



Bangko Sentral ng Pilipinas

OFFICE OF THE GOVERNOR

Circular No. 456

Series of 2004

Pursuant to Monetary Board Resolution No. 1351 dated 16 September 2004, the Manual of Regulations for Banks (MORB) and the Manual of Regulations for Non-Bank Financial Institutions (MORNBFI) are hereby amended, as follows:

Section 1. Subsecs. X141.3.c(9) and 4141Q.3.c(9) of the MORB and MORNBFI, respectively, are hereby amended to read, as follows:

Subsecs. X141.3.c(9) and 4141Q.3.c(9) Specific duties and responsibilities of the board of directors

"(9) To constitute the following committees:

- (a) **Audit committee.** The audit committee shall be composed of members of the board of directors, at least two (2) of whom shall be independent directors, INCLUDING THE CHAIRMAN, preferably with accounting, AUDITING OR RELATED FINANCIAL MANAGEMENT EXPERTISE OR experience. The audit committee provides oversight of the institution's FINANCIAL REPORTING AND CONTROL AND internal and external AUDIT FUNCTIONS. It shall be responsible for the setting up of the internal audit department and for the appointment of the internal auditor as well as the independent external auditor WHO SHALL BOTH REPORT DIRECTLY TO THE AUDIT COMMITTEE. It shall monitor and evaluate the adequacy and effectiveness of the internal control system.

UPON SETTING UP THE AUDIT COMMITTEE, THE BOARD OF DIRECTORS SHALL DRAW UP A WRITTEN CHARTER OR TERMS OF REFERENCE WHICH CLEARLY SETS OUT THE AUDIT COMMITTEE'S AUTHORITY AND DUTIES, AS WELL AS THE REPORTING RELATIONSHIP WITH THE BOARD OF DIRECTORS. THIS CHARTER SHALL BE APPROVED BY THE BOARD OF DIRECTORS AND REVIEWED AND UPDATED PERIODICALLY.

THE AUDIT COMMITTEE SHALL HAVE EXPLICIT AUTHORITY TO INVESTIGATE ANY MATTER WITHIN ITS TERMS OF REFERENCE, FULL ACCESS TO AND COOPERATION BY MANAGEMENT AND FULL DISCRETION TO INVITE ANY DIRECTOR OR EXECUTIVE OFFICER TO ATTEND ITS MEETINGS, AND ADEQUATE RESOURCES TO ENABLE IT TO EFFECTIVELY DISCHARGE ITS FUNCTIONS.



THE AUDIT COMMITTEE SHALL ENSURE THAT A REVIEW OF THE EFFECTIVENESS OF THE INSTITUTION'S INTERNAL CONTROLS, INCLUDING FINANCIAL, OPERATIONAL AND COMPLIANCE CONTROLS, AND RISK MANAGEMENT, IS CONDUCTED AT LEAST ANNUALLY.

- (b) **CORPORATE GOVERNANCE COMMITTEE.** The CORPORATE GOVERNANCE committee SHALL ASSIST THE BOARD OF DIRECTORS IN FULFILLING ITS CORPORATE GOVERNANCE RESPONSIBILITIES. It shall review and evaluate the qualifications of all persons nominated to the board as well as those nominated to other positions requiring appointment by the board of directors. THE COMMITTEE shall be composed of at least three (3) members of the board of directors, TWO (2) OF WHOM SHALL BE independent directors.

THE CORPORATE GOVERNANCE COMMITTEE SHALL HAVE A WRITTEN CHARTER THAT DESCRIBES THE DUTIES AND RESPONSIBILITIES OF ITS MEMBERS. THIS CHARTER SHALL BE APPROVED BY THE BOARD OF DIRECTORS AND REVIEWED AND UPDATED AT LEAST ANNUALLY.

THE COMMITTEE SHALL BE RESPONSIBLE FOR ENSURING THE BOARD'S EFFECTIVENESS AND DUE OBSERVANCE OF CORPORATE GOVERNANCE PRINCIPLES AND GUIDELINES. IT SHALL OVERSEE THE PERIODIC PERFORMANCE EVALUATION OF THE BOARD AND ITS COMMITTEES AND EXECUTIVE MANAGEMENT; AND SHALL ALSO CONDUCT AN ANNUAL SELF-EVALUATION OF ITS PERFORMANCE. THE COMMITTEE SHALL ALSO DECIDE WHETHER OR NOT A DIRECTOR IS ABLE TO AND HAS BEEN ADEQUATELY CARRYING OUT HIS/HER DUTIES AS DIRECTOR BEARING IN MIND THE DIRECTOR'S CONTRIBUTION AND PERFORMANCE (E.G., COMPETENCE, CANDOR, ATTENDANCE, PREPAREDNESS AND PARTICIPATION). INTERNAL GUIDELINES SHALL BE ADOPTED THAT ADDRESS THE COMPETING TIME COMMITMENTS THAT ARE FACED WHEN DIRECTORS SERVE ON MULTIPLE BOARDS.

THE COMMITTEE SHALL MAKE RECOMMENDATIONS TO THE BOARD REGARDING THE CONTINUING EDUCATION OF DIRECTORS, ASSIGNMENT TO BOARD COMMITTEES, SUCCESSION PLAN FOR THE BOARD MEMBERS AND SENIOR OFFICERS, AND THEIR REMUNERATION COMMENSURATE WITH CORPORATE AND INDIVIDUAL PERFORMANCE.



THE CORPORATE GOVERNANCE COMMITTEE SHALL DECIDE THE MANNER BY WHICH THE BOARD'S PERFORMANCE MAY BE EVALUATED AND PROPOSE AN OBJECTIVE PERFORMANCE CRITERIA APPROVED BY THE BOARD. SUCH PERFORMANCE INDICATORS SHALL ADDRESS HOW THE BOARD HAS ENHANCED LONG TERM SHAREHOLDERS' VALUE.

- (c) **RISK MANAGEMENT COMMITTEE.** THE RISK MANAGEMENT COMMITTEE SHALL BE RESPONSIBLE FOR THE DEVELOPMENT AND OVERSIGHT OF THE INSTITUTION'S RISK MANAGEMENT PROGRAM. THE COMMITTEE SHALL BE COMPOSED OF AT LEAST THREE (3) MEMBERS OF THE BOARD OF DIRECTORS WHO SHALL POSSESS A RANGE OF EXPERTISE AS WELL AS ADEQUATE KNOWLEDGE OF THE INSTITUTION'S RISK EXPOSURES TO BE ABLE TO DEVELOP APPROPRIATE STRATEGIES FOR PREVENTING LOSSES AND MINIMIZING THE IMPACT OF LOSSES WHEN THEY OCCUR. IT SHALL OVERSEE THE SYSTEM OF LIMITS TO DISCRETIONARY AUTHORITY THAT THE BOARD DELEGATES TO MANAGEMENT, ENSURE THAT THE SYSTEM REMAINS EFFECTIVE, THAT THE LIMITS ARE OBSERVED AND THAT IMMEDIATE CORRECTIVE ACTIONS ARE TAKEN WHENEVER LIMITS ARE BREACHED.

THE RISK MANAGEMENT COMMITTEE SHALL HAVE A WRITTEN CHARTER THAT DEFINES THE DUTIES AND RESPONSIBILITIES OF ITS MEMBERS. THE CHARTER SHALL BE APPROVED BY THE BOARD OF DIRECTORS AND REVIEWED AND REFINED PERIODICALLY.

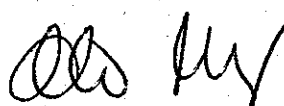
THE CORE RESPONSIBILITIES OF THE RISK MANAGEMENT COMMITTEE ARE:

- **IDENTIFY AND EVALUATE EXPOSURES** - THE COMMITTEE SHALL ASSESS THE PROBABILITY OF EACH RISK BECOMING REALITY AND SHALL ESTIMATE ITS POSSIBLE EFFECT AND COST. PRIORITY AREAS OF CONCERN ARE THOSE RISKS THAT ARE MOST LIKELY TO OCCUR AND ARE COSTLY WHEN THEY HAPPEN.
- **DEVELOP RISK MANAGEMENT STRATEGIES** - THE RISK MANAGEMENT COMMITTEE SHALL DEVELOP A WRITTEN PLAN DEFINING THE STRATEGIES FOR MANAGING AND CONTROLLING THE MAJOR RISKS. IT SHALL IDENTIFY PRACTICAL STRATEGIES TO REDUCE THE CHANCE OF HARM AND FAILURE OR MINIMIZE LOSSES IF THE RISK BECOMES REAL.

- **IMPLEMENT THE RISK MANAGEMENT PLAN - THE RISK MANAGEMENT COMMITTEE SHALL COMMUNICATE THE RISK MANAGEMENT PLAN AND LOSS CONTROL PROCEDURES TO AFFECTED PARTIES. THE COMMITTEE SHALL CONDUCT REGULAR DISCUSSIONS ON THE INSTITUTION'S CURRENT RISK EXPOSURE BASED ON REGULAR MANAGEMENT REPORTS AND DIRECT CONCERNED UNITS OR OFFICES ON HOW TO REDUCE THESE RISKS.**
- **REVIEW AND REVISE THE PLAN AS NEEDED - THE COMMITTEE SHALL EVALUATE THE RISK MANAGEMENT PLAN TO ENSURE ITS CONTINUED RELEVANCY, COMPREHENSIVENESS, AND EFFECTIVENESS. IT SHALL REVISIT STRATEGIES, LOOK FOR EMERGING OR CHANGING EXPOSURES, AND STAY ABREAST OF DEVELOPMENTS THAT AFFECT THE LIKELIHOOD OF HARM OR LOSS. THE COMMITTEE SHALL REPORT REGULARLY TO THE BOARD OF DIRECTORS THE ENTITY'S OVER-ALL RISK EXPOSURE, ACTIONS TAKEN TO REDUCE THE RISKS, AND RECOMMEND FURTHER ACTION OR PLANS AS NECESSARY".**

This Circular shall take effect on 01 January 2005.

FOR THE MONETARY BOARD:



ARMANDO L. SURATOS
Officer-In-Charge

4 October 2004