational); the business unit or platform level (e.g., retail, capital markets); lines of business or product level [e.g., concentration, value-at-risk (VaR), or other limits]; and other levels, as appropriate.
- s. *Stockholder* shall refer to any stockholder of record in the books of the BSFI, acting personally, or through an attorney-in-fact; or any other person duly authorized by him or through a trustee designated pursuant to a proxy or voting trust or other

similar contracts, whose stockholdings in the BSFI, individual and/or collectively with the stockholdings of: (1) his spouse and/or relative within the first degree by consanguinity or affinity or legal adoption; (2) a partnership in which the stockholder and/or the spouse and/or any of the aforementioned relatives is a general partner; and (3) corporation, association or firm of which the stockholder and/or his spouse and/or the aforementioned relatives own more than fifty percent (50%) of the total subscribed capital stock of such corporation, association or firm, amount to one percent (1%) or more of the total subscribed capital stock of the BSFI.

- t. *Substantial stockholder* shall refer to a person, or group of persons whether natural or juridical, owning such number of shares that will allow such person or group to elect at least one (1) member of the board of directors of a BSFI or who is directly or indirectly the registered or beneficial owner of more than ten percent (10%) of any class of its equity security.
- u. *Subsidiary* shall refer to a corporation or firm more than fifty percent (50%) of the outstanding voting stock of which is directly or indirectly owned, controlled or held with power to vote by its parent corporation.

Section 3. Section X142 and its Subsections shall now read as follows:

Sec. X142 Board of Directors.

Subsec. X142.1 *Powers/Corporate powers of the board of directors.* The corporate powers of an institution shall be exercised, its business conducted, and all its resources controlled through its board of directors. The powers of the board of directors as conferred by law are original and cannot be revoked by the stockholders. The directors shall hold their office charged with the duty to exercise sound and objective judgment for the best interest of the institution.

Subsec. X142.2 *Composition of the board of directors.*

- a. Pursuant to Sections 15 and 17 of R.A. No. 8791, there shall be at least five (5), and a maximum of fifteen (15) members of the board of directors of a BSFI: *Provided*, That in case of a bank/QB/trust entity merger or consolidation, the number of directors may be increased up to the total number of the members of board of directors of the merging or consolidating bank/QB/trust entity as provided for in their respective articles of incorporation, but in no case to exceed twenty-one (21). The board of directors shall determine the appropriate number of its members to ensure that the number thereof is commensurate to the size and complexity of the BSFI's operations.
- b. To the extent practicable, the members of the board of directors shall be selected from a broad pool of qualified candidates. Non-executive directors, who shall include independent directors, shall comprise at least majority of the board of directors to promote the independent oversight of management by the board of directors.

- c. At least one-third (1/3) but not less than two (2) members of the board of directors shall be independent directors: *Provided*, That any fractional result from applying the required minimum proportion, i.e., one-third (1/3), shall be rounded up to the nearest whole number: *Provided, further*, That in the case of RBs, at least one (1) independent director shall be elected to the board of directors: *Provided, furthermore*, That RBs whose business model, is deemed complex by the Bangko Sentral, or as directed by the appropriate supervising department of the Bangko Sentral, shall have at least one-third (1/3) but not less than two (2) members of the board of directors as independent directors: *Provided, finally*, That any fractional result from applying the required minimum proportion, i.e., one-third (1/3) shall be rounded-up to the nearest whole number.
- d. Non-Filipino citizens may become members of the board of directors of a BSFI to the extent of the foreign participation in the equity of said BSFI: *Provided*, That pursuant to Section 23 of the Corporation Code of the Philippines (BP Blg. 68), a majority of the directors must be residents of the Philippines.

Subsec. X142.3 Qualifications of a director.

- a. A director shall have the following minimum qualifications:
 - (1) He must be fit and proper for the position of a director. In determining whether a person is fit and proper for the position of a director, the following matters must be considered: integrity/probity, physical/mental fitness; relevant education/financial literacy/ training; possession of competencies relevant to the job, such as knowledge and experience, skills, diligence and independence of mind; and sufficiency of time to fully carry out responsibilities.

In assessing a director's integrity/probity, consideration shall be given to the director's market reputation, observed conduct and behavior, as well as his ability to continuously comply with company policies and applicable laws and regulations, including market conduct rules, and the relevant requirements and standards of any regulatory body, professional body, clearing house or exchange, or government and any of its instrumentalities/agencies.

An elected director has the burden to prove that he possesses all the foregoing minimum qualifications and none of the cases mentioned under Subsection X150.1. A director shall submit to the Bangko Sentral the required certifications and other documentary proof of such qualifications using the *Appendix 98* as guide within twenty (20) banking days from the date of election. Non-submission of complete documentary requirements or their equivalent within the prescribed period shall be construed as his failure to establish his qualifications for the position and results in his removal from the board of directors.

The Bangko Sentral shall also consider its own records in determining the qualifications of a director.

The members of the board of directors shall possess the foregoing qualifications in addition to those required or prescribed under R.A. No. 8791 and other applicable laws and regulations.

(2) He must have attended a seminar on corporate governance for board of directors. A director shall submit to the Bangko Sentral a certification of compliance with the Bangko Sentral-prescribed syllabus on corporate governance for first time directors and documentary proof of such compliance: *Provided*, That the following persons are exempted from complying with the aforementioned requirement:

- (a) Filipino citizens with recognized stature, influence and reputation in the banking community and whose business practices stand as testimonies to good corporate governance;
- (b) Distinguished Filipino and foreign nationals who served as senior officials in central banks and/or financial regulatory agencies, including former Monetary Board members; or
- (c) Former Chief Justices and Associate Justices of the Philippine Supreme Court:

Provided, further, That this exemption shall not apply to the annual training requirements for the members of the board of directors.

b. *Independent and non-executive directors*

In selecting independent and non-executive directors, the number and types of entities where the candidate is likewise elected as such, shall be considered to ensure that he will be able to devote sufficient time to effectively carry out his duties and responsibilities. In this regard, the following shall apply:

- (1) A non-executive director may concurrently serve as director in a maximum of five (5) publicly listed companies. In applying this provision to concurrent directorship in entities within a conglomerate, each entity where the non-executive director is concurrently serving as director shall be separately considered in assessing compliance with this requirement; and
- (2) An independent director of a BSFI may only serve as such for a maximum cumulative term of nine (9) years. After which, the independent director shall be perpetually barred from serving as independent director in the same BSFI, but may continue to serve as regular director. The nine (9) year maximum cumulative term for independent directors shall be reckoned from 2012.

c. Members of the board of directors shall not be appointed as Corporate Secretary or Chief Compliance Officer.

Subsec. X142.4 Chairperson of the board of directors.

a. *Roles of the Chairperson of the board of directors.* The Chairperson of the board of directors shall provide leadership in the board of directors. He shall ensure effective functioning of the board of directors, including maintaining a relationship of trust with members of the board of directors. He shall: (1) ensure that the meeting agenda focuses on strategic matters including discussion on risk appetites, and key governance concerns; (2) ensure a sound decision making process;

(3) encourage and promote critical discussion; (4) ensure that dissenting views can be expressed and discussed within the decision-making process; (5) ensure that members of the board of directors receives accurate, timely, and relevant information; (6) ensure the conduct of proper orientation for first time directors and provide training opportunities for all directors; and (7) ensure conduct of performance evaluation of the board of directors at least once a year.

- b. *Qualifications of the Chairperson of the board of directors.* To promote checks and balances, the Chairperson of the board of directors shall be a non-executive director or an independent director, and must not have served as CEO of the BSFI within the past three (3) years. The positions of Chairperson and CEO shall not be held by one person. In exceptional cases where the position of Chairperson of the board of directors and CEO is allowed to be held by one (1) person as approved by the Monetary Board, a lead independent director shall be appointed.

For this purpose, the board of directors shall define the responsibilities of the lead independent director, which shall be documented in the corporate governance manual. The board of directors shall ensure that the lead independent director functions in an environment that allows him to effectively challenge the CEO as circumstances may warrant. The lead independent director shall perform a more enhanced function over the other independent directors and shall: (1) lead the independent directors at board of directors meetings in raising queries and pursuing matters; and (2) lead meetings of independent directors, without the presence of the executive directors.

Subsec. X142.5 Board of directors meetings. BSFIs shall include in their by-laws a provision that meetings of their board of directors shall be held only within the Philippines, except in the case of BSFIs with head office located outside the Philippines, which may be held in their respective places of business.

- a. *Full board of directors meetings*

The meetings of the board of directors may be conducted through modern technologies such as, but not limited to, teleconferencing and video conferencing as long as the director who is taking part in said meetings can actively participate in the deliberations on matters taken up therein: *Provided*, That every member of the board of directors shall participate in at least fifty percent (50%) and shall physically attend at least twenty-five percent (25%) of all meetings of the board of directors every year: *Provided, further*, That the absence of a director in more than fifty percent (50%) of all regular and special meetings of the board of directors during his/her incumbency is a ground for disqualification in the succeeding election.

- b. *Board-level committee meetings*

Board-level committees shall meet as prescribed in their respective charters. Participation of committee members may likewise be in person or through modern technologies: *Provided*, That the attendance and participation of members in committee meetings shall be considered in the assessment of continuing fitness

and propriety of each director as member of board-level committees and the board of directors.

Section 4. Section X143 and Subsec. X143.1 are amended, and the provisions of Item "d" of Subsec. X141.3 are hereby transferred to Subsec. X143.2, as follows:

Sec. X143 Duties and Responsibilities of the Board of Directors/Directors.

Subsec. X143.1 *Specific duties and responsibilities of the board of directors.* The board of directors is primarily responsible for defining the BSFI's vision and mission. The board of directors has the fiduciary responsibility to the BSFI and all its shareholders including minority shareholders. It shall approve and oversee the implementation of strategies to achieve corporate objectives. It shall also approve and oversee the implementation of the risk governance framework and the systems of checks and balances. It shall establish a sound corporate governance framework. The board of directors shall approve the selection of the CEO and key members of senior management and control functions and oversee their performance.

- a. *The board of directors shall define the BSFI's corporate culture and values.* It shall establish a code of conduct and ethical standards in the BSFI and shall institutionalize a system that will allow reporting of concerns or violations to an appropriate body. In this regard, the board of directors shall:
 - (1) Approve a code of conduct or code of ethics, which shall articulate acceptable and unacceptable activities, transactions and behaviors that could result or potentially result in conflict of interest, personal gain at the expense of the BSFI as well as the corresponding disciplinary actions and sanctions. The code of conduct shall explicitly provide that directors, officers, and all personnel are expected to conduct themselves ethically and perform their job with skill, due care, and diligence in addition to complying with laws, regulations, and company policies.
 - (2) Consistently conduct the affairs of the BSFI with a high degree of integrity and play a lead role in establishing the BSFI's corporate culture and values. The board of directors shall establish, actively promote, and communicate a culture of strong governance in the BSFI, through adopted policies and displayed practices. The board of directors shall ensure that the CEO and executive team champion the desired values and conduct, and that they face material consequences if there are persistent or high profile conduct and value breaches.
 - (3) Oversee the integrity, independence, and effectiveness of BSFI's policies and procedures for whistleblowing. It shall allow employees to communicate, with protection from reprisal, legitimate concerns about illegal, unethical or questionable practices directly to the board of directors or to any independent unit. Policies shall likewise be set on how such concerns shall be investigated and addressed, for example, by an internal control function, an objective external party, senior management and/or the board of directors itself. It shall prevent the use of the facilities of the BSFI in the furtherance of criminal and other improper or illegal activities, such as but not limited to financial misreporting, money laundering, fraud, bribery or corruption.

- b. *The board of directors shall be responsible for approving BSFI's objectives and strategies and in overseeing management's implementation thereof. In this regard, the board of directors shall:*
- (1) Ensure that the BSFI has beneficial influence on the economy by continuously providing services and facilities which will be supportive of the national economy.
 - (2) Approve the BSFI's strategic objectives and business plans. These shall take into account the BSFI's long-term financial interests, its level of risk tolerance, and ability to manage risks effectively. In this respect, the board of directors shall establish a system for measuring performance against plans.
 - (3) Actively engage in the affairs of the BSFI and keep up with material changes in the BSFI's business and regulatory environment as well as act in a timely manner to protect the long term interests of the BSFI.
 - (4) Approve and oversee the implementation of policies governing major areas of the BSFI's operations. The board of directors shall regularly review these policies, as well as evaluate control functions (e.g., internal audit, risk management and compliance) with senior management to determine areas for improvement as well as to promptly identify and address significant risks and issues.
- c. *The board of directors shall be responsible for the appointment/selection of key members of senior management and heads of control functions and for the approval of a sound remuneration and other incentives policy for personnel. In this regard, the board of directors shall:*
- (1) Oversee selection of the CEO and other key personnel, including members of senior management and heads of control functions based on the application of fit and proper standards. Integrity, technical expertise, and experience in the BSFI's business, either current or planned, shall be the key considerations in the selection process. Moreover, since mutual trust and a close working relationship are important, the members of senior management shall uphold the general operating philosophy, vision and core values of the BSFI.
 - (2) Approve and oversee the implementation of performance standards as well as remuneration and other incentives policy. The policy should be consistent with the long-term strategic objectives and financial soundness of the BSFI and should promote good performance, convey acceptable risk-taking behavior, and reinforce the BSFI's operating and risk culture.
 - (3) Oversee the performance of senior management and heads of control functions:
 - (a) The board of directors shall regularly monitor and assess the performance of the management team and heads of control functions based on approved performance standards.
 - (b) The board of directors shall hold members of senior management accountable for their actions and enumerate the possible consequences if those actions are not aligned with the board of directors' performance expectations. These expectations shall include adherence to the BSFI's values, risk appetite and risk culture, under all circumstances.

- (c) The board of directors shall regularly meet with senior management to engage in discussions, question, and critically review the reports and information provided by the latter.
 - (d) Non-executive board members shall meet regularly, other than in meetings of the audit, risk oversight, corporate governance, and related party transactions committees, in the absence of senior management, with the external auditor and heads of the internal audit, compliance and risk management functions.
 - (4) Engage in succession planning for the CEO and other critical positions, as appropriate. In this respect, the board of directors shall establish an effective succession planning program. The program should include a system for identifying and developing potential successors for the CEO and other critical positions.
 - (5) Ensure that personnel's expertise and knowledge remain relevant. The board of directors shall provide its personnel with regular training opportunities as part of a professional development program to enhance their competencies and stay abreast of developments relevant to their areas of responsibility.
 - (6) Ensure that employee pension funds are fully funded or the corresponding liability appropriately recognized in the books of the BSFI at all times, and that all transactions involving the pension fund are conducted at arm's length terms.
- d. *The board of directors shall be responsible for approving and overseeing implementation of the BSFI's corporate governance framework.* In this regard, the board of directors shall:
- (1) Define appropriate governance structure and practices for its own work, and ensure that such practices are followed and periodically reviewed:
 - (a) The board of directors shall structure itself in a way, including in terms of size and frequency of meetings, so as to promote efficiency, critical discussion of issues, and thorough review of matters. The board of directors shall meet regularly to properly discharge its functions, and likewise have discussions on values, conduct, and behaviors.
 - (b) The board of directors shall create committees to increase efficiency and allow deeper focus in specific areas. The number and nature of board-level committees would depend on the size of the BSFI and the board of directors, the BSFI's complexity of operations, as well as the board of directors' long-term strategies and risk tolerance.
 - (c) The board of directors shall regularly review the structure, size and composition of the board of directors and board-level committees with the end in view of having a balanced membership. Towards this end, a system and procedure for evaluation of the structure, size and composition of the board of directors and board-level committees shall be adopted which shall include, but not limited to, benchmark and peer group analysis. The results of assessment shall form part of the ongoing improvement efforts of the board of directors.
 - (d) The board of directors shall adopt policies aimed at ensuring that the members of the board of directors are able to commit to effectively discharge their responsibilities, which shall include policy on the number

of directorship positions and/or other internal/external professional commitments that a director may have, commensurate with the responsibilities placed on the director, as well as the nature, scale and complexity of the BSFI's operations.

- (e) The board of directors shall ensure that individual members of the board of directors and the shareholders are accurately and timely informed of a comprehensive and understandable assessment of the BSFI's performance, financial condition, and risk exposures. All members of the board of directors shall have reasonable access to any information about the BSFI at all times. The board of directors shall also ensure that adequate and appropriate information flows internally and to the public.
 - (f) The board of directors shall assess at least annually its performance and effectiveness as a body, as well as its various committees, the CEO, the individual directors, and the BSFI itself, which may be facilitated by the corporate governance committee or external facilitators. This exercise shall cover the assessment of the ongoing suitability of each board member taking into account his or her performance in the board of directors and board-level committees.
 - (g) The board of directors shall maintain appropriate records (e.g., meeting minutes or summaries of matters reviewed, recommendations made, decisions taken and dissenting opinions) of its deliberations and decisions. The board of directors shall also ensure that independent views in meetings of the board of directors shall be given full consideration and all such meetings shall be duly minuted.
- (2) Develop a remuneration and other incentives policy for directors that shall be submitted for approval of the stockholders. The board of directors shall ensure that the policy is consistent with the long-term interest of the BSFI, does not encourage excessive risk-taking, and is not in conflict with the director's fiduciary responsibilities.
 - (3) Adopt a policy on retirement for directors and officers, as part of the succession plan, to promote dynamism and avoid perpetuation in power.
 - (4) Conduct and maintain the affairs of the BSFI within the scope of its authority as prescribed in its charter and in existing laws, rules and regulations. It shall ensure effective compliance with the latter, which include prudential reporting obligations. Serious weaknesses in adhering to these duties and responsibilities may be considered as unsafe and unsound practice.
 - (5) Maintain, and periodically update, organizational rules, by-laws, or other similar documents setting out its organization, rights, responsibilities and key activities. The board of directors shall ensure that the BSFI's organizational structure facilitates effective decision making and good governance. This includes clear definition and delineation of the lines of responsibility and accountability.
 - (6) Oversee the development, approve, and monitor implementation of corporate governance policies. The board of directors shall ensure that corporate governance policies are followed and periodically reviewed for ongoing improvement.
 - (7) Approve an overarching policy on the handling of RPTs to ensure that there is effective compliance with existing laws, rules and regulations at all times,

that these are conducted on an arm's length basis, and that no stakeholder is unduly disadvantaged. In this regard:

- (a) The board of directors shall approve all material RPTs, those that cross the materiality threshold, and write-off of material exposures to related parties, and submit the same for confirmation by majority vote of the stockholders in the annual stockholders' meeting. Any renewal or material changes in the terms and conditions of RPTs shall also be approved by the board of directors. All final decisions of the board of directors on material RPTs, including important facts about the nature, terms, conditions, original and outstanding individual and aggregate balances, justification and other details that would allow stockholders to make informed judgment as to the reasonableness of the transaction, must be clearly disclosed during stockholders meetings and duly reflected in the minutes of board of directors and stockholders' meetings.
- (b) The board of directors shall delegate to appropriate management committee the approval of RPTs that are below the materiality threshold, subject to confirmation by the board of directors. This shall, however, exclude DOSRI transactions, which are required to be approved by the board of directors. All decisions under the delegated authority must be properly recorded in the minutes of the committee meetings.
- (c) The board of directors shall establish an effective system to:
 - (i) Determine, identify and monitor related parties and RPTs;
 - (ii) Continuously review and evaluate existing relationships between and among businesses and counterparties; and
 - (iii) Identify, measure, monitor and control risks arising from RPTs. The system should be able to define related parties' extent of relationship with the BSFI; assess situations in which a nonrelated party (with whom a BSFI has entered into a transaction) subsequently becomes a related party and vice versa; and generate information on the type and amount of exposures to a particular related party. The said system will facilitate submission of accurate reports to the regulators/supervisors. The system as well as the overarching policies shall be subject to periodic assessment by the internal audit and compliance functions and shall be updated regularly for their sound implementation. The overarching policy and the system shall be made available to the Bangko Sentral and audit functions for review. Any changes in the policies and procedures shall be approved by the board of directors.
- (d) The board of directors shall maintain adequate capital against risks associated with exposures to related parties. In this regard, material risks arising from RPTs shall be considered in the capital planning process. The prescribed scenario/stress tests under the capital planning process shall also capture RPTs in order to determine whether the BSFI is well-insulated from any going concern issue of related parties.
- (e) The board of directors shall oversee the integrity, independence, and effectiveness of the policies and procedures for whistleblowing. The board of directors should ensure that senior management addresses legitimate issues on RPT that are raised. The board of directors should

take responsibility for ensuring that staff who raise concerns are protected from detrimental treatment or reprisals.

- (8) Define an appropriate corporate governance framework for group structures, which shall facilitate effective oversight over entities in the group. The board of directors of the parent company shall ensure consistent adoption of corporate governance policies and systems across the group. In this regard:
- (a) The board of directors shall define and approve appropriate governance policies, practices and structure that will enable effective oversight of the entire group, taking into account nature and complexity of operations, size and the types of risks to which the BSFI and its subsidiaries are exposed. The board of directors shall also establish means to ensure that such policies, practices and systems remain appropriate in light of the growth, increased complexity and geographical expansion of the group. Further, it shall ensure that the policies include the commitment from the entities in the group to meet all governance requirements.
 - (b) The board of directors shall define the risk appetite for the group, which shall be linked to the process of determining the adequacy of capital of the group.
 - (c) The board of directors shall ensure that adequate resources are available for all the entities in the group to effectively implement and meet the governance policies, practices and systems.
 - (d) The board of directors shall define and approve policies and clear strategies for the establishment of new structures.
 - (e) The board of directors shall understand the roles, the relationships or interactions of each entity in the group with one another and with the parent company. The board of directors shall understand the legal and operational implications of the group structure and how the various types of risk exposures affect the group's capital, risk profile and funding under normal and contingent circumstances. The board of directors shall ensure that the group's corporate governance framework includes appropriate processes and controls to identify and address potential intragroup conflicts of interest, such as those arising from intragroup transactions.
 - (f) The board of directors shall develop sound and effective systems for generation and sharing of information within the group, management of risks and effective supervision of the group.
 - (g) The board of directors shall require the risk management, compliance function and internal audit group to conduct a periodic formal review of the group structure, their controls and activities to assess consistency with the board of directors approved policies, practices and strategies and to require said groups to report the results of their assessment directly to the board of directors.

In cases where the BSFI is a subsidiary/affiliate of a non-Bangko Sentral regulated parent company:

- (a) The board of directors shall define and approve policies and clear strategies for the establishment of new structures (e.g., subsidiaries/affiliate of the BSFI). The board of directors shall also report to the Bangko Sentral any plan to create additional group

structures.

- (b) The board of directors shall understand the roles, relationships or interactions of each entity in the group with one another and with the parent company. The board of directors shall understand the legal and operational implications of the group structure and how the various types of risk exposures affect the BSFI's capital, risk profile and funding under normal and contingent circumstances.
- e. *The board of directors shall be responsible for approving BSFI's risk governance framework and overseeing management's implementation thereof.* In this regard, the board of directors shall:
 - (1) Define the BSFI's risk appetite. In setting the risk appetite, the board of directors shall take into account the business environment, regulatory landscape, and the BSFI's long term interests and ability to manage risk.
 - (2) Approve and oversee adherence to the risk appetite statement (RAS), risk policy, and risk limits.
 - (3) Oversee the development of, approve, and oversee the implementation of policies and procedures relating to the management of risks throughout the BSFI.
 - (4) Define organizational responsibilities following the three lines of defense framework. The business line functions will represent the first line of defense, the risk management and compliance functions for the second line of defense, and the internal audit function for the third line of defense. In this regard:
 - (a) The board of directors shall ensure that the risk management, compliance and internal audit functions have proper stature in the organization, have adequate staff and resources, and carry out their responsibilities independently, objectively and effectively.
 - (b) The board of directors shall ensure that non-executive board members meet regularly, with the external auditor and heads of the internal audit, compliance and risk management functions other than in meetings of the audit and risk oversight committees, in the absence of senior management.

Subsec. X143.2 *Specific duties and responsibilities of a director.* The position of a director is a position of trust. A director assumes certain responsibilities to different constituencies or stakeholders, i.e., the BSFI itself, its stockholders, its depositors and other creditors, its management and employees, the regulators, deposit insurer and the public at large. These constituencies or stakeholders have the right to expect that the institution is being run in a prudent and sound manner. The members of the board of directors should exercise their "duty of care" and "duty of loyalty" to the institution.

- a. *To remain fit and proper for the position for the duration of his term. x x x*
- b. *To conduct fair business transactions with the BSFI and to ensure that personal interest does not bias board decisions. x x x*
- c. *To act honestly and in good faith, with loyalty and in the best interest of the institution, its stockholders, regardless of the amount of their stockholdings, and*

- other stakeholders such as its depositors, investors, borrowers, other clients and the general public. x x x*
- d. To devote time and attention necessary to properly discharge their duties and responsibilities. x x x*
 - e. To act judiciously. x x x*
 - f. To contribute significantly to the decision-making process of the board. x x x*
 - g. To exercise independent judgment. x x x*
 - h. To have a working knowledge of the statutory and regulatory requirements affecting the institution, including the content of its articles of incorporation and by-laws, the requirements of the Bangko Sentral and where applicable, the requirements of other regulatory agencies. x x x*
 - i. To observe confidentiality. x x x*

BSFIs shall furnish all of their first-time directors within a BSFI with a copy of the specific duties and responsibilities of the board of directors and as an individual director prescribed under Subsections X143.1 and X143.2, upon election. The BSFI must keep on file certification under oath of the directors concerned that they have received copies of such specific duties and responsibilities and that they fully understand and accept the same.

Section 5. Section X144 and its Subsections shall now read as follows:

Sec. X144 Board-level committees. The board of directors may delegate some of its functions, but not its responsibilities, to board-level committees. In this regard, the board of directors shall:

- a. Approve, review, and update, at least annually or whenever there are significant changes therein, the respective charters of each committee or other documents that set out its mandate, scope and working procedures. Said documents shall articulate how the committee will report to the full board of directors, what is expected of the committee members, and tenure limits for serving on the committee. The board of directors shall also consider occasional rotation of committee members and chairs to avoid undue concentration of power and promote fresh perspective.
- b. Appoint members of the committees taking into account the optimal mix of skills and experience to allow the board of directors, through the committees, to fully understand and objectively evaluate the relevant issues. In order to promote objectivity, the board of directors shall appoint independent directors and non-executive members of the board of directors to the greatest extent possible. Towards this end, an independent director who is a member of any committee that exercises executive or management functions that can potentially impair such director's independence cannot accept membership in committees that perform independent oversight/control functions such as the Audit, Risk Oversight and Corporate Governance, Related Party Transactions committees, without prior approval of the Monetary Board.

- c. Ensure that each committee shall maintain appropriate records (e.g., minutes of meetings or summary of matters reviewed and decisions taken) of their deliberations and decisions. Such records shall document the committee's fulfillment of its responsibilities and facilitate the assessment of the effective performance of its functions.
- d. Constitute, at a minimum, the following committees: (1) Audit Committee; (2) Risk Oversight Committee, and (3) Corporate Governance Committee: *Provided*, That the board of directors of simple or non-complex banks may, at a minimum, constitute only the Audit Committee unless directed by the Bangko Sentral to create other board-level committees: *Provided, further*, That the board of directors shall discuss risk management and corporate governance matters in the meetings of the board of directors, with the views of the independent directors duly considered and minuted.

UBs/KBs that are part of a conglomerate shall also constitute a RPT Committee. The Bangko Sentral may likewise direct the board of directors of other BSFIs to constitute an RPT committee as a part of their corporate governance reforms.

Subsec. X144.1 Audit committee.

- a. *Composition and Chairperson.* The audit committee shall be composed of at least three (3) members of the board of directors, who shall all be non-executive directors, majority of whom shall be independent directors, including the Chairperson: *Provided*, That in the case of simple or non-complex RBs, the audit committee shall be composed of at least three (3) members of the board of directors who shall all be non-executive directors, including the Chairperson who shall be an independent director: *Provided, further*, That the Chairperson of the audit committee shall not be the Chairperson of the board of directors or of any other board-level committees.

The audit committee shall have accounting, auditing, or related financial management expertise or experience commensurate with the size, complexity of operations and risk profile of the BSFI. It shall have access to independent experts to assist them in carrying out its responsibilities.

- b. *Duties and responsibilities of the audit committee.* The audit committee shall:
 - (1) *Oversee the financial reporting framework.* The committee shall oversee the financial reporting process, practices, and controls. It shall ensure that the reporting framework enables the generation and preparation of accurate and comprehensive information and reports.
 - (2) *Monitor and evaluate the adequacy and effectiveness of the internal control system.* The committee shall oversee the implementation of internal control policies and activities. It shall also ensure that periodic assessment of the internal control system is conducted to identify the weaknesses and evaluate its robustness considering the BSFI's risk profile and strategic direction.
 - (3) *Oversee the internal audit function.* The committee shall be responsible for the appointment/selection, remuneration, and dismissal of internal auditor. It shall review and approve the audit scope and frequency. The committee

shall ensure that the scope covers the review of the effectiveness of the BSFI's internal controls, including financial, operational and compliance controls, and risk management system. The committee shall functionally meet with the head of internal audit and such meetings shall be duly minuted and adequately documented. In this regard, the audit committee shall review and approve the performance and compensation of the head of internal audit, and budget of the internal audit function.

- (4) *Oversee the external audit function.* The committee shall be responsible for the appointment, fees, and replacement of external auditor. It shall review and approve the engagement contract and ensure that the scope of audit likewise cover areas specifically prescribed by the Bangko Sentral and other regulators.
- (5) *Oversee implementation of corrective actions.* The committee shall receive key audit reports, and ensure that senior management is taking necessary corrective actions in a timely manner to address the weaknesses, non-compliance with policies, laws, and regulations and other issues identified by auditors and other control functions.
- (6) *Investigate significant issues/concerns raised.* The committee shall have explicit authority to investigate any matter within its terms of reference, have full access to and cooperation by management, and have full discretion to invite any director or executive officer to attend its meetings.
- (7) *Establish whistleblowing mechanism.* The committee shall establish and maintain mechanisms by which officers and staff shall, in confidence, raise concerns about possible improprieties or malpractices in matters of financial reporting, internal control, auditing or other issues to persons or entities that have the power to take corrective action. It shall ensure that arrangements are in place for the independent investigation, appropriate follow-up action, and subsequent resolution of complaints.

Subsec. X144.2 Risk oversight committee (ROC)

- a. *Composition and chairperson.* The committee shall be composed of at least three (3) members of the board of directors, majority of whom shall be independent directors, including the chairperson. The ROC's chairperson shall not be the chairperson of the board of directors, or any other board-level committee. The risk oversight committee shall possess a range of expertise and adequate knowledge on risk management issues and practices. It shall have access to independent experts to assist it in discharging its responsibilities.
- b. *Duties and responsibilities of the ROC.* The ROC shall advise the board of directors on the BSFI's overall current and future risk appetite, oversee senior management's adherence to the risk appetite statement, and report on the state of risk culture of the BSFI. The ROC shall:
 - (1) *Oversee the risk management framework.* The committee shall oversee the enterprise risk management framework and ensure that there is periodic review of the effectiveness of the risk management systems and recovery plans. It shall ensure that corrective actions are promptly implemented to address risk management concerns.

- (2) *Oversee adherence to risk appetite.* The committee shall ensure that the current and emerging risk exposures are consistent with the BSFI's strategic direction and overall risk appetite. It shall assess the overall status of adherence to the risk appetite based on the quality of compliance with the limit structure, policies, and procedures relating to risk management and control, and performance of management, among others.
- (3) *Oversee the risk management function.* The committee shall be responsible for the appointment/selection, remuneration, and dismissal of the Chief Risk Officer (CRO). It shall also ensure that the risk management function has adequate resources and effectively oversees the risk taking activities of the BSFI.

Subsec. X144.3 Corporate governance committee.

- a. *Composition.* The committee shall be composed of at least three (3) members of the board of directors who shall all be non-executive directors, majority of whom shall be independent directors, including the chairperson.
- b. *Duties and responsibilities of the Corporate Governance Committee.* The Corporate Governance Committee shall assist the board of directors in fulfilling its corporate governance responsibilities. In this regard, the Corporate Governance Committee shall:
 - (1) *Oversee the nomination process for members of the board of directors and for positions appointed by the board of directors.* The committee shall review and evaluate the qualifications of all persons nominated to the board of directors as well as those nominated to other positions requiring appointment by the board of directors. The committee shall recommend to the board of directors matters pertaining to the assignment to board committees, as well as succession plan for the members of the board of directors and senior management.
 - (2) *Oversee the continuing education program for the board of directors.* The committee shall ensure allocation of sufficient time, budget and other resources for the continuing education of directors, and draw on external expertise as needed. The committee shall establish and ensure effective implementation of policy for on-boarding/orientation program for first time directors and annual continuing education for all directors.

For this purpose, the orientation program for first time directors shall be for at least eight hours, while the annual continuing training shall be at least for four hours. The training programs should cover topics relevant in carrying out their duties and responsibilities as directors.
 - (3) *Oversee the performance evaluation process.* The committee shall oversee the periodic evaluation of contribution and performance (e.g., competence, candor, attendance, preparedness and participation) of the board of directors, board-level committees, and senior management. Internal guidelines shall be adopted that address the competing time commitments of directors serving on multiple boards.

- (4) *Oversee the design and operation of the remuneration and other incentives policy.* The committee shall ensure that the remuneration and other incentives policy is aligned with operating and risk culture as well as with the strategic and financial interest of BSFI, promotes good performance and conveys acceptable risk-taking behavior defined under its Code of Ethics, and complies with legal and regulatory requirements. It shall work closely with the BSFI's risk oversight committee in evaluating the incentives created by the remuneration system. In particular, the risk oversight committee shall examine whether incentives provided by the remuneration system take into consideration risk, capital, and the likelihood and timing of earnings. Moreover, it shall monitor and review the remuneration and other incentives policy including plans, processes and outcomes to ensure that it operates and achieves the objectives as intended.

Subsec. X144.4 Related party transactions committee.

- a. *Composition and chairperson.* The Committee shall be composed of at least three (3) members of the board of directors, two (2) of whom shall be independent directors, including the chairperson. The Committee shall at all times be entirely composed of independent directors and non-executive directors, with independent directors comprising majority of the members. In case a member has conflict of interest in a particular RPT, he should refrain from evaluating that particular transaction. The Compliance Officer or Internal Auditor may sit as resource persons in said Committee.
- b. *Duties and responsibilities of the Related Party Transactions Committee.*
- (1) *Evaluate on an ongoing basis existing relations between and among businesses and counterparties* to ensure that all related parties are continuously identified, RPTs are monitored, and subsequent changes in relationships with counterparties (from non-related to related and vice versa) are captured. Related parties, RPTs, and changes in relationships shall be reflected in the relevant reports to the board of directors and regulators/supervisors.
- (2) *Evaluate all material RPTs to ensure that these are not undertaken on more favorable economic terms* (e.g., price, commissions, interest rates, fees, tenor, collateral requirement) to such related parties than similar transactions with nonrelated parties under similar circumstances and that no corporate or business resources of the BSFI are misappropriated or misapplied, and to determine any potential reputational risk issues that may arise as a result of or in connection with the transactions. In evaluating RPTs, the Committee shall take into account, among others, the following:
- (a) The related party's relationship to the BSFI and interest in the transaction;
 - (b) The material facts of the proposed RPT, including the proposed aggregate value of such transaction;
 - (c) The benefits to the BSFI of the proposed RPT;
 - (d) The availability of other sources of comparable products or services; and
 - (e) An assessment of whether the proposed RPT is on terms and conditions that are comparable to the terms generally available to an unrelated party under similar circumstances. The BSFI shall have in place an effective price discovery system and have exercised due diligence in

determining a fair price for RPTs.

All RPTs that are considered material based on BSFI's internal policies shall be endorsed by the RPT Committee to the board of directors for approval.

- (3) *Ensure that appropriate disclosure is made, and/or information is provided to regulating and supervising authorities relating to the BSFI's RPT exposures, and policies on conflicts of interest or potential conflicts of interest.* The disclosure shall include information on the approach to managing material conflicts of interest that are inconsistent with such policies; and conflicts that could arise as a result of the BSFI's affiliation or transactions with other related parties.
- (4) *Report to the board of directors on a regular basis, the status and aggregate exposures to each related party as well as the total amount of exposures to all related parties.*
- (5) *Ensure that transactions with related parties, including write-off of exposures, are subject to periodic independent review or audit process.*
- (6) *Oversee the implementation of the system for identifying, monitoring, measuring, controlling, and reporting RPTs, including the periodic review of RPT policies and procedures.*

Section 6. Section X145 and Subsec. X145.1 are hereby amended; the provisions of Subsec. X142.3 are transferred to Subsec. X145.2; and a new Subsection X145.3 is hereby added, as follows:

Sec. X145 Officers.

Subsec. X145.1 *Qualifications of an officer.* An officer must be fit and proper for the position he is being appointed to. In determining whether a person is fit and proper for a particular position, the following matters must be considered: integrity/probity, education/training, and possession of competencies relevant to the function such as knowledge and experience, skills and diligence.

In assessing an officer's integrity/probity, consideration shall be given to the officer's market reputation, observed conduct and behavior, as well as his ability to continuously comply with company policies and applicable laws and regulations, including market conduct rules, and the relevant requirements and standards of any regulatory body, professional body, clearing house or exchange, or government and any of its instrumentalities/agencies.

An appointed officer has the burden to prove that he possesses all the foregoing minimum qualifications and none of the cases mentioned under Subsection X150.2. An officer shall submit to the Bangko Sentral the required certifications and other documentary proof of such qualifications using *Appendix 98* as guide within twenty (20) banking days from the date of meeting of the board of directors in which the officer is appointed/promoted. Non-submission of complete documentary requirements within the prescribed period shall be construed as his/her failure to establish his/her qualifications for the position and results to his/her removal therefrom.

The Bangko Sentral shall also consider its own records in determining the qualifications of an officer.

The foregoing qualifications for officers shall be in addition to those required or prescribed under R.A. No. 8791 and other applicable laws and regulations.

Subsec. X145.2 Duties and responsibilities of officers:

- a. *To set the tone of good governance from the top. x x x*
- b. *To oversee the day-to-day management of the BSFI. x x x*
- c. *To ensure that duties are effectively delegated to the staff and to establish a management structure that promotes accountability and transparency. x x x*
- d. *To promote and strengthen check and balances system in the BSFI. x x x*

Subsec. X145.3 Chief Executive Officer (CEO). The CEO shall be the overall-in-charge for the management of the business and affairs of the BSFI governed by the strategic direction and risk appetite approved by the board of directors. He shall be primarily accountable to the board of directors in championing the desired conduct and behavior, implementing strategies, and in promoting the long-term interest of the BSFI.

Section 7. Section X146 and Subsection X146.2 are amended, the entire provisions of Subsections X147.1 and X147.2 are transferred to Subsections X146.1 and X146.3, respectively, and provisions of Subsections 1338.2 and X338.3 are transferred as Items “a” and “b” of Subsection X146.2, respectively.

Sec. X146 Remuneration and Other Incentives. The board of directors shall approve a remuneration and other incentives policy that is appropriate and consistent with the BSFI’s operating and risk culture, long-term business and risk appetite, performance, and control environment. Said policy shall cover all employees and should be designed to encourage good performance that supports the interest of the BSFI and its stakeholders. It shall be aligned with prudent risk taking and explicitly discourage excessive risk taking as defined by internal policies. The board of directors or a board-level committee (e.g., Corporate Governance Committee) shall monitor and review the remuneration and other incentives policy including plans, processes and outcomes, at least annually, to ensure that it operates and achieves the objectives as intended.

BSFIs shall consider the following in the design of the remuneration and other incentives policy:

- a. The remuneration and incentives package shall take into account the employee’s position, role, responsibilities and activities in the BSFI. It shall also consider the risks that the employee takes on behalf of the BSFI. In this regard, it should be sensitive to prospective risks and risk outcomes that have been realized and considers the overall performance of the BSFI.
- b. Remuneration and incentive pay-out schedule should be sensitive to the time-horizon of risk. The policy may include provisions that defer payment until risk outcomes are better known or provisions under which remuneration and incentives may be reduced or reversed if new facts emerge showing that the

remuneration and incentives paid was based on erroneous assumptions, such as misreporting, or if it is discovered that the employee has failed to comply with internal policies or legal requirements.

- c. Remuneration of employees in risk control functions (i.e., Internal Audit, Compliance, and Risk Management Functions) shall be based on the achievement of their objectives and shall be independent of the business lines which they oversee.

Subsec. X146.1 Profit sharing programs. Profit sharing programs adopted in favor of directors, officers, and employees shall be reflected in the by-laws of the BSFI, subject to the following guidelines: x x x

Subsec. X146.2 Loans, advances, and other credit accommodations to officers. BSFIs may grant loans, advances, or any other forms of credit accommodations to their officers as part of a board-approved remuneration and incentive program. The board of directors shall ensure that these credit accommodations are granted for legitimate purposes, such as among others, financing the housing, transportation, and personal needs of the officers. In this regard, the board of directors shall identify specific purposes eligible for said credit accommodations to officers to promote good performance and acceptable risk-taking behavior consistent with the BSFI's operating and risk culture, long-term business and risk appetite, performance, and control environment. BSFIs shall submit the board-approved purposes for the grant of loans, advances, or any other forms of credit accommodations to officers for approval of the Bangko Sentral. The guidelines and contractual provisions implementing said defined purposes, and any subsequent changes thereto, shall on the other hand, be approved by the board of directors or a board-level committee.

Transitory provision. Existing financing programs for officers that have been approved by the Bangko Sentral need not be resubmitted: *Provided,* That BSFIs that shall change any of the provisions of the earlier approved program shall submit for approval of the Bangko Sentral the board-approved purposes for the grant of loans, advances, or any other forms of credit accommodations to officers.

- a. Funding by foreign banks. x x x
- b. Other conditions/limitations. x x x

Subsec. X146.3 Compensation and other benefits of directors and officers. To protect the funds of depositors and creditors, the Monetary Board may regulate/restrict the payment by the BSFI of compensation, allowances, fees, bonuses, stock options, profit sharing, and fringe benefits to its directors and officers in exceptional cases and when the circumstances warrant, such as, but not limited to the following:

X X X

Section 8. Section X146.2 shall be renumbered to Subsection X147.1 and amended as follows:

Subsec. X147.1 *RPT policies/roles of senior management and self-assessment functions*

- a. The RPT policies shall include, but not be limited to the following:
- (1) *Definition of related parties.* The policy shall clearly define “*related parties*”. It shall identify persons and companies that are considered the BSFI’s related parties. The policy shall require Management to periodically review and update the inventory of related parties to capture organizational and structural changes in the BSFI and its related parties.
 - (2) *Coverage of RPT policy.* The coverage of the RPT policy shall capture a broader spectrum of transactions, covering not only those that give rise to credit and/or counterparty risks but also those that could pose material/special risk or potential abuse to the BSFI and its stakeholders.

Transactions that were entered into with an unrelated party that subsequently becomes a related party may be excluded from the limits and approval process required in the policy. However, any alteration to the terms and conditions, or increase in exposure level, related to these transactions after the non-related party becomes a related party shall subject the RPT to the requirements of the policy. The prospective treatment should, however, be without prejudice to supervisory actions that may be enforced for transactions noted to have not been conducted on an arm’s length basis.

- (3) *Guidelines in ensuring arm’s length terms.* The policy shall have clear guidelines in ensuring that RPTs are conducted in the regular course of business and not undertaken on more favorable economic terms (e.g., price, commissions, interest rates, fees, tenor, collateral requirement) to such related parties than similar transactions with non-related parties under similar circumstances. This shall include guidance for an effective price discovery mechanism to ensure that transactions are engaged into at terms that promote the best interest of the BSFI and its stakeholders. The price discovery mechanism may include, but not limited to, acquiring the services of an external expert, opening the transaction to a bidding process, or publication of available property for sale.
- (4) *Conflicts of interest.* The policy shall cover the identification and prevention or management of potential or actual conflicts of interest which may arise. The members of the board of directors, stockholders, and management shall disclose to the board of directors whether they directly, indirectly or on behalf of third parties, have a financial interest in any transaction or matter affecting the BSFI. Directors and officers with personal interest in the transaction shall abstain from the discussion, approval and management of such transaction or matter affecting the BSFI.
- (5) *Materiality thresholds and excluded transactions.* The policy shall include materiality thresholds for RPTs, which shall be set at a level where omission or

misstatement of the transaction could pose significant risk to the BSFI and could influence the economic decisions of its board of directors.

Materiality threshold may be set for each type of transaction and for each related party group, depending on the nature of the transaction and risks involved. The RPT policy may also identify transactions excluded from the materiality threshold requirement, such as transactions concerning deposit operations, regular trade transactions involving purchases and sales of debt securities traded in an active market, and those granted under Bangko Sentral approved fringe benefit programs. Materiality threshold levels will vary from one BSFI to another depending on the nature, scope, frequency, value of, and risks associated with the RPT. The BSFI shall document the justifications for the materiality thresholds and exclusions set.

The Bangko Sentral may direct a BSFI to reduce its materiality threshold or amend excluded transactions if the Bangko Sentral deems that the threshold or exclusion is inappropriate considering the BSFI's size, risk profile, and risk management systems.

- (6) *Internal limits for individual and aggregate exposures.* To ensure that RPTs are within prudent levels, the policy shall, in addition to existing prudential limits which shall be complied at all times, include internal limits or sub-limits for individual and aggregate exposures to a related party and for aggregate exposures to all related parties that are consistent with the BSFI's risk appetite, risk profile, and capital strength.

The internally set limits shall be tied in with the BSFI's internal definition of capital. Breaches in limits shall be reported to the board of directors with the decision of the board of directors to accept the exposure or to take steps to address the breaches, as may be necessary, duly documented in the minutes of meetings.

- (7) *Whistleblowing mechanisms.* The policy shall include effective whistleblowing mechanisms consistent with the corporate values and codes of conduct set by the board of directors. The policy shall encourage employees to communicate, confidentially and without the risk of reprisal, legitimate concerns about illegal, unethical or questionable RPTs. It shall include guidance on how and by whom legitimate material concerns should be reported, investigated and addressed by an objective independent internal or external body, senior management and/or the board of directors itself.

- (8) *Restitution of losses and other remedies for abusive RPTs.* The policy shall include measures that would cut losses and allow recovery of losses or opportunity costs incurred by the BSFI arising from RPTs that are not engaged on arm's length terms. The policy shall also include the manner of handling personnel, officers or directors, who have been remiss in their duties in handling RPTs.

The overarching policy will consolidate all existing policies that address the above requirements or may make reference to already existing policies.

- b. *Roles of senior management and self-assessment functions.* Senior management shall implement appropriate controls to effectively manage and monitor RPTs on a per transaction and aggregate basis. Exposures to related parties shall also be monitored on an ongoing basis to ensure compliance with the BSFI's policy and Bangko Sentral's regulations.

The internal audit function shall conduct a periodic formal review of the effectiveness of the BSFI's system and internal controls governing RPTs to assess consistency with the board-approved policies and procedures. The resulting audit reports, including exceptions or breaches in limits, shall be communicated directly to the Audit Committee.

The compliance function shall ensure that the BSFI complies with relevant rules and regulations and is informed of regulatory developments in areas affecting related parties. It shall aid in the review of the BSFI's transactions and identify any potential RPT that would require review by the Board or RPT Committee. It shall ensure that the RPT policy is kept updated and is properly implemented throughout the BSFI.

Section 9. Sections/Subsections X141.4, X144, X145, X145.1 and X150 are amended and transferred to Section 148 and Subsections X148.1 to X148.4 as follows:

Sec. X148 Confirmation of the Election/Appointment of Directors/Officers; Bio-data of Directors and Officers; Interlocking Directorships and/or Officerships; Rules of Procedures on Administrative Cases Involving Directors and Officers of BSFIs.

Subsec. X148.1 Confirmation of election/appointment of directors/officers.

- a. *Confirming authority.* The election/appointment of directors/officers shall be subject to confirmation by the following:

Confirming Authority	Position level
a. Monetary Board	Directors and CEO of UBs and KBs, including their subsidiary banks, QBs, trust corporations ^{1/} and non-bank financial institutions (NBFIs) with trust authority; of stand-alone Islamic Banks, TBs, RBs, Coop Banks, QBs and NBFIs with trust authority with total assets of at least P10.0 billion; and of trust corporations with assets under management of at least P10.0 billion
b. SES Committee	Directors and CEO of stand-alone Islamic Banks, TBs, RBs, Coop Banks, QBs, and NBFIs with trust authority with total assets of less than P10.0 billion; and of trust corporations^{1/} with assets under management of less than P10.0 billion Treasurer and heads of internal audit, risk management and compliance functions, and other officers with rank of senior vice president and above (or equivalent ranks) of UBs and KBs and their subsidiary banks, quasi-banks, trust corporations, and NBFIs with trust authority; of stand-alone

Confirming Authority	Position level
	Islamic Banks, TBs, RBs, Coop Banks, QBs and NBFIs with trust authority; and of trust corporations
	Trust Officer regardless of rank of banks/QBs/NBFIs as provided in Subsec. X406.10

^{1/}As defined under Subsec. 4102T.1 of MORNBFI-T

Provided, That BSFIs shall report to the appropriate department of the SES, any succeeding resignation, retirement, or replacement of directors/officers as mentioned within twenty (20) banking days after such resignation/retirement/replacement.

The election/appointment of abovementioned directors/officers shall be deemed to have been confirmed by the Bangko Sentral, if after sixty (60) banking days from receipt of the complete required reports, the appropriate supervising department of the SES does not advise the BSFI concerned against said election/appointment.

However, the confirmation by the Monetary Board/SES Committee of the election/appointment to above-mentioned position levels shall not be required in the following cases:

- (1) Re-election of a director (as a director) in the same BSFI or election of the same director in another bank, QB, trust corporation, and NBFi with trust authority within a banking group;
- (2) Re-election of an independent director (as an independent director or not) in the same BSFI or election of the same director (as an independent director or not) in another bank, QB, trust corporation, and NBFi with trust authority within a banking group; and
- (3) Promotion of an officer, other than to that which requires (a) prior Monetary Board approval, or (b) a different set of minimum qualifications, or (c) a different level of confirming authority as provided in the first paragraph hereof, in the same bank or appointment/transfer to another bank, QB, trust corporation, and NBFi with trust authority within a banking group:

Provided, That the director/officer concerned has been previously confirmed by the Monetary Board, or if previously confirmed by the SES Committee, his/her re-election/ promotion/transfer requires the same level of confirming authority as provided in the first paragraph hereof: *Provided, further*, That said director/officer has had continuous service within the same BSFI or banking group. This exemption shall apply to directors/officers confirmed by the Monetary Board/SES Committee starting 01 January 2011.

The appointment of officers below the rank of Senior Vice President (SVP) other than the Treasurer, trust officer, and heads of internal audit, risk management, and compliance functions regardless of rank shall be subject neither to Monetary Board approval nor Bangko Sentral confirmation.

For purposes of this Subsection, the term *banking group* shall refer to the parent bank and its subsidiary banks, QBs, trust entities, and other NBFIs other than stand-alone and trust corporations as well as other banks, QBs, trust entities, and other NBFIs other than stand-alone and trust corporations over which the parent bank has the power to exercise “control” as defined in Subsec. X141.1.

The required certifications and other documentary proof of qualifications for the confirmation of the election/appointment of directors/officers, and approval of the appointment of compliance officers of banks/QBs/NBFI with trust authority/trust corporations are shown in *Appendix 98*. Non-submission of complete documentary requirements within the prescribed period shall be construed as his/her failure to establish his/her qualifications for the position.

A director/officer whose election/appointment was not confirmed for failure to submit the complete documentary requirements shall be deemed removed from office after due notice to the board of directors of the BSFI, even if he has assumed the position to which he was elected/appointed, pursuant to Section 16 of R.A. No. 8791.

Subsec. X148.2 *Bio-data of directors and officers.*

- a. BSFI shall submit to the appropriate department of the SES a bio-data with ID picture of their (1) directors and officers who are subject to confirmation under Subsection X148.1, or (2) officers below the rank of SVP requiring a different set of minimum qualifications, upon every election/re-election/appointment/promotion in a prescribed form and for first time directors/officers within a particular bank/banking group whose election/appointment requires Monetary Board/SES Committee confirmation, the duly notarized authorization form per *Appendix 76*, within twenty (20) banking days from the date of election/re-election of the directors/meeting of the board of directors in which the officers are appointed/promoted, in accordance with *Appendix 6*.

The bio-data shall be updated and submitted in cases of change of name due to change in civil status and change of residential address, within twenty (20) banking days from the date the change occurred, and in cases of requests for prior Monetary Board approval of interlocks.

For other officers below the rank of SVP other than the Treasurer, trust officer, and heads of internal audit, risk management, and compliance functions regardless of rank, the BSFI shall not be required to submit their bio-data to the Bangko Sentral.

- b. x x x
- c. x x x
- d. x x x

In the case of the independent directors, the bio-data shall be accompanied by a certification under oath from the director concerned that he is an independent director as defined under Subsec. X141.1g.

Subsec. X148.3 *Interlocking directorships and/or officerships.*

In order to safeguard against the excessive concentration of economic power x x x

c. *Interlocking officerships*

A concurrent officership in different FIs x x x

As a general rule, there shall be no concurrent officerships between banks or, between a bank and a QB or a NBF¹.

In the case of non-governmental organizations (NGOs)/foundations that are engaged in retail microfinance operations, as defined under Subsec. X326.1.e(8), BSFI officers are prohibited from holding officership position or other positions that may cause them to be involved in the daily microfinance operations of related NGOs/ foundations.

However, subject to prior approval of the Monetary Board, concurrent officerships, may be allowed in the following cases: x x x

¹BSFI officers, who concurrently held officership position or other positions that caused them to be involved in the daily microfinance operations of related NGOs/ foundations, were given up to 30 September 2011 to relinquish such officer position.

d. *Secondment*

A BSFI may second or transfer its employee to another entity for temporary assignment: *Provided*, That it has a board-approved policy on secondment and that the transfer of the employee is approved by the appropriate authority of the BSFI: *Provided*, further, That the secondee or the transferred employee shall relinquish all his duties, responsibilities, and authorities in the BSFI, and shall receive remuneration and other incentives from the host entity. BSFIs shall submit a notice within ten (10) banking days from the approval of secondments of employees to the appropriate supervising department of the SES.

e. *Representatives of government*

The provisions of this Section shall apply to persons appointed to such x x x .

Subsec. X148.4 *Rules of Procedures on administrative cases involving directors and officers of BSFIs.* The rules of procedure on administrative cases involving directors and officers of BSFIs are shown in *Appendix 64*.

Section 10. Section X186 of the MORB on internal audit function is hereby amended to read as follows:

Sec. X186 Internal audit function. An effective and efficient internal audit function constitutes the third line of defense in the system of internal control.

Internal audit is an independent, objective assurance and consulting function x x x

Section 11. Subsection X406.10 of the MORB on confirmation of the appointment/designation of trust officer and independent professional of Chapter A of Part Four of the Trust, Other Fiduciary Business and Investment Activities is hereby amended as follows:

PART FOUR - TRUST, OTHER FIDUCIARY BUSINESS AND INVESTMENT MANAGEMENT ACTIVITIES

A. TRUST AND OTHER FIDUCIARY BUSINESS

Sec. X406 Organization and Management.

Subsec. X406.10 *Confirmation of the appointment/designation of trust officer and independent professional.*

x x x

The appointment or designation of independent professional and trust officer shall be subject to confirmation by the SES Committee. x x x

Section 12. The Sections/Subsections of the MORB are renumbered/deleted as follows:

Old Section/ Subsection	Title/Description	New/Deleted Section/Subsection
X141.9	Certifications required	Deleted. Covered by X148.2
X141.10	Sanctions	Deleted. Covered by the Supervisory Enforcement framework under Sec. X009
X143	Disqualification and Watchlisting of Directors and Officers	Renumbered to X150
X143.1	Persons disqualified to become directors	Renumbered to X150.1
X143.2	Persons disqualified to become officers	Renumbered to X150.2
X143.3	Effect of non-possession of qualifications or possession of disqualifications	Renumbered to X150.3
X143.4	Disqualification procedures	Renumbered to X150.4
X143.5	Watchlisting	Renumbered to X150.5
X146	Related Party Transactions; Policy Statement	Renumbered to X147
X146.1	Definition of terms	Deleted
X146.3	Disclosure and regulatory reporting	Renumbered to X147.2
X146.4	Applicability to branches of foreign banks	Renumbered to X147.3
X146.5	Supervisory enforcement actions	Renumbered to X147.4
Sec. 3147	Bonding/Training of Directors, Officers and Employees	Deleted
X148	Real Estate and Chattel Transactions with DOSRI and Employees	Deleted. Covered by the RPT policies

Old Section/ Subsection	Title/Description	New/Deleted Section/Subsection
X148.1	Certification on real estate/chattel transaction with DOSRI and employee(s)	Deleted.
X148.9	Sanctions	Deleted. Covered by the Supervisory Enforcement framework under Sec. X009
X149.9	Sanctions	Deleted. Covered by the Supervisory Enforcement framework under Sec. X009
X338	Financial Assistance to Officers and Employees	Deleted. Covered by X146.2
X338.1	Mechanics	Deleted. Covered by X146.2
X1338.2	Funding by foreign banks	Renumbered to X146.2a
X338.3	Other conditions/limitations	Renumbered to X146.2b

Section 13. Considering the renumbering of the provisions in the above Sections/Subsections, references to the renumbered provisions are correspondingly amended/deleted as shown below.

Section/ Subsection	With cross- reference to:	On the:	New Section/ Subsection
X192.12 X326.1	X146.1	Definition of control	X141.1d
X146.3	X146	Profit Sharing program	X146.1
X150.3	X141.4	Confirming authority for the election/appointment of directors/officers	X148.1
X150.2	X143.1	Disqualifications for directors shall likewise apply to officers except those stated in items b(2) and b(7)	X150.1
X150.3 X150.4b X150.4k	X143.1	Persons disqualified to become directors	X150.1
X306.1	X143.1b(3)	Definition of delinquency in the payment of obligation	X150.1b(3)
X150.3 X150.4	X143.2	Persons disqualified to become Officers	X150.2
X150.3 X180.4	X142.2	Qualifications of an officer	X145.1
X150.3	X141.2	Qualifications of a director	X142.3
X147.2 X173 App. 6	X141.3c(9)	Reportorial requirement on group transactions	X143.1d(8)
X150.3 X150.5	X143.4	Disqualification procedures	X150.4
X172.1	X141.3	A financial product provider must have been disclosed and reported as part of the group structure	X143.1d(8)

Section/ Subsection	With cross- reference to:	On the:	New Section/ Subsection
X179.2 X180.5 X185.1 X406.4 X602.1 Appendix 27	X141.3	Duties and responsibilities of the board of directors	X143.1
X185.1	X142.3	Duties and responsibilities of Officers	X145.2
X326.1	X141.1	Definition of Directors	X141.1f
X406.2	X141.1(by footnote)	Definition of non-executive director	X141.1i
X406.2	X141.2(by footnote)	Definition of Independent Director	X141.1g
X326.1 X406.2	X142.1	Definition of Officers	X141.1j
X173	X141 X142	Applicability to branches of foreign banks	X142, X143, X145
X181.3	X142	Definition, Qualification, Duties and responsibilities of Officers	X145
X181.3 Appendix 37 Appendix 38	X143	Disqualification and Watchlisting of Officers	X150
Appendix 6	X146.3	Conglomerate Structures; report on material RPT	X147.2
Appendix 6	X141.9	Submission of certification on the receipt of duties and responsibilities	X143.2
Appendix 6	- X144 - X141.2 - X144	- Bio data of directors/officers - Certification under oath of the Independent Director - Notarized list of members of the Board	- X148.2a - X141.1g - X148.2c
Appendix 6	X143.3	Verified statement of director/officer that he/she has all the qualifications and none of the disqualifications	X150.3
Appendix 6	X143.4	Report on Disqualification of Directors/Officers	X150.4
Appendix 16	X143	Qualification of the investor/stockholder, based on "fit and proper" rule, on Countryside Financial Institutions Enhancement Program	X150
Appendix 37	X141.1	Number and nationality of the members of the Board	X142.2
Appendix 37 Appendix 38	X141 X142	Qualifications and Other requirements of proposed directors/officers	X143 X145

Section/ Subsection	With cross- reference to:	On the:	New Section/ Subsection
Appendix 38	X141.2	Disqualification of directors who failed to attend the required special seminar	X142.3
Appendix 74a	X146.1 (footnote)	Definition of Related Parties	X141.1
Appendix 75a	X141.3	Duties of the Audit Committee	X144.1
Appendix 76	X143.5	Authorization Form for Querying the Bangko Sentral Watchlist Files for Screening Applicants and Confirming Appointments of Directors and Officials	X150.5
Appendix 98	X141.4	Documentary Requirements to be Submitted to Bangko Sentral for the Election/Appointment of Directors/Officers of Banks	X148.1
Appendix 98B	X144	Template list of members of the Board and Officers	X148.2c
Appendix 99	X148.1	Certification on Real Estate/Chattel Transactions	Deleted

Section 14. Effectivity. This Circular shall take effect fifteen (15) calendar days following its publication either in the Official Gazette or in a newspaper of general circulation.

FOR THE MONETARY BOARD:


NESTOR A. ESPENILLA, JR.
Governor

22 August 2017

**Required Certifications and Examples of Supporting Documents for the Confirmation of Election/Appointment
of Directors/Officers of Bangko Sentral ng Pilipinas Supervised Financial Institutions (BSFIs)¹
(Appendix to Subsecs. X148.1, X180.3 and X406.10)**

Requiring Bangko Sentral Confirmation²		Not Requiring Bangko Sentral Confirmation
Directors	Chief Executive Officer and Other Officers enumerated in Subsec. X148.1³	Officers below the rank of Senior Vice President requiring a different set of minimum qualifications⁴
• Letter-request for Bangko Sentral confirmation signed by authorized officer⁵ with an affirmative statement that the institution has conducted a fit and proper test on the director/s concerned • Secretary's Certificate attesting to the resolution of the stockholders or board of directors approving the election • Bio-data with a photograph (2" x 2") taken within the last six (6) months • Certification under oath of the director concerned that he/she possesses all the	• Letter-request for Bangko Sentral confirmation signed by authorized officer with an affirmative statement that the institution has conducted a fit and proper test on the officer/s concerned • Secretary's Certificate attesting to the resolution of the board of directors approving the appointment⁶ • Bio-data with a photograph (2" x 2") taken within the last six (6) months • Certification under oath of the officer concerned that he/she possesses all the qualifications and	• Bio-data with a photograph (2" x 2") taken within the last six (6) months

¹ To be submitted within twenty (20) business days from date of election/re-election/appointment/promotion to the appropriate supervising department of the SES. For interlocks requiring Monetary Board approval, the following shall be submitted: (a) Letter-request for Monetary Board approval with justification; and (b) Bio-data.

² Including those exempted from the required Bangko Sentral confirmation as provided in Subsecs. X148.1 and X406.10.

³ E.g., Treasurer, trust officer, heads of internal audit, risk management, and compliance functions, and other officers with rank of Senior Vice President and above

⁴ E.g., Security Officer, Head/In-Charge of E/FCDU Operations, and Head/In-Charge of Import and Export Financing Operations (for TBs)

⁵ Authorized signatory is the Chief Executive Officer (CEO) of the institution, except for appointment of CEO, in which case the authorized signatory shall be the Chairman of the Corporate Governance Committee or of the Board of Directors, as may be applicable. For those exempted from the required Bangko Sentral confirmation as provided in Subsec. 148.1, submit statement that the institution has conducted a fit and proper test on the director/officer concerned.

⁶ In case of foreign bank branches, consularized letter of appointment of the officer concerned from the Head Office and/or Regional Office

**Required Certifications and Examples of Supporting Documents for the Confirmation of Election/Appointment
of Directors/Officers of Bangko Sentral ng Pilipinas Supervised Financial Institutions (BSFIs)¹
(Appendix to Subsecs. X148.1, X180.3 and X406.10)**

Requiring Bangko Sentral Confirmation²		Not Requiring Bangko Sentral Confirmation
Directors	Chief Executive Officer and Other Officers enumerated in Subsec. X148.1³	Officers below the rank of Senior Vice President requiring a different set of minimum qualifications⁴
qualifications and none of the disqualifications to become a director	none of the disqualifications to become an officer	
• For first-time directors in a particular bank/banking group as defined in Subsec. X148.1	• For first-time officers to be subject to Bangko Sentral confirmation in a particular bank with trust authority/trust corporation/banking group as defined in Subsec. X148.1	
a.Certification under oath of compliance with the Bangko Sentral-prescribed syllabus on on-boarding/orientation program	a.Duly accomplished and notarized authorization form for querying the Bangko Sentral watchlist file from the officer concerned	
b.Certification under oath that the director has received copies of the general responsibility and specific duties and responsibilities of the board of directors and of a director and that he/she fully understands and accepts the same		
c.Duly accomplished and notarized authorization form for querying the Bangko Sentral watchlist file from the director concerned		

**Required Certifications and Examples of Supporting Documents for the Confirmation of Election/Appointment
of Directors/Officers of Bangko Sentral ng Pilipinas Supervised Financial Institutions (BSFIs)¹
(Appendix to Subsecs. X148.1, X180.3 and X406.10)**

Requiring Bangko Sentral Confirmation²		Not Requiring Bangko Sentral Confirmation
Directors	Chief Executive Officer and Other Officers enumerated in Subsec. X148.1³	Officers below the rank of Senior Vice President requiring a different set of minimum qualifications⁴
• For independent directors, certification under oath that he/she is an independent director as defined in BSP regulations • For re-elected directors, Secretary's Certificate on the attendance by the director concerned to the board meetings held for the last twelve (12) months covering the term of service, indicating percentage of attendance to board meetings	• Brief description of his/her duties and responsibilities • Alien Employment Permit issued by the Department of Labor and Employment for foreigners appointed as officers	• Brief description of his/her duties and responsibilities