



BANGKO SENTRAL NG PILIPINAS

OFFICE OF THE GOVERNOR

CIRCULAR NO. 970

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Subject: Enhanced Corporate Governance Guidelines for BSP-Supervised Financial Institutions Amending the Manual of Regulations for Non-Bank 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 Non-Bank Financial Institutions (MORNBI) as follows:

Section 1. Section 4002Q is hereby amended to read as follows:

Sec. 4002Q 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 "c" of this Section, 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 concerned director or officer concerned owns, controls, as defined under Item "c" of this Section, 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. *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.

- d. *Corresponding persons in affiliated companies* shall refer to the DOS of the affiliated companies and their close family members.
- e. *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.
- f. *Financial allied undertakings*. This shall refer to enterprises or firms with homogeneous or similar activities/business/function with the financial intermediary and may include, but not limited to, leasing companies, banks, investment houses, financing companies, credit card operations, FIs addressed/catering to small and medium scale industries, and such other similar activities as the Monetary Board may declare as appropriate from time to time.
- 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 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. *Non-financial allied undertakings.* Non-financial allied undertakings may include, but not limited to, but not limited to, warehousing companies, storage companies, safe deposit box companies, companies engaged in the management of mutual funds but not in the mutual funds themselves, management corporations engaged

or to be engaged in activities similar to the management of mutual funds, insurance agencies, companies engaged in home building and home development and companies providing drying and/or including facilities for agricultural crops such as rice and corn, companies engaged in merchant acquiring business and such other similar activities as the Monetary Board may declare as appropriate from time to time.

- k. *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 subcommittees, 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

- l. *Parent* shall refer to a corporation which has control over another corporation directly or indirectly through one (1) or more intermediaries.
- m. *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.
- n. *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 "n(2)" and "n(4)" of this Section;
- (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. X303.1(g);
- (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* of the MORB.

- o. *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 its 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.

- p. *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.

- q. *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.
- r. *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.
- s. *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.
- t. *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.

- u. *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.
- v. *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 2. Chapter H of Q Regulations of the MORNBFi is hereby retitled as “Corporate Governance Guidelines”.

Section 3. Section 4141Q is amended, and Subsections 4141Q.1 to 4141Q.4 and Subsections 4141Q.9 to 4141Q.10 are deleted, to read as follows:

Sec. 4141Q Policy Statement. It is the thrust of the Bangko Sentral to continuously strengthen corporate governance in its supervised financial institutions (BSFIs) 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 issued by the Securities and Exchange Commission as well as with best practices and standards issued by globally recognized standard setting bodies.

Section 4. Subsections 4141Q.3 Item “a”, 4141Q.2 Item “a”, and 4141Q.1 Items “b” to “e” are amended and transferred to Section 4142Q and Subsections 4142Q.1 to 4142Q.5, to read as follows:

Sec. 4142Q Board of Directors.

Subsec. 4142Q.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. 4142Q.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 QB/trust entity: *Provided, That:* in case of a 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 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.
- 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. 4142Q.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 4150Q.1. A director shall submit to the Bangko Sentral the required certifications and other documentary proof of such qualifications using *Appendix Q-57* as guide within twenty (20) banking days from the date of election. Non-submission of complete documentary requirements 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 qualification 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 on-boarding/orientation program for first time directors: *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. 4142Q.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 board members. 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 regular 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. 4142Q.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 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 5. Subsection 4141Q.3 is amended and transferred to Section 4143Q and Subsections 4143Q.1 to 4143Q.2, to read as follows:

Sec. 4143Q Duties and responsibilities of the board of directors/directors.

Subsec. 4143Q.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 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.

- 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. 4143Q.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 4143Q.1 and 4143Q.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 6. Subsection 4141Q.3 Item “d” are amended and transferred to Section 4144Q and Subsections 4144Q.1 to 4144Q.3, to read as follows:

Sec. 4144Q 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 nonexecutive 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* simple or non-complex BSFIs performing quasi-banking functions shall, 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.

For this purpose, a BSFI performing quasi-banking function shall be deemed simple or non-complex, unless declared as complex by the Bangko Sentral and therefore necessitates complete compliance with the aforementioned requirements.

Simple or non-complex BSFIs that shall adopt the reduced minimum requirement under this Subsection shall submit the following to the appropriate department of the SES:

- (1) A secretary's certificate attesting the approval of the board of directors to create only the audit committee/dissolve and other board-level committees if and when approved by the Bangko Sentral; and
- (2) A letter signed by the president/chief executive officer requesting approval for creating/maintaining only the audit committee.

Subsec. 4144Q.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 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 whistle blowing 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. 4144Q.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. 4144Q.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 (8) 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.

Section 7. Section 4142Q is amended and transferred to Subsection 4145Q.1, the provisions of Subsection 4142Q.3 is transferred to Subsection 4145Q.2, and new Subsection 4145Q.3 is hereby added, to read as follows:

Sec. 4145Q Officers.

Subsec. 4145Q.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 4150Q.2. An officer shall submit to the Bangko Sentral the required certifications and other documentary proof of such qualifications using *Appendix Q-57* 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 qualifications for the position and results to his 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. 4145Q.2 *Duties and responsibilities of officers:*

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

Subsec. 4145Q.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 8. The entire provisions of Sections 4146Q and 4147Q are transferred to Subsections 4146Q.1 and 4146Q.3, respectively, and new Section 4146Q and Subsection 4146Q.2 are added, to read as follows:

Sec. 4146Q 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. 4146Q.1 Profit sharing programs. Profit sharing programs adopted in favor of directors/trustees/officers and employees shall be reflected in the by-laws of BSFIs,

x x x

Subsec. 4146Q.2 *Loans, advances, and other credit accommodations to officers.* BSFI 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.

Subsec. 4146Q.3. *Compensation and Other benefits of Directors/Trustees and Officers.* To protect the funds of depositors and creditors, the Monetary Board may regulate/restrict the payment by the QB/trust entity 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 9. Sections/Subsections 4141Q.4, 4144Q, and 4145Q are amended and transferred to Subsections 4148Q.1 to 4148Q.4, and Subsection 4145Q.1 is transferred to 4148Q.3, to read as follows:

Sec. 4148Q Confirmation of the Election/Appointment of Directors and 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. 4148Q.1 *Confirmation of election/appointment of directors/officers.*

Confirmation of the election/appointment of directors/officers shall be covered by Subsection X148.1 of the MORB.

Subsec. 4148Q.2 *Bio-data of Directors and Officers*

- a. BSFIs with trust authority 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 4148Q.1, (2) officers below the rank of Senior Vice President (SVP) requiring a different set of minimum qualifications or, (3) officers whose appointment requires prior Monetary Board approval upon every election/re-election/appointment/promotion, in a prescribed form, and for first-

time directors/officers within a particular BSFI with trust authority/group whose election/appointment requires Monetary Board/SES Committee confirmation, the duly notarized authorization form per *Appendix Q-45*, within twenty (20) business days from the date of election/reelection of the directors/meeting of the board of directors in which the officers are appointed/promoted in accordance with *Appendix Q-3*.

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 with trust authority shall not be required to submit their bio-data to the Bangko Sentral.

x x x

Subsec. 4148Q.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 QBs or, between a QB and a bank or between a QB and an NBF¹.

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

¹Officers, 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. 4148Q.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 Q-35*.

Section 10. Section 4186Q of the MORNBFi on internal audit function is hereby amended to read as follows:

Sec. 4186Q 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. Section 4406Q.10 of the MORNBFi 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. 4406Q Organization and Management.

Subsec. 4406Q.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 MORNBFi are renumbered/deleted as follows:

Old Section/ Subsection	Title/Description	New/Deleted Section/Subsection
4141Q.9	Certifications required	Deleted. Covered by 4143Q.2
4141Q.10	Sanctions	Deleted. Covered by Supervisory Enforcement Framework under Sec. X009
4143Q	Disqualification of Directors/Trustees and Officers	4150Q
4143Q.1	Persons disqualified to become directors/trustees	4150Q.1
4143Q.2	Persons disqualified to become officers	4150Q.2
4143Q.3	Effect of non-possession of qualifications or possession of disqualifications	4150Q.3
4143Q.4	Disqualification procedures	4150Q.4
4143Q.5	Watchlisting	4150Q.5

Old Section/ Subsection	Title/Description	New/Deleted Section/Subsection
4143Q.6	Prohibition against foreign officers/employees of financing companies	4150Q.6
4149Q.9	Sanctions	Deleted. Covered by Supervisory Enforcement Framework under Sec. X009

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
4146Q.3	4146Q	Profit sharing program	4146Q.1
4150Q.1	4141Q.2	Directors/trustee special seminar for board of directors	4142Q.3
4150Q.2	4143Q.1 except b(2) and b(7)	Disqualification of directors, applicable to officers	4150Q.1
4150Q.3	4141Q.2 4142Q	Qualifications of a director Qualifications of an Officer	4142Q.3 4145Q.1
4141Q.3	4141Q.4	Confirmation of the election/appointment of directors and officers	4148Q.1
4150Q.4 4150Q.3	4143Q.1 and 4143Q.2	Grounds for disqualifications (directors/officers)	4150Q.1 and 4150Q.2
4150Q.3 4150Q.5	4143Q.4	Disqualification procedures	4150Q.4
4179Q.2 4180Q.5 4185Q.1 4406Q.4 4602Q.1	4141Q.3	Duties and responsibilities of the Board of Directors	4143Q.1
4180Q.4	4142Q	Qualifications of officers	4145Q.1
4185Q.1	4142Q.3	Duties of Officers	4145Q.2
4192Q	4141Q.1	Definition of Independent Director	4002Q(g)
4301Q.6	4141Q.2e	Definition of control	4002Q(c)
4326.1	4141Q 4142Q	Definition of directors Definition of officers	4002Q(e) 4002Q(k)
4406Q.2	4141Q.1 (footnote) 4141Q.2 (footnote) 4142Q	Definition of non-executive directors Definition of independent directors Definition of officers	4002Q(i) 4002Q(g) 4002Q(k)
App Q-3	4141Q.9	Certification on receipt of copy of duties and responsibilities of the board of directors and directors	4143Q.2
App Q-3	4141Q.4	Notice of Election/Appointment of Members of Board of Directors and Committees	4148Q.1

Section/ Subsection	With cross- reference to:	On the:	New Section/ Subsection
App Q-3	4143Q.4	Report on disqualification of directors/officers	4150Q.3
App Q-3	4144Q	Biographical Data of Directors/Officers with ID picture	4148Q.2
App Q-3	4141Q.2	Certification under oath of the independent directors that he/she is an independent director	4002Q(g)
App Q-3 App Q-57b	4144Q	List of Members of the Board of Directors/Officers	4148Q.2(c)
App Q-45	4143Q.5	Querying on Bangko Sentral Watchlist Files for Screening Applicants/confirming appointments of Directors/Officials	4150Q.5
App Q-59a	4141Q.3	Powers/responsibilities and duties of directors: Audit Committee	4144Q.1
4141T	4141Q	Definition; Qualifications; Powers, responsibilities and Duties of Board of Directors	4002Q; 4142Q; 4143Q
4141T.2	4141Q.2	Qualifications of a director	4142Q.3
4141T.3	4141Q.3	Powers/responsibilities and duties of board of directors	4143Q.1
4142T	4142Q	Definitions, qualifications and Duties and Responsibilities of Officers	4002Q; 4145Q
4142T.3	4142Q.3	Duties and Responsibilities of Officers	4145Q.2
4143T	4143Q 4143Q.1 4143Q.2	Disqualification of Directors Disqualification of Officers	4150Q 4150Q.1 4150Q.2
4144T	4144Q	Bio-data of Directors and Officers	4148Q.2(c)
4326T	4141Q.3 (footnote)	Definition of related parties	4002Q(o)
App T-3	4144Q	Biographical Data of Directors/Officers with ID picture List of Members of the Board and Officers Duly accomplished and notarized authorization form for querying the Bangko Sentral watchlist files	4148Q.2 4148Q.2(c) 4150Q.4
App T-3	4141Q.4	Notice of Election/Appointments of Members of Board of Directors and Committees	4148Q.1
App T-3	4143Q.4	Report on Disqualification of Director/Officer	4150Q.4
App T-3	4141Q.9	Certification under oath of directors/officers that he/she has all the qualifications and none of the disqualifications	4143Q.1 and 4143Q.2
App. T-3	4141Q.2	Certification under oath of independent directors that he/she is an independent director as defined	4002Q(g)

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:

A handwritten signature in black ink, appearing to read "Nestor A. Espenilla, Jr.", written over a horizontal line.

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. 4148Q.1, 4180Q.3 and 4406Q.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 qualifications and none of the disqualifications	• 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 appointment • 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 none of the disqualifications to become an	• 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. 4148Q.1 and 4406Q.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/FCU 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.

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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
to become a director	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		

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Requiring Bangko Sentral Confirmation²		Not Requiring Bangko Sentral Confirmation
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• 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