



BANGKO SENTRAL NG PILIPINAS

OFFICE OF THE GOVERNOR

CIRCULAR NO. 757

Series of 2012

Subject: Guidelines in Strengthening Corporate Governance in BSP Supervised Financial Institutions

The Monetary Board in its Resolution No. 625 dated 20 April 2012 approved the following amendments to Circular No. 749 dated 27 February 2012 on the guidelines in strengthening corporate governance in BSP supervised financial institutions.

Policy Statement. It is the thrust of the Bangko Sentral ng Pilipinas 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 BSP is aligning its existing regulations with international best practices that promote good corporate governance such as the "Principles for Enhancing Corporate Governance" issued by the Basel Committee on Banking Supervision.

Section 1. Qualifications of the board of directors. Subsections X141.1 and X141.2 of the MORB are hereby amended to read as follows:

a) "X141.1 Definition/limits.

a. Definition of directors. Directors shall include:

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b. Limits on the number of the members of the board of directors. 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 bank: *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 shall determine the appropriate number of its members to ensure that the number thereof is commensurate with the size and complexity of the bank's operations.

To the extent practicable, the members of the board of directors shall be selected from a broad pool of qualified candidates. A sufficient number of qualified non-executive members shall be elected to promote the independence of the board from the views of senior management. For this purpose, non-executive members of the board of directors shall refer to those who are not part of the ~~executive committee or day to day management~~ of banking operations and shall include the independent directors.

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b) **"Subsection X141.2 Qualifications of a director.**

- a. A director shall have the following minimum qualifications:

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b. Independent directors -

In selecting independent 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: *Provided*, That the rules and regulations of the Securities and Exchange Commission (SEC) governing public and listed companies on the maximum number of companies of the conglomerate in which an individual can serve as an independent director shall apply to independent directors of all types of banks.

An independent director shall refer to a person who -

- (1) is not or has not been an officer or employee of the bank, its subsidiaries or affiliates or related interests during the past three (3) years counted from the date of his election;

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Section 2. Duties and responsibilities of the board of directors. Subsection X141.3 of the MORB is hereby amended to read as follows:

a) **"Subsection X141.3 Powers/responsibilities and duties of directors.**

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c. *Specific duties and responsibilities of the board of directors*

(1) ***To approve and monitor the implementation of strategic objectives.***

Consistent with the institution's strategic objectives, business plans shall be established for the bank including its trust operations, and initiatives thereto shall be implemented with clearly defined responsibilities and accountabilities. These shall take into account the bank's long-term financial interests, its level of risk tolerance and its ability to manage risks effectively. The board shall establish a system for measuring performance against plans through regular monitoring and reviews, with corrective action taken as needed.

The board shall likewise ensure that *the bank has beneficial influence on the economy* by continuously providing services and facilities which will be supportive of the national economy.

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(7) ***To constitute committees to increase efficiency and allow deeper focus in specific areas.*** The board of directors shall create committees, the number and nature of which would depend on the size of the bank and the board, the complexity of operations, long-term strategies and risk tolerance level of the bank.

(a) The board of directors shall 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.

(b) The board of directors shall appoint members of the committees taking into account the optimal mix of skills and experience to allow the members to fully understand, be critical and objectively evaluate the issues. In order to promote objectivity, the board of directors, shall appoint independent directors and non-executive members of the board to the greatest extent possible while ensuring that such mix will not impair the collective skills, experience, and effectiveness of the committees. 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 committees, without prior approval of the Monetary Board.

(c) The board of directors shall 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) The board of directors shall constitute, at a minimum, the following committees:

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Section 3. Duties and responsibilities of the chairperson of the board of directors. Subsection X141.3e on the duties and responsibilities of the chairperson of the board of director is hereby added to the Manual of Regulations for Banks (MORB) to read as follows:

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Section 4. Duties and responsibilities of officers. Subsection X142.3 of the MORB shall be renumbered as X142.4. Subsection X142.3 of the MORB shall now read as follows:

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Section 5. Risk management function. Sections X174 to X176 of the MORB shall be renumbered as Sections X175 to X177. Section X174 shall now read as follows:

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Section 6. Reports.

a) The reports required under Section 2 of this Circular relative to the amendments to the provision of Subsection X141.3c(9) of the MORB on group structures shall be considered as Category A-1 reports and shall be submitted to the Central Point of Contact Department I as follows:

- (1) The report (Annex A) disclosing all entities in the group structure where a bank belongs either as a parent company bank or subsidiary/affiliate company shall be submitted within 30 calendar days after the end of every calendar year starting with the year ending 31 December 2011. The report for the year ending 31 December 2011, on the other hand, shall be submitted on or before 31 March 2012; and
- (2) The report (Annex B) on significant transactions between entities in the group and involving any-BSP regulated entity, shall be submitted within 20 calendar days after the end of the reference quarter starting with the quarter ending 31 March 2012.

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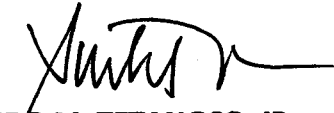
Section 8. Applicability to non-bank financial institutions. The foregoing amendments to Circular No. 749 dated 27 February 2012 shall likewise apply to non-bank financial institutions.

Section 9. Transition rules. The amendments to the required number of independent directors in the board, the definition of "independent director" and composition of members of board-level committees shall apply prospectively or in the succeeding election of the members of the board of directors.

Section 10. Repealing Clause. This Circular supersedes/amends/modifies the provisions of existing circulars, memoranda, and/or regulations that are inconsistent herewith.

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

FOR THE MONETARY BOARD:


AMANDO M. TETANGCO, JR.
Governor

8 May 2012