



BANGKO SENTRAL NG PILIPINAS

OFFICE OF THE GOVERNOR

Circular No. 725

Series of 2011

Subject : Amendments to the Manual of Regulations for Banks to Address Risks on Relationships Between Banks and Their Related Microfinance Non-Governmental Organizations(NGOs)/Foundations and to Classify Deposits of Clients of NGOs/Foundations Maintained with Related Lending Bank as Non-Risk Asset

Pursuant to Monetary Board Resolution No. 790 dated 26 May 2011, Subsections. X326.1(e), X192.16, X145(c) and X330.1(a) of the Manual of Regulations for Banks (MORB) are hereby amended to read, as follows:

Section 1. Subsec. X326.1(e) is hereby amended to read as follows:

"e. Related interest shall refer to any of the following:

"x x x

"(9) 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 OF RELATED BANKS."

"x x x"

Section 2. Subsec. X192.16 is hereby provided to read as follows:

"X192.16 **NOTARIZED CONTRACTS/AGREEMENTS BETWEEN BANKS AND THEIR RELATED MICROFINANCE (MF) NON-GOVERNMENTAL ORGANIZATIONS (NGOs)/FOUNDATIONS.** BUSINESS RELATIONSHIPS BETWEEN BANKS AND THEIR RELATED MF NGOs/FOUNDATIONS SHALL BE COVERED BY NOTARIZED CONTRACTS/AGREEMENTS SPECIFYING THE NATURE OF TRANSACTIONS AND ENUMERATING THE TERMS AND CONDITIONS THEREOF.

"BANKS SHALL SUBMIT SAID NOTARIZED CONTRACTS/AGREEMENTS WITHIN 15 BANKING DAYS FROM THE DATE OF MEETING OF THE BOARD OF DIRECTORS APPROVING SAID CONTRACTS/AGREEMENTS.

"SAID NOTARIZED CONTRACTS/AGREEMENTS SHALL BE CONSIDERED CATEGORY A-3 REPORTS. SUBMISSION OF SAID REPORTS SHALL BECOME EFFECTIVE STARTING WITH THE REPORTING PERIOD ENDING 30 SEPTEMBER 2011."

Section 3. Subsec. X145, c. of the MORB, as amended by Circular No. 592 dated 28 December 2007 is hereby amended to read as follows:

"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.

"IN THE CASE OF NON-GOVERNMENTAL ORGANIZATIONS (NGOs)/FOUNDATIONS THAT ARE ENGAGED IN RETAIL MICROFINANCE OPERATIONS, AS DEFINED UNDER SUBSEC. X326.1,e(9), MORB, BANK OFFICERS ARE PROHIBITED FROM HOLDING OFFICERSHIP OR OTHERWISE THAT MAY CAUSE THEM TO BE INVOLVED IN THE DAILY MICROFINANCE OPERATIONS OF RELATED NGOs/FOUNDATIONS.

"TRANSITORY PROVISION. BANK OFFICERS, WHO CONCURRENTLY HOLD OFFICERSHIP OR OTHERWISE THAT CAUSED THEM TO BE INVOLVED IN THE DAILY MICROFINANCE OPERATIONS OF RELATED NGOs/FOUNDATIONS, ARE GIVEN UP TO 30 SEPTEMBER 2011 TO RELINQUISH SUCH OFFICERSHIP; OTHERWISE, THEY SHALL BE DISQUALIFIED FROM THEIR PRESENT POSITIONS IN THE BANK.

"x x x"

Section 4. The list of non-risk assets as enumerated under Subsec. X330.1(a) of the MORB is hereby amended to include:

"x x x

"(6) DEPOSITS OF CLIENTS OF RELATED NON-GOVERNMENTAL ORGANIZATIONS (NGOs)/FOUNDATIONS, THAT ARE ENGAGED IN RETAIL MICROFINANCE OPERATIONS, AND ARE MAINTAINED WITH THE RELATED LENDING BANK AND HELD IN THE PHILIPPINES; PROVIDED THAT ALL OF THE FOLLOWING CONDITONS ARE MET:

- (i) EXISTING REGULATIONS ON THE OPENING OF DEPOSIT ACCOUNTS AND OTHER DEPOSIT TRANSACTIONS SHALL APPLY EXCEPT WHEN SPECIFICALLY STATED OTHERWISE;**
- (ii) DEPOSITORS SHALL ISSUE WAIVERS OF CONFIDENTIALITY OF THEIR DEPOSITS AND ENTER HOLD-OUT AGREEMENTS WITH THE LENDING BANK;**
- (iii) INTEREST RATES ON SUCH DEPOSITS SHALL NOT BE MORE THAN THOSE OF SIMILAR TYPE OF DEPOSIT ACCOUNTS;**
- (iv) COLLECTED BUT UNDEPOSITED CAPITAL BUILD-UP FUNDS FROM CLIENTS SHALL BE RECORDED IN A TEMPORARY LIABILITY ACCOUNT IN THE BOOKS OF RELATED NGOs/FOUNDATIONS AND SHALL BE DEPOSITED WITH THE RELATED BANK NOT LATER THAN FIFTEEN (15) CALENDAR DAYS FROM DATE OF COLLECTION;**
- (v) TOTAL LOANS, OTHER CREDIT ACCOMMODATIONS AND GUARANTEES GRANTED TO THE RELATED NGO/FOUNDATION SHALL NOT EXCEED, AT ANY TIME, THE TOTAL DEPOSITS OWNED BY ITS CLIENTS; AND**
- (vi) THAT THE NGO/FOUNDATION SHALL CONSIDER AS PAYMENTS TO THE CLIENTS' OBLIGATIONS ANY DEPOSITS USED BY THE LENDING TO BANK TO SETTLE ANY UNPAID OBLIGATION(S) OF THE NGO/FOUNDATION.**

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:

A handwritten signature in black ink, appearing to read 'Amto', with a long horizontal stroke extending to the right.

AMANDO M. TETANGCO, JR.

Governor

16 June 2011