



BANGKO SENTRAL NG PILIPINAS

OFFICE OF THE DEPUTY GOVERNOR SUPERVISION AND EXAMINATION SECTOR

MEMORANDUM NO. M-2012- 026

To : ALL BANKS/QUASI-BANKS

**Subject : Accreditation of External Training Providers on
Seminar on Corporate Governance**

Please be advised that the Monetary Board, in its Resolution No. 810 dated 17 May 2012, decided to reopen the window for accepting new applications for accreditation of training providers of the Seminar on Corporate Governance. This is in line with the thrust of the Bangko Sentral ng Pilipinas to continuously strengthen corporate governance in its supervised financial institutions through quality training on good governance principles and standards provided for the directors of banks and quasi-banks who are required to undergo such training under Subsection X141.2 and 4141.2 of the Manual of Regulation for Banks and Non-Bank Financial Institutions (MORNBFI), respectively.

To ensure that the training provided by external parties meets the standards of the BSP, the following guidelines are hereby promulgated:

SECTION 1. ACCREDITATION OF TRAINING ORGANIZATION

- (1) The Bangko Sentral ng Pilipinas, through the Bangko Sentral ng Pilipinas Institute (BSPI), shall accredit all external training providers of seminar on corporate governance.
- (2) A training provider (TP) may be accredited provided it meets the following minimum standards and procedural requirements of the BSP:
 - a. That it is formally organized to conduct training activities and that it has an adequate track record of successfully conducting training programs preferably on banking-oriented programs including training on corporate governance;
 - b. That it has a sound business plan including reasonable training fees for conducting corporate governance training and adequate financial and organizational resources to execute the same;
 - c. That it can guarantee a qualified line-up of trainers who can effectively deliver, as a minimum, the required training in accordance with the revised basic course syllabus (Annex A). Such trainers and their assigned topics shall be subject to approval by the BSP. It is further required that the trainers line-up per course offering should at least have one experienced bank director/CEO (from a

- banking category at least equivalent to the bank category of participating directors);
- d. That it can provide to the BSP for review its intended course materials and conduct a dry run for BSP; and
 - e. That the authorized representative of the TP shall submit to the BSPI the following:
 - i. Written application for accreditation as training provider;
 - ii. Certification that it meets the requirements enumerated under item 2(a-c); and
 - iii. Supporting documents such as summary of business experience and plan, credentials of resource persons, course program and training materials.
- (3) The application for accreditation shall be accompanied by a processing fee of Ten Thousand Pesos (P10,000).
- (4) The BSPI shall undertake the accreditation process including monitoring and periodic evaluation of the standards of the training programs.
- (5) The Governor, upon recommendation of the BSPI, shall approve the application for accreditation of training providers, subject to the criteria and requirements enumerated herein.

SECTION 2. THE CONDUCT OF TRAINING

The accredited external TP will be the sole responsible for ensuring that the conduct of training is conducive for maximum exchange of ideas and interaction between and among participants and resources persons. In this regard, large number of participants per offering is highly discouraged as this may undermine the exchange of ideas and interaction between and among participants and resource person

The BSPI or its designated representative will observe the conduct of any training program and undertake an independent evaluation of any aspect of the training program. The role of the BSP representative during the training is limited to being an observer and should not engage in any discussion regarding any supervisory/regulatory issues raised by the participants and/or the speakers.

SECTION 3. REPORTORIAL REQUIREMENTS

The TP shall submit to the BSPI the following reportorial requirements:

- (1) Evaluation forms (Annex B) duly accomplished by the participants shall be submitted to the BSP observer on the last day of the training program;
- (2) Completion Report of Training (Annex C) shall be submitted not later than 15 days after a training;
- (3) In case of any changes in the pool of trainors previously evaluated by the BSP, the TP shall notify the BSP, through the BSPI, so the same can undergo the evaluation process as enumerated in this guidelines.

The BSP reserves the right to withdraw its accreditation of any TP not complying with the provisions enumerated herein.

For information and guidance.


NESTOR A. ESPENILLA, JR.
Deputy Governor

of June 2012

Basic Course on Corporate Governance for Banks/Quasi-Banks

Good corporate governance is the underpinning of safe and sound banking operations hence, it is important that the tone of good governance emanates from the top. The Board of Directors (BOD) should embody and nurture the principles of governance in carrying out their duties and responsibilities. This provides an assurance that they are and will remain qualified for the position.

The *Basic Course on Corporate Governance for Banks/Quasi-Banks* aims to provide a structured framework for the board of directors to appreciate the principles of good governance, to recognize the value of their roles in promoting it in their respective financial institutions and to by and large understand its significance in maintaining the stability of the financial system. The seminar is divided into six (6) parts: (1) Overview of Good Corporate Governance; (2) Board Qualification and Practices; (3) Checks and balances systems; (4) Compensation System; (5) Complex or opaque corporate structures; and (6) Disclosure and Transparency. Circular 749 dated 27 February 2012 on corporate governance guidelines for BSP supervised financial institutions has been considered in developing the coverage of the seminar.

- I. **Overview of Good Corporate Governance.** This explains the definition of corporate governance in the milieu of the financial crisis in order to put things in perspective. It identifies the elements of good governance that were lacking/absent during the global meltdown and in other high profile bankruptcy cases. Moreover, it discusses the important roles played by the different stakeholders to ensure sound governance in financial institutions.

This part covers the following topics:

- a) Definition of corporate governance¹
- b) Importance of good corporate governance in sustaining the stability and resilience of the financial system
- c) Role of stakeholders in strengthening good governance in the financial industry

¹ Definition provided by the Organisation for Economic Co-operation and Development (OECD) "a set of relationships between a company's management, its board, its shareholders, and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined. Good corporate governance should provide proper incentives for the board and management to pursue objectives that are in the interests of the company and its shareholders and should facilitate effective monitoring. The presence of an effective corporate governance system, within an individual company or group and across an economy as a whole, helps to provide a degree of confidence that is necessary for the proper functioning of a market economy."

Training Objective: At the end of Part I, the participants must have a basic understanding of the definition of corporate governance and the roles of the different stakeholders in promoting governance in the financial industry. The participants must be able to explain the elements of good governance in relation to the global financial crisis and in other high profile bankruptcy cases.

II. Board Qualification and Practices. This explains the qualifications of the board of directors and sound board practices. It discusses the responsibilities of the board of directors as individual members and collectively, as a body. This highlights the shared accountability of the board in any decision taken and emphasizes that the safety and soundness of the financial institution depends on the board's collective stewardship.

a) **Qualifications of the board of directors.** This discusses the qualification of the individual members of the board of directors based on the provisions of Subsection X141.2 of the Manual of Regulations for Banks (MORB). It emphasizes the need for the board of directors to remain qualified for the position during their term. It also discusses the need for continuing training and other measures that would update the board's understanding of the financial industry, operations and risk profile of the financial institution and the developments in the market.

This part covers the following topics:

- 1) Selection of directors from a broad pool of candidates
- 2) Fit and proper requirements
- 3) Qualifications of independent directors
- 4) Training and other measures to remain qualified for the position

b) **Responsibilities of the board of directors as individual members and collectively.** This explains the responsibilities of the board of directors based on the provisions of Subsection X141.3 of the MORB. It discusses the key roles played by the board of directors to ensure the safety and soundness of operations of the financial institution. This encompasses the responsibilities of the board from direction setting to ingraining a culture of governance in the financial institution through its policies and practices and its dealings with stakeholders.

This part covers the following topics:

- 1) Setting strategic objectives
- 2) Setting risk management strategies
- 3) Setting governance policies and developing code of conduct
- 4) Strengthening checks and balances systems

- 5) Oversight of senior management
 - 6) Conflicts of interest
 - 7) Relationship with stakeholders (including supervisors)
 - 8) Role of non-executive board members
- c) **Structure of the board and practices.** This discusses the different committees required to be created at the board-level as provided under Subsection X141.3 of the MORB as well as the other committees that could be established depending on the size and risk profile of the financial institution. This covers, *among others*, the minimum qualifications of the board members who will sit in a specific committee, scope of responsibilities of the committees, reporting requirements, frequency of meetings and resources needed. This explains the roles of the chairperson of the board and the check and balance advantage of the separation of duties of the chairperson of the board and president of the financial institution. It also covers the need for the evaluation of the performance of the board and the measures that may be adopted to do the same.

This part covers the following topics:

- 1) Composition and responsibilities of Board committees
 - i. Audit
 - ii. Risk Management
 - iii. Corporate Governance
 - iv. Other Committees
- 2) Roles of the chairperson of the board
- 3) Evaluation of the performance of the board

Training Objective: At the end of Part II, the participants must have understood the qualification of a director of a bank/quasi-bank. They must be able to identify measures that a director should do to remain qualified for the position. The participants must be able to identify the core duties and responsibilities of directors individually as members and collectively as a board. The participants should be able to articulate the meaning and importance of collective accountability. They should be able to articulate how a weakness in dispensing a particular role could adversely affect the safety and soundness of the financial institution and how this would reflect on the entire board. They should be able to explain identify, their respective strengths and weaknesses in respect of carrying out their duties and responsibilities as directors.

The participants should be able to determine the committees required to be created under existing BSP regulations. Moreover, they should be able to assess whether their respective financial institutions' would need other committees given the size and risk profile. They

should be able to articulate the roles of the chairperson of the Board and determine the importance of evaluating the performance of the Board.

- III. Checks and balances Systems.** This covers the importance of the checks and balances systems in the bank, i.e., risk management, internal audit, compliance functions and external audit. It discusses the roles and scope of responsibility of the risk management, internal audit, compliance functions and external audit, and their interaction with each other. It explains the need to establish the stature, independence and reporting lines of the said functions in an organization and how these factors influence the success of a bank's effective performance. This encompasses a discussion on the qualification of the heads and the resources that should be made available to strengthen these functions. It expounds on the internal communication policies and processes of these functions within the bank. This also explains the importance of using the work of the external auditor and internal auditor as well as measures on how to optimize their use.

This part covers the following topics:

- a) Roles of each function/Scope of responsibility
- b) Reporting line of each function/Stature in the organization and independence
- c) Qualification of heads
- d) Availability of resources for each function/Requirements of each function
- e) Internal communication policies and process of each function within the bank
- f) Use of the work of external auditor and internal auditor
- g) Importance of external audit

Training Objective: At the end of Part III, the participants must have understood the importance of the risk management, internal audit, compliance functions and external audit. They must be able to explain in general, the scope of responsibilities of each function and how they interact with each other. The participants must be able to articulate the necessary requirements for the effective performance of these functions, that is, from the qualifications of the head to the resources needed. They must be able to explain why effective internal communication is needed. The participants must also be able to articulate how the board of directors could use the work of the external and internal auditor.

- IV. Compensation System.** This explains the principles in establishing a compensation system as provided under Financial Stability Forum (now Financial Stability Board) Principles for Sound Compensation Practices published in April 2009. This discusses the pragmatic measures in applying the principles to domestic conditions. Moreover, it discusses the importance of the review of the compensation system as well as factors to consider in the review.

This part covers the following topics:

- a) Principles in establishing a compensation system
- b) Review of the compensation system

Target Objective: At the end of Part IV, the participants must be able to explain the key principles in establishing a compensation system and how the same are being applied in their respective financial institutions. Moreover, they should be able to articulate the need for the review of the compensation system.

- V. **Complex or opaque corporate structures (where applicable).** This discusses the oversight functions of the board of directors in respect of the structure of the organization. It also explains the accountabilities of the board of the parent company in a conglomerate structure and the key principles in setting and implementing governance policies.

This part covers the following topics:

- a) Issues/concerns in group structures
- b) Role of the board of directors of the parent company
- c) Responsibilities in group structures
- d) Setting and Implementation of governance policies

Target Objective: At the end of Part V, the participants must be able to cite reasons why complex or opaque structures are created, issuing involving group structures as well as explain the corresponding responsibilities of the board of directors of the parent company. They must be able to articulate the responsibilities of the board in group structure as well as the important considerations in setting and implementing governance policies.

- VI. **Disclosure and Transparency.** This explains the importance of disclosure and transparency in strengthening governance. It discusses the regulatory requirements on disclosure and the best practices in this respect.

This part covers the following topics:

- a) Objectives of disclosure and transparency
- b) Regulatory requirements
- c) Best practices on disclosure and transparency

Target Objective: At the end of Part VI, the participants must be able to articulate the importance of disclosure and transparency in promoting sound governance. They must be able to recommend additional disclosures that will enhance the existing regulatory disclosure requirements.



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REACTION LEVEL EVALUATION FORM
(For One Speaker)

Course Title: _____
 Training Date(s): _____ Coordinator: _____
 Training Venue: _____
 Resource Person: _____

Thank you very much for taking an active role in this seminar/workshop. As part of our efforts to continuously improve our training program, we request you to fill out this evaluation form and return it immediately to your evaluator. Your feedback is greatly appreciated. Check (✓) the box that corresponds to the appropriate rating for each statement using the following scale:

Select and check one rating on the scale that best corresponds to your response.

SD = Strongly Disagree (You strongly disagree with the statement)
 D = Disagree (You disagree more than you agree with the statement)
 N = Neutral (You agree as much as you disagree with the statement)
 A = Agree (You agree more than you disagree)
 SA = Strongly Agree (You strongly agree with the statement)

EVALUATION COMPONENT	SD	D	N	A	SA
Content					
The objectives were clearly communicated to the participants	☐	☐	☐	☐	☐
The objectives were met	☐	☐	☐	☐	☐
The time allotted for the training was adequate	☐	☐	☐	☐	☐
The course is relevant to present work	☐	☐	☐	☐	☐
Delivery					
The resource person:					
conveyed ideas clearly	☐	☐	☐	☐	☐
organized the topics well	☐	☐	☐	☐	☐
addressed questions adequately	☐	☐	☐	☐	☐
effectively demonstrated application of theory into practice	☐	☐	☐	☐	☐
produced a good learning climate	☐	☐	☐	☐	☐
Management					
Training materials were complete	☐	☐	☐	☐	☐
Venue was conducive to learning	☐	☐	☐	☐	☐
The coordinator attended to the training needs of the participants	☐	☐	☐	☐	☐

Comments/Suggestions:

Indicate your:

Gender: ☐ male ☐ female

Age range: ☐ 35 and below ☐ 36 – 45
☐ 46 – 55 ☐ above 55

Name (optional)

Department/Office

COMPLETION REPORT OF TRAINING PROGRAM**Training Provider:****Accreditation Number:****Address:****Telephone No.**
Fax No.**Program Details****Title of Program:****Date of Clearance of Program:****Date Started:****Date Completed:****Venue:****Documents Submitted**

- 1.
- 2.
- 3.
- 4.
- 5.

Certified Correct:

Signature over Printed Name

Position

Date