



Bangko Sentral ng Pilipinas

MAYNILA, PILIPINAS

OFFICE OF THE GOVERNOR

**Circular No. 592
Series of 2007**

**Subject: Amended Rules and Regulations on Interlocking
Directorships and/or Officerships**

Pursuant to Monetary Board Resolution No. 1395 dated 06 December 2007, Section X145 of the Manual of Regulations for Banks (MORB) and Section 4144Q of the Manual of Regulations for Non-Bank Financial Institutions (MORNBFI) are hereby amended to read, as follows:

Section 1. Sec. X145 Interlocking Directorships and/or Officerships is hereby amended to read as follows:

“Sec. X145 Interlocking Directorships and/or Officerships. In order to safeguard against the EXCESSIVE CONCENTRATION OF ECONOMIC POWER, UNFAIR COMPETITIVE ADVANTAGE OR CONFLICT OF INTEREST SITUATIONS TO THE DETRIMENT OF OTHERS THROUGH THE exercise by the same person or group of persons of undue influence over the policy-making and/or management functions of similar financial institutions WHILE AT THE SAME TIME ALLOWING BANKS, QUASI-BANKS (QBs) AND NON-BANK FINANCIAL INSTITUTIONS (NBFIs) WITHOUT QUASI-BANKING FUNCTIONS TO BENEFIT FROM ORGANIZATIONAL SYNERGY OR ECONOMIES OF SCALE AND EFFECTIVE SHARING OF MANAGERIAL AND TECHNICAL EXPERTISE, the following regulations shall govern interlocking directorships and/or officerships within the financial system CONSISTING OF BANKS, QBs AND NBFIs.

FOR PURPOSES OF THIS SECTION, QBs SHALL REFER TO INVESTMENT HOUSES, FINANCE COMPANIES, TRUST ENTITIES AND ALL OTHER NON-BANK FINANCIAL INSTITUTIONS WITH QUASI-BANKING FUNCTIONS WHILE NBFIs SHALL REFER TO INVESTMENT HOUSES, FINANCE COMPANIES, TRUST ENTITIES, INSURANCE COMPANIES, SECURITIES DEALERS/BROKERS, CREDIT CARD COMPANIES, NON-STOCK SAVINGS AND LOAN ASSOCIATIONS, HOLDING COMPANIES, INVESTMENT COMPANIES, GOVERNMENT NON-BANK FINANCIAL INSTITUTIONS, ASSET MANAGEMENT COMPANIES, INSURANCE

PANANALAPING MATATAG, BANSANG PANATAG

AGENCIES/BROKERS, VENTURE CAPITAL CORPORATIONS, FOREIGN EXCHANGE DEALERS, MONEY CHANGERS, LENDING INVESTORS, PAWNSHOPS, FUND MANAGERS, MUTUAL BUILDING AND LOAN ASSOCIATIONS, REMITTANCE AGENTS AND ALL OTHER NON-BANK FINANCIAL INSTITUTIONS WITHOUT QUASI-BANKING FUNCTIONS.

a. Interlocking directorships. WHILE CONCURRENT DIRECTORSHIP MAY BE THE LEAST PREJUDICIAL OF THE VARIOUS RELATIONSHIPS CITED IN THIS SECTION TO THE INTERESTS OF THE FINANCIAL INSTITUTIONS INVOLVED, CERTAIN MEASURES ARE STILL NECESSARY TO SAFEGUARD AGAINST THE DISADVANTAGES THAT COULD RESULT FROM INDISCRIMINATE CONCURRENT DIRECTORSHIP.

- 1) Except as may be authorized by the Monetary Board or as otherwise provided hereunder, there shall be no concurrent directorships between banks or between a bank and a QB.
- 2) Without the need for prior approval of the Monetary Board, concurrent directorships between entities not involving an investment house shall be allowed in the following cases:
 - a) Banks not belonging to the same category: Provided, That not more than one (1) bank shall have quasi-banking functions;
 - b) A bank AND AN NBFI;
 - c) A bank WITHOUT quasi-banking functions and a QB; and
 - d) A bank and one (1) or more OF ITS SUBSIDIARY BANK/s, QB/s AND NBFI/s.

For purposes of the foregoing, a husband and his wife shall be considered as one (1) person.

b. Interlocking directorship and officership. IN ORDER TO PREVENT ANY CONFLICT OF INTEREST RESULTING FROM THE EXERCISE OF DIRECTORSHIP COUPLED WITH THE REINFORCING INFLUENCE OF AN OFFICER'S DECISION-MAKING AND IMPLEMENTING POWERS, THE FOLLOWING RULES SHALL BE OBSERVED:

- 1) Except as may be authorized by the Monetary Board or as otherwise provided hereunder, there shall be no concurrent directorship and officership between banks or between a bank and a QB OR AN NBFI; and
- 2) Without the need for prior approval of the Monetary Board, concurrent directorship and officership BETWEEN a bank and one (1) or more of its subsidiary BANK/s, QB/s AND NBFI/s, other than investment house/S, shall be allowed.

c. Interlocking officerships. A CONCURRENT OFFICERSHIP IN DIFFERENT FINANCIAL INSTITUTIONS MAY PRESENT MORE SERIOUS PROBLEMS OF SELF-DEALING AND CONFLICT OF INTEREST. MULTIPLE POSITIONS MAY RESULT IN POOR GOVERNANCE OR UNFAIR COMPETITIVE ADVANTAGE. CONSIDERING THE FULL-TIME NATURE OF OFFICER POSITIONS, THE DIFFICULTIES OF SERVING TWO OFFICES AT THE SAME TIME, AND THE NEED FOR EFFECTIVE AND EFFICIENT MANAGEMENT, THE FOLLOWING RULES SHALL BE OBSERVED:

As a general rule, there shall be no concurrent officerships, INCLUDING SECONDMENTS, between banks or, between a bank and A QB OR AN NBFI. FOR THIS PURPOSE, SECONDMENT SHALL REFER TO THE TRANSFER/DETACHMENT OF A PERSON FROM HIS REGULAR ORGANIZATION FOR TEMPORARY ASSIGNMENT ELSEWHERE WHERE THE SECONDED EMPLOYEE REMAINS THE EMPLOYEE OF THE HOME EMPLOYER ALTHOUGH HIS SALARIES AND OTHER REMUNERATION MAY BE BORNE BY THE HOST ORGANIZATION.

HOWEVER, SUBJECT TO prior approval of the Monetary Board, concurrent officerships, INCLUDING SECONDMENTS, may be allowed IN THE FOLLOWING CASES:

- 1) Between a bank and not more than two (2) of its subsidiary BANK/s, QB/s, AND NBFI/s, OTHER THAN INVESTMENT HOUSE/s; or
- 2) BETWEEN A BANK AND NOT MORE THAN TWO (2) OF ITS SUBSIDIARY QB/s AND NBFI/s ; OR
- 3) Between TWO (2) banks, OR between a bank and a QB OR AN NBFI, other than an investment house: *Provided*, That at least twenty percent (20%) of the equity of each of the banks, QBs OR NBFIs is owned by a holding company or a bank/QB and the interlocking arrangement is necessary for the holding company or the bank/QB to provide technical expertise or managerial assistance to its SUBSIDIARIES/affiliates.

Aforementioned concurrent officerships may be allowed, subject to the following conditions:

- a) that the positions do not involve any functional conflict of interests;
- b) that ANY OFFICER HOLDING the positions of President, Chief Executive Officer, Chief Operating Officer OR Chief Financial Officer or their equivalent may not be concurrently APPOINTED TO ANY OF SAID POSITIONS OR THEIR EQUIVALENT;

- c) that the officer involved, or his spouse or any of his relatives within the first degree of consanguinity or affinity or by legal adoption, or a corporation, association or firm wholly- or majority-owned or controlled by such officer or his relatives enumerated above, does not own in his/its own capacity more than twenty percent (20%) of the subscribed capital STOCK of the entities in which the bank has equity investments; and
 - d) that where any of the positions involved is held on full-time basis, adequate justification shall be submitted to the Monetary Board; OR
- 4) CONCURRENT OFFICERSHIP POSITIONS IN THE SAME CAPACITY WHICH DO NOT INVOLVE MANAGEMENT FUNCTIONS, I.E., INTERNAL AUDITOR, CORPORATE SECRETARY, ASSISTANT CORPORATE SECRETARY AND SECURITY OFFICER, BETWEEN A BANK AND ONE OR MORE OF ITS SUBSIDIARY QB/s AND NBFIs, OR BETWEEN BANK/s, QB/s AND NBFIs, OTHER THAN INVESTMENT HOUSE/s: PROVIDED, THAT AT LEAST TWENTY PERCENT (20%) OF THE EQUITY OF EACH OF THE BANKS, QBs AND NBFIs IS OWNED BY A HOLDING COMPANY OR BY ANY OF THE BANKS/QBs WITHIN THE GROUP.

For purposes of this Section, 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, shall likewise be considered as officers.

IT SHALL BE THE RESPONSIBILITY OF THE CORPORATE GOVERNANCE COMMITTEE TO CONDUCT AN ANNUAL PERFORMANCE EVALUATION OF THE BOARD OF DIRECTORS AND SENIOR MANAGEMENT. WHEN A DIRECTOR OR OFFICER HAS MULTIPLE POSITIONS, THE COMMITTEE SHOULD DETERMINE WHETHER OR NOT SAID DIRECTOR OR OFFICER IS ABLE TO AND HAS BEEN ADEQUATELY CARRYING OUT HIS/HER DUTIES AND, IF NECESSARY, RECOMMEND CHANGES TO THE BOARD BASED UPON SAID PERFORMANCE/REVIEW."

Section 2. Sec. X145.1 **Representatives of government** is hereby amended to read, as follows:

"Sec. X145.1 **Representatives of government.** The provisions of this Section shall apply to persons appointed to such positions as representatives of the government or government-owned or controlled entities UNLESS OTHERWISE PROVIDED UNDER EXISTING LAWS.

Section 3. Sec. 4144Q. of the Manual of Regulations for Non-Bank Financial Institutions (MORNBFI) on **Interlocking Directorships and/or Officerships** is hereby amended, as follows:

"Sec. 4144Q Interlocking Directorships and/or Officerships. In order to safeguard against the EXCESSIVE CONCENTRATION OF ECONOMIC POWER, UNFAIR COMPETITIVE ADVANTAGE OR CONFLICT OF INTEREST SITUATIONS TO THE DETRIMENT OF OTHERS THROUGH THE exercise by the same person or group of persons of undue influence over the policy-making and/or management functions of similar financial institutions WHILE AT THE SAME TIME ALLOWING BANKS, QUASI-BANKS (QBs) AND NON-BANK FINANCIAL INSTITUTIONS (NBFIs) WITHOUT QUASI-BANKING FUNCTIONS TO BENEFIT FROM ORGANIZATIONAL SYNERGY OR ECONOMIES OF SCALE AND EFFECTIVE SHARING OF MANAGERIAL AND TECHNICAL EXPERTISE, the following regulations shall govern interlocking directorships and/or officerships within the financial system CONSISTING OF BANKS, QBs AND NBFIs.

FOR PURPOSES OF THIS SECTION, QBs SHALL REFER TO INVESTMENT HOUSES, FINANCE COMPANIES, TRUST ENTITIES AND ALL OTHER NON-BANK FINANCIAL INSTITUTIONS WITH QUASI-BANKING FUNCTIONS WHILE NBFIs SHALL REFER TO INVESTMENT HOUSES, FINANCE COMPANIES, TRUST ENTITIES, INSURANCE COMPANIES, SECURITIES DEALERS/BROKERS, CREDIT CARD COMPANIES, NON-STOCK SAVINGS AND LOAN ASSOCIATIONS, HOLDING COMPANIES, INVESTMENT COMPANIES, GOVERNMENT NON-BANK FINANCIAL INSTITUTIONS, ASSET MANAGEMENT COMPANIES, INSURANCE AGENCIES/BROKERS, VENTURE CAPITAL CORPORATIONS, FOREIGN EXCHANGE DEALERS, MONEY CHANGERS, LENDING INVESTORS, PAWNSHOPS, FUND MANAGERS, MUTUAL BUILDING AND LOAN ASSOCIATIONS, REMITTANCE AGENTS AND ALL OTHER NON-BANK FINANCIAL INSTITUTIONS WITHOUT QUASI-BANKING FUNCTIONS.

a. *Interlocking directorships.* WHILE CONCURRENT DIRECTORSHIP MAY BE THE LEAST PREJUDICIAL OF THE VARIOUS RELATIONSHIPS CITED IN THIS SECTION TO THE INTERESTS OF THE FINANCIAL INSTITUTIONS INVOLVED, CERTAIN MEASURES ARE STILL NECESSARY TO SAFEGUARD AGAINST THE DISADVANTAGES THAT COULD RESULT FROM INDISCRIMINATE CONCURRENT DIRECTORSHIP.

- 1) Except as may be authorized by the Monetary Board or as otherwise provided hereunder, there shall be no concurrent directorships between QBs or between a QB and a bank; and

- 2) Without the need for prior approval of the Monetary Board, concurrent directorships between entities not involving an investment house shall be allowed in the following cases:
 - a) A QB AND a bank WITHOUT quasi-banking functions; and
 - b) A bank and ONE (1) OR MORE OF its subsidiary BANK/S, QB/s, AND NBFIs; and
 - c) A QB AND AN NBFIs.

For purposes of the foregoing, a husband and his wife shall be considered as one (1) person.

b. Interlocking directorships and officerships. IN ORDER TO PREVENT ANY CONFLICT OF INTEREST RESULTING FROM THE EXERCISE OF DIRECTORSHIP COUPLED WITH THE REINFORCING INFLUENCE OF AN OFFICER'S DECISION-MAKING AND IMPLEMENTING POWERS, THE FOLLOWING RULES SHALL BE OBSERVED.

- 1) Except as may be authorized by the Monetary Board or as otherwise provided hereunder, there shall be no concurrent directorship and officership between QBs, or BETWEEN a QB and a bank, AND BETWEEN A QB AND AN NBFIs.
- 2) Without THE need for prior approval of the Monetary Board, concurrent directorship and officership BETWEEN a bank and ONE (1) OR MORE OF ITS subsidiary BANK/S, QB/s, AND NBFIs, other than investment house/S, shall be allowed.

c. Interlocking officerships. A CONCURRENT OFFICERSHIP IN DIFFERENT FINANCIAL INSTITUTIONS MAY PRESENT MORE SERIOUS PROBLEMS OF SELF-DEALING AND CONFLICT OF INTEREST. MULTIPLE POSITIONS MAY RESULT IN POOR GOVERNANCE OR UNFAIR COMPETITIVE ADVANTAGE. CONSIDERING THE FULL-TIME NATURE OF OFFICER POSITIONS, THE DIFFICULTIES OF SERVING TWO OFFICES AT THE SAME TIME, AND THE NEED FOR EFFECTIVE AND EFFICIENT MANAGEMENT, THE FOLLOWING RULES SHALL BE OBSERVED:

As a general rule, there shall be no concurrent officerships, INCLUDING SECONDMENTS, between QBs or BETWEEN A QB AND A BANK OR between a QB and AN NBFIs. FOR THIS PURPOSE, SECONDMENT SHALL REFER TO THE TRANSFER/DETACHMENT OF A PERSON FROM HIS REGULAR ORGANIZATION FOR TEMPORARY ASSIGNMENT ELSEWHERE WHERE THE SECONDED EMPLOYEE REMAINS THE EMPLOYEE OF THE HOME EMPLOYER ALTHOUGH HIS SALARIES AND OTHER REMUNERATION MAY BE BORNE BY THE HOST ORGANIZATION.

HOWEVER, SUBJECT TO prior approval of the Monetary Board, concurrent officerships, INCLUDING SECONDMENTS, may be allowed IN THE FOLLOWING CASES:

- 1) Between a QB, OTHER THAN AN INVESTMENT HOUSE, and not more than two (2) of its subsidiary BANK/s, QB/s, AND NBFIs, OTHER THAN INVESTMENT HOUSE/S; or
- 2) Between TWO (2) QBs, OR between a QB, other than an investment house, AND A BANK, or between a QB and AN NBFIs: *Provided*, That at least twenty percent (20%) of the equity of each of the BANKS, QBs OR NBFIs is owned by a holding company or a QB/BANK and the interlocking arrangement is necessary for the holding company or the QB/BANK to provide technical expertise or managerial assistance to its SUBSIDIARIES/affiliates.
- 3) BETWEEN A QB AND NOT MORE THAN TWO (2) OF ITS SUBSIDIARY QB/s, AND NBFIs; OR
- 4) BETWEEN A BANK AND NOT MORE THAN TWO (2) OF ITS SUBSIDIARY BANK/s, QB/s, AND NBFIs, OTHER THAN INVESTMENT HOUSE/S; OR
- 5) BETWEEN A BANK AND NOT MORE THAN TWO (2) OF ITS SUBSIDIARY QB/s, AND NBFIs.

Aforementioned concurrent officerships may be allowed, subject to the following conditions:

- a) that the positions do not involve any functional conflict of interests;
- b) that ANY OFFICER HOLDING the positions of president, chief executive officer, chief operating officer OR chief financial officer may not be concurrently APPOINTED TO ANY OF SAID POSITIONS OR THEIR EQUIVALENT;
- c) that the officer involved, or his spouse or any of his relatives within the first degree of consanguinity or affinity or by legal adoption, or a corporation, association or firm wholly- or majority-owned or controlled by such officer or his relatives enumerated above, does not own in his/its own capacity more than twenty percent (20%) of the subscribed capital STOCK of the entities in which the QB has equity investments; and
- d) that where any of the positions involved is held on full-time basis, adequate justification shall be submitted to the Monetary Board.

- 6) CONCURRENT OFFICERSHIP POSITIONS IN THE SAME CAPACITY WHICH DO NOT INVOLVE MANAGEMENT FUNCTIONS, I.E., INTERNAL AUDITORS, CORPORATE SECRETARY, ASSISTANT CORPORATE SECRETARY AND SECURITY OFFICER, BETWEEN A QB AND ONE OR MORE OF ITS SUBSIDIARY QB/s AND NBFIs, OR BETWEEN A BANK AND ONE OR MORE OF ITS SUBSIDIARY QBs AND NBFIs, OR BETWEEN BANK/S, QB/s AND NBFIs, OTHER THAN INVESTMENT HOUSE/S: PROVIDED, THAT AT LEAST TWENTY PERCENT (20%) OF THE EQUITY OF EACH OF THE BANKS, QBs AND NBFIs IS OWNED BY A HOLDING COMPANY OR BY ANY OF THE BANKS/QBs WITHIN THE GROUP.

For purposes of this Section, 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, shall likewise be considered as officers.

IT SHALL BE THE RESPONSIBILITY OF THE CORPORATE GOVERNANCE COMMITTEE TO CONDUCT AN ANNUAL PERFORMANCE EVALUATION OF THE BOARD OF DIRECTORS AND SENIOR MANAGEMENT. WHEN A DIRECTOR OR OFFICER HAS MULTIPLE POSITIONS, THE COMMITTEE SHOULD DETERMINE WHETHER OR NOT SAID DIRECTOR OR OFFICER IS ABLE TO AND HAS BEEN ADEQUATELY CARRYING OUT HIS/HER DUTIES AND, IF NECESSARY, RECOMMEND CHANGES TO THE BOARD BASED UPON SAID PERFORMANCE/REVIEW."

Section 4. Sec. 4144Q.1 **Representatives of government** is hereby amended to read, as follows:

Sec. 4144Q.1 **Representatives of government.** The provisions of this Section shall apply to persons appointed to such positions as representatives of the government or government-owned or controlled entities UNLESS OTHERWISE PROVIDED UNDER EXISTING LAWS.

Section 5. The foregoing provisions are hereby incorporated under N-Regulations of the Manual of Regulations for Non-Bank Financial Institutions.

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:


AMANDO M. TETANGCO, JR.
Governor

28 December 2007