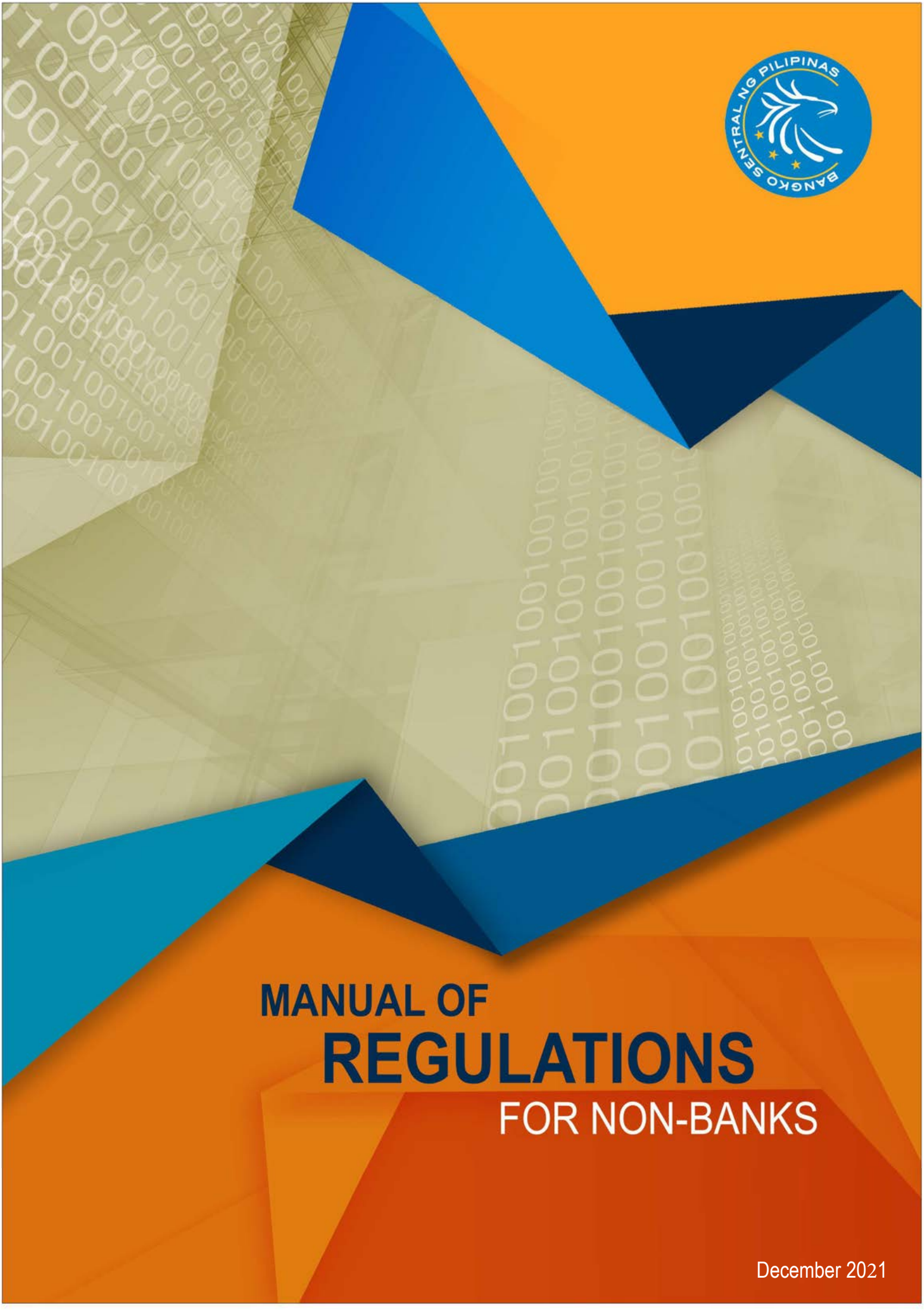

BANGKO SENTRAL NG PILIPINAS
MANUAL OF
REGULATIONS
FOR NON-BANKS
December 2021

FOREWORD

The Manual of Regulations for Non-Bank Financial Institutions (MORNBFI) is a compilation of regulations governing non-bank financial institutions (NBFIs) supervised by, or are under the regulatory ambit of, the Bangko Sentral ng Pilipinas (Bangko Sentral) such as quasi-banks (QB), non-stock savings and loan associations (NSSLAs), pawnshops, trust corporations, non-bank credit card issuers and other NBFIs.

The MORNBFI organizes the Bangko Sentral rules and policy issuances that implement the provisions of Republic Act No. 8791 (The General Banking Law of 2000) for quasi-banks, and other pertinent laws and regulations governing above-mentioned NBFIs. The MORNBFI is updated regularly to incorporate the provisions contained in the published Bangko Sentral Circulars affecting the MORNBFI. In case of any inconsistencies between the provisions set forth in the MORNBFI and the published Bangko Sentral Circulars, the latter shall prevail.

The MORNBFI serves as a comprehensive guidance on prudential requirements for Bangko Sentral supervised NBFIs to ensure consistent interpretation and implementation of regulatory provisions.

Together with other supervisory guidelines, the MORNBFI assists in the examination and offsite surveillance of Bangko Sentral supervised NBFIs. This document is also a useful reference for the public, including researchers who are interested in understanding the Bangko Sentral regulations. Likewise, the MORNBFI can be used for benchmarking regulatory requirements with international standards and those of counterpart regulators.

This edition covers Bangko Sentral rules and regulations issued as of end-December 2021.

PREFACE

Manual of Regulations for Non-Bank Financial Institutions

The 2021 Manual of Regulations for Non-Bank Financial Institutions (MORNBFI) edition contains updates and amendments to quasi-banking and other non-banking financial institutions (NBFIs) regulations as of 31 December 2021 to align with international standards and best practices to the extent feasible as well as adapt to the evolving financial landscape.

The Supervisory Policy and Research Department (SPRD) of the Financial Supervision Sector (FSS), Bangko Sentral ng Pilipinas is responsible for updating the Manual of Regulations for Banks and the MORNBFI (collectively referred herein as the "Manuals") on a continuing basis and incorporating the necessary format corrections to the Manuals to ensure consistency and good order.

The Bangko Sentral ng Pilipinas

USER'S GUIDE

The Manual of Regulations for Non-Bank Financial Institutions (the "Manual") covers:

1. Q-Regulations (*Regulations Governing NBFIs Performing Quasi-Banking Functions*) which is divided into eleven (11) parts with the following topics:

Part	Topic
I	Organization, Management and Administration
II	Deposit Substitutes, Borrowings and Other Liabilities
III	Loans, Investments and Special Credits
IV	Trust, Other Fiduciary Business and Investment Management Activities
V	Foreign Exchange Operations
VI	Treasury and Money Market Operations
VII	Electronic Services and Operations
VIII	Regulations on Payment Systems
IX	Anti-Money Laundering Regulations
X	Bangko Sentral Regulations on Financial Consumer Protection
XI	Other Non-Banking Regulations

2. S-Regulations (*Regulations Governing Non-Stock Savings and Loan Associations*) which is divided into eight (8) parts with the following topics:

Part	Topic
I	Organization, Management and Administration
II	Deposit and Borrowing Operations
III	Loans and Investments
IV	Electronic Services and Operations
V	Regulations on Payment Systems
VI	Anti-Money Laundering Regulations
VII	Bangko Sentral Regulations on Financial Consumer Protection
VIII	Other NSSLA Regulations

3. P-Regulations (*Regulations Governing Pawnshops*) which is divided into seven (7) parts with the following topics:

Part	Topic
I	Pawnshop Business - Organization, Management and Administration
II	Borrowing Operations
III	Pawning Operations
IV	Regulations on Payment Systems
V	Anti-Money Laundering Regulations
VI	Bangko Sentral Regulations on Financial Consumer Protection
VII	Miscellaneous

4. T-Regulations (*Regulations Governing Trust Corporations*) which is divided into four (4) parts with the following topics:

Part	Topic
I	Organization, Management and Administration
II	Asset Management Operations
III	Trust, Other Fiduciary Business and Investment Management Activities
IV	Other Regulations

5. CC-Regulations (*Regulations Governing Non-Bank Credit Card Issuers*) consists only of one (1) part, i.e., "Organization, Management and Administration".

6. N-Regulations (*Regulations Governing Other NBFIs*) which is divided into ten (10) parts with the following topics:

Part	Topic
I	Organization, Management and Administration
II	Borrowing Operations
III	Loans, Investments and Special Credits
IV	Electronic Services and Operations
V	Regulations on Payment Systems
VI	Anti-Money Laundering Regulations
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X	Other Regulations Applicable to Specific Types of Non-Bank Financial Institutions

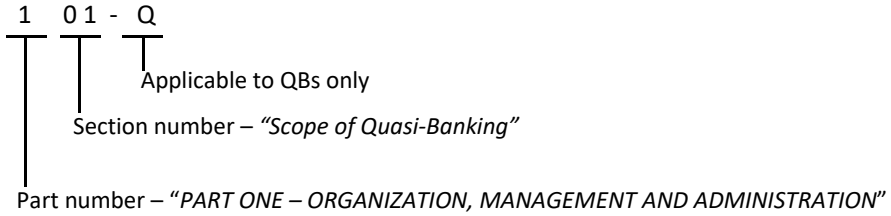
Each Part is further divided into Sections. For clearer, simple and citation-friendly numbering, a suffix is added to the Section number to indicate the specific book or type of non-bank financial institution it applies to, as follows:

Suffix	Type of Non-Bank Financial Institution
Q	Quasi-Banking
S	Non-Stock Savings and Loan Associations (NSSLAs)
P	Pawnshops
N	Other Non-Bank Financial Institutions
T	Trust Corporations
CC	Non-Bank Credit Card Issuers

The last two digits refer to the Section number, while the first digit/s refers to the Part number of the Manual.

The following examples illustrate the format arrangement per Section:

Example: Section 101-Q



MANUAL OF REGULATIONS FOR NON-BANK FINANCIAL INSTITUTIONS

Q-REGULATIONS
(Regulations Governing Non-Bank Financial Institutions Performing Quasi-Banking Functions)

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POWERS OF THE BANGKO SENTRAL

001-Q EXAMINATION BY THE BANGKO SENTRAL

The Bangko Sentral shall have supervision over, and conduct periodic or special examinations of, Quasi-Banks (QBs), including their subsidiaries and affiliates in allied activities.

The head and examiners of the appropriate department of the Bangko Sentral are authorized to administer oaths to any director, officer, or employee of QBs, including their subsidiaries and affiliates engaged in allied activities, and to compel the presentation of all books, documents, papers or records necessary in their judgment to ascertain the facts relative to the true condition of the institution as well as the books and records of persons and entities relative to or in connection with the operations, activities or transactions of the institution under examination, subject to the provision of existing laws protecting or safeguarding the secrecy or confidentiality of investments of private persons, natural or juridical, in debt instruments issued by the Government.

The term "*examination*" shall refer to an investigation of an institution under the supervisory authority of the Bangko Sentral to determine whether the institution is operating on a safe and sound basis, inquire into its solvency and liquidity, and assess the effectiveness of its compliance function to ascertain that it is conducting business in accordance with laws and regulations. Regular or periodic examination shall be done, with an interval of twelve (12) months from the last date thereof. Special examination may be conducted earlier, or at shorter interval, when authorized by the Monetary Board by an affirmative vote of five (5) members.

In the full exercise of the supervisory powers of the Bangko Sentral, examination by the Bangko Sentral of institutions shall be complemented by overseeing thereof. In this regard, the term *"overseeing"* shall refer to a limited investigation of an institution, or any investigation that is limited in scope, conducted to inquire into a particular area/aspect of an institution's operations, for the purpose of overseeing that laws and regulations are complied with, inquiring into the solvency and liquidity of the institution, enforcing prompt corrective action, or such other matters requiring immediate investigation: *Provided,* That (i) specific authorizations be issued by the Deputy Governor of the supervision sector of the Bangko Sentral, and (ii) periodic summary reports on overseeing conducted be submitted to the Monetary Board.

a. *Scope of examination.* Consistent with a risk-based approach to supervision, the scope of examination may include, but need not be limited to, the following:

   (1) Appraisal of the overall quality of corporate governance;

   (2) Assessment of the risk management system, which shall include the evaluation of the effectiveness of management oversight and self-assessment functions (e.g., internal audit, risk management and compliance); adequacy of policies, procedures, and limits; effectiveness of risk measurement, monitoring and management information system; and robustness of internal controls;

   (3) Review of the institution's operations and overall risk profile;

   (4) Evaluation of financial performance, capital adequacy, asset quality, and liquidity; and

   (5) Any other activity relevant to the above.

b. *Conduct of examination*. The conduct of examination shall include, but need not be limited to, the interview of any quasi-bank's directors, officers, and personnel; and the verification, review, and evaluation of documents and records, including making copies of the records, taking possession thereof and keeping them under the custody of the Bangko Sentral after giving proper receipts thereof.

For this purpose "records" shall refer to information, whether in its original form or otherwise, including documents, signatures, seals, texts, images, sounds, speeches, or data compiled, recorded or stored, as the case may be: (1) in written form on any material; (2) on film, negative, tape or other medium so as to be capable of being reproduced; or (3) by means of any recording device or process, computer or other electronic device or process and regardless of whether these information are stored and kept by the BSFI or another entity duly authorized by the BSFI (e.g., technology service provider). Records shall also include audio, photographic, and video evidence of events, acts, or transactions of the BSFI, including all records of communication, oral (e.g., voice recordings) or written (e.g., letters) of officers and employees of the BSFI: *Provided*, That the recording was made in connection with the performance of the official functions of the concerned officers or employees and coursed through BSFI- issued computers, telephones, mobile phones, and similar devices.

Refusal to permit examination. Any act or omission that impedes, delays or obstructs the duly authorized Bangko Sentral examiner from conducting an examination of a BSFI, including the act of refusing to accept or honor the letter of authority to examine presented by the examiner of the Bangko Sentral, shall be considered as a refusal to permit examination.

The refusal of the BSFI to permit examination shall be reported by the Bangko Sentral examiner to the head of the appropriate department of the Bangko Sentral, who shall forthwith make a written demand upon the BSFI concerned for such examination. If the BSFI continues to refuse the said examination without any satisfactory explanation thereof, a report on such refusal shall be submitted by the Bangko Sentral examiner concerned to the said Department Head.

Sanctions. A BSFI that wilfully refuses to permit examination shall pay a fine of P30,000 per day from the day of the refusal and for as long as such refusal lasts, without prejudice to the sanctions under Section 34 of R.A. No. 7653.

The fine shall be imposed starting on the day following the receipt by the concerned Head of Department in the supervising sector of the report from the Bangko Sentral examiner that the BSFI continues to refuse to permit examination notwithstanding with written demand made by Department Head.

Aside from the fine mentioned above, the BSFI and/or its concerned directors and/or officers may be subject to non-monetary sanctions provided under Section 37 of R.A. No. 7653 (The New Central Bank Act) and Sec. 002-Q.

(Circular No. 957 dated 17 April 2017)

002-Q SUPERVISORY ENFORCEMENT POLICY

The Policy sets forth guidance on the Bangko Sentral's supervision-by-risk framework. It also puts together in a holistic manner all the enforcement tools available to the Bangko Sentral as contained in various laws and rules and regulations[1] and communicates the deployment thereof in a consistent manner by the Bangko Sentral in the course of performing its supervisory function. It further sets out the guiding principles and objectives behind the deployment of such enforcement actions.

Nothing in this Section shall be construed as superseding enforcement actions previously imposed against Bangko Sentral-supervised FIs pursuant to existing laws, Bangko Sentral rules and regulations.

a. Statement of policy and rationale

The Bangko Sentral is issuing this Supervisory Enforcement Policy to provide guidance in its supervision-by-risk framework. The Bangko Sentral recognizes that risk-taking is integral to a financial institution's business. The existence of risk is not necessarily a reason for concern so long as Management exhibits the ability to effectively manage that level of risk and operates the financial institution (FI) in a safe and sound manner. Thus, when risk is not properly managed, the Bangko Sentral may deploy a wide range of enforcement actions provided under existing laws, Bangko Sentral rules and regulations, taking into consideration the nature and extent of the supervisory issues and concerns and the level of cooperation provided by Management.

The Bangko Sentral adopts a holistic approach to supervision with the objective of guiding FIs under its supervision to mitigate risk and achieve the desired changes.

Bangko Sentral's risk-based supervision, of which enforcement action is a key part, focuses on the safety and soundness of operations of the FIs. This policy sets forth the expectations of the Bangko Sentral when it deploys enforcement action and the consequences when expected actions are not performed within prescribed timelines.

Thus, this over-arching policy is needed - (a) as a collation of various enforcement actions already present in various laws, rules and regulations; (b) for better guidance of the FIs and the bank supervisors; and (c) as a means to broadcast to the banking/financial industry the consequences of failure to address the Bangko Sentral requirements and supervisory expectations.

b. Objectives of the enforcement policy.

The Bangko Sentral's Supervisory Enforcement Policy aims to achieve the following two (2) key objectives:

(1) Achieving the desired change. Effect a change in the overall condition and governance of Bangko Sentral-supervised FIs consistent with the expectations set under relevant laws and regulations; and
(2) Mitigating risk. Mitigate risks to the FIs and other stakeholders in order to maintain the stability of the financial system.

c. General principles

The Bangko Sentral, in the deployment of enforcement actions, is guided by the following general principles:

(1) Root cause diagnosis. The enforcement action addresses the underlying cause of the supervisory issues and concerns.

[1] Section 4 of R.A. No. 8791 (General Banking Law of 2000) defines the scope of Bangko Sentral's supervisory powers, which may be grouped into three (3) categories: (i) issuance of rules; (ii) examination and investigation; and (iii) enforcement of Prompt Corrective Action (PCA)

(2) Consistently matching the severity of enforcement action to the supervisory issue. The deployment of appropriate enforcement action is commensurate to the severity of the supervisory issues and concerns. The severity of the supervisory issues and concerns is assessed in terms of prevalence[1] and persistence.

(3) Successive or simultaneous deployment of enforcement actions. Enforcement actions may be deployed successively or simultaneously taking into account the nature and seriousness of the difficulties encountered by the FIs and the ability and willingness of the FI's Management to address the supervisory issues and concerns.

(4) Monitorability and follow-through. The Bangko Sentral monitors the FI's progress/compliance with the expected actions to address the supervisory issues, concerns and problems.

(5) Escalation of enforcement actions. Enforcement actions may be escalated if the desired change is not achieved and the root causes of the FI's issues, concerns and problems are not addressed by the FI within prescribed timelines.

d. Categories of enforcement actions

The three (3) main categories of enforcement action are: (1) corrective actions, (2) sanctions and (3) other supervisory actions. These enforcement actions may be imposed singly or in combination with others.

(a) Corrective actions

Corrective actions are enforcement actions intended to require the FI to address the underlying cause of supervisory issues, concerns and problems. These include the following:

(i) Bangko Sentral Directives

Directives are basically orders and instructions communicated by the appropriate supervising department in Bangko Sentral requiring the FI to undertake a specific positive action or refrain from performing a particular activity within a prescribed timeline.

(ii) Letter of Commitment (LOC)

The LOC is an enforcement action where the FI's Board of Directors (Board) is required, upon approval and/or confirmation by the Monetary Board, to make a written commitment to undertake a specific positive action or refrain from performing a particular activity with a given time period.

The LOC is generally used to arrest emerging supervisory concerns before these develop into serious weaknesses or problems, or to address remaining supervisory issues and concerns.

(b) Sanctions

Sanctions that may be imposed on an FI and/or its directors and officers, as provided under existing laws, Bangko Sentral rules and regulations, are subject to the prior approval and/or confirmation by the Monetary Board. Such sanctions include the following:

(i) FIs
- Restrictions on activities and privileges
- Suspension of authorities, privileges and other activities
- Divestment and/or Unwinding
- Monetary sanction - penalties/fines Against the FI

(ii) Directors and officers
- Reprimand
- Restriction on compensation and benefits
- Divestment
- Suspension
- Disqualification
- Removal
- Monetary penalties/fines

The foregoing sanctions to individuals are without prejudice to the filing of separate civil or criminal actions against them, when appropriate.

[1] Prevalence pertains to the pervasiveness of the supervisory issues, concerns and problems in relation to their impact on the FI's solvency, asset quality, operating performance and liquidity, among others.

(c) Other supervisory actions

Subject to prior Monetary Board approval, the Bangko Sentral, when warranted, may deploy other supervisory actions such as:

(i) Initiation into the PCA Framework;
(ii) Issuance of a cease and desist order (CDO) against the FI as well as its directors and officers;
(iii) Conservatorship; and
(iv) Placement under receivership.

(d) Due process

An integral part of the deployment of enforcement actions is the observance of due process in all cases.

The FI and/or its directors and officers are afforded fair and reasonable opportunity to explain their side and to submit evidence/s in support thereof, which are given due consideration in determining the appropriate enforcement action(s) to be imposed.

(Circular No. 903 dated 29 February 2016)

003-Q PROMPT CORRECTIVE ACTION FRAMEWORK

The framework for the enforcement of prompt corrective action (PCA) on banks which is in *Appendix Q-40*, shall govern the PCA taken on QBs to the extent applicable, or by analogy.

004-Q MONETARY PENALTIES ON BSFIs, AND/OR THEIR DIRECTORS, OFFICERS AND/OR EMPLOYEES

The Bangko Sentral recognizes the need to impose monetary penalties as one of the possible administrative sanctions to hold BSFIs, and/or their directors, officers and/or employees accountable for their conduct, deter future commission of violations, and achieve the overarching supervisory objectives of changed behavior and mitigated risks.

Pursuant to Section 37 of R.A. No. 7653, as amended, QBs, and/or their directors, officers and/or employees may be imposed a maximum monetary penalty of P1 million for each transactional violation or P100 thousand per calendar day for violations of a continuing nature. In case profit is gained or loss is avoided as a result of the violation, the Bangko Sentral may also impose a fine of no more than three (3) times the profit gained or loss avoided.

To ensure fairness, consistency and reasonableness in the imposition of monetary penalties, the Bangko Sentral take into consideration the attendant circumstances of each case, such as the nature and gravity of the violation or irregularity and the size of the financial institution, including other aggravating and mitigation factors. Further, in accordance with Sec. 002-Q, the Bangko Sentral may impose monetary penalties, singly or in combination with non-monetary sanctions, if appropriate.

The guidelines on the imposition of monetary penalties for violations in which sanctions fall under Section 37 of R.A. No. 7653 (The New Central Bank Act), as amended, and other applicable laws are in *Appendix Q-26.*

(Circular No. 1125 dated 20 August 2021)

PART ONE

ORGANIZATION, MANAGEMENT AND ADMINISTRATION

A. SCOPE OF AUTHORITY AND OPERATIONS OF QUASI-BANKS

101-Q WITHOUT RECOURSE TRANSACTIONS

Quasi-banking functions consist of the following:

a. Borrowing funds for the borrower's own account;
b. Twenty (20) or more lenders at any one time;
c. Methods of borrowing: issuance, endorsement, or acceptance of debt instruments of any kind, other than deposits, such as:

   (1) acceptances;
   (2) promissory notes;
   (3) participations;
   (4) certificates of assignment or similar instruments with recourse;
   (5) trust certificates;
   (6) repurchase (repo) agreements; and
   (7) such other instruments as the Monetary Board may determine; and

d. Purpose:

   (1) relending;
   (2) purchasing receivables or other obligations.

As used in the definition of *quasi-banking functions*, the following terms and phrases shall be understood, as follows:

Borrowing shall refer to all forms of obtaining or raising funds through any of the methods and for any of the purposes provided in Items *"c"* and *"d"* above, whether the borrower's liability thereby is treated as real or contingent.

For the borrower's own account shall refer to the assumption of liability in one's own capacity and not in representation, or as an agent or trustee, of another.

Lenders shall refer to individuals and corporate entities that are not banks, quasi-banks or other financial intermediaries as provided herein.

Purchasing of receivables or other obligations shall refer to the acquisition of claims collectible in money or of securities of any amount and maturity from domestic or foreign sources.

Relending shall refer to the extension of loans by an institution with antecedent borrowing transactions. Relending shall be presumed in the absence of express stipulation, when the institution is regularly engaged in lending.

Regularly engaged in lending shall refer to the practice of extending loans, advances, discounts or rediscounts as a matter of business, i.e., continuous or consistent lending as distinguished from isolated lending transactions.

Financial intermediaries. *Financial intermediaries* shall mean persons or entities whose principal functions include the lending, investing or placement of funds or evidences of indebtedness or equity deposited with them, acquired by them, or otherwise coursed through them either for their own account or for the account of others.

Principal shall mean chief, main, most considerable or important, of first importance, leading, primary, foremost, dominant or preponderant, as distinguished from secondary or incidental.

Functions shall mean actions, activities or operations of a person or entity by which his/its business or purpose is fulfilled or carried out. The business or purpose of a person or entity may be determined from the purpose clause in its articles of incorporation/partnership, and from the nature of the business indicated in his/its application for registration of business filed with the appropriate government agency.

To be considered a financial intermediary, a person or entity must perform any of the following functions on a regular and recurring, not on an isolated basis:

a. Receive funds from one (1) group of persons, irrespective of number, through traditional deposits, or issuance of debt or equity securities; and make available/lend these funds to another person or entity, and in the process acquire debt or equity securities;

b. Use principally the funds received for acquiring various types of debt or equity securities;

c. Borrow against, or lend on, or buy or sell debt or equity securities;

d. Hold assets consisting principally of debt or equity securities such as promissory notes, bills of exchange, mortgages, stocks, bonds, and commercial papers;

e. Realize regular income in the nature of, but need not be limited to, interest, discounts, capital gains, underwriting fees, guarantees, fees, commissions, and service fees, principally from transactions in debt or equity securities or by being an intermediary between suppliers and users of funds.

Non-banking financial intermediaries shall include the following:

(1) A person or entity licensed and/or registered with any government regulatory body as a non-bank financial intermediary, such as investment house (IH), investment company, financing company, securities dealer/broker, lending investor (IH), pawnshop, money broker, fund manager, cooperative, insurance company, non-stock savings and loan association (NSSLA) and building and loan association.

(2) A person or entity which holds itself out as a non-banking financial intermediary, such as by the use of a business name, which includes the term financing, finance, investment, lending and/or any word/phrase of similar import which connotes financial intermediation, or an entity which advertises itself as a financial intermediary and is engaged in the function(s) where financial intermediation is implied.

(3) A person or entity performing any of the functions enumerated in Items *"a" to "e"* above.

Guidelines on lender count. The following guidelines shall govern lender count on borrowings or funds mobilized by non-bank financial intermediaries:

a. For purposes of ascertaining the number of lenders/placers to determine whether or not a non-bank financial intermediary is engaged in quasi-banking functions, the names of payees on the face of each debt instrument shall serve as the primary basis for counting the lenders/placers except when proof to the contrary is adduced such as the official receipts or documents other than the debt instrument itself. In such case the actual/real lenders/placers as appearing in such proof, shall be the basis for counting the number of lenders/placers.

In a debt instrument issued to two (2) or more named payees under an and/or and or arrangement, the number of payees appearing on the instrument shall be the basis for counting the number of lenders/placers: *Provided, however*, That a debt instrument issued in the name of a husband and wife followed by the word spouses, whether under an and, and/or or arrangement or in the name of a designated payee under an in trust for (ITF) arrangement, shall be counted as one (1) borrowing/placement.

b. Each debt instrument payable to bearer shall be counted as one (1) lender/placer except when the non-bank financial intermediary can prove that there is only one (1) owner for several debt instruments so payable.

c. Two (2) or more debt instruments issued to the same payee, irrespective of the date and amount shall be counted as one (1) borrowing or placement.

d. Debt instruments underwritten by IHs or traded by securities dealers/brokers whether on a firm, standby or best efforts basis shall be counted on the basis of the number of purchasers thereof and shall not be treated as having been issued solely to the underwriter or trader: *Provided, however*, That in case of unsold debt instruments in a firm commitment underwriting, the underwriter shall be counted as a lender.

e. Each buyer, assignee, and/or indorsee shall be counted in determining the number of lenders/placers of funds mobilized through sale, assignment, and/or indorsement of securities, or receivables on a without recourse basis, whenever the terms and/or attendant documentation, practice, or circumstances indicate that the sale, assignment, and/or indorsement thereof legally obligates the non-bank financial intermediary to repurchase or reacquire the securities/receivables sold, assigned, indorsed or to pay the buyer, assignee, or indorsee at some subsequent time.

f. Funds obtained by way of advances from stockholders, directors, officers, regardless of nature, shall be considered borrowed funds or funds mobilized and such stockholders, directors or officers shall be counted in determining the number of lenders/placers.

Transactions not considered quasi-banking. The following shall not constitute quasi-banking:

a. Borrowing by commercial, industrial and other non-financial companies, through the means listed in this Section for the limited purpose of financing their own needs or the needs of their agents or dealers; and

b. The mere buying and selling without recourse of instruments mentioned in this Section: *Provided*, That:

(1) The institution selling without recourse shall indicate or stamp in conspicuous print on the instrument/s, as well as on the confirmation of sale (COS), the phrase without recourse or sans recourse and the following statement:

(Name of financial intermediary)
assumes no liability for the payment, directly or indirectly, of this instrument.

(2) In the absence of the phrase without recourse or sans recourse and the above-required accompanying statement, the instrument so issued, endorsed or accepted shall automatically be considered as falling within the purview of the rules on quasi-banking.

Provided, further, That any of the following practices or practices similar and/or tantamount thereto in connection with a without recourse transaction renders such transaction as with recourse and within the purview of the rules on quasi-banking.

(a) Issuance of postdated checks by a financial intermediary, whether for its own account or as an agent of the debt instrument issuer, in payment of the debt instrument sold, assigned or transferred without recourse;

(b) Issuance by a financial intermediary of any form of guaranty on sale transactions or on negotiations or assignment of debt instruments without recourse; or

(c) Payment with the funds of the financial intermediary which assigned, sold or transferred the debt instrument without recourse, unless the financial intermediary can show that the issuer has with the said financial intermediary funds corresponding to the amount of the obligation.

Any IH violating the provisions of this Section on Transactions not considered quasi-banking shall be subject to the sanctions provided in Sections 12 and 16 of P.D. No. 129, as amended.

Delivery of securities.

a. Securities sold on a without recourse basis allowed under this Section shall be delivered to a Bangko Sentral - accredited securities custodian or an SEC-authorized central securities depository in accordance with the following guidelines:

(1) The securities shall be delivered by the seller directly to the purchaser or to the purchaser's designated BSP-accredited securities custodian or SEC-authorized central securities depository.

(2) If the securities sold are certificated, delivery shall be effected physically to the purchaser, or to the purchaser's designated Bangko Sentral-accredited custodian. The certificate must be transferred to and registered under the name of the purchaser and properly recorded in the registry book.

The securities custodian shall hold the securities in the name of the buyer: *Provided*, That a bank authorized by the Bangko Sentral to perform securities custodianship function or a SEC-authorized central securities depository may not be allowed to be securities custodian/depository of securities issued by said securities custodian or central securities depository or of securities in bearer form.

b. The guidelines on the delivery of government securities to the investor's principal securities account with the National Registry of Scripless Securities (NRoSS) are in Appendix Q-38.

Sale, discounting, assignment or negotiation by quasi-banks of their credit rights arising from claims against the Bangko Sentral to clients. Pursuant to the policy of the Bangko Sentral to promote investor protection and transparency in securities transactions as important components of capital markets development, placements in the Term Deposit Facility (TDF), the Overnight Deposit Facility (ODF) and Reverse Repurchase agreements with the Bangko Sentral, shall not be the subject of sale, discounting, assignment or negotiation on a with or without recourse basis.

Any violation of the provisions of this Section on Sale, discounting, assignment or negotiation by quasi-banks of their credit rights arising from claims against the Bangko Sentral to clients shall subject the QB and the director/s and/or officer/s concerned to the sanctions provided under Sec. 002-Q.

Applicability of rules governing universal banks to quasi-banks. In case of conflict between rules applicable to banks with universal banking authority and those applicable to QBs in activities where they perform the same functions, the rules governing banks with universal banking authority shall prevail.

(Circular Nos. 1121 dated 8 June 2021 and 1061 dated 25 November 2019)

102-Q BASIC GUIDELINES IN ESTABLISHING QUASI-BANKS

It is the policy of the Bangko Sentral to promote the development of the domestic financial market so as to foster a sound, efficient and inclusive financial system fully supportive of sustainable economic growth. Towards this end, the grant of authority to engage in quasi-banking functions to IHs and finance companies shall be allowed subject to the following conditions:

a. That quasi-banking activities shall be undertaken by the institution concerned to pursue its core business, i.e., underwriting of securities of other corporations and of the government or its instrumentalities, participating as soliciting dealer or selling group member in tender offers, block sales, or exchange offering of securities, and dealing in options, rights or warrants relating to securities and such other powers which a dealer may exercise under the Securities Regulation Code (SRC), in the case of IHs, and discounting or factoring commercial papers or accounts receivable, or by buying and selling contracts, leases, chattel mortgages (CHMs), or other evidences of indebtedness, or by leasing of motor vehicles, heavy equipment and industrial machinery, business and office machines and equipment, appliances and other movable property, or granting business and consumer loans, in the case of finance companies;

b. That the institution concerned shall fully inform investors of the nature of a deposit substitute instrument, e.g., that it is not covered by the Philippine Deposit Insurance Corporation (PDIC), that pre-termination thereof is subject to penalty, where applicable, and such other material risks involved in investing in such instrument; and

c. That the institution concerned shall conduct effective investor suitability testing procedures.

Preconditions for the exercise of quasi-banking functions. No person or entity shall engage in quasi-banking functions without authority from the Bangko Sentral. Only a duly incorporated IH and finance company may undertake or perform quasi-banking functions as defined in Sec. 101-Q. An institution securing Bangko Sentral authority to engage in quasi-banking functions must meet the following requirements:

a. It must have complied with the minimum adjusted capital accounts of at least P300.0 million or such amounts as may be required by the Monetary Board in the future;

b. It has generally complied with applicable laws, rules and regulations, orders or instructions of appropriate authority, including the Monetary Board and/or Bangko Sentral Management where applicable;

c. Its accounting records, systems and procedures as well as internal control systems are satisfactorily maintained;

d. It does not have float items outstanding for more than sixty (60) calendar days in the "Due From/To Head Office/Branches/Offices" accounts exceeding one percent (1%) of the total resources as of end of preceding month;

e. It has no past due obligation with any FI as of date of application;

f. The officers who will be in-charge of the quasi-banking operations have actual experience of at least two (2) years in a bank or QB as in-charge (or at least as assistant-in-charge). The directors of the institution, officer-in-charge of the quasi-banking operations and the managerial staff must comply with the fit and proper rule prescribed under existing law/rules and regulations;

g. The institution has elected at least two (2) independent directors and all its directors have attended the required seminar for directors of QBs conducted or accredited by the Bangko Sentral;

h. It has not conducted business in an unsafe or unsound manner during the past six (6) months immediately preceding the date of application where applicable; and

i. It must have in place a comprehensive risk management system approved by its board of directors appropriate to its operations characterized by a clear delineation of responsibility for risk management, adequate risk measurement systems, appropriately structured risk limits, effective internal control and complete, timely and efficient risk reporting systems. In this connection, a manual of operations and other related documents embodying the risk management system must be submitted to the appropriate supervising department of the Bangko Sentral at the time of application for authority and within thirty (30) days from updates.

Application for a Certificate of Authority from the Bangko Sentral[1]**.** An institution securing the Bangko Sentral's Certificate of Authority to engage in quasi-banking functions shall file an application with the appropriate supervising department of the Bangko Sentral. The application shall be signed by the president or officer of equivalent rank of the institution and shall be accompanied by the following documents:

a. Certified true copy of the resolution of the board of directors of the institution authorizing the application;

[1] See SEC Circular Nos. 5 dated 17 July 2008, 3 dated 16 February 2006 and 14 dated 24 October 2000.

b. A certification signed by the president or officer of equivalent rank that:

(1) the institution has complied with all conditions/prerequisites for the grant of authority to engage in quasi-banking functions;

(2) quasi-banking functions shall be pursued/undertaken by the institution in the furtherance of its core business, e.g., underwriting of and dealing in securities of other corporations and of the government or its instrumentalities, in the case of IHs, and leasing and/or discounting/factoring commercial papers or accounts receivable, or granting business and consumer loans, in the case of finance companies;

(3) investors shall be informed that their investments/placements are not insured by the PDIC and that any pre-termination thereof shall be subject to penalty, if applicable, as well as all other material risks; and

(4) investors shall be subjected to effective investor suitability testing procedures;

c. An information sheet;
d. Bio-data signed under oath, of the members of the managerial staff who will undertake quasi-banking operations; and
e. Borrowing-investment program for one (1) year, and annually thereafter on or before November 30, which should include at the minimum:

(1) planned distribution of portfolios as to:

(a) underwriting;
(b) commercial papers;
(c) stocks and bonds;
(d) government securities (GS);
(e) receivables financing, discounting and factoring;
(f) leasing; and
(g) direct loans;

(2) expected sources of funds to support investment program classified as to:

(a) maturity: short, medium and long-term;
(b) interest rates; and
(c) domestic or foreign sources whether institutional or personal.

Issuance of Bangko Sentral Certificate of Authority. The Bangko Sentral shall issue a Certificate of Authority upon proof that the applicant has complied with the requirements of Sec. 102-Q and of pertinent laws and regulations.

In the case of a merger or consolidation of two (2) or more QBs, the authority shall continue to have full force and effect. For documentation purposes, in the case of a merger, the Certificate of Authority of the absorbing corporation shall be maintained; and with respect to consolidation, a new certificate shall be issued to the new corporation. The Certificate of Authority of the absorbed corporation in a merger and the certificates of the consolidated corporations in a consolidation shall be surrendered to the appropriate supervising department of the Bangko Sentral.

***Licensing of an Investment House*.** Applications for license as an IH referred to the Bangko Sentral by the Securities and Exchange Commission (SEC) pursuant to P.D. No. 129 shall be evaluated in accordance with the Guidelines to Evaluate Investment Houses prescribed in *Appendix Q-1*.

Basic Laws Governing Investment Houses and Financing Companies. The following are the basic laws governing investment houses (IHs) and financing companies:

a. *IHs.* P.D. No. 129, as amended, known as The Investment Houses Law, governs the establishment, operation and regulation of IHs. To effectively carry out the provisions of this Decree, the SEC, pursuant to the powers vested in it by said Decree, promulgated basic rules and regulations (*Appendix* Q-20) to implement the provisions of the Decree.

b. *Financing companies.* R.A. No. 8556, known as The Financing Company Act of 1998, regulates the organization and operation of financing companies. To effectively carry out the provisions of this Act, the SEC, pursuant to the powers vested in it under said Act, promulgated basic rules and regulations to implement the provisions of the Act *(Appendix Q-21).*

103-Q MERGERS AND ACQUISITIONS

The merger/consolidation of QBs is encouraged to meet minimum capital requirements and to develop larger and stronger FIs. QBs which are IHs are likewise encouraged to merge with banks to obtain authority to perform expanded commercial banking functions.

For purposes of merger and consolidation of QBs, the following definitions shall apply:

a. *Merger* is the absorption of one (1) or more corporations by another existing corporation, which retains its identity and takes over the rights, privileges, franchises, and properties, and assumes all the liabilities and obligations of the absorbed corporation(s) in the same manner as if it had itself incurred such liabilities or obligations. The absorbing corporation continues its existence while the life or lives of the other corporation(s) is/are terminated.

b. *Consolidation* is the union of two (2) or more corporations into a single new corporation, called the consolidated corporation, all the constituent corporations thereby ceasing to exist as separate entities. The consolidated corporation shall thereupon and thereafter possess all the rights, privileges, immunities, franchises and properties, and assume all the liabilities and obligations of each of the constituent corporations in the same manner as if it had itself incurred such liabilities or obligations.

Requirement of Bangko Sentral approval. Mergers and consolidations involving QBs shall comply with the provisions of applicable law and shall be subject to approval by the Bangko Sentral. The guidelines and procedures in the application for merger/consolidation as shown in *Appendix* Q-52 shall be observed by QBs.

Merger/consolidation incentives. In pursuance of the policy to promote mergers and consolidations among banks and other financial intermediaries, as well as purchases or acquisitions of majority or all of the outstanding shares of stock of a QB, as a means to develop larger and stronger FIs, constituent/participating entities may avail themselves of incentives or reliefs, subject to prior approval of the Monetary Board.

104-Q ESTABLISHMENT OF BRANCHES AND OTHER OFFICES

Prior Bangko Sentral authority shall be obtained before operating a branch, extension office or agency, including any arrangement whereby another person or entity is authorized to act as an agent for solicitation, issuance or servicing of deposit substitutes for the QB.

Agency arrangements shall refer to all or any type of services to be performed by another party as an agent other than collection agency for loans payable in installments/amortization, and paying agency under a definite and specific period for purposes of redeeming long-term notes and/or bonds.

Evaluation guideposts. The rate at which branches, agencies, extension offices, etc. are to be established shall depend upon the ability of the company to conduct operations from the head office, as well as correspondent/banking arrangements, and subject to the prudential criteria prescribed under Sec. 111-Q.

Additional capital, if required. An applicant QB may be required to put up additional capital in an amount to be determined by the appropriate supervising department of the Bangko Sentral, based on criteria which consider expected growth of risk assets and capital accounts and for this purpose, the methods of computing such additional capital, as shown in *Appendix Q-2*, shall be used.

Documentary requirements. All applications shall be supported by the following documents:

a. Application letter signed by the president of the entity or officer of equivalent rank including justifications on how the license is aligned with the entity's business model and strategic direction with information on:

   (1) Services to be offered, as well as any extension offices, etc. to be opened; and
   (2) Areas to be served.

b. Corporate secretary's certificate on the approval of the board of directors of the establishment of a branch; and
c. Certification signed by the president or officer of equivalent rank and the chief compliance officer that the applicant entity has complied with all the prudential criteria prescribed under Sec. 111-Q.

Filing of applications. Applications for a certificate of authority to operate a branch, an extension office or an agency shall be filed with the SEC, which office shall refer the same to the appropriate supervising department of the Bangko Sentral for comments and recommendations. A copy of the application filed with the SEC, with the pertinent documents, shall simultaneously be furnished the appropriate supervising department of the Bangko Sentral for advance verification of the QB's compliance with the requirements under the provisions of Sec. 104-Q.

Period within which to submit complete requirements. The applicant QB shall have one (1) month from notice of the receipt of the SEC referral by the appropriate supervising department of the Bangko Sentral within which to submit/complete the requirements under this Section, after which the non-submission of complete documents shall cause the return of the application for the QB's lack of interest to pursue the same.

Prohibition against operating without Securities and Exchange Commission license. No branch, extension office or agency shall start operations unless the appropriate SEC license, which likewise serves as authorization for the branch/extension office/agency to perform quasi-banking functions, has been issued.

(Circular No. 1031 dated 07 February 2020)

105-Q QUASI-BANK PREMISES AND OTHER FIXED ASSETS

The following rules shall govern the premises and other fixed assets of QBs.

Appreciation or increase in book value. QB premises, furniture, fixtures and equipment shall be accounted for using the cost model under Philippine Accounting Standards (PAS) 16 "Property, Plant and Equipment." Outstanding appraisal increment as of 13 October 2005 arising from mergers and consolidation and other cases approved by the Monetary Board, shall be deemed part of the cost of the assets. However, appraisal increment previously allowed to be booked shall be reversed.

Accordingly, the booking of appreciation or increase in the book value of QB premises and other fixed assets in cases where the market value of the property has greatly increased since the original purchase is no longer allowed.

Reclassification of real and other properties acquired to QB premises, furniture, fixture and equipment; Sanctions. QBs may reclassify ROPA to QB premises, furniture, fixture and equipment, subject to the following conditions:

a. Prior written approval of the majority of the members of the board of directors has been obtained for such reclassification. The approval shall be manifested in a resolution passed by the board of directors during a meeting and shall contain the following information:

   (1) Date ROPA was acquired;
   (2) Description of ROPA property;
   (3) Outstanding balance of ROPA at the time of reclassification;
   (4) Specific purpose for reclassifying said property to QB premises, furniture, fixture and equipment; and
   (5) Justification and plan for expansion, in the case of real and other property earmarked for future use.

   Said resolution shall also be made available for inspection by Bangko Sentral examiners, together with the supporting records and documents involving the ROPA account; and

b. Only such acquired asset, or a portion thereof, that will be (i) immediately used, or (ii) ready and available for use within a two (2)-year period from date of reclassification (in case of ROPA earmarked for future use) may be reclassified to QB premises, furniture, fixture and equipment;

c. ROPA reclassified to QB Premises, Furniture, Fixture and Equipment shall be recorded at its net carrying amount where the amounts booked as cost, accumulated depreciation and allowances for losses for QB Premises, Furniture, Fixture and Equipment shall correspond to the balance of these accounts under ROPA at the time of reclassification. As such, the reclassification shall not give rise to any gains/(losses) being recognized in the QB books; and

d. Said reclassification shall not cause the QB to exceed the prescribed ceiling on investment in real estate and improvements thereon, including QB equipment, provided under Sec. 109 (*Ceiling on total Investment*) of the MORB.

Within five (5) business days from date of reclassification, the QB shall submit the Certification on Compliance with Regulations on the Reclassification of ROPA to QB Premises, Furniture, Fixture and Equipment *Appendix 99*, signed by the president of the QB or officer of equivalent rank, to the appropriate supervising department of the Bangko Sentral. Said certification shall be accompanied by the certified true copy of the resolution of the QB's board of directors authorizing the reclassification.

Sanctions. The following sanctions shall be imposed for violations noted:

1. On the QB

   a. Monetary fines

      A QB which fails to comply with the provisions of this Section shall be subject to the appropriate monetary penalties under Sec. 1102-Q (Other Payments of NBFIs) and *Appendix* Q-26.

      (1) *For non-submission of the required certification*

         A QB which fails to submit the required Certification on Compliance with Regulations on the ROPA to QB Premises, Furniture, Fixture and Equipment or the certified true copy of the resolution of the board of directors authorizing said reclassification within the prescribed deadline shall be subject to the appropriate monetary

penalties under Sec. 1102-Q (*Other Payments of NBFIs*) and *Appendix Q-26* (*Guidelines on the imposition of monetary penalties*) which shall be reckoned on a daily basis from the day following the due date of submission until the required certification on compliance or the certified true copy of the resolution of the board of directors is filed with the Bangko Sentral.

(2) *For false/misleading statements*

A QB which has been found to have willfully made a false or misleading statement in the required Certification on Compliance with Rules and Regulations on the ROPA to QB Premises, Furniture, Fixture and Equipment or in the certified true copy of the resolution of the QB board of directors shall be subject to the the appropriate monetary penalties under Sec. 1102-Q (*Other Payments of NBFIs*) and *Appendix Q-26* (*Guidelines on the imposition of monetary penalties*) for the willful making of a false or misleading statement which shall be reckoned on a daily basis from the day following the due date of the said certification until such time that an amended or corrected certification on compliance or certified true copy of the resolution of the board of directors has been submitted to the Bangko Sentral.

2. On the concerned directors/officers of the bank

a. For willful non-compliance Directors/officers of the QB who willfully fail/refuse to comply with the provisions of this Section shall be subject to the appropriate monetary penalties under Sec. 1102-Q (*Other Payments of NBFIs*) and *Appendix Q-26* (*Guidelines on the imposition of monetary penalties*).

b. For false/misleading statements Directors/officers of the QB which have been found to have willfully falsely certified or willfully submitted misleading statements in the required Certification on Compliance with the Regulation on the Reclassification of ROPA to QB Premises, Furniture, Fixture and Equipment or in the certified true copy of the resolution of the QB's board of directors shall be subject to the appropriate monetary penalties under Sec. 1102-Q (*Other Payments of NBFIs*) and *Appendix Q-26* (*Guidelines on the imposition of monetary penalties*), which shall be reckoned on a daily basis from the day following the due date of the said certification until such time that an amended or corrected certification on compliance or certified true copy of the resolution of the board of directors has been submitted to the Bangko Sentral.

The imposition of the above sanctions is without prejudice to the filing of appropriate criminal charges against culpable persons as provided under Section 35 of R.A. No. 7653 for the willful making of a false/misleading statement.

Batas Pambansa Blg. 344 – An Act to Enhance the Mobility of Disabled Persons by Requiring Certain Buildings, Institutions, Establishments and Public Utilities to Install Facilities and Other Devices. In order to promote the realization of the rights of disabled persons to participate fully in the social life and the development of the societies in which they live and the enjoyment of the opportunities available to other citizens, no license or permit for the construction, repair or renovation of public and private buildings for public use, educational institutions, airports, sports and recreation centers and complexes, shopping centers or establishments, public parking places, workplaces, public utilities, shall be granted or issued unless the owner or operator thereof shall install and incorporate in such building, establishment or public utility, such architectural facilities or structural features as shall reasonably enhance the mobility of disabled persons such as sidewalks, ramps, railings and the like. If feasible, all such existing buildings, institutions, establishments, or public utilities may be renovated or altered to enable the disabled persons to have access to them.

Republic Act No. 9994 – An act Granting Additional Benefits and Privileges to Senior Citizens, Further Amending Republic Act No. 7432 of 1992 as Amended by Republic Act No. 9257 of 2003. To be able to give full support to the improvement of the total well-being of the elderly and their full participation in society, and to motivate and encourage them to contribute to nation building, senior citizens shall be provided with express lanes in all quasi-banking establishments, including all their branches and other offices. If the provision of express lanes is logistically impossible in any particular branch or office of any QB, said branch or office shall ensure that senior citizens are accorded priority service. The provision of express lanes and/or priority service shall be made known to the general public through clearly written notice prominently displayed in the transaction counters of all QBs and/or offices.

(Circular Nos. 1125 dated 20 August 2021 and 988 dated 20 December 2017)

B. SPECIAL AUTHORITIES

111-Q LICENSING

Policy statement and objectives. Consistent with the mandate of the Bangko Sentral to promote a safe and sound banking system, the licensing process on permissible activities of BSFI is enhanced to align the process with international standards and best practices such as the "Core Principles for Effective Supervision" issued by the Basel Committee on Banking Supervision. The Bangko Sentral will not restrict the scope of risk-taking activities of BSFIs consequent of the licenses and/or authorities granted: *Provided,* That these licenses and/or authorities are in line with their business model and strategic direction: *Provided, further,* That these BSFIs demonstrate the capacity to implement these strategies and the ability to manage risks.

The enhanced policy guidelines set forth the expectations and criteria of the Bangko Sentral with respect to granting of licenses and authorities as well as its right to reject applications if the criteria set forth are not met by the applicant BSFIs ("applicants") or if the information provided is not adequate. The Bangko Sentral also reserves the right to withdraw or revoke the license and/or authority or enforce appropriate actions when an institution no longer meets the criteria or standards required to be met for the exercise of the license and/or authority.

These criteria are intended to incorporate the licensing process into Bangko Sentral's enforcement regime that is anchored on good governance, sound risk management system and effective control systems. Further, these criteria aim to provide more consistency on how the risk-focused supervision function is applied to the licensing process. This enhanced licensing policy aims to ensure that licenses and authorities are granted only to applicants that comply with the standards set.

It is also the thrust of these enhanced policy guidelines on granting licenses/authorities to establish Bangko Sentral's accountability and promote transparency on the licensing process which are consistent with its commitment to deliver prompt and efficient service.

Scope. Applications for licenses and/or authorities shall be categorized as follows:

a. *Type "A"* - applications for licenses and/or authorities where compliance with the defined prudential requirements/criteria described in this Section on Prudential Criteria is a pre-condition for applicants to be considered eligible;

b. *Type "B"* - applications for licenses and/or authorities processed regardless of risk profile; and

c. *Type "C"* - activities which no longer require submission of applications and processing but shall be subject to submission of reports/certification/notification within stated deadlines. However, compliance with pre-qualification requirements is subject to post verification and any false information and/or misrepresentation may be a basis for the imposition of appropriate enforcement actions described in this Section on *Enforcement actions*. The Bangko Sentral shall use this information to continuously tailor its supervisory strategy for the supervised entities and to maintain and continuously update its institutional database.

Prudential criteria. The prudential criteria set forth in this Section shall be used in determining the eligibility of applicants to the licenses and/or authorities granted by the Bangko Sentral. Accordingly, the following minimum conditions must be met:

a. Applicant domestic banks must have a CAMELS composite rating of at least "3" and a *"Management"* rating of not lower than "3", branches of foreign banks must have a ROCA rating of at least "3", and BSFIs must have a RAS rating of at least *"Acceptable"*. Whenever applicable, ratings equivalent to cited minimum rating grade requirements under appropriate rating systems (i.e., Information Technology Rating Systems, Trust Rating Systems, among others) shall apply for certain licenses and/or authorities;

b. Applicants have no major supervisory concerns in governance, risk management systems, and internal controls and compliance system, and characterize/demonstrate the following:

(1) Governance

Applicants must display a culture of good corporate governance appropriate to its size, risk profile and complexity of operations. Board of directors and management, in their respective roles, provide an appropriate level and quality of oversight and support to all of the institution's activities. Sound management practices are observed and demonstrated through (a) active oversight and satisfactory performance by the board of directors and senior management, (b) appropriate policies, processes, and controls relative to the institution's size, complexity and risk profile, (c) maintenance of an independent and effective internal audit and compliance program as well as a sound internal control environment, and (d) effective risk monitoring and management information systems.

Applicants should not be found engaging in an activity which may be considered as conducting business in an unsafe and unsound manner. In cases where weaknesses, violations of law, policy and/or regulation exists, other than those considered as conducting business in an unsafe or unsound banking, these should not be material to the safety and soundness of the institution, can be reasonably managed, and are being adequately addressed.

Quality of corporate governance shall be assessed based on the principles and framework set forth in the Guidelines in Assessing the Quality of Corporate Governance in BSFIs;

(2) Risk management system and internal controls

Applicants shall have a comprehensive risk management system approved by its board of directors (or equivalent management committee in the case of foreign bank branches) to identify, measure, evaluate, report and control or mitigate all material risks on a timely basis and to assess the adequacy of their capital in relation to their risk profile and market and macroeconomic conditions and whose sophistication are commensurate to the risks being monitored and controlled. The risk management system must be characterized by a clear delineation of responsibility for risk management, adequate risk measurement systems, appropriate risk limits structure, effective internal controls and complete, timely and efficient risk reporting systems.

Likewise, applicants shall have an effective and adequate system of internal controls for the conduct of their business taking into account their risk profile. These controls deal with organizational structure, accounting policies and processes, checks and balances, safeguarding of assets and investments and appropriate and effective internal audit and compliance functions. Standards and principles as well as the Bangko Sentral's expectations governing internal controls and audit under existing regulations shall apply in assessing the quality and effectiveness of the internal control systems of an applicant; and

(3) Compliance System

Applicants shall have a compliance system, appropriate to its size, risk profile and complexity of operations, designed to specifically identify and mitigate business risks[1] which may erode the franchise value of the institution. Compliance policies and procedures embodied in a Compliance Policy Manual should be sound and effectively implemented. Likewise, compliance monitoring and testing as well as review process should be robust to ensure BSFI conducts its business/operations in accordance with banking laws, rules and regulations and other laws relevant to banking such as securities laws and regulations. BSFIs should not have been found significantly non-compliant with prudential requirements such as SBL, DOSRI limits, capital adequacy ratio requirements, among others.

Standards and principles set forth in the Compliance Rating System framework shall apply in assessing the quality of BSFI's compliance system; and

c. Applicants have complied with directives and/or are not subject of specific directives and/or enforcement actions by the Bangko Sentral.

Applicants shall have corrected any findings of conducting business in an unsafe or unsound banking and have addressed any outstanding explicit directives from the Bangko Sentral and/or other relevant regulatory bodies, prohibiting the conduct of activities related to the licenses and/or authorities being applied, as of the date of application. Applicants with specific prohibitions to conduct certain activities shall not be eligible to apply for that particular license and/or authority.

No application shall be accepted until such time that enforcement actions are formally lifted by the Bangko Sentral and/or other relevant regulatory bodies after applicants have demonstrated to the Bangko Sentral that safety and soundness concerns are satisfactorily addressed and/or until such time applicants become eligible.

Applications of BSFIs under rehabilitation and/or enhanced supervision status[2] shall be dealt with in accordance with the eligibility test described in Section II.1(a) of *Appendix Q-77*.

BSFIs granted with licenses/authorities shall continuously comply with the abovementioned standards and requirements even after the license/authority has been granted; otherwise, any deviation or non-compliance may be a basis for the imposition of appropriate enforcement actions described in this Section.

The specific guidelines and procedures on the Bangko Sentral's licensing framework are shown in *Appendix Q-77.*

Enforcement actions. In line with the thrust of the Bangko Sentral to incorporate the licensing process into its enforcement regime, the Bangko Sentral reserves the right to deploy, as may be warranted, an adequate range of supervisory tools to ensure that grantees of licenses/authorities are and remain qualified to possess the same, bring about timely corrective actions and compliance with Bangko Sentral directives, and provide safety to depositors, creditors, other stakeholders as well as the public in general.

[1] As defined under Sec. 161-Q on Compliance function, business risk refers to conditions which may be detrimental to the institution's business model and its ability to generate returns from operations, which in turn erodes its franchise value. Business risk includes reputation, compliance, market conduct and legal risks.

[2] Rehabilitation includes BSFIs under the Prompt Corrective Action (PCA), Rehabilitation Program, Letter of Commitment and any other similar cases where BSFIs are expected to comply specific terms and conditions to restore eligibility (safety and sound) status.

Enforcement actions that may be imposed include, but are not limited to:

a. Corrective action

Corrective actions are measures intended to primarily require BSFIs with approved licenses/authorities to rectify any deviations from the standards, principles and conditions expected for the exercise of the license and/or authority. Corrective actions may include, but are not limited to, issuance of directives and warnings.

b. Sanctions

The Monetary Board may impose any of the sanctions enumerated hereunder or a combination thereof.

(1) Non-monetary

(a) *Suspension of activities.* The conduct of activities related to the licenses/authorities granted may be suspended if the Bangko Sentral determines that the concerned BSFI no longer meets the criteria or standards set; or

(b) *Revocation of licenses/authorities.* The license/authority granted may be revoked in cases where violation, non-compliance with criteria/standards and/or false information are noted which affects the safety and soundness of BSFIs' operations; and/or

(c) *Administrative sanctions.* The responsible directors/officers who approve transactions and/or decisions that resulted in violations of laws, rules and regulations, orders, and directives issued by the Monetary Board or the Governor may be subject to reprimand, temporary suspension, and/or disqualification of directors/officers.

The Monetary Board is not precluded to impose non-monetary sanctions other than those identified from Items *"(a)"* to *"(c)"*; and/or

(2) Monetary

Monetary penalties may be imposed for any acts, omissions or transactions that are outside the permissible activities of the licenses/authorities granted or are in violation of laws, Bangko Sentral rules and regulations, orders and directives issued by the Bangko Sentral.

Management Contracts. Subject to existing laws, all agreements whereby the affairs or operations of a QB will be carried out by another corporation, person or group of persons, shall be subject to prior approval by the Bangko Sentral.

The agreements referred to in the preceding paragraph shall not be entered into for a period longer than five (5) years. Existing agreements shall be allowed up to the termination date thereof: *Provided, however,* That any renewal or extension upon termination date shall be subject to approval by the Bangko Sentral.

***Guidelines on Outsourcing*.** The guidelines on outsourcing of banking functions as shown under Sec. 112 and *Appendix Q-36* shall likewise apply to QBs.

***Type of license of permissible activities*[1].** The type of license attached to permissible activities of Bangko Sentral supervised financial institutions (BSFIs) shall be as follows:

Type of License	Permissible Activity	Related Sections
A	Establishment of Branches and Other Office	Sec. 104-Q *Appendix Q-2*
	Trust and Other Fiduciary Business	Sec. 411-Q *Appendix Q-39*
B	Amendment of Articles of Incorporation (AOI) and By-Laws	Sec. 102-Q
C	Outsourcing/Insourcing of Banking Functions	Sec. 111-Q (*Guidelines on Outsourcing*) Sec. 412-Q (*Outsourcing services in trust departments*)

[1] Applications filed with the Bangko Sentral prior to 6 March 2019 shall not be charged with processing and licensing fees provided under Sec. 111-Q *(Processing and licensing fees)*. For application related to branching activities covered under Sec. 105 *(Processing and special licensing fees)*, as amended, approved after 6 March 2019, the processing fees provided under the said Section, as amended, shall be collected upon approval of the application. Applications for Type C licenses received prior to 6 March 2019 shall be deemed to have complied with the notification/certification requirements if after thirty (30) banking days from 6 March 2019, the appropriate supervising department of the FSS does not advise the BSFI concerned of any deficiency on such application.

Type of License	Permissible Activity	Related Sections
		Sec. 701-Q (*Outsourcing of internet and mobile electronic services*) *Appendix Q-36*
	Issuance of Bonds and Commercial Paper	Sec. 205-Q
	Amendment of the Plan Rules of UITF	Sec. 414-Q (*Plan rules*)
	Securities Custodianship Operations	Sec. 631-Q
	Securities Registry Operations	Sec. 631-Q

Processing and Licensing Fees. All applications shall be charged with the following processing fees pursuant to Section II.3.i of *Appendix Q-77*:

Type of License/ Authority	Processing Fees for Non-Bank Financial Institutions
A	10,000
B	10,000

Certain Type A licenses shall be charged with the following licensing fees upon approval pursuant to Section II.3.ii of *Appendix Q-77*:

Type of License/ Authority	Licensing Fees* for Non-Bank Financial Institutions
A	50,000

*Licensing fee shall be net of the processing fee.

The foregoing tables shall not apply to licensing applications with separate fee structure under specific sections of this Manual.

(Circular Nos. 1121 dated 8 June 2021, 1031 dated 07 February 2019, 947 dated 15 February 2017, and 899 dated 18 January 2016)

C. CAPITALIZATION AND RISK-BASED CAPITAL

121-Q MINIMUM REQUIRED CAPITALIZATION

a. *Definition of capital.* The term *capital* shall be synonymous to *unimpaired capital and surplus*, *combined capital accounts* and *net worth* and shall refer to the total of the unimpaired paid-in capital, surplus, and undivided profits. For this purpose, the following items shall likewise be added to or deducted from capital:

(1) Deposits for stock subscription recognized as equity pursuant to Sec. 122-Q shall be added to capital.
(2) The following shall be deducted from capital:

(a) Treasury stock;

(b) Unbooked allowance for probable losses (which includes allowance for credit losses and impairment losses) and other capital adjustments as may be required by the Bangko Sentral;

(c) Total outstanding unsecured credit accommodations, both direct and indirect, to directors, officers, stockholders and their related interests (DOSRI) granted by the QB;

(d) Total outstanding unsecured loans, other credit accommodations and guarantees granted to subsidiaries;

(e) Total outstanding loans, other credit accommodations and guarantees granted to related parties, as defined in Item "o", Sec. 131-Q, that are not at arm's length terms as determined by the appropriate supervising department of the Bangko Sentral; and

(f) Deferred tax assets that rely on future profitability of the QB to be realized, net of any (1) allowance for impairment and (2) associated deferred tax liability, if the conditions cited in PAS 12 on Income Taxes are met: *Provided*, That, if the resulting figure is a net deferred tax liability, such excess cannot be added to net worth.

With respect to Item *"*(2)(c)*"* hereof, the provisions of Sec. 321-Q shall apply except that in the definition of *stockholders* in Sec. 321-Q (*Definitions*), the qualification that his stockholdings, individually and/or together with his related interests in the lending QB, amount to ten percent (10%) or more of the total subscribed capital stock of the QB, shall not apply for purposes of this Item.

b. *Required capital.* A QB shall have a minimum capital of P300.0 million.

***Minimum Capital of Investment House*.** The minimum paid-in capital requirement for an IH shall be P300 million pursuant to R.A. No. 129, as amended by R.A. No. 8366.

***Sanctions*.** Any or all of the following sanctions may be imposed on any QB which fails to maintain at least the applicable minimum capital under Sec. 121-Q:

a. Suspension of authority to engage in quasi-banking functions;
b. Suspension of authority to engage in trust/investment management activities (in the case of an IH);
c. Cease-and-desist order (in the case of an IH);
d. No new/renewal/extension of credit accommodations to DOSRI;
e. Prohibition against declaration of cash dividends;
f. Suspension of the privilege to establish and/or open approved branches, agencies, offices, etc.; and
g. Other sanctions as may be imposed by the Monetary Board.

(Circular No. 1027 dated 28 December 2018 and 914 dated 23 June 2016)

122-Q DEPOSITS FOR STOCK SUBSCRIPTION

Deposits for stock subscription refers to payments made by existing stockholders or new subscribers of the QB on subscription to the increase in the authorized capital, which may be recognized either as a liability or equity.

Deposits for stock subscription shall be recognized as part of equity for prudential reporting purposes when all of the following conditions are met:

a. The deposit for stock subscription meets the definition of an equity instrument under Philippine Accounting Standards (PAS) 32 Financial Instruments: Presentation such that the deposit for stock subscription shall not be interest-bearing nor withdrawable by the subscriber;

b. The QB's existing authorized capital is already fully subscribed;

c. The QB's stockholders and board of directors have approved the proposed increase in authorized capital;

d. The QB has filed an application for the amendment of its articles of incorporation for the increase in authorized capital with the appropriate supervising department of the Bangko sentral, duly supported by complete documents as prescribed by the Bangko Sentral: *Provided*, That the approval of the Securities and Exchange Commission (SEC) on the same application shall be obtained within the period prescribed under the SEC Financial Reporting Bulletin on Deposit for Future Subscription.

   In case the applications for the amendment of articles of incorporation for the increase in authorized capital have been returned due to insufficiency of supporting documents, the deposit for stock subscription shall not qualify for recognition as an equity instrument; and

e. The QB must have obtained approval of the Monetary Board on transactions involving significant ownership of voting shares of stock by any person, natural or juridical, or by one group of persons as provided in item *"b"* of Sec. 122 *(Transactions involving voting shares of stocks)*, if applicable.

   Deposits for stock subscription, which do not meet the abovementioned conditions shall be classified as a liability.

   Deposits for stock subscription, which meet the conditions to be recognized as equity shall form part of a bank's qualifying capital for purposes of computing the risk-based capital adequacy ratio under

(Circular No. 1027 dated 28 December 2018)

123-Q DIVIDENDS

The following rules and regulations shall govern the declaration of dividends on shares of stock, regardless of feature, as well as interest payments on unsecured subordinated debt which meet the qualification requirements of Additional Tier 1 as defined under existing risk-based capital adequacy framework.

Pursuant to Section 57 of R.A. No. 8791, no QB shall declare dividends greater than its accumulated net profits then on hand, deducting therefrom its losses and bad debts. Neither shall the QB declare dividends if, at the time of declaration, it has not complied with the provisions under this section on the Requirements on the declaration of dividends/net amount available for dividends.

Definition of terms. For purposes of this Section, the following definitions shall apply:

a. *Bad debts* shall include any debt on which interest is past due for a period of six (6) months, unless it is well secured and in process of collection.

A loan payable in installment with an automatic acceleration clause shall be considered a bad debt within the contemplation of this Section where installments or amortizations have become past due for a period of six (6) months, unless the loan is well secured and in process of collection. For a loan payable in installments without an acceleration clause, only the installments or amortizations that have become past due for a period of six (6) months and which are not well secured and in the process of collection shall be considered bad debts within the contemplation of this Section.

b. *Well secured* - A debt shall be considered well secured (or fully secured) if it is covered by collateral in the form of a duly constituted mortgage, pledge, or lien on real or personal properties, including securities. The outstanding debt, accrued interest and other pertinent fees and expenses thereon shall not be in excess of seventy percent (70%) of the appraised value (AV) of real estate, or fifty percent (50%) of the other personal properties offered as lien.

c. *In process of collection* - A debt due to a QB shall be considered in process of collection when it is the subject of continuing extrajudicial or judicial proceedings aimed towards its full settlement or liquidation, or otherwise to place it in current status.

The extrajudicial proceedings, such as the writing of collection or demand letters, must have been initiated by the QB and/or its lawyers before the interest or installments or amortizations on the debt become past due and unpaid for a period of six (6) months.

The debt shall continue to be considered in process of collection for a period of six (6) months counted from date of the first collection or demand letter and if, within this period, the debtor fails to make a payment of at least twenty percent (20%) of the outstanding balance of the principal on his account, plus all interests which may have accrued thereon, the same shall automatically be classified as bad debt unless judicial proceedings are instituted.

The debt shall continue to be considered in process of collection during the pendency of the judicial proceedings. When judgment against the debtor has been obtained, the QB must be active in enforcing the judgment for the debt to continue to be considered in process of collection.

Requirements on the declaration of dividends/net amount available for dividends.

a. *Requirements on the declaration of dividends.* At the time of declaration, QBs shall have complied with the following:

(1) Clearing account with the Bangko Sentral is not overdrawn;

(2) Minimum capitalization requirement and risk-based capital ratios as provided under applicable and existing capital adequacy framework;

(3) The combined requirement for capital conservation buffer and the countercyclical capital buffer as defined in *Appendix Q-45*, for QBs that are subsidiaries of U/KBs;

(4) Higher loss absorbency requirement, phased-in starting 1 January 2017 with full implementation by 01 January 2019, in accordance with D-SIBs Framework as provided under Sec. 126-Q for QBs that are subsidiaries of U/KBs identified as D-SIBs; and

(5) Has not conducted business in an unsafe or unsound banking as defined under existing regulations and/or major acts or omissions[1] as may be determined by the Bangko Sentral to be ground for suspension of dividend distribution, unless this has been addressed by the QB as confirmed by the Monetary Board or the Deputy Governor of the appropriate supervising sector as may be applicable, upon recommendation of the appropriate supervising department of the Bangko Sentral.

QBs shall ensure compliance with the minimum capital requirement and risk-based capital ratio even after the dividend distribution.

[1] Major acts or omissions is defined as QB's individual failure to comply with the requirements of banking laws, rules and regulations as well as Monetary Board directives having material impact on QB's capital, solvency, liquidity or profitability, and/or those violations classified as major offenses under the Report of Examination, except those classified under unsafe or unsound banking.

b. *Amount available*. The net amount available for dividends shall be the amount of unrestricted or free retained earnings and undivided profits reported in the Bangko Sentral prudential reports as of the calendar/fiscal year-end immediately preceding the date of dividend declaration.

The derivation of the amount of dividends from the unrestricted/free retained earnings shall be based on a sound accounting system and loss provisioning processes under existing regulations which takes into account relevant capital adjustments including losses, bad debts and unearned profits or income[1].

Reporting and verification. Declaration of cash dividend shall be reported by the QB concerned to the appropriate supervising department of the Bangko Sentral within ten (10) business days from date of approval of the declaration in the following manner:

a. Submission of a duly notarized certification (*Appendix Q-73*) by the President, or an officer of equivalent rank, and the Chief Compliance Officer stating that the QB has complied with the requirements on the declaration of dividends provided under this Section on Requirements on the declaration of dividends/net amount of available for dividends as well as other existing applicable laws; and

b. Submission of the Report on Dividends Declared listed under *Appendix Q-3*, which shall be considered a *Category A-1* report.

However, QBs with major supervisory concerns such as those initiated under prompt corrective action (PCA) or with specific Monetary Board directive to suspend/refrain/restrict dividend declaration, shall be subject to prior Bangko Sentral verification by the appropriate supervising department of the Bangko Sentral. Pending verification of abovementioned reports, no announcement or communication on the declaration of cash dividends nor shall any payment be made thereon until receipt of Bangko Sentral advice thereof.

Recording of dividends. The liability for cash dividends declared shall be taken up in the QB's books upon its declaration.

However, for dividend declarations that are subject to prior Bangko Sentral verification, the liability for cash dividends declared shall be taken up in the QB's books upon receipt of Bangko Sentral advice thereof. A memorandum entry may be made to record the dividend declaration on the date of approval by the board of directors.

For full disclosure purposes, the cash dividends shall be disclosed in the financial statements as a footnote in the statement of changes in equity or in the notes to the financial statements. For dividends declared that is still subject to prior Bangko Sentral verification, disclosure by means of a footnote should include a statement to the effect that the dividend declaration is subject to review by the Bangko Sentral.

Rules on declaration of stock dividends. The declaration of stock dividends shall be subject to the preceding regulations on declaration of cash dividends. Additional paid-in capital may be included in the amount available for stock dividends.

***Supervisory enforcement actions*.** Consistent with Sec. 002-Q the Bangko Sentral may deploy enforcement actions to promote adherence with the rules and regulations governing dividend declaration and bring about timely corrective actions. The Bangko Sentral may issue directives to suspend/refrain/restrict from performing a particular activity, or impose sanctions to limit the level of or suspend any business activity that has adverse effects on the safety or soundness of the QB, among others. Sanctions may likewise be imposed on a QB and/or its directors, officers and/or employees.

The imposition of sanctions shall be without prejudice to the imposition of administrative sanctions under Section 37 of R.A. No. 7653 including declaring as unsafe or unsound (as defined under Section 56 of R.A. No. 8791) the inappropriate dividend declarations, and/or to the filing of appropriate criminal charges against culpable persons as provided under Section 35 of R.A. No. 7653 for the willful making of a false/misleading statement.

Further, QBs subsequently found to have violated the provisions on dividend declaration or have falsely certified/submitted misleading statements shall be reverted to the prior Bangko Sentral verification wherein the QB can only make an announcement or communication on the declaration of dividends or payment of dividends thereon[2] upon receipt of Bangko Sentral advice thereof.

(Circular Nos. 1051 dated 27 September 2019 and 1024 dated 06 December 2018)

[1] Unearned profits or income refers to unrealized items which are considered not available for dividend declaration such as accumulated share/equity in net income of its subsidiaries, associates or joint venture accounted for under the equity method, recognized deferred tax asset, foreign exchange profit arising from revaluation of foreign exchange denominated accounts and others.

[2] Subject QBs whose shares are listed with any domestic stock exchange may declare dividends and give immediate notice of such declaration to the SEC and the stock exchanges, in compliance with pertinent rules of the SEC: *Provided*, That, no record date is fixed for such dividend pending verification of the report on such declaration by the appropriate supervising department of the Bangko Sentral.

124-Q BASEL I RISK-BASED CAPITAL

The risk-based capital ratio of a QB, expressed as a percentage of qualifying capital to risk-weighted assets, shall not be less than ten percent (10%) for both solo basis (head office plus branches) and consolidated basis (parent QB plus subsidiary financial allied undertakings, but excluding insurance companies).

Scope. QBs that are not subsidiaries of UBs or KBs shall continue to be subject to the risk-based capital adequacy framework, as provided in this Section on Qualifying capital, Risk-weighted assets, Definitions, Required reports and Sanctions.

Qualifying capital. The qualifying capital shall be the sum of –

a. *Tier 1 (core) capital* –

(1) Paid-up common stock;

(2) Deposit for common stock subscription;

(3) Paid-up perpetual and non-cumulative preferred stock;

(4) Deposit for perpetual and non-cumulative preferred stock subscription;

(5) Common stock dividends distributable;

(6) Perpetual and non-cumulative preferred stocks dividends distributable;

(7) Surplus;

(8) Surplus reserves;

(9) Undivided profits; and

(10) Minority interest in the equity of subsidiary financial allied undertakings which are less than wholly-owned: *Provided*, That a QB shall not use minority interests in the equity accounts of consolidated subsidiaries as avenue for introducing into its capital structure elements that might not otherwise qualify as Tier 1 capital or that would, in effect, result in an excessive reliance on preferred stock within Tier 1:

Provided, further, That the following items shall be deducted from the total of Tier 1 capital:

(a) Common stock treasury shares;
(b) Perpetual and non-cumulative preferred stock treasury shares;
(c) Net unrealized losses on underwritten listed equity securities purchased (for IH);
(d) Unbooked valuation reserves and other capital adjustments based on the latest report of examination as approved by the Monetary Board;
(e) Total outstanding unsecured credit accommodations, both direct and indirect, to DOSRI;
(f) Total outstanding unsecured loans, other credit accommodations and guarantees granted to subsidiaries;
(g) Total outstanding loans, other credit accommodations and guarantees granted to related parties that are not at arm's length terms as determined by the appropriate supervising department of the Bangko Sentral;
(h) Deferred income tax; and
(i) Goodwill.

b. *Tier 2 (supplementary) capital which shall be the sum of* –

(1) Upper Tier 2 (UT2) capital –

(a) Paid-up perpetual and cumulative preferred stock;

(b) Deposit for perpetual and cumulative preferred stock subscription;

(c) Perpetual and cumulative preferred stock dividends distributable;

(d) Appraisal increment reserve - QB premises, as authorized by the Monetary Board;

(e) Net unrealized gains on underwritten listed equity securities purchased: *Provided*, That the amount thereof that may be included in UT2 capital shall be subject to a fifty-five percent (55%) discount (for IH);

(f) General loan loss provision: *Provided*, That the amount thereof that may be included in UT2 capital shall be limited to a maximum of one and twenty-five hundredths percent (1.25%) of gross risk-weighted assets, and any amount in excess thereof shall be deducted from the total risk-weighted assets in computing the denominator of the risk-based capital ratio; and

(g) With prior Bangko Sentral approval, unsecured subordinated debt (UnSD) with a minimum original maturity of at least ten (10) years, subject to the following conditions:

(i) It must not be secured nor covered by a guarantee of the issuer or related party;

(ii) It must be subordinated in the right of payment of principal and interest to all creditors of the QB, except those creditors expressed to rank equally with, or behind holders of the debt. Subordinated creditors must waive their right to set off any amounts they owe the QB against subordinated amounts owed to them by the QB. The issue documentation must clearly state that the debt is subordinated;

(iii) It must be fully paid-up. Only the net proceeds actually received from debt issues can be included as capital. If the debt is issued at a premium, the premium cannot be counted as part of capital;

(iv) It must not be redeemable at the initiative of the holder;

(v) It must not contain any clause which requires acceleration of payment of principal, except in the event of insolvency;

(vi) It must not be repayable prior to maturity without the prior consent of the Bangko Sentral: *Provided*, That repayment may be allowed in connection with call option only after a minimum of five (5) years from issue date and only if – (1) the QB's capital ratio is at least equal to the required minimum capital ratio; and (2) the debt is simultaneously replaced with issues of new capital which is neither smaller in size nor of lower quality than the original issue;

(vii) It may allow a moderate step-up in the interest rate in conjunction with a call option, only if the step-up occurs at a minimum of ten (10) years after the issue date and if it results in an increase over the initial rate that is not more than 100 basis points: *Provided*, That only one (1) rate step up shall be allowed over the life of the instrument;

(viii) It must provide for possible conversion into common shares or preferred shares or possible deferral of payment of principal and interest if the QB's capital ratio becomes less than the required minimum capital ratio;

(ix) It must provide for the principal and interest on the debt to absorb losses where the QB would not otherwise be solvent;

(x) It must allow deferment of interest payment on the debt in the event of, and at the same time as, the elimination of dividends on all outstanding common or preferred stock of the issuer. It is acceptable for the deferred interest to bear interest, but the interest rate payable on deferred interest should not exceed market rates;

(xi) It must be underwritten by a third party not related to the issuer QB nor acting in reciprocity for and in behalf of the issuer QB;

(xii) It must be issued in minimum denominations of at least P500,000 or its equivalent; and

(xiii) It must clearly state on its face that it is not a deposit and is not insured by the PDIC:

Provided, That it shall be subject to a cumulative discount factor of twenty percent (20%) per year during the last five (5) years to maturity [i.e., twenty percent (20%) if the remaining life is four (4) years to less than five (5) years, forty percent (40%) if the remaining life is three (3) years to less than four (4) years, etc.]: *Provided, further*, That where it is denominated in a foreign currency, it shall be revalued periodically (at least monthly) in Philippine peso at prevailing exchange rate using the same exchange rate used for revaluation of foreign currency-denominated assets, liabilities and forward contracts under existing regulations: *Provided, furthermore*, That, for purposes of reserve requirement regulation, it shall not be treated as a deposit substitute liability or other forms of borrowings:

Provided, That the following items shall be deducted from the total of UT2 capital:

(a) Perpetual and cumulative preferred stock treasury shares;

(1) *Lower Tier 2 (LT2) capital –*

(a) Paid-up limited life redeemable preferred stock: *Provided*, That these shall be subject to a cumulative discount factor of twenty percent (20%) per year during the last five (5) years to maturity [i.e., twenty percent (20%) if the remaining life is four (4) years to less than five (5) years, forty percent (40%) if the remaining life is three (3) years to less than four (4) years, etc.];

(b) Deposit for limited life redeemable preferred stock subscription;

(c) Limited life redeemable preferred stock dividends distributable; and

(d) With prior Bangko Sentral approval, UnSD with a minimum original maturity of at least five (5) years, subject to the following conditions:

(i) It must not be secured nor covered by a guarantee of the issuer or related party;

(ii) It must be subordinated in the right of payment of principal and interest to all creditors of the QB, except those creditors expressed to rank equally with, or behind holders of the debt. Subordinated creditors must waive their right to set off any amounts they owe the QB against subordinated amounts owed to them by the QB. The issue documentation must clearly state that the debt is subordinated;

(iii) It must be fully paid-up. Only the net proceeds actually received from debt issues can be included as capital. If the debt is issued at a premium, the premium cannot be counted as part of capital;

(iv) It must not be redeemable at the initiative of the holder;

(v) It must not contain any clause which requires acceleration of payment of principal, except in the event of insolvency;

(vi) It must not be repayable prior to maturity without the prior consent of the Bangko Sentral: *Provided*, That repayment may be allowed in connection with call option only after a minimum of five (5) years from issue date and only if – (1) the QB's capital ratio is at least equal to the required minimum capital ratio; and (2) the debt is simultaneously replaced with issues of new capital which is neither smaller in size nor of lower quality than the original issue;

(vii) It may allow a moderate step-up in the interest rate in conjunction with a call option, only if the step-up occurs at a minimum of five (5) years after the issue date and if it results in an increase over the initial rate that is not more than 100 basis points or fifty percent (50%) of the initial credit spread, at the option of the QB: *Provided*, That only one (1) rate step up shall be allowed over the life of the instrument;

(viii) It must be underwritten by a third party not related to the issuer QB nor acting in reciprocity for and in behalf of the issuer QB;

(ix) It must be issued in minimum denominations of at least P500,000 or its equivalent; and

(x) It must clearly state on its face that it is not a deposit and is not insured by the PDIC:

Provided, That it shall be subject to a cumulative discount factor of twenty percent (20%) per year during the last five (5) years to maturity [i.e., twenty percent (20%) if the remaining life is four (4) years to less than five (5) years, forty percent (40%) if the remaining life is three (3) years to less than four (4) years, etc.]: *Provided, further*, That where it is denominated in a foreign currency, it shall be revalued periodically (at least monthly) in Philippine peso using the same exchange rate used for revaluation of foreign currency denominated assets, liabilities and forward contracts under existing regulations: *Provided, finally*, That, for purposes of reserve requirement regulation, it shall not be treated as equivalent to a deposit substitute liability or other forms of borrowings.

Provided, That the following items shall be deducted from the total of LT2 capital:

(1) Limited life redeemable preferred stock treasury shares; and
(2) Sinking fund for redemption of limited life redeemable preferred stock: *Provided*, That the amount to be deducted shall be limited to the balance of redeemable preferred stock after applying the cumulative discount factor:

Provided, further, That the total amount of LT2 capital that may be included in the Tier 2 capital shall be a maximum of fifty percent (50%) of total Tier 1 capital (net of deductions therefrom): *Provided, furthermore*, That the total amount of UT2 and LT2 capital that may be included in the qualifying capital shall be a maximum of 100% of total Tier 1 capital (net of deductions therefrom);

c. Less deductions from the total of Tier 1 and Tier 2 capital, as follows:

(1) Investments in equity of unconsolidated subsidiary banks and other subsidiary financial allied undertakings, but excluding insurance companies (for solo basis);

(2) Investments in debt capital instruments of unconsolidated subsidiary banks (for solo basis);

(3) Investments in equity of subsidiary insurance companies and subsidiary non-financial allied undertakings;

(4) Reciprocal investments in equity of other banks/enterprises; and

(5) Reciprocal investments in unsecured subordinated term debt instruments of other banks/QBs in excess of the lower of (i) an aggregate ceiling of five percent (5%) of total Tier 1 capital of the QB; or (ii) ten percent (10%) of the total outstanding unsecured subordinated term debt issuance of the other bank/QB:

Provided, That any asset deducted from the qualifying capital in computing the numerator of the risk-based capital ratio shall not be included in the risk-weighted assets in computing the denominator of the ratio.

Capital instruments issued by QBs starting 01 January 2014 shall be subject to the criteria for inclusion as qualifying capital provided in *Appendices Q-45 Annexes A to C* and *Annexes E to F*.

Risk-weighted assets. The risk-weighted assets shall be determined by assigning risk weights to amounts of on-balance sheet assets and to credit equivalent amounts of off-balance sheet items (inclusive of derivative contracts): *Provided*, That the following shall be deducted from the total risk-weighted assets:

(1) general loan loss provision (in excess of the amount permitted to be included in UT2 capital); and
(2) unbooked valuation reserves and other capital adjustments affecting asset accounts based on the latest report of examination as approved by the Monetary Board.

a. *On-balance sheet assets*. The risk-weighted amount shall be the product of the book value of the asset multiplied by the risk weight associated with that asset, as follows:

(1) *Zero percent (0%) risk weight*

(a) Cash on hand;

(i) Claims on or portions of claims guaranteed by or collateralized by securities issued by Philippine national government and Bangko Sentral; and
(ii) Central governments and central banks of foreign countries with the highest credit quality as defined in this Section;

(b) Loans to the extent covered by hold-out on, or assignment of deposit substitutes maintained with the lending QB;
(c) Portions of loans covered by Industrial Guarantee and Loan Fund (IGLF) guarantee;
(d) Real estate mortgage (REM) loans to the extent guaranteed by the Home Guaranty Corporation (HGC);
(e) Loans to the extent guaranteed by the Trade and Investment Development Corporation of the Philippines (TIDCORP);
(f) Residual value of leased equipment to the extent covered by deposits on lease contracts (for FCs);
(g) Lease contract receivables to the extent covered by the excess of deposits on lease contracts over residual value of leased equipment (for FCs); and
(h) Foreign currency notes and coins on hand acceptable as international reserves;

(2) *Twenty percent (20%) risk weight*

(a) Checks and other cash items (COCIs);
(b) Claims on or portions of claims guaranteed by or collateralized by securities issued by non-central government public sector entities of foreign countries with the highest credit quality as defined in this Section;
(c) Claims on or portions of claims guaranteed by Philippine incorporated banks/QBs with the highest credit quality as defined in this Section;
(d) Claims on or portions of claims guaranteed by foreign incorporated banks with the highest credit quality as defined in this Section;
(e) Claims on or portions of claims guaranteed by or collateralized by securities issued by multilateral development banks (MDBs);
(f) Loans to exporters to the extent guaranteed by Small Business Guarantee and Finance Corporation (SBGFC); and
(g) Foreign currency COCIs denominated in currencies acceptable as international reserves;

(3) *Fifty percent (50%) risk weight –*

(a) Loans for housing purpose, fully secured by first mortgage on residential property that is or will be occupied or leased out by the borrower; and
(b) Local government unit (LGU) bonds which are covered by deed of assignment of Internal Revenue Allotment (IRA) of the LGU and guaranteed by the LGU Guarantee Corporation;

(4) *One hundred percent (100%) risk weight* -

All other assets including, among others, the following:

(a) Claims on central governments and central banks of foreign countries other than those with the highest credit quality;
(b) Claims on Philippine LGUs;
(c) Claims on non-central government public sector entities of foreign countries other than those with the highest credit quality;
(d) Claims on government-owned or controlled commercial corporations;
(e) Claims on Philippine incorporated banks/QBs other than those with the highest credit quality;
(f) Claims on foreign incorporated banks other than those with the highest credit quality;
(g) Loans to companies engaged in speculative residential building or property development;
(h) Claims on the private sector (except those deducted from capital);
(i) Equity investments (except those deducted from capital);
(j) Equipment and other real estate for lease (for FCs);
(k) Real estate for sale/lease;
(l) QB premises, furniture, fixtures and equipment (net);
(m) Appraisal increment - QB premises, furniture, fixtures and equipment (net);
(n) Real and other properties owned or acquired (net);
(o) Foreign currency notes and coins on hand not acceptable as international reserves; and
(p) Foreign COCIs not denominated in foreign currencies acceptable as international reserves, except those which are deducted from capital, as follows:

(i) Total outstanding unsecured credit accommodations, both direct and indirect, to DOSRI;

(ii) Total outstanding unsecured loans, other credit accommodations and guarantees granted to subsidiaries;

(iii) Total outstanding loans, other credit accommodations and guarantees granted to related parties that are not at arm's length terms as determined by the appropriate supervising department of the Bangko Sentral;

(iv) Deferred income tax;

(v) Goodwill;

(vi) Sinking fund for redemption of limited life redeemable preferred stock;

(vii) Equity investments in unconsolidated subsidiary banks and other subsidiary financial allied undertakings, but excluding insurance companies;

(viii) Investments in debt capital instruments of unconsolidated subsidiary banks;

(ix) Equity investments in subsidiary insurance companies and subsidiary non-financial allied undertakings;

(x) Reciprocal investments in equity of other banks/enterprises; and

(xi) Reciprocal investments in unsecured subordinated term debt instruments of other banks/QBs, in excess of the lower of (i) an aggregate ceiling of five percent (5%) of total Tier 1 capital of the QB; or (ii) ten percent (10%) of the total outstanding unsecured subordinated term debt issuance of the other QB;

b. *Off-balance sheet items*. The risk-weighted amount shall be calculated using a two (2)-step process.

First, the credit equivalent amount of an off-balance sheet item shall be determined by multiplying its notional principal amount by the appropriate credit conversion factor, as follows:

(1) *One hundred percent (100%) credit conversion factor* -

This shall apply to direct credit substitutes, e.g., general guarantees of indebtedness and acceptances (including endorsements with the character of acceptances), and shall include –

(a) Outstanding guarantees issued This shall also apply to sale and repo agreements and asset sales with recourse where the credit risk remains with the QB [to the extent not included in the (BS)], as well as to forward asset purchases, and partly-paid shares and securities, which represent commitments with certain drawdown: *Provided*, That these items shall be weighted according to the type of asset and not according to the type of counterparty with whom the transaction has been entered into.

(2) *Fifty percent (50%) credit conversion factor* - This shall apply to –

(a) Note issuance facilities and revolving underwriting facilities (for IHs); and
(b) Other commitments, e.g., formal standby facilities and credit lines with an original maturity of more than one (1) year. This shall include –

(i) Underwritten accounts unsold (for IHs).

(3) Zero percent (0%) credit conversion factor –

This shall apply to commitments with an original maturity of up to one (1) year. This shall also apply to those not involving credit risk, and shall include –

(a) Items held for safekeeping/custodianship;
(b) Trust department accounts;
(c) Items held as collaterals; etc.

Second, the credit equivalent amount shall be treated like any on-balance sheet asset and shall be assigned the appropriate risk weight, i.e., according to the obligor, or if relevant, the qualified guarantor or the nature of collateral.

c. *Derivative contracts*. The credit equivalent amount shall be the sum of the current credit exposure (or replacement cost) and an estimate of the potential future credit exposure (or add-on): *Provided*, That the following shall not be included in the computation:

(1) Instruments which are traded on exchange where they are subject to daily receipt and payment of cash variation margin; and
(2) Exchange rate contracts with original maturity of fourteen (14) calendar days or less.

The current credit exposure shall be the positive mark-to-market value of the contract (or zero if the mark-to-market value is zero or negative). The potential future credit exposure shall be the product of the notional principal amount of the contract multiplied by the appropriate potential future credit conversion factor, as indicated below:

Interest Residual Maturity	Exchange Rate Contract	Rate Contract
One (1) year or less	0.0 %	1.0 %
Over one (1) year to five (5) years	0.5 %	5.0 %
Over five (5) years	1.5 %	7.5 %

Provided, That for contracts with multiple exchanges of principal, the factors are to be multiplied by the number of remaining payments in the contract: *Provided, further*, That for contracts that are structured to settle outstanding exposure following specified payment dates and where the terms are reset such that the market value of the contract is zero on these specified dates, the residual maturity would be set equal to the time until the next reset date, and in the case of interest rate contracts with remaining maturities of more than one (1) year that meet these criteria, the potential future credit conversion factor is subject to a floor of five tenths percent (0.5%): *Provided, furthermore*, That no potential future credit exposure shall be calculated for single currency floating/floating interest rate swaps, i.e., the credit exposure on these contracts would be evaluated solely on the basis of their mark-to-market value.

The credit equivalent amount shall be treated like any on-balance sheet asset, and shall be assigned the appropriate risk weight, i.e., according to the obligor, or if relevant, the qualified guarantor or the nature of collateral: *Provided*, That a fifty percent (50%) risk weight shall be applied in respect of obligors which would otherwise attract a 100% risk weight.

The extent to which a claim is guaranteed/collateralized shall be determined by the amount of guarantee coverage/current market value of securities pledged, in comparison with the book value of the on-balance sheet asset or the notional principal amount of the off-balance sheet exposure, except for derivative contracts for which determination is generally made in relation to credit equivalent amount.

Definitions.

a. *Amount due from the Bangko Sentral*. This refers to all deposits of the reporting QB with the Bangko Sentral.

b. *Appraisal increment reserve*. This shall form part of capital only if authorized by the Monetary Board.

c. *QB premises, furniture, fixtures and equipment net of depreciation*. This refers to the cost of land and improvements used as the QB premises, and furniture, fixtures and equipment owned by the QB.

d. *Cash on hand*. This refers to total cash held by the QB consisting of both notes and coins in Philippine currency.

e. *Central government of a foreign country*. This refers to the central government which is regarded as such by a recognized banking supervisory authority in that country.

f. *Claims*. This refer to loans or debt obligations of the entity on whom the claim is held, and shall include, but shall not be limited to, the following accounts, inclusive of accumulated market gains/(losses) and accumulated bond discount/(premium amortization), and net of specific allowance for probable losses:

(1) Due from Bangko Sentral;
(2) Due from other banks;
(3) Interbank loans receivable;
(4) Loans and discounts, including lease contract receivables, net of advance leasing income received and receivables financed for Financing Companies (FCs);
(5) Restructured loans;
(6) Trading account securities - loans;
(7) Underwriting accounts - debt securities (for IHs);
(8) Underwriting accounts - equity securities (for IHs);
(9) Trading account securities - debt securities;
(10) Trading account securities - equity securities (for IHs);
(11) Available for sale securities;
(12) Investments in bonds and other debt instruments (IBODI); and
(13) Others, e.g., accounts receivable and accrued interest receivable.

Accruals on a claim shall be classified and risk weighted in the same way as the claim.

g. *Consolidated basis*. This refers to combined statement of condition (SOC) of parent QB and subsidiary financial allied undertakings, but excluding insurance companies.

h. *Debt capital instruments*. This refers to unsecured subordinated term debt instruments qualifying as capital of banks.

i. *Equity investments*. This refers to investments in capital stock of companies, firms or enterprises, made for purposes of control, affiliation or other continuing business advantage.

j. *Exchange rate contracts*. This includes cross-currency interest rate swaps, forward foreign exchange (FX) contracts, currency futures, currency options purchased and similar instruments.

k. *Financial allied undertakings*. This refers to enterprises or firms with homogenous or similar activities/business/functions with the financial intermediary and may include but not limited to leasing companies, banks, IHs, FCs, credit card companies, FIs catering to small and medium scale industries (including venture capital corporations), companies engaged in stock brokerage/securities dealership, companies engaged in FX dealership/brokerage, holding companies, and such other similar activities as the Monetary Board may declare as appropriate from time to time, but excluding insurance companies.

l. *Foreign country/foreign incorporated bank and Philippine incorporated bank/QB with the highest credit quality*. This refers to a foreign country/foreign incorporated bank and Philippine incorporated bank/QB given the highest credit rating of any two (2) of the following internationally accepted rating agencies:

Rating Agency	Highest Rating
(1) Moody's	"Aa3" and above
(2) Standard and Poor's	"AA-" and above
(3) Fitch IBCA	"AA-" and above
(4) Others as may be approved by the Monetary Board	

m. *Forward asset purchases*. This refers to a commitment to purchase a loan, security or other asset at a specified future date, usually on pre-arranged terms.

n. *Goodwill*. This refers to an intangible asset that represents the excess of the purchase price over the fair market value of identifiable assets acquired less liabilities assumed in acquisitions accounted for under the purchase method of accounting.

o. *Interest rate contracts*. This includes single-currency interest rate swaps, basis swaps, forward rate agreements, interest rate futures, interest rate options purchased and similar instruments.

p. *Loans for housing purpose, fully secured by first mortgage on residential property that is or will be occupied or leased out by the borrower*. This shall not include loans to companies engaged in speculative residential building or property development.

q. *Loans to the extent covered by hold-out on, or assignment of deposit substitutes maintained in the lending QB*. A loan shall be considered as secured by a hold-out on, or assignment of deposit substitute only if such deposit substitute account is covered by a hold-out agreement or deed of assignment signed by the investor/placer in favor of the QB. This shall not include loans transferred to/carried by the QB's trust department secured by deposit substitute hold-out/assignment.

r. *MDBs*. This refers to International Bank for Reconstruction and Development (IBRD), Inter-American Development Bank, Asian Development Bank (ADB), African Development Bank (AfDB), European Investment Bank (EIB) and European Bank for Reconstruction and Development.

s. *Non-central government public sector entity of a foreign country*. This refers to entities which are regarded as such by a recognized banking supervisory authority in the country in which they are incorporated.

t. *Note issuance facilities and revolving underwriting facilities*. This refers to an arrangement whereby a borrower may draw down funds up to a prescribed limit over an extended period by repeated issues to the market of promissory notes which the QB committed to underwrite.

u. *Other commitments*. This includes undrawn portion of any binding arrangements which obligate the QB to provide funds at some future date.

v. *Other commitments with an original maturity of up to one (1) year*. This includes any revolving or undated open-ended commitments, e.g., unused credit lines: *Provided*, That these can be unconditionally cancelled at any time and are subject to credit revision at least annually.

w. *Partly-paid shares and securities*. This arises where only a part of the issue price or nominal face value of a security purchased has been subscribed and the issuer may call for the outstanding balance (or a further installment), either on a date predetermined at the time of issue, or at an unspecified future date.

x. *Perpetual preferred stock*. This refers to preferred stock that does not have a maturity date, that cannot be redeemed at the option of the holder of the instrument, and that has no provision that will require future redemption of the issue. Consistent with these provisions, any perpetual preferred stock with a feature permitting redemption at the option of the issuer may qualify as capital only if the redemption is subject to prior approval of the Bangko Sentral.

y. *Philippine LGUs*. This refers to the Philippine government units below the level of national government, such as city, provincial, and municipal governments.

z. *Philippine national government*. This shall refer to the Philippine national government and its agencies such as departments, bureaus, offices, and instrumentalities, but excluding government owned and-controlled commercial corporations.

(1) *Private sector*. This refers to entities other than banks, QBs and governments. This shall also include commercial companies owned by the public sector, such as government-owned or-controlled commercial corporations.

(2) *Redeemable preferred stock*. This refers to preferred stock which may be redeemed at the specific dates or periods fixed for redemption.

(3) *Sale and repo agreements and asset sales with recourse*. This refers to arrangements whereby a QB sells a loan, security or fixed asset to a third party with a commitment to repurchase the asset after a certain time, or in the event of a certain contingency.

(4) *Solo basis*. This refers to combined SOC of head office and branches.

(5) *Subsidiary*. This refers 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 the power to vote by a QB.

(6) *Treasury shares*. This refers to the QB's own shares of stock that have been issued and fully paid for, subsequently reacquired through purchase or donations and have not been cancelled or re-issued. This also refers to shares of a parent QB held by a subsidiary financial allied undertaking in a consolidated statement of condition (CSOC).

Required reports. QBs shall submit a report of their risk-based CAR on a solo basis (head office plus branches) and on a consolidated basis (parent QB plus subsidiary financial allied undertakings, but excluding insurance companies) quarterly to the appropriate supervising department of the Bangko Sentral in the prescribed forms within the deadlines, i.e., fifteen (15) business days and thirty (30) business days after the end of reference quarter, respectively. Only QBs with subsidiary financial allied undertakings (excluding insurance companies) which under existing regulations are required to prepare consolidated statements of condition on a line-by-line basis shall be required to submit report on consolidated basis. The above-mentioned reports shall be classified as *Category A-2* reports.

Sanctions. Whenever the capital accounts of a QB are deficient with respect to the prescribed CAR, the Monetary Board after considering a report of the appropriate supervising department of the Bangko Sentral on the state of solvency of the institution concerned, shall limit or prohibit the distribution of the net profits and shall require that part or all of net profits be used to increase the capital accounts of the QB until the minimum requirement has been met. The Monetary Board may restrict or prohibit the making of new investments of any sort by the QB, with the exception of purchases of readily marketable evidences of indebtedness issued by the Philippine national government and Bangko Sentral included in Item *"a(1)(b)i"* of this Section on Risk-weighted assets, until the minimum required capital ratio has been restored.

Temporary relief. In case of QB merger or consolidation, or when a QB is under rehabilitation under a program approved by the Bangko Sentral, the Monetary Board may temporarily relieve the surviving QB, consolidated QB, or constituent QB or corporations under rehabilitation from full compliance with the required capital ratio for a maximum period of one (1) year.

(Circular No. 914 dated 23 June 2016)

125-Q BASEL III RISK-BASED CAPITAL

The guidelines implementing the revised risk-based capital adequacy framework for the Philippine banking system to conform to Basel III recommendations are provided in *Appendix Q-45*.

These guidelines apply to all universal banks (UBs) and commercial banks (KBs), as well as their subsidiary banks and QBs. The risk-based capital ratio of a QB, expressed as a percentage of qualifying capital to risk-weighted assets, shall not be less than ten percent (10%) for both solo basis (head office plus branches) and consolidated basis (parent QB plus subsidiary financial allied undertakings, but excluding insurance companies). Other minimum capital ratios include Common Equity Tier 1 ratio and Tier 1 capital ratios of six percent (6.0%) and seven and a half percent (7.5%), respectively. With respect to the CET1 requirement, in addition to the minimum, the following capital buffers shall likewise be imposed:

a. Capital conservation buffer (CCB) of two and a half percent (2.5%); and

b. Countercyclical capital buffer (CCyB) of zero percent (0%) subject to upward adjustment to a rate determined by the Monetary Board when systematic conditions warrant but not to exceed two and a half percent (2.5%). Any increase in the CCyB rate shall be effective 12 months after its announcement. Decreases shall be effective immediately.

The prescribed ratios shall be maintained at all times.

Scope. The Basel III guidelines apply to all UBs and KBs as well as their subsidiary banks and QBs.

Required reports. QBs which are subsidiaries of UBs/KBs shall submit a report of their risk-based capital adequacy ratio on a solo basis (head office plus branches) and on a consolidated basis (parent QB plus subsidiary financial allied undertakings, but excluding insurance companies) quarterly to the appropriate supervising department of the Bangko Sentral in the prescribed forms within the deadlines, i.e., fifteen (15) business days and thirty (30) business days after the end of reference quarter, respectively. Only QBs with subsidiary financial allied undertakings (excluding insurance companies) which under existing regulations are required to prepare consolidated statements of condition on a line-by-line basis shall be required to submit a report on a consolidated basis. The abovementioned reports shall be classified as *Category A-1* reports.

All UBs and KBs as well as their subsidiary banks and QBs shall be subject to all other reporting requirements under the Basel III risk-based capital as may be prescribed by the Bangko Sentral.

Late and/or erroneous reporting of all reports in compliance with the Basel III requirements shall be subject to penalties provided under Sec.172-Q. QBs failing to submit the required reports within the prescribed deadline shall be subject to monetary penalties applicable for delayed reporting under existing regulations.

Sanctions.

a. *For non-reporting of CAR breaches*. It is the responsibility of the QB CEO to cause the immediate reporting of CAR breaches both to its Board and to the Bangko Sentral. It is likewise the CEO's responsibility to ensure the accuracy of CAR calculations and the integrity of the associated monitoring and reporting system. Any willful violation of the above shall be subject to the appropriate monetary penalty under Sec. 1102-Q (*Other Payments of NBFIs*) and *Appendix Q-26* that will be imposed on the CEO. In addition, the CEO shall be subject to the following non-monetary sanctions:

   (1) First offense – warning;
   (2) Second offense – reprimand;
   (3) Third offense – one (1) month suspension without pay; and
   (4) Further offense – disqualification.

b. *For non-compliance with required disclosures*. Willful non-disclosure or erroneous disclosure of any item required to be disclosed under this framework in the Published Statement of Condition above shall be subject to the appropriate monetary penalty under Sec. 1102-Q (*Other Payments of NBFIs*) and *Appendix Q-26* that will be imposed on the QB. In addition, the CEO and the Board shall be subject to the following non-monetary sanctions:

   (1) First offense – warning on CEO and the Board;
   (2) Second offense – reprimand on CEO and the Board;
   (3) Third offense – one (1) month suspension of CEO without pay; and
   (4) Further offense – possible disqualification of the CEO and/or the Board.

(Circular Nos. 1125 dated 20 August 2021, 1025 dated 27 September 2020, and 1024 dated 06 December 2018)

126-Q DOMESTIC SYSTEMICALLY IMPORTANT BANKS

It is the thrust of the Bangko Sentral to ensure that its capital adequacy framework is consistent with the Basel principles. Hence, the Bangko Sentral is adopting policy measures for Domestic Systemically Important Bank (D-SIBs), which are essentially aligned with the documents issued by BCBS on global systemically important banks (G-SIBs) and D-SIBs. The broad aim of the policies is to reduce the probability of failure of D-SIBs by increasing their going-concern loss absorbency and to reduce the extent or impact of failure of D-SIBs on the domestic/real economy.

The guidelines shall apply on a consolidated basis to all UBs and KBs, including branches of foreign banks established under Republic Act (R.A.) No. 7721 (An Act Liberalizing the Entry and Scope of Operations of Foreign Banks in the Philippines and for Other Purposes), as amended by R.A. No. 10641.

The framework for dealing with domestic systemically important banks consists of three parts, as follows:

a. *Assessment methodology*

   The impact of a D-SIB's failure to the domestic economy shall be assessed based on bank-specific factors, to wit: (a) size; (b) interconnectedness; (c) substitutability/financial institution infrastructure; and (d) complexity. Nine (9) indicators related to these categories shall be used to identify D-SIBs. These indicators reflect the factors or criteria which makes a bank significant for the stability of the financial system and the economy.

b. *Higher loss absorbency (HLA) and interaction with other elements of Basel III framework*

   Banks that will be identified as D-SIBs shall be required to have higher loss absorbency. The HLA requirement is aimed at ensuring that D-SIBs have a higher share of their balance sheets funded by instruments which increase their resilience as a going concern, considering that the failure of a D-SIB is expected to have a greater impact on the domestic financial system and economy.

   To determine banks' compliance with the additional CET1 requirement for D-SIBs, the minimum ratio should be complied with by the parent bank and its subsidiary banks and quasi-banks on both solo and consolidated bases.

c. *Intensive supervisory approach*

   Banks identified as D-SIBs shall include in their Internal Capital Adequacy Assessment Process (ICAAP) document concrete and reasonable recovery plans which shall be implemented in case the bank breaches the HLA capital requirement. The recovery plans shall include guidelines and action plans to be taken to restore the D-SIB's financial condition to viable level in cases of significant deterioration in certain scenarios. This shall include specific initiatives appropriate to the bank's risk profile such as capital rising activities, streamlining of businesses, restructuring and disposal of assets, to improve capital position.

The framework for dealing with D-SIBs including the guidelines on data requirements and reports, schedule of restriction on distribution of dividends during the phased-in implementation period of the HLA requirement, and recovery plan are shown in *Appendix* Q-68.

(Circular No. 1051 dated 27 September 2019)

127-Q BASEL III LEVERAGE RATIO FRAMEWORK

a. *Minimum requirement.* The Basel III Leverage Ratio is designed to act as a supplementary measure to the risk-based capital requirements. The leverage ratio intends to restrict the build-up of leverage in the banking sector to avoid destabilizing deleveraging processes which can damage the broader financial system and the economy. Likewise, it reinforces the risk-based requirements with a simple, non-risk based "backstop" measure.

The Basel III leverage ratio is defined as the capital measure (the numerator) divided by the exposure measure (the denominator), with this ratio expressed as percentage:

$$\text{Basel III Leverage Ratio} = \frac{\text{Capital Measure (Tier 1 Capital)}}{\text{Exposure Measure}}$$

The leverage ratio shall not be less than 5.0 percent computed on both solo (head office plus branches) and consolidated bases (including subsidiary financial allied undertakings but excluding insurance companies).

The guidelines implementing the Basel III Leverage Ratio framework are provided in *Appendix Q-71*. The guidelines shall apply to subsidiary QBs of UBs and KBs.

Starting 31 December 2014 and every quarter thereafter until 30 June 2018, QBs concerned shall submit the Basel III Leverage Ratio reporting template, including required disclosure templates, on both solo and consolidated bases for monitoring purposes. The report submission is summarized below:

Report Date	Reference Date	Deadline of Submission
30 September 2017 31 December 2017	31 December 2017	Fifteen (15) banking/business days from end of reference date on solo basis, and
31 March 2018	31 March 2018	Thirty (30) banking/business days from end of reference date on consolidated basis
30 June 2018	30 June 2018	

During the monitoring period, public disclosure of information relative to leverage ratio shall not be required.

The monitoring of the leverage ratio shall be implemented as a Pillar 1 minimum requirement effective on 01 July 2018. Upon migration to a Pillar 1 requirement, the Basel III Leverage Ratio report shall be submitted quarterly along with the Basel III CAR report on both solo and consolidated bases. The mandatory disclosure requirements provided under *Appendix Q-71* shall be published in the quarterly published balance sheet as well as in the annual reports or published financial reports (e.g., audited financial statements).

b. *Sanctions*. QBs shall not be penalized on any breach on the five percent (5%) minimum leverage ratio during the monitoring period. However, erroneous, delayed, erroneous and delayed, or unsubmitted reports of banks shall be subject to penalties provided under Sec. 171. In the case of QBs, late and/or erroneous reports shall be subject to penalties under Sec. 172-Q. The reports shall be classified as a Category A-1 report.

(Circular Nos. 990 22 January 2018, 988 dated 20 December 2017, 956 dated 17 April 2017, 943 dated 26 January 2017, 881 dated 09 June 2015, and M-2015-026 dated 16 July 2015)

128-Q TREATMENT OF EQUITY INVESTMENT WITH RECIPROCAL STOCKHOLDINGS

For purposes of computing the prescribed ratio of net worth (or combined capital accounts) to risk assets, equity investments of a QB in another QB shall be deducted from its net worth if the investee QB has a reciprocal equity investment in the investing QB, in which case the investment of the QB or the reciprocal investment of the other QB, whichever is lower, shall be deducted from the net worth of the QBs.

129-Q SANCTIONS ON NET WORTH DEFICIENCY

a. Any QB which is deficient in the capital requirement under Sec. 125-Q shall be liable to the following sanctions:

(1) In case of capital deficiency for five or more times within a reporting period:

(a) For the first offense - a fine of P3,000.

(b) For the second consecutive offense - prohibition from extending new loans or making new investments for a period of thirty (30) calendar days.

New loans and new investments shall refer to any loan or investment involving disbursement of funds, except GS.

(c) For the third consecutive offense - extension of the penalty under the preceding paragraph for another thirty (30) calendar days.

(d) For the fourth consecutive offense - suspension of the Certificate of Authority to engage in quasi-banking functions for a period of thirty (30) calendar days. The suspension shall be automatically lifted if in the final reporting period of the period of suspension, the entity maintains the minimum capital required under Secs. 124-Q and 125-Q as may be applicable for every day of such reporting period.

(2) In case of continuous capital deficiency:

(a) For two (2) consecutive reporting periods - suspension of the Certificate of Authority to engage in quasi-banking functions for a period of thirty (30) calendar days.

(b) For every consecutive reporting period, the suspension shall extend for another thirty (30) calendar days.

(c) The suspension shall be automatically lifted if on the final reporting period of the period of suspension, the entity maintains the minimum capital required under Secs. 124-Q and 125-Q as may be applicable for every day of such reporting period.

(3) In all of the cases abovementioned, establishment of branches, agencies, extension offices, etc., shall be suspended.

b. For improperly accomplished report, QBs shall pay P600 per day for every day the report is not corrected, counted as of the date the error is brought to its attention until the corrected report is submitted.
c. For willfully making false statements in the report or submitting a false report, the Certificate of Authority for quasi-banking functions shall be suspended/revoked.
d. The Monetary Board may impose additional sanctions on the entity engaged in quasi-banking functions by:

(1) Revoking the Certificate of Authority to engage in quasi-banking functions; and
(2) Such other sanctions as the Bangko Sentral may deem necessary.

130-Q INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS AND SUPERVISORY REVIEW PROCESS

The guidelines on internal capital adequacy assessment process (ICAAP) and the Bangko Sentral's supervisory review process (SRP) are shown in *Appendices Q-54* and *Q-55* respectively.

The ICAAP guidelines shall apply to all UBs and KBs on a group-wide basis.

All covered UBs and KBs are required to submit the interim ICAAP document on or before 30 April 2010 and the final ICAAP document together with the Corporate Secretary's Certificate attesting to the approval by the bank's board of directors on or before 31 January 2011.

The guidelines shall take effect on 01 January 2011.

D. CORPORATE GOVERNANCE GUIDELINES

131-Q POLICY STATEMENT AND DEFINITION OF TERMS

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 SEC as well as with best practices and standards issued by globally recognized standard setting bodies.

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 as 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;

(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 statue or an agreement; or
(3) Power to appoint or remove the majority of the members of the board; or
(4) Power to cast the majority votes at meetings of the board of directors or equivalent governing body; or
(5) Any other arrangements similar to any of the above.

Control is presumed to exist if there is ownership or holding, whether direct or indirect, if 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 only have 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 person 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 enterprise or firms with homogenous 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 directors 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, 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 sub-committees, 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.

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;

[1] Shall also refer to the President or any other title referring to the top management in the BSFI.

(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 item "*g*" of Sec. 362 *(Definition of terms)*;

(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* 23.

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.

(Circular Nos. 970 dated 22 August 2017, 957 dated 17 April 2017, 914 dated 23 June 2016, 896 dated 17 December 2015, and 894 dated 07 December 2015)

132-Q BOARD OF DIRECTORS

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.

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.

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; sufficiency of time to fully carry out responsibilities; and concurrent positions in the same BSFI and interlocking positions in other entities that may pose conflict of interest.

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 Sec. 137-Q *(Persons disqualified to become directors/trustees)*.

A director shall submit to the Bangko Sentral the required certifications and other documentary proof of such qualifications using *Appendix Q-58* 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, including directors of publicly listed companies in the Philippines, and whose business practices stand as testimonies to good corporate governance. In this respect, the Bangko Sentral shall consider results of supervisory assessments in evaluating the eligibility of the candidate for the exemption

(b) Distinguished Filipino and foreign nationals who served as senior officials in central banks and/or financial regulatory agencies. For this purpose, senior officials in the Bangko Sentral shall refer to those who assumed Managing Director position or higher; 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. *Provided,* That in the case of cooperative banks, the maximum cumulative term for independent directors shall be eight (8) 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 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.

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, as a general rule, the Chairperson of the board of directors shall be a non-executive director or an independent director

The positions of chairperson and CEO shall not be held by one (1) 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.

The Chairperson must not have served as CEO of the BSFI within the past three (3) years. In exceptional cases, former CEOs of BSFIs shall be allowed to immediately assume the position of chairperson of the board of directors, *Provided*, That:

(1) This is consistent with the provisions of its succession plan; and
(2) There are no major supervisory concerns in the quality of the BSFI's governance, risk management systems, and internal controls and compliance system, and the BSFI is not subject to escalated enforcement action.

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.

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 specials meetings of the board of directors during his/her incumbency is a ground for disqualification in the succeeding election: *Provided furthermore,* That the twenty-five percent (25%) physical attendance requirement is lifted during periods of national emergencies, public health emergencies, and major disasters, among others, that affect mobility, activity, and access to BSFIs.

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.

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, risk policy, and risks 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 (3) 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.

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.* A director is expected to remain fit and proper for the position for the duration of his term. He should possess unquestionable credibility to make decisions objectively and resist undue influence. He shall treat board directorship as a profession and shall have a clear understanding of his duties and responsibilities as well as his role in promoting good governance. Hence, he shall maintain his professional integrity and continuously seek to enhance his skills, knowledge and

understanding of the activities that the QB is engaged in or intends to pursue as well as the developments in the banking industry including regulatory changes through continuing education or training.

b. *To conduct fair business transactions with the BSFI and to ensure that personal interest does not bias board decisions.* Directors should, whenever possible, avoid situations that would give rise to a conflict of interest. If transactions with the institution cannot be avoided, it should be done in the regular course of business and upon terms not less favorable to the institution than those offered to others. The basic principle to be observe is that a director should not use his position to make profit or to acquire benefit or advantage for himself and/or his related interests. He should avoid situations that would compromise his impartiality.

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.* A director must always act in good faith, with the care which an ordinarily prudent man would exercise under similar circumstances. While a director should always strive to promote the interest of all stockholders, he should also give due regard to the rights and interests of other stakeholders.

d. *To devote time and attention necessary to properly discharge their duties and responsibilities.* Directors should devote sufficient time to familiarize themselves with the institution's business. They must be constantly aware of the institution's condition and be knowledgeable enough to contribute meaningfully to the board's work. They must attend and actively participate in board and committee meetings, request and review meeting materials, ask questions, and request explanations. If a person cannot give sufficient time and attention to the affairs of the institution, he should neither accept his nomination nor run for election as member of the board.

e. *To act judiciously.* Before deciding on any matter brought before the board of directors every director should thoroughly evaluate the issues, ask questions and seek clarifications when necessary.

f. *To contribute significantly to the decision-making process of the board.* Directors should actively participate and exercise objective independent judgment on corporate affairs requiring the decision or approval of such board.

g. *To exercise independent judgment.* A director should view each problem/situation objectively. When a disagreement with others occurs, he should carefully evaluate the situation and state his position. He should not be afraid to take a position even though it might be unpopular. Corollarily, he should support plans and ideas that he thinks will be beneficial to the institution.

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.* A director should also keep himself informed of the industry developments and business trends in order to safeguard the institution's competitiveness.

i. *To observe confidentiality.* Directors must observe the confidentiality of non-public information acquired by reason of their position as directors. They may not disclose said information to any other person without the authority of the board.

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 Section 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.

(Circular Nos. 1129 dated 12 November 2021, 1038 dated 22 April 2019, 970 dated 22 August 2017, 889 dated 02 November 2015, and 887 dated 07 October 2015)

133-Q 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 non-executive 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 Section shall submit the following to the appropriate supervising department of the Bangko Sentral:

(1) A secretary's certificate attesting the approval of the board of directors to create only the audit committee/dissolve 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.

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 the 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.

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 the 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.

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 (4) 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.

(Circular No. 970 dated 22 August 2017)

134-Q OFFICERS

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, possession of competencies relevant to the function such as knowledge and experience, skills and diligence, and concurrent positions in the same BSFI and interlocking positions in other entities that may pose conflict of interest.

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 Sec. 137-Q *(Persons disqualified to become officers)*. An officer shall submit to the Bangko Sentral the required certifications and other documentary proof of such qualifications using *Appendix Q-58* 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.

Duties and responsibilities of officers.

a. *To set the tone of good governance from the top.* QB/trust entity officers shall promote the good governance practices within the QB by ensuring that policies on governance as approved by the board of directors are consistently adopted across the QB/trust entity.

b. *To oversee the day-to-day management of the BSFI.* QB/trust entity officers shall ensure that QB's activities and operations are consistent with the QB's strategic objectives, risk strategy, corporate values and policies as approved by the board of directors. They shall establish a QB-wide management system characterized by strategically aligned and mutually reinforcing performance standards across the organization.

c. *To ensure that duties are effectively delegated to the staff and to establish a management structure that promotes accountability and transparency.* QB/trust entity officers shall establish measurable standards, initiatives and specific responsibilities and accountabilities for each QB/trust entity personnel. QB/trust entity officers shall oversee the performance of these delegated duties and responsibilities and shall ultimately be responsible to the board of directors for the performance of the QB/trust entity.

d. *To promote and strengthen check/s and balances systems in the BSFI.* QB/trust entity officers shall promote sound internal controls and avoid activities that shall compromise the effective dispense of their functions. Further, they shall ensure that they give due recognition to the importance of the internal audit, compliance and external audit functions.

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.

(Circular Nos.1129 dated 12 November 2021 and 970 dated 22 August 2017)

135-Q 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.

Profit sharing programs. Profit sharing programs adopted in favor of directors/trustees/officers and employees shall be reflected in the by-laws of BSFIs, subject to the following guidelines:

a. The base in any profit sharing program shall be the net income for the year of the QB, as shown in its consolidated statement of income and expenses (CSIE) for the year, net of the following:

   (1) All cumulative dividends accruing to preferred stock to the extent not covered by earned surplus;

   (2) Accrued interest receivable credited to income but not yet collected, net of reserves already set up for uncollected interest on loans;

   (3) Unbooked valuation reserves on loans or an amount required to update valuation reserves in accordance with the schedule approved by the Monetary Board, as well as all amortizations due on deferred charges;

   (4) Provisions for the current year's taxes;

   (5) Income tax deferred for the year: *Provided, however*, That in case of reversal of deferred income taxes excluded from net income in previous years' profit sharings, the deferred income tax reversed to expense shall be added back to net income to arrive at the basis for profit sharing for the year during which the reversal is made;

   (6) Accumulated profits not yet received but already recorded by a QB representing its share in profits of its subsidiaries under the equity method of accounting; and

b. The QB may provide in its by-laws for other priorities in the computation of net profits for purposes of profit sharing: *Provided*, That in no case shall profit sharing take precedence over any of the items in the preceding paragraph.

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 prior to 14 September 2017 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.

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:

a. When the QB/trust entity is under controllership, conservatorship or when it has outstanding emergency loans and advances and such other forms of credit accommodation from the Bangko Sentral which are intended to provide it with liquidity in times of need;

b. When the institution is found by the Monetary Board to be conducting business in an unsafe or unsound manner; and

c. When it is found by the Monetary Board to be in an unsatisfactory financial condition such as, but not limited to, the following cases:

   (1) Its capital is impaired;
   (2) It has suffered continuous losses from operations for the past three (3) years;
   (3) Its composite CAMELS rating in the latest examination is below "3"; and
   (4) It is under rehabilitation by the Bangko Sentral/PDIC which rehabilitation may include debt-to-equity conversion, etc.

   In the presence of any one (1) or more of the circumstances mentioned above, the Monetary Board may impose the following restrictions in the compensation and other benefits of directors and officers:

d. In the case of profit sharing, the provision under this Section on Profit sharing programs shall be observed except that for purposes of this Section, the total amount of unbooked valuation reserves and deferred charges shall be deducted from the net income.

e. Except for the financial assistance to meet expenses for the medical, maternity, education and other emergency needs of the directors/trustees or officers or their immediate family, the other forms of financial assistance may be suspended.

f. When the total compensation package including salaries, allowances, fees and bonuses of directors/trustees and officers are significantly excessive as compared with peer group averages, the Monetary Board may order their reduction to reasonable levels: *Provided,* That even if a QB/trust entity is in financial trouble, it may nevertheless be allowed to grant relatively higher salary packages in order to attract competent officers and quality staff as part of its rehabilitation program.

The foregoing provisions founded on Section 18 of R.A. No. 8791 shall be deemed part of the benefits and compensation programs of QBs/trust entities.

(Circular No. 970 dated 22 August 2017)

136-Q 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.

Confirmation of election/appointment of directors/officers. Confirmation of the election/appointment of directors/officers shall be covered by Sec. 137.

Bio-data of directors and officers.

a. BSFIs with trust authority shall submit to the appropriate supervising department of the Bangko a bio-data with ID picture of their (1) directors and officers who are subject to confirmation under this Section, (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/FSS Committee confirmation, the duly notarized authorization form per *Appendix Q-44*, within twenty (20) business days from the date of election/re-election 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.

b. The QB/NBFI with trust authority shall, however, keep a complete record of the bio-data of all its directors and officers and shall maintain a system of updating said records which shall be made available during on-site examination or when required by the Bangko Sentral for submission for off-site verification.

c. QBs/NBFIs with trust authority shall also submit to the appropriate supervising department of the Bangko Sentral a duly notarized list of the incumbent members of the board of directors and officers (President or equivalent rank, down the line, *Appendix Q-58)*, within twenty (20) business days from the annual election of the board of directors as provided in the by-laws of the QB/NBFI with trust authority, in accordance with *Appendix Q-3*.

d. If after evaluation, the appropriate supervising department of the Bangko Sentral finds grounds for disqualification, the director/officer so elected/re-elected/appointed/promoted may be recommended for removal from office even if he/she has assumed the position to which he/she was elected/re-elected/appointed/promoted pursuant to Section 16 of R.A. No. 8791.

Interlocking Directorships and/or Officerships. The Bangko Sentral recognizes that effective sharing of managerial and technical expertise across institutions promotes economies of scale and organizational synergies, as well as broadens perspectives in strategy formulation and risk management. In this regard, Bangko Sentral-supervised financial institutions (BSFIs) are expected to have an effective governance process in place to ensure that the benefits of having directors or officers with interlocking positions in other entities are optimized, that the concerned directors or officers devote sufficient time and attention necessary to effectively carry out their duties and responsibilities, and that excessive concentration of economic power, unfair competitive advantage, abusive practices, and conflict of interest situations are prevented.

a. Responsibilities of board of directors. Consistent with the standards and principles set forth in the corporate governance guidelines for BSFIs under Sec. 132-Q, the board of directors of BSFIs shall:

(1) Approve policy on having directors or officers with interlocking positions in other entities, which shall cover, among others, the following:

(a) Cases and the corresponding rationale when the BSFI shall allow/appoint directors or officers to have/with interlocking positions in other entities; the sectors or industries of the entities where the directors or officers may assume other positions; interlocking positions that may be held by directors or officers; and limit on the number of entities where the director or officer may hold interlocking positions.

Provided, That the limit to be set shall be consistent with Item *"b"* of Qualifications of a director under Sec. 132-Q*;*

(b) Measures to avoid excessive concentration of economic power, unfair competitive advantage and abusive practices. The policy shall also include the measures in handling conflict of interest situations;

(c) Requirement to obtain approval from the board of directors or the appropriate authority designated in the BSFI prior to acceptance of interlocking directorship/officership positions in other entities;

(d) Requirement to obtain proof of disclosure to and consent from all the involved entities on interlocking officership positions held outside the banking group/conglomerate; and

(e) Courses of action in case conflict of interest arise or when the performance of the director or officer has been affected by the interlocking positions held.

(2) Ensure effective governance process on the selection and appointment of directors and/or officers who are holding interlocking positions in other entities and in approving the acceptance of directors/officers of interlocking positions in other entities. The governance process shall cover continuous assessment of potential conflict of interest in the entities involved as well as the interlocking positions held.

(3) Ensure that directors and/or officers holding interlocking positions in other entities effectively carry out their duties and responsibilities in the BSFI. It shall be the responsibility of the board of directors to conduct a periodic performance evaluation of the concerned directors and officers measured against agreed upon standards for the position. The board of directors shall immediately take appropriate action should the results of performance evaluation reflect that the performance of the function in the BSFI has been adversely

affected by the interlocking positions held by the director and/or officer.

(4) Ensure that the control functions (i.e., risk management, compliance, and internal audit) cover the assessment of adherence to internal policies and regulatory expectations on interlocking positions held by the directors and/or officers. For the interlocking positions held by heads of control functions, the assessment shall be performed by the board of directors or board-level committee to whom they functionally report to.

b. Factors to Consider on Interlocking Positions. BSFIs shall observe the following rules for interlocking positions held by directors and/or officers:

(1) *Interlocking directorships.* Interlocking directorships in BSFIs are allowed except in cases involving banks belonging to the same category. In this respect, interlocking directorship in banks belonging to the same category shall only be allowed if the banks: (i) are part of the same banking group; or (ii) have different business models and are serving different markets or clients.

For purposes of determining interlocking directorship, a director and his/her spouse, whether legitimate or common-law, shall be considered as on (1) and the same person.

(2) *Interlocking directorships and officerships.* Interlocking directorships and officerships are allowed provided that the positions do not pose conflict of interests. For this purose, the appointment should be consistent with the policy adopted by the BSFI.

(3) Interlocking officerships. As a general rule, interlocking officerships shall not be allowed except:

(a) Held in the same capacity within a banking group as (i) corporate secretary, (ii) security officer, (iii) Chief Risk Officer, Chief Compliance Officer, Head of Internal Audit, or (iv) other positions performing similar functions as those in (i) to (iii) hereof; *Provided*, That: The assumption of interlocking officerships is consistent with the enterprise risk management approach of the BSFI and the banking group where the concerned entities belong.

(b) As corporate secretary or assistant corporate secretary between/among entities, which are not part of the same banking group/conglomerate; *Provided*, That:

(i) Proof of disclosure to and consent from all of the involved entities on the interlocking officerships are obtained; and

(ii) The positions do not pose conflict of interest and that the officer holding interlocking positions will still be able to devote sufficient time and attention to effectively carry out his/her duties and responsibilities.

(4) Consistent with Section 6 of Presidential Decree No. 129, as amended by Batas Pambansa Blg. 66, entitled "Governing the Establishment, Operation and Regulation of Investment Houses," the Bangko Sentral hereby allows interlocking directorship and officership between a bank and an investment house subject to the requirements of this Section and other applicable laws and regulations: *Provided, however,* That interlocking officerships between a bank and an investment house may only be allowed where the majority or all of the equity of the investment house is owned by the bank.

c. Approval of interlocking positions. The board of directors or the appropriate authority designated in the BSFI shall approve the interlocking positions held by directors and officers of a BSFI. The documents supporting the approval shall reflect the assessment done by the approving authority consistent with the policy adopted in the BSFI and the expectations in this Section.

d. Transitory Provisions. BSFIs shall reassess existing interlocking positions held by directors and officers, including those previously approved by the Bangko Sentral, considering the principles set out in this Section and the internal policy adopted. BSFIs shall address issues noted in the assessment of interlocking positions in the election of directors and appointment of officers to fully comply with the provisions of this Section by 30 June 2022.

e. Reports. BSFIs shall submit an annual report of all interlocking positions of its directors and officers within twenty (20) banking days from the end of each reference year starting 31 December 2021.

BSFIs shall keep a complete record of all interlocking positions of its directors and officers, and documentation of the assessments conducted by the board of directors or appropriate authority designated in the BSFI on existing and new interlocking positions, and shall maintain a system of updating said records which shall be made available during examination by the Bangko Sentral or when required for submission for verification.

f. Enforcement Actions. The Bangko Sentral shall deploy enforcement actions to promote adherence to the requirements set forth in this Section and bring about timely corrective actions. The Bangko Sentral shall issue directives or sanctions on the BSFI and responsible persons which may include restrictions or prohibitions from certain authorities/activities; and warning, reprimand, suspension, removal and disqualification of concerned BSFI directors, and officers. The Bangko Sentral shall disallow interlocking directorships and officerships or direct the BSFI to amend its internal policy on interlocking positions if the Bangko Sentral deems that the interlocking positions if the Bangko Sentral deems that the interlocking positions pose conflict of interest which give rise to excessive concentration of economic power, unfair competitive advantage, and abusive practices.

g. 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 Bangko Sentral.

h. Representatives of government. The provisions of this Section shall apply to representatives of the government or government-owned or controlled entities appointed as directors or officers in BSFIs, unless otherwise covered under existing laws.

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-34*.

(Circular Nos. 1129 dated 12 November 2021, 970 dated 22 August 2017 and 887 dated 07 October 2015)

137-Q DISQUALIFICATION AND WATCHLISTING OF DIRECTORS AND OFFICERS

The Bangko Sentral recognizes that the fitness and propriety of the board of directors and management significantly influences and shapes the quality of corporate governance in a financial institution. Following the standards set forth on the qualifications and responsibilities of the board and management, this Section provides the rules governing the watchlisting and disqualification of persons from becoming directors/officers of quasi-banks (QB). The policy aims to further promote the integrity of the financial system and better protect the interest of the public.

Persons disqualified to become directors/officers. Without prejudice to specific provisions of law prescribing disqualifications for directors/*officers*, the following are disqualified from becoming directors/*officers*:

a. *Permanently disqualified*

(1) Persons who have been convicted by final judgment of a court for offenses involving dishonesty or breach of trust such as, but not limited to, estafa, embezzlement, extortion, forgery, malversation, swindling, theft, robbery, falsification, bribery, violation of B.P. Blg. 22 (Anti-Bouncing Check Law), violation of R.A. No. 3019 (Anti-Graft and Corrupt Practices Act), violation of R.A. No. 9160, as amended (Anti-Money Laundering Act), and prohibited acts and transactions under Section 7 of R.A. No. 6713 (Code of Conduct and Ethical Standards for Public Officials and Employees);

(2) Persons who have been convicted by final judgment of a court or other tribunal for violation of securities and banking laws, rules and regulations;

(3) Persons who have been convicted by final judgment for cases filed against them for offenses under R.A. No. 3591, as amended (PDIC Charter);

(4) Persons who have been convicted by final judgment of a court for offenses which involves moral turpitude, or for offenses which they were sentenced to serve a term of imprisonment of more than six (6) years;

(5) Persons who have been judicially declared with finality as insolvent, spendthrift or incapacitated to contract;

(6) Persons who were found to be culpable for the QB's closure, as determined by the Monetary Board;

(7) Persons found by the Monetary Board to be administratively liable for violation of laws, rules and regulations implemented by the Bangko Sentral, where a penalty of removal from office is imposed, and which resolution of the Monetary Board has become final and executory; and

(8) Persons found liable by any government agency/corporation, including government financial institution, for violation of any law, rule or regulation involving dishonesty, misconduct, or any other grave or less grave offense classified under the Revised Administrative Code or Civil Service rules that adversely affects their fitness and propriety as directors/officers, and which finding of said government institution has become final and executory;

b. *Temporarily disqualified*

(1) Persons who have shown unwillingness to settle their financial obligations, as evidenced by, but not limited to, the following circumstances:

(a) the person has failed to satisfy any financial obligation that has been adjudicated by a court;
(b) the person has filed for insolvency or suspension of payments that adversely affects his/her fitness and propriety as director/officer; or
(c) a person who is delinquent in the payment of: an obligation with a QB where he/she is a director or officer; or at least two (2) obligations with other banks/FIs.

Financial obligations as herein contemplated shall include all borrowings obtained by:

(i) A person for his/her own account or where he/she acts as a guarantor, endorser or surety for loans;

(ii) The spouse, except when incurred after legal separation of properties or when the property regime governing the spouses is absolute separation of properties or except when incurred prior to the marriage;

(iii) Any debtor whose borrowings or loan proceeds were credited to the account of, or used for the benefit of, the person described under Item *"b(1)"* above;

(iv) A partnership of which a person, or his/her spouse is the managing partner or a general partner owning a controlling interest in the partnership; and

(v) A corporation, association or firm wholly-owned or majority of the capital of which is owned by any or a group of individuals/entities mentioned in the immediately preceding Items *"(i)", "(ii)"* and *"(iv)"*.

They shall remain temporarily disqualified until the financial obligations have been settled or satisfied.

(2) Persons involved in the closure of QBs pending their clearance by the Monetary Board;

(3) Persons confirmed by the Monetary Board to have committed acts or omissions, which include failure to observe/discharge their duties and responsibilities prescribed under existing regulations, that: (a) caused undue injury or disadvantage to the QB through manifest partiality, evident bad faith or gross inexcusable negligence; (b) caused or may have caused material loss or damage to the QB, its depositors, creditors, investors, stockholders, to the Bangko Sentral or to the public in general; or (c) exposed the safety, stability, liquidity or solvency of the QB to abnormal risk or danger;

(4) Persons found to have been involved in any irregularity/violation which constitutes a just cause for dismissal/termination as defined under the Labor Code of the Philippines, as amended, regardless of any action taken by the QB;

(5) Persons certified by, or in the official files of, foreign financial regulatory authorities, financial intelligence units, or similar agencies or authorities of foreign countries, as charged with commission of, or having committed, irregularities or violations of any law, rule or regulation, which may adversely affect the fitness and propriety of the person or the ability to effectively discharge his/her duties;

(6) Persons, other than those covered under Item *"(8)"* of this Subsection, who after conduct of investigation by domestic financial or commercial regulatory authorities, financial intelligence units, or similar agencies or authorities such as the Securities and Exchange Commission (SEC), Anti-Money Laundering Council (AMLC), or the Philippine Deposit Insurance Corporation (PDIC), have complaints filed against them by the aforecited authorities/units/agencies pending before a court of law or quasi-judicial body, or convicted by said court or quasi-judicial body but whose conviction has not become final and executory, for offenses involving violation of laws, rules and regulations, which may adversely affect the fitness and propriety of the person or the ability to effectively discharge his/her duties;

(7) Persons with cases pending before a court or other tribunal, or those convicted by said court or tribunal but whose conviction has not become final and executory, for offenses involving: (a) dishonesty or breach of trust such as, but not limited to, estafa, embezzlement, extortion, forgery, malversation, swindling, theft, robbery, falsification, bribery, violation of B.P. Blg. 22 (Anti-Bouncing Check Law), violation of R.A. No. 3019 (Anti-Graft and Corrupt Practices Act), violation of R.A. No. 9160, as amended (Anti-Money Laundering Act), and prohibited acts and transactions under Section 7 of R.A. No. 6713 (Code of Conduct and Ethical Standards for Public Officials and Employees); or (b) violation of securities and banking laws, rules and regulations;

(8) Persons who have been convicted by a court for an offense involving moral turpitude, and persons who have been sentenced to serve a term of imprisonment of more than six (6) years for other crimes but whose conviction has not yet become final and executory;

(9) Persons with pending cases for offenses under R.A. No. 3591, as amended (PDIC Charter), or those who have been convicted for said cases but whose conviction has not yet become final and executory;

(10) Persons found by the Monetary Board to be administratively liable for violation of laws, rules and regulations implemented by the Bangko Sentral, where a penalty of removal from office is imposed, and which resolution of the Monetary Board is on appeal, unless execution or enforcement thereof is restrained by the appellate court;

(11) Persons against whom a formal charge has been filed or who are found liable by any government agency/corporation, including government financial institution, for violation of any law, rule or regulation involving dishonesty, misconduct or any other grave or less grave offense classified under the Revised Administrative Code or Civil Service rules that adversely affects their fitness and propriety as directors/officers, and which finding of said government institution is on appeal, unless execution or enforcement thereof is restrained by the appellate court; and

(12) Persons found by the Monetary Board to be administratively liable for violation of laws, rules and regulations implemented by the Bangko Sentral, where a penalty of suspension from office or fine is imposed, unless the finding is on appeal and the execution of enforcement thereof is restrained by the appellate court.

Resignation or retirement from his/her office shall not exempt the person from being permanently or temporarily disqualified under this Subsection.

Persons prohibited to become officers.

a. The spouses or relatives within the second degree of consanguinity or affinity holding officership positions across the following functional categories within a QB:

(1) Decision making and senior management function, e.g., president, chief executive officer (CEO), chief operating officer (COO), general manager, and chief financial officer (CFO);
(2) Treasury function, e.g., treasurer or treasury head;
(3) Recordkeeping and financial reporting functions, e.g., controller and chief accountant;
(4) Safekeeping of assets, e.g., chief cashier;
(5) Risk management function, e.g., chief risk officer;
(6) Compliance function, e.g., chief compliance officer; and
(7) Internal audit function, e.g., chief audit executive.

The spouse or a relative within the second degree of consanguinity or affinity of any person holding the position of manager, cashier, or accountant of a branch or extension office of a QB or their respective equivalent positions is prohibited from holding or being appointed to any of said positions in the same branch or extension office.

b. Any appointive or elective official[1], whether full time or part time, except in cases where such service is incidental to the financial assistance provided by the government or government-owned or -controlled corporations (GOCCs) or in cases allowed under existing law.

Effect of non-possession of qualifications or possession of disqualifications/prohibitions. A director/officer elected/appointed who does not possess all the qualifications under Sec. 132-Q *(Board of Directors)* and the second and last paragraphs of Sec. 134-Q (*Officers)* and/or has any of the disqualifications/prohibitions mentioned under this Section shall not be confirmed by the confirming authority under Sec. 136-Q *(Confirmation of election/appointment of directors/officers)* and shall be removed from office by the QB even if he/she has assumed the position to which he/she was elected or appointed. A confirmed director/officer or officer not requiring confirmation found to possess any of the disqualifications shall be subject to the following disqualification procedures.

Disqualification procedures. All directors/officers who are considered disqualified under this Section *(Persons disqualified to become directors/offices)* shall be subject to the disqualification procedures provided under this Section. Disqualified persons shall be included in the Bangko Sentral Watchlist Files.

a. The QB shall be responsible for determining the existence of the ground for disqualification of the person concerned and for reporting the same to the appropriate supervising department of the Bangko Sentral within ten (10) calendar days from knowledge thereof. The QB shall ensure that the person concerned is informed that

[1] In the case of RB, appointive and elective public officials currently holding officership positions shall continue holding such position until the end of their current terms effective 13 September 2013.

his/her offense was reported to the appropriate supervising department of the Bangko Sentral and, as such, may be evaluated for watchlisting. The QB concerned shall conduct its own investigation, impose sanction/s if appropriate, and report the results thereof to the appropriate supervising department of the Bangko Sentral within twenty (20) calendar days from the termination of investigation.

This shall be without prejudice to the authority of the Monetary Board to disqualify a person from being elected/appointed as director/officer in any BSP-supervised financial institution (BSFI) based on information of the existence of any ground for disqualification gathered or obtained from the Bangko Sentral, domestic financial regulatory authorities, financial intelligence units, and similar agencies or authorities of foreign countries, the courts and other quasi-judicial bodies, and other government agencies or the public.

b. On the basis of knowledge and evidence on the existence of any of the grounds for disqualification mentioned in this Section *(Persons disqualified to become directors/offices)*, the person concerned shall be notified in writing either by personal service or through registered mail or courier at his/her last known address by the appropriate supervising department of the Bangko Sentral of the existence of the ground for his/her disqualification and shall be allowed to submit, within fifteen (15) calendar days from receipt of such notice, a sworn statement/explanation on why he/she should not be disqualified and his/her name not be included in the watchlist file as provided under this Section *(Watchlist Files)*, together with the evidence in support of his/her position. The head of said appropriate supervising department of the Bangko Sentral may allow an extension on meritorious ground.

c. Upon receipt of the reply/explanation of the person concerned, the appropriate supervising department of the Bangko Sentral shall proceed to evaluate the case.

d. The failure of the person to reply within the period provided under Item "*b*" of this Subsection shall be deemed a waiver of opportunity to explain and the appropriate supervising department of the Bangko sentral shall proceed to evaluate the case based on available records/evidence.

e. If the person concerned was not served copy of the written notice to explain even after using available modes of service, i.e., personal service or registered mail or courier, the appropriate supervising department of the Bangko Sentral shall proceed to evaluate the case based on available records/evidence.

f. Upon evaluation of the appropriate supervising department of the Bangko Sentral that a person is disqualified under any of the grounds listed in this Section *(Persons disqualified to become directors/officers),* said appropriate supervising department of the Bangko Sentral shall elevate to the Monetary Board for approval of the person's disqualification and inclusion in the Bangko Sentral Watchlist Files.

g. Upon approval by the Monetary Board, the person concerned shall be informed by the appropriate supervising department of the Bangko Sentral in writing either by personal service or through registered mail or courier, at his/her last known address of his/her disqualification from being elected/appointed as director/officer in any BSFI and of his/her inclusion in the masterlist of watchlisted persons so disqualified.

h. The determination of the Monetary Board shall become final and executory within fifteen (15) calendar days from receipt of the resolution, unless a motion for reconsideration has been filed.

i. In case the subject of disqualification is an incumbent director/officer, the board of directors of the QB concerned shall be immediately informed of such disqualification approved by the Monetary Board and shall be directed to act thereon not later than the following board meeting. Within three (3) business days after the board meeting, the corporate secretary shall report to the appropriate supervising department of the Bangko Sentral the action taken by the board on the person involved.

j. In cases initiated by the Bangko Sentral which resulted in conviction by final judgment of a court for violation of banking laws, rules and regulations, the Office of the General Counsel and Legal Services (OGCLS) shall recommend to the Monetary Board the permanent disqualification of said person and his/her name shall be included in the Disqualification File "A" (Permanent) upon approval of the Monetary Board.

k. In administrative complaints against directors and officers filed with the Bangko Sentral which resulted in the imposition of administrative penalties for violation of banking laws, rules and regulations, the OGCLS shall recommend to the Monetary Board the disqualification of said person, if warranted according to the severity of the offense, and his/her name shall be included in the Disqualification File "A" (Permanent) or "B" (Temporary), as the case may be, upon approval of the Monetary Board.

Watchlist files. The appropriate supervising department of the Bangko Sentral shall maintain two (2) files of watchlisted individuals:

a. Disqualification File "A (Permanent) – Persons permanently disqualified by the Monetary Board from holding a director/officer position in any BSFI.

b. Disqualification File “B” (Temporary) – Persons temporarily disqualified by the Monetary Board from holding a director/officer position in any BSFI.

Delisting/Reclassification.

a. *Delisting.* All delistings shall be approved by the Monetary Board upon the recommendation of the appropriate supervising department of the Bangko Sentral except in cases of persons known to be dead where delisting shall be automatic upon proof of death.

A person concerned may request delisting only after the lapse of five (5) years from the date of his/her receipt of notice of disqualification, except when a case against a director/officer is decided in his/her favor or upon clearance by the appropriate body, e.g., the judiciary, quasi-judicial bodies and domestic financial regulatory authorities and similar agencies or authorities of foreign countries where the person concerned has a derogatory record. The Monetary Board may consider the time already served under watchlisting by the person concerned.

b. *Reclassification.* Reclassification from Disqualification File "B" (Temporary) to Disqualification File "A" (Permanent) may be approved by the Monetary Board when the case/s described in Item *"b"* of this Section *(Persons disqualified to become directors/officers)* becomes final and executory.

Confidentiality.

Watchlist files shall be for the internal use of the Bangko sentral only: *Provided*, That upon authority of the person/s concerned, the QB can gain access to information in said watchlist files, among other Bangko Sentral records, by using the prescribed authorization form in *Appendix Q-44* only for the purpose of screening the nominees/applicants for director/officer positions.

(Circular Nos. 1076 dated 18 February 2020, 1038 dated 22 April 2019 and 970 dated 22 August 2017)

E. RISK MANAGEMENT

141-Q SUPERVISION BY RISK

The guidelines on supervision by risk to provide guidance on how QBs should identify, measure, monitor and control risks are shown in *Appendix Q-41.*

The guidelines set forth the expectations of the Bangko Sentral with respect to the management of risks and are intended to provide more consistency in how the risk-focused supervision function is applied to these risks. The Bangko Sentral will review the risks to ensure that a QB's internal risk management process is integrated and comprehensive. All QBs should follow the guidance in their risk management efforts.

142-Q RISK GOVERNANCE FRAMEWORK

The risk governance framework shall include policies, supported by appropriate processes and control procedures, designed to ensure that the risk identification, aggregation, mitigation and monitoring capabilities are commensurate with the BSFI’s size, complexity, risk profile, and systemic importance. The risk governance framework shall consider the entities in the conglomerate and shall be applied on a group-wide scale.

a. *Risk appetite*. The BSFI’s risk appetite shall be clearly conveyed through a risk appetite statement that can be easily understood by all relevant parties, e.g., board of directors itself, senior management, employees, the public, regulators, and other stakeholders. The risk appetite statement shall represent the individual and aggregate level and types of risk that the BSFI is willing to assume in order to achieve its business objectives and considering its capability to manage risk.

b. *Risk management policy*. Risk management policies shall cover:

(1) structure of limits and guidelines to govern risk-taking. These shall include actions that shall be taken when risk limits are breached, including notification and escalation to higher level of Management and corresponding sanctions for excessive risk taking;

(2) clearly delineated responsibilities for managing risk based on the three (3) lines of defense;

(3) system for measuring risk;

(4) checks and balances system; and

(5) framework for risk data aggregation and risk reporting.

c. *Risk management processes and infrastructure*. The degree of sophistication of the risk management and internal control processes and infrastructure shall keep pace with developments in the BSFI such as balance sheet and revenue growth; increasing complexity of the business; risk configuration or operating structure; geographical expansion; mergers and acquisitions; or the introduction of new products or business lines, as well as with the external risk landscape; business environment; and industry practice. This should enable a dynamic, comprehensive, and accurate risk reporting both at the disaggregated (including material risk residing in subsidiaries) and aggregated level to allow for a BSFI-wide or integrated perspective of risk exposures.

In this respect, BSFIs shall ensure that their risk data aggregation capabilities meet the following principles:

(1) *Accuracy and integrity* - this refers to the capability to generate accurate and reliable risk data to meet normal and stress reporting accuracy requirements.

(2) *Completeness* - this refers to the capability to capture and aggregate all material risk data across the banking group. Data should be available by business line, legal entity, asset type, industry, region and other groupings, as relevant for the risk in question, and should permit the identification and reporting of risk exposures, concentrations, and any emerging risks.

(3) *Timeliness* - this refers to the capability to generate aggregate and up-to-date risk data in a timely manner while also meeting the principles relating to accuracy and integrity, completeness and adaptability. Timing shall depend upon the nature and potential volatility of the risk being measured as well as its criticality to the overall risk profile of the BSFI. Timing shall also depend on the BSFI-specific frequency requirements for risk management reporting, under both normal and stress/crisis situations, set based on the characteristics and overall risk profile of the BSFI.

(4) *Adaptability* - this refers to the capability to generate aggregate risk data to meet a broad range of on-demand, ad hoc risk management reporting requests, including requests during stress/crisis situations, requests due to changing internal needs and requests to meet supervisory queries.

d. *Risk identification, monitoring and controlling*. BSFIs shall identify and assess all material risks including new and emerging risks, as well as hard to quantify risks, e.g., reputational risk, on a group-wide and entity specific levels. In this respect, BSFIs should use accurate internal and external data and consider the external operating environment in the risk assessment process to inform strategic business decisions and risk management approaches.

e. *Risk Communication*. BSFI shall promote an open communication about risk issues, including risk strategies across the organization. They shall adopt an effective information sharing and communication system enabling the timely, accurate, concise, and understandable transfer of information. This includes the risk reporting framework, which should accurately communicate risk exposures and results of stress tests and should promote robust discussion of risk exposures.

The risk reporting framework should be governed by the following principles:

(1) *Accuracy* - Reports should accurately and precisely convey aggregated risk data and reflect risk in an exact manner. In this regard, relevant reports should be reconciled and validated.

(2) *Comprehensiveness* - Reports should cover all material risk areas within the organization. The depth and scope of these reports should be consistent with the size and complexity of the BSFI's operations and risk profile, as well as the requirements of the users of information.

(3) *Clarity and usefulness* - Reports should communicate information in a clear and concise manner. Reports should be easy to understand and comprehensive enough to facilitate informed decision-making. Reports should include meaningful information tailored to the needs of the recipients.

Risk management function. The risk management function shall be responsible for overseeing the risk-taking activities across the BSFI, as well as the evaluation on whether these remain consistent with the BSFI's risk appetite and strategic direction. It shall ensure that the risk governance framework remain appropriate relative to the complexity of risk taking activities of the BSFI. The risk management function shall be responsible for identifying, measuring, monitoring and reporting risk on an enterprise-wide basis as part of the second line of defense. It shall directly report to the Risk Oversight Committee (ROC) or the board of directors, as applicable. Personnel in the risk management function should collectively have knowledge and technical skills commensurate with business activities and risk exposures of the BSFI.

BSFIs performing quasi-banking functions declared as complex by the Bangko Sentral shall create a separate risk management function that shall primarily assist management in meeting its responsibility to understand and manage risk exposures and ensure the development and consistent implementation of risk policies, processes, and procedures throughout the bank.

The board of directors of non-complex QBs may, at its own discretion, or as directed by the appropriate supervising department of the Bangko Sentral, create a risk management function, which shall report directly to the ROC or the board of directors, as applicable.

Chief Risk Officer (CRO). BSFIs, may at their own discretion, or as directed by the appropriate supervising department of the Bangko Sentral, appoint a CRO, or any equivalent position to carry out the responsibilities of the position*: Provided,* That the appointment, dismissal and other changes to the CRO or its equivalent position shall have prior approval of the board of directors. In cases, when the CRO will be replaced, the BSFI shall report the same to the appropriate supervising department of the Bangko Sentral within five (5) days from the time it has been approved by the board of directors.

The CRO shall have sufficient stature, authority, and seniority within the BSFI. He shall be independent from executive functions and business line responsibilities, operations and revenue-generating functions, and shall have access to such information as he deems necessary to form his judgment. The CRO shall have direct access to the board of directors and the ROC without any impediment. He shall serve on a full-time basis and shall functionally meet/report to the board of directors or board-level committee: *Provided,* That in cases of branches of foreign banks, the CRO shall report to the regional/group risk function. Meetings with the board of directors or board-level committee shall be duly minuted and adequately documented. In this regard, the board of directors/board-level committee shall review and approve the performance and compensation of the CRO, and budget of the risk management function.

a. *Qualifications of the CRO*. The CRO should have the knowledge and skills necessary to oversee the BSFI's risk management activities. This will be assessed based on the ability of the CRO to influence decisions that affect the BSFI's exposure to risk. The CRO should have the ability to interpret and articulate risk in a clear and understandable manner and, without compromising his independence, can engage in a constructive dialogue with the board of directors, chief executive officer, and other senior management on key risk issues.

b. *Duties and responsibilities of the CRO*. The CRO shall be responsible for overseeing the risk management function and shall support the board of directors in the development of the risk appetite and risk appetite statement of the BSFI and for translating the risk appetite into a risk limits structure. The CRO shall likewise propose enhancements to risk management policies, processes, and systems to ensure that the BSFI's risk management capabilities are sufficiently robust and effective to fully support strategic objectives and risk-taking activities.

(Circular Nos. 971 dated 22 August 2017)

143-Q CREDIT RISK MANAGEMENT

Policy statement. It is the policy of the Bangko Sentral to ensure that BSFIs under its supervision have adequate and effective credit risk management systems commensurate with their credit risk-taking activities. Towards this end, the following guidelines on credit risk management set forth the expectations of the Bangko Sentral with respect to the comprehensive management of credit risk. The guidelines further articulate sound principles and practices that shall be embedded in the credit risk management framework of BSFIs and shall cover the following areas: (a) establishing an appropriate credit risk environment; (b) operating under a sound credit granting process; and (c) maintaining appropriate credit administration, measurement, monitoring and control processes over credit risk. While BSFIs may employ different approaches in the management of their credit risk, the Bangko Sentral expects that all these areas are effectively addressed.

For purposes of these guidelines, FIs refer to UBs, KBs, TBs, RB and Coop Banks and their respective credit-granting financial subsidiaries (if any) as well as stand-alone QBs.

Evaluation of credit risk management system. The Bangko Sentral shall evaluate the FI's credit risk management system not only at the level of individual legal entities but also across the subsidiaries within the consolidated banking organization. It will not restrict the scope of the credit risk-taking activities of an FI, so long as the FI is authorized to engage in such activities and:

a. Understands, measures, monitors and controls the risk assumed;
b. Adopts risk management practices whose sophistication and effectiveness are commensurate with the risk being taken; and
c. Maintains capital commensurate with the risk exposure assumed.

If the Bangko Sentral determines that an FI's risk exposures are excessive relative to the FI's capital, or that the risk assumed is not well-managed, the Bangko Sentral will direct the FI to reduce its exposure to an appropriate level and/or to strengthen its risk management systems. In evaluating the above parameters, the Bangko Sentral expects FIs to have sufficient knowledge, skills and appropriate system and technology necessary to understand and effectively manage their credit risk exposures.

The principles set forth in the credit risk management guidelines shall be used in determining the adequacy and effectiveness of an FI's credit risk management process and adequacy of capital relative to exposure. The Bangko Sentral shall consider the following factors:

a. The FI's business strategies, operating environment, and the competencies of its officers and personnel; and
b. The major sources of credit risk exposure and the complexity and level of risk posed by the assets, liabilities, and off-balance sheet activities.

I. Establishing an Appropriate Credit Risk Environment

Role of the board and senior management.

a. *Board of directors*. The board of directors shall be responsible for the approval and regular review of credit risk strategy and credit policy, as well as the oversight of the implementation of a comprehensive and effective credit risk management system appropriate for the size, complexity and scope of operations of an FI. The board shall ensure that the system provides for adequate policies, procedures and processes to identify, measure, monitor and control all credit risks inherent in an FI's products and activities, both at the individual and portfolio levels on a consistent and continuing basis; and that an independent assessment of the system is periodically performed, the results of which shall be reported to it or to a board-level committee for appropriate action.

b. *Senior management*. Senior management shall be responsible for ensuring that the credit risk-taking activities of an FI are aligned with the credit risk strategy approved by the board of directors. It shall also be responsible for developing and implementing an FI's credit policies and procedures that lay down the conditions and guidelines for an effective credit risk management process, as well as proper channels of communication to ensure that these policies are clearly communicated and adhered to by all levels of the organization.

Credit risk management structure.

a. Senior management or an appropriate level of management shall implement a board-approved credit risk management structure that clearly delineates lines of authority, establish accountabilities and responsibilities of individuals involved in the different phases of the credit risk management process.

b. Depending on the size, complexity and scope of credit activities, and in addition to the roles and responsibilities of the board and senior management, an FI's credit risk management organization may be broadly classified into three (3) functional lines of activities: the front, back and middle offices, to properly segregate accountabilities, ensure that no individual is assigned conflicting responsibilities, and effectively monitor and control the risks being taken.

c. The front office function performs credit originating; recommends internal credit ratings, classifications and allowances for losses including changes thereon, when necessary; and the on-going monitoring of credit exposures of borrowers on a day-today basis.

d. The back office provides support in the overall credit administration, including, among others: ensuring complete documentation, credit disbursement and recording of payments received; maintenance of credit and collateral files; and compilation of management information reports.

e. The middle office performs risk management and control functions that are independent from the credit originating and administration functions. The risk management function provides meaningful inputs in policy formulation and limits setting; designs and implements the FI's internal credit risk rating system; and performs periodic exposure and exception monitoring. The risk management function shall report directly to the Risk Management Committee (RMC) or appropriate board level committee or the board.

f. An independent credit review is a function within the middle office that performs an unbiased assessment of the quality of individual credits and the aggregate credit portfolio, including appropriateness of credit risk rating, classification and adequacy of allowance for loan losses. In the case of simple FIs, such independent credit review function may be concurrently performed by qualified personnel fulfilling other independent control oversight functions (e.g. compliance, internal audit).

g. The workout or problem loan management is another function within the middle office that is independent from the credit originating function to ensure that problem loans are managed effectively to minimize potential losses. For simple FIs, however, the function may still be performed by the credit originating function and/or unit responsible for monitoring the quality of such credit.

h. The structure shall likewise provide for independent audits, i.e., internal audit and compliance, to conduct independent credit and compliance audits of the credit risk management system of the FI. The scope of internal audit shall include the evaluation of the independence and overall effectiveness of the credit review function.

i. Regardless of the organizational structure that an FI adopts, the board shall ensure that the aforementioned key functions are considered and independence and control oversight functions are effective to avoid or address any potential conflict of interest.

j. Personnel or staff involved in all phases of the credit risk management process shall be qualified, competent and have the necessary training and experience to exercise prudent judgment in assessing, managing and/or controlling credit risk, and a solid understanding of an FI's strategic direction, policies, procedures, risk tolerance and limits. Their qualification standards, roles and responsibilities shall be clearly defined in the credit operating policies and procedures manual of the FI. The board and senior management shall ensure that adequate resources and appropriate level of staffing are allocated to execute all kinds of credit activities.

Credit risk strategy. The credit risk strategy must reflect the FI's profitability and portfolio growth targets, and must be consistent with the credit risk tolerance and overall corporate strategy and business goals of the FI.

a. In formulating the credit risk strategy, the FI shall articulate the desired market segments and types of credit exposures (e.g., commercial credits, retail credits, real estate, investments, trading products, credit commitments and/or guarantees); specific characteristics of clients, economic sector, geographical location; the portfolio mix that reflects the acceptable level of diversification and concentration; and consider the risk/reward trade-off by factoring in, to the greatest extent possible, price and non-price (e.g. collateral, restrictive covenants, etc.) terms as well as likely downside scenarios and their possible impact on the obligors. The FI shall likewise define acceptable and unacceptable types of credits, clients, activities, transactions and behaviors that could result or potentially result in conflict of interest, personal gain at the expense of the FI, or unethical conduct.

b. The credit risk strategy shall consider the cyclical aspects of the economy and the varying effects of the economic cycle on the credit portfolio of the FI.

Credit policies, processes and procedures. FIs shall have in place a sound, comprehensive and clearly defined credit policies, processes and procedures consistent with prudent standards, practices, and relevant regulatory requirements adequate for the size, complexity and scope of an FI's operations. The board-approved policies, processes and procedures shall cover all phases of the credit risk management system.

a. FIs shall establish appropriate processes and procedures to implement the credit policy and strategy. These processes and procedures, as well as the credit policy, shall be documented in sufficient detail, effectively communicated throughout the organization to provide guidance to staff, and periodically reviewed and updated to take into account new activities and products, as well as new lending approaches. Subsequent major changes must be approved by the board.

b. The credit policy shall likewise provide for the maintenance of an audit trail documenting that the credit risk management process was properly observed and identifying the unit, individual(s) and/or committee(s) providing input into the process.

c. The credit culture, which reflects the FI's credit values, beliefs and behaviors, shall likewise be articulated in the credit policy and communicated to credit officers and staff at all levels through the strategic plan. The credit practices shall be assessed periodically to ensure that the officers and staff conform to the desired standard and value.

II. Operating Under a Sound Credit Granting Process

Credit approval process. The approval process for new credits as well as the amendment, renewal and refinancing of existing credit exposures shall be aligned with the credit risk management structure and clearly articulated in an FI's written credit policy. The process shall include the different levels of appropriate approving authority and the corresponding approving authority limits, which shall be commensurate with the risks of the credit exposures, as well as expertise of the approving individuals involved. It shall also include an escalation process where approval for restructuring of credits, policy exceptions or excesses in internal limits is escalated to units/officer with higher authorities. Further, there shall be proper coordination of relevant units and individuals and sufficient controls to ensure acceptable credit quality at origination.

Credit granting and loan evaluation/analysis process and underwriting standards. Consistent with safe and sound banking practice, an FI shall grant credits only in amounts and for the periods of time essential for the effective completion of the activity to be financed and after ascertaining that the obligor[1] is capable of fulfilling his commitments to the FI. Towards this end, an FI shall establish well-defined credit-granting criteria and underwriting standards, which shall include a clear indication of the FI's target market and a thorough understanding of the obligor or counterparty, as well as the purpose and structure of the credit and its source of repayment.

[1] Obligor refers to an individual or entity that owes another person or entity a certain debt or duty. For purposes of these guidelines, obligor can also be used interchangeably with borrower or debtor.

a. FIs shall conduct comprehensive assessments of the creditworthiness of their obligors, and shall not put undue reliance on external credit assessments. Credit shall be granted on the basis of the primary source of loan repayment or cash flow, integrity and reputation of the obligor or counterparty as well as their legal capacity to assume the liability.

b. Depending on the type of credit exposure and the nature of the credit relationship, the factors to be considered and documented in approving credits shall include, but are not limited to, the following:

(1) The purpose of the credit which shall be clearly stated in the credit application and in the contract between the FI and the obligor;

(2) The current risk profile (including the nature and aggregate amounts of risks, risk rating or credit score, pricing information) of the borrower, collateral, other credit enhancements and its sensitivity to economic and market developments;

(3) The sources of repayment, repayment history and current capacity to repay based on financial analysis from historical financial trends and indicators such as equity, profitability, turnover, leverage, and debt servicing ability via cash flow projections, under various scenarios;

(4) For commercial credits, the borrower's business expertise, its credit relationships including its shareholders and company directors, as applicable, and the status of the borrower's economic sector and its track record vis-à-vis industry peers;

(5) The proposed terms and conditions of the credit (i.e., type of financing, tenor, repayment structure, acceptable collateral) including covenants designed to limit changes in the future risk profile of the obligor;

(6) Use of credit reports; and

(7) Where applicable, the adequacy, valuation and enforceability of collateral or guarantees.

c. In performing the financial analysis, FIs shall use, to the extent available, credible audited financial statements and other relevant documents and sources. FIs may opt to use financial information/data from other sources provided that the process for arriving at such disposition and an evaluation of how much reliance or value was attached into the financial information used is clearly articulated and documented.

d. When participating in loan syndications, an FI shall not place undue reliance on the credit analysis done by the lead underwriter and shall perform its own analysis and review of syndicate terms. It shall analyze the risk and return on syndicated loans in the same manner as directly sourced loans and ensure that the loan is consistent with its credit risk strategy.

e. When an FI purchases securities issued by an obligor that is different from the counterparty (e.g. asset swaps), it shall also analyze issuer risk. For treasury and capital market activities, the structure of products and transactions shall be analyzed to determine the source and volatility of credit exposure.

f. When granting consumer credits, an FI shall conduct its credit assessment in a holistic and prudent manner, taking into account all relevant factors that could influence the prospect for the loan to be repaid according to its terms and conditions. This shall include an appropriate consideration of the potential obligor's other debt obligations and repayment history and an assessment of whether the loan can be expected to be repaid from the potential obligor's own resources without causing undue hardship and over-indebtedness. Adequate verification, including with relevant credit bureaus, shall be made to check the obligor's credit applications and repayment records.

g. FIs shall factor into their credit granting decisions the likelihood of providing allowance for identified and expected losses and holding adequate capital to absorb unexpected losses for credits with apparent weaknesses.

h. FIs may utilize physical collateral (like real estate), financial guarantees and other instruments to help mitigate risk in credit exposures. However, these shall not substitute for a comprehensive assessment of the obligor or fully compensate for insufficient information.

i. FIs shall establish adequate policies in determining the acceptability of various forms of credit mitigants and appropriate collateral value limits; procedures for regularly assessing the value of physical collaterals and availability of financial guarantees; and a process to ensure that these are, and continue to be, enforceable, realizable and marketable. Finally, FIs need to consider that the realizable value of the physical collateral or the quality of financial guarantees and other credit mitigants may be impaired by the same factors that have led to the diminished recoverability of the credit.

In the case of guarantees, the level of coverage being provided in relation to the credit quality, financial and legal capacity of the guarantor shall be evaluated.

For credit exposures secured by deposits, FIs shall likewise require obligors to provide a written waiver of his rights under existing laws to the confidentiality of his deposits, and make this available for inspection and/or examination by the appropriate supervising department of the Bangko Sentral.

j. Netting arrangements also mitigate risks, especially in interbank and off-balance sheet transactions. In order to actually reduce risk, such agreements need to be sound and legally enforceable in all relevant jurisdictions.

k. For more complex credit risk exposures, (e.g., asset securitization, credit derivatives, credit-linked notes, credit granted internationally, etc.), a more sophisticated tool shall be used for identifying, measuring, monitoring and controlling credit, country and transfer risks. Each complex credit risk product or activity, especially those that are new to banking, shall be subject to a thorough analysis in addition to the regular assessment that is done with traditional credit-granting activities.

l. For new products and activities, the credit risk shall be appropriately identified and managed through a formal risk assessment program. FIs shall ensure that they fully understand the risk involved in new products and activities and put in place adequate policies, procedures and controls before being introduced or undertaken.

Renewal or extension of maturity date of credits. FIs shall adopt and adhere to the following explicit standards that control the use of renewals and extensions of maturity date of credits:

a. Credits and other accommodations shall only be renewed, or its maturity date extended:

   (1) Upon re-establishment of the creditworthiness of the obligor using the same credit-granting criteria for the evaluation and approval of new loans; and
   (2) When the corresponding accrued interest receivable has been paid.

b. A policy on clean-up of principal, either partial or full, shall be established and appropriate controls put in place to prevent continuous renewal or extension over a long period of time without reduction in principal; otherwise, such credits and other accommodations shall be subject to classification and allowance for credit losses.

c. Specific and reasonable standards shall be provided for renewals or extensions of certain types of credit exposures that take into consideration the following factors:

   (1) Borrower's normal operating, trade or production cycle, in the case of credit exposures for working capital, trade financing, production, and/or other similar purposes to ensure a realistic repayment schedule;

   (2) Transaction history such as frequency of renewal or extension, rate of utilization of facilities granted, and business requirements;

   (3) Status of collateral and other guarantees in the case of secured credit exposures, including requiring the FI to re-appraise the property especially when there is a material change in market conditions or in the physical aspects of the property that threatens the collateral protection; and

   (4) Age of the account, utilization rate, average balance carried, delinquency status, payment history, and account profitability (if available) in the case of retail credits.

Credit limits, large exposures, and credit risk concentrations. An FI is exposed to various forms of credit risk concentration which if not properly managed, monitored and controlled may cause significant losses that could threaten its financial strength and undermine public confidence in the FI. Concentration risk can arise from excessive exposures to individual obligors, groups of connected counterparties and groups of counterparties with similar characteristics (e.g., counterparties in specific geographical locations, economic or industry sectors) or entities in a foreign country or a group of countries with strongly interrelated economies.

While concentration of credit risks is inherent in banking and cannot be totally eliminated, this can be mitigated by adopting policies and processes that would limit and control credit exposures and employing portfolio diversification strategies. Policies and procedures may include, but are not limited to the following:

a. Policies and procedures for identifying, reviewing, managing and reporting large exposures and concentration risks of the FI.

b. Segmenting its portfolio into the following diverse categories or such other segmentations consistent with the FI's credit strategy.

   (1) Various types of borrowers/counterparties or loan category (e.g., government, banks and other FIs, corporate and individual borrowers, including exchanges, electronic communication networks or ECNs and clearing houses);

(2) A group of connected borrowers/counterparties (includes aggregating exposures to groups of accounts exhibiting financial or economic interdependence, including corporate or non-corporate, where they are under common ownership or control or with strong connecting links, e.g. common management, familial ties);

(3) Individual industry sectors;

(4) Geographic regions or countries;

(5) Loan structure, collateral, and tenor; and

(6) Various types of investments, including other credit instruments in the trading books and off-balance sheet transactions.

c. Defining limit structure on each of the foregoing categories. Limits shall meaningfully aggregate credit exposures, both in the banking, trading book and on and off the balance sheet and shall be reasonable in relation to the FI's level of risk tolerance, historical loss experience, capital and resources. Such limits can be based in part on the internal risk rating assigned to the obligor or counterparty.

d. Procedures shall ensure that limits are not exceeded and are clearly communicated, periodically reviewed and modified, as appropriate. Should exceptions to policy be allowed, the circumstances under which limits may be exceeded and the party authorized to approve such excesses shall be clearly articulated in the credit policy.

Country and transfer risks. Country risk refers to uncertainties arising from economic, social and political conditions of a country which may cause obligors in that country to be unable or unwilling to fulfill their obligations. Transfer risk exists when an obligor is unable to secure foreign exchange to service external obligations due to restrictions imposed by the country on foreign exchange remittance or repayment on foreign-currency denominated assets to a foreign lender. FIs that have cross-border credit risk exposures shall have adequate internal capacity for identifying, measuring, monitoring and controlling country and transfer risks in its international lending and investment activities, and shall not place undue reliance on external ratings. An FI shall consider the following:

a. Establishing credit-granting criteria taking into consideration country risk factors that shall include the potential for default of foreign private sector obligors arising from country-specific economic, social and political factors, the enforceability of loan agreements, and the timing and ability to realize collateral under the national legal framework. The results of the country risk analysis shall be integrated into the internal credit risk rating of the obligor. These country risk factors shall be regularly monitored. An FI shall also assess an obligor's ability to obtain foreign exchange to service cross-currency debt and honor contracts across jurisdictions.

b. Country risk limits shall be put in place and regularly reviewed to determine that approved limits still reflect the FI's business strategy in line with the changing market conditions. FIs shall ensure that country exposures are reported and monitored against these limits. Significant country risks shall be assessed and highlighted in credit proposals submitted to management for approval.

c. Credit policy shall clearly articulate appropriate countermeasures that an FI shall take in the event of an adverse development in a particular country where it has exposures. These measures shall include closer analysis of the obligor's capacity to repay, provisioning and preparation of contingency plans if country risk continues to deteriorate. It shall consider in its monitoring and evaluation of country and transfer risks, the internal and external country risk rating transitions and economic social and political developments of the relevant countries. Any significant changes to the conditions of a country shall also be elevated to the board of directors promptly particularly if the FI has substantial exposure to that country.

Credits granted to related parties. Consistent with sound corporate governance practices, the board and senior management shall articulate and implement clear policies in handling transactions with directors, officers, stockholders, their related interests (DOSRI), the FI's subsidiaries and affiliates, and other related parties, ensuring that there is effective compliance with existing laws, rules, and regulations at all times and that no stakeholder is unduly disadvantaged.

a. All extensions of credit must be made on an arm's-length basis, in accordance with the FI's credit-granting criteria and in the regular course of business, and upon terms not less favorable to the FI than those offered to non-related borrowers.

b. FI policies shall cover standards that require directors and/or officers to avoid placing themselves in a position that creates conflict of interest or the appearance of conflict of interest. The board and management shall likewise establish and implement policies that require full disclosure of personal interests that they may have in credit transactions. Directors and officers with personal interest in a transaction shall not participate in any deliberation, approval, or voting on the matter.

III. Maintaining an Appropriate Credit Administration, Measurement, and Monitoring Process

Credit administration. FIs shall have in place a system for the ongoing administration of their various credit portfolios. Credit administration refers to the back office activities that support and control extension and maintenance of credit. FIs shall ensure the efficiency and effectiveness of the following credit administration functions:

a. *Credit documentation*. Procedures shall be put in place to ensure completeness of documentation in accordance with policy including a file documentation tickler system;

b. *Disbursement*. Proper approval shall be obtained and complete documentation ensured prior to disbursement. Exceptions, if any, shall be duly approved;

c. *Billing and repayment*. Payments received shall be properly recorded. Measures shall be in place to ensure that late payments are tracked and collected; and

d. *Maintenance of credit files*. Credit files shall include sufficient and updated information necessary to ascertain the financial condition of the obligor or counterparty and include documents covering the history of an FI's relationship with the obligor. All loan and collateral documents shall be kept in a secured area under joint custody.

Credit risk measurement, validation and stress testing. FIs shall adopt sound and appropriate risk measurement methodologies which shall provide a framework to control and monitor the quality of credit as well as total loan portfolio.

a. *Internal credit risk rating system*. FIs shall develop and utilize an internal risk rating system appropriate to the nature, size and complexity of the FI's activities in order to help the board and senior management differentiate risks across the individual credits and groups and to facilitate informed decision making. FIs shall have sophisticated rating systems involving sufficiently granular rating grades. Simple FIs may adopt simpler systems. In all cases, however, FIs shall demonstrate the influence of the internal risk rating system in the following important functions: i) credit approval and underwriting; ii) loan pricing; iii) relationship management and credit administration; iv) allowance for credit losses and capital adequacy; and v) portfolio management and board reporting. Internal risk rating systems shall generally observe the following standards:

   (1) It must be operationally integrated into the FI's internal credit risk management process. Its output shall accordingly be an integral part of the process of evaluation and review of prospective and existing exposures. Credit underwriting criteria shall become progressively more stringent as credit rating declines;

   (2) It must be fully documented and shall address topics such as coverage, rating criteria, responsibilities of parties involved in the ratings process, definition of what constitutes a rating exception, parties that have authority to approve exceptions, frequency of rating reviews, and management oversight of the rating process. In addition, FIs must document the rationale for its choice of rating criteria and must be able to provide analyses demonstrating that the rating criteria and procedures are likely to result in ratings that meaningfully differentiate risk;

   (3) All credit exposures shall be rated for risk. Where individual credit risk ratings are not assigned, e.g., small-denomination performing loans, FIs shall assign the portfolio of such exposures a composite credit risk rating that adequately defines its risk, i.e., repayment capacity and/or loss potential;

   (4) The board shall receive sufficient information to oversee management's implementation of the process. Migration analysis/transition matrix of ratings shall be regularly reported to show the actual performance of the rating system over time;

   (5) The risk rating system shall encompass an adequate number of ratings. FIs shall ensure that "pass" credits are sufficiently differentiated and more precisely defined. There shall be a proper process to map the internal rating system to regulatory classification. The FI shall readjust the mapping after every review of its internal risk rating methodology. For FIs whose internal rating systems have several pass grades, special mention loans may pertain to several risk ratings while substandard, doubtful and loss generally correspond to the lowest three risk ratings;

   (6) Risk ratings must be reasonable, timely and dynamic. Ratings shall be reviewed at least annually and shall be modified whenever the borrower's creditworthiness changes;

   (7) The rating criteria shall reflect an established blend of qualitative (e.g., the quality of management, willingness to repay, etc.) and quantitative (e.g., cash flow, profitability, and leverage) factors. The criteria for assigning each rating shall be clearly defined;

(8) The rating policy shall indicate a time horizon for the risk rating. Generally, the time horizon used for probability of default estimation is one year. However, FIs may use a different time horizon to cover one business cycle;

(9) Ratings shall reflect the risks posed by both the borrower's expected performance and the transaction's structure. The ratings output of internal credit risk rating systems must contain both a borrower and a facility dimension. The borrower dimension shall focus on factors that affect the inherent credit quality of each borrower. The facility dimension, on the other hand, shall focus on security/collateral arrangements and other similar risk influencing factors of each transaction;

(10) The rating assigned to a credit shall be well supported and documented in the credit file; and

(11) Rating histories on individual accounts shall be maintained, which shall include the ratings of the account, the dates the ratings were assigned, the methodology and key data used to derive the ratings and the analyst who gave the ratings. The identity of borrowers and facilities that default, and the timing and circumstances of such defaults, must be retained. FIs must also retain data on the realized default rates associated with rating grades and ratings migration in order to eventually track the predictive power of the risk rating system.

As used in these standards, a default is considered to have occurred in the following cases:

(a) If a credit obligation is considered non-performing under existing rules and regulations;

(b) If a borrower/obligor has sought or has been placed in bankruptcy, has been found insolvent, or has ceased operations in the case of businesses;

(c) If the bank sells a credit obligation at a material credit-related loss, i.e., excluding gains and losses due to interest rate movements. Banks' board approved internal policies that govern the use of their internal rating systems must specifically define when a material credit related loss[1] occurs; and

(d) If a credit obligation of a borrower/obligor is considered to be in default, all credit obligations of the borrower/obligor with the same bank shall also be considered to be in default.

b. *Credit scoring model*. FIs may use a credit scoring model in measuring credit risk for pools of loans that are similar in purpose, risk characteristics and/or general exposure to groups, industries or geographical locations granted in small denomination; *Provided,* That the FI ensures that the credit scoring model sufficiently captures the credit behavior and other characteristics of the targeted borrowers. These loans include retail loans, loans to micro and small enterprises, microfinance loans and unsecured small business loans, and consumer loans (i.e., housing loans, car or auto loans, loans for the purchase of appliance and furniture and fixtures, loans for payment of educational and hospital bills, salary loans and loans for personal consumption, including credit card loans). Risks for these types of portfolio are generally measured at portfolio level.

c. *Other credit risk measurement/methodologies*. FIs may likewise adopt other appropriate credit risk measurement methodologies/models to estimate expected losses from credit portfolio.

d. *Validation of internal rating systems*. Validation is a process to assess the performance of risk component measurement systems consistently and meaningfully, to ensure that the realized risk measures are within an expected range. It not only increases the reliability of a model, but also promotes improvements and a clearer understanding of a model's strengths and weaknesses among management and user groups.

FIs shall establish comprehensive policies and procedures on effective validation of the rating system (e.g. review of model design/developmental evidence, backtesting, benchmarking and assessment of the discriminatory power of the ratings) and rating process (e.g. review of data quality, internal reporting, problem handling and how the rating system is used by the credit officers). This shall be adequately documented and results reported to appropriate levels of the FI. The process shall likewise be subject to periodic review by qualified, independent individuals.

Moreover, FIs shall periodically conduct back-testing in evaluating the quality of their credit risk assessment models and establish internal tolerance limits for differences between expected and actual outcomes and processes for updating limits as conditions warrant. The policy shall also include remedial actions to be taken when risk tolerances are exceeded.

[1] This refers to economic loss, thus shall include discount effects, as well as direct and indirect costs associated with collecting on the credit obligation. The FIs' board-approved internal policies that govern the use of their internal rating systems must include specific policies and procedures that shall be followed in the determination of economic loss.

e. *Stress testing*. When appropriate, an FI shall conduct stress testing and scenario analysis of its credit portfolio including off-balance sheet exposures, both at an individual and group levels to assess the impact of market dislocations and changes in economic conditions or key risk factors on its profile and earnings.

(1) Whether stress tests are performed manually, or through automated modeling techniques, FIs shall ensure that:

(a) Policies and processes –

(i) Are adequate and clearly documented, rational, easily understood and approved by the board and senior management; and

(ii) Include methodology for constructing appropriate and plausible single and multi-factor stress tests, and possible events, scenarios, or future changes in economic conditions that could have adverse impact on credit exposures, and assess the FI's ability to withstand such changes;

(b) The inputs are reliable and relate directly to the subject portfolios;

(c) The process includes frequency of test and procedures for convening periodic meetings to identify the principal risk factors affecting the portfolio, setting loss limits and the authority for setting these limits, and monitoring stress loss limits;

(d) Assumptions are well documented and conservative;

(e) Models (if any) are subject to a comprehensive validation process;

(f) Exceptions to limits and stress testing results are reported to the senior management and board of directors for appropriate remedial actions; and

(g) Results are discussed and actions and resolutions are made arising from the discussion.

(2) The linkages between different categories of risk that are likely to emerge in times of crisis shall be fully identified. In case of adverse circumstances, there may be a substantial correlation of various risks, especially credit, liquidity, and market risk.

f. FIs shall develop a contingency plan for scenarios and outcomes that involve credit risk in excess of the FI's established risk tolerances. This plan may include increasing monitoring, limiting portfolio growth, and hedging or exit strategies for both significant individual transactions and key portfolio segments.

Credit risk management information and reporting systems. FIs shall render accurate, reliable and timely information and reports. Thus, adequate management information and reporting systems shall be in place to identify and measure credit risk inherent in all on- and off-balance sheet activities and ensure the overall effectiveness of the risk management process. The information generated from such systems shall enable the board and all levels of management to fulfill their respective oversight roles, including determining the level of capital commensurate with the credit risk exposure of the FI.

a. At a minimum, an effective management information system (MIS) shall enable FIs to:

(1) Provide adequate information on the quality and composition of the credit portfolio (including off-balance sheet accounts);

(2) Determine accurately the level of credit risk exposures of an FI through its various activities (e.g. renewal and extension of loans, collection process, status of delinquent accounts, write-offs, provisioning, among others);

(3) Timely identify and monitor credit risk concentrations, exposures approaching risk limits, exceptions to credit risk limits and overrides to ensure that policy and underwriting deviations as well as breaches and other potential problems are promptly reported to the board and management for appropriate corrective action;

(4) Aggregate credit exposures to individual borrowers and counterparties as well as to a group of accounts under common ownership or control;

(5) Permit additional analysis of the credit portfolio, including stress testing; and

(6) Maintain a database for research and use of analytical techniques, report exposures, track quality and account performances, and maintain limits.

b. The credit policy shall clearly define the types of information and reports to be generated, frequency of reporting, deadline of submission, and the users/recipients of and personnel responsible for the preparation of such information and reports.

c. FIs shall provide sufficient controls to ensure integrity of the MIS. Reports shall be periodically reviewed to ensure adequacy of scope and reliability and accuracy of the information generated. Internal audit shall also periodically assess the controls over MIS.

Credit monitoring. FIs shall develop and implement comprehensive processes, procedures and information systems to effectively monitor the condition and quality of individual credits and group of credits across the FIs' various portfolios. These shall include criteria that identify and report problem credits to reasonably assure that they are appropriately monitored as well as administered and provided for.

a. The system shall be able to, among others, provide measures to ensure that the board and management are kept informed of the current financial condition of the borrower and the various credit portfolios; loan covenants are consistently adhered to; cash flow projections meet repayment requirements; prudential and internal limits are not exceeded; portfolios are stress tested; and potential problem credits and other transactions are identified. Exceptions, breaches and potential problems noted shall be promptly reported to management for corrective action, possible classification and/or provisioning and more frequent monitoring.

b. Personnel or unit assigned to monitor, on an ongoing basis, credit quality, underlying physical collateral and financial guarantees shall ensure that relevant information is communicated to those personnel or unit assigned to provide internal credit risk ratings.

c. FIs shall perform post-validation of the actual use of funds to determine that credits were drawn down for their intended purposes. Should funds be diverted for purposes other than what has been applied for and approved, the FI shall immediately re-evaluate its approval or if necessary terminate the credit accommodation and demand immediate repayment of the obligation.

d. FIs shall monitor individual and aggregate exposures against prudential and internal limits on a regular basis. Large exposures shall be subject to more intensive monitoring.

e. FIs shall develop a system that allows monitoring of asset quality indicators (e.g. non-performing loans, collateral values, etc.) and trends in loan growth to identify potential weaknesses in the portfolio.

IV. Maintaining an Appropriate Credit Control Process

Credit review process.

a. FIs shall implement an independent and objective credit review process to determine that credits are granted in accordance with the FI's policies; assess the overall asset quality, including appropriateness of classification and adequacy of loan-loss provisioning; determine trends; and identify problems (e.g., risk concentration, risk migration, deficiencies in credit administration and monitoring processes).

b. FIs may employ an appropriate sampling methodology to determine the scope of credit review. At a minimum, credit review shall be conducted on all individual obligors with substantial exposures, and on a consolidated group basis to factor in the business connections among related entities in a borrowing group. Credit review for credits that are similar in purpose or risk characteristics may be performed on a portfolio basis. The portfolio sample selected for review shall provide reasonable assurance that all major credit risk issues have been assessed and valid conclusions can be drawn. Moreover, sampling methodology shall be documented and periodically reviewed to ensure its quality and minimize bias.

c. Credit review shall also evaluate credit administration function and ensure that credit files are complete and updated, and all loan approvals and other necessary documents have been obtained.

d. Credit reviews shall be performed at least annually, and more frequently for substantial exposures, new accounts and classified accounts. Assessments shall be promptly discussed with the officers responsible for the credit activities and escalated to senior management.

e. Results of the credit review shall be promptly reported to the board of directors or the appropriate board-level committee for their appropriate action. The board shall mandate and track the implementation of corrective action in instances of unresolved deficiencies and breaches in policies and procedures. Deficiencies shall be addressed in a timely manner and monitored until resolved/corrected.

Credit classification and provisioning.

a. *Classification of loans and other credit accommodations*[1]. FIs shall have in place a reliable credit classification system to promptly identify deteriorating credit exposures and determine appropriate allowance for credit losses. Classification can be done on the basis of internal credit risk rating system, including payment delinquency status. All credit classifications, not only those reflecting severe credit deterioration, shall be considered in determining the appropriate allowance for credit losses.

(1) All FIs shall map their classification of loans and other credit accommodations against the regulatory classification criteria provided below. However, FIs are encouraged and not precluded from using additional criteria appropriate to their internal credit risk rating system provided they are consistent with the regulatory classification as follows:

(a) *Pass*. These are loans and other credit accommodations that do not have a greater-than-normal credit risk. The borrower has the apparent ability and willingness to satisfy his obligations in full and therefore no loss in ultimate collection is anticipated.

(b) *Especially Mentioned (EM)*. These are loans and other credit accommodations that have potential weaknesses that deserve management's close attention. If left uncorrected, these weaknesses may affect the repayment of the loan. Some degree of structural weakness may be found in virtually any aspect of the loan arrangement or type of loan, and the presence of one (or more) need not be indicative of an overall credit weakness deserving criticism. Instead, the FI must evaluate the relative importance of such factors in the context of the borrower's overall financial strength, the condition of the borrower's industry or market, and the borrower's total relationship with the FI. Basic characteristics include, but are not limited to, any of the following:

(i) Deficiencies in underwriting, documentation, structure and/or credit administration that can compromise an FI's ability to control credit relationship if economic or other events adversely affect the borrower;

(ii) Continuous renewal/extension without reduction in principal, except when the capacity to pay of the borrower has been clearly re-established;

(iii) Adverse economic or market conditions, that in the future may affect the borrower's ability to meet scheduled repayments. Loans and other credit accommodations affected by these characteristics may retain the EM classification in the next examination should the same adverse conditions persist, provided that the loans remain current; or

(iv) Intermittent delays or inadequate repayment of principal, interest or periodic amortizations of loans and other credit accommodations granted by the FI or by other FIs, where such information is available.

(c) *Substandard*. These are loans and other credit accommodations that have well-defined weakness/(es), that may jeopardize repayment/liquidation in full, either in respect of the business, cash flow or financial position, which may include adverse trends or developments that affect willingness or repayment ability of the borrower. Basic characteristics include any of the following:

(i) Weak financial condition and results of operation that leads to the borrower's inability to generate sufficient cash flow for debt servicing, except for start-up firms which shall be evaluated on a case-to-case basis;

(ii) Past due secured loans and other credit accommodations where properties offered as collateral have been found with defects as to ownership or with other adverse information;

(iii) Breach of any key financial covenants/agreements that will adversely affect the capacity to pay of the borrower; or

(iv) Classified "Especially Mentioned" as of the last credit review without adequate corrective action.

(d) *Doubtful*. These are loans and other credit accommodations that exhibit more severe weaknesses than those classified as "Substandard", whose characteristics on the basis of currently known facts, conditions and values make collection or liquidation highly improbable, however the exact amount remains undeterminable as yet. Classification as "Loss" is deferred because of specific pending factors which may strengthen the assets. Some basic characteristics include any of the following:

[1] Other credit accommodations include other credits such as accounts receivables, sales contract receivables, accrued interest receivables and advances.

(i) Secured loans and other credit accommodations where properties offered as collateral are either subject to an adverse claim rendering settlement of the loan through foreclosure doubtful or whose values have materially declined without the borrower offering additional collateral for the loan/s to cover the deficiency; or

(ii) Loans and other credit accommodations wherein the possibility of loss is extremely high but because of certain important and reasonable pending factors (i.e., merger, acquisition, or liquidation procedures, capital infusion, perfecting liens on additional collateral, and refinancing plans) that may work to the advantage and strengthening of the asset, its classification as an estimated loss is deferred until the next credit review.

(e) *Loss*. These are loans and other credit accommodations which are considered uncollectible or worthless and of such little value that their continuance as bankable assets is not warranted although the loans may have some recovery or salvage value. This shall be viewed as a transitional category for loans and other credit accommodations which have been identified as requiring write-off during the current reporting period even though partial recovery may be obtained in the future. Their basic characteristics include any of the following:

(i) When the borrower's and co-makers'/guarantors' whereabouts are unknown, or they are insolvent, or their earning power is permanently impaired; or
(ii) Where the collaterals securing the loans are without recoverable values.

(2) *Split classification* may apply for nonperforming secured loans and other credit accommodations, depending on the recoverability and liquidity of the collateral. The secured portion may be classified as "Substandard" or "Doubtful", as appropriate, while the unsecured portion shall be classified "Loss" if there is no other source of payment other than the collateral.

(3) In the case of syndicated loans, each participating FI shall maintain credit information on the borrower, and grade and make provision for its portion of the syndicated loan in accordance with the requirements of these guidelines. The lead FI shall provide participating FIs with the credit information on the borrower upon request by the participating FI and inform the latter if the loan will be classified so as to achieve uniform classification of the syndicated loan.

(4) FIs may upgrade a classified loan or restore it to a pass rating provided that it does so on the basis of a written policy on the upgrading of classification or rating and the credit review function is reliable and effective. Such policy shall include a comprehensive analysis of the repayment capability/financial strength of the borrower and the corrective actions made on the weaknesses noted to support the upgrade in classification. Upgrading may be supported by the following developments:

(a) When all arrears or missed payments on principal and interests including penalties have been cleared rendering the account to be fully compliant with the original terms of the loan;

(b) Upon establishing that the weaknesses were substantially addressed and that the borrower has exhibited a sustained trend of improvement and willingness and capability to fully pay its loans and advances in a timely manner to justify the upgrade;

(c) Offering of new or additional collateral security; or

(d) In the case of restructured loans, the classification shall only be upgraded after establishing a satisfactory track record of at least six (6) consecutive payments of the required amortization of principal and interest, or until the borrower has sufficiently exhibited that the loan will be fully repaid (continued collection in accordance with the terms of the loans is expected) and the loan meets the criteria of lower loan classification.

b. *Loan loss estimation methodology, provisioning and allowance for credit losses*

(1) All FIs shall develop and document a sound loan loss methodology that can reasonably estimate provisions for loans and other credit accommodations and risk assets in a timely manner, using their experience and research and this guidance to ensure that the specific and collective allowance for credit losses[11] (ACL) are adequate and approximates the expected losses in their credit portfolio.

An FI's loan loss methodology shall consider the following:

(a) Written policies and procedures for the credit risk systems and controls inherent in the methodology, including roles and responsibilities of the FI's board of directors and senior management;

[1] ACL represents the aggregate amount of individual and collectively assessed probable credit losses.

(b) A detailed analysis of the entire loan portfolio, including off-balance sheet facilities, performed on a regular basis;

(c) A realistic view of its lending activities and adequately consider uncertainty and risks inherent in those activities in preparing accounting information. Loan accounting policies and practices shall be selected and applied in a consistent way that reasonably assures that loan and loan loss provision information is reliable and verifiable;

(d) Identification of loans to be evaluated individually and segmentation of the remaining portfolio into groups of loans with similar credit risk characteristics for collective assessment.

(i) *Individually assessed loans.* FIs shall establish a materiality threshold for significant credit exposures that will warrant an individual assessment, which threshold shall be regularly reviewed.

The loan loss estimates shall reflect consideration of the facts and circumstances that affect the repayment of each individual loan as of the evaluation date. The following factors are relevant in estimating loan losses for individually assessed loans:

(aa) Significant financial difficulty of the borrower;
(bb) Probable bankruptcy or other financial reorganization of the borrower;
(cc) Breach of contract, such as a default or delinquency in interest or principal payments; or
(dd) Concession granted by the FI, for economic or legal reasons relating to the borrower's financial difficulty, which would not otherwise be considered.

The methodology shall include procedures describing the determination and measurement of the amount of any impairment, the impairment measurement techniques available and steps performed to determine which technique is most appropriate in a given situation.

(ii) *Collectively assessed loans*. FIs may use different methods to group loans for the purpose of assessing credit risk and valuation. More sophisticated credit risk assessment models or methodologies for estimating expected future cash flows, including credit risk grading processes, may combine several of the following characteristics: loan type, product type, market segment, estimated default probabilities or credit risk grading and classification, collateral type, geographical location and past-due status.

Estimated credit losses shall reflect consideration of the FI's historical net charge-off rate[1] of the groups, adjusted for changes in trends, conditions and other relevant factors that affect repayment of the loans in these groups as of the evaluation date, and applied consistently over time;

(e) Methods used to determine whether and how loans individually evaluated, but not considered to be individually impaired, shall be grouped with other loan (excluding individually assessed loans that are impaired) that share similar credit risk characteristics for collective impairment evaluation;

(f) The quality and net realizable values of physical collateral and other financial guarantees and credit risk mitigants incorporated in the loan agreement, where applicable;

(g) Address the methods used to validate models for credit risk assessment;

(h) The analyses, estimates, reviews and other provisioning methodology functions shall be performed by competent and well-trained personnel and be well documented, with clear explanations of the supporting analyses and rationale; and

(i) Use experienced credit judgment. Assessment of expected losses shall not be based solely on prescriptive rules or formula but must be enhanced with experienced credit judgment by the appropriate levels of management[22] in as much as historical loss experience or observable data may be limited or not fully relevant to current circumstances. However, the scope for actual discretion shall be prudently within the following constraints:

(i) Experienced credit judgments shall be subject to established policies and procedures;
(ii) With approved and documented analytical framework for assessing loan quality applied consistently over time;
(iii) Estimates shall be based on reasonable and verifiable assumptions and supported by adequate documentation; and

[1] The historical net charge-off rate is generally based on the annualized historical gross loan charge-offs, less recoveries, recorded by the FI.
[2] There may be instances when no adjustments are needed to the data in the recognition and measurement of loan losses because the data are consistent with current conditions.

(iv) Assumptions concerning the impact on borrowers of changes in general economic activity, both favorable and unfavorable, shall be made with sufficient prudence.

The method of determining loan loss provisions shall reasonably assure the timely recognition of loan losses. While historical loss experience and recent economic conditions are a reasonable starting point for the institution's analysis, these factors are not, by themselves, sufficient basis to determine the appropriate level of aggregate loan loss provisions. Management shall also consider any current factors that are likely to cause loan losses to differ from historical loss experience, including changes in the following:

- Lending policies and procedures, including underwriting standards and collection, charge-off, and recovery practices;
- International, national and local economic and business conditions and developments, including the condition of various market segments
- Trend, volume and severity of past due loans and loans graded as low quality, as well as trends in the volume of impaired loans, troubled debt restructurings and other loan modifications;
- The experience, ability, and depth of lending management and staff;
- Changes related to new market segments and products;
- Quality of the FI's loan review system and the degree of oversight by senior management and board of directors;
- The existence and effect of any concentrations of credit, and changes in the level of such concentrations; and
- Credit risk profile of the loan portfolio as a whole as well as the effect of external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the FI's current portfolio.

Experienced credit judgment shall also be used to determine an acceptable period that will yield reliable historical loss rates as loss rate periods shall not be restricted to a fixed time period to determine the average historical loss experience for any group of loans with similar credit risk characteristics. An FI shall maintain sufficient historical loss data over a full credit cycle to provide robust and meaningful statistical loan loss estimates for establishing the level of collective impairment losses for each group of loans with similar credit risk characteristics. When applying experienced credit judgment, an FI shall provide a sound rationale for excluding any historical loss data that is deemed not representative of the performance of the portfolio.

(2) FIs with credit operations that may not economically justify a more sophisticated loan loss estimation methodology or whose practices fell short of expected standards shall, at a minimum, be subject to the regulatory guidelines in setting up allowance for credit losses prescribed in *Appendix Q-14*, provided that the FIs notify the appropriate supervising department of Bangko Sentral, of this preference. Nevertheless, such FIs shall still use experienced credit judgment, subject to the criteria prescribed in this Section (*Credit classification and provisioning*), in determining the ACL.

(3) FIs shall set up general loan loss provision equivalent to one percent (1%) of the outstanding balance of individually and collectively assessed loans for which no specific provisions are made and/or for which the estimated loan losses are less than one percent (<1%), less loans which are considered non-risk under existing laws, rules and regulations.

(4) FIs shall ensure the adequacy of the individual and collective ACL for the entire loan portfolio. They shall have a policy for the regular review of the ACL, which shall be conducted at least semi-annually after considering results of the credit review, level of classified loans, delinquency reports, historical losses and market conditions. Failure to make adequate provisions for estimated future losses results in material misrepresentation of an FI's financial condition.

Credit workout and remedial management of problem credits. FIs shall develop and maintain a disciplined and vigorous process for the early identification and intervention for potential or existing problem credits. The process shall ensure that timely and adequate management action is taken to maintain the quality of the credit portfolio, prevent further deterioration, and minimize the likelihood of future losses.

a. Problem credits refer to credits that display signs of potential problems and/or well-defined weaknesses such as those not performing according to the terms of the contract, or with credit quality impairment, or deficiencies relating to their approval and/or conduct that are not in keeping with sound and prudent credit policies. These shall include past due loans, non-performing loans and restructured loans.

b. FIs shall adopt appropriate and cost-effective workout, restructuring or remedial management policies, processes and strategies to revive and recover problem credits. The strategies shall take into account the specific condition of the obligor and the FI's interest, and shall be approved by the board of directors or management, in accordance with internal policy.

c. At a minimum, the policies and strategies shall cover the following areas:

(1) authority and responsibilities of officers and staff in managing problem credits;
(2) collection strategy to be adopted for different types of loans;
(3) restructuring and handling of restructured accounts and/or loans for workout;
(4) supervision and monitoring of loan recovery performance;
(5) management and disposal of ROPA, including appraisal process;
(6) management information system to support the reporting, monitoring and decision-making processes;
(7) defined timelines and provision for regular monitoring; and
(8) other strategies, such as the use of collection agencies, and criteria for hiring a consultant on problem credits.

d. Restructuring strategies

(1) Restructuring may be resorted to for the purpose of lessening the financial difficulty of the obligor towards full settlement of his obligation, and restructuring agreements shall always take into account the borrower's capacity to pay his obligation and available credit enhancements such as financial guarantees and physical collateral. Thus, except in special cases which also require approval by the Monetary Board, such as loans funded by foreign currency obligations, FIs shall have full discretion on whether to restructure loans in order to provide flexibility in arranging the repayment of such loans without impairing or endangering the FI's interest.

(2) Accounts shall not be restructured unless the financial capacity of the obligor to repay has been re-established, the events or crises that triggered the financial stress had been identified, and the nature and extent of protection of the FI's exposure had been determined, to justify the need for restructuring.

(3) At a minimum, the classification and provisioning of a loan, prior to the execution of the restructuring agreement shall be retained until the borrower has sufficiently exhibited that the loan will be fully repaid.

(4) A second restructuring of a loan shall be allowed only if there are reasonable justifications: *Provided,* That it shall be considered a non-performing loan and classified, at least, "Substandard". The restoration to a performing loan status and/or upgrading of loan classification, e.g., from "Substandard" to "Especially Mentioned", may be allowed if circumstances warrant an upgrading in accordance with this Section (*Credit workout and remedial management of problem credits*).

(5) When restructuring of exposures to DOSRI and other related parties is pursued, this shall be upon terms not less favorable to the FI than those offered to others and shall be approved by the board, excluding the concerned director.

(6) Physical collaterals offered, such as real estate, shall be appraised by an independent appraisal company (not a subsidiary or an affiliate of the FI) acceptable to the Bangko Sentral at the time of restructuring and every year thereafter to ensure that current market values are being used. A credit exposure benchmark of P1.0 million for simple FIs and P5.0 million for all other FIs shall be observed, such that physical collaterals for credit exposures beyond this amount will require an independent appraisal.

e. Problem credits, including restructured accounts, shall be subjected to more frequent review and monitoring. Regular reports on the status of loan accounts and progress of any remedial plan shall be submitted to senior management to facilitate an informed decision whether escalated remedial actions are called for.

Writing off problem credits. Policies for writing off problem credits must be approved by the board of directors in accordance with defined policies, and shall incorporate, at a minimum, well-defined criteria (i.e., circumstances, conditions and historical write-off experience) under which credit exposures may be written off. Procedures shall explicitly narrate and document the necessary operational steps and processes to execute the policies.

Policies and procedures shall be periodically reviewed and if necessary, revised in a timely manner to address material internal changes (e.g., change in business focus) or external circumstances (e.g., changes in economic conditions).

FIs shall write off problem credits, regardless of amount, against ACL or current operations within a reasonable period as soon as such problem credits are determined to be worthless as defined in the FIs' written policies. However, problem credits to DOSRI shall be written off only upon prior approval of the Monetary Board.

Policies shall define and establish the reasonable period of time within which to write off loans already classified as "Loss". There shall be no undue delay in implementing write-offs. Notice of writeoff of problem credits shall be submitted in the prescribed form to the appropriate supervising department of the Bangko Sentral within thirty (30) business days after every write-off with a sworn statement signed by the president of the FI or officer of equivalent rank that write-off did not include transactions with DOSRI and was undertaken in accordance with board approved internal credit policy.

An effective monitoring and reporting system shall be in place to monitor debts written off and future recoveries. Progress on recovery shall be periodically reported to the board and senior management. A database of loan accounts written off shall be maintained and must be periodically reviewed for updates on individual loan obligor's information.

Enforcement actions. The Bangko Sentral reserves the right to deploy its range of supervisory tools to promote adherence to standards and principles set forth in these guidelines, bring about timely corrective actions and compliance with Bangko Sentral directives and ensure that FIs continuously observe the said standards. Persistent non-observance of the provisions of Sec. 143-Q, which may lead to material misstatement of the financial condition or illiquidity of the FI, may be a ground for declaration of conducting business in an unsafe or unsound manner under Section 56 of R.A. No. 8791 and subject the FI to appropriate sanctions.

Enforcement actions shall be based on a holistic assessment to determine if FIs adopt appropriate risk management practices and maintain capital commensurate with the risk assumed based on existing rules and regulations. These may include, but are not limited to, the following:

a. *Corrective actions*. These are measures intended to primarily require FIs to rectify any deviations from the standards and principles expected in the conduct of its credit risk-taking activities to address the negative impact of such deviation. Corrective actions generally include issuance of specific directives to address supervisory concerns within a reasonable timeframe.

b. *Sanctions*. The Monetary Board may impose sanctions on an FI and/or its Board, directors and officers, as provided under existing laws, Bangko Sentral rules and regulations proportionate to the gravity/seriousness of offense.

c. *Other enforcement actions.* Subject to prior Monetary Board approval, the Bangko Sentral, when warranted, may deploy other enforcement actions such as:

   (1) Initiation into the prompt corrective action (PCA) framework whenever grounds for PCA exist;

   (2) Issuance of cease and desist order (CDO) in case of persistence in conducting business in an unsafe or unsound manner and/or violation of any banking law or any order, instruction or regulation issued by the Monetary Board or any order, instruction or ruling issued by the Governor;

   (3) Additional capital infusion in case hazardous lending practices resulted in excessive provisions for credit losses leading to capital deficiency;

   (4) Requiring the FI to gross up the amount of required allowance for credit losses based on the examination of a representative sample of loans, if in the course of the Bangko Sentral examination, a high incidence of non-reporting/concealment of past due and/or problem loans is noted; or

   (5) Other appropriate non-monetary enforcement actions that the Monetary Board may impose.

144-Q MARKET RISK MANAGEMENT

Policy Statement. The Bangko Sentral recognizes that developments in financial products and markets take place rapidly and that QBs may engage in such products and markets in various roles, such as that of an investor or a market-maker. In this regard, the Bangko Sentral expects QBs to implement a comprehensive approach to risk management that ensure timely and effective identification, measurement, monitoring and control of market risks. Market risk should be reviewed together with other risks to determine a BSFI's overall risk profile.

General Principles

The requirements for sound market risk management under these guidelines apply to the trading book exposures of all QBs. Before transacting in financial markets or instruments or implementing any financial structure or strategy, a QB shall ensure that:

a. It has the necessary authority to engage in such activities;
b. The board, management and risk-taking units possess relevant knowledge, expertise and/or experience;
c. Adequate policies, processes, and systems are in place to effectively identify, measure, monitor, and control the attendant risks under both normal and stressed conditions; and
d. An appropriate level of capital is held to support these activities.

A QB shall ensure that the market risk management system is integrated into its overall risk management framework.

Market Risk Management Process

A QB's market risk management process should be consistent with its general risk management framework and should be commensurate with the level of risk assumed. Although there is no single market risk management system that works for all QB, a QB's market risk management process should:

a. *Identify Market Risk.* Identifying current and prospective market risk exposures involves understanding the market risk arising from a QB's existing and new business initiatives. A QB should have procedures in place to identify and address the risk posed by new products and activities prior to initiating the new products or activities.

   Identifying market risk also includes identifying QB's desired level of risk exposure based on its ability and willingness to assume market risk. A QB's ability to assume market risk depends on its capital base and the skills/capabilities of its management team. In any case, market risk identification should be a continuing process and should occur at both the transaction and portfolio level.

b. *Measure Market Risk.* Once the sources and desired level of market risk have been identified, market risk measurement models can be applied to quantify a QB's market risk exposures. However, market risk cannot be managed in isolation. Market risk measurement systems should be integrated into the QB's general risk measurement system and results from models should be interpreted alongside other risk exposures. Further, QBs with more complex financial market activities should have more sophisticated tools to measure market risk exposures arising from such activities.

c. *Control Market Risk.* Quantifying market risk exposures helps a QB align existing exposures with the identified desired level of exposures. Controlling market risk usually involves establishing market risk limits that are consistent with a QB's market risk measurement methodologies. Limits may be implemented through an outright prohibition on exposures above a pre-set threshold, by restraining activities or deploying strategies that alter the risk-return characteristics of on- and off-balance sheet positions. Appropriate pricing strategies may likewise be used to control market risk exposures.

d. *Monitor Market Risk.* Ensuring that market risk exposures are adequately controlled requires the timely review of market risk positions and exceptions. Monitoring reports should be frequent, timely and accurate. For large, complex QBs, consolidated monitoring should be employed to ensure that management's decisions are implemented for all geographies, products, and legal entities.

Definition and Sources of Market Risk

Market risk is the risk to earnings or capital arising from adverse movements in factors that affect the market value of instruments, products, and transactions in an institution's trading book portfolio, both on- and off-balance sheet. Market risk arises from market-making, dealing, or position-taking in instruments and structures, or through strategies that are sensitive to movements in interest rates, foreign exchange rates, credit spreads, and equities and commodities prices.

Interest rate risk is the current and prospective risk to earnings or capital arising from movements in interest rates.

Foreign exchange (FX) risk refers to the risk to earnings or capital arising from adverse movements in foreign exchange rates.

Credit spread risk refers to the risk to earnings or capital arising from changes in the credit risk premia of financial instruments.

Equity risk is the risk to earnings or capital arising from movements in the value of an institution's equity-related holdings.

Commodity risk is the risk to earnings or capital due to adverse changes in the value of an institution's commodity-related holdings.

Sound Market Risk Management Practices and Market Risk Management Framework

A sound market risk management system should cover the following basic elements:

a. Active and appropriate board and senior management oversight;
b. Adequate risk management policies and procedures;

c. Appropriate risk measurement methodologies, limits structure, monitoring and management information systems; and
d. Comprehensive internal controls and independent audits.

The specific manner in which a QB applies these elements in managing its market risk shall depend upon the complexity and nature of its activities, as well as the level of market risk exposure assumed. What constitutes adequate market risk management practices may therefore vary considerably.

Banking groups (banks and their subsidiaries/affiliates) should monitor and manage market risk exposures on a consolidated and comprehensive basis. At the same time, however, QBs should fully recognize any legal distinctions and possible obstacles to risk transfers among affiliates and adjust their risk management practices accordingly. While consolidation may provide a comprehensive measure in respect of market risk, it may also underestimate risk when positions in one affiliate are used to offset positions in another affiliate. This is because a conventional accounting consolidation may allow theoretical offsets between such positions from which a QB may not in practice be able to benefit because of legal or operational constraints. The potential linkages of the QB's trading positions with other risks such as IRRBB, liquidity risk, credit risk and operational risk must be sufficiently understood. For instance, when engaging in FX trading, QBs may also be exposed to other risks such as liquidity and credit risks related to the settlement of FX contracts. An integrated approach to risk management shall ensure that the interlinkages of risks are adequately managed.

(1) Active and appropriate board and senior management oversight

Effective board and senior management oversight of a QB's market risk activities is critical to a sound market risk management process. It is important that the board and senior management are aware of their responsibilities with regard to market risk management and understand how market risk fits within the organization's overall risk management framework.

Responsibilities of the board of directors

The board of directors has the ultimate responsibility for understanding the nature and the level of market risk taken by the QB. In order to carry out its responsibilities, the board shall:

(a) Approve business strategies for the trading book and establish the QB's appetite for market risk. There should be a clear pattern of board reviews, discussions and deliberations on the objectives, strategies and policies with respect to market risk management. In addition, there should be documentary evidence of such.

(b) Identify senior management with the authority and responsibility for managing market risk and ensure that they take the necessary steps to monitor and control market risk, consistent with the approved strategies and policies. The Bangko Sentral should be able to discern a clear hierarchal structure with straightforward assignments of responsibility and authority.

(c) Monitor the QB's performance and overall market risk profile, ensuring that the level of market risk is maintained within tolerance and at prudent levels, and supported by adequate capital. The board should be regularly informed of the market risk exposure of the QB and any breaches of established limits for their appropriate action. Reports should be timely and clearly presented. In assessing a QB's capital adequacy relative to market risk, the board should consider the QB's current and potential market risk exposure.

(d) Ensure that the QB implements sound fundamental principles that facilitate the identification, measurement, monitoring and control of market risk. The board of Directors should encourage discussions among its members and senior management, as well as between senior management and others in the QB, regarding the QB's market risk exposures and management process.

(e) Ensure that adequate technical and human resources, are devoted to market risk management. While not all board members are expected to have detailed technical knowledge of complex financial instruments, legal issues or sophisticated risk management techniques, they have the responsibility to ensure that they understand the risks that the QB is exposed to and that there are personnel who have the necessary technical skills to evaluate and control market risk. This responsibility includes ensuring that personnel responsible for the management of market risk receive continuous training and that the internal audit function has adequate competent technical staff.

Responsibilities of senior management

Senior management is responsible for ensuring that market risk is adequately managed on both a long-term and day-to-day basis. In managing the QB's activities, senior management shall:

(a) Develop and implement policies, procedures and practices that translate the board's goals, objectives and risk tolerances into operating standards that are well understood by personnel and that are consistent with the board's intent. Senior management should also periodically review the organization's market risk management policies and procedures to ensure that they remain appropriate and sound.

(b) Ensure adherence to the lines of authority and responsibility that the board has established for measuring, managing, and reporting market risk exposures.

(c) Maintain an appropriate limits structure, adequate systems for measuring market risk, and standards for measuring performance.

(d) Oversee the implementation and maintenance of management information and other systems to identify, measure, monitor, and control the QB's market risk.

(e) Establish effective internal controls over the market risk management process.

(f) Ensure that adequate resources are available for evaluating and controlling market risk. Senior management of QBs, including branches of foreign banks, should ensure that analysis and market risk management activities are conducted by competent staff with technical knowledge and experience consistent with the nature and scope of the QB's activities. There should be sufficient depth in staff resources to manage these activities and to accommodate the temporary absence of key personnel and the normal succession process.

In evaluating the quality of oversight, the Bangko Sentral shall evaluate how the board and senior management carry out the above functions/responsibilities. Further, sound management oversight is highly related to the quality of other areas/elements of QB's risk management system. Thus, even if board and senior management exhibit active oversight, the QB's policies, procedures, measurement methodologies, limits structure, monitoring and information systems, controls and audit must be considered adequate before the quality of the board and senior management can be considered at least "satisfactory."

Lines of responsibility and authority

QBs should clearly define the individuals and/or committees responsible for managing market risk and should ensure that there is adequate separation of duties in key elements of the risk management process to avoid potential conflicts of interest.

Management should ensure that sufficient safeguards exist to minimize the potential that individuals initiating risk-taking positions may inappropriately influence key control functions of the market risk management process. QBs should therefore have risk measurement, monitoring, and control functions with clearly defined duties that are sufficiently independent from position-taking functions of the QB and which report risk exposures directly to the board of directors.

The nature and scope of safeguards to minimize potential conflicts of interest should be in accordance with the size and structure of a QB. Larger or more complex QBs should have a designated independent unit responsible for the design and administration of the QB's market risk measurement, monitoring and control functions.

(2) Adequate risk management policies and procedures

A QB's market risk policies and procedures should be clearly defined, documented and duly approved by the board of directors. Policies and procedures should be consistent with the nature and complexity of the QB's activities. All market risk policies should be reviewed at least annually and revised as needed. Management should likewise define the specific procedures to be used for identifying, reporting and approving exceptions to policies, limits, and authorizations.

Policies and procedures should delineate lines of responsibility and accountability and should clearly define authorized instruments, hedging strategies, position-taking opportunities, and the market risk models used to quantify market risk. Market risk policies should also identify quantitative parameters that define the acceptable level of market risk for the QB. Where appropriate, limits should be further specified for certain types of instruments, portfolios, activities and business units/desks. QBs are likewise expected to implement sound policies and processes for allocating exposures between the trading and banking books.

It is important that QBs identify market risk, as well as other risks, inherent in new products and activities and ensure these are subject to adequate procedures and controls prior to introduction. Specifically, new products and activities should undergo a careful pre-acquisition review to ensure that the QB understands their market risk characteristics and can incorporate them into its risk management process. Major hedging or risk management initiatives should be approved in advance by the board or its appropriate delegated committee.

Proposals and the subsequent new product/activity review should be formal and written. For purposes of managing market risk inherent in new products/activities, proposals should, at a minimum, contain the following features:

(a) Description of the relevant product or strategy;
(b) Use/purpose of the new product/activity;
(c) Identification of the resources required and unit/s responsible for establishing sound and effective market risk management of the product or activity;
(d) Analysis of the reasonableness of the proposed products or activities in relation to the QB's overall financial condition and capital levels; and
(e) Procedures to be used to measure, monitor, and control the risks of the proposed product or activity.

(3) Appropriate risk measurement methodologies, limits structure, monitoring, and management information system

Market risk measurement models/methodologies

It is essential that QBs have market risk measurement systems that capture all material sources of market risk and assess the effect of changes in market risk factors in ways that are consistent with the scope of their activities.

Depending upon the size, complexity, and nature of activities that give rise to market risk, the ability to capture all material sources of market risk in a timely manner may require a QB's market risk measurement system to be interfaced with other systems, such as the treasury system or loan system. The assumptions underlying the measurement system should be clearly understood by risk managers and senior management.

Market risk measurement systems should:

(a) Assess all material market risk associated with a QB's assets, liabilities, and off-balance sheet positions;
(b) Utilize generally accepted financial concepts and risk measurement techniques; and
(c) Have well-documented assumptions and parameters.

There are a number of methods/techniques for measuring market risks. Complexity ranges from simple marking-to-market or valuation techniques to more advanced static simulations using current holdings to highly sophisticated dynamic modeling techniques that reflect potential future business activities. In designing market risk measurement systems, QBs should ensure that the degree of detail regarding the nature of their positions is commensurate with the complexity and risk inherent in those positions. For example, simple QBs should have the ability to regularly mark-to-market or revalue their investment portfolio while complex banks are expected to use more sophisticated techniques.

Regardless of the measurement system used, the Bangko Sentral will expect the QB to ensure that input data are timely and correct, assumptions are adequately supported and valid, the methodologies used produce reasonable results and the results can be easily understood by senior management and the board.

(a) Model input. All market risk measurement methodologies require various types of inputs, including hard data, readily observable parameters such as asset prices, and both quantitatively and qualitatively-derived assumptions.

The integrity and timeliness of data is a key component of the market risk measurement process. The Bangko Sentral expects that adequate controls will be established to ensure that all material positions and cash flows from on- and off-balance sheet positions are incorporated into the measurement system on a consistent and timely basis. Inputs should be verified through a process that validates data integrity. Assumptions and inputs should be subject to control and oversight review. Any manual adjustments to underlying data should be documented, and the nature and reasons for the adjustments should also be clearly understood.

(b) Measurement assumptions. Critical to model accuracy is the validity of underlying assumptions, particularly the parameters used in the model. For instance, the validity of correlation assumptions used to aggregate market risk exposures is important as breakdowns in correlations may significantly affect the validity of model results. Key assumptions should therefore be thoroughly documented and subjected to rigorous review prior to their implementation. Any significant changes should likewise be reviewed and approved in advance by the board of directors.

(c) Model risk governance. The assessment of model risks related to market risk measurement models should be included in a formal policy that is reviewed and approved by the board. The policy should specify management roles and designate the personnel responsible for the development, implementation, use and oversight of models.

The Bangko Sentral expects QBs to periodically review or reassess their modeling methodologies and assumptions. The frequency of review will depend on the model, but complex models should be reviewed at least once a year, and each time changes are made or a new product or activity is introduced. Model review could also be prompted by changes in the QB or the market that should be reflected in the model. The review should be performed by a unit that is independent from the one that developed or uses the model. Revisions to models should be performed in a controlled environment by authorized personnel and changes should be made or verified by a control function. Written policies should specify when changes to models are acceptable and how those revisions should be accomplished.

There should likewise be internal policies for key processes such as initial and ongoing validation, results evaluation, approval, version control, exception management, escalation, modification and decommissioning. The model validation framework should enable the QB to evaluate the sensitivity of the model to material sources of model risk. It should incorporate the following elements: (i) the evaluation of methodological soundness, which include tests of internal logic and mathematical accuracy and the development of empirical support for assumptions; (ii) model monitoring, which includes process verification and benchmarking; and (iii) outcome analysis involving the back-testing of key parameters.

Prior to model usage, model inputs, assumptions, methodologies and outputs, including those that were developed by third-party vendors, should be subject to independent validation. The results of the validation exercise should be presented to the board for approval. Subsequently, the model should be subject to periodic review and process verification to ensure the continuing relevance and accuracy of model output.

Backtesting should be conducted by parties independent of those developing or using the model. Policies should address the scope of the back-testing process, frequency of back-testing, documentation requirements, and management responses. Complex models should be back-tested continually while simple models can be back-tested periodically. Significant discrepancies should prompt a model review.

(d) Stress testing.[1] The underlying statistical models used to measure market risk summarize the exposures that reflect the most probable market conditions. Regardless of size and complexity of activities, FIs are expected to supplement their market risk measurement models with stress tests. Stress tests are simulations that show how a portfolio or balance sheet might perform during extreme events or in highly volatile markets.

Stress testing should be designed to provide information on the kinds of conditions under which the QB's strategies or positions would be most vulnerable. They must therefore be tailored to the risk characteristics of the QB.

In addition, stress scenarios should include conditions under which key business assumptions and parameters break down and should take into account the risk of a significant deterioration in market liquidity. The assumptions used for stress testing illiquid instruments and instruments with uncertain contractual maturities are particularly critical to achieving an understanding of the QB's risk profile. When conducting stress tests, special consideration should be given to instruments or markets where concentrations exist. QBs should consider also "worst case" scenarios in addition to more probable events.

Further, the Bangko Sentral will expect QBs with material market risk exposure, particularly from derivatives and/or structured products, to supplement their stress testing with an analysis of their exposure to "interconnection risk." While stress testing typically considers the movement of a single market factor (e.g., interest rates), interconnection risk considers the linkages across markets (e.g., interest rates and foreign exchange rates) and across the various categories of risk (e.g., credit and liquidity risks). For example, stress from one market may transmit shocks to other markets and give rise to otherwise dormant risks, such as liquidity risk. Evaluating interconnection risk involves assessing the total or aggregate impact of singular events.

Guidelines for performing stress testing should be detailed in the risk management policy statement. Management and the board of directors should periodically review the design, major assumptions, and the results of such stress tests to ensure that appropriate contingency plans are in place.

(e) Reporting. Reports should be provided to senior management and the board as a basis for making decisions. Report content should be clear and straightforward, indicating the purpose of the model, significant limitations, the quantitative level of risk estimated by the simulation, a comparison to board

[1] The provisions on stress testing should be read in conjunction with Sec. 151 of the MORB on the Guidelines on the Conduct of Stress Testing Exercises.

approved limits, and a qualitative discussion regarding the appropriateness of the QB's current exposures relative to earnings and capital as well as market and macroeconomic conditions. Sophisticated simulations should be used carefully so that they do not become "black boxes" producing numbers that have the appearance of precision but may not be very accurate when their specific assumptions and parameters are revealed.

Market limits structure

The QB's board of directors should set the institution's tolerance for market risk and communicate that tolerance to senior management. Based on these tolerances, senior management should establish appropriate risk limits, duly approved by the board, to maintain the QB's exposure within the set tolerances over a range of possible changes in market risk factors such as interest rates.

Limits represent the QB's actual willingness and ability to accept real losses. In setting risk limits, the board and senior management should consider the nature of the QB's strategies and activities, past performance, and management skills. Most importantly, the board and senior management should consider the level of the QB's earnings and capital and ensure that both are sufficient to absorb losses equal to the proposed limits. Limits should be approved by the board of directors. Furthermore, limits should be flexible to changes in conditions or risk tolerances and should be reviewed periodically.

A qb's limits should be consistent with its overall approach to measuring market risk. Market risk limits may include limits on net and gross positions, volume limits, stop-loss limits, value-at-risk limits and other limits that capture either notional or (un)expected loss exposures.

Depending on the nature of a QB's holdings and its general sophistication, limits can also be identified for individual business units, portfolios, instrument types, or specific instruments. The level of detail of risk limits should reflect the characteristics of the QB's holdings including the various sources of market risk the QB is exposed to.

The Bangko Sentral also expects that the limits system will ensure that positions that exceed predetermined levels receive prompt management attention. Limit exceptions should be communicated to appropriate senior management without delay, and the actions taken to resolve them should be properly documented. Policies should include how senior management will be informed and what action should be taken by management in such cases. Particularly important is whether limits are absolute in the sense that they should never be exceeded or whether, under specific circumstances, breaches of limits can be tolerated for a predetermined short period of time. The circumstances leading to a tolerance of breaches should be clearly described.

Market risk monitoring and reporting

An accurate and timely management information system is essential for managing market risk exposures. Further, an effective information system that aids in the identification, aggregation, monitoring and reporting of risk exposures both helps to inform management and supports compliance with board policy.

Reports detailing the market risk exposure of the QB should be reviewed by the board on a regular basis. While the types of reports prepared for the board and for various levels of management will vary based on the QB's market risk profile, they should be prepared regularly and at a minimum include the following:

(a) Summaries of the QB's aggregate exposures;

(b) Reporting of risk measures, with clear comparisons of current exposure to policy limits and past forecasts or risk estimates with actual results, the latter to identify any modeling shortcomings;

(c) Summary of key assumptions;

(d) Results of stress tests, including those assessing breakdowns in key assumptions and parameters; and

(e) Summaries of the findings of reviews of market risk policies and procedures, and the adequacy of the market risk measurement systems, including any findings of internal and external auditors and/or other equivalent external parties.

(4) Risk controls and audit[1]

Adequate internal controls ensure the integrity of a QB's market risk management process. These internal controls should be an integral part of the institution's overall system of internal control and should promote effective and efficient operations, reliable financial and regulatory reporting, and compliance with relevant laws, regulations, and institutional policies.

Policies and procedures should specify the approval processes, exposure limits, reconciliations, reviews, and other control mechanisms designed to provide a reasonable assurance that the institution's market risk management objectives are achieved. Many attributes of a sound risk management process, including risk measurement, monitoring, and control functions, are actually key aspects of an effective system of internal control. QBs should ensure that all aspects of the internal control system are effective, including those aspects that are not directly part of the risk management process.

An important element of a QB's internal control system is regular evaluation and review. The Bangko Sentral expects that QBs will establish a process to ensure that its personnel are following established policies and procedures, and that its procedures are actually accomplishing their intended objectives. Such reviews and evaluations should also address any significant change that may impact the effectiveness of controls, and that appropriate follow-up action was implemented when limits were breached. Management should ensure that all such reviews and evaluations are conducted regularly by individuals who are independent of the function they are assigned to review (e.g., the internal or external auditor, or other equivalent external parties) and that the resulting reports are made available to the Bangko Sentral. When revisions or enhancements to internal controls are warranted, there should be a mechanism in place to ensure that these are implemented in a timely manner.

The internal audit function should likewise review the model risk management process as part of its annual risk assessment and audit plans. The audit activity is not intended to duplicate model risk management processes but should review the integrity and effectiveness of the risk management system and the model risk management process.

Supervisory enforcement actions. Consistent with Sec. 002-Q, the Bangko Sentral may deploy enforcement actions to promote adherence with the requirements set forth in these guidelines and bring about timely corrective actions. If a QB's risk exposures are not well-managed, the Bangko Sentral may direct the QB to increase its capital, reduce its trading book exposures and/or strengthen its risk management system. The Bangko Sentral may likewise issue directives to limit the level of or suspend any business activity that has adverse effects on the safety and soundness of the QB, among others. Sanctions may likewise be imposed on the QB and/or its directors, officers and/or employees.

(Circular No. 1044 dated 6 August 2019)

145-Q LIQUIDITY RISK MANAGEMENT

Policy statement. The Bangko Sentral is cognizant that the viability of financial institutions, particularly QBs, is heavily influenced by their ability to manage liquidity, including intraday liquidity positions. Opportunities to expand lending activities, continuous innovations in investment and funding products, growth in off-balance sheet activities, and intense competition for retail and wholesale funds affect the way QBs operate. Thus, QBs are expected to fully understand, measure, and control the resulting liquidity risk from their operations.

The guidelines in *Appendix Q-43* shall be used to determine the adequacy and effectiveness of a QB's liquidity risk management process. The sophistication of the liquidity risk management system shall depend on the size, nature and complexity of a QB's activities. However, regardless of its size and complexity, a QB must be able to identify, measure, monitor, and control its exposures to liquidity risk in a timely and comprehensive manner, and maintain a structurally sound funding and liquidity profile. QBs shall likewise hold liquidity in accordance with the minimum prudential requirements set by the Bangko Sentral.

Liquidity Coverage Ratio (LCR). To promote the short-term resilience of the liquidity risk profile of a QB, it shall maintain an adequate stock of unencumbered high-quality liquid assets (HQLAs) that consists of cash or assets that can be converted into cash at little or no loss of value in private markets, to meet its liquidity needs under stressed conditions. The stock of liquid assets should enable the QB to withstand significant liquidity shocks for at least thirty (30) calendar days, which would give time for corrective actions to be taken by the QB management and/or the Bangko Sentral.

The LCR framework shall apply to all UBs/KBs[2] and their subsidiary banks and QBs on both solo (head office plus branches/other offices) and consolidated (parent bank plus subsidiary financial allied undertakings, but excluding insurance companies) bases.

[1] Refer also to Secs. 162-Q and 163-Q for the frameworks on Internal Control Framework and Internal Audit, respectively.
[2] Including branches of foreign banks

a. *Minimum requirement* - The LCR is the ratio of HQLAs to total net cash outflows. Under a normal situation, the value of the ratio shall be not lower than 100% on an ongoing basis. While the LCR is expected to be met in a single currency (i.e., in peso equivalent terms of all currencies), QBs are expected to be able to meet their liquidity needs in each currency and maintain HQLA consistent with the distribution of their liquidity needs by currency. The detailed LCR framework is provided in Part I of *Appendix* Q-82.

b. *Reporting and monitoring requirements* - Covered QBs shall comply with the minimum LCR requirement on a daily basis, and shall have appropriate systems in place to ensure the same. For reporting purposes, covered QBs shall submit a report on their LCR to the Bangko Sentral, through the Supervisory Data Center (SDC), on both solo and consolidated bases, in accordance with the following timelines:

Reporting Details	Solo Basis	Consolidated Basis
Frequency	Monthly	Quarterly
Measurement Date	End-of-month	End-of-quarter
LCR Calculation Period	30 calendar days from measurement date	
Submission Deadlines	15 banking/ business days from measurement date	30 banking/business days from measurement date

The LCR Reports shall be accompanied by a certification under oath to the effect that the QB has fully complied with the LCR requirement on all calendar days of the reference period in the form provided under *Appendix Q-82 (Attachment 1)*. The solo and consolidated LCR Reports, together with the Sworn Certification shall be classified as *Category A-1* reports.

While there is no minimum threshold for LCRs in each significant currency, covered QBs shall report the significant currency LCR to the Bangko Sentral for monitoring purposes using the same LCR Report template as of the LCR measurement date. The significant currency LCR shall be reported in the original currency. A currency is considered "*significant*" if the aggregate liabilities denominated in that currency amount to five percent (5%) or more of the banks' total liabilities as of the measurement date.

The submission of the LCR report shall be subject to the governance process on the quality of bank reporting under Sec. 171. Any non-compliance with the reporting standards, or non-submission or delayed submission of the LCR report and the report on significant currency LCRs shall be subject to the monetary and non-monetary sanctions provided under Sec. 171 fines for delayed reports under Sec. 172-Q.

c. *Implementation* - The implementation of the minimum LCR shall be phased in to help ensure that the QBs concerned can meet the standard through reasonable measures without disrupting credit extension and financial market activities. In order to facilitate compliance, QBs shall undergo an observation period before the LCR becomes a minimum requirement. Subsidiary QBs of UBs/KBs shall be subject to an LCR floor of seventy percent (70%) during the observation period. The timelines are set out in the table below:

	Observation Period	**Minimum LCR**	
UBs/KBs	01 July 2016 – 31 December 2017	01 January 2018 and thereafter– 90%	Starting 01 January 2019 – 100%
Subsidiary Banks and QBs of UBs/KBs	23 February 2018 - 31 December 2019 Floor of 70% - to be applied in 2019		Starting 01 January 2020 – 100%

Requirements during the observation period. For monitoring purposes, QBs concerned shall submit the LCR Reports quarterly in single currency and per significant currency, on both solo and consolidated bases following the submission deadlines for consolidated reports set out in Item "*b*". Any non-submission or delayed submission of the LCR Report during the observation period shall be subject to the monetary and non-monetary sanctions provided under Sec. 171 fines for delayed reports under Sec. 172-Q.

During the observation period, the Bangko Sentral is not precluded from assessing the compliance of the QBs concerned with the LCR requirement. QBs with LCRs that are already at or near the prescribed minimum should not view the transition period as an opportunity to reduce their liquidity coverage. Where a QBs is unable to meet the minimum LCR, as applicable, in single currency on either solo or consolidated basis, as applicable, for two consecutive weeks during the observation period, the QBs shall adopt a board-approved liquidity build-up plan not later than thirty (30) calendar days from the end of the two-week period. The plan should clearly articulate the said QB's defined strategies and timelines for meeting the required LCR, taking into account compliance with other prescribed liquidity metrics and should also include quarterly estimates of the LCR prior to 6 April 2019. The build-up plan shall be submitted to the appropriate supervising department of the Bangko Sentral, within ten (10)

banking/business days from the date of board approval. The supervising department concerned will evaluate and monitor the continuing compliance of the QBs with the said plan.

In light of the extended observation period, subsidiary QBs concerned that have submitted a liquidity build-up plan in 2018 may revise the same, if they deem necessary: *Provided*, That, the revised liquidity plan shall be adopted by the concerned QB's Board not later than thirty (30) calendar days from 6 April 2019.

In case of non-compliance, the Bangko Sentral may require the QB concerned to undertake a set of actions. The Bangko Sentral may likewise impose enforcement actions as provided under this Section (*Supervisory enforcement actions*).

LCR disclosure requirements. To improve the transparency of the regulatory liquidity requirement, enhance market discipline, and reduce uncertainty in the market, covered QBs shall publicly disclose information related to the LCR in single currency and on solo and consolidated bases as prescribed under *Part II of Appendix Q-82* starting year 2019 for UBs/KBs and year 2020 for subsidiary QBs of UBs/KBs. The mandatory disclosure requirements in single currency should be included in the quarterly published balance sheet, as well as in the annual reports or published financial reports (e.g., the audited financial statements).

Minimum Liquidity Ratio (MLR) for Stand-Alone Thrift Banks, Rural Banks, Cooperative Banks and Quasi-Banks. To promote short-term resilience to liquidity shocks, QBs shall maintain a stock of liquid assets proportionate to their on- and off-balance sheet liabilities. The prudential MLR requirement applies to all thrift banks (TBs), rural/cooperative banks (RBs and Coop Banks), and QBs that are not subsidiaries of universal or commercial banks (UBs/KBs).

a. *Minimum requirement*. A prudential MLR of twenty percent (20%) shall apply to QBs on an ongoing basis absent a period of financial stress. The liquidity ratio is expressed as a percentage of a QB's eligible stock of liquid assets to its total qualifying liabilities.

(1) The stock of liquid assets shall consist of:

(a) Cash on hand;
(b) Reserves in the Bangko Sentral;
(c) Overnight and term deposits[1] with the Bangko Sentral, including reverse repos where the Bangko Sentral is the counterparty;
(d) Eligible debt securities representing claims on or guaranteed by–

(i) The Philippine national government (NG) and the Bangko Sentral; or
(ii) Sovereigns, central banks of foreign countries, or by multilateral organizations that are assigned a zero percent (0%) risk weight under Sec. 124-Q (*Risk-weighted assets*);

(e) Deposits in other banks; and
(f) Interbank loans receivable with contractual maturity dates that fall within the next thirty (30) calendar days.

Provided, That the amounts to be included in the stock of liquid assets are immediately liquefiable and free from encumbrances. The stock of liquid assets shall be based on their net carrying amounts.

(2) The qualifying liabilities shall consist of the following:

(a) Total liabilities, where the following obligations are subject to the conversion factors set out in the table below:[2]

Liability	Conversion Factor
• Retail current and regular savings deposits[3] with outstanding balance per account of P500,000 and below	50%
• Deposits where the account holder has no contractual or legal discretion to withdraw said deposit or pre-terminate the account within the next thirty (30) calendar days (e.g., negotiable certificates of deposits)	0%
• Borrowings that are non-callable in, or have contractual maturity dates beyond, the next thirty (30) calendar days	0%
• Obligations arising from operational expenses	0%

[1] To the extent allowed to be drawn down in times of stress.
[2] To calculate the amount that shall be included as qualifying liabilities, the carrying amount of the liability account shall be multiplied by the corresponding conversion factor.
[3] This refers to current and savings deposits raised by the bank from individual clients, including sole proprietorships and partnerships, and those classified as micro and small enterprises.

Liability accounts that are not assigned conversion factors shall be included as qualifying liabilities at their full carrying amounts.

(b) Irrevocable obligations under off-balance sheet items, such as:

(i) Guarantees issued;
(ii) Trade related guarantees;
(iii) Letters of credit; and
(iv) Other committed credit lines.

b. *Reporting and monitoring requirements*. Covered QBs shall comply with the MLR on a daily basis, and shall have the appropriate systems in place to ensure the same. For reporting purposes, covered QBs shall submit a monthly report on their compliance with the MLR to the Bangko Sentral, through the SDC. The report shall be submitted on solo basis in peso-equivalent terms using the prescribed form within fifteen (15) business days after the end of the reference period, effective 01 January 2019.

The reports shall be accompanied by a certification under oath to the effect that the QB has fully complied with the MLR requirement on all calendar days of the reference period (Attachment 4). In cases when the MLR is not met but the same do not warrant the submission of a notification to the Bangko Sentral under Item *"b"* of this Section on *(Supervisory Framework for the Minimum Prudential Liquidity Requirements),* the specific date of the occurrence of the shortfall/s shall likewise be indicated in the certification. These reports shall be considered as *Category A-1 reports*.

In addition, QBs shall use the MLR template to internally measure and monitor their compliance with the prudential requirement for each currency in which they have significant activities. For this purpose, a currency is considered significant if the aggregate liabilities denominated in that currency amount to five percent (5%) or more of the total liabilities as of the MLR measurement date. QBs are expected to be able to meet their liquidity needs in each currency and maintain a stock of eligible liquid assets consistent with the distribution of their liquidity needs by currency to ensure that risks arising from currency mismatch are properly mitigated.

The submission of the MLR report shall be subject to the governance process on the quality of bank reporting under Sec. 171 of the MORB. Any non-compliance with the reporting standards, or non-submission or delayed submission of the MLR report and the report on significant currency MLRs shall be subject to the monetary and non-monetary sanctions provided under Sec. 171 fines for delayed reports under Sec. 172-Q.

c. *Implementation.* In order to facilitate compliance with the MLR, stand-alone TBs, RBs, Coop Banks, and QBs shall undergo a one-year observation period beginning 01 January 2018 until the MLR takes effect on 01 January 2019.

Requirements during the observation period. During this period, QBs shall submit the MLR report quarterly on a solo basis to the appropriate supervising department of the Bangko Sentral. Each quarterly submission shall consist of the MLR reports for each month-end within a reference quarter. The report shall be submitted within thirty (30) banking/business days after the end of each reference quarter. For example, a QB's submission for the reference period covering 01 January to 31 March 2018 shall consist of the MLR on solo basis as of end-January, end-February and end-March. The report shall be submitted within thirty (30) banking/business days after end-March 2018.

The Bangko Sentral is not precluded from assessing a QB's compliance with the MLR during the observation period. QBs with liquidity ratios that are already at or near the prescribed minimum should not view the transition period as an opportunity to reduce their liquidity coverage. Where a QB is unable to meet the MLR for two consecutive weeks during the observation period, the QB shall immediately adopt a board-approved liquidity build-up plan. The plan should clearly articulate the QB's defined strategies and timelines for meeting the required MLR by 01 January 2019, and should include estimates of the liquidity ratio at every quarter prior to the effectivity date. The build-up plan shall be submitted to the Bangko Sentral, through the appropriate Central Point of Contact Department (CPCD), within ten (10) banking/business days after it is approved by the board. The CPCD concerned will evaluate the continuing compliance of the QB with the said plan. In case of non-compliance, the Bangko Sentral may require the covered QB to undertake a set of actions. The Bangko Sentral may likewise impose enforcement actions as provided under this Section.

***Disclosure requirements*.** A QB shall disclose its MLR on a solo basis in its annual report or audited financial statement (AFS), as well as in the quarterly Published Balance Sheet (PBS) starting year 2019.

Net Stable Funding Ratio (NSFR). To promote long-term resilience of a quasi-bank (QB) against liquidity risk, it shall maintain a stable funding profile in relation to the composition of its assets and off-balance sheet activities. The Net Stable Funding Ratio (NSFR) seeks to meet this objective by limiting overreliance on short-term wholesale funding and promoting enhanced assessment of funding risk across all on- and off-balance sheet accounts. The NSFR complements the Liquidity Coverage Ratio (LCR), which promotes short term resilience of a QB's liquidity profile.

The NSFR framework shall apply to all universal and commercial banks (UBs/KBs) and their subsidiary banks and QBs, hereinafter referred to as "covered QBs", on both solo (head office plus branches) and consolidated (parent bank plus subsidiary financial allied undertakings, but excluding insurance companies) bases.

a. *Minimum requirement*. The NSFR is the ratio of a covered QB's available stable funding (ASF) to its required stable funding (RSF), as shown below:

$$\text{Basel III Net Stable Funding Ratio (\%)} = \frac{\text{Available stable funding (ASF)}}{\text{Required stable funding (RSF)}}$$

The covered bank/QB shall maintain an NSFR of at least 100.0 percent (100%) at all times.

The NSFR shall be computed and reported in a single currency, i.e., in peso equivalent terms of all currencies. Notwithstanding this requirement, a covered QB shall internally measure and monitor NSFR per significant currency. A currency is considered *significant* if the aggregate liabilities denominated in that currency amount to five percent (5%) or more of the covered QBs' total liabilities as of NSFR measurement date. The guidelines implementing the NSFR are provided in *Appendix Q-85 (Attachment 1).*

b. *Reporting and monitoring requirements***.** Covered banks/QBs shall comply with the minimum NSFR on a daily basis, and shall have appropriate systems in place to ensure the same. For reporting purposes, the covered QBs shall submit a report of their NSFR ***(Attachment 2)*** to the appropriate supervising department of the Bangko Sentral, on both solo and consolidated bases, in accordance with the following timelines:

Reporting Details	Solo Basis	Consolidated Basis
Frequency	Monthly	Quarterly
Measurement Date	End-of-month	End-of-quarter
NSFR Calculation Period	One (1) year from measurement date	
Submission Deadlines	15 banking/ business days from measurement date	30 banking/business days from measurement date

The NSFR reports shall be accompanied by a certification under oath to the effect that a covered QB has fully complied with the NSFR requirement on all calendar days of the reference period in the form provided under Appendix Q-86. This requirement shall take effect on 01 January 2019 for UBs/KBs and on 01 January 2020 for subsidiary QBs. The solo and consolidated NSFR reports, together with the Sworn Certification, shall be classified as *Category A-1* reports.

The submission of the NSFR report shall be subject to the governance process on the quality of bank reporting under Sec. 171 of the MORB. Any non-compliance with the reporting standards, or non-submission or delayed submission of the NSFR report shall be subject to the monetary and non-monetary sanctions provided under Sec. 171 of the MORB/fines for delayed reports under Sec. 172-Q.

c. *Implementation.* The implementation of the minimum NSFR shall be phased in to help ensure that the covered QBs can meet the standard through reasonable measures without disrupting credit extension and financial market activities. In order to facilitate compliance, covered QBs shall undergo an observation period before the NSFR becomes a minimum requirement. Subsidiary QBs of UBs/KBs shall be subject to an NSFR floor of seventy percent (70%) during the observation period. The timelines are set out in the table below:

	Observation Period	**Minimum NSFR**
UBs/KBs	01 July 2018 – 31 December 2018	Starting 01 January 2019 – 100%
Subsidiary QBs of UBs/KBs	01 July 2018 – 31 December 2019 Floor of 70% to be applied in 2019	Starting 01 January 2020 – 100%

Requirements during the observation period. Consistent with the expectations set out on the governance process for an effective reporting system, the Board and Senior Management shall ensure the generation of complete, accurate, consistent, and reliable reports that are timely submitted to the Bangko Sentral. For monitoring purposes, covered QBs shall submit the solo and consolidated NSFR Reports in accordance with the following timelines:

	Reporting Details
Frequency	Quarterly
Measurement Date	End-of-quarter
Submission Deadlines	30 banking/business days from measurement date

Any non-submission or delayed submission of the NSFR Reports during the observation period shall be subject to monetary and non-monetary sanctions provided under Sec. 171 of the MORB/fines for delayed reports under Sec. 172-Q.

During the observation period, the Bangko Sentral is not precluded from assessing the covered QB's compliance with the NSFR requirement. The covered QBs with NSFRs that are already at or near the prescribed minimum should not view the transition period as an opportunity to reduce their stable funding profile. Where a covered QB is unable to meet the minimum NSFR in single currency on either solo or consolidated basis, as applicable, for two (2) consecutive weeks during the observation period, the covered QB shall adopt a board-approved stable funding build-up plan within thirty (30) calendar days from the end of the two-week period. The plan should clearly articulate the covered QB's defined strategies and timelines for meeting the required NSFR, taking into account compliance with other prescribed liquidity metrics. The plan should also include quarterly estimates of the NSFR prior to 6 April 2019 and shall be submitted to the appropriate supervising department of the Bangko Sentral, within ten (10) banking/business days from the date of board approval. The supervising department concerned will evaluate and monitor the continuing compliance of the QB with the said plan.

In light of the extended observation period, subsidiary QBs concerned that have submitted a stable funding plan in 2018 may revise the same, if they deem necessary: *Provided*, That, the revised stable funding build-up plan shall be adopted by the concerned bank's/QB's Board not later than thirty (30) calendar days from 6 April 2019.

In case of non-submission of, or non-compliance with, the said build-up plan, the Bangko Sentral may require the covered QB to undertake a set of actions. The Bangko Sentral may likewise impose enforcement actions as provided under this Section (*Supervisory enforcement actions*).

Supervisory Framework for the Minimum Prudential Liquidity Requirements

a. General Provisions

(1) While the minimum prudential liquidity requirements establish common parameters for stress testing, they should be viewed as minimum supervisory requirements. Covered QBs are expected to conduct their own stress tests in accordance with Part IX of *Appendix Q-43* as part of their liquidity risk management process in order to identify the risk drivers that may lead to drastic fluctuations in their liquidity positions. Accordingly, QBs should be able to assess the level of liquidity they should hold, which could possibly go beyond the regulatory minimum.

Where the Bangko Sentral is not satisfied with the adequacy of a QB's liquidity management framework or where it has particular concerns about a QB's liquidity exposures, it may require the QB to comply with a higher liquidity requirement.

(2) It shall be the responsibility of the board of directors and senior management, or the equivalent governing bodies in the case of foreign bank branches, to institute a system that would ensure compliance with the minimum liquidity requirements, the accuracy of their calculations, and the integrity of the related monitoring and reporting system. It is likewise the responsibility of senior management to report shortfalls in the minimum liquidity requirements both to their board of directors immediately and to the Bangko Sentral within the prescribed timelines.

(3) As the stock of liquid assets is intended to serve as a defense against the potential onset of liquidity stress, QBs are allowed to use their stock of liquid assets as necessary during a period of financial stress in order to meet unforeseen liquidity needs, thereby causing the LCR to temporarily fall below the minimum requirement or the MLR to be breached. This may also alter the stable funding profile of QBs and result in non-compliance with the required NSFR.

Under this condition, the Bangko Sentral will assess the situation to determine the extent to which the reported decline in the LCR or NSFR/non-compliance with the MLR is due to a QB-specific or market-wide shock and will accordingly provide the supervisory response necessary to address the circumstances. The action of the Bangko Sentral shall be proportionate to the drivers, magnitude, duration and frequency of the reported liquidity deficit.

In all cases, the Bangko Sentral will be cognizant of the procyclicality of supervisory actions if applied in circumstances of market-wide stress. Likewise, the Bangko Sentral will consider the potential for contagion to the financial system and the additional restricted flow of credit or reduced market liquidity due to actions to maintain a minimum LCR, NSFR, or the MLR. Overall, the supervisory response will be based on a forward-looking assessment of macroeconomic and financial conditions of the financial system as a whole.

b. Liquidity ratios below the minimum

(1) In the event that a shortfall in the stock of HQLA/eligible liquid assets/available stable funding occurs on three (3) banking/business days within any two-week rolling calendar period, thereby causing the LCR or NSFR to fall below the minimum threshold/the MLR to be breached on such days, the QB must notify the Bangko Sentral, through the appropriate supervising department, of such non-compliance within the banking/business day immediately following the occurrence of the third liquidity/stable funding shortfall, notwithstanding the restoration of the LCR or NSFR/compliance with the MLR on the day that the shortfall must be reported.

The shortfall notice shall be signed by the QB President or officer of equivalent rank, and by the officer charged with managing the liquidity of the QB. It shall contain the following minimum information:

(a) The dates the shortfalls occurred;
(b) The reason/s or factor/s leading to the utilization of the stock of liquid assets and non-compliance with the minimum requirement;
(c) The action/s the QB has taken and/or will take to achieve full compliance with the minimum requirement;
(d) The expected duration and possible extent of the shortfall (although this may no longer be applicable if the LCR has been restored/MLR has been met); and
(e) A commitment to submit its LCR/MLR/NSFR Report weekly until the QB is able to comply with the required LCR/MLR/NSFR.

A shortfall will not necessarily result in supervisory or enforcement action; at a minimum, it will entail heightened supervisory monitoring. The shortfall notice, together with the information gathered from the latest report of examination, regular prudential reports, available market information, and, if available, the internal management reports of the QB, will serve as the basis of the Bangko Sentral in making an assessment of the extent of the liquidity deficit. The Bangko Sentral will also assess whether the non-compliance with the minimum requirement is temporary, part of a regular pattern or practice, or caused by an unusual event.

(2) The Bangko Sentral will require effective and timely remedial action from the QB to address the deficiency in its liquidity position within a committed timeline under the following circumstances:

(a) The liquidity requirement is not met for a prolonged period of time or if the Bangko Sentral has determined that the QB is otherwise materially non-compliant with the minimum LCR, NSFR, or MLR; or

(b) The reported shortfall is caused by a firm-specific stress situation, i.e., based on operational issues of the QB which are part of an outstanding supervisory concern (such as imprudent management of liquidity consisting of material and/or persistent breaches of liquidity policies and limits, large funding mismatches and/or concentrations, undue reliance on high cost funds).

Subject to the approval of the Monetary Board, QBs may continue to have access to the credit and liquidity facilities of the Bangko Sentral during the period that the liquidity requirement is being restored notwithstanding non-compliance with standard conditions of access to such facilities that pertain to a QB's liquidity position.

***Report on Intraday Liquidity*[1].** In accordance with Section V of the Guidelines on Intraday Liquidity Risk Management in *Appendix Q-43* which expects QBs with large volume of daily payments and settlements to effectively manage their intraday liquidity positions and risks, UBs/KBs and their subsidiary TBs/QBs shall submit the Report on Intraday Liquidity on solo basis. The report is designed to measure and monitor the different aspects of a QB's intraday liquidity position.

Supervisory enforcement actions. Consistent with Sec. 002-Q, the Bangko Sentral may deploy enforcement actions to promote adherence to the requirements set forth in these guidelines and bring about timely corrective actions. If a QB's risk exposures are not well managed, the Bangko Sentral may direct the QB to augment its funds management practices and the level of its liquid assets, reduce its liquidity risk exposures, and/or strengthen its risk management system. The Bangko Sentral may likewise impose sanctions to limit the level of or suspend any business activity that has adverse effects on the safety or soundness of the QB, among others. Sanctions may likewise be imposed on a QB and/or its directors, officers and/or employees.

The Bangko Sentral reserves the right, upon authority of the Deputy Governor, FSS , to require the submission of reports and information prescribed under Item "*b*" of this Section on Liquidity Coverage Rotio (LCR), *Minimum Liquidity Ratio (MLR) for Stand-Alone Thrift Banks, Rural Banks, Cooperative Banks and Quasi-Banks* outside the regular reporting periods, and to conduct on-site inspections outside of regular or special examinations, for the purpose of ascertaining the accuracy of calculations of the minimum liquidity requirement/s as well as the integrity of the related monitoring and reporting systems.

[1] The regular submission of the Report on Intraday Liquidity shall commence with the end-January 2022 month-end report with submission deadline as prescribed under *Appendix Q-3*.

If a QB experiences a shortfall in respect of its minimum prudential liquidity requirement and fails to restore its liquidity position within the committed timeline, the Bangko Sentral may deploy more stringent enforcement actions. In cases where a QB's liquidity problem is deemed to be exceptionally serious from the outset, or when the QB refuses to restore the required liquidity position, the Bangko Sentral may employ more drastic measures based on existing laws, rules and regulations.

(Circular Nos. 1123 dated 13 July 2021, 1064 dated 03 December 2019, 1035 and 1034 dated 15 March 2019, 1007 dated 6 June 2018, 996 dated 8 February 2018, and 981 dated 3 November 2017)

146-Q OPERATIONAL RISK MANAGEMENT

Policy statement.[1] It is the thrust of the Bangko Sentral to promote the adoption of effective risk management systems to sustain the safe and sound operations of its QBs. Cognizant that operational risk is inherent in all activities, products and services, and is closely tied in with other types of risks (e.g., credit, liquidity and market risks), the Bangko Sentral is issuing these guidelines to clearly set out its expectations and define the minimum prudential requirements on operational risk management. These guidelines align existing regulations to the extent possible, with international standards[2] and best practices. Bangko Sentral expects its QBs to adopt an operational risk management framework, as part of the enterprise-wide risk management system, that is suited to their size, complexity of operations, and risk profile.

Definition of operational risk. Operational risk refers to the risk of loss resulting from inadequate or failed internal processes, people and systems; or from external events. This definition includes legal risk, but excludes strategic and reputational risks. Operational risk is inherent in all activities, products and services, and cuts across multiple activities and business lines within the financial institution and across the different entities in a banking group or conglomerate where the financial institution belongs.

Duties and responsibilities.

a. *Board of directors*. Consistent with the principles embodied under Sec. 132-Q on the duties and responsibilities of the board of directors in relation to the effective management of risk include the establishment of a comprehensive and effective operational risk management framework as part of the enterprise-wide risk management system. In this regard, the board of directors shall:

(1) Ensure that it is aware of and understands the nature and complexity of the major operational risks in the QB's business and operating environment, including risks arising from transactions or relationships with third parties, vendors, suppliers including outsourced service providers, and clients of services provided. This should include understanding of both the financial and non-financial impact of operational risk to which the QB is exposed to;

(2) Approve the operational risk management framework which shall form part of the QB's enterprise-wide risk management system and shall cover all business lines and functions of the QB, including outsourced services and services provided to external parties. The operational risk management framework should include an enterprise-wide definition of operational risk, which should be consistent with the definition under this Section, governance, and reporting structures including the roles and responsibilities of all personnel, feedback mechanism, as well as standards and tools for operational risk management. In this respect, the board shall:

(a) Define the operational risk management strategy and ensure that it is aligned with the QB's overall business objectives. Relative to this, the board should set and provide clear guidance on the QB's operational risk appetite (i.e., the level of operational risk the QB is willing to take and able to manage in pursuit of its business objectives as well as the type of risks that are not acceptable to the board and management), which should consider all material risk exposures as well as the QB's financial condition and strategic direction;

(b) Approve appropriate thresholds or limits to ensure that the level of operational risk is maintained within tolerance and at prudent levels and supported by adequate capital. Relative to this, the board shall approve policy on resolving limit breaches which should cover escalation procedures for approving or investigating breaches, approving authorities, and requirements in reporting to the appropriate level of management or the board;

(c) Ensure that operational risk is appropriately considered in the capital adequacy assessment process;

(d) Ensure that it receives adequate information on material developments in the operational risk profile of the QB, including pertinent information on the current and emerging operational risk exposures and vulnerabilities as well as information on the effectiveness of the operational risk management framework. The board must challenge the quality and comprehensiveness of the operational risk information it receives. It should also be satisfied with the reliability of the said information and the monitoring system for operational risk;

[1] QBs shall comply with the foregoing standards on operational risk management within a period of two (2) years from 05 February 2016. In this regard, a QB should be able to show its plan of actions with specific timelines, as well as the status of initiatives being undertaken to fully comply with the provisions of Sec. 146-Q.

[2] Embodied in the relevant documents issued by the Basel Committee on Banking Supervision.

(e) Ensure that business objectives, risk appetite, the operational risk management framework, and the respective roles and responsibilities of personnel and officers at all levels in terms of implementing the operational risk management framework, are properly disseminated, clearly communicated/discussed, and understood by personnel concerned;

(f) Provide senior management with clear guidance and direction regarding the principles underlying the operational risk management framework. The board shall ensure that senior management appropriately implements policies, processes and procedures, and provides feedback on the operational risk management process. In this regard, the board shall establish a feedback and reporting system that will allow employees to raise their concerns without fear of negative consequences; and

(g) Ensure that the operational risk management framework is subject to effective and comprehensive independent review, on a periodic basis, by operationally independent, appropriately trained, and competent staff to ensure that it remains commensurate with the QB's risk profile and continues to be adequate and effective in managing operational risk. The review should take into account the changes in business and operating environment, material changes in systems, business activity or volume of transactions, quality of control environment, effectiveness of risk management or mitigation strategies, loss experience, and the frequency, volume or nature of breaches in limits or any policy.

(3) Provide adequate oversight on all outsourcing activities and ensure effective management of risks arising from these activities. In this regard, the board of directors shall approve a framework governing outsourcing activities, which includes a system to evaluate the risk and materiality of all existing and prospective outsourcing engagements and the policies that apply to such arrangements;

(4) Ensure observance of expectations and requirements prescribed under relevant laws, rules and regulations, industry set standards, and policies on internal control, internal audit, and disclosure;

(5) Promote a culture of high standards of ethical behavior. The board shall adopt a code of conduct of ethical behaviors with corresponding disciplinary actions for noncompliance, which should cover, among others, guidance and protocols on conflicts of interest situations, safeguarding of confidential information, and use of sensitive information. The board should likewise institute tools, methodologies, and practices in order to ensure compliance and adherence to the standards by all employees including the senior officers and the board itself. In this regard, employees should be required to acknowledge in writing that they have read, understood, and will observe the code of conduct;

(6) Ensure that business and risk management activities, including the operational risk management function, are carried out by adequate and qualified staff with the necessary experience, technical capabilities, and competence. Moreover, the board shall ensure that employees and officers in all areas of operations have a high degree of integrity.

For this purpose, the board shall approve appropriate hiring and selection policies and processes, adopt a continuing professional development program, and institutionalize a framework for continuing assessment of fitness and propriety of employees. These policies, processes and programs should reinforce the conduct and values being promoted in the organization.

Further, the board shall oversee the design and implementation of remuneration policies. It shall ensure that the remuneration policies do not encourage excessive risk-taking or provide incentives to people to perform contrary to the desired risk management values. It shall also ensure that remuneration policies are appropriate and aligned with the QB's long-term strategic direction and risk appetite, as well as with relevant legal or regulatory requirements;

(7) Ensure that all units in the organization have adequate resources, including personnel complement, and are supported by appropriate technological systems. The use of technological systems must be commensurate with the activities being undertaken; and

(8) Oversee implementation of a sound business continuity management framework. The board should create and promote an organizational culture that places high priority on business continuity. This shall include providing sufficient financial and human resources associated with the QB's business continuity initiatives.

b. *Senior management*. Senior management shall be responsible for the implementation and consistent adherence by all personnel to the operational risk management framework approved by the board of directors. In this respect, senior management shall:

(1) Translate the approved operational risk management framework into specific policies and processes covering all businesses and functions of the QB, including outsourced services and services provided to external parties. Said policies should be clearly documented, approved by the board of directors and communicated to personnel at all levels. Policies should include, among others:

(a) Definition of operational risk and operational risk loss. This should be supported by common operational risk taxonomy that includes the operational risk event type and causes of losses to facilitate the consistent identification of operational risks across the QB as well as the management of operational risk in an integrated manner;

(b) Appropriate governance and oversight structures, reporting lines, and accountabilities for managing operational risks;

(c) Clear description of risk limits and thresholds that correspond to the QB's approved operational risk appetite and tolerance;

(d) Risk mitigation strategies and tools for maintaining risks within the thresholds and limits set;

(e) Approach to operational risk identification, assessment, monitoring and reporting that utilizes appropriate operational risk management tools. This should include an outline of the reporting framework and types of data/information to be included in the risk management reports; and

(f) Requirement for the conduct of independent review of the framework as well as its implementation, on a periodic basis, and whenever there are material changes in the QB's operational risk profile.

(2) Communicate individual roles and responsibilities of personnel. It is important that personnel at all levels understand their respective roles in the operational risk management process. In this regard, senior management should clearly assign authority, responsibility, and reporting relationships to encourage and maintain accountability, and ensure that the necessary resources are available to manage operational risk effectively;

(3) Establish systems to report, track, escalate, and resolve issues; and set the frequency of operational risk management reporting considering the level and type of risks involved as well as the pace and nature of the operating environment of the QB;

(4) Assess the appropriateness of the operational risk management process in light of the changing business environment and nature of risks arising from business activities or functions;

(5) Ensure that sufficient number of personnel, technical support, and other resources are devoted for operational risk management such that the QB's activities are conducted by qualified personnel with the necessary experience and technical capabilities. It shall also ensure that personnel responsible for monitoring and enforcing compliance with the QB's operational risk policy as well as the Compliance and Internal Audit units have authority independent from the units they review and are knowledgeable about the different areas of operations; and

(6) Establish policies, standards and processes for an effective business continuity management.

c. *Business units*. Business line management and personnel, as the first line of defense, are responsible on a day-to-day basis for identifying, managing and reporting operational risks inherent in the products, activities, processes and systems for which they are accountable. In this regard, business line management shall ensure that:

(1) Internal controls and practices within their business lines are consistent with the enterprise-wide policies and procedures to support the management of operational risk;

(2) Business line specific policies, processes, and procedures are adequate and effectively implemented, and personnel are adequate and competent to manage operational risk for all material products, activities, and processes;

(3) Operational risk management framework within each business line reflects the scope of that business line and its inherent operational complexity and operational risk profile;

(4) Risk mitigation strategies and processes as approved by the board and senior management are established and executed;

(5) Internal controls, and operational risk mitigation strategies and processes are periodically reviewed within the business units to effectively manage operational risks within approved risk tolerance, and consistent with enterprise-wide policies and procedures established. There must be clear expectations and processes established to ensure prompt escalation and actions to address any gap or issue identified; and

(6) Operational risk-related information (e.g., loss events, incidents, et al.) are adequately and timely communicated/coordinated to Operational Risk Management Function (ORMF) for risk monitoring and reporting, in addition to the usual reporting to senior management and/or board.

Roles and functions.

a. *Operational risk management function*. QBs are not required to create an ORMF. However, the board of directors is expected to discuss operational risk issues during its board meetings with discussions adequately documented in the minutes of meetings. The board of directors of QBs may, at its own discretion, or as directed by the appropriate supervising department of the Bangko Sentral, create a Risk Management Unit (RMU) or assign specific personnel under said unit to handle operational risk concerns. The specific personnel or RMU shall directly report to the head of the RMU or to the board-level Risk Oversight Committee (ROC), as appropriate. The ROC or the board shall be responsible for assessing the annual performance of the unit taking into account how said unit carried out its duties and responsibilities. The ORMF shall be supported by a board-approved charter that defines its stature, authority, and independence.

The ORMF shall primarily assist management in meeting its responsibility to understand and manage operational risk exposures and ensure the development and consistent implementation of operational risk policies, processes, and procedures throughout the institution. In this regard, the ORMF shall:

(1) Recommend to the board of directors and senior management appropriate policies and procedures relating to operational risk management and controls;
(2) Design and implement the operational risk assessment methodology tools and risk reporting system of the institution;
(3) Coordinate risk management activities across the institution;
(4) Consolidate all relevant operational risk information/reports to be elevated/presented to the board and senior management;
(5) Provide operational risk management training and advice to business units on operational risk management issues; and
(6) Coordinate with compliance function, internal audit, and external audit on operational risk matters.

ORMF personnel should have technical proficiency, appropriate educational background, and exposure to enable them to effectively perform the unit's mandate. QBs shall have in place a training program to keep its personnel up-to-date on different operational risk issues and challenges.

b. *Compliance function*. The compliance function shall conduct an independent assessment of the compliance with relevant laws, rules and regulations, as well as internal policies of the institution, and determine areas that may potentially result in risk of loss due to inadequate or failed internal processes, systems, and people. The latter includes inappropriate conduct/behavior of personnel, officers, and the board, that may lead to fraud or any form of business disruption. The compliance function shall assess whether the identified operational risk exposure by the business units or by the function itself shall affect the franchise value of the institution. In this regard, it shall advise and assist management in establishing guidance on the appropriate implementation of relevant laws, rules and regulations, and internal policies.

c. *Internal audit*. Internal audit shall conduct an independent assessment of the operational risk management framework, including the implementation of operational risk management policies and procedures. The board of directors, either directly or indirectly through the board-level Audit Committee shall ensure that the scope and frequency of audit is appropriate to the risk exposures. Any operational risk issue identified and reported in the audit process should be addressed by senior management in a timely and effective manner, or raised to the attention of the board as appropriate.

Operational risk management framework. QBs shall have in place an appropriate operational risk management framework, as part of the enterprise-wide risk management system, that is effective and efficient in identifying, assessing, monitoring and controlling/mitigating operational risk. They shall ensure that their operational risk management framework is commensurate with the complexity of their operations, range of products and services, organizational structure, and risk profile.

a. *Risk identification and assessment*. Risk identification and assessment are fundamental elements of an effective operational risk management system. Effective risk identification shall consider both internal factors (such as QB structure, nature of activities, the quality of human resources, organizational changes and employee turnover, among others) and external factors (such as changes in the broader environment and the industry, advances in technology, and developments in political, legal, and economic factors, among others). Risk identification and assessment allow the QB to better understand its risk profile and allocate risk management resources and strategies more effectively. Since the business lines are expected to have the best knowledge of their risk exposures and processes, these units should play a major role in the identification and assessment of operational risk.

(1) QBs shall consider the following loss event-type categories as part of their risk identification and assessment processes:

(a) Internal fraud, e.g., intentional misreporting of positions, employee theft, and insider trading on an employee's own account;

(b) External fraud, e.g., robbery, forgery, check kiting, and damage from computer hacking;

(c) Employment practices and workplace safety, e.g., workers compensation claims, violation of health and safety rules, organized labor activities, discrimination claims, and general liability;

(d) Clients, products and business practices, e.g., fiduciary breaches, misuse of confidential customer information, improper trading activities on the QB's account, money laundering, and sale of unauthorized products;

(e) Damage to physical assets, e.g., terrorism, vandalism, earthquakes, fires and floods;

(f) Business disruption and system failures, e.g., hardware and software failures, telecommunication problems, and utility outages; and

(g) Execution, delivery, and process management, e.g., data entry errors, collateral management failures, incomplete legal documentation, unapproved access given to client accounts, non-client counterparty misperformance, and vendor disputes.

(2) QBs shall adopt tools and mechanisms that are appropriate to their size, complexity of operations and risk profile to properly identify and assess operational risk. The tools that may be used for identifying and assessing operational risk may include, but not limited to:

(a) *Results of internal/external audit and supervisory issues raised in the Bangko Sentral Report of Examination (ROE)* – Internal audit surfaces issues on effectiveness of internal control, risk management, and governance systems and processes of an organization, while external audit focuses on control weaknesses and susceptibility of the QB to material misstatements in the financial statements. On the other hand, the Bangko Sentral ROE highlights deficiencies in the risk management systems and governance processes as well as issues on compliance with relevant laws, rules and regulations, which could have adverse effects on the safety and soundness of the QB;

(b) *Internal loss data collection and analysis* – Internal operational loss data provides meaningful information for assessing QB's exposure to operational risk and the effectiveness of internal controls. Analysis of loss events can provide insights into the causes of large losses and information on whether control failures are isolated or pervasive. QBs may consider mapping internal loss data to the following business lines:

(i) Corporate finance;
(ii) Trading and sales;
(iii) Retail banking;
(iv) Commercial banking;
(v) Payment and settlement;
(vi) Agency services;
(vii) Asset management; and
(viii) Retail brokerage.

Loss events linked to credit and market risks may also relate to operational issues and should be segmented in order to obtain a more comprehensive view of the QB's operational risk exposure;

(c) *Risk Self Assessments (RSA)/Risk Control Self Assessments (RCSA)* – RSA is a tool to assess processes underlying QBs operations against a library of potential threats and vulnerabilities including their potential impact. A similar approach, RCSA, typically evaluates inherent risk (the risk before controls are considered), the effectiveness of the control environment, and residual risk (the risk exposure after controls are considered). Scorecards on RCSAs may be developed by allocating weights to residual risks to provide a means of translating the RCSA output into metrics that will give a relative ranking of the control environment;

(d) *Business process mappings* – These helps identify key steps in business processes, activities, and organizational functions as well as the key risk points in the QB's overall business process. Process maps can reveal individual risks, risk interdependencies, and areas of control or risk management weakness. They can also help prioritize subsequent management action;

(e) *Risk and performance indicators* – Risk and performance indicators, such as Key Risk Indicators (KRIs) and Key Performance Indicators (KPIs), provide an insight into a QB's emerging risk exposure. KRIs are used to monitor the main drivers of exposure associated with key risks that contribute to early detection of heightened risk, ongoing monitoring of their movements, and preemptive reactions as necessary. KPIs, on the other hand, provide insight into the status of operational processes, which may in turn

provide insights into operational weaknesses, failures, and potential loss. Risk and performance indicators are often used with escalation triggers to warn when risk levels approach or exceed acceptable ranges and prompt mitigation plans;

(f) *Scenario analysis* – This refers to the process of obtaining expert opinion of business line and risk managers to identify potential operational risk events and assess the potential outcome. Scenario analysis is an effective tool when considering potential sources of significant operational risk and the need for additional risk management controls or mitigation solutions. Given the subjectivity of the scenario process, a robust governance framework is essential to ensure the integrity and consistency of the process;

(g) *Model measurement* – Larger QBs may deem it useful to quantify their operational risk exposures by using the output of the risk assessment tools as inputs into a model that estimates operational risk exposure. The results of the model can be used in an economic capital process and can be allocated to business lines to link risk and return; and

(h) *Comparative analysis* – Comparative analysis consists of comparing the results of the various assessment tools to provide a more comprehensive view of the QB's operational risk profile.

Comparison of external loss data, if available, such as industry experiences, visà-vis QB's internal loss data can also be made to explore possible weaknesses in the QB's control environment and enable it to consider previously unidentified risk exposures.

In choosing among these tools, each QB must carefully consider what is proportionate to its size, risk profile, and complexity of operations. Data/information gathered from these tools should enable QBs to make a thorough causal analysis, identify control gaps, and consequently adopt appropriate corrective actions. QBs are expected to adopt at the minimum, the (i) results of internal/external audit and supervisory issues raised in the Bangko Sentral ROE and (ii) internal loss data collection and analysis.

(3) QBs shall develop databases to accumulate at least a five (5)-year history of operational risk losses which can be fed back into the operational risk management process. Apart from capturing events that resulted to actual loss, QBs shall also gather potential loss or near-misses[1] . Said database of loss events provides basis for analysis which can help direct corrective action to improve the control environment, as well as determine risk mitigating actions. QBs should assess the depth of its data collection which is vital in understanding the risk environment. The loss event database shall at a minimum disclose the following:

(a) Short description of the event;
(b) Loss event type category;
(c) Department/Unit/Branch sustaining the loss;
(d) Business line classification;
(e) Date of occurrence;
(f) Date of discovery;
(g) Date of booking of actual losses;
(h) Actual loss amount or potential loss amount, if a near-miss event;
(i) Amount recovered and date of recovery;
(j) Causes of the event (e.g., control weaknesses identified)
(k) Consequence of the loss event (e.g., market loss, fees paid to a counterparty, a lawsuit or damage to the QB's reputation); and
(l) Action(s) taken.

QBs shall define appropriate thresholds for internal loss data collection and must be able to justify the same. Thresholds should be reasonable and should not omit any operational loss event data that is material for operational risk exposure and for effective risk management. QBs shall ensure that the choice of threshold should not adversely impact the credibility and accuracy of operational risk measurement.

(4) QBs shall determine based on the results of the risk assessment process whether the risks are within the scope of its operational risk management strategy and policies. It shall identify the risk exposures that are unacceptable or are outside its risk appetite and/or risk management capacity, and design and prioritize appropriate risk mitigation and corrective actions with clear accountabilities, roles and responsibilities for implementation within reasonable timelines.

(5) QBs shall continually assess its operational risk exposures in order to gain broader recognition and understanding of their effects. It shall consider the following factors in the assessment:

[1] *Potential loss* is an initial estimate of the loss that the QB may have sustained at the time of discovery of the event. *Near miss* is an adverse operational risk event which was not prevented by internal controls but did not result in an actual adverse impact (financial or reputational) due to chance, recovery or other external factors.

(a) Expected and unexpected changes to the QB's operating environment;
(b) Actual operational loss events that could have resulted in substantial losses/damage but were avoided (e.g., near misses) or recovered;
(c) Reported external operational losses and incidents which have damaged investor confidence and caused serious reputational harm;
(d) Areas of concern or unusual volumes or high number of exceptions; and
(e) Results of internal assessment of risks and controls.

(6) QBs shall ensure that their risk management and control infrastructure keep pace with the growth of or changes in their business activities, i.e., when they engage in any new activity; introduce a new product; enter new or unfamiliar markets; implement new business processes or technology systems; establish subsidiaries/branches that are geographically remote from the head office; and/or embark on an aggressive growth strategy by acquiring problem QBs to rapidly increase branch network during a short period of time. QBs should have relevant policies and procedures that address the process for review and approval of new products, activities, processes and systems. The review and approval process shall consider the following:

(a) Inherent risks in the new product, service, or activity;
(b) Changes to the QB's operational risk profile, appetite and tolerance, including the impact on existing products or activities;
(c) Necessary controls, risk management processes, and risk mitigation strategies;
(d) Any residual risk; and
(e) Procedures and metrics to measure, monitor, and manage the risk of the new product or activity.

b. *Risk monitoring and reporting*. QBs shall implement a process to regularly monitor their operational risk profiles and material exposures to losses on a continuing basis. The process shall take into account both qualitative and quantitative assessment of exposure to all types of operational risk, assess the quality and appropriateness of corrective or mitigating actions, and ensure that adequate controls and systems are in place to identify and address problems before they become major concerns.

(1) Risk monitoring should be an integral part of a QB's activities, the frequency of which should reflect the risks involved in these activities as well as the frequency and nature of changes in the operating environment. The results of the monitoring activities, findings of compliance, internal audit and risk management functions, management letters issued by external auditors, and reports generated by supervisory authorities, as appropriate, should be included in regular reports to the board and the senior management to ensure that timely and appropriate measures are undertaken to address the issues/findings.

(2) Management shall ensure that regular reports on operational risk are received on a timely basis and in a form and format that will aid in the monitoring and control of their business areas. The board should receive sufficient high-level information to enable it to understand the QB's overall operational risk profile and focus on the material and strategic implications for the business.

(3) Management reports should contain relevant internal financial, operational, and compliance data, as well as external market information about events and conditions that are relevant to decision making. They should aim to provide information such as:

(a) The critical operational risks facing, or potentially facing, the QB (e.g., as shown in KRIs and their trend data, changes in risk and control self-assessments, comments in audit/compliance review reports, etc.);

(b) Major risk events/loss experience, issues identified and intended remedial actions;

(c) The status and/or effectiveness of actions taken; and

(d) Exception reporting (covering among others authorized and unauthorized deviations from the QB's operational risk policy and likely or actual breaches in predefined thresholds for operational exposures and losses).

(4) Reports should be analyzed with a view to improving existing management performance as well as developing new risk management policies, procedures and practices. Moreover, to ensure the usefulness and reliability of the reports received, management should regularly verify the timeliness, accuracy, and relevance of reporting systems and internal controls in general.

(5) Management should keep track of the information provided in the reports, particularly the loss data, to establish a framework for systematically tracking and recording the frequency, severity and other relevant information on loss events.

c. *Risk control and mitigation*. Strong control environment is key to effective risk control and mitigation. In this respect, QBs are expected to adhere to the standards set forth under pertinent provisions of Secs. 162-Q, 163-Q, 436-Q on Internal Audit and *Appendix Q-72* on Internal Control and Internal Audit.

QBs shall decide whether to use appropriate procedures to control and/or mitigate the risks, or bear the significant risks that have been identified. In those instances where internal controls do not adequately address risk and accepting the risk is not a reasonable option, QBs may seek to transfer the risk to another party such as through insurance. Relative thereto, the board shall determine the maximum loss exposure the QB is willing to take and has the capacity to assume, and should perform an annual review of the QB's risk and insurance management program.

QBs, however, should not consider risk transfer tools as substitute but as complementary tools to sound controls and risk management system. Management shall also assess the extent to which risk mitigation tools such as insurance reduces risk, transfer the risk to another business sector or area, or create a new risk (e.g., counterparty risk).

Management of human resource-related risk. One of the major sources of operational risk is "people risk". In this regard, BSFIs shall embed in their enterprise-wide risk management framework measures to identify, measure, monitor, and control human resource related risks. BSFIs shall ensure that there are adequate policies and risk management and control measures in the following areas:

a. *Recruitment and selection*. The board shall establish efficient process that will facilitate timely recruitment and selection of personnel from a broad pool of candidates with appropriate educational background, skills, experience, character, integrity, and competencies to fulfill the duties and responsibilities of the function. This process shall include:

(1) *Adoption of a risk-focused screening process.* Management shall develop a risk-focused approach for its pre-employment background screening where an appropriate level of screening is employed based on factors like the position, reputational risk implication, and responsibilities associated with a particular position. The sensitivity of the position and authorities given to certain positions, including those in the branches, or the access level of an individual employee may warrant additional background screening procedures. These shall include, among others, verification of character references, criminal records, psychological evaluation, past employment, credentials, and professional qualifications. Information gathered shall enable BSFIs to have sufficient understanding of the applicant's personal background and character, conflict of interest, and susceptibility to collision, fraud, or illegal activities.

BSFIs shall likewise adopt a policy that sets out the expected actions from Management when pre-employment screening processes detect that the applicant has provided inaccurate or false information.

(2) *Screening the applicants against the Bangko Sentral records.* As part of the background screening procedures, the Human Resource Department of the BSFI shall require all those who passed the initial stages of pre-employment screening to accomplish the Authorization Form for Querying (AFQ) the Bangko Sentral Records shown in *Appendix Q-44* Any information gathered from the Bangko Sentral records shall be considered in the decision to consider the fitness and propriety of the applicant for the position.

Screening the applicants against the records of the Bangko Sentral shall only be part of and shall not be the sole source of information for pre-employment screening.

(3) *Alignment with organization culture.* Management shall also ensure that the BSFI's culture, values and expectations on behavior are compatible with those of its employees so that there is unity of direction and purpose.

b. *Performance management*. The board shall establish effective performance management framework that will ensure that personnel's performance is at par with the standards set by the Board/Senior Management. Results of performance evaluation should be linked to other human resource activities such as training and development, remuneration, and succession planning. These should likewise form part of the assessment of the continuing fitness and propriety of personnel in carrying out their respective duties and responsibilities.

The board shall likewise establish effective mechanism that leverages on existing controls or reports to facilitate assessment of continuing fitness and propriety of personnel, taking into account factors that may affect the performance of an individual. For instance, the financial circumstances of an employee who will be responsible for the custody of, or handling cash related transactions, shall be taken into consideration in the evaluation of his continuing qualification. This mechanism shall enable the BSFI to detect suspicious behaviors of personnel such as reluctance of refusal to take vacation leaves; involvement of personnel in cases with frequent overrides of internal controls, established limits or approving authorities, and high incidence of circumventions of policy; changes in employees' conduct; unusual activities in operations; and sudden or significant changes in lifestyle, standard of

living, and spending habits that are inconsistent with the salary, financial position, and level of indebtedness of the personnel concerned.

The assessment of continuing fitness and propriety of personnel should take into account factors that may affect the performance of an individual. For instance, the financial circumstances of an employee who will be responsible for the custody of, or handling cash related transactions, shall be taken into consideration in the evaluation of his continuing qualification.

c. *Training and development*. The board shall establish training and development programs that will ensure continuing development of employees' knowledge, competence, and skill. Results of gaps assessment in the performance evaluation/appraisal process can be used in the creation of training and development programs for employees.

d. *Remuneration and compensation*. The board shall establish sound remuneration and compensation policies that can be used by the institution to attract/recruit and retain highly qualified workforce. Said policies should appropriately motivate personnel and discourage excessive risk taking. This can be achieved through timely assessment of performance and competencies based on set standards. Results of performance assessment/appraisal can be used in the organization's remuneration decisions.

e. *Succession planning*. The board shall establish an effective succession planning program. The program should include a system for identifying and developing potential successors for key and or critical positions in an organization, through systematic evaluation process and training. This will require identifying critical skills and competencies; assessing gaps; and designing, developing, and delivering training and development programs to build or improve critical skills and competencies. The program should be adequately documented to facilitate monitoring and assessment of its implementation.

f. *Adequacy of complement*. The board shall establish effective strategic manpower planning to ensure that there is adequate and right manpower complement to meet the strategic goals and operational plans of the organization.

g. *Disciplinary actions*. The board, officers and all employees are expected to conform to prescribed ethical culture and guidelines, meet performance standards, and to behave ethically/appropriately in the workplace. Disciplinary or corrective actions may be taken to improve/arrest unacceptable behavior or performance. Disciplinary action must be in accordance with the laws and the applicable rules.

h. *Separation from service*. The board shall establish policies and procedures governing the separation of employees from service (e.g., termination, dismissal, retrenchment, retirement, or resignation), which should include transfer of accountabilities and/or salient information (e.g., client data, business strategies and formula, other trade secrets, etc.) to the successor, and clearance requirements. Policies may also include "non-compete" clauses, in accordance with existing laws.

The Human Resource Department shall assist the board in fulfilling its oversight responsibilities in the areas of recruitment, manpower planning, personnel development, performance appraisal, remuneration, termination, retrenchment and other key human resource issues.

Management of information technology-related risk. QBs shall refer to Sec. 147-Q for the management of information technology-related risk.

Management of integrity of prudential reports or reports submitted to Bangko Sentral. QBs shall adopt a prudential reporting framework that ensures the integrity of information submitted to the Bangko Sentral. They shall establish a system for ensuring effective compliance with the standards prescribed by the Bangko Sentral on acceptable reporting quality. QBs shall likewise maintain adequate documentation of the processes and procedures covering the prudential reporting framework and conduct a periodic review of their continuing relevance.

Management should be cognizant of relevant guidelines that may be issued by the Bangko Sentral relative to issues on the integrity and accuracy of prudential reports. Persistent concerns on the integrity and accuracy of prudential reports including failure to comply with the directives of the Bangko Sentral, in this respect, may be considered by the Bangko Sentral as conducting business in an unsafe or unsound manner, subject to applicable provision of laws and regulations.

Management of legal risk exposures. QBs shall adopt a system for identifying and assessing legal risks related to business line functions as well as products and services offered. This shall include a process for assessing the QB's rights and obligations in contractual relationships and in ensuring that all agreements/contracts entered into by the QB conform to legal and regulatory requirements and that no party is unduly disadvantaged. This shall also include the assessment of trends of customer complaints to determine potential legal risk exposures.

There should be a system in place to manage outstanding legal cases involving the QB or any of its directors and officers, with respect to suits filed in line with the performance of their duties. Said system should cover a periodic review of the status of cases, an assessment of potential outcome including probable liability or receivable, and regular reporting of the same to the appropriate level of management and the board.

Management of operational risk arising from financial inclusion initiatives. QBs that provide financial services to the unserved and underserved sector generally handle small and voluminous transactions, which have inherently high operational risk. Incremental operational risk also comes from the higher number of personnel or from the use of technology-based platform to effectively and efficiently deliver financial services. QBs are expected to identify and understand the distinct operational risk arising from the products and services they offer or innovative delivery channels they use. They should also be cognizant of potential transformation or transfer or risk exposures. In this regard, QBs shall adopt an operational risk management framework appropriate to the nature and scale of their operations. Said framework shall consider the principles embodied in this Section designed to suit the QB's business model and ensure sustained delivery of financial services to the unserved and underserved sector.

Notification/Reporting to Bangko Sentral. QBs shall notify the appropriate supervising department of the Bangko Sentral, within ten (10) calendar days from the date of discovery, of any operational risk event[1] that may result in any of the following:

a. Significant operational losses or exposures;
b. Activation of business continuity plan; or
c. Any material change in business and operating environment.

Upon receipt of notification, the Bangko Sentral may require, if warranted, the reporting QB to submit a report detailing the causes and impact of such events and an acceptable action plan to address the issue and any other weakness identified.

Supervisory enforcement actions. Consistent with Sec. 002-Q, the Bangko Sentral may deploy enforcement actions to promote adherence to the requirements set forth in this Section and bring about timely corrective actions. The Bangko Sentral may issue directives to improve the operational risk management system, or impose sanctions to limit the level of or suspend any business activity that has adverse effects on the safety or soundness of the QB, among others. Sanctions may likewise be imposed on a QB and/or its directors, officers and/or employees.

(Circular Nos. 1112 dated 8 April 2021, 970 dated 22 August 2017, 930 dated 18 November 2016, and 900 dated 18 January 2016)

147-Q INFORMATION TECHNOLOGY RISK MANAGEMENT

The enhanced guidelines on Information Technology Risk Management (ITRM) keep abreast with the aggressive and widespread adoption of technology in the financial service industry and consequently strengthen existing Bangko Sentral framework for IT risk supervision. ITRM should be considered a component and integrated with the institutions' risk management program. The guidelines likewise provide practical plans to address risks associated with emerging trends in technology and growing concerns on cyber security.

Policy statement. A growing number of Bangko Sentral supervised financial institutions (BSFIs) employ the advances in technology as leverage to offer innovative products, deliver fast and efficient service at affordable prices, and venture to new markets. Moreover, technology drives the efficiency of operations and financial accounting of these institutions, and improves their decision-making process. As technology becomes an integral part of the business and operations of BSFIs, such technology usage and dependence, if not properly managed, may heighten technology risks. The Bangko Sentral expects BSFIs to have the knowledge and skills necessary to understand and effectively manage technology risks. These institutions are required to have an integrated approach to risk management to identify, measure, monitor and control risks.

Purpose and scope. The enhanced guidelines aim to provide guidance in managing risks associated with use of technology. The guidelines outlined are based on international standards and recognized principles of international practice for ITRM and shall serve as Bangko Sentral's baseline requirement for all BSFIs.

The guidelines shall apply to BSFIs which include banks, non-banks with quasi-banking function (NBQB), non-bank electronic money issuers and other non-bank institutions which under existing Bangko Sentral rules and regulations and special laws are subject to Bangko Sentral supervision and/or regulation. Moreover, subject guidelines shall also apply to BSFIs with offshore data processing as may be appropriate to their situation. The framework covers different facets of ITRM, some of which are supplemented with detailed guidelines in *Appendices Q-61, Q-62, Q-63, Q-64, Q-65, and Q-66*. The Bangko Sentral shall keep the Appendices updated and, in the future, issue additional regulations on new and emerging products, services, delivery channels, and other significant applications of technology.

[1] As enumerated under item "a.1" of Sec. 146 on Operational risk management framework.

Subject guidelines, including the *Appendices Q-61, Q-62, Q-63, Q-64, Q-65, and Q-66* are not "one-size-fits-all" and implementation of these need to be risk-based and commensurate with size, nature and types of products and services and complexity of IT operations of the individual BSFIs. BSFIs shall exercise sound judgment in determining applicable provisions relevant to their risk profile.

Complexity of IT risk profile. The Bangko Sentral shall risk profile all BSFIs and classify them as either *"Complex"* or *"Simple"*. The assessment of complexity of IT risk profile is based largely on the degree of adoption of technology and considers size, nature and types of products and services and complexity of IT operations among the risk factors. In assessing IT operations, the nature of IT organization, degree of automation of core processes and applications and extent and reach of online branch network are likewise considered.

A BSFI with "Complex" IT risk profile is highly dependent on technology. IT components are integral to the core business activities that major weaknesses on IT systems, maintenance and support, if not properly addressed, may cause operational inefficiencies, business disruptions and/or financial losses. On the other hand, a BSFI with "Simple" IT risk profile relies or depends less on technology in the operations of its business, thus, is not affected or lowly impacted by IT-related risks.

Non-bank institutions which under existing Bangko Sentral rules and regulations and special laws are subject to Bangko Sentral supervision/regulation shall likewise be notified in writing of their classification immediately after 14 September 2013.

IT rating system. The Bangko Sentral, in the course of its on-site examination activities, shall evaluate BSFIs' ITRM system and measure the results based on Bangko Sentral's IT rating system. A composite rating is assigned based on a "1" to "4" numerical scale, as follows:

4	BSFIs with this rating exhibit strong performance in every respect. Noted weaknesses in IT are minor in nature and can be easily corrected during the normal course of business.
3	BSFIs with this rating exhibit satisfactory performance but may demonstrate modest weaknesses in operating performance monitoring, management processes or system development.
2	BSFIs with this rating exhibit less than satisfactory performance and require considerable degree of supervision due to a combination of weaknesses that may range from moderate to severe.
1	BSFIs with this rating exhibit deficient IT environment that may impair the future viability of the entity, thereby requiring immediate remedial action.

Definition of terms.

Terminology	Definitions
Board of Directors	The governing body elected by the stockholders that exercises the corporate powers of a locally incorporated BSFI. In case of a BSFI incorporated or established outside the Philippines, this may refer to the functional oversight equivalent such as the Country Head (for foreign banks) or management committee or body empowered with oversight and supervision responsibilities.
Compromised State	A state wherein someone or something has maliciously broken into networks, systems and computers which raises doubt as to the integrity of information assets, such as, but not limited to, program files, image files, and operating system files.
Cyberfraud	A deliberate act of omission or commission by any person carried out using the Internet and/or other electronic channels, in order to communicate false or fraudulent representations to prospective victims, to conduct fraudulent transactions, or to transmit the proceeds of fraud to BSFIs connected with the perpetrator. Examples of cyberfraud in the financial industry may include, but are not limited to, theft of credit card data, computer hacking, electronic identity theft, phishing scams, ATM skimming and non-delivery of merchandise purchased online, among others.
Data Breach	An incident in which sensitive, protected or confidential data or information has potentially been viewed, stolen, leaked, used, or destroyed by unauthorized persons.
EMV (stands for Europay, Mastercard, and Visa)	It is a global standard for credit, debit and prepaid payment cards based on chip card technology. EMV chip-based payment cards, also known as smart cards, contain an embedded microprocessor, a type of small computer. The microprocessor chip contains the information needed to use the card for payment, and is protected by various security features. Chip cards are a more secure alternative to traditional magnetic stripe payment cards.
Encryption	A data security technique used to protect information from unauthorized inspection or alteration**.** Information is encoded so that data appears as meaningless string of letters and symbols during delivery or transmission. Upon receipt, the information is decoded using an encryption key.

Enterprise-wide Level	Extending throughout or involving an entire institution rather than a single business department or function. In this document, the words "enterprise-wide" and "organization-wide" are interchangeably used.
Hacking	Unauthorized access into or interference in networks, systems and computers without the knowledge and consent of the system/information owner.
Information Security	The protection of information assets from unauthorized access, use, disclosure, disruption, modification or destruction in order to provide confidentiality, integrity and availability.
Information Security Incident	A single or a series of unwanted or unexpected information security events that have a significant probability of compromising business operations and threatening the confidentiality, integrity or availability of BSFI's information or information systems.
Information Technology (IT)	Automated means of originating, processing, storing and communicating information and covers recording devices, communications network, computer systems (including hardware and software components and data) and other electronic devices.
IT Group/Department	The unit of an organization within a BSFI responsible for the activities of IT operations control, monitoring of IT services, infrastructure support and a combination of technology, people and processes.
IT Operations	Encompasses all processes and services that are provisioned by an IT Unit to internal and external clients.
IT Outsourcing	An arrangement under which another party (either an affiliated entity within a corporate group or an entity external to the corporate group) undertakes to provide to a BSFI all or part of an IT function or service. A BSFI would use IT outsourcing for functions ranging from infrastructure to software development, maintenance and support. The related IT service is integral to the provision by BSFI of a financial service and the BSFI is dependent on the service on an ongoing basis.
IT Risk	Any potential adverse outcome, damage, loss, violation, failure or disruption associated with the use of or reliance on computer hardware, software, devices, systems, applications and networks.
IT Strategic Plan	A long-term plan (i.e., three (3)- to five (5)- year horizon) in which business and IT management cooperatively describe how IT resources will contribute to the institution's strategic objectives.
IT Risk Management System (ITRMS)	Risk management system that enables a BSFI to identify, measure, monitor and control IT-related risks.
Management Information System (MIS)	A general term for the computer systems in an institution that provide information about its business operations.
Network	Two (2) or more computer systems that are grouped together to share information, software and hardware.
Offshore BSFIs	Have their critical system processing and data located outside of the Philippines. These are usually maintained and operated by organizations within the same business group that the BSFIs belong to, such as their head office, subsidiary and/or affiliate. Locally-maintained systems, if any, are limited to noncore supporting applications such as collaboration systems and report processing tools.
Pharming	A form of cyber-attack that redirects a website traffic to another fake website to obtain user credentials and information.
Project Management	Planning, monitoring and controlling an activity.
Reportable Major Cyber-related Incidents	Any cyber-related incidents that meet the criteria for reporting/notification to the Bangko Sentral as laid out in Item *"a(2)(a)"*of this Section on Reporting and notification standards.
Senior Management/Management	Officers of the institution given the authority by the Board to implement the policies it has laid down in the conduct of the business of the institution.
Service Level Agreement	Establishes mutual expectations and provide a baseline to measure IT performance. An SLA should contain, among others, the specified level of service, support options, enforcement or penalty provisions for services not provided, a guaranteed level of system performance as it relates to downtime or uptime, a specified level of customer support and what software or hardware will be provided and for what fee.
Spearphishing	A more advanced type of phishing attack which is customized to a particular target (e.g., executives, privileged users, etc.).
Threat Actor	A person, group or nation/state/government that carries out or intends to carry out damaging acts against another party. An advanced threat actor shall refer to a person, organized group, or nation/state/government that (a) possesses superior capabilities, resources and skills to launch sophisticated cyber-attacks; or (b) seeks military and/or intelligence information for cyber-espionage purposes.

Triple Data Encryption Standard (3DES)	A mode of the DES encryption algorithm that encrypts data three (3DES) times. Three (3) 64-bit keys are used, instead of one (1), for an overall key length of 192 bits (the first encryption is encrypted with second key, and the resulting cipher text is again encrypted with a third key.

Description of IT-related risks. As BSFIs increase their reliance on IT to deliver products and services, inappropriate usage of IT resources may have significant risk exposures. While IT does not trigger new types of risks, it brings in new dimensions to traditional banking risks (i.e. strategic risk, credit risk, market risk, liquidity risk and operational risk) that require new or enhanced control activities (e.g. a failure of a credit risk measurement application is an IT failure and, therefore, a systems failure in the sense of operational risk). Moreover, IT is an implied part of any system of internal controls, regardless of the type of risk and, consequently, forms an important element in organization-wide risk management. Among the risks associated with the use of IT are the following:

a. *Operational risk* is the risk to earnings and capital arising from problems with service or product delivery. This risk is a function of internal controls, IT systems, employee integrity and operating processes. Operational risk exists in all products and services;

b. *Strategic risk* is the risk to earnings and capital arising from adverse business decisions on IT-related investments or improper implementation of those decisions. The risk is a function of the compatibility of an organization's strategic goals, the business strategies developed to achieve those goals, the resources deployed against these goals and the quality of implementation. The resources needed to carry out business strategies are both tangible and intangible which include communication channels, operating systems, delivery networks and managerial capacities and capabilities;

c. *Reputational risk* is the risk to earnings and capital arising from negative public opinion. This affects the institution's ability to establish new relationships or services or continue servicing existing relationships. The risk can expose the institution to litigation, financial loss or damage to its reputation; and

d. *Compliance risk* is the risk to earnings and capital arising from the violations of, or non-conformance with laws, rules and regulations, prescribed practices or ethical standards. Compliance risk also arises in situations where the laws and rules governing certain products activities of the BSFI's clients may be ambiguous or untested. Compliance risk exposes the institution to monetary penalties, non-monetary sanctions and possibility of contracts being annulled or declared unenforceable.

IT Risk Management System (ITRMS). As BSFIs become more dependent on IT systems and processes, technology risks and information security issues have become progressively more complex and pressing in recent years. Information security is just as important as the new technologies being installed by BSFIs. As progress in technology shifts to higher gear, the trend in cyber-attacks, intrusions, and other form of incidents on computer systems shows that it will not only persist but will continue to increase in frequency and spread in magnitude.

Management of IT risks and information security issues becomes a necessity and an important part of BSFIs' risk management system. BSFIs are therefore required to establish a robust ITRM system covering four (4) key components: 1) IT governance, 2) risk identification and assessment, 3) IT controls implementation, and 4) risk measurement and monitoring.

a. *IT Governance.* This is an integral part of BSFIs' governance framework and consists of the leadership and organizational structures and processes that ensure the alignment of IT strategic plan with BSFIs' business strategy, optimization of resources management, IT value delivery, performance measurement and the effective and efficient use of IT to achieve business objectives and effective IT risk management implementation. BSFIs must establish an effective IT governance framework covering the following:

(1) *Oversight and organization of IT functions.* Accountability is a key concern of IT governance and this can be obtained with an organizational structure that has well-defined roles for the responsibility of information, business processes, applications, IT infrastructure, etc.

The board of directors is ultimately responsible for understanding the IT risks confronted by a BSFI and ensuring that they are properly managed, whereas the senior management is accountable for designing and implementing the ITRMS approved by the board. For complex BSFIs, the board may delegate to an IT steering committee (ITSC) or its equivalent IT oversight function to cohesively monitor IT performance and institute appropriate actions to ensure achievement of desired results. The ITSC, at a minimum, should have as members a non-executive director who oversees the institution's IT function, the head of IT group/department, and the highest rank officer who oversees the business user groups. The head of control groups should participate in ITSC meetings in advisory capacity only.

A charter should be ratified by the board to clearly define the roles and responsibilities of the ITSC. Formal minutes of meeting should be maintained to document its discussions and decisions. The ITSC should regularly provide adequate information to the board regarding IT performance, status of major IT projects or other significant issues to enable the board to make well-informed decisions about the BSFIs' IT operations.

BSFIs should develop an IT strategic plan that is aligned with the institution's business strategy. This should be undertaken to manage and direct all IT resources in line with the business strategy and priorities. IT strategic plan should focus on long term goals covering three (3) to five (5) year horizon and should be sufficiently supplemented by tactical IT plans which specify concise objectives, action plans and tasks that are understood and accepted by both business and IT. The IT strategic plan should be formally documented, endorsed by the Board and communicated to all stakeholders. It should be reviewed and updated regularly for new risks or opportunities to maximize the value of IT to the institution.

BSFIs should also create an organization of IT functions that will effectively deliver IT services to business units. For complex BSFIs, a full-time IT head or equivalent rank should be designated to take the lead in key IT initiatives and oversee the effectiveness of the IT organization. In addition to managing the delivery of day-to-day IT services, the IT head should also oversee the IT budget and maintain responsibility for performance management, IT acquisition oversight, professional development and training. The IT head should be a member of executive management with direct involvement in key decisions for the BSFI and usually reports directly to the president or chief executive officer.

A clear description of roles and responsibilities for individual IT functions should be documented and approved by the board. Proper segregation of duties within and among the various IT functions should be implemented to reduce the possibility for an individual to compromise a critical process. A mechanism should be in place to ensure that personnel are performing only the functions relevant to their respective jobs and positions. In the event that an institution finds it difficult to segregate certain IT control responsibilities, it should put in place adequate compensating controls (e.g. peer reviews) to mitigate the associated risks.

(2) *IT policies, procedures and standards.* IT controls, policies, and procedures are the foundation of IT governance structure. It helps articulate the rules and procedures for making IT decisions, and helps to set, attain, and monitor IT objectives.

BSFIs should adopt and enforce IT-related policies and procedures that are well-defined and frequently communicated to establish and delineate duties and responsibilities of personnel for better coordination, effective and consistent performance of tasks, and quicker training of new employees. Management should ensure that policies, procedures, and systems are current and well-documented. The ITSC should review IT policies, procedures, and standards at least on an annual basis. Any updates and changes should be clearly documented and properly approved. IT policies and procedures should include at least the following areas:

- IT Governance/Management;
- Development and Acquisition;
- IT Operations;
- Communication networks;
- Information security;
- Electronic Banking/Electronic Products and Services; and
- IT Outsourcing/Vendor Management.

For simple BSFIs, some of the above areas (i.e., development, electronic banking, etc.) may not be applicable, thus sound judgment should be employed to ensure that the BSFI's IT policies and procedures have adequately covered all applicable areas.

(3) *IT audit.* Audit plays a key role in assisting the board in the discharge of its corporate governance responsibilities by performing an independent assessment of technology risk management process and IT controls.

Auditors provide an assurance that important control mechanisms are in place for detecting deficiencies and managing risks in the implementation of IT. They should be qualified to assess the specific risks that arise from specific uses of IT. BSFIs should establish effective audit programs that cover IT risk exposures throughout the organization, risk-focused, promote sound IT controls, ensure the timely resolution of audit deficiencies and periodic reporting to the Board on the effectiveness of institution's IT risk management, internal controls, and IT governance. Regardless of size and complexity, the IT audit program should cover the following:

- Independence of the IT audit function and its reporting relationship to the Board or its Audit Committee;
- Expertise and size of the audit staff relative to the IT environment;
- Identification of the IT audit universe, risk assessment, scope, and frequency of IT audits;
- Processes in place to ensure timely tracking and resolution of reported weaknesses; and
- Documentation of IT audits, including work papers, audit reports, and follow-up.

In case in-house IT audit expertise is not available, such as for a simple BSFI, the IT audit support may be performed by external specialists and auditors of other institutions consistent with existing Bangko Sentral rules and regulations on outsourcing. (Detailed guidelines/standards on IT Audit are shown in *Appendix Q-61*).

(4) *Staff competence and training.* The rapid development in technology demands appropriate, skilled personnel to remain competent and meet the required level of expertise on an ongoing basis.

BSFIs should have an effective IT human resources management plan that meets the requirements for IT and the business lines it supports. Management should allocate sufficient resources to hire and train employees to ensure that they have the expertise necessary to perform their job and achieve organizational goals and objectives.

Management needs to ensure that staffing levels are sufficient to handle present and expected work demands, and to cater reasonably for staff turnover. Appropriate succession and transition strategies for key officers and personnel should be in place to provide for a smooth transition in the event of turnover in vital IT management or operations functions.

(5) *Management Information Systems (MIS).* The BSFIs' IT organization often provides an important support role for their MIS. Accurate and timely MIS reports are an essential component of prudent and reasonable business decisions. At the most senior levels, MIS provides the data and information to help the Board and management make strategic decisions. At other levels, MIS allows management to monitor the institution's activities and distribute information to other employees, customers, and members of management.

Advances in technology have increased the volume of information available to management and directors for planning and decision-making. However, if technology is not properly managed, the potential for inaccurate reporting and flawed decision making increases. Because report generation systems can rely on manual data entry or extract data from many different financial and transaction systems, management should establish appropriate control procedures to ensure information is correct, relevant, and adequately protected. Since MIS can originate from multiple equipment platforms and systems, the controls should ensure all information systems have sufficient and appropriate controls to maintain the integrity of the information and the processing environment. Sound fundamental principles for MIS review include proper internal controls, operating procedures, safeguards, and audit coverage.

(6) *IT risk management function.* Management of risk is a cornerstone of IT Governance. BSFIs should have a policy requiring the conduct of identification, measurement, monitoring and controlling of IT risks for each business function/service on a periodic basis. BSFIs should define and assign these critical roles to a risk management unit or to a group of persons from different units collectively performing the tasks defined for this function.

The function should have a formal technology risk acknowledgement and acceptance process by the owner of risk to help facilitate the process of reviewing, evaluating and approving any major incidents of non-compliance with IT control policies. The process can be supported by the following:

- a description of risk being considered for acknowledgement by owner of risk and an assessment of the risk that is being accepted;
- identification of mitigating controls;
- formulation of a remedial plan to reduce risk; and
- approval of risk acknowledgement from the owner of the risk and senior management.

ITRM processes should be integrated into the enterprise-wide risk management processes to allow BSFIs to make well-informed decisions involving business plans and strategies, risk responses, risk tolerance levels and capital management, among others.

b. *Risk identification and assessment.* BSFIs should maintain a risk assessment process that drives response selection and controls implementation. An effective IT assessment process begins with the identification of the current and prospective IT risk exposures arising from the institution's IT environment and related processes. The assessments should identify all information assets, any foreseeable internal and external threats to these assets, the likelihood of the threats, and the adequacy of existing controls to mitigate the identified risks. Management should continually compare its risk exposure to the value of its business activities to determine acceptable risk levels.

Once management understands the institution's IT environment and analyzes the risk, it should rank the risks and prioritize its response. The probability of occurrence and the magnitude of impact provide the foundation for reducing risk exposures or establishing mitigating controls for safe, sound, and efficient IT operations appropriate to the complexity of the organization. Periodic risk assessment process should be done at the enterprise-wide level and an effective monitoring program for the risk mitigation activities should be manifested through mitigation or corrective action plans, assignment of responsibilities and accountability and management reporting.

c. *IT controls implementation.* Controls comprise of policies, procedures, practices and organizational structures designed to provide reasonable assurance that business objectives will be achieved and undesired events will be mitigated. Management should establish an adequate and effective system of internal controls based on the degree of exposure

and the potential risk of loss arising from the use of IT. Controls for IT environment generally should address the overall integrity of the environment and should include clear and measurable performance goals, the allocation of specific responsibilities for key project implementation, and independent mechanisms that will both measure risks and minimize excessive risk-taking. BSFI Management should implement satisfactory control practices that address the following as part of its overall IT risk mitigation strategy: 1) Information security; 2) Project management/development and acquisition and change management; 3) IT operations; 4) IT outsourcing/Vendor management; and 5) Electronic banking, Electronic payments, Electronic money and other Electronic products and services.

(1) *Information security.* Information is a vital asset of a BSFI that must be adequately protected and managed to preserve its confidentiality, integrity and availability. Considering the crucial role information plays in supporting business goals and objectives, driving core operations and critical decision-making, information security is intrinsically linked to the overall safety and soundness of BSFIs. Thus, the BSFI needs to put in place a robust, resilient and enterprise-wide framework for ISRM supported by effective information security governance and oversight mechanisms. Information security risk exposures must be managed to within acceptable levels through a dynamic interplay of people, policies and processes, and technologies and must be integrated with the enterprise-wide risk management system.

Management should adopt a holistic, integrated and cyclical approach to managing information security risks. An ISRM framework should be in place encompassing key elements and phases with effective governance mechanisms to oversee the entire process. The framework represents a continuing cycle that should evolve over time taking into account changes in the operating and business environment as well as the overall cyber-threat landscape.



Figure 1. Information Security Risk Management Framework

The ISRM framework is based upon the following underlying fundamental principles and concepts:

(a) *Strong leadership and effective Information Security (IS) governance and oversight.* The BSFI's board and senior management set the overall tone and strategic direction for information security by providing strong leadership, effective information security governance and oversight. They should take the lead in establishing an information security culture that regards security as an intrinsic part of the BSFI's core business and operations. Instilling a strong security culture ensures that security controls, processes, and measures are deeply embedded into the institution's lines of business, products, services and processes, including its employees and external relationships. The board and senior management should adopt the right mindset and understand the crucial role of information security in supporting/achieving business goals and objectives. Towards this end, they should oversee the development of an information security strategic plan (ISSP) to clearly articulate security strategies and objectives aligned with business plans.

The BSFI should maintain a comprehensive, well-designed and effective information security program (ISP) that is commensurate with its operational and IT profile complexity. To ensure its effectiveness and sustainability, the ISP should have strong support from the board and senior management as well as cooperation of all concerned stakeholders. Management should see to it that adequate resources, organizational functions/capabilities, policies, standards, and procedures as well as the supporting infrastructure commensurate with the BSFI's IT risk complexity and appetite are available and optimized to effectively implement the ISSP and ISP. Lastly, the board and senior management should appoint a chief information security officer (CISO), a senior level executive with sufficient authority within the institution, who will be responsible and accountable for the organization-wide ISP.

(b) *Integrated, holistic and risk-based approach.* The ISRM should form an integral part of the BSFI's ISP and enterprise risk management system. It encompasses the people, policies and processes, and technology elements in the organization that should be harmonized to support information security goals and objectives. Information security is not achieved by merely focusing on technology or one aspect and no one element is superior over the other. Each of these elements must work together to achieve the desired security posture and manage information security risks to acceptable levels. In line with the increasing interconnectivity of BSFIs and other industry players, the ISRM should also consider security controls and requirements over third party service providers, customers, banks, and other third party stakeholders which are linked or have access to the BSFI's network and systems. This is because threat actors may launch their attacks on the BSFI through these third party networks.

Likewise, the ISRM including cyber-risk management programs should be commensurate with the inherent risks involved. This means that the BSFI's information security controls and maturity levels should be commensurate with its operations and complexity of IT profile. In this regard, in determining whether a certain control requirement is applicable to the BSFI, it shall first assess the complexity of its IT profile pursuant to Sec. 148. BSFIs with complex IT profile are expected to implement the more advanced security control measures and be at the higher levels of the information security/cyber-maturity curve. BSFIs may also refer to leading standards and frameworks issued by standard-setting bodies[1] on information security and cybersecurity in designing their ISRM.

(c) *Continuing cycle*. The ISRM involves a continuing cycle consisting of the following six (6) major phases:

(i) *Identify.* The starting point of the cycle is the identification of the BSFI's information security as well as cyber-related risks. Under this phase, management needs to identify its business processes and functions, information assets classified as to sensitivity and criticality, threats and vulnerabilities, interconnections, and security architecture. Identification of these factors facilitates BSFI's understanding and assessment of its inherent information security and cyber risks which are key inputs in determining, designing, and implementing the appropriate risk treatment options.

(ii) *Prevent.* After identifying these key factors and assessing the information security and cyber risks, the prevent phase comes into play where adequate protection mechanisms and controls are designed and implemented. These include measures ranging from baseline to advanced tools and approaches such as defense-in-depth, malware prevention, access controls and cybersecurity awareness programs, among others. These preventive controls are generally categorized into three (3) types, as follows:

(aa) *Administrative controls* – refer to the policies, standards, and procedures in place which articulate Management's intent, expectations, and direction on information security. It also includes security trainings and awareness programs and personnel security practices designed to prevent unwarranted employee behavior.

(bb) *Physical and environmental controls* – pertain to the security controls and measures implemented to protect physical infrastructure such as data centers, computer facilities, and equipment from damage, unauthorized access or environmental hazards.

(cc) *Technical controls* – refer to the logical security controls, security tools, and technologies to ensure that the confidentiality, integrity, and availability objectives for information assets are achieved.

(iii) *Detect.* Detection capabilities should also be in place as prevention alone is not sufficient. As demonstrated in recent cyber-attacks, the ability of an institution to quickly detect anomalous activities and evaluate the scope of an attack is an important aspect in significantly reducing negative impacts. Management should design and implement effective detection controls over the BSFI's networks, critical systems and applications, access points, and confidential information.

(iv) *Respond.* The response phase is triggered upon confirmation of an occurrence of a cyber-attack or security incident affecting the BSFI and its customers. With the growing incidence of sophisticated cybercrimes and threats, the BSFI should be prepared to respond quickly considering that cyber-attacks are no longer a remote possibility. Therefore, it should develop comprehensive, updated, and tested incident response plans supported by well-trained incident responders, investigators, and forensic data collectors. Through adequate response capabilities, the BSFI should be able to minimize and contain the damage and impact arising from security incidents, immediately restore critical systems and services, and facilitate investigation to determine root causes.

[1] US National Institute of Standards and Technology (NIST), ISO/IEC, ISACA and Committee and Payments and Market Infrastructures (CPMI), among others.

(v) *Recover.* This phase encompasses both the resumption of activities at a level which is considered "good enough for a certain period of time" and full recovery, i.e., an eventual return to full service. Management should be able to establish back-up facilities and recovery strategies to ensure the continuity of critical operations. During the recovery phase, it should ensure that information processed using back-up facilities and alternate sites still meet acceptable levels of security. To achieve cyber resilience, the BSFI should consider information security incidents and cyber-related attack scenarios in its business continuity management and recovery processes.

(vi) *Test.* The BSFI needs to continually assess and test controls and security measures implemented under the prevent, detect, respond, and recover phases to ensure that these are effective and working as intended. Likewise, a comprehensive, systematic and layered testing and assurance program covering security processes and technologies should be in place. This is to ensure that the ISRM is on track in providing appropriate level of information security commensurate with the BSFIs' IT profile complexity. This phase also ensures that both the ISSP and ISP remain effective vis-a-vis the fast-evolving cyber-threat landscape.

(d) *Cyber threat intelligence and collaboration.* In response to the growing cyber-threat landscape, BSFIs need to step up their information security posture and resilience beyond their respective networks. Likewise, BSFIs need to enhance situational awareness that would provide a keen sense of the threat landscape as it relates to their IT risk and cyber-risk profiles, operating complexities, and business models. Further, BSFIs need to collaborate with each other, including regulators, law enforcement agencies, and other third party stakeholders for a collective, coordinated, and strategic response through information sharing and collaboration. Information sharing allows BSFIs to enhance threat intelligence that enables quick identification, prevention and response to emerging and persistent threats. (Detailed guidelines/standards on information security are shown in *Appendix 62*).

(2) *Project management/development and acquisition and change management.* BSFIs should establish a framework for management of IT-related projects. The framework should clearly specify the appropriate project management methodology that will govern the process of developing, implementing and maintaining major IT systems. The methodology, on the other hand, should cover allocation of responsibilities, activity breakdown, budgeting of time and resources, milestones, checkpoints, key dependencies, quality assurance, risk assessment and approvals, among others. In the acquisition and/or development of IT solutions, BSFIs should ensure that business and regulatory requirements are satisfied. (Detailed guidelines/standards on Project Management/Development and Acquisition and Change Management are shown in *Appendix Q-63*).

(3) *IT operations.* IT has become an integral part of the day-to-day business operation, automating and providing support to nearly all of the business processes and functions within the institution. Therefore, the IT systems should be reliable, secure and available when needed which translates to high levels of service and dependency on IT to operate.

One of the primary responsibilities of IT operations management is to ensure the institution's current and planned infrastructure is sufficient to accomplish its strategic plans. BSFI management should ensure that IT operates in a safe, sound, and efficient manner throughout the institution. Given that most IT systems are interconnected and interdependent, failure to adequately supervise any part of the IT environment can heighten potential risks for all elements of IT operations and the performance of the critical business lines of the BSFIs. Such scenario necessitates the coordination of IT controls throughout the institution's operating environment. (Detailed guidelines/standards on IT Operations are shown in *Appendix Q-64*).

(4) *IT outsourcing/vendor management program.* IT outsourcing refers to any contractual agreement between a BSFI and a service provider or vendor for the latter to create, maintain, or reengineer the institution's IT architecture, systems and related processes on a continuing basis. A BSFI may outsource IT systems and processes except those functions expressly prohibited by existing regulations. The decision to outsource should fit into the institution's overall strategic plan and corporate objectives and said arrangement should comply with the provisions of existing Bangko Sentral rules and regulations on outsourcing. Although the technology needed to support business objectives is often a critical factor in deciding to outsource, managing such relationships should be viewed as an enterprise-wide corporate management issue, rather than a mere IT issue.

While IT outsourcing transfers operational responsibility to the service provider, the BSFIs retain ultimate responsibility for the outsourced activity. Moreover, the risks associated with the outsourced activity may be realized in a different manner than if the functions were inside the institution resulting in the need for controls designed to monitor such risks.

BSFI management should implement an effective outsourcing oversight program that provides the framework for management to understand, monitor, measure, and control the risks associated with outsourcing. BSFIs outsourcing IT services should have a comprehensive outsourcing risk management

process which provides guidance on the following areas: 1) risk assessment; 2) selection of service providers; 3) contract review; and 4) monitoring of service providers. Detailed guidelines/standards on IT Outsourcing/Vendor Management and on the adoption of outsourced cloud computing model are shown in *Appendix Q-65.*

(5) *Electronic products and services.* The evolution in technology revolutionized the way banking and financial products and services are delivered. Physical barriers were brought down enabling clients to access their accounts, make transactions or gather information on financial products and services anywhere they are, at any time of the day and at their own convenience. As development in technology continues to accelerate, innovative electronic products and services are foreseen to bring more accessibility and efficiency. However, BSFIs may be confronted with challenges relating to capacity, availability and reliability of the electronic services. Likewise, fraudulent activities via electronic channels are also rising in number.

BSFIs should protect customers from fraudulent schemes done electronically. Otherwise, consumer confidence to use electronic channels as safe and reliable method of making transactions will be eroded. To mitigate the impact of cyber fraud, BSFIs should adopt aggressive security posture such as the following:

(a) The entire ATM system shall be upgraded/converted to allow adoption of end-to-end Triple DES (3DES) encryption standards by 01 January 2015. The 3DES encryption standards shall cover the whole ATM network which consists of the host processors, switches, host security module (HSM), automated teller machines (ATMs), point-of-sale (POS) terminals and all communication links connected to the network;

(b) ATMs to be installed after 04 September 2014 should be 3DES compliant; and

(c) ATMs, POS terminals and payment cards are also vulnerable to skimming attacks due to the lack of deployment of globally recognized EMV enabled technology by BSFIs. Magnetic stripe only ATMs, POS Terminals and cards are largely defenseless against modern fraud techniques. Therefore, all concerned BSFIs should shift from magnetic stripe technology to EMV chip-enabled cards, POS Terminals and ATMs. The entire payment card network should be migrated to EMV. This requirement shall cover both issuing and acquiring programs of concerned BSFIs. A written and board-approved EMV migration plan should be submitted to the appropriate supervising department of the Bangko Sentral within six (6) months from 22 August 2013. The guidelines on EMV Implementation are shown in *Appendix Q-80*. The guidelines on EMV Card Fraud Liability Shift Framework (ECFLSF) are in *Appendix Q-81.*[1]

Detailed guidelines/standards on Electronic Products and Services are shown in *Appendix Q-66*.

d. *Risk measurement and monitoring.* BSFI Management should monitor IT risks and the effectiveness of established controls through periodic measurement of IT activities based on internally established standards and industry benchmarks to assess the effectiveness and efficiency of existing operations. Timely, accurate, and complete risk monitoring and assessment reports should be submitted to management to provide assurance that established controls are functioning effectively, resources are operating properly and used efficiently and IT operations are performing within established parameters. Any deviation noted in the process should be evaluated and management should initiate remedial action to address underlying causes. The scope and frequency of these performance measurement activities will depend on the complexity of the BSFI's IT risk profile and should cover, among others, the following:

(1) *Performance vis-à-vis approved IT strategic plan.* As part of both planning and monitoring mechanisms, BSFI management should periodically assess its uses of IT as part of overall business planning. Such an enterprise-wide and ongoing approach helps to ensure that all major IT projects are consistent with the BSFI's overall strategic goals. Periodic monitoring of IT performance against established plans shall confirm whether IT strategic plans remain in alignment with the business strategy and the IT performance supports the planned strategy.

(2) *Performance benchmarks/service levels.* BSFIs should establish performance benchmarks or standards for IT functions and monitor them on a regular basis. Such monitoring can identify potential problem areas and provide assurance that IT functions are meeting the objectives. Areas to consider include system and network availability, data center availability, system reruns, out of balance conditions, response time, error rates, data entry volumes, special requests, and problem reports.

Management should properly define services and service level agreements (SLA) that must be monitored and measured in terms understandable to the business units. SLA with business units and IT department should be established to provide a baseline to measure IT performance.

[1] This paragraph shall take effect on 01 January 2017.

(3) *Quality assurance/quality control.* BSFI should establish quality assurance (QA) and quality control (QC) procedures for all significant activities, both internal and external, to ensure that IT is delivering value to business in a cost effective manner and promotes continuous improvement through ongoing monitoring. QA activities ensure that product conforms to specification and is fit for use while QC procedures identify weaknesses in work products and to avoid the resource drain and expense of redoing a task. The personnel performing QA and QC reviews should be independent of the product/process being reviewed and use quantifiable indicators to ensure objective assessment of the effectiveness of IT activities in delivering IT capabilities and services.

(4) *Policy compliance.* BSFIs should develop, implement, and monitor processes to measure IT compliance with their established policies and standards as well as regulatory requirements. In addition to the traditional reliance on internal and third party audit functions, BSFIs should perform self-assessments on a periodic basis to gauge performance which often lead to early identification of emerging or changing risks requiring policy changes and updates.

(5) *External assessment program.* Complex BSFIs may also seek regular assurance that IT assets are appropriately secured and that their IT security risk management framework is effective. This may be executed through a formal external assessment program that facilitates a systematic assessment of the IT security risk and control environment over time.

Reporting and notification standards. In line with the increased reliance on and adoption of technology by BSFIs, along with growing concerns on cybersecurity, BSFIs should submit regular and event-driven reports covering technology-related information as well as incidence of major cyber-attacks and operational disruptions. This will enable the Bangko Sentral to have an enhanced visibility on the changing IT risk landscape and to proactively ensure that the impact and risks arising from cyber-related incidents and operational disruptions are minimized and contained to avert potential systemic risks to the financial system.

a. Reporting requirement. BSFIs are required to submit to the Bangko Sentral the following reports/information:

(1) Periodic reports. BSFIs shall submit an Annual IT Profile, as listed in *Appendix* 7, electronically to the appropriate supervising department of the Bangko Sentral within twenty-five (25) calendar days from the end of reference year.

(2) Event-driven reports. BSFIs shall notify the Bangko Sentral upon discovery of any of the following:

(a) Reportable Major Cyber-related Incidents. These cover all events which may seriously jeopardize the confidentiality, integrity or availability of critical information, data or systems of BSFIs, including their customers and other stakeholders. Reporting of such incidents to the Bangko Sentral should form part of the incident management plan of BSFIs.

An incident is considered a reportable major cyber-related incident, if after assessing the nature of the incident or attack, the BSFI has determined that the same:

(i) resulted in an unauthorized access and infiltration into the BSFI's internal network (i.e., hacking, advanced persistent threats, presence of malware);
(ii) involved a system-level compromise (i.e., attacks on BSFI's core systems, as opposed to phishing attempts of individual clients);
(iii) affected a significant number of customer accounts simultaneously;
(iv) involved significant data loss or massive data breach;
(v) indicated spearphishing attacks targeting the BSFIs' directors, senior executives, officers, or privileged users;
(vi) resulted in the unavailability of critical systems/services (e.g., Distributed Denial of Service (DDoS) attack resulting in service outage);
(vii) inflicted material financial losses to the BSFIs, their customers and other stakeholders; or
(viii) has been suspected to be perpetrated by an advanced threat actor.

(b) Disruptions of financial services and operations. These include disruption of critical operations which lasts for more than two (2) hours due to internal and external threats, which may be natural, man-made or technical in origin. Such scenarios usually involve loss of personnel, technology, alternate site, and service providers. Causes of such interruptions include, but are not limited to, fire, earthquakes, flood, typhoon, long-term power outage, technical malfunctions, pandemics and other threats.

Security events/attacks which are normally prevented by security systems/devices need not be reported to the Bangko Sentral, except if the same involve significant financial value and/or multitude of customer accounts beyond BSFI's reasonable threshold levels. For instance, an attempt to

fraudulently transfer funds involving large sums of money requires immediate notification to the Bangko Sentral as this can be a signal of impending attacks to other BSFIs.

b. Procedure for event-driven reporting. The following procedures shall be followed by BSFIs in reporting reportable major cyber-related incidents and/or disruptions of financial services and operations stated in Item *"a(2)"*of this above:

(1) The BSFIs' Compliance Officer and/or BSFI-designated Officer shall notify the appropriate supervising department of the Bangko Sentral within two (2) hours from discovery of the reportable major cyber-related incidents and/or disruptions of financial services and operations stated in Item *"a(2)"* above, in accordance with *Appendix Q-3*.

(2) The BSFIs shall disclose, at the minimum, the nature of the incident and the specific system or business function involved.

(3) Within twenty-four (24) hours from the time of the discovery of the reportable major cyber-related incident and/or disruption, a follow-up report should be sent to the appropriate supervising department of the Bangko Sentral through e-mail indicating the following, as applicable:

(a) nature of the incident;
(b) manner and time of initial detection;
(c) impact of the incident based on initial assessment (e.g., length of downtime, number of affected customers/accounts, number of complaints received, value of transactions involved);
(d) initial response or actions taken/to be taken (e.g., conduct of root cause analysis) with respect to the incident; and
(e) information if the incident resulted in activation of the Business Continuity Plan (BCP) and/or Crisis Management Plan (CMP).

c. Verification of root cause. Depending on the nature and severity of the reported incident/disruption, the Bangko Sentral may require BSFIs to provide additional information or updates until the matter is satisfactorily resolved. Likewise, the Bangko Sentral may conduct special examination or overseeing inspection, if necessary, to verify root cause of the incident, assess the impact to the BSFI and the financial system as a whole, identify areas for improvement to prevent recurrence of the incident, and promote enterprise and industry-wide operational resilience.

d. Compliance with reporting of crimes and losses. Compliance with event-driven report requirement shall not excuse BSFIs from complying with the existing rules on the reporting of crimes and losses under Sec. 173 and *Appendix Q-5.* Likewise, any cyber-related incident which does not qualify as a reportable major cyber-related incident and other disruptions arising from crimes and losses must be reported to the Bangko Sentral in accordance with the aforesaid regulations. Operational risk events which are covered under Item *"a(2)"* on the event-driven reporting and notification requirements shall no longer require separate reporting and notification pursuant to Sec. 146-Q (*Notification/Reporting to Bangko Sentral*).

e. Information gathering. Should the conduct of in-depth studies and research on certain technology development or key area of concern relating to technology risk and cybersecurity be warranted, the Bangko Sentral, from time to time, may request BSFIs to submit specific data and information thereon through surveys, questionnaires or other means.

Sanctions and penalties. BSFIs should make available all policies and procedures and other documents/requirements related to the foregoing during on-site examination as well as provide copies thereof to the Bangko Sentral when a written request is made to determine their compliance with this Section.

Consistent with Sec. 002, the Bangko Sentral may deploy enforcement actions to promote adherence to the requirements set forth in Sec. 147-Q and bring about timely corrective actions. Any violation of the provisions of this Section, its appendices and annexes, shall subject the BSFI and/or its directors, officers, and/or employees to the monetary and non-monetary sanctions, as provided under existing laws, Bangko Sentral rules and regulations. Enforcement actions shall be imposed on the basis of the overall assessment of BSFIs' ITRMS. Whenever a BSFI's ITRMS is rated "1" pursuant to Sec. 147 (*IT rating system*), the following additional sanctions may be imposed:

a. Non-compliance with the requirements in Item *"b"* of this Section on Reports will be subject to "High" penalty level monetary sanctions pursuant to Sec. 1102-Q (*Other Payments of NBFIs*) and *Appendix Q-26*. Consistent with Sec. 002-Q the Bangko Sentral may deploy applicable enforcement actions on the BSFI and/or its directors, officers, and/or employees for violations on this requirement.

b. Annual IT Profile and other periodic reports which have been considered as erroneous, delayed or unsubmitted shall be subject to the penalties for *Category B* reports under Sec. 171.

On the requirement to adopt multi-factor authentication techniques for sensitive communications and/or high risk transactions pursuant to Item *"4.1.2"* of *Appendix Q-66*, the Bangko Sentral may issue directives to improve authentication and authorization procedures for sensitive communications and/or high risk transactions, or impose sanctions to limit the level of or suspend any electronic products and services that are not compliant with such requirements.

(Circular Nos. 1125 dated 20 August 2021, 1019 dated 31 October 2018, and 958 dated 25 April 2017)

148-Q BUSINESS CONTINUITY MANAGEMENT

***Policy statement*[1].** BSFIs can be adversely affected by disruption of critical operations due to internal and external threats, which may be natural, man-made or technical in origin. Extreme events may cause major disruptions whose impact are very broad in scope, duration or both and can pose a substantial risk to the continued operation of BSFIs. Because BSFIs play a crucial role in the financial system and economy as a whole, it is important to ensure that their operations can withstand the effects of major disruptions. Thus, BSFIs need to have a comprehensive business continuity management (BCM) process as an integral part of their operational risk management system. A well-designed BCM process enables BSFIs to resume critical operations swiftly and minimize operational, financial, legal, reputational, and other material risks arising from a disruption. This also helps mitigate systemic risks as well as maintain public trust and confidence in the financial system.

Purpose, applicability, and scope. The guidelines aim to promote sound management of business continuity risks. These align existing regulations, to the extent possible, with leading standards and recognized principles on BCM, and shall serve as the Bangko Sentral's baseline requirement for all BSFIs.

The guidelines shall apply to BSFIs which include banks, non-banks with quasi-banking function (NBQB), non-bank electronic money issuers and other non-bank institutions which under existing Bangko Sentral rules and regulations and special laws are subject to Bangko Sentral supervision and/or regulation. Moreover, subject guidelines shall also apply to BSFIs with offshore data processing as may be appropriate to their situation.

Definition of terms. In these guidelines, terms are used with the following meanings:

a. *Alternate and business recovery sites* shall refer to standby facilities for use during disruption of critical operations to ensure business continuity. These provide work space and/or the necessary technology environment needed to process business-critical information. Organizations may have more than one (1) alternate site. In some cases, alternate sites may involve facilities that are used for normal day-to-day operations but which are able to accommodate additional business processes when a primary location becomes inoperable. Examples of alternate sites include relocation and disaster recovery sites, whether managed directly or maintained by a third party for a BSFI or for use by multiple organizations.

b. *Business continuity* shall refer to a state of continued, uninterrupted operation of a business.

c. *Business continuity management (BCM)* shall refer to an enterprise-wide framework encompassing policies, standards, facilities, personnel and practices that provides for continuous functioning of the institution during disruptions. It is proportionate to the BSFI's internal and external risk exposures and tailored to the nature, scale, and complexity of its business.

d. *Business continuity plan (BCP)/plan* shall refer to a documented plan detailing the orderly and expeditious process of recovery, resumption, and restoration of business functions in the event of disruptions. It should be able to cover and establish linkages among its multiple components, such as communication plan, crisis management plan, contingency funding plan, and technology recovery plan.

e. *Business impact analysis (BIA)* shall refer to the process of identifying and measuring (quantitatively and qualitatively) the business impact or loss of business processes in the event of a disruption. It is used to identify recovery priorities, recovery resource requirements, essential staff, and dependencies (internal and external) to be incorporated in the plan.

f. *Crisis* shall refer to a situation that requires urgent action due to its disruptive impact on the BSFI's core activities or business and operating environment.

g. *Crisis management plan (CMP)* shall refer to a documented plan detailing the actions to be taken when a crisis strikes a BSFI and designed to maintain order amidst the confusion surrounding such situations. During and immediately after a crisis, the members of the crisis management team will convene and activate the plan to attain control over the crisis and minimize its impact to operations.

[1] BSFIs shall comply with the foregoing standards on BCM within a period of one (1) year from 11 April 2017. In this regard, a BSFI should be able to show its plan of actions with specific timelines, as well as the status of initiatives being undertaken to fully comply with the provisions of Sec. 148 (*Business continuity management*) starting July 2017, upon request of the Bangko Sentral.

h. *Critical process* shall refer to any activity, function or service, which when lost would materially affect the continued operation of the BSFI.

i. *Cyber resilience* shall refer to an organization's ability to anticipate, handle, adapt to, and/or recover from evolving cyber threats.

j. *Events* shall refer to disruption scenarios such as loss of people, technology, alternate site, and service providers.

k. *Pandemic* shall refer to epidemics or outbreaks in humans of infectious diseases that have the ability to spread rapidly over large areas, possibly worldwide.

l. *Recovery point objective (RPO)* shall refer to acceptable amount of data loss should a disruption occur without severe impact on the recovery of operations.

m. *Recovery time objective (RTO)* shall refer to the period of time following an incident within which a product, system or business process must be resumed or resources must be recovered.

n. *Resilience* shall refer to the ability of an organization to anticipate, handle, adapt to and/or recover from a disruption and resume operations.

o. *Risk assessment* shall refer to the process involving the identification and assessment of potential threats and vulnerabilities that could severely interrupt a BSFI's business activities and the corresponding likelihood and magnitude of impact on business processes.

p. *Technology recovery plan (TRP)/disaster recovery plan (DRP)* shall refer to a documented plan detailing the technology strategy and requirements during recovery for business and support functions. The relevant regulations are in Item "*3.3.2.13*" of *Appendix Q-64*.

Roles and responsibilities.

a. *Board of directors and senior management*. The BSFI's board and senior management are responsible for overseeing the implementation of a sound BCM process, which involves the creation and promotion of an organizational culture that places high priority on business continuity. This should be reinforced by providing sufficient financial and human resources associated with the BSFI's business continuity initiatives. Senior management should establish BCM policies, standards, and processes, which must be duly endorsed to and approved by the board.

Awareness training and periodic reporting to board and senior management on matters related to business continuity are equally important to ensure their continuing commitment and support. At a minimum, periodic management reports should include the following: (1) implementation status of the BCP; (2) incident reports; (3) plan test results; (4) changes to the plan; and (5) related action items to strengthen the BSFI's ability to recover during disruptions.

b. *BCM coordinator/unit*. Coordination and supervision of all business continuity activities should be assigned to a competent individual and/or unit with technical knowledge and experience consistent with the nature and complexity of the BSFI's business activities. A complex[11] BSFI may need a BCM unit with a team of departmental liaisons throughout the organization. For a simple BSFI, an individual BCM coordinator may suffice. While the BCM coordinator/unit may recommend initiatives or activities to be prioritized, the board of directors and senior management are ultimately responsible for understanding the critical business processes and subsequently establishing plans to meet business process requirements in a safe and sound manner.

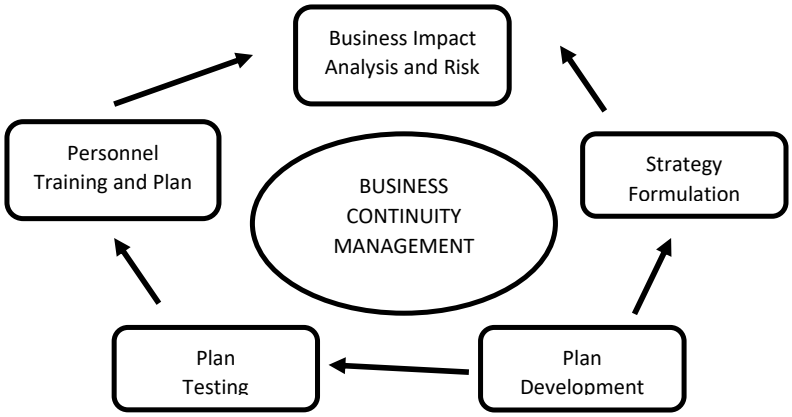
c. *BSFI personnel*. BSFI personnel should understand their roles and responsibilities on the prevention of crisis and recovery of business operations during disruptions. Business and support functions should allocate responsibilities for managing disruptions and provide clear guidance regarding the succession of authority to account for unavailability of key personnel in the event of a disruption.

d. *Audit*. An independent review of the BSFI's BCM framework and corresponding plans should be periodically performed with frequency based on a sound risk assessment process. This is to ensure that significant policy revisions resulting from changes in the operating environment, lessons learned from plan tests, and internal and regulatory audit recommendations have been considered. Moreover, plan testing exercises should be independently observed, verified, and evaluated to ensure reasonableness and validity of the testing process and the accuracy of test results.

[1] Pursuant to Sec. 147-Q NBFIs are classified as "simple" but maybe re-classified as "complex" depending on extent or degree of reliance of core business function to technology.

Business continuity management framework. BSFIs should adopt a cyclical, process-oriented BCM framework, which, at a minimum, should include five (5) phases, namely: BIA and risk assessment, strategy formulation, plan development, plan testing, and personnel training and plan maintenance. This framework represents a continuous cycle that should evolve over time based on changes in business and operating environment, audit recommendations, and test results. This framework should cover each business function and the technology that supports it. Other related policies, standards, and processes should also be integrated in the overall BCM framework.

Figure 1. Business Continuity Management Process



a. *Business impact analysis and risk assessment*. A comprehensive BIA and risk assessment should be undertaken to serve as the foundation in the development of the plan. The BIA entails determining and assessing the potential impact of disruptions to critical business functions, processes, and their interdependencies through work-flow analyses, enterprise-wide interviews, and/or inventory questions. Accordingly, the BSFI should determine the recovery priority, RTO, RPO, and the minimum level of resources required to ensure continuity of its operations consistent with the criticality of business function and technology that supports it. The BSFI should then conduct risk assessment incorporating the results of the BIA and evaluating the probability and severity of a wide-range of plausible threat scenarios in order to come up with recovery strategies that are commensurate with the nature, scale, and complexity of its business functions.

Domestic systemically important banks (D-SIBs). To minimize the extent or impact of a D-SIB's failure in the financial system, BSFIs identified as D-SIBs by the Bangko Sentral, pursuant to Sec. 126-Q, should set the RTO for each of their critical processes to a maximum of four (4) hours from the point of disruption. For non-D-SIB BSFIs, the RTO of critical processes should be primarily driven by their BIA and risk assessment.

b. *Strategy formulation*. Recovery and resumption strategies to achieve the agreed time-frame and deliver the minimum required services as identified in the BIA should be defined, approved, and tested. The minimum requirements for the provision of essential business and technology service levels during disruptions should be established by concerned business and support functions.

(1) *Recovery strategy*. As business resumption relies primarily on the recovery of technology resources, adequate provisions should be in place to ensure systems availability and recoverability during disruptions as prescribed under *Appendix Q-64*. Recovery strategies should be able to meet the agreed requirements between business units and support functions for the provision of essential business and technology service levels.

(2) *Continuity of operations/business resumption strategy*. The business continuity models adopted by the BSFI to handle prolonged disruptions should be based on the risk assessment of its business environment and the characteristics of its operations. The resumption strategies and resource requirements should be approved by the board as recommended by senior management or the relevant board committees to ensure alignment with corporate goals and business objectives.

c. *Plan development*. Plans are an important, tangible evidence of the BSFI's business continuity initiatives. The objective of the plan is to provide detailed guidelines and procedures on response and management of a crisis, recovery of critical business services and functions and to ultimately resume to normal operations. The plan should be formulated on an enterprise-wide basis, reviewed and approved by the board and senior management at least annually and disseminated to all concerned employees. The plan should include provisions for both short-term and prolonged disruptions.

A well-written plan should describe the various types of events or scenarios that could prompt BCP activation. It should include, at a minimum, the following components:

(1) Escalation, declaration and notification procedures;

(2) Responsibilities and procedures to be followed by each continuity or recovery teams and their members. The procedures should enable the BSFI to respond swiftly to a crisis (i.e., a crisis management plan) and to recover and resume the critical processes outlined in the plan within the stipulated time frame during disruptions;

(3) A list of resources required to recover critical processes in the event of a major disruption. This would include, but not limited to: (a) key recovery personnel; (b) computer hardware and software; (c) communication systems; (d) office equipment; and I vital records and data;

(4) Relevant information about the alternate and recovery sites; and

(5) Procedures for restoring normal business operations. This should include the orderly entry of all business transactions and records during disruption into the relevant systems up to completion of all verification and reconciliation procedures.

Communication is a critical aspect of a BCP. In this respect, the BSFI should include a communication plan for notifying all relevant internal and external stakeholders (e.g., employees, customers, vendors, regulators, counterparties, and key service providers, media and the public) following a disruption. The BSFI should maintain an up-to-date call tree and contact list of key personnel and service providers, including communication flow and channels for internal and external stakeholders. Clear and effective communication will facilitate escalation for appropriate management action and instruction to all concerned and help manage reputational risks. The BSFI should consider alternate methods of communication and preparation of predetermined messages tailored to a number of plausible disruption scenarios to ensure various stakeholders are timely, consistently, and effectively informed.

A crisis management plan should be included in the BCP to assist senior management in dealing with and containing an emergency and avoid spillover effects to the business. Senior management should identify potential crisis scenarios and develop corresponding crisis management procedures. This includes identifying a mix of individuals from various departments who are authorized to make instantaneous decisions during crisis situations. This team shall be responsible for the actual declaration of an event, activation of the plan, and internal and external communication process.

When outsourcing plan development, management should ensure that the chosen service provider has the expertise required to analyze the business needs of the BSFI and that the arrangement conforms to legal and regulatory requirements. The service provider should be able to design executable strategies relevant to the BSFI's risk environment and design education and training programs necessary to achieve successful BCP deployment.

d. *Plan Testing*

(1) *Types of testing methods*. Plan testing is a vital element of the BCM. It ensures that the plan remains accurate, relevant, and operable. Tests should be conducted periodically, with the nature, scope, and frequency determined by the criticality of the applications, business processes, and support functions. In some cases, plan tests may be warranted due to changes in BSFI's business, responsibilities, systems, software, hardware, personnel, facilities, or the external environment.

Testing methods can vary from simple to complex each bearing its own characteristics, objectives, and benefits. Types of testing methods in order of increasing complexity include:

(a) *Tabletop exercise/structured walk-through test* – the primary objective is to ensure that critical personnel from all areas are familiar with the plan and that it accurately reflects the BSFI's ability to recover from a disruption.

(b) *Walk-through drill/simulation test* – similar to a tabletop exercise but with a more focused application. During this test, participants choose a specific scenario to which relevant plan provisions shall be applied.

(c) *Communication/call tree test* – an exercise that validates the capability of crisis management teams to respond to specific events and the effectiveness of the call tree notification process in disseminating information to employees, vendors, and key clients.

(d) *Alternate site test/exercise* – tests the capability of staff, systems, and facilities, located at alternate sites to effectively support production processing and workloads.

(e) *Component test/exercise* – A testing activity designed to validate the continuity of individual systems, processes, or functions, in isolation.

(f) *Functional drill/parallel test* – test to determine capability of alternate site and BSFI employees to support strategy as defined in the plan, which involves actual mobilization of personnel, establishing communications, and recovery processing.

(g) *Enterprise-wide full-interruption/full-scale test* – the most comprehensive type of test encompassing the entire organization and requires activation of all the components of the plan at the same time to simulate a real-life emergency and processing data and transactions using back-up media at the recovery site.

(2) *Test policy/plan*. Testing should be viewed as a continuously evolving cycle. The BSFI should incorporate the results of BIA and risk assessment and work towards a testing strategy that increases in scope and complexity to address a variety of threat scenarios. Test scenarios should vary from isolated system failures to wide-scale disruptions and promote testing its primary and alternate facilities, as well as with key counterparties and third-party service providers.

A testing policy should define roles and responsibilities for the implementation and evaluation of the testing program. Test plans with pre-determined goals and test criteria should be developed for each testing activity. It should clearly define the objectives of testing, identify the functions, systems, or processes to be tested and the criteria for assessing what constitutes a successful test. Formal testing documentation (i.e., test plans, test scenarios, test procedures, test results) should be prepared to ensure thoroughness and effectiveness of testing and properly maintained for audit and review purposes.

(3) *Annual enterprise-wide business continuity testing*. The BSFI must conduct an enterprise-wide business continuity test at least annually, or more frequently depending on changes in the operating environment, to ensure its plan's relevance, effectiveness, and operational viability. The scope of testing should be comprehensive to cover the major components of the plan as well as coordination and interfaces among important parties.

(4) *Analysis and report of test result*. Plan tests, including successes, failures, and lessons learned, should be thoroughly analyzed to promote continuous BCM improvement. Exceptions noted should be documented and corrective actions should be closely monitored to ensure that they are implemented in a timely manner by concerned parties, including the board of directors and senior management, business line management, risk management, IT management, and other internal stakeholders.

e. *Personnel training and plan maintenance.*

(1) *Training program*. A business continuity training program should be provided to all concerned employees to promote awareness, familiarity, and understanding of their roles and responsibilities in the event of a disruption. The training program should be offered on a continuing basis for existing and new employees and should be updated to address changes to the plan.

(2) *Plan maintenance*. Plans and results of BIA and risk assessment should be reviewed and updated on an ongoing basis (at least annually or when necessary) so that they remain consistent with the BSFI's current operations and business strategies. BCM-related documents (i.e., BCP, test program, policy guidelines, and program requirements) should be subject to change management process to ensure these are updated with proper approval and documentation with respect to any significant changes in the business environment or as a result of audit findings.

Other policies, standards and processes. The following policies, standards and processes should be integrated into the BCM process:

a. *Pandemic planning*. Similar to natural disasters or technical disruptions, pandemics may also interrupt a BSFI's business activities. However, the difficulty in determining a pandemic's scope and duration present additional challenges in ensuring resilience and continuity of a BSFI's operations.

Generally, pandemic plans are integrated in the BSFI's BCP and follow the same BCM process with additional considerations, such as:

(1) *Business impact analysis and risk assessment*. The BCM process should consider pandemics as early as the BIA and risk assessment phase. The BIA and risk assessment should be updated to incorporate complexities that may arise from pandemics, such as (a) increasing level of absenteeism based on a pandemic's severity; and (b) the need for another layer of contingency plans as regular disaster or emergency response methods are no longer feasible.

(2) *Strategy formulation*. To complement strategies for natural and technical disruptions, the following should be given due consideration when planning for pandemics:

(a) *Trigger events* – Trigger events and strategies should be defined depending on the nature of a pandemic. Pandemic planning should have the flexibility to accommodate varying degrees of epidemic or outbreak as pandemics normally occur in waves or phases and of varying severity.

(b) *Remote access capability* – In the event of a pandemic, enabling remote access may be one of the primary strategies available to a BSFI. To support a telecommuting strategy, the BSFI should ensure adequate capacity, bandwidth and authentication mechanisms in its technological infrastructure against expected network traffic or volume of transactions.

(c) *External parties* – With pandemics not limited to the BSFI, establishing working relationships with external parties is an essential component. In addition to the communication plan for all relevant internal and external stakeholders, the BSFI should establish open relationships and communication channels with local public health and emergency response teams or other government authorities. The BSFI should inform concerned parties of any potential outbreaks and, at the same time, be aware of any developments in the expected scope and duration of a pandemic.

(d) *Employee awareness* – As information becomes available from reputable sources or local agencies, the BSFI should ensure that steps to limit or reduce the risk of being affected by the pandemic are cascaded to its employees.

(3) *Plan development*. Pandemic plans should be commensurate with the nature, size and complexity of a BSFI's business activities and have sufficient flexibility to address the various scenarios that may arise. At a minimum, the pandemic plan should include:

(a) Strategy that is scalable dependent on the extent and depth of the outbreak;
(b) Preventive measures, including monitoring of current environment and hygiene tools available to employees;
(c) Communication plan with internal and external stakeholders, including concerned local public health teams and government agencies; and
(d) Tools, systems and procedures available to ensure continuity of its critical operations even with the unavailability of BSFI's staff for prolonged periods.

(4) *Plan testing*. Test policy/plan should include strategies to assess capability to continue critical operations, systems and applications even in the event of a severe pandemic. When regular tests are unable to cover pandemic scenarios, separate pandemic plan tests should be carried out.

(5) *Personnel training and plan maintenance*. The plan should be updated as developments and information become available. As needed, employee training programs should cover pandemic risks, including the roles and responsibilities of each employee during pandemic situations.

b. *Cyber resilience*. Cyber-threats and attacks against the financial services industry have become increasingly widespread, sophisticated and coordinated. Recent cyber-attacks worldwide highlight, not only the degree of disruption to a BSFI's operations, but also the extent of reputational damage which could undermine public trust and confidence. As such, the BSFI should consider the potential impact of these cyber events into its BCM process and institute adequate cyber resilience capabilities.

Given the unique characteristics of cyber-threats and attacks, traditional back-up and recovery arrangements adopted by the BSFI may no longer be sufficient and even increase the damage to the BSFIs' network, operations and critical information assets. In worst case scenarios, back-up systems and alternate recovery sites are likewise affected rendering both sites inoperable. To ensure cyber resilience, the BSFI should take into consideration a wide-range of cyber-threat scenarios perpetrated from diverse threat sources (e.g., skilled hackers, insiders, state-sponsored groups) which seek to compromise the confidentiality, availability and integrity of its information assets and networks. Defensive strategies and innovative recovery arrangements should be explored that are commensurate with the BSFI's cyber-security risk exposures and aligned with its information security program in accordance with *Appendix* Q-62.

c. *Information security*. Mitigation strategies should consider security controls to manage risks that may arise once an event triggers plan activation. Security during disasters and disruptions is an important consideration to manage risks arising from the change in working environment. The relevant guidelines/standards on information security that may be considered in strategy formulation and/or in choosing alternate sites are in *Appendix* Q-62.

d. *Interdependencies*. An effective plan coordinates across its many internal and external components, identifies potential process or system dependencies, and mitigates risks from interdependencies. The BSFI may have very complex operating and recovery environment wherein interdependencies need to be duly considered, such as

telecommunications, third party service providers, and recovery site. Given the critical resources and services that are being shared with the BSFI or other entities, additional mitigating controls and recovery strategies need to be integrated in the plan.

e. *Liquidity risk management*. Sound liquidity risk management practices enable a BSFI to maintain availability of funds even in times of financial stress or adverse changes in market conditions. In the event of a business disruption, sound liquidity risk management practices should similarly apply. The BSFI should ensure it has sufficient liquidity to support its recovery strategies and continue supporting the delivery of basic banking services to the clients pending full business resumption. Guidelines on liquidity risk management are in *Appendix* Q-43.

f. *Project management*. Senior management should ensure that availability and business continuity requirements are considered at the planning and development stages of new business products and services and other critical technology processes, such as systems development and acquisition, and change management.

g. *Event/problem management*. Operations personnel should be properly trained to recognize events that could trigger implementation of the plan. Although an event may not initially activate the plan, it may become necessary as conditions and circumstances change. Management should train and test BSFI personnel to implement and perform appropriate business continuity procedures within the timeframes of the plan.

h. *Outsourcing*. When a BSFI enters into an outsourcing arrangement, it should put due consideration on the business continuity and disaster recovery arrangements of the service provider to ensure continuity of operations. Detailed guidelines/standards on business continuity considerations for outsourcing arrangements are in *Appendix* Q-65.

i. *Insurance*. Insurance is an option available to a BSFI for recovery of losses that cannot be completely prevented and the expenses related to recovering from a disruption. The BSFI should regularly review the adequacy and coverage of its insurance policies in reducing any foreseeable risks caused by disruptive events, such as loss of offices, critical facilities and equipment, and casualty. Insurance policies may also need to address the BSFI's legal responsibilities for failing to deliver services to its customers and counterparties. To facilitate the claims process, the BSFI should create and retain a comprehensive hardware and software inventory list in a secure off-site location and detailed expenses should be documented to support insurance claims.

Supervisory enforcement actions. BSFIs should make available all policies and procedures and other documents/information related to the foregoing during on-site examination as well as provide copies thereof to the regulator when a written request is made to determine compliance.

Consistent with Sec. 002-Q, the Bangko Sentral may deploy enforcement actions to promote adherence to the requirements set forth in this Section and bring about timely corrective actions. The Bangko Sentral may issue directives to improve the BCM process, or impose sanctions to limit the level of or suspend any business activity that has adverse effects on the safety and soundness of the BSFI, among others. Monetary and non-monetary sanctions, as provided under existing laws, Bangko Sentral rules and regulations, may likewise be imposed on a BSFI and/or its directors, officers and/or employees for violation of this Section.

(Circular Nos. 1051 dated 27 September 2019 and 951 dated 20 March 2017)

149-Q SOCIAL MEDIA RISK MANAGEMENT

Policy statement. BSFIs shall comply with the foregoing standards on social media risk management within a period of six (6) months from 04 April 2017. In this regard, a BSFI should be able to show, upon request of the Bangko Sentral, its plan of actions with specific timelines, as well as the status of initiatives being undertaken to fully comply with the provisions of this Section.

Social media, a low-cost solution capable of disseminating real-time information via the internet, presents vast opportunities for growth, customer engagement and business benefits as usage, customer reach and adoption scale up and become widespread and ubiquitous. Considering these potential benefits alongside exponential growth in the number of social media users and its massive reach, BSFIs have started to leverage on social media platform/s to promote their business and improve customer interaction experience to help drive business objectives/strategies.

Similar to any new technology, however, social media introduces a new attack vector which may expose BSFIs to compliance, legal, reputational, strategic, and operational risks. Risks in social media include susceptibility to account take-over, malware distribution, brand bashing, inadvertent disclosure of sensitive information and privacy violation, among other possible threats. As such, BSFIs should adopt an appropriate risk management system, commensurate with the extent and degree of their social media usage, to effectively identify, measure, manage and monitor risks arising from the use of social media platforms. This should form an integral part of their operational risk management system.

Applicability and scope. The guidelines underscore the importance of having a well-defined social media risk management strategy in supporting BSFI's overall business goals and objectives. These guidelines align existing regulations, to the extent possible, with leading standards and recognized principles. They outline the minimum standards/basic principles that shall govern the BSFI's framework to aid in the sound management of risks associated with the use of social media for official purpose or employees' personal use, within and outside the organization.

It is not intended to provide procedural specifics or a "one-size-fits-all" solution for carrying out compliance and risk management responsibilities. Each BSFI is therefore expected to establish its own risk management strategy; suitable to its size, risk tolerance level, and the nature and scope of social media activities engaged in.

The guidelines shall apply to all BSFIs which include banks, NBQB, non-bank electronic money issuers, and other non-bank institutions which under existing Bangko Sentral rules and regulations and special laws are subject to Bangko Sentral supervision and/or regulation.

Definition of terms. In these guidelines, terms are used with the following meanings:

a. *Attack vector* shall refer to the path or means by which an attacker can gain access to a computer system in order to deliver a malicious code (e.g., virus, worms, trojans).

b. *Non-technical controls* shall refer to management, administration, and operational controls employed that are manual and procedural in nature (e.g., security-related policies and procedures; operational procedures; personnel, physical, and environmental security controls; performance management and measurement).

c. *Risk assessment* shall refer to the process involving the identification and assessment of potential threats and vulnerabilities related to the use of social media and determination of the likelihood that the threat will occur as well as the corresponding impact to the business should the threat occur.

d. *Social media* shall refer to online communication channels dedicated to community-based content generation and sharing, interaction, and collaboration.

e. *Social media platform* shall refer to any form of interactive communication medium wherein users can generate and disseminate content (e.g., text, images, audio, video) through social networks using the internet. Examples of popular social media platform categories include the following:

   (1) Social networking (e.g., Facebook, Linkedln)
   (2) Micro-blogging (e.g., Twitter, Tumblr)
   (3) Blogging (e.g., Wordpress, Blogger)
   (4) Photo Sharing (e.g., Flickr, Instagram, Pinterest)
   (5) Video Sharing (e.g., Youtube, Vimeo, Vine)
   (6) Crowdsourcing (e.g., Ushahidi, Inc.)

f. *Technical controls* shall refer to the controls incorporated into the computer hardware, software, or firmware to aid in the effective implementation of policies and standards (e.g., access control, authentication, web scanner/crawler).

Social media risk management system. BSFIs should establish an appropriate framework that will result in sound social media governance and risk management. At a minimum, the framework shall include the following elements:

a. Clearly defined governance structure indicating the roles and responsibilities of the board of directors and senior management in setting the direction on the BSFI's use of social media, including its alignment to the BSFI's strategic goals/plans; establishing adequate standards, policies, procedures, and controls; and implementing ongoing risk assessment of social media-related activities.

   The board of directors shall be primarily responsible for defining the BSFI's risk tolerance level, understanding the nature and degree of risks the BSFI will be exposed to, and ensuring that these risks are properly addressed. Moreover, the board of directors, as part of its duties, shall approve and oversee the design and implementation of the social media strategy; related standards, policies and procedures; and means to ensure compliance with said standards and/or policies as well as applicable laws and regulations. Senior management, on the other hand, shall be responsible for the implementation of the social media risk management system approved by the board of directors.

   The governance process should also include reporting mechanisms to the board of directors and/or senior management to enable periodic evaluation of the effectiveness of the BSFI's social media strategy/program, in terms of achieving its stated objectives, and measures put in place to manage the risks related to its use.

b. Policies and procedures governing the following, among others:

   (1) Scope and definition of social media;

(2) Social media regulatory landscape reflecting applicable laws, rules and regulations for compliance;

(3) Individuals and/or composition of the team/s who will be responsible for the creation, maintenance, and monitoring of the BSFI's proprietary social media sites/pages. Their corresponding roles and accountabilities should also be clearly defined;

(4) Content management and approval process;

(5) Ongoing assessment, management, and monitoring of risks associated with social media-related activities;

(6) Acceptable use as well as prohibitions/restrictions on the business/official use of social media platforms. These guidelines shall likewise apply to the employees'[11] personal use of social media, insofar as it may impact the BSFI's operations, reputation and/or compliance with applicable laws and regulations. These should cover matters such as, but not limited to, expectations, ethical behavior, types/nature and extent of BSFI and/or customer-related information that can be posted, statements that can or cannot be made about or in behalf of the institution, comments that should not be made about a competitor, and corresponding sanctions/penalties for inappropriate use of social media and committing non-permissible activities;

(7) Use and monitoring of the BSFI's proprietary social media sites/pages to ensure compliance with applicable laws, regulations and internal policies;

(8) Monitoring and recording of suspicious transactions and customer activities on the BSFI's proprietary social media sites/pages;

(9) Adoption of technical and non-technical controls to address risks associated with the use of social media platform/s including methodologies to manage risks from online postings, edits, replies and retention;

(10) Due diligence process for selecting, managing and continuous monitoring of third-party service providers (TSP) that administer the BSFI's social media site(s)/page(s). In addition, the specific roles and responsibilities of the TSP, including liabilities and accountabilities for errors, omissions, fraud, and other instances, resulting from the TSP's actions, which may adversely affect the BSFI, should also be defined;

(11) Social media crisis management plan and escalation procedures;

(12) Enterprise-wide employee training and awareness programs covering relevant topics such as the BSFI's social media use policies, employee roles and responsibilities and non-permissible activities;

(13) Records retention of social media data; and

(14) Communication of the BSFI's official social media sites/pages to its customers to avoid confusion and being misled to unofficial sites.

c. Specific roles and responsibilities of the risk management, consumer protection, audit and compliance functions to ensure that social media risks are adequately managed and integrated in the BSFI's enterprise-wide risk management systems.

BSFIs that do not utilize social media should nevertheless have clear policies and measures in place to address the potential reputational risks that may arise within the various social media platforms and provide guidance on employee use of social media.

Compliance with relevant regulations. BSFIs, in formulating and implementing their social media policies, should ensure compliance with the applicable requirements of Bangko Sentral rules and regulations on financial consumer protection, especially those relating to disclosures and transparency in advertising and promotional materials, protection of client information, effective recourse, and financial education and awareness. They should likewise conform to the relevant provisions of Bangko Sentral outsourcing framework should they decide to outsource the conduct of social media-related activities to a service provider.

The use of social media platforms, including information gathered therein, for the conduct of account origination activities should comply with applicable rules and regulations, especially on the provisions relating to customer identification procedures under the existing anti-money laundering rules and regulations. In the event that BSFIs opt to use social media for processing financial transactions, the applicable Bangko Sentral rules and regulations on electronic payment and financial services and technology risk management should likewise be observed to ensure security, reliability and authenticity of such transactions.

[1] Include the BSFI's employees, contractual employees and/or project hires, and third-party service providers.

The regulations mentioned herein are not exhaustive. It is the BSFI's responsibility to ensure that all applicable laws and regulations relevant to the activities it will choose to engage in using social media will be adequately complied with. Moreover, the BSFI is expected to stay abreast of and continuously adapt to changes in the regulatory requirements.

Supervisory enforcement actions. BSFIs should make available all policies and procedures and other documents/information related to the foregoing during the on-site examination as well as provide copies thereof when a written request is made to determine compliance.

Consistent with Sec. 002-Q, the Bangko Sentral may deploy enforcement actions to promote adherence to the requirements set forth in this Section and bring about timely corrective actions. The Bangko Sentral may issue directives to improve the social media risk management system or impose monetary and non-monetary sanctions on a BSFI and/or its directors, officers and/or employees.

(Circular Nos. 1033 dated 22 February 2019 and 949 dated 15 March 2017)

150-Q MANAGEMENT OF INTEREST RATE RISK IN THE BANKING BOOK[1]

Policy Statement. The Bangko Sentral recognizes that changes in the structure of QBs' balance sheets and movements in interest rates pose risks to earnings and economic value. In particular, excessive interest rate risk in the banking book (IRRBB) may result in a reduction in earnings or of capital. In this regard, the Bangko Sentral expects QBs to implement a comprehensive approach to risk management that ensures timely and effective identification, measurement, monitoring and control of IRRBB. QBs shall be guided by the standards on IRRBB management set out below.

General Principles

The guidelines on managing IRRBB set forth in this Section shall apply to all QBs. All QBs must adequately identify their IRRBB exposures and take appropriate steps to measure, monitor and control the risk. In managing IRRBB, QBs shall duly consider the overall impact of the QB's interest rate-sensitive assets, liabilities and off-balance sheet exposures over short-, medium- and long-term time horizons on their earnings and economic value. QBs shall ensure that the IRRBB management system is integrated into the overall risk management framework and strategic business planning process.

The Bangko Sentral shall evaluate the adequacy and effectiveness of a QB's IRRBB management framework taking into account the size, complexity and nature of the QB's business activities.

Definitions

a. *Interest rate risk in the banking book (IRRBB)* is the current and prospective risk to earnings and capital arising from adverse movements in interest rates that affect a QB's banking book positions. For purposes of these guidelines, three sub-types of IRRBB are identified: gap risk, basis risk, and option risk.

b. *Gap risk* arises from the term structure of banking book instruments, and refers to the risk arising from the timing of instruments' rate changes. The extent of gap risk depends on whether changes to the term structure of interest rates occur consistently across the yield curve (parallel risk) or differentially by period (non-parallel risk).

c. *Basis risk* refers to the impact of relative changes in interest rates for financial instruments that have similar tenors but are priced using different interest rate indices.

d. *Option risk* arises from optional elements embedded in a QB's assets, liabilities and/or off-balance sheet items or option derivative positions, where the QB or its customer can alter the level and timing of their cash flows automatically or behaviorally.

Interest Rate Risk in the Banking Book Management Process

The management of IRRBB shall form part of the overall risk management framework. At a minimum, the process should:

a. Identify IRRBB. Identifying current and prospective risk involves understanding the IRRBB arising from a QB's existing and new business activities, as well as the impact of hedges or risk management initiatives on exposures.

b. Measure IRRBB. The measurement of IRRBB should enable QBs to quantify IRRBB and determine its impact on earnings and economic value. QBs should have the appropriate systems and tools to enable the timely and comprehensive measurement of risk.

[1] QBs shall complete a gap analysis of the requirements of Sec. 150-Q vis-à-vis their existing risk management systems within six (6) months from the effectivity of this Section. The results of the gap analysis shall be documented and made available for review by the Bangko Sentral. QBs are expected to develop or make appropriate changes to their policies and procedures on the management of interest rate risk in the banking book by 1 January 2022.

c. Control IRRBB. The control of IRRBB necessitates the establishment of internal policies on the extent of IRRBB that is acceptable to the Board on both solo and consolidated bases. The lines of authority and accountability should be clearly defined to ensure that IRRBB exposures remain reasonable and within the risk appetite statement of the board.

d. Monitor IRRBB. Monitoring IRRBB requires timely reviews of interest rate risk positions. Monitoring reports should be comprehensive, timely and accurate in order to provide sufficient basis for sound business decisions.

Interest Rate Risk in the Banking Book Management Framework

A sound management system for IRRBB shall cover the following basic elements:

a. Active board and senior management oversight;
b. Adequate risk management policies and procedures;
c. Appropriate limits structure, risk measurement methodologies, and monitoring and management information systems; and
d. Comprehensive internal controls and independent audits.

QBs with simple operations may generally employ fundamental risk management practices while complex institutions are expected to adopt more sophisticated risk management frameworks. Banking groups shall take a comprehensive perspective in measuring and controlling risk by understanding how financial subsidiaries can magnify or reduce their consolidated IRRBBs.

(1) Board and Senior Management Oversight[1]

Responsibilities of the Board of Directors

The board of directors is ultimately responsible for the IRRBB assumed by the QB and the processes used to manage it. In this regard, the board shall:

(a) Obtain an understanding of the nature and the level of the QB's IRRBB, and its potential linkages with other major risks of the QB (e.g., market, liquidity, credit and operational risks). The board should include members who have sufficient technical knowledge on financial instruments and risk management techniques. Collectively, the board should have the ability to question and challenge strategies and information on risk disclosed in management reports.

(b) Establish the risk appetite for IRRBB and approve broad business strategies and policies relative to IRRBB. The risk appetite should be clearly articulated in terms of earnings, economic value, or both. The board should ensure that there is clear guidance regarding the acceptable level of IRRBB, given the bank's business strategies.

(c) Identify and designate senior management personnel or expert individuals responsible for establishing and managing IRRBB positions with clear lines of authority. In the case of large institutions, such functions are usually delegated to the Asset and Liability Committee (ALCO). A simple QB[2] may not have an ALCO. In this case, the board should identify committees or units within the organization that shall be responsible for effectively performing asset and liability management. The board should also encourage discussions between its members and the senior management personnel, and between senior management personnel and other personnel of the QB (e.g., between risk management and the strategic planning units) on the IRRBB management process to facilitate the evaluation of risks arising from future business.

(d) Ensure that the organizational structure of the QB facilitates effective decision-making and good governance. Responsibilities in key elements of the risk management process should be adequately segregated to avoid conflicts of interest. The IRRBB management functions should have clearly defined responsibilities that are sufficiently independent from risk-taking functions of the bank and should report IRRBB exposures directly to the board.

(e) Approve significant strategies to hedge or manage IRRBB, including the instruments that are used to carry out the strategies.

[1] This section refers to a management structure composed of a board of directors and senior management. The Bangko Sentral is aware that there may be differences in some financial institutions as regards the organizational framework and functions of the board of directors and senior management. For instance, branches of foreign banks have boards of directors located outside of the Philippines that oversee multiple branches in various countries. In this case, "board-equivalent" committees are appointed. Owing to these differences, the notions of the board of directors and the senior management are used in these guidelines not to identify legal constructs but rather to label two decision-making functions within a financial institution.

[2] The classification of a QB as complex or non-complex/simple shall be in accordance with the criteria set out in Item *"(d)"* of Sec. 133-Q.

(f) Institute adequate systems and standards for measuring IRRBB, including the internal controls surrounding the development and updating of relevant key assumptions and stress scenarios.

(g) Allocate adequate resources for the management of IRRBB. This includes ensuring that senior management and the relevant management committee have the technical capability and skills to understand and effectively manage IRRBB, and that management information systems that facilitate timely and comprehensive IRRBB reporting are continuously maintained.

(h) Monitor the QB's performance and IRRBB profile and ensure that the level of IRRBB is maintained within the intended risk appetite and supported by adequate capital. The board shall review, at least quarterly, timely and sufficiently detailed reports to allow it to understand and assess the performance of senior management in monitoring and controlling IRRBB.

Responsibilities of Senior Management

Senior management is responsible for effectively executing business strategies within the IRRBB risk appetite approved by the board and for implementing the IRRBB risk management system. In this regard, senior management shall:

(a) Implement a board-approved limits structure for IRRBB that incorporates appropriate processes on the resolution of limit breaches;

(b) Develop and implement IRRBB policies and procedures that translate the board's goals, objectives and strategies into operating standards, and ensure that these are transmitted to and well-understood by all concerned business units and personnel;

(c) Identify appropriate systems and standards for the measurement of IRRBB;

(d) Develop asset-liability management strategies that judiciously take into account potential yield curve shifts that can impact the QB's earnings and economic value;

(e) Meet regularly, in the case of a committee designated to manage IRRBB exposures;

(f) Adhere to the lines of authority and responsibility that the board has established for managing IRRBB exposures;

(g) Inform the board of any new and emerging IRRBB concerns in a timely manner, based on the monitoring of trends and market developments that pose significant risk implications on the QB's business model and risk profile.

More detailed expectations on the areas under the responsibility of senior management are discussed in the succeeding sections of the guidelines.

(2) Risk Management Policies and Procedures and Limits Structure

A QB's policies and procedures for IRRBB management shall be comprehensive, clearly defined, documented and duly approved by the board. Policies should clearly define the process for achieving targeted structural repricing gaps vis-a-vis the expected movement in interest rates, hedging strategies, and the models to be used to quantify IRRBB. IRRBB policies should be reviewed at least annually and revised as needed.

Limits shall be consistent with the risk appetite set by the board and the QB's overall approach for measuring IRRBB. The limits shall likewise be appropriate to the nature, size, complexity and capital strength of the QB, as well as its ability to measure and manage these risks. Depending on the nature of a QB's activities and business model, sub-limits may also be identified for gap risks in individual currencies and booking units. The level of detail of risk limits should reflect the characteristics of the QB's IRRBB exposures. QBs with significant exposures to basis and option risk should consider establishing risk tolerances appropriate for these risks.

Aggregate risk limits should be applied on a consolidated basis and, as appropriate, at the level of individual financial subsidiaries. Limits should be developed with due regard to scenarios involving changes in interest rates and/or term structures. The interest rate movements used in developing these limits should represent meaningful and forward-looking shock and stress situations, taking into account the time required by management to mitigate those risk exposures.

There should be systems in place to ensure that positions that exceed, or are likely to exceed limits, receive prompt management attention and are escalated to appropriate authorities without delay. Policies should clearly address details on who shall be informed, how the communication should take place and what

actions should be taken in response to an exception. Limits can be designated as absolute in the sense that they should never be exceeded. Policies may also establish when, under specific circumstances, breaches of limits can be tolerated for a predetermined short period of time. Moreover, the actions taken to resolve actual or potential limit breaches should be properly documented.

As part of its new product policy, management should require new products and activities that have a material impact on its IRRBB to undergo a careful review to ensure that the risk management system is capable of handling the IRRBB associated with those new businesses. Proposals to use new instrument types or new strategies (including hedging) should also be assessed to ensure that the resulting risks are still aligned with the QB's overall risk appetite.

(3) Risk Measurement Methodologies, Monitoring and Management Information System (MIS)

A QB's internal measurement systems (IMS) should capture all material sources of IRRBB and assess the effect of interest rate changes on earnings and/or economic value. The measurement of IRRBB should be based on outcomes arising from an appropriate range of interest rate shocks and stress scenarios. Measurement systems and models used for IRRBB should cover each currency in which a QB has material exposures. Currencies in which a QB has material exposure are those that account for at least five percent of either its total banking book assets or total banking book liabilities.

(a) Earnings- and Economic Value- Based Measures

There are two complementary measures of the potential impact of IRRBB: (a) changes in expected earnings (earnings-based measures); and (b) changes in economic value (EV, or EVE when measuring the change in value relative to equity).

(i) *Earnings-Based Measures*

Earnings-based measures focus on the impact of changes in interest rates on future accrued or reported earnings. These are better suited for measuring the short- and medium-term vulnerabilities, i.e., those occurring within the next three years.

In order to calculate changes in expected earnings under different interest rate shocks and stress scenarios, a QB should be able to project future earnings under both the expected economic scenario that informs its corporate plan and the interest rate shock and stress scenarios.

Depending on the complexity of its operations, a QB will need to develop assumptions on client/market behavior and the QB's own management response to the evolving economic climate, such as:

(aa) The volume and type of new/replacement assets and liabilities expected to be originated over the evaluation period;
(bb) The volume and type of asset and liability redemptions/reductions over that period;
(cc) The interest rate basis and margin associated with the new assets and liabilities, and with those redeemed/withdrawn; and
(dd) The impact of any fees collected/paid for exercise of options.

QBs may likewise model earnings under the following assumptions:

(aa) Run-off balance sheet: existing assets and liabilities are not replaced as they mature, except to the extent necessary to fund the remaining balance sheet;
(bb) Constant balance sheet: total balance sheet size and shape is maintained by assuming like-for-like replacement of assets and liabilities as they run off; and
(cc) Dynamic balance sheet: incorporates future business expectations, adjusted for the relevant scenario in a consistent manner.

QBs are expected to use assumptions that are appropriate to the complexity, size and nature of its IRRBB exposures. For instance, a QB that has material exposures to complex products or option risk shall measure IRRBB under a dynamic balance sheet approach.

(ii) *Economic Value-Based Measures*

An EV-based measure of IRRBB represents an assessment of the present value of expected net cash flows, discounted to reflect market rates. As fluctuations in interest rates will affect a QB's earnings, they will also affect its net worth. Changes in economic value can be measured using a

variety of techniques which differ in terms of complexity and ability to capture different types of interest rate sensitivity (i.e., gap risk, basis risk and option risk).

In coming up with present values, the relevant risk-free rate shall be used to formulate discount factors. The resulting weighted net positions across tenors are aggregated to determine the EVE in each currency under different shock scenarios.

(b) Key Behavioral and Modeling Assumptions

Behavioral assumptions and parameters are vital to both earnings-based and economic value-based measures, such as those relating to:

(i) Treatment of balances and interest flows arising from non-maturity deposits (NMDs), term deposits that are redeemable ahead of their maturities, and fixed rate loans with pre-payment options for the borrower;

(ii) Expectations for the exercise of interest rate options (explicit and embedded) by both the QB and its customers under specific interest rate shock and stress scenarios;

(iii) Treatment of own equity in economic value measures;[1] and

(iv) The implications of accounting standards that apply to banking book positions.

Thus, senior management is expected to exercise sound judgment in coming up with assumptions. Expectations on the treatment of certain products are set out below:

(aa) NMDs – Banks should determine appropriate assumptions for NMDs. This entails a qualitative and/or quantitative analysis of the depositor base in order to measure the proportion of core deposits (i.e., NMDs which are unlikely to reprice even when there are significant changes in interest rate environment) and non-core deposits. Assumptions should vary according to depositor characteristics (i.e., retail/wholesale) and account characteristics (i.e., transactional/ non-transactional, fixed rate/variable rate). Banks should distinguish between the stable and the non-stable parts of each NMD category using observed volume changes over a sufficient period of time, i.e., the past ten (10) years.

(bb) Term deposits subject to early redemption risk – Banks may attract deposits with a contractual maturity term or with step-up clauses that enable the depositor in different time periods to modify the speed of redemption. The classification scheme for identifying these products, possible instances when redemption is subject to penalties, as well as other contractual features preserving the cash flows profile of the instrument, should be supported by adequate documentation.

(cc) Fixed rate loans subject to prepayment risk – QBs should understand the nature of prepayment risk for their portfolios and make reasonable and prudent estimates of the expected prepayments. The assumptions underlying the estimates and possible cases where prepayment penalties or other contractual features affect the embedded optionality should be documented. Specifically, management must be capable of using those assumptions to assess the expected average prepayment speed under each identified scenario.

(c) Interest Rate Shock and Stress Scenarios

QBs should determine, by each material currency, a range of potential interest rate movements against which they will measure their IRRBB exposures. In choosing the appropriate scenarios, the board and senior management should consider the nature and sources of their IRRBB exposures and select the scenarios that provide meaningful estimates of risk. The scenarios should include a range of shocks that is sufficiently wide, possibly incorporating stress elements, to allow board and senior management to understand the risk inherent in the QB's balance sheet structure. The QB should likewise consider the shape and level of the term structure and volatility of interest rates that are relevant to its business model, the time needed to take action to reduce or unwind unfavorable IRRBB exposures, and its ability to withstand losses in order to reposition the risk profile.

In devising the appropriate shocks and stress scenarios for IRRBB, QBs should take the following into account:

[1] Equity usually has a cost in the form of a dividend, and QBs seek to stabilize the earnings that can be made on assets funded by equity. Since equity capital has no contractual price reset date, QBs may determine their own strategies for managing the earnings volatility that arises from it using techniques similar to those for NMDs.

(i) Scenarios that identify parallel and non-parallel gap risk, basis risk and option risk. In many cases, static interest rate shocks may be insufficient to assess IRRBB exposure adequately. QBs should ensure that the scenarios are both severe and plausible, in light of the existing level of interest rates and the interest rate cycle;

(ii) Instruments or markets where concentrations exist, because those positions may be more difficult to liquidate or offset in a stressful market environment;

(iii) Possible interaction of IRRBB with related and other risks (e.g., credit risk, liquidity risk);

(iv) Effect on net interest income of adverse changes in the spreads of new assets/liabilities replacing those assets/liabilities maturing over the horizon of the forecast;

(v) Where a QB has significant option risk, scenarios that capture the exercise of such options. Given that the market value of options also fluctuates with changes in the volatility of interest rates, QBs should develop interest rate assumptions to measure their IRRBB exposures to changes in interest rate volatilities;

(vi) The term structure of interest rates that will be incorporated and the basis relationship between yield curves and rate indices. QBs should also estimate how interest rates that are administered or managed by management (e.g., prime rates or retail deposit rates, as opposed to those that are purely market-driven) might change, and management should document how these assumptions are derived; and

(vii) Forward-looking scenarios that incorporate changes in portfolio composition due to factors under the control of the QB (e.g., the QB's acquisition and production plans) as well as external factors (e.g., changing competitive, legal or tax environments), new products for which only limited historical data are available, and new market information and emerging risks that are not necessarily covered by historical stress episodes.

QBs shall likewise develop and implement an effective stress testing framework for IRRBB as part of their broader risk management and governance processes.[1] Stress tests for IRRBB should be commensurate to the nature, size, complexity, business model and overall risk profile of the QB. The framework should include clearly defined objectives together with scenarios tailored to the QB's risk profile and must be supported by sound methodologies and well-documented assumptions. Stress test results should feed into the strategic decision-making and limit setting processes undertaken by the board and senior management.

Stand-alone thrift, rural and cooperative banks should, at the minimum, measure and assess the impact of a 100-, 200- and 300- basis point movement in interest rates to their net interest income for the succeeding 12-month period. Further, these banks should develop bank-specific stress scenarios, such as an increasing competition, that may result in changes in the interest rates that they offer on their loans and deposits.

(d) Model Risk Governance

The validation of IRRBB measurement methods and assessment of corresponding model risks should be governed by a policy on model risk. Guidelines should specify management roles and designate the personnel responsible for the development, implementation and use of models. These should also specify model oversight responsibilities as well as internal policies for key processes such as initial and ongoing validation procedures, results evaluation, approval, version control, exception management, escalation, modification and decommissioning.

The model validation framework should incorporate: (i) evaluation of methodological soundness; (ii) model monitoring which includes process verification and benchmarking; and (c) outcome analysis that involves back-testing of key parameters. Prior to model usage, model inputs, assumptions, methodologies and outputs including those that were developed by third-party vendors should be subject to independent validation. The results of this validation should be presented to the board for approval. Subsequently, the model should be subject to periodic review and process verification to ensure its continuing relevance and the accuracy of model output.

[1] The provisions on stress testing in these guidelines should be read in conjunction with Sec. 151 of the MORB on the Guidelines on the Conduct of Stress Testing Exercises.

(e) Risk Monitoring

Measurement outcomes of IRRBB and hedging strategies should be reported to the board on a regular basis, at relevant levels of aggregation, whether on a consolidated basis for a banking group or on a per currency basis for QBs having material positions on different currencies.

Reports submitted to the board should clearly compare current exposure with policy limits and should also disclose the results of the periodic model reviews and back-testing. While the types of reports prepared for the board will vary based on the QB's business model, these should, at a minimum include the following:

(i) Summaries of aggregate IRRBB exposures highlighting the assets, liabilities, cash flows, and strategies that are driving the level and direction of risks;

(ii) Reports on the results of the QB's risk metrics assessed in relation to the set limits and earnings or capital;

(iii) Key modeling assumptions reflecting management's judgments (e.g., NMD characteristics, prepayments on fixed rate loans and currency aggregation) to disclose the limitations of the model;

(iv) Results of stress tests, including assessment of sensitivity to key assumptions and parameters; and

(v) Summaries of the reviews of IRRBB policies, procedures and adequacy of the measurement systems, including any findings of internal and external auditors and/or other equivalent external parties (such as consultants).

(f) Management Information Systems

A QB's MIS should allow it to retrieve accurate IRRBB information in a timely manner. The MIS should capture interest rate risk data on all the QB's material IRRBB exposures. There should be sufficient documentation of the major data sources used in the QB's risk measurement process. Data inputs should be automated to the extent possible to reduce administrative errors. Data mapping should be periodically reviewed and tested against an approved model version. A QB should monitor the type of data extracts and set appropriate controls.

Where cash flows are slotted into different time buckets (e.g., for gap analyses), the slotting criteria should be stable over time to allow for a meaningful comparison of risk figures over different periods.

(4) Internal Controls and Audit[1]

A QB shall have adequate internal controls in place to protect the integrity of its IRRBB risk management processes. Approval processes, exposure limits, independent reviews and other mechanisms should be designed and implemented to provide the board and senior management with reasonable assurance that risk management objectives are being achieved.

Independent reviews should address significant changes that may affect the effectiveness of controls (including changes in market conditions, personnel, technology and structures of compliance with exposure limits), and verify that there are appropriate escalation procedures in place to resolve limit exceptions. When revisions or enhancements to internal controls are warranted, there should be an internal review mechanism in place to ensure that these are implemented in a timely manner.

Supervisory Framework. The Bangko Sentral shall employ a risk-based approach in assessing the level and trend of a QB's IRRBB and the adequacy and effectiveness of its IRRBB management process. This shall be done through a combination of on-site examinations and off-site reviews. This aims to ensure that a QB's earnings and capital are adequate relative to the size of its exposures.

The Bangko Sentral shall consider the following:

a. The complexity of IRRBB risk management systems relative to the risk posed by assets, liabilities and off-balance sheet activities;
b. The level of IRRBB in relation to earnings and capital;
c. The effectiveness of hedging strategies used by management to manage IRRBB; and
d. The adequacy and effectiveness of risk governance.

[1] Refer also to Secs. 162-Q and 163-Q for the frameworks on Internal Control System and Internal Audit, respectively.

Universal and commercial banks are expected to demonstrate that their internal capital is commensurate with the level of IRRBB, taking into account the impact on internal capital of potential changes in the institution's economic value and/or future earnings resulting from changes in interest rates.

A significant change in NII relative to a QB's earnings and capital will not necessarily result in supervisory or enforcement action. It shall be subject to further evaluation by the Bangko Sentral, with particular consideration given to the factors driving the significant IRRBB. The Bangko Sentral may issue directives, as necessary, taking into consideration the business model of the QB, its strategic plans and market conditions.

Supervisory enforcement actions. Consistent with Sec. 002-Q, the Bangko Sentral may deploy enforcement actions to promote adherence with the requirements set forth in these guidelines and bring about timely corrective actions. If a QB's risk exposures are not well-managed, the Bangko Sentral may direct the QB to increase its capital, reduce its IRRBB exposures and/or strengthen its risk management system. The Bangko Sentral may likewise issue directives to limit the level of or suspend any business activity that has adverse effects on the safety and soundness of the QB, among others. Sanctions may likewise be imposed on the QB and/or its directors, officers and/or employees.

(*Circular Nos. 1101 dated 19 October 2020 and 1044 dated 6 August 2019*)

151-Q REPUTATIONAL RISK MANAGEMENT[1]

Policy statement. The Bangko Sentral recognizes that building and sustaining a good reputation is a critical element in promoting the safety and soundness of individual supervised financial institutions and financial system. A good and strong reputation allows BSFIs to strengthen their market position, increase their market value, and enable them to attract and retain employees. This underscores the need for BSFIs to adopt a framework to holistically and actively manage reputational risk.

The guidelines set out the supervisory expectations and the minim prudential requirements in managing reputational risk. The guidelines are aligned with international standards and recognized practices, to the extent practicable. A BSFI is expected to adopt a reputational risk management framework that is commensurate to its size, nature and complexity of operations, overall risk profile, and systemic importance. The reputational risk management framework shall be embedded in the BSFI's enterprise risk management system.

Definition of reputational risk. *Reputational risk* refers to the risk to earnings, capital, and liquidity arising from negative perception on the BSFI of its customers, stakeholders, investors, and employees, market analysts, the media, and other stakeholders such as regulators and other government agencies, that can adversely affect the BSFI's ability to maintain existing business relationships, establish new businesses or partnerships, or continuously access varied sources of funding.

Sources of reputational risk. The BSFI may be affected by perceptions of different stakeholders on its reputation that could be in relation to the areas of corporate and risk governance, personnel/management ethics and integrity, staff competence, organizational culture, business practices, product/service quality, employee and customer relations including the handling of feedback or resolution of complaints, financial soundness/business viability, and legal or regulatory compliance, among others. A clear understanding of the various sources of reputational risk and how these may impact the institution is crucial in determining the appropriate approach to managing reputational risk.

Reputational risk is connected and related to other risk exposures (e.g., credit, market, liquidity, and operational risks) such that it can result from or may be triggered by other types of risks. Exposures to environmental, social and governance (ESG) risk factors, both direct and indirect through its lending and investment decisions, as well as the BSFI impact on ESG factors may likewise have material effect on the BSFI's reputation.

A sound risk management and control environment is critical to mitigating and controlling reputational risk exposures. In this regard, BSFI are expected to adopt risk management process following the standards set forth under Chapter E of Part One on *Risk Management, Appendix Q-41* on *Guidelines on Supervision by Risk* and Part VII on *Bangko Sentral Regulations on Financial Consumer Protection.*

BSFIs belonging to a conglomerate or group of related entities are susceptible to reputation events[2] affecting the parent bank or holding company, subsidiaries, affiliates, and/or other members of the group.[3] For instance, regulatory sanctions imposed on, or concerns on safety and soundness of any member of the group may damage the reputation of the BSFI. In the case of stand-alone BSFIs, the cause of failure of one BSFI may have a crippling or damaging effect for smaller institutions located within the same geographic area or serving the same market as the failed BSFI. The contagion effects on reputation

[1] BSFIs shall comply with the foregoing standards on reputational risk management within a period of one (1) year from 16 April 2021. In this regard, a BSFI should be able to show, upon request of the Bangko Sentral, its plan of actions with specific timelines, as well as the status of initiatives being undertaken to fully comply with the provisions of this Section.

[2] *Reputation event* refers to any incident or circumstance that have the potential to adversely affect the perception of relevant stakeholders of the BSFI. Such critical event, if not responded to quickly and appropriately, may cause damage to the BSFI's reputation and lead to a full-blown crisis.

[3] Part VII of *Appendix 71* on *Guidelines on Liquidity Risk Management* requires a bank belonging to a group to assess the possibility of a reputation contagion arising from a liquidity problem in an entity within its group, and to address such inherent vulnerability in its intragroup liquidity risk management system.

may also arise from business relationships or close association with key customers and counterparties which are engaged in unethical or unlawful acts, or with major service providers that have substandard service quality or lax controls. Other external events, such as unfounded rumors and accusations may likewise have damaging impact on the BSFI's reputation and the level of public confidence. Moreover, social media may accelerate the speed and magnitude of the potential reputational damage.

Sound corporate and risk governance frameworks, and effective internal control system. The establishment of strong corporate and risk governance frameworks, and effective internal control system are the foundation to effectively manage reputational risk. Sound corporate governance fosters a culture where the board of directors/trustees and senior management as well as officers and employees at all levels of the organization, align with the institution's desired values and conduct in pursuing corporate goals and objectives.

In this respect, BSFIs are expected to adhere to the standards set forth under Chapter D of Part One on *Corporate Governance/Corporate Governance Guidelines,* Sec. 142-Q on *Risk Governance Framework,* and Sec. 162-Q on *Internal Control Framework.* BSFIs shall set out clear objectives and expectations on reputational risk management as well as define the responsibilities of those involved in the risk management process. The reputational risk management framework, and the respective roles and responsibilities of personnel across the organization in terms of implementing such framework shall be disseminated and clearly communicated throughout the institution. BSFIs shall also adopt an effective mechanism to monitor performance and promptly manage reputational risk concerns. BSFIs shall likewise provide adequate training to raise employee awareness and to support them in the proper discharge of their responsibilities relative to the management of reputational risks.

Roles and responsibilities. The responsibility for managing reputational risk rests on the entire organization. Each employee is capable of influencing the stakeholders' perception on the institution through the individual's conduct. Governance and management of reputational risk require clear accountability and engagement across the various organizational functions. In this respect, the roles and responsibilities of the different parties are as follows:

a. *Board of directors/trustees.* The board of directors/trustees shall establish the "tone at the top" and provide adequate oversight on matters relating to the BSFI's strategic direction, key policies, and risk appetite, and overall governance framework. The board of directors/trustees shall ensure that BSFI's reputational risk management is embedded in its enterprise risk management strategy. The board of directors/trustees shall approve the BSFI's reputational risk management framework and ensure that it provides an effective and efficient system for identifying, measuring, monitoring, and controlling reputational risk. The board of directors/trustees shall also ensure that the reputational risk management system is periodically reviewed by an independent and competent party to provide assurance that the controls in place to manage reputational risks are operating as intended.

b. *Senior management.* The senior management shall be responsible for the implementation of the board-approved reputational risk management framework. They shall promote employee awareness of the types of risks or issues that have implications on the BSFI's reputation, the mechanisms in place to report such concerns, as well as the specific reputational risk management tools and processes in place. The senior management shall ensure that the training and communication programs continually emphasize the role of employees in preserving and promoting the BSFI's reputation.

c. *Business units.* As the first line of defense, business line management and personnel shall ensure that all significant risks to the BSFI's reputation in their respective areas are identified and adequately managed. They shall ensure that identified significant risks are reported to senior management in a timely manner. Cognizant that customers are considered as key stakeholders for managing reputational risk, business units shall also ensure that customer perception and expectations are well-managed, and that customer's interest and experience is continuously protected and improved.

d. *Risk management function.* The risk management function/personnel shall be responsible for ensuring the oversight and coordination of reputational risk management efforts across the institution. In particular, it shall provide technical expertise and valuable insights for managing reputational risk allowing the BSFI to appropriately identify and timely respond to uncertainties relating to its business objectives.

e. *Compliance function.* The compliance function shall ensure that a robust compliance system is in place to ascertain that the BSFI conducts business in accordance with relevant laws, rules, regulations and internal policies. It shall identify areas which are likely to lead to incidents or violations that can undermine the institution's reputation.

f. *Internal audit function.* The internal audit function shall provide an independent assessment of the adequacy of the risk management processes and internal control system as well as the effectiveness of actions taken to address material risks affecting the BSFI's reputation. It shall remain abreast of issues affecting the BSFI and its business environment that may impact its reputation (e.g., environmental and social issues), and identify areas that are not being properly managed and, thus, represent threats to reputation. The internal audit function shall also ensure that reputational risks are assessed both at the inherent and the residual levels. It shall timely apprise the board

and management of the audit results, including any issues and weaknesses identified, to enable to take prompt remedial actions, where necessary.

g. *Crisis management team.* The crisis management team (includes the public relations unit or its equivalent) shall be responsible for formulating, implementing, and coordinating the approach to managing a reputation event. It shall determine the appropriate countermeasures depending on the circumstances of the event and actively manage stakeholder communication during a reputational crisis.[1]

Reputational risk management function. The reputational risk management function may be a stand-alone function or integrated with other risk management functions depending on how the BSFI manages its reputational risk exposures considering its size, nature and complexity of operations, overall risk profile, and systemic importance. Notwithstanding the approach adopted, senior management shall ensure that reputational risk within and across the different business lines/functions are properly identified, assessed, monitored, controlled, and reported to the board, as appropriate. Considering that threats to reputation may emanate from various areas, cross-functional teams may be constituted to bring together different perspectives to identify and proactively manage reputational risk across the organization.

In the case of banking groups, the board of the parent bank shall approve the policy defining the reputational risk management framework that shall apply to entities across the group (i.e., established centrally at the parent bank or separately in each of the identified subsidiary). The parent bank shall have overall responsibility with respect to the management of reputational risk exposures of its subsidiaries and affiliates.

Branches of foreign banks may adopt the relevant policies and practices of the head office/regional office that are consistent with applicable provisions in this Section. They are expected to have adequate systems and controls for managing reputational risk and handling local reputation events.

For non-complex of simple banks/financial institutions[2], the board of directors/trustees and the committee/s in charge of risk management in the organization are expected, at the minimum, to regularly discuss reputational risk concerns as part of the risk universe of the institution. Such discussions, including the decisions/actions taken on matters which may pose reputational risk to the organization, shall be adequately documented in the minutes of meetings.

Reputational risk management framework. A BSFI shall adopt an appropriate reputational risk management framework as part of the enterprise risk management system that is commensurate to its size, nature and complexity of operations, overall risk profile, and systemic importance. The primary objective of sound reputational risk management is to identify potential reputational risks before they materialize or escalate beyond manageable level:

a. *Risk identification and assessment.* Effective risk identification and assessment can disclose significant threats to reputation and identify areas requiring implementation of response plans. Such a process shall aid the board and management in determining whether to implement mitigation.

(1) BSFIs shall identify the potential sources of reputational risk exposures. These shall include, among others, the business lines, liabilities[3], affiliated operations, off-balance sheet vehicles, and the markets where they operate. Consumer complaints also provide valuable insights into areas representing consumer protection risks and potential regulatory violations which may damage the BSFI's reputation. The established key sources of risk may be categorized according to the type of risk, business activity, and/or the area of operations.

(2) BSFIs shall adopt tools and mechanisms proportionate to their size, nature and complexity of operations, overall risk profile, and systemic importance to identify and assess significant threats to reputation. The tools may be in the form of interviews, surveys or questionnaires, focus group discussions, self-assessment or other techniques as deemed appropriate to suit the needs of the organization.

Considering that reputational risk is inherent in all the risks an institution faces, BSFIs may use existing measures or tools to identify and assess reputational risks relevant to their business and industry. For instance, the identification and assessment of reputational risk can be linked to the tools and instruments used for operational risk but modified accordingly to capture reputational risk issues and concerns. Sample tools which may be considered to identify possible reputation events and to assess/measure their potential impact are provided in *Appendix Q-89.*

BSFIs with simple operations are not expected to adopt sophisticated tools but they should be able to demonstrate that their reputational risk management incorporates the critical elements set out in the guidelines. At the minimum, simple BSFIs should be able to identify which issues or events will effectively

[1] Pursuant to Sec. 148-Q on *Business Continuity Management,* members of the crisis management team of BSFIs will convene and activate the crisis management plan to attain control over the crisis and minimize its impact to operations during and immediately after a crisis. For NBFIs, please refer to Secs. 146-S/143-P/127-N/164-T, as applicable.

[2] For this purpose, banks shall refer to Sec. 131 on *Corporate Governance (Policy statement and definition of terms)* on the definition of "Complex banks". Meanwhile, NBFIs shall be classified as "Simple" unless notified by the Bangko Sentral of a higher classification.

[3] This refers to liabilities arising from failure to meet regulatory or legal obligations, such as noncompliance with applicable laws and regulations, gross misconduct of employees or senior management, failure to adequately meet customer expectations, and contractual requirements, among others.

undermine their reputation as well as the affected key stakeholders, and gauge the effect or consequence on their overall reputation. These reputation issues or events may be identified from the tools used in identifying and assessing their operational risk exposures: the (i) results of internal/external audit and independent party review, (ii) supervisory issues raised by the Bangko Sentral, or (iii) internal loss data collection and analysis.

(3) BSFIs shall have appropriate policies in place to identify sources of reputational risk when entering new markets, products or lines of activities, or establishing new business relationships including, among others, policies, programs and controls to address fraud or gross misconduct, and manage consumer complaints.

(4) BSFI shall incorporate the identified sources of reputational risk in the risk management processes and appropriately address the same in the internal capital adequacy assessment/capital planning process and liquidity contingency plans.

(5) BSFIs shall have appropriate procedures in place to ensure that the identified reputational risks are regularly reviewed and updated and that no major risk areas affecting reputation are inadvertently excluded.

b. *Risk control and mitigation.* BSFIs shall determine the appropriate measures to control and/or mitigate the impact of identified risks considering the results of risk assessment. In particular, BSFIs shall ascertain which of these risks warrant management attention and require either the crafting of a specific action plan (e.g., need to adopt additional controls or to strengthen existing controls), the development of a contingency plan, or close monitoring.

c. *Risk monitoring and reporting.* BSFIs shall ensure that sufficient mechanisms are in place to monitor reputational risk across the different business lines and functions. Such a process shall enable the board and management to address any significant issues and development.

To ensure that identified risks are properly controlled, the progress and effectiveness of measures implemented should be periodically monitored. Early warning systems should also be established to detect emerging threats and ensure that corrective actions are carried out in a timely manner. Sample early warning indicators include volume of complaints, number of negative news on the institution, number of violations of laws/regulations/codes of conduct with material penalties or sanctions for non-compliance. BSFIs may also include reputation concerns in their risk appetite frameworks to facilitate setting of thresholds against relevant indicators.

Results of monitoring activities shall be regularly reported to the board and senior management in a timely manner and in sufficient detail to aid in their decision-making.

BSFIs are expected to promptly notify the Bangko Sentral of any reputation event which may have a significant impact on their business or reputation and/or is likely to lead to a crisis. In this regard, BSFIs shall ensure compliance with the notification/reporting requirements under Sec. 146-Q on reportable operational risk events, Sec. 147-Q on major cyber/related incident and/or disruption of financial services and operations, and Sec. 145-Q *(Supervisory framework for the minimum prudential liquidity requirements)* on liquidity ratios below the minimum.[1]

Apart from above notification requirements, BSFIs are also expected to notify the appropriate supervising department of the Bangko Sentral within five (5) calendar days from the date of determination of any reputation event (e.g., issues arising within the various social media platforms). Upon receipt of notification, the Bangko Sentral may require, if warranted, the BSFI to submit a report detailing the causes and impact of such events and an action plan to address the issue and any other weaknesses identified.

d. *Communications and disclosure.* Effective communications with stakeholders are vital in addressing reputational risk. Communication instruments include, among others, annual reports, website information, press releases, investors briefings, stakeholder forums, annual general meetings, media interviews, and social media platforms.

BSFIs shall ensure the reliability, integrity and transparency of publicly reported information by maintaining effective internal control over financial reporting and information disclosures. Disclosure documents containing misleading or inaccurate statements, whether intentionally or inadvertently, may cause serious damage to reputation. Thus, there shall be adequate policies and procedures in place to ensure that all disclosures to stakeholders are clear, accurate, consistent, relevant and timely.

With the significantly increasing influence of social media, BSFIs are expected to immediately and effectively address issues and complaints consistent with their social media crisis management plan and escalation procedures as required under Sec. 149-Q on *Social Media Risk Management.*

[1] For other NBFIs, please refer to Sec. 163-T/125-N on reportable operational risk events, and to Secs. 142-P/145-S/126-N on major cyber-related incident and/or disruption of financial services and operations, as applicable.

Crisis preparedness and resolution. The manner by which BSFIs handle a reputation-damaging incident or crisis determines the magnitude and duration of the impact. Poor or delayed response to a crisis can increase reputational damage than the event itself, and possibly lead to a liquidity crisis and/or major disruptions to operations. Meanwhile, effective and timely crisis management arrangements, including stakeholders and media communications, could quickly allay stakeholder fears, regain their trust, and even enhance reputation.

A well-documented crisis management plan shall be approved by the board of directors/trustees and subjected to periodic review and updating to ensure that it remains relevant. Post-crisis measures to restore stakeholders' confidence shall depend, among others, on the underlying cause of the incident, the extent of reputational damage, and the BSFI's direction and business objectives. In this regard, BSFIs shall take into account relevant guidance set out under Sec. 148-Q[1] on *Business Continuity Management,* and consider how the expectations under this Section may be integrated with their existing business continuity and contingency plans.

Supervisory enforcement actions. Consistent with Sec. 002-Q[2], the Bangko Sentral reserves the right to deploy its range of enforcement actions to promote adherence with the requirements set forth in this Section and bring about timely corrective actions. The Bangko Sentral may issue directives to improve the reputational risk management system or impose sanctions on the BSFI and/or its directors, officers and/or employees.

(Circular No. 1114 dated 16 April 2021)

152-Q GUIDELINES FOR THE ADOPTION OF OPEN FINANCE FRAMEWORK[3]

Policy Statement. It is the thrust of the Bangko Sentral to promote an enabling environment that fosters innovation, encourages coopetition, and advances financial inclusion while safeguarding the integrity and stability of the financial system. In line with this, the Bangko Sentral is introducing the Open Finance Framework that aims to empower customers by giving them better control over their personal and financial data catalyzing the development of products and services that are responsive to their needs.

The Open Finance Framework espouses consent-driven data portability, interoperability, and collaborative partnerships among financial institutions and third-party providers (TPPs). Under the framework, financial institutions and TPPs can leverage on permissioned-access customer financial information to develop bespoke financial products and services for customers. The Open Finance Framework subscribes to the principle that "customers are the owners of personal and transaction data" hence, information shall only be shared with the consent of the customers.

Coverage. The Open Finance Framework covers technology, products, services, information, and policies that enable customers to securely share their financial data with qualified parties, either BSFIs or TPPs.

Definition of Terms. The terms used in this Section shall be defined as follows:

a. *Account Information Service Provider (AISP)* refers to an information technology service and/or software solution provider that processes data and provides an alternative access point to multiple sources of data other than payment transactions;

b. *Application Programming Interfaces (APIs)* refer to a set of rules and specifications for software programs to communicate with each other, forming an interface between different programs to facilitate interaction;

c. *Customer-permissioned data* refers to data held by Participants (e.g., customer transactions, personal identification data, and customer financial history) that are permissioned by the Participants' customer to be accessed by a third party (and possibly shared onwards with fourth parties if covered by the customer's consent);

d. *Open Finance* refers to leveraging on and sharing of customer-permissioned data among banks, other financial institutions, and TPPs to develop innovative financial solutions, such as among others, those that provide real-time payments, promote greater transparency to account holders, and provide marketing and cross-selling opportunities to banks, other financial institutions, and TPPs;

e. *Open Finance Standards* refer to the recommended standards in implementing the Open Finance Framework that takes into account various factors, including the financial industry's level of readiness to adopt such standards and the overall benefits arising from such standardization;

f. *Open API*, also known as external or public API, refers to a software technology interface that provides a means of accessing data based on a public standard;

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[1] For other NBFIs, please refer to Secs. 143-P/146-S/126-T/127-N, as applicable.

[2] For other NBFIs, please refer to Secs. 002-P/002-S/002-T/001-N, as applicable.

[3] All existing API arrangements prior to the creation of this Section, i.e. 17 June 2021, they shall comply with the applicable requirements prescribed herein within one (1) year from 13 July 2021. In cases awaiting policy-setting or further clarifications, compliance timetable shall be further determined by the OFOC.

g. *Open Data* refers to publicly obtainable data that is published by Participants, including, but not limited to financial products, service information, and other public information;

h. *Open Access* refers to allowing authorized third parties to access consented data without needing to establish a business relationship with the Open API publisher;

i. *Payment Initiation Service Provider (PISP)* refers to a registered operator of payment systems (OPS), as defined under Republic Act (R.A.) No. 11127 – The National Payments Systems Act and clarified in Part 1, Section 101 of the Manual of Regulations for Payment Systems (MORPS), that carries out payment orders at the request of payment service users in connection with payment accounts held at other payment service providers;

j. *Third party providers* or TPPs refers to any external legal entity such as service providers, integrators, solutions vendors, and/or infrastructure support that interact with BSFIs to provide services to customers. They are classified as either AISP and/or PISP, however, other TPP classification may be created by the Open Finance Oversight Committee (OFOC), as deemed applicable;

k. *Participant* refers to the entities covered by the Open Finance Framework such as the BSFIs and TPPs;

l. *Open API publisher* refers to the Participant that keeps/is the custodian of customer data;

m. *Third party* refers to the Participant who has open access to customer-permissioned data residing in another Participant (publisher) through the Open API; and

n. *Fourth party* refers to an outsourcing partner or a service provider of a third party.

Governance Framework. The Bangko Sentral shall recognize an Open Finance Oversight Committee (OFOC), an industry-led self-governing body, that shall exercise governance over the activities and Participants of the Open Finance Ecosystem. The OFOC shall be subject to the regulation and supervision of the Bangko Sentral.

The Bangko Sentral shall facilitate the establishment of the OFOC in coordination with industry stakeholders. For this purpose, the initial set of members of the OFOC shall be comprised of representatives from each bank classification, non-bank financial institutions, electronic money issuers, operators of payment systems, TPPs, and other relevant sectors, as determined by the Bangko Sentral. The OFOC shall:

a. Adopt membership and participation rules that are non-discriminatory to ensure that key areas of interest of the financial industry are adequately represented and that all members and applicants for membership are treated fairly and consistently.

b. Define the functions, roles, and responsibilities of the Committee and the Participants. It shall adopt policies in monitoring Participants' compliance with the established policies and in handling non-compliance thereto including the corresponding sanctions or penalties for non-compliance.

c. Adopt standards, agreements, policies, and guidelines (Conventions) governing the Open Finance Framework which shall be consistent with relevant laws, rules and regulations and regional/global standards. At the minimum, these shall cover the following:

    (1) Registration/On-boarding of non-BSFI Participants;
    (2) API standards reference or other equivalent documentation;
    (3) Authorization, authentication, and encryption requirements for each product/service tier;
    (4) Disclosure and transparency requirements as prescribed under Sec. 1002-Q ;
    (5) Consent management;
    (6) Protection of client information including responsible data handling as well as data privacy and protection;
    (7) Reciprocity arrangement among Participants;
    (8) Economic model; and
    (9) Consumer protection and effective recourse as prescribed under Part Ten .

d. Cooperate with and extend fullest assistance permissible to the Bangko Sentral and other regulators in enforcing applicable laws and regulations, in promoting adherence to this Framework.

    Consistent with the provisions of Sec. 002-Q, the Bangko Sentral reserves the right to deploy its range of supervisory tools to promote adherence to the requirements and expectation set forth in this Framework. In this regard, the Bangko Sentral may issue directives to or impose sanctions against the OFOC, such as suspension or revocation of any authority of the OFOC (including any or all of its generally authorized activities), without prior notice, to promote the safety and soundness of the financial system and/or to protect Participants, its customers, or the general public.

Registration Standards. BSFIs with a composite rating of at least "3" under the Supervisory Assessment Framework (SAFr), or its equivalent, are automatically eligible to become Participants of the Open Finance Ecosystem. On the other hand, those that do not meet the minimum rating must secure prior Bangko Sentral approval to participate in the Open Finance Ecosystem. Participants which are not under the regulation and supervision of the Bangko Sentral shall comply with the applicable registration requirements set by the OFOC, pursuant to pertinent laws, rules and regulations of the Bangko Sentral and other relevant authorities. Participants shall be responsible for ensuring fourth party compliance with applicable laws, rules and regulations.

Open Finance Standards. The OFOC shall issue guidelines aimed at ensuring that:

a. access to and participation in the standard-setting process, including any planning and consultation activities, is non-discriminatory;
b. the standards development process is transparent; and
c. the Open Finance Standards will be accessible to all qualified parties.

The API standards reference or other equivalent documentation that shall be developed by the OFOC shall meet the recommended technical standards to facilitate industry-wide adoption, and shall cover, at a minimum, the following:

(1) *API Architecture Standards.* These shall comprise, among others, reference for Open API specifications, including communication protocols, and architecture types. Participants are encouraged to adopt recognized industry-wide architectural styles such as Representational State Transfer (REST) and Simple Object Access Protocol (SOAP);

Data Standards. These shall include data formats, data structures, and related data protection and privacy rules to enable Participants to share data and information accurately and efficiently. Participants shall adopt data formats which are recognized by the industry such as, but not limited to, JavaScript Object Notation (JSON), Extensible Markup Language (XML), Comma Separated Values (CSV), and Structured Query Language (SQL). The "data dictionary" shall be published online, with sufficient level of detail to facilitate third party understanding and adoption;

(2) *Security Standards.* These shall cover minimum security compliance requirements, guidelines, and specifications that must be met by Participants, including authentication, authorization, and encryption. Participants should always refer to industry sound practices, relevant regulatory, and internal requirements, and apply holistic controls on information and cybersecurity based on a risk- and principles-based approach to protect their systems as well as financial and consumer data. At a minimum, Participants shall adopt the latest and robust authorization and authentication protocols that are adequate for the risks presented by Open Access, such as, but not limited to, multi-factor authentication, Transport Layer Security (TLS)/Advanced Encryption Standard (AES)/Hashed Message Authentication Code (HMAC) encryption standards and OAuth 2.0 authentication standard. Participants should use more secure methods for sharing data, such as token-based authentication through APIs. The API must be designed in such a way that the end-user access shall be limited to data that the end-user has permission to see or process. These access rights must be appropriately recorded, verified, measured, and audited. In terms of secure hosting, PCI DSS and ISO 27001 are most desired; and

(3) *Outsourcing Standards.* These shall refer to the management of risks arising from outsourcing activities particularly those involving data disclosure and confidentiality, data privacy and protection, data management such as procedures for accessing and processing data, obtaining consent, contract management, security, performance monitoring and business continuity, among others.

Adoption of Open Finance Standards and Publication of Open APIs. All Participants that intend to provide Open Access shall adopt the Open Finance Standards and shall comply with relevant laws and pertinent Bangko Sentral regulations particularly on Outsourcing, Operational Risk Management, IT Risk Management, Internal Control, Anti-Money Laundering/Countering the Financing of Terrorism, Financial Consumer Protection, and sound corporate governance principles, among others.

Open Finance Standards may be revised periodically to address emerging issues or to improve the Open API functionalities. To facilitate third party adoption, Participants shall publish detailed Open API documentation and ensure consistency with the latest version of Open Finance Standards.

Tiered Approach towards Open Finance Standards Adoption. Open Finance Standards shall be classified into five (5) tiers based on data sensitivity, data type, and data holder type. The tiers are not necessarily sequential, and multiple implementations may occur simultaneously.

a. *Tier 1* – Product and Service Information. Refers to "read-only" information on financial data and other details of financial products/services that is readily accessible online and can be freely used, reused, and redistributed by any entity such as deposit/lending rates, credit card offerings, service charges and other public data.

b. *Tier 2* – Subscription and New Account Applications. Includes customer acquisition and account opening processes, along with facilitating digital application and submission of supporting documents. Applications for deposits, loans, debit/credit cards, and other financial products are covered under this category.

c. *Tier 3* – Account Information. Refers to personal (e.g., name, registered address, phone numbers, etc.) and financial information provided by a customer at any given time or other details pertaining to the account of authenticated customers for stand-alone or aggregated views. This consists of, but are not limited to, data types such as account balance, credit card outstanding balance, transaction records, credit limit change, and credit score.

d. *Tier 4* – Transactions. Covers payments and other financial transactions such as scheduled payments and transfers initiated by customers.

e. *Tier 5* – Others. Covers other more complex financial products or use cases and those that are not covered by tiers 1-4.

Cooperative Regulatory Oversight. The Bangko Sentral duly recognizes that other regulatory/supervisory authorities may be involved in the Open Finance Framework as this would involve other Participants that are not under the supervisory ambit of the Bangko Sentral. In this regard, the Bangko Sentral shall coordinate with the concerned regulatory authority with respect to the implementation of the Open Finance Framework.

Regulatory Sandbox

The Bangko Sentral seeks to provide a regulatory environment that is conducive for the deployment of innovative financial services, including the development of standards for Open Finance. In line with this, the Bangko Sentral will permit innovation in Open Finance, such as but not limited to, the development of an industry API sandbox, in which Open APIs can be deployed and tested in a live environment and within specified parameters and timeframes.

Recommendation to Build a Central API Sandbox. While API providers will be encouraged to develop local sandboxes, it is recognized that costs may present a barrier and further incentives may be required. Thus, the Bangko Sentral encourages the OFOC to establish a central sandbox for testing developers and for other purposes related to local sandbox development (e.g., outsourcing sandbox development to trusted parties). The OFOC shall ensure that the central sandbox (i) implements all levels of security for APIs and (ii) contains a set of executable tests that API developers can use to validate compliance. The OFOC shall provide the executable tests to developers free of charge so that barriers to entry are avoided.

The OFOC shall maintain a list of approved Use Case API Services[1] with defined technical and security standards. This list shall include clear mechanisms and guidelines for providing the API services (e.g., basic APIs such as Authentication, Account Information, Transfers, etc.). The Use Case list per API service is a list that will be regularly updated based on new API innovations that have been reviewed by the Bangko Sentral or other relevant governing body.

Consumer Protection. Participants shall adopt customer awareness measures to, at the minimum, educate their customers on the following: (i) safeguarding of information; (ii) use of the Open API; (iii) actual fees and charges related to the access of information and performance of transactions; (iv) fair and equitable terms and conditions; (v) products and services appropriate to the capacity and risk appetite of the consumer; and (vi) problem resolution procedures. Participants shall disclose, prior to entering an initial transaction and on an ongoing basis, all material risks to their clients in a manner that is clear, fair and not misleading. Participants shall carry out initiatives to give consumers the knowledge, skills, and confidence to understand and evaluate the information they receive and empower them to make informed financial decisions.

Data Privacy and Data Protection. Each contract relating to the implementation or use of Open API shall contain a clause for the recognition by each party that the customers have ownership over their data being collected and processed through the transaction, and that they have all the rights enumerated under R.A. No. 10173 (Data Privacy Act of 2012). This views that while customer and transaction data are in the custody of the Open API publisher, their rights to control the use of such data is limited to the boundaries of the consent the customer provided. All Participants shall comply with relevant requirements of the Data Privacy Act of 2012, its Implementing Rules and Regulations, and other National Privacy Commission issuances.

Dispute Mechanism. Participants shall have an adequate, prompt, and effective mechanism or procedure for handling and resolving disputes covering Open Finance issues aligned with agreed Conventions, as applicable.

[1] All existing API arrangements prior to the issuance of Circular No. 1122 dated 17 June 2021, they shall comply with the applicable requirements prescribed herein within one (1) year from 13 July 2021. In cases awaiting policy-setting or further clarifications, compliance timetable shall be further determined by the OFOC.

User Consent and access to opt-in and opt-out mechanisms. Proper mechanisms shall be in place to ensure customers' private information is not used for purposes that are against their interests. The customers should, at all times, not only be educated and informed but they must also consent to how their data is being used and be provided with opt-in and opt-out mechanisms if and when they want to withdraw or modify the scope of their consent. Customers must be periodically informed as to how the Participants have utilized their permissioned data within a given period. Proper mechanisms based on industry standards shall be in place in providing a consent management portal/service that is interoperable, open, and has extensible information structure for recording obtained consents, consent duration, timestamp and opted-in/opted-out services, among others.

(Circular No. 1122 dated 17 June 2021)

F. COMPLIANCE, INTERNAL CONTROL, AND AUDIT

161-Q COMPLIANCE FRAMEWORK

BSFIs shall establish a dynamic and responsive compliance risk management system. The compliance risk management system shall be designed to specifically identify and mitigate risks that may erode the franchise value of the BSFI such as risks of legal or regulatory sanctions, material financial loss, or loss to reputation, a BSFI may suffer as a result of its failure to comply with laws, rules, related self-regulatory organization standards, and codes of conduct applicable to its activities. Said risk may also arise from failure to manage conflict of interest, treat customers fairly, or effectively manage risks arising from money laundering and terrorist financing activities. Compliance risk management should be an integral part of the culture and risk governance framework of the BSFI. In this respect, it shall be the responsibility and shared accountability of all personnel, officers, and the board of directors.

Compliance function. The compliance function shall have a formal status within the organization. It shall be established by a charter or other formal document approved by the board of directors that defines the compliance function's standing, authority and independence. It shall have the right to obtain access to information necessary to carry out its responsibilities, conduct investigations of possible breaches of the compliance policy, and shall directly report to and have direct access to the board of directors or appropriate board-level committee.

The compliance function shall facilitate effective management of compliance risk by:

a. Advising the board of directors and senior management on relevant laws, rules and standards, including keeping them informed on developments in the area;
b. Apprising BSFI personnel on compliance issues, and acting as a contact point within the BSFI for compliance queries from BSFI personnel;
c. Establishing written guidance to staff on the appropriate implementation of laws, rules and standards through policies and procedures and other documents such as compliance manuals, internal codes of conduct and practice guidelines;
d. Identifying, documenting and assessing the compliance risks associated with the BSFI's business activities, including new products and business units;
e. Assessing the appropriateness of the BSFI's compliance procedures and guidelines, promptly following up any identified deficiencies, and where necessary, formulating proposals for amendments;
f. Monitoring and testing compliance by performing sufficient and representative compliance testing; and
g. Maintaining a constructive working relationship with the Bangko Sentral and other regulators.

Compliance program. The compliance program shall set out the planned activities of the compliance function, such as the review and implementation of specific policies and procedures; compliance risk assessment; compliance testing; educating staff on compliance matters; monitoring compliance risk exposures; and reporting to the board of directors or board-level committee. The program shall espouse a risk-based approach and shall have appropriate coverage across businesses and units. For this purpose, the compliance program shall be updated on a regular basis or at least annually.

Chief Compliance Officer (CCO). The CCO should have the necessary qualifications, experience, and professional background and should have a sound understanding of relevant laws and regulations and their potential impact on the BSFI's operations. The CCO should be up-to-date with the developments in laws, rules and standards maintained through continuous training. BSFIs shall appoint a CCO who shall serve on a full-time basis and shall functionally report to the board of directors or board-level committee. BSFIs operating on a business model deemed simple by the Bangko Sentral, by virtue of their scale and complexity of activities, may designate its Internal Auditor to serve as the CCO in concurrent capacity.

An appointed CCO has the burden to prove that he possesses all the minimum qualifications and none of the disqualifications by submitting to the Bangko Sentral proof of such qualifications[1]. Non-submission of complete documentary requirements within the prescribed period shall be construed as his failure to establish his qualifications for the positions and results in his removal as CCO. The Bangko Sentral shall also consider its own records in determining the qualifications of a CCO.

[1] Using the list in *Appendix Q-58* as a guide.

The CCO shall oversee the identification and management of the BSFI's compliance risk and shall supervise the compliance function staff. He is expected to liaise with the Bangko Sentral on compliance related issues and shall also be responsible for ensuring the integrity and accuracy of all documentary submissions to the Bangko Sentral. He shall functionally meet/report to the board of directors or board-level committee and such meetings shall be duly minuted and adequately documented. In this regard, the board of directors/board-level committee shall review and approve the performance and compensation of the CCO as well as the budget of the compliance function.

Responsibilities of the board of directors and senior management. Aside from the duties and responsibilities of the board of directors mentioned under Sec. 132-Q, the board of directors shall ensure that a compliance program is defined for the BSFI and that compliance issues are resolved expeditiously. For this purpose, a board-level committee, chaired by a non-executive director, shall oversee the compliance program.

The board of directors shall ensure that BSFI personnel and affiliated parties adhere to the pre-defined compliance standards. Senior management, through the CCO, should periodically report to the board of directors or its designated committee matters that affect the design and implementation of the compliance program.

Any changes, updates and amendments to the compliance program must be approved by the board of directors. However, any material breaches of the compliance program shall be reported to and promptly addressed by the CCO within the mechanisms defined by the compliance manual. A compliance system found to be materially inadequate shall be construed as conducting business in an unsafe or unsound manner.

Cross-border compliance issues. The compliance function for institutions that conduct business in other jurisdictions should be structured to ensure that local compliance concerns are satisfactorily addressed within the framework of the compliance policy for the organization as a whole. As there are significant differences in legislative and regulatory frameworks across countries or from jurisdiction to jurisdiction, compliance issues specific to each jurisdiction should be coordinated within the structure of the institution's group-wide compliance policy. The organization and structure of the compliance function and its responsibilities should be in accordance with local legal and regulatory requirements.

Outsourcing of compliance risk assessment and testing. The review, assessment and testing of the compliance program may be outsourced to qualified third parties. The handling and management of this outsourcing arrangement shall be governed by Sec. 111-Q.

(Circular Nos. 1129 dated 12 November 2021, 972 dated 22 August 2017 and 893 dated 16 November 2015)

162-Q INTERNAL CONTROL FRAMEWORK

Internal control is a process designed and effected by the board of directors, senior management, and all levels of personnel to provide reasonable assurance on the achievement of objectives through efficient and effective operations; reliable, complete and timely financial and management information; and compliance with applicable laws, regulations, supervisory requirements, and the organization's policies and procedures.

QBs shall have in place adequate and effective internal control framework for the conduct of their business taking into account their size, risk profile and complexity of operations. The internal control framework shall embody management oversight and control culture; risk recognition and assessment; control activities; information and communication; and monitoring activities and correcting deficiencies.

Management oversight and control culture. Consistent with the principles provided under Secs. 132-Q and 134-Q, the board of directors and senior management shall be responsible for promoting high ethical and integrity standards; establishing the appropriate culture that emphasizes, demonstrates and promotes the importance of internal control; and designing and implementing processes for the prevention and detection of fraud.

a. The board of directors shall be ultimately responsible for ensuring that senior management establishes and maintain an adequate, effective and efficient internal control framework commensurate with the size, risk profile and complexity of operations of the QB. The board of directors shall also ensure that the internal audit function has an appropriate stature and authority within the QB and is provided with adequate resources to enable it to effectively carry-out its assignments with objectivity.

   Further, the board of directors shall, on a periodic basis:

   (1) conduct discussions with management on the effectiveness of the internal control system;

   (2) review evaluations made by the audit committee on the assessment of effectiveness of internal control made by management, internal auditors and external auditors;

(3) ensure that management has promptly followed up on recommendations and concerns expressed by auditors and supervisory authorities on internal control weaknesses; and

(4) review and approve the remuneration of the head and personnel of the internal audit function. Said remuneration shall be in accordance with the QB's remuneration policies and practices and shall be structured in such a way that these do not create conflicts of interest or compromise independence and objectivity.

b. The audit committee shall be responsible for overseeing senior management in establishing and maintaining an adequate, effective and efficient internal control framework. It shall ensure that systems and processes are designed to provide assurance in areas including reporting, monitoring compliance with laws, regulations and internal policies, efficiency and effectiveness of operations and safeguarding of assets.

The audit committee shall oversee the internal audit function and shall be responsible for:

(1) monitoring and reviewing the effectiveness of the internal audit function;

(2) approving the internal audit plan, scope and budget;

(3) reviewing the internal audit reports and the corresponding recommendations to address the weaknesses noted, discussing the same with the head of the internal audit function and reporting significant matters to the board of directors;

(4) ensuring that the internal audit function maintains an open communication with senior management, the audit committee, external auditors, and the supervisory authority;

(5) reviewing discoveries of fraud and violations of laws and regulations as raised by the internal audit function;

(6) reporting to the board of directors the annual performance appraisal of the head of the internal audit function;

(7) recommending for approval of the board of directors the annual remuneration of the head of the internal audit function and key internal auditors;

(8) appointing, reappointing or removing the head of the internal audit function and key internal auditors; and

(9) selecting and overseeing the performance of the internal audit service providers.

In particular, the audit committee shall be responsible for:

(1) ensuring the independence of the internal audit service provider;

(2) reporting to the board of directors on the status of accomplishments of the outsourced internal audit activities, including significant findings noted during the conduct of the internal audit;

(3) ensuring that the internal audit service provider comply with sound internal auditing standards such as the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing and other supplemental standards issued by regulatory authorities/government agencies, as well as with relevant code of ethics;

(4) ensuring that the audit plan is aligned with the overall plan strategy and budget of the bank and is based on robust risk assessment; and

(5) ensuring that the internal audit service provider has adequate human resources with sufficient qualifications and skills necessary to accomplish the internal audit activities.

c. Senior management shall be responsible for maintaining, monitoring and evaluating the adequacy and effectiveness of the internal control system on an ongoing basis, and for reporting on the effectiveness of internal controls on a periodic basis. Management shall develop a process that identifies, measures, monitors and controls risks that are inherent to the operations of the QB; maintain an organizational structure that clearly assigns responsibility, authority and reporting relationships; ensure that delegated responsibilities are effectively carried out; implement internal control policies and ensure that activities are conducted by qualified personnel with the necessary experience and competence. Management shall ensure that QB personnel undertake continuing professional development and that there is an appropriate balance in the skills and resources of the front office, back office, and control functions. Moreover, Management shall promptly inform the internal audit function of the significant changes in the QB's risk management systems, policies and processes.

d. All personnel need to understand their roles and responsibilities in the internal control process. They should be fully accountable in carrying out their responsibilities effectively and they should communicate to the appropriate level of management any problem in operations, action or behavior that is inconsistent with documented internal control processes and code of ethics.

Risk recognition and assessment. An effective internal control system shall identify, evaluate and continually assess all material risks that could affect the achievement of the QB's performance, information and compliance objectives. The potential for fraud shall be considered in assessing the risks to the achievement of said objectives. Further, the risk assessment shall cover all risks facing the QB, which include, among others, credit; country and transfer; market; interest rate; liquidity; operational; compliance; legal; and reputational risks.

Effective risk assessment identifies and considers both internal (e.g., complexity of the organization's structure, nature of the QB's activities and personnel profile) and external (e.g., economic conditions, technological developments and changes in the industry) factors that could affect the internal control framework. The risk assessment shall be conducted at the level of individual business units and across all QB activities/groups/units and subsidiaries, in the case of a parent bank. Internal controls shall be revised to address any new or previously uncontrolled or unidentified risks.

Control activities. Control activities shall form part of the daily activities of the bank and all levels of personnel in the QB. Control activities are designed and implemented to address the risks identified in the risk assessment process. These involve the establishment of control policies and procedures, and verification that these are being complied with.

QBs shall have in place control activities defined at every business level, which shall include a system that provides for top and functional level reviews; checking compliance with exposure limits and follow-up on non-compliance; a system of approvals and authorizations, which shall include the approval process for new products and services; and a system of verification and reconciliation.

Control activities complement existing policies, procedures and other control systems in place such as, among others, having clearly defined organizational structure and reporting lines, and arrangements for delegating authority; adequate accounting policies, records and processes; robust physical and environmental controls for tangible assets and access controls to information assets; and appropriate segregation of conflicting functions.

a. *Clear arrangements for delegating authority*. The functions and scope of authority and responsibility of each personnel should be adequately defined, documented and clearly communicated. The extent to which authorities may be delegated and the corresponding accountabilities of the personnel involved shall be approved by the appropriate level of management or the board of directors.

b. *Adequate accounting policies, records and processes*. QBs shall maintain adequate financial policies, records and processes. These records shall be kept up-to-date and contain sufficient detail to establish an audit trail. Further, QBs shall conduct independent balancing and reconciliation of records and reports to ensure the integrity of the reported data and balances. QBs shall also put in place a reliable information system that covers all of its significant activities which shall allow the board of directors and management access to data and information relevant to decision making such as, among others, financial, operations, risk management, compliance and market information. Moreover, these systems shall be secured, monitored independently and supported by adequate contingency arrangements.

c. *Robust physical and environmental controls to tangible assets and access controls to information assets*. QBs shall adopt policies and practices to safeguard their tangible and information assets. These shall include, but shall not be limited to:

    (1) identifying officers with authorities to sign for and on behalf of the QB. Signing authorities shall be approved by the board of directors and the extent of authority at each level shall be clearly defined;

    (2) implementing joint custody on certain assets. Joint custody shall mean the processing of transactions in the presence, and under the direct observation of a second person. Both persons shall be equally accountable for the physical protection of the items and records involved: *Provided,* That persons who are related to each other within the third degree of consanguinity or affinity shall not be made joint custodians;

    (3) adopting dual control wherein the work of one (1) person is to be verified by a second person to ensure that the transaction is properly authorized, recorded and settled;

    (4) incorporating sequence number control in the accounting system which shall also be used in promissory notes, checks and other similar instruments. Management shall also put in place appropriate controls to monitor the usage, safekeeping and recording of accountable forms;

(5) restricting access to information assets by classifying information as to degree of sensitivity and criticality and identifying information owners or personnel with authorities to access particular classifications based on job responsibilities and the necessity to fulfill one's duties; and

(6) implementing authentication and access controls prior to granting access to information such as, among others, implementing password rules. This shall be supplemented by appropriate monitoring mechanisms that will allow audit of use of information assets.

d. *Segregation of conflicting functions*. QBs shall ensure that areas of potential conflicts of interest shall be identified, minimized and subjected to independent monitoring. Further, appropriate segregation of functions shall be observed in identified areas that may pose potential conflict of interest. Moreover, periodic reviews of responsibilities and functions shall be conducted to ensure that personnel are not in a position to conceal inappropriate actions.

Examples of internal control measures are in *Appendix Q-72*.

Information and communication. An effective internal control system requires that there are adequate and comprehensive internal financial, operational and compliance data, as well as external information about events and conditions that are relevant to decision making. Information shall be reliable, timely, accessible, and provided in a consistent format. QBs shall have in place a reliable management information system that covers significant activities of the QB and has the capability to generate relevant and quality information to support the functioning of internal control.

QBs shall also establish effective channels of communication to ensure that all personnel fully understand and adhere to policies and procedures and control measures relevant to their duties and responsibilities and that relevant information is reaching the appropriate personnel. Management shall also ensure that all personnel are cognizant of their duty to promptly report any deficiency to appropriate levels of management or to the board of directors, where required. These shall enable them to quickly respond to changing conditions and avoid unnecessary costs.

Monitoring activities and correcting deficiencies. The overall effectiveness of the internal controls shall be monitored on an ongoing basis. Monitoring functions and activities shall be adequately defined by management, integrated in the operating environment and should produce regular reports for review. In this regard, all levels of review shall be adequately documented and results thereof reported on a timely basis to the appropriate level of management.

Evaluations of the effectiveness of the internal control system and the corresponding monitoring activities may be done by personnel from the same operational area in the form of self-assessment or from other areas such as internal audit: *Provided,* That*,* self-assessment done by business units shall be subject to independent validation.

Evaluations done shall be adequately documented and internal control deficiencies and weaknesses identified shall be reported on a timely basis to the appropriate level of management or the board of directors, where necessary, and addressed promptly.

(Circulars Nos. 970 dated 22 August 2017 and 871 dated 05 March 2015)

163-Q INTERNAL AUDIT FUNCTION

Internal audit is an independent, objective assurance and consulting function established to examine, evaluate and improve the effectiveness of internal control, risk management and governance systems and processes of an organization, which helps management and the board of directors in protecting the QB and its reputation. The internal audit function shall both assess and complement operational management, risk management, compliance and other control functions. In this respect, internal audit shall be conducted in frequencies commensurate with the assessed levels of risk in specific areas.

a. *Permanency of the internal audit function*. Each QB shall have a permanent internal audit function. In the case of group structures involving a parent bank and subsidiary or affiliate Bangko Sentral supervised financial institutions (BSFIs), the internal audit function shall either be established in each of the BSFI or centrally by the parent bank.

b. *Internal audit function in group structures*. In case each BSFI belonging to group structures has its own internal audit function, said internal audit function shall be accountable to the financial institution's own board of directors and shall likewise report to the head of the internal audit function of the parent bank within a reasonable period and frequency prescribed by the board of directors of the parent bank.

On the other hand, in case the parent bank's internal audit function shall cover the internal audit activities in the subsidiary or affiliate BSFI, the board of directors of the parent bank shall ensure that the scope of internal audit activities is adequate considering the size, risk profile and complexity of operations of the subsidiary or affiliate concerned.

The establishment of internal audit function centrally by the parent bank in group structures shall not fall under the outsourcing framework as provided under Sec. 111-Q. In this respect, the head of the internal audit function of the parent bank shall define the internal audit strategies, methodology, scope and quality assurance measures for the entire group: *Provided,* That this shall be done in consultation and coordination with the respective board of directors and of the subsidiary or affiliate BSFI: *Provided, further*, That the board of directors of the subsidiary or affiliate BSFI, shall remain ultimately responsible for the performance of the internal audit activities.

c. *Outsourcing of internal audit activities*. QBs that are not part of group structures may outsource, in accordance with existing Bangko Sentral regulations on outsourcing, internal audit activities covering all areas of its operations: *Provided,* That the board of directors of the QB shall remain ultimately responsible for the conduct of effective internal audit *Provided, further*, That the internal audit activities shall not be outsourced to the QB's own external auditor/audit firm nor to internal audit service provider that was previously engaged by the QB in the same area intended to be covered by the internal audit activity that will be outsourced, without a one-year "cooling off" period.

Qualifications of the head of the internal audit function. The head of the internal audit function must have an unassailable integrity, relevant education/experience/training, and has an understanding of the risk exposures of the QB, as well as competence to audit all areas of its operations. He must also possess the following qualifications:

a. The head of the internal audit function of a UB or a KB must be a Certified Public Accountant (CPA) or a Certified Internal Auditor (CIA) and must have at least five (5) years experience in the regular audit (internal or external) of a UB or KB as auditor-in-charge, senior auditor or audit manager. He must possess the knowledge, skills, and other competencies to examine all areas in which the institution operates. Professional competence as well as continuing training and education shall be required to face up to the increasing complexity and diversity of the institution's operations.

b. The head of the internal audit function of a complex TB, RB and Coop Bank; QB and; trust entity must be a graduate of any accounting, business, finance or economics course with technical proficiency on the conduct of internal audit and must have at least five (5) years experience in the regular audit (internal or external) of a TB, national Coop Bank, QB or trust entity or, at least three (3) years experience in the regular audit (internal or external) of a UB or KB.

c. The head of the internal audit function of a simple or non-complex TB, RB and Coop Bank; and NSSLA must be a graduate of any accounting, business, finance or economics course with technical proficiency on the conduct of internal audit and must have at least two (2) years experience in the regular audit (internal or external) of a UB, KB, TB, RB, Coop Bank, QB or NSSLA.

A qualified head of the internal audit function of a UB or a KB shall be qualified to audit TBs, RB, Coop Banks, QBs, trust entities, NSSLAs, subsidiaries and affiliates engaged in allied activities, and other financial institutions under Bangko Sentral supervision. A qualified internal auditor of a complex TB, RB, and Coop Bank; QB and; trust entity shall likewise be qualified to audit non-complex TB, RB and Coop Bank and NSSLA.

The head of the internal audit function shall be appointed/reappointed or replaced with prior approval of the audit committee. In cases when the head of the internal audit function will be replaced, the QB shall report the same and the corresponding reason for replacement, to the appropriate supervising department of the Bangko Sentral within five (5) days from the time it has been approved by the board of directors.

Duties and responsibilities of the head of the internal audit function or the chief audit executive.

a. To demonstrate appropriate leadership and have the necessary skills to fulfill his responsibilities for maintaining the unit's independence and objectivity;

b. To be accountable to the board of directors or audit committee on all matters related to the performance of its mandate as provided in the internal audit charter. The head of the internal audit function shall submit a report to the audit committee or board of directors on the status of accomplishments of the internal audit unit, including findings noted during the conduct of the internal audit as well as status of compliance of departments/units concerned.

c. To ensure that the internal audit function complies with sound internal auditing standards such as the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing and other supplemental standards issued by regulatory authorities/government agencies, as well as with relevant code of ethics;

d. To develop an audit plan based on robust risk assessment, including inputs from the board of directors, audit committee and senior management and ensure that such plan is comprehensive and adequately covers regulatory matters. The head of the internal audit function shall also ensure that the audit plan, including any revisions thereto, shall be approved by the audit committee;

e. To ensure that the internal audit function has adequate human resources with sufficient qualifications and skills necessary to accomplish its mandate. In this regard, the head of the internal audit function shall periodically assess and monitor the skill-set of the internal audit function and ensure that there is an adequate development program for the internal audit staff that shall enable them to meet the growing technical complexity of banking operations.

Professional competence and ethics of the internal audit function. The internal audit function shall be comprised of professional and competent individuals who collectively have the knowledge and experience necessary in the conduct of an effective internal audit on all areas of QB's operations. The skill set of the internal audit staff shall be complemented with appropriate audit methodologies and tools as well as sufficient knowledge of auditing techniques in the conduct of audit activities.

All internal audit personnel shall act with integrity in carrying-out their duties and responsibilities. They should respect the confidentiality of information acquired in the course of the performance of their duties and should not use it for personal gain or malicious actions. Moreover, internal audit personnel shall avoid conflicts of interest. Internally-recruited internal auditors shall not engage in auditing activities for which they have had previous responsibility before a one-year "cooling off" period has elapsed. The internal audit personnel shall adhere at all times to the QB's Code of Ethics as well as to an established code of ethics for internal auditors such as that of the Institute of Internal Auditors.

Independence and objectivity of the internal audit function. The internal audit function must be independent of the activities audited and from day-to-day internal control process. It must be free to report audit results, findings, opinions, appraisals and other information through clear reporting line to the board of directors or audit committee. It shall have authority to directly access and communicate with any officer or employee, to examine any QB, as well as to access any records, files or data whenever relevant to the exercise of its assignment.

If independence or objectivity of internal audit function is impaired, in fact or appearance, the details of the impairment must be disclosed to the audit committee. Impairment to organizational independence and individual objectivity may include, but is not limited to, personal conflict of interest, scope limitations, restrictions on access to records, personnel, and properties, and resource limitations, such as funding.

The internal audit function shall inform senior management of the results of its audits and assessment. Senior management may consult the internal auditor on matters related to risks and internal controls without tainting the latter's independence: *Provided,* That the internal auditor shall not be involved in the development or implementation of policies and procedures, preparation of reports or execution of activities that fall within the scope of his review.

Staff of the internal audit function shall be periodically rotated, whenever practicable, and without jeopardizing competence and expertise to avoid unwarranted effects of continuously performing similar tasks or routine jobs that may affect the internal auditor's judgment and objectivity.

Internal audit charter. QBs shall have an internal audit charter approved by the board of directors. The internal audit charter shall be periodically reviewed by the head of the internal audit function and any changes thereto shall be approved by the board of directors.

The internal audit charter shall establish, among others, the following:

a. Purpose, stature and authority, and responsibilities of the internal audit function as well as its relations with other control functions in the QB. The charter shall recognize the authority of the internal audit function, to initiate direct communication with any QB personnel; to examine any activity or entity; and to access any records, files, data and physical properties of the QB, in performing its duties and responsibilities;

b. Standards of independence, objectivity, professional competence and due professional care, and professional ethics;

c. Guidelines or criteria for outsourcing internal audit activities to external experts;

d. Guidelines for consulting or advisory services that may be provided by the internal audit function;

e. Responsibilities and accountabilities of the head of the internal audit function;

f. Requirement to comply with sound internal auditing standards such as the Institute of Internal Auditor's International Standards for the Professional Practice of Internal Auditing and other supplemental standards issued by regulatory authorities/government agencies, as well as with relevant code of ethics; and

g. Guidelines for coordination with the external auditor and supervisory authority.

Scope. All processes, systems, units, and activities, including outsourced services, shall fall within the overall scope of the internal audit function. The scope of internal audit shall cover, among others, the following:

a. Evaluation of the adequacy, efficiency and effectiveness of internal control, risk management and governance systems in the context of current and potential future risks;

b. Review of the reliability, effectiveness and integrity of management and financial information systems, including the electronic information system and electronic banking services;

c. Review of the systems and procedures of safeguarding the QB's physical and information assets;

d. Review of compliance of trading activities with relevant laws, rules and regulations;

e. Review of the compliance system and the implementation of established policies and procedures; and

f. Review of areas of interest to regulators such as, among others monitoring of compliance with relevant laws, rules and regulations, including but not limited to the assessment of the adequacy of capital and provisions; liquidity level; regulatory and internal reporting.

(Circular No. 871 dated 05 March 2015)

164-Q FRAMEWORK ON THE SELECTION OF EXTERNAL AUDITORS

Policy Statement. The Bangko Sentral considers the external auditing profession as a partner in promoting the integrity of financial reports and transparency in the financial system. In this light, the Bangko Sentral is issuing this framework on the selection of external auditors (individual practitioners and audit firms) for Bangko Sentral Supervised Financial Institutions (BSFIs) in line with its cooperative arrangements with the Securities and Exchange Commission (SEC), Insurance Commission (IC), and Philippine Deposit Insurance Corporation (PDIC), under the auspices of the Financial Sector Forum (FSF).

Appointment of External Auditors of BSFIs

a. BSFIs shall engage the services of an external auditor included in the List of Selected External Auditors for BSFIs. In this respect, a BSFI shall only appoint an external auditor belonging to the same category or from categories higher than the category of the BSFI concerned as provided in this section: *Provided*, That the Monetary Board may require the BSFI to appoint an external auditor from higher categories as part of the Bangko Sentral's supervisory action on the BSFI. The external auditor appointed by the BSFI shall likewise audit the BSFI's trust department as well as its subsidiaries and affiliates engaged in allied activities, as applicable.

b. External Auditors shall be classified into three categories and shall extend their services to BSFIs belonging to the same category or from categories lower than the category of the external auditor, as follows:

(1) Group A

(a) UBs/KBs
(b) Foreign banks and branches or subsidiaries of foreign banks
(c) Banks, trust departments and trust corporations with additional derivatives authority, pursuant to Sec. 613.

(2) Group B

(a) TBs
(b) NBFIs with quasi-banking license
(c) Trust departments and trust corporations

(3) Group C

(a) RBs and Coop Banks
(b) Non-stock Savings and Loan Associations
(c) Pawnshops
(d) Remittance and Transfer Companies (RTCs)/Money Changers/Foreign Exchange Dealers (MCs/FXDs), including Virtual Currency Exchanges and Electronic Money Issuers
(e) Credit Card Issuers/Acquirers

The above categories shall include their subsidiaries and affiliates engaged in allied activities and other financial institutions subject to Bangko Sentral's consolidated supervision.

c. External auditors applying for first time inclusion or renewal of inclusion in the List of Selected External Auditors for BSFIs shall submit their application to the SEC. The application shall be subject to the requirements set out by the SEC as agreed upon by the Bangko Sentral, SEC, IC and PDIC.

d. The inclusion in the List of Selected External Auditors for BSFIs shall be valid for five (5) years or for a shorter period prescribed by the financial sector supervisors.

e. The Bangko Sentral shall periodically evaluate the performance of the external auditor through an assessment of the quality of the BSFI's audited financial statements and its compliance with the requirements provided under this Section. The results of assessment shall serve as basis for the continuing inclusion of external auditors in the List of Selected External Auditors for BSFIs.

f. The external auditor, including the engagement and quality control partners of the audit firm, of the BSFI shall be rotated in accordance with the relevant provisions of the Code of Ethics for Professional Accountants in the Philippines as adopted by the Philippine Board of Accountancy.

Audit Engagement and Reportorial Requirements

a. The BSFI's Audit Committee/board of directors/board of trustees shall ensure that the scope of external audit work appropriately covers areas relevant to BSFI's operations and risk exposures. These include the following:

(1) Review of the adoption of applicable reporting framework as well as the assessment of the accuracy, adequacy, and reliability of accounting records and financial reports;
(2) Assessment of the propriety and adequacy of disclosures in the financial statements;
(3) Assessment of the adequacy and effectiveness of internal controls and risk management systems;
(4) Assessment of the quality of capital in relation to risk exposures; and
(5) Evaluation of the quality of corporate governance.

b. The engagement contract of BSFIs with the external auditor shall include, at a minimum, the following provisions:

(1) That disclosure of information, such as those enumerated under Item "c" of this Section (Audit engagement and reportorial requirements), by the external auditor to the Bangko Sentral and/or other financial sector supervisors shall not constitute a breach of confidentiality on the part of the external auditor nor shall it be a ground for civil, criminal, or disciplinary proceedings against the external auditor;

(2) That the external auditor shall be allowed read-only access to the Bangko Sentral's Report of Examination on the BSFI and that the external auditor shall appropriately consider the contents thereof and maintain its confidentiality; and

(3) That the BSFI concerned and external auditor shall comply with all the requirements under this Section.

The engagement contract shall be made available by the BSFI to the Bangko Sentral upon request.

c. The external auditor shall report to the appropriate supervising department of the Bangko Sentral within fifteen (15) calendar days upon discovery of any matter adversely affecting the condition or soundness of the BSFI, such as, but not limited to the following cases:

(1) Any material finding involving fraud or error;

(2) Actual or potential losses, the aggregate of which amounts to at least ten percent (10%) of the consolidated total assets of the BSFI;

(3) Significant doubt as to the ability of the BSFI to continue as a going concern;

(4) Material breach of laws or Bangko Sentral rules and regulations such as but not limited to prescribed capital and liquidity ratios, significant deficiency in allowance for credit losses, material weaknesses in fair value measurement methodology, and significant vulnerabilities to money laundering and combating the financing of terrorism;

(5) Material internal control weaknesses which may lead to financial reporting problems; and

(6) Findings on matters of corporate governance that may require urgent action by the Bangko Sentral.

Where a thorough investigation or evaluation of facts is necessary on the noted case, an initial report shall be submitted within the prescribed timeline: *Provided*, That a complete report is submitted not later than fifteen (15) calendar days from completion of investigation or evaluation.

In case there are no matters to report, the external auditor shall submit to the appropriate supervising department of the Bangko Sentral, not later than 120 calendar days after the close of the calendar year or the fiscal year adopted by the BSFI, a certification that there is none to report.

d. The board of directors and management of the BSFI shall be primarily responsible for the financial statements submitted to the Bangko Sentral. External auditors are expected to conduct the audit of financial statements in accordance with the provisions of the Philippine Standards on Auditing.

e. The external auditor shall directly inform the appropriate supervising department of the Bangko Sentral of the pre-termination of the engagement contract or his/her resignation/replacements as external auditor as well as the reasons thereto, within fifteen (15) calendar days of the pre-termination of the contract or his/her resignation/replacement.

Supervisory Enforcement Action

The Bangko Sentral reserves the right to deploy its range of supervisory enforcement actions to promote adherence with the requirements set forth in this Section and bring about timely corrective actions. For this purpose, the Bangko Sentral may issue directives or impose sanctions on BSFIs and/or its directors/trustees who approved the appointment of the external auditor, who/which are not in the List of Selected External Auditors for BSFIs, and/or for non-compliance with the provisions of this Section. The Bangko Sentral may likewise shorten the period of validity of inclusion of an external auditor in the List of Selected External Auditors for BSFIs, suspend, or delist external auditors from its List of Selected External Auditors for BSFIs based on the results of assessment of the quality of audited financial statements (AFS) as well as non-compliance with the provisions of this Section. The guidelines on the supervision/delisting of external auditor in the list of selected external auditors for BSFIs is prescribed in *Appendix Q-30/S-7/N-5.*

Transitory provisions

a. External auditors whose inclusion in the List of Selected External Auditors for BSFIs is valid to cover the audit of 2018 financial statements are hereby given one (1) year extension on their inclusion in the List of Selected External Auditors for BSFIs allowing them to engage in the audit of the 2019 financial statements.

b. All applications (new and renewal) for inclusion in the List of Selected External Auditors for BSFIs to cover in the audit of 2020 financial statements and thereafter shall be filed with the SEC starting June 2019.

(Circular No. 1040 dated 20 May 2019)

G. REPORTING GOVERNANCE

171-Q RECORDS

QBs shall have a true and accurate account, record or statement of their daily transactions. For this purpose, the definition of records under Sec. 001-Q shall apply. The making of any false entry or the willful omission of entries relevant to any transaction is a ground for the imposition of administrative sanctions under Section 37 of R.A. No. 7653, without prejudice to the criminal liability of the director or officer responsible therefor under Sections 35 and 36 of R.A. No. 7653 and/or the applicable provisions of the Revised Penal Code. Records shall be up-to-date and shall contain sufficient detail so that an audit trail is established.

Records shall be retained for a period of at least five (5) years, unless they are otherwise required by law or other regulations, or as directed by the Bangko Sentral to be retained for a longer period. However, records which are the subject of, or are pertinent to, an issue that has been raised during a Bangko Sentral examination shall be preserved until such time that the issue has been fully resolved with finality by the Bangko Sentral.

Uniform system of accounts. QBs shall strictly adopt/implement the Uniform System of Accounts prescribed for QBs in the recording of daily transactions including reportorial and publication requirements.

Philippine Financial Reporting Standards/Philippine Accounting Standards.

Policy statement. It is the thrust of the Bangko Sentral to align its financial reporting requirements with standards and practices that are widely accepted internationally to promote fairness, transparency, and accountability in the financial industry. In this light, the Bangko Sentral is issuing guidelines governing the adoption of the PFRS, aimed at ensuring consistency of application and comparability of financial reports across the industry.

a. *Adoption of PFRS.* Bangko Sentral Supervised Financial Institutions (BSFIs) shall adopt PFRS in recording transactions and in the preparation of financial statements and reports to the Bangko Sentral. However, in cases where there are differences between Bangko Sentral regulations and PFRS as when more than one (1) option are allowed or certain maximum or minimum limits are prescribed by PFRS, the option or limit prescribed by the Bangko Sentral shall be adopted by BSFIs. These include the accounting treatment of "Government Grants".

Government grants extended in the form of loans bearing nil or below-market rate of interest shall be measured upon initial recognition at its fair value (i.e. the present value of the future cash flows of the financial instrument discounted using the market interest rate). The difference between the fair value and the net proceeds of the loan shall be recorded under "Unearned Income-Others", and shall be recognized as income on a systematic basis over the period of the loan necessary to match with the related cost for which the grants are intended to compensate.

b. *Preparation of prudential reports.* For prudential reporting, BSFIs shall adopt in all respect the PFRS except in the following cases:

(1) In preparing consolidated financial statements, only investments in financial allied subsidiaries except insurance subsidiaries shall be consolidated with the financial statements of the parent bank on a line-by-line basis; while insurance and non-financial allied subsidiaries shall be accounted for using the equity method. Investments in financial/non-financial allied/non-allied associates and joint ventures shall be accounted for using the equity method in accordance with the provisions of Philippine Accounting Standards (PAS) 28 "Investments in Associates and Joint Ventures"

In preparing solo/separate financial statements, investments in financial/non-financial allied/non-allied subsidiaries/associates, including insurance subsidiaries/associates, shall be accounted for using the equity method as described in PAS 28.

The rules on the preparation of solo financial statements as provided in *Appendix 81* shall apply to banks.

(2) BSFIs shall recognize adequate and timely allowance for credit losses at all times. In this respect, BSFIs shall adopt the principles provided under the Enhanced Standards on Credit Risk Management under Sec. 143-Q as well as the provisions of *Appendix 100/Q-57/N-16* in measuring credit losses.

c. *Preparation of Audited Financial Statements (AFS).* AFS shall in all respect be PFRS compliant and shall be submitted to the Bangko Sentral in accordance with the provisions of Sec. 173-Q.

BSFIs shall submit to the Bangko Sentral adjusting entries reconciling the balances in the financial statements for prudential reporting with those in the AFS.

d. *Guidelines on the adoption of PFRS 9 Financial Instruments.* BSFIs shall adopt, as part of the PFRS framework, PFRS 9: Financial Instruments upon its mandatory effectivity date of 01 January 2018.

For this purpose, BSFIs shall be governed by the following:

(1) Consistent with the duties and responsibilities of the board of directors provided under Sec. 132-Q, the board of directors or any equivalent governing body in the case of branches of foreign banks, shall ensure that the BSFI appropriately and consistently adopts PFRS 9 as part of its reporting governance process. In this respect, the board shall assess the impact of PFRS 9 on business strategies and risk management systems and ensure availability of sufficient resources, including capacity building initiatives, in adopting the standard.

The board shall approve policies and guidelines relative to the adoption of PFRS 9, which shall cover responsibilities of the different units in the BSFI(e.g., Treasury,Risk Management, Financial Controllership) as well as the extent of participation or involvement of third parties in the adoption process. The board shall likewise ensure that adequate control measures are in place to ensure the integrity of reports.

(2) Management shall implement the policies set by the board related to the adoption of PFRS 9 and ensure that sound professional judgment is exercised in implementing the provisions of the standard. Management shall provide feedback to the board on the effectiveness of implementation of PFRS 9.

(3) BSFIs shall be guided by the provisions of *Appendix Q-22* on "Guidelines on the Adoption of Philippine Financial Reporting Standards 9 (PFRS 9) – Classification and Measurement" and *Appendix 97/Appendix Q-56/Appendix N-16* on "Impairment" in implementing the provisions of PFRS 9.

e. *Enforcement Actions*. Consistent with Sec. 002-Q, the Bangko Sentral reserves the right to deploy its range of supervisory tools and enforcement actions to promote adherence with the requirements set out in this Section (*Policy statement*) and bring about timely corrective actions to ensure appropriate and consistent adoption of PFRS. In this respect, the Bangko Sentral may issue directives or impose sanctions on the BSFI and/or its directors, officers and/or employees concerned for noted supervisory issues on the adoption of PFRS 9.

Prudential reports affected by non-adherence to the provisions of this Section (*Policy statement*) shall be subject to penalties/sanctions provided under Sec. 172-Q.

f. *Transitory Provisions*. BSFIs shall observe the following transition rules:

(1) BSFIs shall apply PFRS 9, retrospectively, in accordance with the transition requirements and guidance provided under PFRS 9 and PAS 8 "*Changes in Accounting Policies, Changes in Accounting Estimates and Errors".* BSFIs shall be guided by the provisions of PAS 8 if the retrospective application is impracticable.

(2) A BSFI that applied the earlier versions of PFRS 9 (2009), PFRS 9 (2010) or PFRS 9 (2013) shall be allowed to reclassify its financial assets provided that the reclassification requirements under the standard are met.

(3) A BSFI is expected to comply with the reportorial and disclosure requirements of the Securities and Exchange Commission on the adoption of PFRS 9.

QBs/FIs shall adopt the PFRS and PAS which are in accordance with generally accepted accounting principles in recording transactions and in the preparation of financial statements and reports to Bangko Sentral. However, in cases where there are differences between Bangko Sentral regulations and PFRS/PAS as when more than one (1) option are allowed or certain maximum or minimum limits are prescribed by the PFRS/PAS, the option or limit prescribed by Bangko Sentral regulations shall be adopted by FIs.

For purposes hereof, the PFRS/PAS shall refer to issuances of the FRSC and approved by the PRC.

***Accounting treatment for prudential reporting*.** For prudential reporting, FIs shall adopt in all respect the PFRS and PAS except as follows:

a. In preparing consolidated financial statements, only investments in financial allied subsidiaries except insurance subsidiaries shall be consolidated on a line-by-line basis; while insurance and non-financial allied subsidiaries shall be accounted for using the equity method. Financial/non-financial allied/non-allied associates shall be accounted for using the equity method in accordance with the provisions of PAS 28 "Investments in Associates"; and

b. FIs shall be required to meet the Bangko Sentral recommended valuation reserves.

Government grants extended in the form of loans bearing nil or low interest rates shall be measured upon initial recognition at its fair value (i.e., the present value of the future cash flows of the financial instrument discounted using the market interest rate). The difference between the fair value and the net proceeds of the loan shall be recorded under "Unearned Income-Others", which shall be amortized over the term of the loan using the effective interest method.

The provisions on government grants shall be applied retroactively to all outstanding government grants received. FIs that adopted an accounting treatment other than the foregoing shall consider the adjustment as a change in accounting policy, which shall be accounted for in accordance with PAS 8.

Notwithstanding the exceptions in Items "a" and "b", the audited financial statements required to be submitted to the Bangko Sentral in accordance with the provisions of Sec. 173-Q shall in all respect be PFRS/PAS compliant: *Provided, That* FIs shall submit to the Bangko Sentral adjusting entries reconciling the balances in the financial statements for prudential reporting with that in the audited financial statements.

Guidelines on the preparation of solo/separate financial statements. For purposes of preparing solo/separate financial statements, financial allied, non-financial allied and non-allied subsidiaries/associates/joint ventures, including insurance subsidiaries/associates, shall be accounted for using the equity method, in accordance with PAS 27, as amended.

Guidelines on the adoption of PFRS 9 Financial Instruments. QBs, including their trust entities, shall adopt the full provisions of PFRS 9 Financial Instruments only upon its mandatory effectivity date of 01 January 2018. Prior to said mandatory effectivity date, financial instruments of QBs, including their trust entities, shall continue to be accounted for in accordance with the provisions of PAS 39 under *Appendix* Q-22.

As an exception, QBs, including their trust entities, which have early-adopted PFRS 9 (2009 and 2010) as of 31 December 2015, shall continue to account for their financial instruments in accordance with the provisions of *Appendix Q-57* until 31 December 2017.

Penalties and sanctions. The following penalties and sanctions shall be imposed on FIs and concerned officers found to violate the provisions of these regulations:

a. Fines of P2,000/day to be imposed on QBs for each violation, reckoned from the date the violation was committed up to the date it was corrected; and
b. Sanctions to be imposed on concerned officers:

(1) First offense – reprimand the officers responsible for the violation; and

(2) Subsequent offenses – suspension of ninety (90) days without pay for officers responsible for the violation.

(Circular Nos. 1011 dated 14 August 2018, 957 dated 17 April 2017, 915 dated 05 July 2016, and 912 dated 27 May 2016)

172-Q REPORTS

QBs shall submit to the appropriate supervising department of the Bangko Sentral the reports listed in *Appendix Q-3* in the forms as may be prescribed by the Deputy Governor of the appropriate sector of the Bangko Sentral.

Any change in, or amendment to, the articles of incorporation, by-laws or material documents required to be submitted to the Bangko Sentral shall be reported by submitting copies of the amended articles of incorporation, by laws, or material documents to the appropriate supervising department of the Bangko Sentral within fifteen (15) days following such change.

In the case of the independent directors, the bio-data shall be accompanied by a certification under oath from the director concerned that he/she is an independent director as defined under Sec. 131-Q that all the information thereby supplied are true and correct, and that he/she:

a. Is not or has not been an officer or employee of the QB/trust entity, its subsidiaries or affiliates or related interests during the past three (3) years counted from the date of his/her election;

b. Is not a director or officer of the related companies of the institution's majority stockholder;

c. Is not a majority stockholder of the institution, any of its related companies, or of its majority shareholders;

d. Is not a relative, legitimate or common-law of any director, officer or stockholder holding shares of stock sufficient to elect one (1) seat in the board of the QB/trust entity or any of its related companies. For this purpose, relatives refer to the spouse, parent, child, brother, sister, parent-in-law, son-/daughter-in-law, and brother-/sister-in-law;

e. Is not acting as a nominee or representative of any director or substantial shareholder of the QB/trust entity, any of its related companies or any of its substantial shareholders;

f. Is not retained as professional adviser, consultant, agent or counsel of the institution, any of its related companies or any of its substantial shareholders, either in his/her personal capacity or through his/her firm; is independent of management and free from any business or other relationship, has not engaged and does not engage in any transaction with the institution or with any of its related companies or with any of its substantial shareholders, whether by himself/herself or with other persons or through a firm of which he/she is a partner or a company of which he/she 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/her judgment; and

g. Complies with all the qualifications required of an independent director and does not possess any of the disqualifications therefor and has not withheld nor suppressed any information material to his/her qualification or disqualification as an independent director.

The submission of the reports shall be effected by filing them personally with the appropriate supervising department of the Bangko Sentral or with the Bangko Sentral Regional Offices/Units, or by sending them by registered mail or special delivery through private couriers unless otherwise specified in the circular or memorandum of the Bangko Sentral.

Where the reports are prescribed by the Bangko Sentral to be submitted through electronic mail, the original notarized affidavit/last page of each report, hard copy of the covering control prooflist, or any other related documents required to be submitted shall be filed in the manner prescribed in the preceding paragraph.

In line with the policy direction of R.A. No. 8792 (E-Commerce Act), the Bangko Sentral is strongly encouraging QBs to submit their regular reports to the Bangko Sentral in electronic form.

However, the Bangko Sentral cannot presently guarantee the security/confidentiality of data in the course of transmitting electronic reports to Bangko Sentral. Bangko Sentral recommends that sensitive or confidential information be provided by ordinary post or courier. The Bangko Sentral will accept no responsibility for electronic messages/reports/information that may be hacked or cracked, intercepted, copied or disclosed outside Bangko Sentral's information system.

Categories and signatories of reports. Reports required to be submitted to the Bangko Sentral are classified into Categories A-1, A-2, A-3 and B reports as indicated in the list of reports required to be submitted to the Bangko Sentral in *Appendix Q-3*.

Appendix Q-8 prescribes the signatories for each report category and the requirements on signatory authorization.

Reports submitted by QBs in computer media shall be subject to the same requirements.

A report submitted to the Bangko Sentral under the signature of an officer who is not authorized in accordance with the requirements in this Section (*Categories and signatories of reports*) shall be considered as not having been submitted.

Sanctions in case of willful delay in the submission of reports/refusal to permit examination.

a. *Definition of terms*. For purposes of this Section (*Sanctions in case of willful delay in the submission of reports/refusal to permit examination*), the following definitions shall apply:

   (1) *Report* shall refer to any report or statement required of a QB to be submitted to the Bangko Sentral periodically or within a specified period.

   (2) *Willful delay in the submission of reports* shall refer to the failure of a QB to submit a report on time. Failure to submit a report on time due to fortuitous events, such as fire and other natural calamities and public disorders, including strike or lockout affecting a QB as defined in the Labor Code or national emergency affecting operations of QBs, shall not be considered as willful delay[1].

b. *Fines for willful delay in submission of reports*. QBs incurring willful delay in the submission of required reports shall pay a fine in accordance with the following schedule:

I.	For Categories A-1, A-2 and A-3 reports	
	Per day of default until the report is filed	P600
II.	For Category B reports	
	Per day of default until the report is filed	P120

Delay or default shall start to run on the day following the last day required for the submission of reports. However, should the last day of filing fall on a non-working day in the locality where the reporting FI is situated, delay or default shall start to run on the day following the next working day. The due date/deadline for submission of reports to Bangko Sentral as prescribed under Sec. 172-Q governing the frequency and deadlines indicated in *Appendix Q-3* shall be automatically moved to the next business day whenever a half-day suspension of business operations in government offices is declared due to an emergency such as typhoon, floods, etc.

For purposes of establishing delay or default, the date of acknowledgment by the appropriate supervising department of the Bangko Sentral or the Bangko Sentral Regional Offices/Units appearing on the copies of such reports filed or submitted, the date of mailing postmarked on the envelope/the date of registry/special delivery receipt, as the case may be, or the date of the acknowledgment receipt issued by the appropriate office of the Bangko Sentral if the reports were submitted through electronic mail, shall be considered as the date of filing by the QB.

Delayed schedules/attachments and amendments shall be considered late reporting subject to the above penalties.

a. *Manner of payment or collection of fines* - The regulations embodied in Sec. 102-Q shall be observed in the collection of the fines from QBs.
b. *Other penalties* - The imposition of the foregoing penalties shall be without prejudice to the imposition of the other administrative sanctions and to the filing of a criminal case as provided for in other provisions of law.
c. *Appeal to the Monetary Board* - Any aggrieved QB may appeal to the Monetary Board a ruling of the appropriate supervising department of the Bangko Sentral imposing a fine.

Publication requirements. The quarterly CSOC of a QB/trust entity and its subsidiaries and associates shall be published side-by-side with the SOC of its head office and its branches/other offices as of such dates as the Bangko Sentral may require, within twenty (20) working days from receipt of call letter, in any newspaper of general circulation in the country in the prescribed format.

The CSOC of a QB/trust entity and its subsidiaries and associates shall conform with the guidelines of PAS 27 "Consolidated and Separate Financial Statements", except that for purposes of consolidated financial statements, only investments in financial allied subsidiaries except insurance subsidiaries shall be consolidated on a line-by-line basis; while insurance and nonfinancial allied subsidiaries shall be accounted for using the equity method. Financial/non-financial allied/non-allied associates shall be accounted for using the equity method in accordance with the provisions of PAS 28 "Investments in Associates". For purposes of separate financial statements, investments in

[1] See *Appendix Q*-72 on Regulatory Relief for QBs Affected by Calamities.

financial/non-financial allied/non-allied subsidiaries/associates, including insurance subsidiaries/associates, shall be accounted for using the equity method.

a. The following information shall be disclosed in the Statements of Condition:

(1) Non-performing loans (NPLs) and ratio to total loan portfolio;
(2) Classified loans and other risk assets;
(3) General loan loss reserve;
(4) Specific loan loss reserve;
(5) Return on equity (ROE);
(6) DOSRI loans/advances and ratio to total loan portfolio; and
(7) Past due DOSRI loans/advances and ratio to total loan portfolio.

For uniform calculation of the additional information required, the guidelines in Annex Q-3-f-of *Appendix Q-7* shall be observed.

b. The names and positions/designations of:

(1) members of the board of directors; and
(2) president and executive vice-presidents (senior vice-presidents, if there are no executive vice-president) or equivalent positions shall be presented in the right side column of the published SOC as of June of every year.

Report on Repurchase Agreements. The Report on Repurchase Agreements is designed to capture timely and comprehensive transactional level data on repos of QBs to strengthen financial surveillance, particularly in monitoring market trends and vulnerabilities in the repo market, and to enable the Bangko Sentral to formulate effective policy responses to ensure continued stability of the financial system.

All QBs shall submit the Report on Repurchase Agreements on a solo basis in accordance with the Guidelines on the completion of the Report in *Appendix Q-76*.

This report shall be considered a Category B report. Late and/or erroneous reporting of the said report shall be subject to penalties prescribed under Sec. 172-Q for Category B reports.

Comprehensive Credit and Equity Exposures Report[1]. The Comprehensive Credit and Equity Exposures (COCREE) Report is designed to capture granular borrower/counterparty information for all credit and equity exposures of BSFIs. This shall cover UKBs and their TBs, NBQBs and Trust Corporation subsidiaries, as well as Digital Banks.

The COCREE Report shall be considered a *Category A-1* report and shall be electronically submitted monthly within fifteen (15) banking days after end of the reference month. The maiden submission shall take effect starting with the reporting period ending 31 March 2022.

The electronic submission of the COCREE Report shall conform with the prescribed submission procedures and guidelines covering the required format structure, line-item instructions, validation rules and appropriate technology for reporting, among others.

Erroneous/delayed/erroneous and delayed/unsubmitted reports shall be subject to penalties prescribed under this Section on *Sanctions in case of willful delay in the submission of reports/refusal to permit examination.*

(Circular Nos. 1131 dated 13 December 2021, 970 dated 22 August 2017, 957 dated 17 April 2017, and 923 dated 31 August 2016)

173-Q AUDITED FINANCIAL STATEMENTS

The Bangko Sentral recognizes that external auditors play a vital role in contributing to the conduct of effective supervision and sustaining the confidence of the public in the financial system. In this light, the regulations on financial audit

[1] To facilitate the transition to the new COCREE Report, the existing CREDEX Report shall continue to be submitted quarterly in accordance with its existing deadline and reporting rules unit otherwise advised by the Bangko Sentral, while the COCREE Report shall be submitted based on the following prescribed schedule

Covered BSFIs	Reference Month	COCREE Report submission Deadline
UBs and their TB, NBQB and Trust Corporation subsidiaries, as well as Digital Banks	31 March 2022	6 June 2022
	30 April 2022	4 July 2022
	31 May 2022	5 August 2022
	30 June 2022	2 September 2022
	31 July 2022	30 September 2022
	31 August 2022	17 October 2022
	30 September 2022	7 November 2022
	31 October 2022	29 November 2022
	30 November 2022 and onward	15 banking days after end of reference month

aim to enhance the quality of information channeled to the supervisory process and ultimately promote fairness, transparency and accuracy in financial reporting.

The following rules shall govern the submission of audited financial statements (AFS) of QBs.

For purposes of this Section, AFS shall include the balance sheets, income statements (IS), statements of changes in equity, statements of cash flows, notes to financial statements, and the opinion of the external auditor. The AFS of QBs with subsidiaries shall be presented side by side on a solo basis (parent) and on a consolidated basis (parent and subsidiaries).

Financial Audit. QBs shall cause an annual financial audit by an external auditor included in the List of Selected External Auditors for BSFIs not later than thirty (30) calendar days after the close of the calendar year or the fiscal year adopted by the QB. The AFS shall be submitted by the QB, to the appropriate supervising department of the Bangko Sentral, not later than 120 calendar days after the close of the calendar year or the fiscal year adopted by the QB, accompanied by the documentary requirements as enumerated under *Appendix Q-32*.

In addition, the external auditor shall be required by the QB to submit to the board of directors a Letter of Comments (LOC) indicating any material weakness or breach in the institution's internal control and risk management systems not later than 120 calendar days after the close of the calendar year or fiscal year adopted by the QB. If no material weakness or breach is noted to warrant the issuance of an LOC, a certification under oath stating that no material weakness or breach in the internal control and risk management systems was noted in the course of the audit of the QB shall be submitted in its stead, together with the AFS.

Material weakness shall be defined as a significant control deficiency, or combination of deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be detected or prevented by the institution's internal control. A material weakness does not mean that a material misstatement has occurred or will occur, but that it could occur. A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the institution's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles. The phrase "more than remote likelihood" shall mean that future events are likely to occur or are reasonably possible to occur.

The board of directors, in a regular or special meeting, shall consider and act on the AFS and the LOC and shall submit not later than 120 calendar days after the close of the calendar year or fiscal year adopted by the QB, a copy of its resolution (containing the date of receipt of the AFS and LOC by the board of directors) to the appropriate supervising department of the Bangko Sentral. The resolution shall show the action(s) taken on the AFS and the findings and recommendations stated in the LOC, if any.

Government-owned or -controlled QBs including their subsidiaries and affiliates under Bangko Sentral supervision which are under the concurrent jurisdiction of the Commission on Audit (COA) shall be exempt from the aforementioned annual financial audit by an external auditor included in the List of Selected External Auditors for BSFIs: *Provided*, That, when warranted by supervisory concern such as material weakness/breach in internal control and/or risk management systems, the Monetary Board may, upon recommendation of the appropriate supervising department of the Bangko Sentral, require the financial audit to be conducted by an external auditor included in the List of Selected External Auditors for BSFIs, at the expense of the QB concerned: *Provided, further*, That when circumstances such as, but not limited to loans from multilateral FIs, privatization, or public listing warrant, the financial audit of the institution concerned by an external auditor included in the List of Selected External Auditors for BSFIs may also be allowed.

QBs under the concurrent jurisdiction of the Bangko Sentral and COA shall, however, submit a copy of the annual audit report (AAR) of the COA to the appropriate supervising department of the Bangko Sentral within forty (40) calendar days after receipt of the AAR by the board of directors. The AAR shall be accompanied by the: (a) certification by the institution concerned on the date of receipt of the AAR by the board of directors; (b) reconciliation statement between the AFS in the AAR and the balance sheet and income statement of QB and trust department submitted to the Bangko Sentral, including copies of adjusting entries on the reconciling items; and (c) other information that may be required by the Bangko Sentral. The board of directors of said institutions, in a regular or special meeting, shall consider and act on the AAR, as well as on the comments and observations and shall submit, within thirty (30) banking days after receipt of the report, a copy of its resolution to the appropriate supervising department of the Bangko Sentral. The resolution shall show the action(s) taken on the report, including on the comments and observations and the names of the directors present and absent, among other things.

The AFS required to be submitted shall in all respect be Philippine Financial Reporting Standards (PFRS)/PAS-compliant. The guidelines under Sec. 171-Q *(Philippine Financial Reporting Standards/Philippine Accounting Standards)* shall be adopted.

QBs as well as external auditors shall strictly observe the requirements in the submission of the AFS and reports required to be submitted under *Appendix Q-32*.

The reports and certifications of institutions concerned, schedules and attachments required under this Section (*Financial Audit*) shall be considered as Category *B* reports, delayed submission of which shall be subject to the penalties under Item *"b.ii"* of Sec. 172-Q *(Sanctions in case of willful delay in the submission of reports/refusal to permit examination).*

Posting of audited financial statements. QBs shall post in conspicuous places in their head offices, all their branches and other offices, as well as in their respective websites, their latest AFS.

Disclosure requirements to the audited financial statements. QBs shall disclose the information prescribed under Annex C of *Appendix Q-32* in the AFS.

(Circular Nos. 1075 dated 07 February 2020, 1040 dated 20 May 2019, and 911 dated 02 May 2016)

174-Q PUBLIC DISCLOSURES

Disclosure requirements in the annual report. It is the thrust of the Bangko Sentral to promote greater disclosure and transparency to the public. In line with this, the Bangko Sentral recognizes the importance of the annual report in providing financial information on the QB, which will be useful to the public in making financial decisions. This is consistent with financial consumer protection and aligned with international best practices. Accordingly, the Bangko Sentral revised the minimum disclosure requirements in the annual report of QBs to ensure that proper disclosure is made on all significant matters regarding the QB, including its financial condition, performance, ownership and governance.

Consistent with the principles embodied under Sec. 132-Q, the board of directors shall have the overall responsibility in ensuring that the annual report of the QB fully discloses the minimum disclosure requirements. The board of directors may delegate its oversight function to a board level committee which shall have oversight over the preparation of the annual report.

All QBs shall prepare an annual report which shall include, in addition to the AFS and other usual information contained therein, a discussion and/or analysis of the following information:

a. Corporate policy;
b. Financial summary/Financial highlights;
c. Financial condition and results of operations;
d. Financial results of business segments, as may be applicable;
e. Risk management framework, including practices to mitigate and/or prevent money laundering and terrorist financing risks;
f. Corporate governance;
g. Corporate information; and
h. Audited financial statements (AFS).

For QBs with subsidiaries, the AFS should be presented side by side on a solo basis (parent) and on a consolidated basis (parent and subsidiaries) as provided under this Section.

The guidelines for the preparation of disclosure requirements in the annual report are provided in *Appendix Q-78*.

In addition to the foregoing, QBs which are subsidiaries of UBs/KBs shall also prepare disclosure requirements found under Part IX of *Appendix Q-45*.

The revised disclosures shall commence with annual reports for financial year 2017.

Posting and submission of annual report. A copy of the latest annual report shall be posted/displayed by the QB in a conspicuous place in its head office, all its branches and other offices. The annual report should also be published in the QB's website.

Covered QBs shall submit the Annual Report Assessment Checklist (ARAC) together with the annual report. The ARAC identifies the pages and sections of the annual report corresponding to the disclosures.

The deadline for the submission of the annual report and ARAC to the appropriate supervising department of the Bangko Sentral is 180 calendar days after the close of the calendar or fiscal year adopted by the QB.

QBs under the concurrent jurisdiction of the Bangko Sentral and COA, however, shall submit the annual report and ARAC to the appropriate supervising department of the Bangko Sentral within 100 calendar days after receipt of the AAR by the board of directors.

The annual report shall be submitted in soft copy to the appropriate supervising department of the Bangko Sentral and shall be in portable document format (PDF) as provided in *Appendix Q-3*. Transmittal of the soft copy of the report shall be covered by a letter to the appropriate supervising department of the Bangko Sentral. On the other hand, QBs shall continue to submit the ARAC in hard copy.

Sanctions for non-disclosure of certain information and/or delayed submission of annual report.

a. *Non-disclosure of certain information*. Willful non-disclosure or erroneous disclosure of any item required to be disclosed under this Section on disclosure requirements in the annual report shall be subject to the appropriate monetary penalties under Sec. 1102-Q (*Other Payments of NBFIs*) and *Appendix Q-26* that will be imposed on the QB.

The Bangko Sentral shall also determine if the non-disclosure or erroneous disclosure involves material information that may mislead the public, which warrants stiffer sanctions as provided under Sec. 002-Q.

Material information refers to information which if omitted or misstated, could change or influence the assessment or decisions of a person relying on the disclosure, such as depositors, creditors, investors, and professional analysts, for the purpose of making deposits and investments, among others.

b. Delayed submission of annual report. Sanctions in case of willful delay in the submission of annual report and the ARAC shall be in accordance with the provision under Sec. 172-Q

(Circular Nos. 1125 dated 20 August 2021, 988 dated 20 December 2017, 956 dated 17 April 2017, and 911 dated 02 May 2016)

H. CONDUCTING BUSINESS IN AN UNSAFE OR UNSOUND MANNER

181-Q CONDUCTING BUSINESS IN AN UNSAFE ORUNSOUND MANNER

Whether a particular activity may be considered as conducting business in an unsafe or unsound manner, all relevant facts must be considered. An analysis of the impact thereof on the QB's/trust entity's operations and financial conditions must be undertaken, including evaluation of capital position, asset condition, management, earnings posture and liquidity position.

In determining whether a particular act or omission, which is not otherwise prohibited by any law, rule or regulation affecting QBs/trust entities, may be deemed as conducting business in an unsafe or unsound manner, the Monetary Board, upon report of the head of the supervising or examining department based on findings in an examination or a complaint, shall consider any of the following circumstances:

a. The act or omission has resulted or may result in material loss or damage, or abnormal risk or danger to the safety, stability, liquidity or solvency of the institution;

b. The act or omission has resulted or may result in material loss or damage or abnormal risk to the institutions, creditors, investors, stockholders, or to the Bangko Sentral, or to the public in general;

c. The act or omission has caused any undue injury, or has given unwarranted benefits, advantage or preference to the QB/trust entity or any party in the discharge by the director or officer of his duties and responsibilities through manifest partiality, evident bad faith or gross inexcusable negligence; or

d. The act or omission involves entering into any contract or transaction manifestly and grossly disadvantageous to the QB/trust entity, whether or not the director or officer profited or will profit thereby.

The list of activities which may be considered unsafe and unsound is shown in *Appendix Q-28.*

PART TWO

DEPOSIT SUBSTITUTES, BORROWINGS AND OTHER LIABILITIES

A. DEPOSIT SUBSTITUTE OPERATIONS

201-Q DEPOSIT SUBSTITUTE INSTRUMENTS

Only the following types of instruments may be issued by Quasi-Banks (QBs) as evidence of deposit substitute liabilities:

a. Promissory notes;
b. Repurchase agreements (Repos); and
c. Certificates of assignment participation with recourse.

Prohibition against use of certain instruments as deposit substitutes. Acceptances, bills of exchange and trust certificates shall not be used as evidence of deposit substitute liabilities. This prohibition shall not apply to the acceptance or negotiation of bills of exchange in connection with trade transactions, or to the issuance of trust certificates creating trust relationship.

Negotiations of promissory notes. Negotiable promissory notes acquired by QBs shall not be negotiated by mere indorsement and/or delivery, if they do not conform with the minimum features provided under items *"a"* to *"k"* under this Section *(Minimum features).* If these notes do not contain the features in said items, their negotiation shall be covered by any of the appropriate deposit substitute instruments mentioned in the first paragraph of this Section.

Minimum features. Deposit substitute instruments issued by QBs shall have the following minimum features.

a. The present value and maturity value and/or the principal amount and interest rate and such other information as may be necessary to enable the parties to determine the cost or yield of the borrowing or placement shall be specified.

b. The date of issuance shall be indicated at the upper right corner of the instrument, and directly below which shall be the maturity period or the word "demand", if it is a demand instrument.

c. The payee may be identified by his trust account/deposit account number in both negotiable and non-negotiable instruments.

d. Securities which are the subject of a repo or a certificate of assignment participation with recourse, shall be particularly described on the face of said instruments or on a separate instrument attached and specifically referred to therein and made an integral part thereof as to the maker, value, maturity, serial number, and such other particulars as shall clearly identify the securities.

e. The instrument shall provide for the payment of liquidated damages, in addition to stipulated interest, in case of default by the maker/issuer, as well as attorney's fees and cost of collection in case of suit.

f. A conspicuous notice at the lower center margin of the face of the instrument that the transaction is not insured by the Philippine Deposit Insurance Corporation (PDIC).

g. The corporate name of the issuer shall be printed at the upper center emargin of the instrument and directly below which shall be a designation of the instrument, such as, "Promissory Note" or "Repo".

h. The words "duly authorized officer" shall be placed directly below the signature of the person signing for the maker/issuer.

i. Each instrument shall be serially pre-numbered.

j. The copy delivered to the payee shall bear the word "Original" and the copies retained by the issuer shall be identified as "Duplicate," "File Copy" or words of similar import.

k. Only security paper with adequate safeguards against alteration or falsification shall be used.

Deposit substitute instruments shall conform to the language prescribed by the Bangko Sentral.

Any substantial deviation therefrom or any additional stipulation therein shall be referred to the Bangko Sentral for prior approval. The size and appearance of these instruments shall not be similar to the size and appearance of checks. Formats of standardized instruments in *Appendix Q-13* shall be followed.

Rubber stamping, typewriting and handwriting some provision shall not be considered compliance with said regulations.

Delivery of securities.

a. Securities, warehouse receipts, quedans and other documents of title which are the subject of quasi-banking functions, such as repurchase agreements, shall be delivered to a Bangko Sentral accredited securities custodian or an SEC-authorized central securities depository in accordance with the following guidelines:

(1) The securities shall be delivered by the seller directly to the purchaser or to the purchaser's designated BSP-accredited securities custodian or SEC-authorized central securities depository.

(2) If the securities sold are certificated, delivery shall be effected physically to the purchaser, or to the purchaser's designated Bangko Sentral-accredited custodian. The certificate must be transferred to and registered under the name of the purchaser and properly recorded in the registry book.

The securities custodian shall hold the securities in the name of the borrower/seller, but shall keep said securities segregated from the proprietary securities account of the borrower/seller if the borrower/seller has an existing securities account with the securities custodian: *Provided,* That a bank authorized by the Bangko Sentral to perform securities custodianship function may not be allowed to be the custodian of securities issued or owned by said bank, or of securities in bearer form.

The delivery shall be effected upon payment and shall be evidenced by a securities delivery receipt duly signed by authorized officers of the custodian and delivered to both the lender/purchaser and seller/borrower.

b. The guidelines on the delivery of government securities to the investor's principal securities account with the National Registry of Scripless Securities (NRoSS) are in *Appendix Q-38*.

Other rules and regulations governing the issuance and treatment of deposit substitute instruments

a. If there is any stipulation that payment of the deposit substitute shall be chargeable against a particular deposit account of the maker or issuer that is maintained with another bank, it shall further provide that the liability of the maker or issuer of the instrument shall not be limited to the outstanding balance of said deposit account.

b. Any agreement allowing the issuer or maker to substitute the underlying securities shall further provide that the actual substitution shall be with the prior written consent of the payee.

c. Automatic renewal upon maturity of the instrument may be effected only under terms and conditions previously stipulated by the parties.

d. Stipulations between the maker or issuer and the payee which are embodied in separate instruments shall be specifically referred to in the deposit substitute instruments and made an integral part thereof.

e. In the case of repurchase agreements and certificates of assignment/participation with recourse, the stipulation shall clearly state either (a) that the underlying securities are being delivered to the buyer or assignee as collaterals or (b) that the ownership thereof is being transferred to the buyer or assignee.

Repurchase agreements covering government securities, commercial papers and other negotiable and non-negotiable securities or instruments. The following regulations shall govern repurchase agreements covering government securities, commercial papers and other negotiable and non-negotiable securities or instruments of QBs with counterparties that meet the definition of lenders under Sec. 101-Q as well as sale on a without recourse basis of said securities by QBs.

a. *Proper recording and documentation of repos.* QBs shall have a true and accurate account, record or statement of their daily transactions. As such, repos covering government securities, commercial papers and other negotiable and non-negotiable securities or instruments must be properly recorded and documented in accordance with existing Bangko Sentral regulations.

The absence of proper documentation for repos is tantamount to willful omission of entries relevant to any transaction, which shall be a ground for the imposition of administrative sanctions and the disqualification from office of any director or officer responsible therefor under existing laws and regulations.

b. *Responsibilities of the chief executive officer (CEO) or officer of equivalent rank.* It shall be the responsibility of the CEO or the officer of equivalent rank in a QB to:

(1) Institute policies and procedures to prevent undocumented or improperly documented repos covering government securities, commercial papers and other negotiable and non-negotiable securities or instruments;

(2) Submit a notarized certification at the end of every semester that the QB did not enter into any repo covering government securities, commercial papers and other negotiable and non-negotiable securities or instruments

that are not documented in accordance with existing Bangko Sentral regulations and that the QB has strictly complied with the pertinent rules of the SEC and the Bangko Sentral on the proper sale of securities to the public and performed the necessary representations and disclosures on the securities particularly the following:

(a) Informed the clients that such securities are not deposits and as such, do not benefit from any insurance otherwise applicable to deposits such as, but not limited to, R.A. No. 3591, as amended, otherwise known as the PDIC law.

(b) Informed and explained to the client all the basic features of the security being sold on a without recourse basis, such as but not limited to:

(i) issuer and its financial condition;
(ii) term and maturity date;
(iii) applicable interest rate and its computation;
(iv) tax features (whether taxable, tax paid or tax-exempt);
(v) risk factors and investment considerations;
(vi) liquidity feature of the instrument:

(aa) procedures for selling the security in the secondary market (e.g., OTC or exchange);
(bb) authorized selling agents; and
(cc) minimum selling lots;

(vii) disposition of the security:

(aa) registry (address and contact numbers);
(bb) functions of the registry; and
(cc) pertinent registry rules and procedures;

(viii) collecting and paying agent of the interest and principal; and
(ix) other pertinent terms and conditions of the security and if possible, a copy of the prospectus or information sheet of the security.

(c) Informed the client that pursuant to Secs. 201-Q and 101-Q on Delivery of securities:

(i) Securities sold under repurchase agreements shall be delivered in accordance with the guidelines set forth in *Appendix Q-38.*
(ii) Securities sold on a without recourse basis are required to be delivered in accordance with the guidelines set forth in *Appendix Q-38.*

(d) Clearly stated to the client that:

(i) The QB does not guarantee the payment of the security sold on a "without recourse basis" and in the event of default by the issuer, the sole credit risk shall be borne by the client; and
(ii) The QB is not performing any advisory or fiduciary function.

(3) Report to the appropriate supervising department of the Bangko Sentral any undocumented repo within seventy-two (72) hours from knowledge of such transactions.

c. *Treatment as deposit substitutes.* All sales of government securities, commercial papers and other negotiable and non-negotiable securities or instruments that are not documented in accordance with existing Bangko Sentral regulations shall be deemed to be deposit substitutes subject to regular reserves.

d. *Certification.* The required certification from the CEO/officer of equivalent rank of the QB shall be submitted within five (5) banking days from end of reference semester using the format in *Appendix Q-101*.

e. *Sanctions.* The Monetary Board may, at its evaluation and discretion, impose any or all of the following sanctions to a QB or the director/s or officer/s found to be responsible for repos covering government securities, commercial papers and other negotiable and non-negotiable securities or instruments that are not documented in accordance with existing Bangko Sentral regulations:

(1) Fine of up to P30,000 a day to the concerned entity for each violation from the date the violation was committed up to the date it was corrected;
(2) Suspension of interbank clearing privileges/immediate exclusion from clearing;
(3) Suspension of access to Bangko Sentral rediscounting facilities;
(4) Suspension of lending or foreign exchange operations or authority to accept new deposits or make new investments;
(5) Revocation of quasi-banking license;

(6) Revocation of authority to perform trust operations; and
(7) Suspension for 120 days without pay of the directors/officers responsible for the violation.

Borrowings from trust departments or managed funds of banks or investment houses. Funds borrowed by QBs from trust departments or managed funds of banks or IHs are not considered as interbank borrowings and, therefore, are subject to the:

a. reserve requirement on deposit substitutes; and
b. minimum trading lot rule.

(Circular Nos. 1121 dated 8 June 2021 and 1061 dated 25 November 2019)

202-Q MINIMUM TRADING LOT

The minimum size of any single deposit substitute transaction shall be P50,000.

In connection with the minimum trading lot rule above stated, no QB shall issue deposit substitute instruments in the name of two (2) or more persons or accounts except those falling under the following relationships in which cases, commingling may be allowed: (a) husband and wife; (b) persons related to each other within the second degree of consanguinity; and (c) in trust for (ITF) arrangements.

203-Q MONEY MARKET PLACEMENTS OF RURAL BANKS

QBs shall not accept money market placements from any RB unless the latter presents a certification under oath stating: (a) that it has no overdue special time deposits; (b) that it has no past due obligations with the Bangko Sentral or other government FIs; (c) the amount of its current obligations, if any, with said government FIs; and (d) the amount of its total outstanding money market placements. However, in no case shall such QBs sell receivables to RBs without recourse.

Definition of terms. As used in this Section, the following terms shall have the following meanings:

*Money market placements s*hall include investments in debt instruments, including purchases of receivables with recourse to the lending institution, except purchases of government securities on an outright basis.

Government securities shall include evidences of indebtedness of the Republic of the Philippines and the Bangko Sentral and other evidences of indebtedness or obligations of government entities, the servicing and repayment of which are fully guaranteed by the Republic of the Philippines.

Conditions required on accepted placements. Placements accepted must comply with the following conditions:

a. That the total money market placements of an RB, as stated in the certification, including the placement being accepted by the entity concerned, shall not exceed the RB's combined capital accounts or net worth less current obligations with the Bangko Sentral or other government FIs;

b. The maturity of the money market placement shall not exceed sixty (60) days; and

c. That placements shall be evidenced in all cases by promissory notes of accepting entities/REPOs and or certificates of participation assignment with recourse and that underlying instruments shall be government securities the servicing and repayment of which are guaranteed by the Republic of the Philippines.

***Sanctions*.** Violations of the provisions of this Section shall be subject to the following sanctions/penalties:

a. *Fines*

First offense – Fines of P3,000 a day, reckoned from the date placement started up to the date when said placement was withdrawn, for each violation shall be assessed on the bank.

Subsequent offenses – Fines of P5,000 a day, reckoned from the date placement started up to the date placement was withdrawn, for each violation shall be assessed on the bank.

b. *Other sanctions*

First offense – Reprimand for the directors/officers who approved the acceptance/placement with a warning that subsequent violations will be subject to more severe sanctions.

Subsequent offenses –

(1) Suspension for ninety (90) days without pay for directors/officers who approved the placement.
(2) Suspension or revocation of the authority to engage in quasi-banking functions.

204-Q WITHOUT RECOURSE TRANSACTIONS

No QB shall sell, discount, assign, negotiate, in whole or in part such as thru syndications, participations and other similar arrangements, any note, receivable, loan, debt instrument and any type of financial asset or claim, except government securities, on a without recourse basis, or be a party in any capacity in any such transactions on a without recourse basis, unless such receivable, note, loan, debt instrument and financial asset or claim is registered with the SEC. This prohibition includes transactions between an investment house and its trust department.

205-Q ISSUANCE OF BONDS AND COMMERCIAL PAPERS

All quasi-banks (QBs) issuing bonds or commercial papers to counterparties that meet the definition of lenders under Sec. 101-Q shall comply with R.A. No. 8799 or the Securities Regulation Code (SRC) and its Implementing Rules and Regulation, and other applicable rules and regulations issued by the Securities and Exchange Commission (SEC). A QB may issue bonds and/or commercial papers without prior Bangko Sentral approval: *Provided,* That it meets the following prudential criteria as described in Sec. 111-Q (*Prudential criteria*):

a. The bank must have a CAMELS composite rating of at least "3" and a "Management" rating of not lower than "3", and QB must have a RAS rating of at least "Acceptable";
b. The QB has no major supervisory concerns in governance, risk management systems, and internal controls and compliance system; and
c. The QB has complied with directives and/or is not subject of specific directives and/or enforcement actions by the Bangko Sentral.

Provided, further, That bonds issued are enrolled and/or traded in a market which is organized in accordance with the SEC rules and regulations.

Notice to Bangko Sentral ng Pilipinas. Within five (5) banking days from approval by the QB's board of directors of the bond/commercial paper issuance, the QB shall submit the following documents to the appropriate supervising department of the Bangko Sentral:

a. Notification letter signed by the president or officer of equivalent rank, indicating the amount and the terms of the bond/commercial paper issuance. The letter shall also include the funding plan of the QB in the next three (3) years considering its strategic direction and business model. The funding plan, at the minimum, shall contain how the planned issuance factors into the funding plan;

b. Secretary's certificate on the approval of the board of directors on the bond/commercial paper issuance;

c. Certification signed by the QB's president or officer of equivalent rank and chief compliance officer, that the QB has complied with the prudential criteria as provided in this Section, and the relevant requirements of the SRC and other pertinent rules and regulations of the SEC; and

d. Written Undertaking to enroll and/or trade the bonds in a market which is organized in accordance with SEC rules and regulations.

***Other Guidelines*.** A UB/KB or IH that is a related party of the issuing QB, may serve as the underwriter/arranger of the issuance, subject to the following conditions:

a. That there are other third party underwriters/arrangers that are not related in any manner to the issuing QB;
b. That the objective conduct of the due diligence review is not undermined; and
c. That the appropriate safeguards and controls as provided under Sec. 136 on related party transactions shall be instituted to prevent conflict of interest on the said arrangement.

Prohibition on issuing QBs and their related entities[1]. The issuing QB, including its related parties as defined in Sec. 131-Q, except for its trust department or related trust entities, are prohibited from holding or acting as market makers of the QB's listed/traded bonds or commercial papers (CP). The underwriter/arranger that is a related party of the issuing QB may be a holder of the bonds or CPs: *Provided,* That it is part of the underwriting agreement. The registry bank shall likewise be a third party with no subsidiary/affiliate relationship with the issuing QB, and which is not related to the issuing QB in any manner that would undermine its independence.

[1] For further clarification on the prohibition of related entities from holding an issuing bank's/QB's listed/traded bonds or commercial papers please see Memorandum No. M-2020-001 dated 30 January 2020.

Inapplicability of certain regulations. Secs. 201-Q and 202-Q shall not apply to bonds issued under these guidelines.

Enforcement action. Consistent with Sec. 002-Q, the Bangko Sentral may deploy enforcement actions to promote compliance with the requirements set forth in this Section and ensure timely implementation of preventive or corrective measures as needed. As part of its enforcement actions, the Bangko Sentral may issue directives or impose sanctions which limit the level of or suspend any business activity that adversely affects the safety and soundness of a QB.

(M-2020-001 dated 30 January 2020, Circular Nos. 1062 dated 26 November 2019, 1061 dated 25 November 2019, 1010 dated 9 August 2018, and 975 dated 22 September 2017)

B. RESERVES

211-Q RESERVES AGAINST DEPOSIT SUBSTITUTES

NBQBs shall maintain required reserves equivalent to twelve percent (12%) of peso-denominated deposit substitute liabilities as defined in Section 95 of R.A. No. 7653, as amended by R.A. No. 11211, regardless of maturities except:

a. borrowings from the Bangko Sentral through the sale of government securities under repo agreements made in connection with the provisions of Sec. 601-Q;
b. deposit substitutes arising from special financing programs of the Government and/or international FIs; and
c. bonds under Sec. 205-Q for which the reserve requirement shall be three percent (3%).

effective reserve week starting 3 April 2020.

(Circular Nos. 1087 dated 27 May 2020, 1082 dated 31 March 2020, 1063 dated 3 December 2019, 1061 dated 25 November 2019, 1053 dated 07 October 2019, 1041 dated 29 May 2019, 1004 dated 24 May 2018, 997 dated 15 February 2018, and 983 dated 23 November 2017)

212-Q COMPOSITION OF RESERVES

Composition of required reserves. The required reserves shall be kept in the form of deposits maintained by NBQBs placed in QBs' DDAs with the Bangko Sentral.

Transitory provisions. Government securities which are used as compliance with the regular and/or liquidity reserve requirement as of 06 April 2012, shall continue to be eligible as compliance with the reserve requirement until they mature.

For purposes of this Section, government securities *which may form part of the reserves against deposit substitute liabilities of QBs* shall refer to bonds or other evidences of indebtedness representing direct obligations of the Government of the Republic of the Philippines having the following minimum features conditions:

a. The securities must bear an interest rate of not more than four percent (4%) per annum, must be non-negotiable and shall carry Bangko Sentral support;
b. The instrument must expressly state on its face the amount, maturity date and interest rate of the obligation; and
c. The government securities may not be hypothecated or encumbered in any way or earmarked for any other purpose.

The government securities held as reserves shall be valued at cost of acquisition and the QB may freely alter its composition: *Provided*, That any substitution or acquisition satisfies the eligibility requirements prescribed above: *Provided, further*, That the QB notifies the Bangko Sentral of any such change in the prescribed forms not later than the reporting day following the change.

Only the buying/lending QB in a resale agreement covering eligible government securities may use such securities as reserves against deposit substitutes liabilities. Conversely, the selling borrowing QB in a repo agreement covering eligible government securities may not use such securities as reserves against deposits substitutes.

The reserve eligibility of government securities used as collateral in the reverse repo operations of the Bangko Sentral shall be suspended during the term of the reverse repo agreement.

The phrase *non-reserve eligible* shall be stamped on the face of the custodian receipt being issued by the Bangko Sentral to buyer FIs.

Matured and unclaimed deposit substitutes. Matured and unclaimed deposit substitutes shall continue to be subject to reserves.

Interest on reserve deposit with Bangko Sentral. Deposits maintained by QBs with the Bangko Sentral in compliance with the reserve requirement shall no longer be paid interest effective 06 April 2012.

Book entry method for reserve securities. Transactions concerning reserve-eligible securities shall be entered in the respective securities account of each QB with the Bangko Sentral and shall be evidenced by securities account debit or credit advices to be promptly furnished the institution/s concerned. No certificates shall be issued for any purpose. Transactions with third parties other than the Bangko Sentral shall not be recognized.

Allowable modes of alternative compliance. The following alternative modes of compliance with the required reserves against deposit and deposit substitute liabilities shall be allowed:

a. Peso-denominated loans that are granted to micro-, small-, and medium enterprises (MSMEs), as defined under Sec. 332 *(Definition of Terms)* of the MORB, excluding banks and NBQBs that meet the definition of a small- and medium enterprise, subject to the following conditions:

   (1) The MSME loan was granted after 15 March 2020: *Provided*, That if such MSME loan becomes past due or non-performing, as defined under Sec. 303-Q, it is no longer eligible as an alternative mode of compliance with the reserve requirements, except if such MSME loan has been subsequently renewed/restructured by the NBQB in accordance with existing regulations. Notwithstanding this provision, a NBQB may continue to utilize said past due or non-performing MSME loan as alternative compliance with the reserve requirements for an additional thirty (30) calendar days from the date the loan becomes past due or non-performing, whichever comes earlier;

   (2) An MSME loan that was granted on or before 15 March 2020 but has been renewed or restructured after 15 March 2020 may be used as alternative compliance with the reserve requirements: *Provided*, That the NBQB demonstrates an increase in its MSME loan portfolio during the month preceding the reserve day. For purposes of determining the increase in the NBQB's MSME loan portfolio, the NBQB shall exclude accrued interest and accumulated charges which have been capitalized or made part of the principal of restructured MSME loans; and

   (3) That the MSME loan is not hypothecated or encumbered in any way or earmarked for any other purpose.

   For purposes of computing the reserve position of the current reserve day, qualified MSME loans shall be based on amounts reported as of one (1) business day prior to the current reserve day. The MSME loans shall be valued at amortized cost, gross of allowance for credit losses, but shall exclude amounts equivalent to accrued interest and accumulated charges which have been capitalized or made part of the principal of restructured MSME loans.

   The use of MSME loans as allowable alternative compliance with the reserve requirement shall be available to NBQBs from 24 April 2020 to 29 December 2022, subject to early closure of the eligibility window by the Monetary Board, if warranted and with prior notice.

b. Peso-denominated loans that are granted to large enterprises, excluding banks and NBQBs that meet the definition of a large enterprise, subject to the following conditions:

   (1) The loan to the large enterprise was granted after 15 March 2020; *Provided*, That a loan to a large enterprise that becomes past due or non-performing, as defined under Sec. 303-Q, is no longer eligible as an alternative mode of compliance with the reserve requirements, except if such loan to a large enterprise has been subsequently renewed/restructured by the NBQB in accordance with existing regulations. Notwithstanding this provision, a NBQB may continue to utilize said past due or non-performing loan to a large enterprise as alternative compliance with the reserve requirements for an additional thirty (30) calendar days from the date the loan becomes past due or non-performing, whichever comes earlier;

   (2) A loan to a large enterprise that was granted on or before 15 March 2020 but has been renewed or restructured after 15 March 2020 may be used as alternative compliance with the reserve requirements: *Provided*, That the NBQB demonstrates an increase in its loan portfolio to large enterprises during the month preceding the reserve day. For purposes of determining the increase in the NBQB's loan portfolio to large enterprises, the NBQB shall exclude accrued interest and accumulated charges which have been capitalized or made part of the principal of restructured loans to large enterprises; and

   (3) The loan to a large enterprise is not hypothecated or encumbered in any way, or earmarked for any other purpose.

For purposes of computing the reserve position of the current reserve day, qualified loans to a large enterprise shall be based on amounts reported as of one (1) business day prior to the current reserve day. The loans to large enterprises shall be valued at amortized cost, gross of allowance for credit losses, but shall exclude amounts equivalent to accrued interest and accumulated charges which have been capitalized or made part of the principal of restructured loans to large enterprises.

For purposes of determining compliance with the provisions in this Section, a large enterprise shall refer to a sole proprietorship, partnership, corporation or cooperative that meets all of the following criteria:

a. It does not belong to a conglomerate structure;

b. It has an asset size (less land) of more than P100 million and an employment size of 200 employees or more; and

c. It is a critically-impacted business enterprise that has been directly and adversely impacted by the Covid-19 outbreak such that it has experienced a significant decline in gross receipts for at least one calendar quarter and is generally unable to pay or perform its obligations as they fall due in the ordinary course of business, or as determined by the appropriate regulatory agency/ies, if applicable. A significant decline in gross receipts shall refer to at least a twenty five percent (25%) decline in gross receipts for one calendar quarter. A critically-impacted business shall include the transport industry, tourism industry and export-import industry but shall exclude banks and other financial institutions under the supervision of the Bangko Sentral.

The use of loans to a large enterprise as allowable alternative compliance with the reserve requirements shall be available to NBQBs from 29 May 2020 to 29 December 2022, subject to early closure of the eligibility window by the Monetary Board, if warranted and with prior notice.

The reporting of MSME loans and loans to large enterprises that are utilized as alternative compliance shall be subject to the provisions of Sec. 172-Q. The willful making of a false or misleading statement shall subject the NBQB and the directors/officers responsible for the violation to the sanctions prescribed under Sections 35 and 37 of R.A. No. 7653 (The New Central Bank Act), as amended by R.A. No. 11211.

(Circular Nos. 1100 dated 06 October 2020, 1087 dated 27 May 2020, and 1083 dated 22 April 2020)

213-Q EXEMPTIONS FROM RESERVE REQUIREMENTS

Certificates of assignment issued with recourse by QBs under the IGLF Program are not covered by the reserve requirements.

214-Q COMPUTATION OF RESERVE POSITION

The reserve position of any QB and the penalty on reserve deficiency shall be computed based on a 7-day week, starting Friday and ending Thursday, including Saturdays, Sundays, public special/legal holidays, non- business days, unexpected declared non- business days or declared half-day holidays and days when there is no clearing: *Provided*, That with reference to public special/legal holidays, non-business unexpected declared non-business days, declared half day holidays and days when there is no clearing, the reserve position as calculated at the close of the business day immediately preceding such public special legal holidays, non-business days and unexpected declared non-business day/s and declared half day holidays and days when there is no clearing, shall apply thereon. For this purpose, the principal office in the Philippines and all other offices located therein shall be treated as a single unit.

The guidelines on the computation of a bank's reserve position during Philippine holidays are shown in *Appendix Q-51*.

The required reserves and the alternative modes of compliance with the required reserves in the current period (reference reserve week) shall be computed based on the corresponding levels of deposit substitute liabilities of the prior week.

(Circular Nos. 1087 dated 27 May 2020 and 1043 dated 02 August 2019)

215-Q RESERVE DEFICIENCIES; SANCTIONS

a. Whenever the reserve position of any QB computed in the manner specified in Sec. 214-Q is below the required minimum, the QB concerned shall pay the Bangko Sentral one-tenth of one percent (1/10 of 1%) per day on the amount of the deficiency or the prevailing 91-day T-Bill rate plus three percentage (3%) points, whichever is higher: *Provided, however,* That the QB shall be permitted to offset any reserve deficiency occurring one (1) or more days of the week covered by the report against excess reserves which it may hold on other days of the same week, and shall be required to pay the penalty only on the average daily net deficiency during the week[1].

In case of abuse, the QB shall automatically lose the privilege of offsetting reserve deficiency in the aforesaid manner until such time that it maintains its daily reserve position at the required minimum for at least two (2) consecutive weeks.

As used in this Section, abuse in the privilege of offsetting reserve deficiencies against excess reserves shall mean having reserve deficiencies occurring four (4) or more times during any given week for two (2) consecutive weeks, whether or not resulting in net weekly deficiencies.

b. In cases where the QB has chronic reserve deficiency on deposit substitute liabilities, the Monetary Board may (1) limit or prohibit the making of new loans or investments by the QB concerned; (2) prohibit the declaration of cash dividends; and/or (3) impose such other sanctions, as it may deem necessary. The board

[1] See *Appendix Q-75*

of directors of such QB shall be notified of such chronic reserve deficiency and the penalties therefor, and shall be required to immediately correct the reserve position of the QB.

As used in this Section, the following terms shall have the following meanings:

Chronic reserve deficiency shall mean having net reserve deficiency for two (2) consecutive weeks.

New loan and new investment shall refer to any loan and any investment involving disbursement of funds.

c. Fines on legal reserve deficiencies on deposit substitute liabilities shall be paid by the QB in accordance with Sec. 111-Q: *Provided,* That where the credit balance of the QB's demand deposit account (DDA) with the Bangko Sentral is insufficient and it fails to settle the assessment within fifteen (15) days from receipt, the Monetary Board may limit or prohibit the making of new loans or investments by the QB.

C. INTEREST

221-Q YIELD/INTEREST RATES

a. Deposit substitutes of QBs shall not be subject to yield or interest rate ceilings.

b. A matured and an unclaimed deposit substitute shall be payable on demand and shall earn interest or yield from maturity to actual withdrawal or renewal at a rate applicable to a deposit substitute with a maturity of fifteen (15) days.

D. BORROWINGS FROM THE BANGKO SENTRAL

231-Q REPURCHASE AGREEMENTS WITH THE BANGKO SENTRAL

Repo agreements with the Bangko Sentral under its open market operations (OMOs) shall be governed by the provisions of Sec. 601-Q.

232-Q ENHANCED INTRADAY LIQUIDITY FACILITY

The ILF is a smoothening mechanism which is available to eligible participant QBs in the PhilPaSS to support their liquidity requirements and avoid payment gridlocks in PhilPaSS. The revised features of the enhanced intraday liquidity facility are shown in *Appendix Q-17.*

E. OTHER BORROWINGS

241-Q BORROWINGS FROM THE GOVERNMENT

QBs shall not borrow any fund or money from the Government and government entities, through the issuance or sale of its acceptances, notes or other evidence of debt, except as may be authorized by existing statutes.

Definition of terms. For purposes of this Section, the following terms shall have the meaning indicated unless the context clearly indicates otherwise:

a. *Fund or money from the Government and government entities* includes public moneys of every sort, whether pertaining to the National Government, province, city, municipality, or other branch or agency of the Government, including government-owned or controlled corporations (GOCCs) as defined herein, and shall comprise *"revenue funds", "trust funds"*, and *"depository funds"* as these terms are defined in the Revised Administrative Code of 1987, and deposits of, borrowings from, and all other liabilities to, the Government and government entities.

b. *GOCCs* shall refer to GOCCs which are created by special laws. It shall exclude government FIs such as the Development Bank of the Philippines (DBP), Land Bank of the Philippines (LBP) and Al-Amanah Islamic Investment Bank of the Philippines, corporations which are organized as subsidiaries of GOCCs under the provisions of the Corporation Law (Act No. 1459, as amended) or the Corporation Code (BP Blg. 68) and private corporations which are taken over by GOCCs.

242-Q BORROWINGS FROM BANKS, QUASI-BANKS AND OTHER FINANCIAL INTERMEDIARIES

The following borrowings from banks, quasi-banks and other financial intermediaries as defined under Sec. 101-Q (*Financial intermediaries*) shall not be considered as deposit substitutes:

a. *Borrowings from banks, quasi-banks (QBs) and other financial intermediaries.* Borrowings of QBs from banks, other QBs and financial intermediaries shall be subject to appropriate documentation.

Borrowings of QBs from banks and other QBs shall also be subject to the regulations on interbank loan transactions under Sec. 312-Q.

b. *Repurchase agreements.* Repurchase agreements with banks, QBs or other financial intermediaries shall likewise be governed by the following regulations:

(1) *Proper recording and documentation of repurchase agreements.* QBs shall have a true and accurate account, record or statement of their daily transactions. As such, repurchase agreements covering government securities, commercial papers and other negotiable and non-negotiable securities or instruments must be properly recorded and documented.

The absence of proper documentation for repurchase agreements is tantamount to willful omission of entries relevant to any transaction, which shall be a ground for the imposition of administrative sanctions and the disqualification from office of any director or officer responsible therefor under existing laws and regulations.

(2) *Responsibilities of the chief executive officer (CEO) or officer of equivalent rank.* It shall be the responsibility of the CEO or the officer of equivalent rank in a QB to:

(a) Institute policies and procedures to prevent undocumented or improperly documented repurchase agreements covering government securities, commercial papers and other negotiable and non-negotiable securities or instruments;

(b) Submit a notarized certification at the end of every semester that the QB did not enter into any repurchase agreement covering government securities, commercial papers and other negotiable and non-negotiable securities or instruments that are not documented in accordance with existing Bangko Sentral regulations and that the QB has strictly complied with the pertinent rules of the SEC and the Bangko Sentral on the proper sale of securities to the public and performed the necessary representations and disclosures on the securities;

(c) Inform the client of all relevant disclosures pertaining to repurchase agreements under Sec. 201-Q *(Repurchase agreements covering government securities, commercial papers and other negotiable and non-negotiable securities or instruments.),* as applicable; and

(d) Report to the appropriate supervising deparment of the Bangko Sentral any undocumented repurchase agreement within seventy-two (72) hours from knowledge of such transactions.

Sanctions. The Monetary Board may, at its evaluation and discretion, impose any or all of the following sanctions to a QB or the director/s or officer/s found to be responsible for repurchase agreements covering government securities, commercial papers and other negotiable and non-negotiable securities or instruments that are not documented in accordance with existing Bangko Sentral regulations:

(a) Fine of up to ₱30,000 a day to the entity concerned for each violation from the date the violation was committed up to the date it was corrected;
(b) Suspension of interbank clearing privileges/immediate exclusion from clearing;
(c) Suspension of access to Bangko Sentral rediscounting facilities;
(d) Suspension of lending or foreign exchange operations or authority to accept new deposits or make new investments;
(e) Revocation of quasi-banking license;
(f) Revocation of authority to perform trust operations; and
(g) Suspension for 120 days without pay of the directors/officers responsible for the violation.

c. *Bonds.* Bonds that are issued to banks, quasi-banks and other financial intermediaries as defined under Sec. 101-Q (*Financial intermediaries*) shall comply with the regulations prescribed under Sec. 205-Q on the issuance of bonds and commercial papers.

Delivery of securities

The guidelines on the delivery of securities, warehouse receipts, quedans and other documents of title which are the subject of quasi-banking functions, such as repurchase agreements, under Sec. 205-Q (*Financial intermediaries*) shall, likewise, apply to borrowings with banks, quasi-banks and other financial intermediaries.

(*Circular No. 1061 dated 25 November 2019*)

F. OTHER LIABILITIES

251-Q DISCLOSURE OF REMITTANCE CHARGES AND OTHER RELEVANT INFORMATION

It is the policy of the Bangko Sentral to promote the efficient delivery of competitively-priced remittance services by banks and other remittance service providers by promoting competition and the use of innovative payment systems, strengthening the financial infrastructure, enhancing access to formal remittance channels in the source and destination countries, deepening the financial literacy of consumers, and improving transparency in remittance transactions, consistent with sound practices.

Towards this end, NBFIs under Bangko Sentral supervision, including FXDs/MCs and RAs, providing overseas remittance services shall disclose to the remittance sender and to the recipient/beneficiary, the following minimum items of information regarding remittance transactions, as defined herein:

a. *Transfer/remittance fee* - charge for processing/sending the remittance from the country of origin to the country of destination and/or charge for receiving the remittance at the country of destination;
b. *Exchange rate* - rate of conversion from foreign currency to local currency, e.g., peso-dollar rate;
c. *Exchange rate differential/spread* - foreign exchange mark-up or the difference between the prevailing Bangko Sentral reference/guiding rate and the exchange/conversion rate;
d. *Other currency conversion charges* commissions or service fees, if any;
e. *Other related charges* - e.g., surcharges, postage, text message or telegram;
f. *Amount/currency paid out in the recipient country* - exact amount of money the recipient should receive in local currency or foreign currency; and
g. *Delivery time to recipients/beneficiaries* - delivery period of remittance to beneficiary stated in number of days, hours or minutes.

Non-bank remittance service providers shall likewise post said information in their respective websites and display them prominently in conspicuous places within their premises and/or remittance/service centers.

In case of domestic remittance transactions, all fees to the transactions shall be charged upfront by all NBFIs under Bangko Sentral supervision from the sender/remitter's end, with appropriate disclosure to the sender/remitter of the components of the fees being charged. This does not preclude the Bangko Sentral-supervised NBFI and/or other participants to the domestic remittance transaction from charging service fees. *Domestic remittance transaction*, for this purpose, is a transfer of funds between a sender/remitter and a beneficiary who are both within the Philippines, or between two (2) accounts within the Philippines.

(Circular No. 952 dated 22 March 2017)

PART THREE

LOANS, INVESTMENTS AND SPECIAL CREDITS

A. GENERAL PROVISIONS ON LENDING OPERATIONS

301-Q GRANT OF LOANS AND OTHER CREDIT ACCOMMODATIONS

In addition to the principles and standards provided under Sec. 143-Q, the following regulations shall be observed in the grant of loans and other credit accommodations.

Additional requirements. FIs shall require submission and maintain on file updated ITRs of the borrower, and his co-maker, if applicable, duly stamped as received by the BIR together with supporting financial statements, as applicable. FIs shall likewise require borrowers to execute a waiver of confidentiality of client information and/or an authority of the FI to conduct random verification with the BIR in order to establish authenticity of these documents.

Should the document(s) submitted prove to be incorrect in any material detail, the FI may terminate any loan or other credit accommodation granted on the basis of said document(s) and shall have the right to demand immediate repayment or liquidation of the obligation.

The required submission of such documents shall not cover the following credit exposures:

a. Microfinance loans as defined under Sec. 314 of the MORB (*Definition*, item *"a"*);

b. Loans to registered BMBEs;

c. Interbank loans;

d. Loans secured by hold-outs on or assignment of deposits or other assets considered non-risk by the Monetary Board;

e. Loans to individuals who are not required to file ITRs under BIR regulations, as follows:

   (1) Individuals whose gross compensation income does not exceed their total personal and additional exemptions, or whose compensation income derived from one (1) employer does not exceed P60,000 and the income tax on which has been correctly withheld;

   (2) Those whose income has been subjected to final withholding tax;

   (3) Senior citizens not required to file a return pursuant to R.A. No. 7432, as amended by R.A. No. 9257, in relation to the provisions of the National Internal Revenue Code (NIRC) or the Tax Reform Act of 1997; and

   (4) An individual who is exempt from income tax pursuant to the provisions of the NIRC and other laws, general or special;

f. Loans to borrowers, whose only source of income is compensation and the corresponding taxes on which has been withheld at source: *Provided*, That the borrowers submitted, in lieu of the ITR, a copy of their Employer's Certificate of Compensation Payment/Tax Withheld (BIR Form 2316) or their payslips for at least three (3) months immediately preceding the date of loan application;

g. Loans and other credit accommodations not exceeding P3.0 million; or

h. Loans to start up enterprise borrowers during the first three (3) years of their operations or banking relationship.

Prohibited use of loan proceeds. QBs are prohibited from requiring their borrowers to acquire shares of stock of the lending QB out of the loan or other credit accommodation proceeds from the same QB.

Signatories. QBs shall require that loans and other credit accommodations be made under the signature of the principal borrower and, in the case of unsecured loans and other credit accommodations to an individual borrower, at least one (1) co- maker, except that a co-maker is not required when the principal borrower has the financial capacity and a good track record of paying his obligations.

Minimum required disclosure. QBs shall provide a table of the applicable fees, penalties and interest rates on loan transactions, including the period covered by and the manner of and reason for the imposition of such penalties, fees and interests; fees and applicable conversion reference rates for third currency transactions, in plain sight and language, on materials for marketing loans, such as brochures, flyers, primers and advertising materials, on loan application forms, and on billing statements: *Provided,* That these disclosures are in addition to the full disclosure of the fees, charges and interest

rates in the terms and conditions of the loan agreement found elsewhere on the application form and billing statement: *Provided further,* That such table of fees, penalties and interest rates shall be printed in plain language and in bold black letters against a light or white background, and using the minimum Arial 12 theme font and size, or its equivalent in readability, and on the first page, if the applicable document has more than one (1) page.

Unfair collection practices. QBs, collection agencies, counsels and other agents may resort to all reasonable and legally permissible means to collect amounts due them under the loan agreement: *Provided,* That in the exercise of their rights and performance of duties, they must observe good faith and reasonable conduct and refrain from engaging in unscrupulous or untoward acts. Without limiting the general application of the foregoing, the following conduct is a violation of this Section:

a. the use or threat of violence or other criminal means to harm the physical person, reputation, or property of any person;

b. the use of obscenities, insults, or profane language which amount to a criminal act or offense under applicable laws;

c. disclosure of the names of borrowers who allegedly refuse to pay debts, except as allowed under Confidentiality of information in this Section;

d. threat to take any action that cannot legally be taken;

e. communicating or threatening to communicate to any person credit information which is known to be false, including failure to communicate that a debt is being disputed;

f. any false representation or deceptive means to collect or attempt to collect any debt or to obtain information concerning a borrower; and

g. making contact at unreasonable/inconvenient times or hours which shall be defined as contact before 6:00 A.M. or after 10:00 P.M., unless the account is past due for more than sixty (60) days or the borrower has given express permission or said times are the only reasonable or convenient opportunities for contact.

QBs shall inform their borrowers in writing of the endorsement of the collection of their account to a collection agency/agent, or the endorsement of their account from one collection agency/agent to another, at least seven (7) days prior to the actual endorsement. The notification shall include the full name of the collection agency and its contact details: *Provided*, That the required notification in writing shall be included in the terms and conditions of the loan agreement. QBs shall adopt policies and procedures to ensure that personnel handling the collection of accounts, whether these are in-house collectors, or third party collection agents, shall disclose his/her full name/true identity to the borrower.

Confidentiality of information. QBs shall keep strictly confidential the data on the borrower or consumer, except under the following circumstances:

a. disclosure of information is with the consent of the borrower or consumer;
b. release, submission or exchange of customer information with other financial institutions, credit information bureaus, lenders, their subsidiaries and affiliates;
c. upon orders of court of competent jurisdiction or any government office or agency authorized by law, or under such conditions as may be prescribed by the Monetary Board;
d. disclosure to collection agencies, counsels and other agents of the QB to enforce its rights against the borrower;
e. disclosure to third party service providers solely for the purpose of assisting or rendering services to the QB in the administration of its lending business; and
f. disclosure to third parties such as insurance companies, solely for the purpose of insuring the QB from borrower default or other credit loss, and the borrower from fraud or unauthorized charges.

***Sanctions*.** Violations of the provisions of this Section on Minimum required disclosure, Unfair collection practices, and Confidentiality of information shall be subject to any or all of the following sanctions depending upon their severity:

a. *First offense.* Reprimand for the directors/officers responsible for the violation;
b. *Second offense.* Disqualification of the QBs concerned from the credit facilities of the Bangko Sentral except as may be allowed under Section 84 of R. A. No. 7653;
c. *Subsequent offense/s:*

   (1) Prohibition on the QB concerned from the extension of additional credit accommodation against personal security; and
   (2) Penalties and sanctions provided under Sections 36 and 37 of R. A. No. 7653.

302-Q SECURED LOANS AND OTHER CREDIT ACCOMMODATIONS

A loan may be considered secured by collateral to the extent the estimated value of net proceeds at disposition of such collateral can be used without legal impediment to settle the principal and accrued interest of such loan: *Provided,* That such collateral must have an established market and the valuation methodology used is sound, and: *Provided, further,* That in the case of real estate collateral, the maximum collateral value shall be sixty percent (60%) of its value as appraised by an appraiser acceptable to the Bangko Sentral.

A loan may also be considered as secured to the extent covered by a third party financial guarantee or surety arrangement where the credit enhancement provider is itself considered to be of high credit quality (credit rating of at least AA or equivalent) or is recognized by the Bangko Sentral as eligible guarantor under existing regulations.

Finally, a loan may be secured by a combination of acceptable collateral and guarantee arrangements as defined above, provided such arrangements are independent of one another for credit enhancement purposes.

(Circular No. 914 dated 23 June 2016)

303-Q PAST DUE ACCOUNTS AND NON-PERFORMING LOANS[1]

The following regulations shall guide BSFIs in determining their past due accounts and non-performing loans.

Definition of terms. For purposes of this Section, the following definitions shall apply:

a. *Restructured loans* shall refer to loans and other credit accommodations the original contractual terms and conditions of which have been modified in accordance with a formal restructuring agreement that sets forth a revised schedule of payments for the purpose of lessening the financial difficulty of the borrower and maximizing collection and realizable economic value on an obligation within a reasonable period of time. The modification may include, but is not limited to, change in principal due, maturity, interest rate and other charges, collateral, or other terms and conditions.

b. *Items in litigation* shall refer to loans or other credit accommodations for which cases, such as collection or foreclosure, have been filed in court or sheriff's office, as the case may be. The loan or other credit accommodation shall remain in this account during the pendency of the proceedings, until full payment, restructuring of the obligation, foreclosure of the collateral, or such other disposition is made as would cause such proceedings to cease.

Accounts considered past due. As a general rule, loans, investments, receivables, or any financial asset, including restructured loans, shall be considered past due when any principal and/or interest or installment due, or portions thereof, are not paid at their contractual due date, in which case, the total outstanding balance thereof shall be considered as past due. However, BSFIs may provide a cure period on a credit product-specific basis, not to exceed thirty (30) days within which to allow obligors or borrowers to catch up on their late payment without being considered as past due: *Provided,* That any cure period policy shall be based on verifiable collection experience and reasonable judgment that support tolerance of occasional payment delays: *Provided, further,* That the observance of a cure period policy shall not preclude the timely adverse classification of an account that has developed material credit weakness/es, and that BSFIs shall regularly review the reasonableness of its cure period policy. For microfinance and other small loans that feature high frequency payments, the cure period allowable by policy shall not exceed ten (10) days.

Non- performing loans. Loans, investments, receivables, or any financial asset shall be considered non-performing, even without any missed contractual payments, when it is considered impaired under existing accounting standards[2], classified as doubtful or loss, in litigation, and/or there is evidence that full repayment of principal and interest is unlikely without foreclosure of collateral, if any. All other loans, even if not considered impaired, shall be considered non-performing if any principal and/or interest are unpaid for more than ninety (90) days from contractual due date, or accrued interests for more than ninety (90) days have been capitalized, refinanced, or delayed by agreement.

Microfinance and other small loans with similar credit characteristics shall be considered non-performing after contractual due date or after it has become past due.

Restructured loans shall be considered non-performing. However, if prior to restructuring, the loans were categorized as performing, such classification shall be retained.

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[1] Effective from 10 February 2017 up to 31 December 2017, BSFIs shall make the necessary revisions in their management information and reporting systems relating to past due and non-performing loans. Effective 01 January 2018, past due and NPLs shall be mandatorily reported in accordance with the requirements of this Section.

[2] Applicable accounting standard is PAS 39 until 31 December 2017 and International Financial Reporting Standards (IFRS) 9 starting 01 January 2018. A financial asset or a group of financial assets is impaired when there is objective evidence that its recoverable value is less than its carrying amount, as a result of one or more loss events that occurred after the initial recognition of the asset and that the loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. It may not be possible to identify a single, discrete event that caused the impairment. Rather, the combined effect of several events may have caused the impairment.

Non-performing loans, investments, receivables, or any financial asset (and/or any replacement loan) shall remain classified as such until (a) there is sufficient evidence to support that full collection of principal and interests is probable and payments of interest and/or principal are received for at least six (6) months; or (b) written-off.

Reporting requirement. QBs shall report the following data at the end of each month as additional information in the monthly Consolidated Statement of Condition starting with their report as of 31 May 1999.

Total non-performing loans	xxx
Non -performing regular loans	xxx
Non -performing restructured loan	xxx

Updating of information provided to credit information bureaus. QBs which have provided adverse information, such as the past due or litigation status of loan accounts, to credit information bureaus, or any organization performing similar functions, shall submit monthly reports to these bureaus or organizations on the full payment or settlement of the previously reported accounts within five (5) business days from the end of the month when such full payment was received. For this purpose, it shall be the responsibility of the reporting QBs to ensure that their disclosure of any information about their borrowers/clients is with the consent of borrowers/clients concerned.

(Circular No. 941 dated 20 January 2017)

304-Q INTEREST AND OTHER CHARGES

The following rules shall govern the rates of interest on loans by QBs.

Rate of interest in the absence of stipulation. The rate of interest for the loan or forbearance of any money, goods or credit and the rate allowed in judgments, in the absence of express contract as to such rate of interest, shall be six percent (6%) per annum.

Escalation clause; when allowable. Parties to an agreement pertaining to a loan or forbearance of money, goods or credits may stipulate that the rate of interest agreed upon may be increased in the event that the applicable maximum rate of interest is increased by law or by the Monetary Board: *Provided,* That such stipulation shall be valid only if there is also a stipulation in the agreement that the rate of interest agreed upon shall be reduced in the event that the applicable maximum rate of interest is reduced by law or by the Monetary Board: *Provided, further,* That the adjustment in the rate of interest agreed upon shall take effect on or after the effectivity of the increase or decrease in the maximum rate of interest.

Floating rates of interest. The rate of interest on a floating rate loan during each interest period shall be stated based on the Manila Reference Rate (MRR), Treasury Bill Rate (TBR) or other market-based reference rates, plus a margin as may be agreed upon by the parties.

The MRRs for various interest periods shall be determined and announced by the Bangko Sentral every week and shall be based on the weighted average of the interest rates paid during the immediately preceding week by the ten (10) commercial banks with the highest combined levels of outstanding deposit substitutes and time deposits, in promissory notes issued and time deposits received by such banks, of P100,000 and over per transaction account, with maturities corresponding to the interest periods for which such MRRs are being determined. Such rates and the composition of the sample commercial banks shall be reviewed and determined at the beginning of every calendar semester on the basis of the banks' combined levels of outstanding deposit substitutes and time deposits as of May 31 or November 30, as the case may be.

The rate of interest on floating rate loans existing and outstanding as of 23 December 1995 shall continue to be determined on the basis of the MRRs obtained in accordance with the provisions of the rules existing as of 01 January 1989*: Provided, however*, That the parties to such existing floating rate loan agreement are not precluded from amending or modifying their loan agreements by adopting a floating rate of interest determined on the basis of TBR or other market-based reference rates.

Where the loan agreement provides for a floating interest rate, the interest period which shall be such period of time for which the rate of interest is fixed, shall be such period as may be agreed upon by the parties.

Accrual of interest earned on loans and other credit accommodations. Accrual of interest earned on non-performing loans and other credit accommodations shall not be allowed.

Accrued interest receivable shall be classified in accordance with their respective loan accounts and provided with *Allowance for Uncollected Interest on Loans.*

Rate ceilings. The rate of interest, including commissions, premiums, fees and other charges, on any loan, or forbearance of any money, goods or credits transactions, regardless of maturity and whether secured or unsecured, shall not be subject to any regulatory ceiling, except for the interest or finance charges imposed on credit card receivables,

including cash advances and installment purchases and for the maximum processing fee for credit card cash advances, as provided under Sec. 107-CC *(Method of computing and imposition of interest or finance charges).*

Effect of prepayment. If there is no agreement on the rebate of interest in the event of prepayment of the loan, the QB is not under any legal obligation to return the interest corresponding to the period from date of prepayment to the stipulated maturity date of the loan. Any prepayment made by the debtor should not, therefore, affect computation of the effective rate stipulated in the loan contract.

Loan prepayment. The borrower of a QB shall not be prohibited from prepaying a loan. A stipulation requiring the consent of the lending QB to such prepayment shall be contrary to this provision. In case of prepayment in the loan contract, such prepayment shall not be subject to penalty in the absence of any stipulation as to penalty. However, the parties may stipulate that prepayment shall be subject to penalty: *Provided*, That the penalty is not excessive or unconscionable.

Method of computing interest. QBs shall only charge interest based on the outstanding balance of a loan at the beginning of an interest period.

For a loan where the principal is payable in installments, interest per installment period shall be calculated based on the outstanding balance of the loan at the beginning of each installment period.

Toward this end, all loan-related documents shall show repayment schedules in a manner consistent with this provision. Marketing materials and presentations shall likewise be consistent with this provision.

(Circular Nos. 1098 dated 24 September 2020 and 1011 dated 14 August 2018)

305-Q "TRUTH IN LENDING ACT" DISCLOSURE REQUIREMENT

QBs are required to strictly adhere to the provisions of R.A. No. 3765, otherwise known as the "Truth in Lending Act", and shall make the true and effective cost of borrowing an integral part of every loan contract.

The following regulations shall apply to all QBs engaged in the following types of credit transactions:

a. Any loan, mortgage, deed of trust, advance and discount;
b. Any conditional sales contract, any contract to sell, or sale or contract of sale of property or services, either for present or future delivery, under which part or all of the price is payable subsequent to the making of such sale or contract;
c. Any rental-purchase contract;
d. Any contract or arrangement for the hire, bailment, or leasing of property;
e. Any option, demand, lien, pledge, or other claim against, or for delivery of property or money;
f. Any purchase, or other acquisition of, or any credit upon the security of, any obligation or claim arising out of any of the foregoing; and
g. Any transaction or series of transactions having a similar purpose or effect.
h. The following categories of credit transactions are outside the scope of these regulations:

    (1) Credit transactions which do not involve the payment of any finance charge by the debtor; and
    (2) Credit transactions in which the debtor is the one specifying a definite and fixed set of credit terms such as bank deposits, insurance contracts, sale of bonds, etc.

Definition of terms.

a. *Person* means any individual, partnership, corporation, association, or other organized group of persons, or the legal successor or representative of the foregoing, and includes the Philippine Government or any agency thereof, or any other government, or any of its political subdivisions, or any agency of the foregoing.

b. *Cash price or delivered price,* in case of trade transactions, is the amount of money which would constitute full payment upon delivery of the property (except money) or service purchased at the QB's place of business. In the case of financial transactions, cash price represents the amount of money received by the debtor upon consummation of the credit transaction, net of finance charges collected at the time the credit is extended, if any.

c. *Down payment* represents the amount paid by the debtor at the time of the transaction in partial payment for the property or service purchased.

d. *Trade-in* represents the value of an asset agreed upon by the QB and debtor, given at the time of the transaction as partial payment for the property or service purchased.

e. *Non-finance charges* correspond to the amounts advanced by the QB for items normally associated with the ownership of the property or the availment of the service purchased which are not incidental to the extension of credit. For example, in the case of the purchase of an automobile on credit, the QB may advance the insurance premium as well as the registration fee for the account of the debtor.

f. *Amount to be financed* consists of the cash price plus non-finance charges less the amount of the down payment and value of the trade-in.

g. *Finance charge* includes interest, fees, service charges, discounts, and such other charges incident to the extension of credit.

h. *Simple annual rate* is the uniform percentage which represents the ratio between the finance charge and the amount to be financed under the assumption that the loan is payable in one (1) year with single payment upon maturity and there are no up- front deductions to principal.

For loans with terms different from the above assumptions, the annual effective interest rate shall be calculated and disclosed to the borrower as the relevant true cost of the loan comparable to the concept of simple annual rate.

For loans with contractual interest rates stated on monthly basis, the effective interest rate may be expressed as a monthly rate.

In accordance with the Philippine Accounting Standards (PAS) definition, *effective interest rate* is the rate that exactly discounts estimated future cash flows through the life of the loan to the net amount of loan proceeds. For consistency, methodology and standards for discounted cash flow models shall be prescribed to be used for the purpose.

It is understood that an EIR calculation model founded on established principles of discounted cash flow analysis should be based on the actual loans features. An NBFI shall be solely responsible for the proprietary and accuracy of its EIR calculation model, however, Bangko Sentral's determination of the reasonableness and accuracy of an EIR calculation model prevails. (Sample computation shown in *Appendix Q-15*).

Information to be disclosed. The following are the minimum information required to be disclosed to QB borrowers (sample form in *Appendix Q-15*):

a. The total amount to be financed;

b. The finance charges expressed in terms of pesos and centavos;

c. The net proceeds of the loan; and

d. The percentage that the finance charge bears to the total amount to be financed expressed as a simple annual rate or an annual effective interest rate as described in Item *"h"* of Definition of terms in this Section may also be quoted as a monthly rate in parallel with the quotation of the contractual rate.

QBs are required to furnish each borrower a copy of the disclosure statement, prior to the consummation of the transaction.

Inspection of contracts covering credit transactions. QBs shall keep in their office or place of business copies of contracts which involve the extension of credit and the payment of finance charges therefore. Such copies shall be available for inspection or examination by the appropriate supervising department of the Bangko Sentral.

***Dissemination of Relevant Information*.** QBs shall ensure that all persons to whom credit is extended are well informed of the sailent provisions of Republic Act No. 3765, otherwise known as the "Truth in Lending Act" as contained in the revised format of disclosure statement in *Appendix Q-15* through any acceptable medium of communication such as, but not limited to, posters, brochures, pamphlets, leaflets, educational videos, corporate websites, infographics and social media platforms. Said information must be conspicuously displayed and made available at all times, in physical or electronic format, to all persons to whom credit is extended by QBs subject to the consumer protection standards and social media risk management guidelines. Such medium of communication shall include an explicit notification that the disclosure statement in writing is a required attachment to the credit transaction contract which QBs shall provide all persons to whom credit is extended with a copy of said disclosure statement prior to the consummation of the credit transaction.

Sanctions and penal provisions. Non-compliance with any of the provisions of this Section shall be subject to the appropriate monetary penalties under Sec. 1102-Q *(Other Payments of NBFIs)* and *Appendix Q-26*, depending on the severity of non- disclosure, number of loans and amount involved in the violation. In addition to sanctions under R.A. No. 3765, the following sanctions may be imposed:

a. *First offense*. Reprimand on the erring officer/s;
b. *Second offense*. Reprimand on the entire board of directors; and
c. *Subsequent offense/s*:

    (1) Suspension of the erring officer/s and/or entire board of directors; and
    (2) Restriction on lending activities.

This is without prejudice to other penalties and sanctions provided under Sections 36 and 37 of R.A. No. 7653.

(Circular Nos. 1125 dated 20 August 2021, 1052 dated 2 October 2019, and 988 dated 20 December 2017)

B. TYPES OF LOANS AND CREDITS

311-Q AGRICULTURAL LOANS

The Bangko Sentral supports the promotion of agricultural value chain financing as an effective and organized approach to channel financing to the agriculture and fisheries sectors and promote financial inclusion. By encouraging the linking of various actors/players in an agricultural value chain, credit risk of participating smallholder farmers/fisherfolks can be reduced. As a result, this type of financing would facilitate and allow small farmers/fisherfolks to have, if not more, access to credit. This is expected to further improve productivity in the agriculture and fisheries sectors and at the same time uplift the lives of these marginalized farmers/fisherfolks.

The provisions covering the agricultural value chain financing framework shall be implemented in consonance with Sec. 143-Q.

Definition of terms. For purposes of this Section, the following definitions shall apply:

a. *Value chain* - refers to a set of actors/players, e.g., producers (farmers/fisherfolks), traders, suppliers, processors, aggregators, who conduct linked sequence of value- adding activities involved in bringing a product from its raw material stage to the final consumers;

b. *Value chain finance* - refers to the financial flows to those actors/players from both within the value chain and financial flows to those actors/players from the outside as a result of their being linked within a value chain;

c. *Agricultural value chain analysis* - refers to the assessment of actors/players, e.g., from input suppliers to producers to processors and to traders, their interests and the factors influencing the performance of a particular value chain, e.g., palay, corn, livestock, marine products, as a whole, as opposed to only examining targeted sections of the chain; it also includes understanding the nature of the chain, identifying the weakest and strongest links along the chain and the business models as shown in *Appendix Q-76*; and

d. *Value chain aggregator* - refers to any value chain actor/player or any entity outside the value chain which initiates the formalization and/or organization of a value chain and/or which offers services that aim to strengthen existing value chains.

Features of agricultural value chain financing program. Consistent with existing provisions on sound credit risk management practices, the Bangko Sentral hereby recognizes agricultural value chain financing programs that have the following features:

a. *Agricultural value chain policy and procedures.* The BSFI shall put in place adequate policies and procedures which cover the identification of value chains, comprehensive value chain analysis, and the design of appropriate financial products and services, among others;

b. *Types of credit products.* BSFIs can design and/or offer appropriate financial products either to a specific actor/player or to various actors/players of the value chain model simultaneously. In addition to the traditional loans and discounts that BSFIs are currently offering, the following products and financial services may also be made available to agricultural value chain actors/players:

    (1) *Trade-receivables finance* - a BSFI advances working capital to agribusiness (supplier, processor, marketing and export) companies against accounts receivable or confirmed orders to producers. Receivables financing takes into account the strength of the buyer's purchases and repayment history;

    (2) *Factoring* - a financial transaction whereby a business sell its accounts receivable or contracts of sales of goods at a discount to an appropriate BSFI, called a factor, who pays the business minus a factor discount and collects the receivables when due; and

(3) *Warehouse receipts* - farmers and other value chain enterprises receive a receipt from a certified warehouse that can be used as collateral to access a loan from an appropriate BSFI against the security of goods in an independently controlled warehouse.

c. *Loan disbursement.* Loan releases may take the following forms depending on the role that the borrower takes in the value chain and the risks to be addressed by the BSFI:

(1) *Cash disbursements* - the most common practice which may be completed in one transaction or in installments;

(2) *Loan proceeds transfer to suppliers* - under this scheme the BSFI prefers to deal with the supplier directly to control loan utilization and, therefore, prefer to transfer the loan proceeds straight to the supplier upon full acceptance of the buyer (borrower). In case the supplier is a related party, the BSFI shall ensure that the term and conditions of the loan are not less favorable to the borrower than those offered by other lenders; and

(3) *Anchor firm (institutional buyer) triggered loan release* - loan release to the borrower will be endorsed by the anchor firm to ensure the adoption of the technology protocol required by the buyer (anchor firm). This would optimize productivity by the farmer-borrower and the technology adopted conforms with the requirements of the buyer; thus, reduce rejects on the deliveries of the produce.

d. *Disaster contingency mechanism.* In light of the vulnerability of the agriculture and fisheries sectors which could result to significant credit losses to financial institutions, if not managed well, the BSFI may put in place a disaster contingency mechanism that anticipates such events and provides response mechanisms to mitigate the impact of such inherent risks. The disaster contingency mechanism can provide timely relief to a borrower to facilitate recovery. This mechanism shall be adequately documented with clear policies and guidelines.

Provided such built-in contingency mechanism is prudently designed, its activation shall not automatically trigger adverse loan classification and past due loan recognition so as to manage credit losses to the BSFI and minimize burden on the client. Any new financing granted under such schemes will also not be adversely classified. However, such credit should be closely monitored and appropriate corrective measure should be taken once it becomes clear that recoverability is impaired.

e. *Other features.* The following activities may also be allowed:

(1) Director/s, officer/s and/or stockholder/s of BSFIs engaged in agricultural value chain financing may own and/or control: (i) private entities that would act as aggregators to facilitate the formation of value chains, and (ii) economically-linked entities that are also actors/players in the value chain: *Provided*, That all transactions with such entities shall be in the ordinary course of business and not undertaken on more favorable economic terms to such related parties than similar transactions with non-related parties under similar circumstances. These transactions shall comply and adhere to existing regulations pertaining to DOSRI loans and/or related- party transactions; and

(2) The BSFI, if necessary, may initiate the formulation of formal agreement(s) with qualified value chain actors/players to protect the interests of all parties involved.

Regulatory incentives. To encourage BSFIs to engage in agricultural value chain financing, the following incentives shall apply; provided, this Section on Features of Agricultural Value Chain Financing Program are complied with:

a. Loans granted to agricultural value chain actor(s)/player(s), who are qualified borrowers under Sec. 331 of the MORB, shall be considered as either direct or allowable alternative compliance to the mandatory agriculture and agrarian reform credit allocation; and

b. Increase in SBL for an additional twenty-five percent (25%) for loans, other credit accommodations and guarantees granted to entities, which act as value chain aggregators of the lending banks' clients, and/or economically-linked entities that are also actors/players in the value chain: *Provided,* That the additional twenty-five percent (25%) will apply only to non- director/s, officer/s, stockholder/s, and related interest/s (DOSRI)/related party transaction (RPT) loans: *Provided*, *further,* That such increase in the SBL for an additional twenty-five percent (25%) shall only be for a period of three (3) years starting 02 April 2016[1], subject to review after said period.

(Circular No. 908 dated 14 March 2016)

312-Q INTERBANK LOANS

Interbank loan transactions shall include the following transactions with banks and other quasi-banks, (a) call or demand loan transactions; (b) term loan transactions; (c) borrowings evidenced by debt instruments which may include, but

[1] effectivity date (13 April 2016) of Circular No. 908 dated 14 March 2016.

need not be limited to, bankers acceptances, promissory notes, participations, certificates of assignment and similar instruments with recourse, and repurchase agreements; and (d) purchases of receivables with recourse: *Provided,* That funds borrowed by QBs from trust departments of banks/investment houses shall be excluded from the herein definition of interbank loan transactions.

Systems and procedures for interbank call loan transactions. IBCL transactions of QBs shall be governed by the Agreement for the PhilPaSS executed between the Bangko Sentral and the Investment Houses Association of the Philippines (IHAP) on 12 December 2002 and any subsequent amendments thereto.

Accounting procedures.

a. Both lending and borrowing QBs shall immediately pass the corresponding entries in their books.

b. IBCL transactions shall be recorded by the lending QB as *Interbank Call Loans Receivable* and by the borrowing QB as *Bills Payable -Interbank Call Loans Payable.*

c. QBs shall reconcile their demand deposit accounts (DDAs) with the Bangko Sentral against monthly statements of account to be furnished by the Bangko Sentral Financial Accounting Department, Comptrollership Sub-Sector. In relation to this, QBs shall submit a DDA Reconciliation Statement on solo basis as indicated in *Appendix Q-3*[1]. The submission of the DDA Reconciliation Statement shall be subject to the provision s of Sec. 172-Q.

Settlement procedures for interbank loan transactions. Interbank loan transactions (call and term) among QBs shall be settled in accordance with the provisions of the Agreement for the PhilPaSS executed between the Bangko Sentral and the IHAP on 12 December 2002 and any subsequent amendments thereto.

Transfer of excess funds. The prescribed "Authority to Debit Slip" shall be used by QBs in the transfer of their excess funds which are not otherwise lent out in the interbank loan market from their Bangko Sentral reserve accounts to their operating accounts with their depository banks.

The "Authority to Debit Slip" shall have a standard size of 4 3/4" x 8 1/2" and shall be orange in color. It shall contain the minimum data or information as required and shall be accomplished and submitted to the Bangko Sentral Comptrollership Department in duplicate after having been duly signed and/or authenticated by authorized officers of the QB.

(*Circular Nos. 1096 dated 16 September 2020 and 1061 dated 25 November 2019*)

C. LOANS AND OTHER CREDIT ACCOMMODATIONS TO DIRECTORS, OFFICERS, STOCKHOLDERS AND THEIR RELATED INTERESTS/SUBSIDIARIES/AFFILIATES

321-Q POLICY STATEMENT

The Bangko Sentral recognizes that transactions of its supervised financial institutions (BSFIs) with related parties, which include dealings with directors, officers, stockholders, and their related interests (DOSRI), subsidiaries, and affiliates, may be both productive and prudent. The Bangko Sentral also recognizes the need to provide BSFIs with flexibility with respect to lending to DOSRI, subsidiaries, and affiliates premised on the overarching principle that the transactions shall at all times be kept above board and conducted on an arm's length basis, and that BSFIs have adopted robust internal policies and procedures in handling related party transactions that are compliant with the minimum requirements of law and regulations.

Definitions. For purposes of these regulations, the following definitions shall apply.

a. *Directors* shall refer to QB directors as defined in item *"e"* of Sec. 131-Q (*Definition of terms*).

b. *Officers* shall refer to QB officers as defined in item *"k"* of Sec. 131-Q (*Definition of terms*).

c. *Stockholder* shall refer to any stockholder of record in the books of the QB/trust entity, 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 lending QB/trust entity, individual and/or collectively with the stockholdings of: (i) his spouse and/or relative within the first degree by consanguinity or affinity or legal adoption; (ii) a partnership in which the stockholder and/or the spouse and/or any of the aforementioned relatives is a general partner; and (iii) 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 QB/trust entity.

[1] The regular submission of the DDA Reconciliation Statement shall commence starting with the semester ending 31 December 2021.

d. *Outstanding loans to and placements with the QB* shall refer to loans to and deposit substitutes of the QB which are not subject of an assignment or hold-out agreement.

e. *Book value of the paid-in capital contribution* shall mean the proportional amount of the QB's total capital accounts (net of such unbooked allowance for credit losses and other capital adjustments as may be required by the Bangko Sentral) as the corresponding paid-in capital contribution of each director, officer or stockholder concerned bears to the total paid-in capital of the QB: *Provided,* That as a basis for determining the individual ceiling referred to in Sec. 325-Q, corresponding book value of the shares of stock of such director, officer or stockholder which are the subject of pledge, assignment or any other encumbrance shall be deducted therefrom.

f. *Secured loan, borrowing, or credit accommodation* shall refer to any loan, discount, credit or advance, or portion thereof referred to in Sec. 322-Q (*Transactions Covered*) which is secured by physical collateral, financial guarantee, or other instruments, that are enforceable, realizable, and marketable and meets the standards prescribed under Secs. 143-Q (*Credit granting and loan evaluation/analysis process and underwriting standards*) and 302-Q.

g. *Unsecured loan, borrowing or credit accommodation* shall refer to any loan, discount, credit or advance, or portion thereof referred to in Sec. 322-Q (*Transactions Covered*) which is not secured in accordance with Item *"f"* above.

(Circular Nos. 970 dated 22 August 2017 and 914 dated 23 June 2016)

322-Q TRANSACTIONS, COVERED AND NOT COVERED

Transactions Covered. The terms *loan, borrow, money borrowed* and *credit accommodations* as used herein shall refer to transactions which involve the grant, renewal, extension or increase of any loan, discount, credit or advance in any form whatsoever, and shall include:

a. Outstanding availments under an established credit line;

b. Drawings against an existing letter of credit;

c. The acquisition by discount, purchase, exchange or otherwise of any note, draft, bill of exchange or other evidence of indebtedness upon which a director, officer or stockholder may be liable as a maker, drawer, acceptor, endorser, guarantor, or surety;

d. Any advance of unearned salary or unearned compensation for periods in excess of thirty (30) days;

e. Loans or other credit accommodations granted by another FI to such director, officer or stockholder from funds of the QB invested in the other institution's trust or other department when there is a clear relationship between the transactions;

f. The increase of an existing indebtedness, as well as additional availments under a credit line or additional drawings against a letter of credit;

g. The sale of assets, such as shares of stock, on credit;

h. Leasing transactions under R.A. No. 5980, as amended; and

i. Any other transaction as a result of which a director, officer or stockholder becomes obligated or may become obligated to the lending QB, directly or indirectly, by any means whatsoever to pay money or its equivalent.

No QB shall grant, renew or extend any credit accommodation to its DOSRI whenever its combined capital accounts is deficient relative to risk assets held under Secs. 125-Q and 124-Q, or whenever its paid-in capital is deficient relative to the required minimum capitalization. Neither shall it grant, renew or extend any credit accommodation to any of its DOSRI who has past due credit accommodations with the QB.

Transactions Not Covered. The terms *loan, borrow, money borrowed or credit accommodation* as used herein shall not refer to the following transactions:

a. Advances against accrued compensation, or for the purpose of providing payment of authorized travel, legitimate expenses or other transactions for the account of the QB or for utilization of maternity and other leave credits;

b. The increase in the amount of outstanding credit accommodation as a result of additional charges or advances made by the QB to protect its interests such as taxes, insurance, etc.;

c. The discount of bills of exchange drawn in good faith against actually existing values, and the discount of commercial or business paper actually owned by the person negotiating the same, including, but not limited to, the acquisition of export bills from any of its DOSRI which are drawn in accordance with the terms and conditions of the covering letters of credit: *Provided,* That the transaction shall automatically be subject to the ceiling as herein provided once the DOSRI who is a party to the transaction becomes directly liable to the QB;

d. Transactions with a foreign bank or other FI which has stockholding in the QB where the foreign bank or other FI acts as guarantor through the issuance of letters of credit, guarantee letters or assignment of a deposit in a currency eligible as part of the international reserves and held in a bank in the Philippines to secure credit accommodations granted to another person or entity: *Provided,* That the foreign bank stockholder shall automatically be subject to the ceilings as herein provided in the event that its contingent liability as guarantor becomes a real liability; and

e. Deposits of a QB with a bank, whether domestic or foreign, which has stockholdings in the QB.

Applicability to credit card operations. The credit card operations of QBs shall not be subject to these regulations where the credit cardholder is a director, officer or stockholder of the QB or their related interests (DOSRI): *Provided*, That (a) the privilege of becoming a credit cardholder is open to all qualified persons on the basis of selective criteria which are applied by the QB to all applicants thereof; and (b) the director, officer or stockholder/related interest concerned reimburses/pays the QB for the billed amount in full on or before the payment due date in the billing or statement of account, as set by the QB for all other qualified credit cardholders on availments made for the same period on their credit cards. However, the transaction shall be subject to applicable DOSRI regulations if the director, officer, or stockholder/related interest concerned:

a. fails to reimburse/pay the QB within the period mentioned herein; or
b. on the outset, opts for deferred payment scheme, and the availment is booked by the QB.

323-Q LOANS, OTHER CREDIT ACCOMMODATIONS AND GUARANTEES GRANTED TO SUBSIDIARIES AND/OR AFFILIATES

a. *Ceilings.* The total outstanding loans, other credit accommodations and guarantees to each of the QB's subsidiaries and affiliates shall not exceed ten percent (10%) of the net worth of the lending QB: *Provided*, That the unsecured loans, other credit accommodations and guarantees to each of said subsidiaries and affiliates shall not exceed five percent (5%) of such net worth: *Provided, further*, That the total outstanding loans, other credit accommodations and guarantees to all subsidiaries and affiliates shall not exceed twenty percent (20%) of the net worth of the lending QB: *Provided*, *finally,* That these subsidiaries and affiliates are not related interest of any of the director, officer, and/or stockholder of the lending institution.

Loans, other credit accommodations and guarantees granted by a QB to an entity (often a special purpose entity or SPE) that is a subsidiary or affiliate of that QB for the purpose of project finance as defined under Sec. 325-Q (*Exclusion from the thirty percent (30%) unsecured individual ceiling for project finance*)shall be subject to a separate individual limit of twenty-five percent (25%) of the net worth of the lending QB, subject to the following conditions:

(1) That the unsecured portion thereof shall not exceed twelve and one-half percent (12.5%) of such net worth when the project is already operational;

(2) That such project finance loans are for the purpose of undertaking initiatives that are in line with the priority programs and projects of the government*;*

(3) That the QB shall ensure that the standard prudential controls in project finance loans designed to safeguard creditors' interests are in place, which may include pledge of a borrower's shares, assignment of the borrower's assets, assignment of all revenues and cash waterfall accounts, and assignment of project documents*;*

(4) That the QB shall consider its total project finance exposures in complying with Secs. 341-Q (*Large exposures and credit risk concentrations*) and 143-Q (*Credit limits, large exposures, and credit risk concentrations)* on the guidelines in managing large exposures and credit risk concentrations; and

(5) That the subsidiary or affiliate is not a related interest of any of the director, officer, and/or stockholder of the lending QB.

b. *Exclusions from the ceilings.* Loans, other credit accommodations and guarantees secured by assets considered as non-risk under existing Bangko Sentral regulations as well as interbank call loans shall be excluded in determining compliance with the ceilings prescribed under Item *"a"* above.

c. *Procedural requirements.* The following provisions shall apply if a QB grants a loan, other credit accommodation or guarantee to any of its subsidiaries and affiliates.

(1) *Approval of the board, when to obtain.* Except with prior written approval of the majority of all the members of the board of directors, no loan, other credit accommodation and guarantee shall be granted to a subsidiary or affiliate.

(2) *Approval by the board, how manifested.* The approval shall be manifested in a resolution passed by the board of directors during a meeting and made of record.

(3) *Determination of majority of all the members of the board of directors.* The determination of the majority of all the members of the board of directors shall be based on the total number of directors of the QB as provided in its articles of incorporation and by-laws.

(4) *Contents of the resolution.* The resolution of the board of directors shall contain the following information:

(a) Name of the subsidiary or affiliate;

(b) Nature of the loan or other credit accommodation or guarantee, purpose, amount, credit basis for such loan or other credit accommodation or guarantee, security and appraisal thereof, maturity, interest rate, schedule of repayment and other terms;

(c) Date of resolution;

(d) Names of the directors who participated in the deliberation of the meeting; and

(e) Names in print and signatures of the directors approving the resolution: *Provided*, That in instances where a director who participated in the board meeting and who approved such resolution failed to sign, the corporate secretary may issue a certification to this effect indicating the reason for the failure of the said director to sign the resolution.

(5) *Transmittal of copy of board approval; contents thereof.* A copy of the written approval of the board of directors, as herein required, shall be submitted to the appropriate supervising department of the Bangko Sentral within twenty (20) business days from the date of approval. The copy may be a duplicate of the original, or a reproduction copy showing clearly the signatures of the approving directors: *Provided*, That if a reproduction copy is to be submitted, it shall be duly certified by the corporate secretary that it is a reproduction of the original written approval.

(Circular Nos. 1001 dated 30 April 2018, 945 dated 06 February 2017, and 914 dated 23 June 2016)

324-Q DIRECT OR INDIRECT BORROWINGS

For purposes of this Section, a credit accommodation shall be considered a direct or indirect borrowing in accordance with the following criteria.

a. *Direct borrowing* - If the director, officer or stockholder of the lending QB is a party to any of the transactions enumerated in Sec. 322-Q (*Transactions Covered*) for himself or as a representative or agent of others, or if he acts as a guarantor, endorser or surety for loans from the QB, or if the loan or credit accommodation to another party is secured by a property interest or right of the director, officer or stockholder.

b. *Indirect borrowing* - If in any of the transactions in Sec. 322-Q (*Transactions Covered*) the borrower, guarantor, endorser, or surety is a:

(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 QB;

(2) Partnership of which a director, officer, or stockholder 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 credit accommodations, except when the mortgage, pledge or assignment covers only said co-owner's undivided interest;

(4) Corporation, association, or firm of which a director or officer of the QB, or his spouse is also a director or officer of such corporation, association or firm, except (i) where the securities of such corporation, association or firm are listed and traded in the domestic stock exchange and less than fifty percent (50%) of the voting stock thereof is owned by any one (1) person or by persons related to each other within the third degree of consanguinity or affinity; or (ii) where the director, officer or stockholder of the lending QB sits as a representative of the QB in the board of directors of such corporation: *Provided,* That the QB representative shall not have any equity interest in the borrower corporation except for the minimum shares required by law, rules and regulations, or by the by-laws of the corporation, to qualify a person as director of the corporation: *Provided, further,* That the borrowing corporation under *(i)* or *(ii)* is not among those mentioned in Items *"b(5)"* and *"b(6)"* of this Section;

(5) Corporation, association or firm of which any or a group of directors, officers, stockholders of the lending QB and/or their spouses or relatives within the first degree of consanguinity or affinity or relative by legal adoption, hold/own more than twenty percent (20%) of the subscribed capital of such corporation, or of the equity of such association or firm; or

(6) Corporation, association or firm wholly or majority-owned or controlled by any or a group of related entities mentioned in Items *"b(2)", "b(4)"* and *"b(5)"* of this Section.

Other cases of direct/indirect borrowing shall be resolved on a case-to-case basis.

It shall be the responsibility of the QB concerned to ascertain whether the borrower, guarantor, representative, endorser or surety is related to persons mentioned in Item *"b(1)"* of this Section or connected with any of the directors, officers or stockholders of the QB in any of the capacities mentioned in Items *"b(2)", "b(3)", "b(4)", "b(5)"* and *"b(6)"* of this Section.

In determining indirect borrowings as enumerated above, only those cases involving living relatives shall be considered.

325-Q INDIVIDUAL CEILING

The total outstanding direct credit accommodations to each of the QB's directors, officers or stockholders, excluding those granted under officers' fringe benefit plans, shall not exceed, at any time, an amount equivalent to the unencumbered portion of his loans to, and placements with, the QB and the book value of his paid-in capital contribution in the lending QB: *Provided,* That unsecured credit accommodations to each of the QB's directors, officers or stockholders shall not exceed thirty percent (30%) of his total credit accommodations.

Notwithstanding the provisions of this Section, credit accommodations of a QB to any one of its directors, officers, stockholders or their related interests shall not exceed the SBL prescribed for QBs.

Exclusions from the thirty percent (30%) unsecured individual ceiling for project finance. Loans, other credit accommodations, and guarantees granted by a QB to its DOSRI for the purpose of project finance, shall be exempted from the thirty percent (30%) unsecured individual ceiling during the project gestation phase[1]: *Provided,* That the QB shall ensure that standard prudential controls in project finance loans designed to safeguard creditors' interests are in place, which may include pledge of the borrower's shares, assignment of the borrower's assets, assignment of all revenues and cash waterfall accounts, and assignment of project documents.

For this purpose, *"project finance"* is defined as a method of funding in which the lender looks primarily to the revenues generated by a single project, both as a source of repayment and as security for the exposure. It possesses all the following characteristics either in legal form or economic substance:

a. The exposure is typically to an entity (often a special purpose entity or SPE) which was created specifically to finance and/or operate physical assets;

b. The borrowing entity has little or no other material assets or activities, and therefore little or no independent capacity to repay the obligation, apart from the income that it receives from the asset(s) being financed;

c. The terms of the obligation give the lender a substantial degree of control over the asset(s) and the income that it generates; and

d. As a result of the preceding factors, the primary source of repayment of the obligation is the income generated by the asset(s) being financed, rather than the independent capacity of a broader commercial enterprise.

(Circular No. 914 dated 23 June 2016)

[1] This refers to the pre-operational phase of the project that does not yet generate cash flows.

326-Q AGGREGATE CEILING

Except with prior approval of the Monetary Board, the total outstanding borrowings of directors, officers, or stockholders, whether direct or indirect,shall not exceed 100% of combined capital accounts, net of deferred income tax as defined in Item *"i"* of Sec. 124-Q (*Qualifying capital*) and such unbooked allowance for credit losses and other capital adjustments as may be required by the Bangko Sentral: *Provided,* That in no case shall the total unsecured direct and indirect borrowings of directors, officers, and stockholders exceed thirty percent (30%) of the aggregate ceiling or the outstanding direct/indirect loans thereto, whichever is lower. For the purpose of determining compliance with the ceiling on unsecured loans, QBs shall be allowed to average their ceiling on unsecured loans and their outstanding unsecured loans every week.

In evaluating requests for extension of loans in excess of the aggregate ceiling, the Bangko Sentral shall consider the credit standing of the borrower, viability of the projects financed by such loans in relation to national objectives, collateral or security and other pertinent considerations.

Exclusions From Aggregate Ceiling. The following credit accommodations shall be excluded in determining compliance with the aggregate ceiling:

a. Credit accommodations to the extent covered by a hold-out on, or assignment of, deposit substitutes in the lending QB, or covered by cash margin deposits or secured by evidences of indebtedness of the Republic of the Philippines or of the Bangko Sentral, or by other evidences of indebtedness or obligations, the servicing and repayment of which are fully guaranteed by the Republic of the Philippines;

b. Credit accommodations to a corporate stockholder which meets all the following conditions:

   (1) The corporation is a non-financial institution;
   (2) Its shares are listed and traded in the domestic stock exchanges;
   (3) Its stockholdings in the lending QB do not exceed thirty percent (30%) of the voting stock of the QB; and
   (4) No person or group of persons related within the first degree of consanguinity or affinity holds/owns more than twenty percent (20%) of the subscribed capital of the corporation; and

c. Credit accommodations granted under officers' fringe benefit plans.

327-Q CREDIT ACCOMMODATIONS UNDER OFFICERS' FRINGE BENEFIT PLANS

The aggregate outstanding liabilities to a QB of its officers, extended under officers' fringe benefit plans for the purpose of house, car, and appliance financing, and meeting educational, medical, hospital, and other similar expenses, shall not exceed thirty percent (30%) of the combined capital accounts of the lending entity: *Provided,* That QBs shall submit, for record purposes, copies of their officers' fringe benefit plans to the appropriate department of the Bangko Sentral.

328-Q PROCEDURAL AND REPORTORIAL REQUIREMENTS

The following provisions shall apply if a director or officer is a party, directly or indirectly, to, or acts as the representative or agent of, others in any of the transactions under Sec. 322-Q (*Transactions Covered*).

a. *Approval of the board of directors; when to obtain.* Except with the prior written approval of the majority of the directors, excluding the director concerned, no loan or other credit accommodation shall be granted nor any of the transactions under Sec. 322-Q (*Transactions Covered*) be entered into.

b. *Approval by the board; how manifested.* The approval shall be manifested in a resolution passed by the board of directors duly assembled during a regular or special meeting for the purpose and made of record.

c. *Majority of the directors; computation of.* The computation of the majority of the directors, excluding the director concerned, shall be based on the total number of directors of the QB, as provided in its articles of incorporation and by-laws.

d. *Contents of the resolution.* The resolution of the board of directors shall contain the following information:

   (1) Name of the director or officer concerned and his relationship as regards the credit accommodation, such as principal, endorser, spouse of borrower, etc.;

   (2) Nature of the loan or other credit accommodation, purpose, amount, credit basis for such loan or credit accommodation, security and appraisal thereof, maturity, interest rate, schedule of repayment, and other terms of the loan or credit accommodation;

   (3) Date of the resolution;

(4) Names of the directors who were present and who participated in the deliberations of the meeting;

(5) Names in print and signatures of the directors approving the resolution: *Provided,* That the corporate secretary may sign, under a power-of-attorney, in behalf of a director who was present in the board meeting and who approved such resolution, in instances where such signature is necessary, to indicate that such resolution was approved by a majority of the directors; and

(6) Such other information as may be required by the appropriate supervising department of the Bangko Sentral.

e. *Transmittal of copy of board of directors' approval; contents thereof.* A copy of the written approval of the board of directors, as herein required, shall be submitted to the appropriate supervising department of the Bangko Sentral within twenty (20) business days from the date of approval. The copy may be a duplicate of the original, or a reproduction copy showing clearly the signatures of the approving directors: *Provided,* That if a reproduction copy is to be submitted, it shall contain, on its face or reverse side, a signed certification by the secretary that it is a reproduction of the original written approval.

329-Q SUPERVISORY ENFORCEMENT ACTIONS

The Bangko Sentral reserves the right to deploy its range of supervisory tools to promote adherence to the requirements set forth in the foregoing rules and bring about timely corrective actions and compliance with Bangko Sentral directives. The Bangko Sentral considers abuses in credit to related parties (including credit to DOSRI, subsidiaries, and affiliates) as serious offenses and shall be dealt with severely. In this regard, abuse shall be interpreted to include extending credit to related parties without adopting appropriate internal policies.

For this purpose, the Bangko Sentral may among others, issue directives or sanctions on the Bank and responsible persons, which may include restrictions or prohibitions of lending to related parties or from certain authorities/activities, restrictions or prohibitions on dividend declarations; and warning reprimand, suspension, removal and disqualification of concerned bank directors, officers, and/or employees. In addition, the Bangko Sentral may apply the borrowing director/officer/stockholder's share in the QB's profit sharing program against the excess of credit extended over any of the prescribed DOSRI ceilings.

In case of imposition of monetary sanction for violations of the foregoing provisions, the penalty shall be computed as follows:

a. Loans to DOSRI

For the duration of each violation, imposition of a fine of one-tenth of one percent (1/10 of 1%) of the excess over the ceilings per day but not to exceed P30,000 a day on (1) the lending QB and the director, officer, or stockholder whose borrowing exceeds his individual ceiling and (2) each of the directors voting for the approval of the loan or credit accommodation in excess of any of the ceilings prescribed in Secs. 325-Q and 326-Q.

The penalty for exceeding the individual ceiling, aggregate ceiling and ceiling on unsecured loans shall be computed on the average amount of loans in excess of said ceilings during the same week.

b. Loans to subsidiaries and affiliates

For the duration of each violation, imposition of a fine of one tenth (1/10) of one percent (1%) of the excess over the ceilings per day but not to exceed P30,000 a day on the following:

(1) The lending QB; and
(2) Each of the directors voting for the approval of the loan, other credit accommodation or guarantee in excess of any of the ceilings prescribed in Sec. 323-Q.

(Circular No. 914 dated 23 June 2016)

330-Q APPLICABILITY TO GOVERNMENT BORROWINGS IN GOVERNMENT- OWNED OR - CONTROLLED QUASI-BANKS

The provisions of Secs. 341 to 349 of the MORB, to the extent applicable, shall also apply to loans, other credit accommodations, and guarantees granted to the National Government or Republic of the Philippines, its political subdivisions and instrumentalities as well as GOCCs, subject to the following clarifications:

a. Loans, other credit accommodations, and guarantees to the Republic of the Philippines and/or its agencies/departments/bureaus shall be considered: (1) non-risk; and (2) not subject to any ceiling;

b. Loans, other credit accommodations, and/or guarantees to: (1) GOCCs; and (2) corporations where the Republic of the Philippines, its agencies/departments/bureaus, and/or GOCCs own at least twenty percent (20%) of the subscribed capital stock shall be considered indirect borrowings of the Republic of the Philippines and shall form

part of the individual ceiling as well as the aggregate ceiling: *Provided*, That the following loans, other credit accommodations, and/or guarantees to GOCCs and corporations where the Republic of the Philippines, its agencies/departments/bureaus, and/or GOCCs own at least twenty percent (20%) of the subscribed capital stock, shall be excluded from the thirty percent (30%) ceiling on unsecured loans under Secs. 344 and 345 of the MORB:

(1) Loans, other credit accommodations, and/or guarantees for the purpose of undertaking infrastructure and other priority programs and projects consistent with the Philippine Development Plan/public Investment Program of the National Government, duly certified as such by the Secretary of Socio-Economic Planning;

(2) Loans, other credit accommodations, and/or guarantees granted to participating financial institutions (PFIs) in the lending programs of the government wherein the funds borrowed are intended for relending to other PFIs or end-user borrowers; and

(3) Loans, other credit accommodations, and/or guarantees granted for the purpose of providing (i) wholesale and retail loans to the agricultural sector, and micro, small and medium enterprises (MSMEs); and/or (ii) rediscounting and guarantee facilities for loans granted to the said sector or enterprises.

c. Loans, other credit accommodations, and/or guarantees granted to state universities and colleges (SUCs) shall be excluded from the thirty percent (30%) ceiling on unsecured loans under Secs. 344 and 345 of the MORB.

d. In view of the fiscal autonomy granted under R.A. No. 7653 and the independence prescribed under the Constitution, the Bangko Sentral shall be considered an independent entity, hence, not a related interest of the Republic of the Philippines and/or its agencies/departments/bureaus. Loans, other credit accommodations and guarantees of the Bangko Sentral shall be considered: (1) non-risk; and (2) not subject to any ceiling;

e. LGUs shall be considered separate from the Republic of the Philippines, other government entities, and from one another due to the full autonomy in the exercise of their proprietary functions and in the management of their economic enterprises granted to them under the Local Government Code of the Philippines, subject to certain limitations provided by law, hence, not a related interest of the Republic of the Philippines and/or its agencies/departments/bureaus;

f. Local Water Districts (LWDs), although GOCCs, shall be considered separate from the Republic of the Philippines, other government entities, and from one another due to their fiscal independence from the national government, hence, not related interests of the Republic of the Philippines and/or its agencies/department/bureaus, for purposes of these regulations;

g. A director who acts as a government representative in the lending institution shall not be excluded in the deliberation as well as in the determination of majority of the directors in cases of loans, other credit accommodations, and guarantees to the Republic of the Philippines and/or its agencies/departments/bureaus; and

h. A director of the lending institution shall be excluded in the deliberation as well as in the determination of majority of the directors in cases of loans, other credit accommodations, and guarantees to the borrowing government entity other than the Republic of the Philippines, its agencies, departments or bureaus where said director is also a director, officer or stockholder under existing DOSRI regulations.

(Circular No. 914 dated 23 June 2016)

D. CREDIT CONCENTRATION AND PRUDENTIAL LIMITS

341-Q LARGE EXPOSURES AND CREDIT RISK CONCENTRATIONS

a. *Definition.*

"Large exposures" shall refer to exposures to counterparty or a group of connected counterparties equal or greater than five percent (5%) of the FI's qualifying capital as defined under Sec. 125-Q.

"Connected counterparties" refer to a group of counterparties that are connected through (a) direct or indirect control of one of the counterparties over the other(s) or (b) economic interdependencies, and must be treated as a single counterparty. Control shall be determined in accordance with item *"c"* of Sec. 131-Q (*Definition of terms*).

"Economic interdependence" refers to a situation where counterparties are reliant on each other, such that if one of the counterparties experiences financial problems in repaying its obligations, the creditworthiness of the other(s) would also likely deteriorate. FIs shall define in their credit policy criteria in determining connectedness based on economic interdependence, which shall consider, among others, significant dealings or transactions of one or more counterpart(y/ies) that impact the financial capacity or ability to repay the obligations of the other counterpart(y/ies).

In cases where the criteria do not automatically imply an economic dependence that results in two or more counterparties being connected, the FI shall provide evidence to Bangko Sentral that a counterparty which is economically connected to another, still can pay its liabilities even if the latter's financial condition weakens.

b. *Scope of Application.* Large exposures of FIs and their subsidiaries and affiliates to third parties across the relevant regulatory consolidation group shall be aggregated and compared with the group's qualifying capital.

c. *Exclusions.* Loans, other credit accommodations and guarantees that are excluded from the single borrower's limit (SBL) under Sec. 342-Q as well as intraday and end-of-day interbank exposures arising from interbank payment and settlement processes shall be excluded from large exposures.

d. *Notification requirements.* An FI must immediately inform the Bangko Sentral when it has concerns that its large exposures or credit risk concentrations have the potential to impact materially upon its capital adequacy, along with proposed measures to address these concerns.

e. *Reporting.* FI's records on monitoring of large exposures shall be made available to the Bangko Sentral examiners for verification at any given time. When warranted, the Bangko Sentral may impose additional reporting requirements on the FI in relation to its large exposures and credit risk concentrations.

f. *Sanction.* Any failure or delay in complying with the requirements under Items *"d"* and *"e"* of this Section shall be subject to penalty applicable to those involving major reports.

(Circular Nos. 970 dated 22 August 2017)

342-Q CREDIT EXPOSURE LIMITS TO A SINGLE BORROWER

The total liabilities of any person, company, corporation or firm, to a QB for money borrowed shall at no time exceed twenty-five percent (25%) of the combined capital accounts as defined in Sec. 121-Q.

The total liabilities of any borrower may amount to a further fifteen percent (15%) of the combined capital accounts of such QB: *Provided,* That the additional liabilities are adequately secured by real estate mortgage, assignment or pledge of readily marketable bonds and other high grade debt securities, except those issued by the lending entity.

The total amount of loans, credit accommodations and guarantees prescribed in the first paragraph may be increased by an additional twenty-five percent (25%) of the net worth of such QB: *Provided,* That the additional loans, credit accommodations and guarantees are for the purpose of undertaking infrastructure and/or development projects under the Public- Private Partnership (PPP) Program of the government duly certified by the Secretary of Socio-Economic Planning: *Provided, further*, That the total exposures of the QB to any borrower pertaining to such infrastructure and/or development projects under the PPP Program shall not exceed twenty-five percent (25%) of the net worth of such QB: *Provided, furthermore,* That the additional twenty-five percent (25%) shall only be allowed for a period of six (6) years from 28 December 2010: *Provided, finally,* That the credit risk concentration arising from total exposures to all borrowers pertaining to such infrastructure and/or development projects under the PPP Program shall be considered by the QB in its internal assessment of capital adequacy relative to its overall risk profile and operating environment. Said loans, credit accommodations and guarantees based on the contracted amount as of the end of the six (6)-year period shall not be increased but may be reduced and once reduced, said exposures shall not be increased thereafter.

The total amount of loans, credit accommodations and guarantees prescribed in the first paragraph may be further increased by an additional fifteen percent (15%) of the net worth of such QB: *Provided*, That the additional loans, credit accommodations and guarantees are granted to finance oil importation of oil companies which are not affiliates of the lending QB engaged in energy and power generation: *Provided, further*, That the oil companies qualify under the credit underwriting standards of the lending QB and the lending QB shall comply with Sec. 341-Q on the guidelines in managing large exposures and credit risk concentrations: *Provided, furthermore*, That the credit risk concentration arising from total exposures to all oil companies shall be considered by the QB in its internal assessment of capital adequacy relative to its overall risk profile and operating environment and shall be incorporated in the ICAAP document required to be submitted under Sec. 130-Q: *Provided, finally*, That the additional fifteen percent (15%) shall only be allowed for a period of three (3) years from 03 March 2011, or until 03 March 2014. Said additional loans, credit accommodations and guarantees outstanding as of the end of the three (3)- year period and in excess of twenty five percent (25%) of the lending QB's net worth shall not be increased but shall be reduced and once reduced, said exposures shall not be increased thereafter.

For purposes of this Section, the term *liabilities* shall mean the direct liability of the maker or acceptor of paper discounted with or sold to such QB and the liability of the endorser, drawer or guarantor who obtains a loan from or discounts paper with or sells papers under his guaranty to such QB and shall include in the case of liabilities of a co-partnership or association, the liabilities of the several members thereof and shall include, in the case of liabilities of a corporation, all liabilities of its subsidiaries: *Provided,* That even in cases where the parent corporation, co-partnership or association has no liability to the QB, the liabilities of subsidiary corporations or members of the co-partnership or association shall be combined for purposes of the single borrower's limit (SBL).

The total liabilities of an entity (often a special purpose entity or SPE) for the purpose of project finance as defined under Sec. 325-Q (*Exclusion from the thirty percent (30%) unsecured individual ceiling for project finance*) shall be subject to a separate individual limit of twenty-five percent (25%) of the combined capital accounts of a QB: *Provided*, That such project finance loans are for the purpose of undertaking initiatives that are in line with the priority programs and projects of the government: *Provided, further,* That the QB shall ensure that the standard prudential controls in project finance loans designed to safeguard creditors' interests are in place, which may include pledge of a borrower's shares, assignment of the borrower's assets, assignment of all revenues and cash waterfall accounts, and assignment of project documents: *Provided, finally*, That the QB shall consider its total project finance exposures in complying with Secs. 341-Q and 143-Q (*Credit limits, large exposures, and credit risk concentrations*) on the guidelines in managing large exposures and credit risk concentrations.

Loans, credit accommodations and guarantees to any person, partnership, association, corporation or other entity or group of companies in excess of the applicable SBL arising from acquisition, merger or consolidation of borrower-corporations, which loans, credit accommodations and guarantees were granted prior to and are outstanding as of date of acquisition, merger or consolidation of borrower-corporations shall not be increased, but shall be reduced and once reduced, shall not be increased beyond the applicable SBL.

It is expected that FIs would generally observe a lower internal single borrower's limit than the prescribed limit of twenty-five percent (25%) as a matter of sound practice.

Exclusions from loan limit. The following shall be excluded in determining compliance with the SBL:

a. Credit exposures considered as non-risk:

   (1) Loans and other credit accommodations secured by obligations of the Bangko Sentral or of the Philippine Government;
   (2) Loans fully guaranteed by the government as to the payment of principal and interest;
   (3) Loans fully secured by U.S. Treasury Notes and other securities issued by central governments and central banks of foreign countries with the highest credit quality given by any two (2) internationally accepted rating agencies;
   (4) Loans to the extent covered by the hold-out on or assignment of, deposits maintained in the lending bank and held in the Philippines;
   (5) Loans and acceptances under letters of credit to the extent covered by margin deposits;
   (6) Other loans or credits which the Monetary Board may from time to time specify as non-risk items.

b. The total liabilities of a commercial paper issuer for commercial papers held by a QB acting as a firm underwriter of said commercial paper shall not be counted in determining compliance with the SBL within a period of ninety (90) calendar days from the issuance of the commercial paper[1]: *Provided*, That in no case shall such liabilities exceed five percent (5%) of the net worth of the QB beyond the normal applicable SBL;

c. Loans and other credit accommodations as a result of an underwriting or sub-underwriting agreement of debt securities outstanding for a period not exceeding thirty (30) calendar days. Said other credit accommodations shall include, among others, inventories of debt securities such as, but not limited to bonds and notes purchased by the QB out of its underwriting commitments[1];

d. Short-term exposures of QBs to settlement banks arising from payment transactions pertaining to fund transfer services, check clearing, foreign exchange trades, security trades, security custody services, and other short-term payment transactions: *Provided*, That for the purpose of Exclusions from loan limit in this Section, an exposure is considered short-term if it does not extend longer than five (5) banking days after the placement of funds into the clearing and settlement account: *Provided, further*, That the following conditions are met:

   (1) The payment transactions giving rise to short-term exposures are carried out through a clearing and settlement account maintained with a designated local settlement bank, or a foreign settlement bank. A designated settlement bank is a bank that is recognized or assigned by a consortium of banks and/or other financial institutions or by an appropriate body to accept funds from members of the consortium particularly for settlement of transactions among members.

   (2) QBs shall enter into a formal agreement with the settlement bank, stipulating among other terms and conditions that the account is opened and maintained exclusively for short-term payment transactions as described in this Section, and said account is not subject to a minimum balance requirement.

   (3) The clearing and settlement bank shall keep the funds received from client QBs separate from its own funds. The client QBs shall also segregate their clearing and settlement accounts from any of their other bank accounts.

   (4) The settlement bank and its client QBs shall adopt an internal control mechanism appropriate to the said payment transactions.

[1] This shall cover all new underwritten debt and equity securities issued from 15 February 2013.

e. In case a stand-alone trust corporation is a subsidiary or affiliate of a QB, the asset under management of the trust corporation shall not form part of the relevant exposures of the parent QB for purposes of calculating the SBL and the ceilings for accommodation to DOSRI of the said parent QB.

The purchase by the trust corporation, in behalf of its clients, of securities or instruments issued by its parent QB shall not form part of the relevant exposure of the trust corporation for purposes of calculating the SBL and DOSRI ceilings of the said trust corporation.

f. Debt securities acquired as a result of market making activities pursuant to the rules and guidelines of the Securities and Exchange Commission (SEC) and the market or exchange[1] where such securities are traded and/or enrolled, *Provided*, That:

(1) The marketing-making positions shall be taken up in the trading book in accordance with Sec. 614-Q on investment activities of Bangko Sentral Supervised Financial Institution (BSFI);
(2) The market-making positions shall be properly identified and segregated from the BSFI's proprietary positions; and
(3) The BSFI shall periodically monitor the market value of the subject debt securities and the number of days the securities have been outstanding from date of acquisition.

Provided, further, That the subject debt securities shall be excluded from the SBL for a period not exceeding the number of calendar days, as indicated below, from date of acquisition:

Calendar Days	Date of Acquisition
90 days	1 August 2020 – 31 July 2021
60 days	1 August 2021 onwards

Contingent liabilities included in loan limit. Outstanding foreign and domestic standby and deferred letters of credit less margin deposits, and outstanding guarantees, the nature of which requires the guarantor to assume the liabilities/obligations of third parties in case of their inability to pay, shall be included in determining the SBL except those fully secured by cash, hold-out on deposit substitutes, or government securities.

Sanctions. Violations of the provisions of the foregoing rules shall be subject to the following sanctions/penalties:

a. *Fines.* Fines of one-tenth of one percent (1/10 of 1%) of the excess but not to exceed P30,000 a day for each violation, reckoned from the date the excess started up to the date when such excess was eliminated, shall be assessed on the QB.

b. *Other sanctions*

First Offense

Reprimand for the directors/officers who approved the credit line or availment which resulted in the excess with a warning that subsequent violations will be subject to more severe sanctions.

Subsequent offenses

(1) For the duration of each violation, imposition of a fine of P500 a day for each of the directors/officers who approved the credit line or availment which resulted in an excess.
(2) Suspension of the QB from branching privileges until the excess is eliminated.

(Circular Nos. 1091 dated 22 July 2020, 1001 dated 30 April 2018, and 965 dated 05 July 2017)

E. EQUITY INVESTMENTS

351-Q INVESTMENT IN NON-ALLIED UNDERTAKINGS

In order to avoid undue concentration of economic power, the total equity investments in any single non-allied enterprise or industry of QBs, UBs and their subsidiaries, whether or not the parent financial intermediaries have equity investments in the enterprise, shall, in any case, remain a minority in that enterprise, except as may be otherwise approved by the President of the Philippines. Non-allied enterprises are those allowed for UBs in the MORB.

Equity investments as of 01 April 1980, which exceed the limitation under this Section, may be retained but shall not be increased percentage-wise, and whenever reduced, shall not thereafter be increased beyond the prescribed limitation.

[1] It should be organized in accordance with the SEC rules and regulation

Underwriting Exempted. The limitations on equity investments in this Section shall not apply to inventories of equity securities arising out of firm underwriting commitments of investment houses: *Provided,* That such equity holding shall be disposed of within ninety (90) calendar days from issuance[1].

352-Q INVESTMENTS ABROAD

Except as may be authorized by the Monetary Board, the total equity investments in and/or loans to any single enterprise abroad by any QB shall not at any time exceed fifteen percent (15%) of the net worth of the investing QB.

F. SUNDRY PROVISIONS

361-Q PURCHASE OF RECEIVABLES AND OTHER OBLIGATIONS

The following rules shall govern the purchase of receivables and other obligations.

Yield on purchase of receivables. The rate of yield, including commissions, premiums, fees and other charges from the purchase of receivables and other obligations, regardless of maturity, that may be charged or received by QBs shall not be subject to any regulatory ceiling.

Receivables and other obligations shall include claims collectible in money of any amount and maturity from domestic and foreign sources. The Monetary Board shall determine in doubtful cases whether a particular claim is included within said phrase.

Purchase of commercial paper. Before purchasing registered commercial paper, QBs shall:

a. Require the issuing entity to submit a duly certified true copy of its Certificate of Registration and Authority to Issue Commercial Paper; and
b. Ascertain that the registration number and expiry date indicated in the commercial paper are the same as those in the Certificate of Registration submitted.

No QB shall sell, discount, assign, negotiate, in whole or in part such as thru syndications, participations and other similar arrangements, any note, receivable, loan, debt instrument and any type of financial asset or claim, except government securities, on a without recourse basis, or be a party in any capacity in any such transactions on a without recourse basis, unless such receivable, note, loan, debt instrument and financial asset or claim is registered with the SEC. This prohibition includes transactions between an investment house and its trust department.

Unregistered commercial papers may be sold, discounted, assigned or negotiated by QBs to other financial intermediaries with quasi-banking functions.

Any violation of the above rules and regulations shall be subject to any or all of the following sanctions:

a. Suspension of quasi-banking authority for a period of six (6) months; and
b. Monetary penalty of P500 per day per transaction for each and every officer of the QB involved in any capacity in any transaction violative of these regulations.

Reverse Repurchase Agreements with the Bangko Sentral. Reverse repo agreements may be effected with the Bangko Sentral under its open market operations, subject to the terms and conditions in Sec. 601-Q (*Reverse repurchase agreements with Bangko Sentral*).

Investment of QBs on evidences of indebtedness by the Bangko Sentral. Purchase of Bangko Sentral-issued securities shall be governed by Sec. 601-Q (*The Bangko Sentral Securities: Bills and Bonds*).

Marking to market of financial instruments. Financial instruments that are required to be classified and measured at fair value, within the scope of Philippine Financial Reporting Standards (PFRS) 9 under *Appendix Q-22*, shall be marked-to-market in accordance with the provisions of PFRS 13 on Fair Value Measurement and the related rules and regulations issued by the Securities and Exchange Commission. The marked-to-market guidelines for debt and equity securities are set out in *Appendix Q-23*.

BSFIs and the concerned officers found to have violated the provisions of these regulations shall be subject to the enforcement actions under Sec. 171-Q (*Philippine Financial Reporting Standards/Philippine Accounting Standards*).

Penalties and sanctions. The following penalties and sanctions shall be imposed on FIs and concerned officers found to violate the provisions of these regulations:

[1] This shall cover all new underwritten debt and equity securities issued from 15 February 2013.

a. Fines of P2,000/day to be imposed on NBFIs for each violation, reckoned from the date the violation was committed up to the date it was corrected; and
b. Sanctions to be imposed on concerned officers:

    (1) First offense - reprimand the officers responsible for the violation; and
    (2) Subsequent offenses - suspension of ninety (90) days without pay for officers responsible for the violation.

(Circular Nos. 1130 dated 23 November 2021 and 1021 dated 15 November 2018)

362-Q ACQUIRED ASSETS IN SETTLEMENT OF LOANS

The following rules shall govern assets acquired in settlement of loans.

Booking.

a. ROPA in settlement of loans through foreclosure or dation in payment shall be booked under the ROPA account as follows:

    (1) Upon entry of judgment in case of judicial foreclosure;

    (2) Upon execution of the Sheriff's Certificate of Sale in case of extrajudicial foreclosure; and

    (3) Upon notarization of the Deed of Dacion in case of dation in payment (*dacion en pago*). ROPA shall be booked initially at the carrying amount of the loan (i.e., outstanding loan balance adjusted for any unamortized premium or discount less allowance for credit losses computed based on PFRS 9 provisioning requirements, which take into account the fair value of the collateral) plus booked accrued interest less allowance for credit losses (computed based on PFRS 9 provisioning requirements) plus transaction costs incurred upon acquisition (such as non-refundable capital gains tax and documentary stamp tax paid in connection with the foreclosure/purchase of the acquired real estate property): *Provided,* That if the carrying amount of ROPA exceeds P5.0 million, the appraisal of the foreclosed/purchased asset shall be conducted by an independent appraiser acceptable to the Bangko Sentral.

b. The carrying amount of ROPA shall be allocated to land, building, other non- financial assets and financial assets (e.g., receivables from third party or equity interest in an entity) based on their fair values, which allocated carrying amounts shall become their initial costs.

c. The non-financial assets portion of ROPA shall remain in ROPA and shall be accounted for as follows:

    (1) Land and buildings shall be accounted for using the cost model under PAS 40 "Investment Property";
    (2) Other non-financial assets shall be accounted for using the cost model under PAS 16 "Property Plant and Equipment";
    (3) Buildings and other non-financial assets shall be depreciated over the remaining useful life of the assets, which shall not exceed ten (10) years and three (3) years from the date of acquisition, respectively; and
    (4) Land, buildings and other non-financial assets shall be subject to the impairment provisions of PAS 36 "Impairment".

d. Financial assets, shall be reclassified and booked in accordance with *Appendix Q-22*, except interests in subsidiaries, associates and joint ventures, which shall be booked under Equity Investments in Subsidiaries, Associates and Joint Ventures and accounted for in accordance with Item *"(b)i"* of Sec. 171-Q (*Philippine Financial Reporting Standards/Philippine Accounting Standards*).

e. ROPAs that comply with the provisions of PFRS 5 "Non-Current Assets Held for Sale" shall be reclassified and accounted for as such.

f. Claims arising from deficiency judgments rendered in connection with the foreclosure of mortgaged properties shall be lodged under the real account "Deficiency Judgment Receivable"; while probable claims against the borrower arising from the foreclosure of mortgaged properties shall be lodged under the contingent account "Deficiency Claims Receivable".

g. *Appraisal of properties.* Before foreclosing or acquiring any property in settlement of loans, it must be properly appraised to determine its true economic value. If the amount of ROPA to be booked exceeds P5.0 million, the appraisal must be conducted by an independent appraiser acceptable to the Bangko Sentral. An in-house appraisal of all ROPAs shall be made at least every other year: *Provided,* That immediate re-appraisal shall be conducted on ROPAs which materially decline in value.

h. *Non-cash payment for interest.* FIs that accept non-cash payments for interest on their borrowers' loans shall book the acquired assets as ROPA. The amount to be booked as ROPA shall be the booked accrued interest less allowance for credit losses (computed based on PFRS 9 provisioning requirements): *Provided,* That if the carrying amount of ROPA exceeds P5.0 million, the appraisal of the foreclosed/purchased asset shall be conducted by an independent appraiser acceptable to the Bangko Sentral. The carrying amount of ROPA shall be allocated in accordance with Item *"b"* and shall be subsequently accounted for in accordance with Item *"c"* above.

The provisions of Booking in this Section shall be applied retroactively to all outstanding ROPAs and sales contract receivables: *Provided,* That for properties acquired before 01 January 2005, the carrying amount of the acquired properties when initially booked under ROPA shall be the cost subject to depreciation and impairment testing, which shall be reckoned from the time of acquisition.

Sales contract receivable

a. Sales Contract Receivable (SCR) shall be recorded based on the present value of the installment receivables discounted at the imputed rate of interest. Discount shall be accreted over the life of the SCR by crediting interest income using the effective interest method. Any difference between the present value of the SCR and the derecognized assets shall be recognized in profit or loss at the date of sale in accordance with the provisions of PAS 18 "Revenue": *Provided, furthermore*, That SCR shall be subject to impairment provision of PFRS 9.

   The provisions of this Section shall be applied retroactively to all outstanding ROPAs and SCRs: *Provided,* That for properties acquired before 01 January 2005, the carrying amount of the acquired properties when initially booked under ROPA shall be the cost subject to depreciation and impairment testing, which shall be reckoned from the time of acquisition.

b. SCRs which meet all the requirements/conditions enumerated below are hereby considered performing assets and therefore, not subject to classification:

   (1) That there has been a down- payment of at least twenty percent (20%) of the agreed selling price or in the absence thereof, the installment payments on the principal had already amounted to at least twenty percent (20%) of the agreed selling price;

   (2) That payment of the principal must be in equal installments or in diminishing amounts and with maximum intervals of one (1) year;

   (3) That any grace period in the payment of principal shall not be more than two (2) years; and

   (4) That there is no installment payment in arrear either on principal or interest: *Provided,* That a "*Sales Contract Receivable*" account shall be automatically classified "*Substandard*" and considered non-performing in case of non-payment of any amortization due: *Provided, further*, That a *"Sales Contract Receivable"* which has been classified "*Substandard*" and considered non-performing due to non-payment of any amortization due may only be upgraded/restored to unclassified and/or performing status after a satisfactory track record of at least three (3) consecutive payments of the required amortization of principal and/or interest has been established.

Joint venture of quasi- banks with real estate development companies.

a. *Policy statement*. It is the policy of the Bangko Sentral to encourage QBs to dispose of their ROPA in settlement of loans and other advances either through foreclosure or *dacion en pago* as well as other properties acquired as a consequence of a merger/consolidation which are no longer necessary for their quasi-banking operations. Towards this end, QBs are hereby authorized to enter into Joint Venture Agreements (JVA) with real estate development companies for the development of said properties, subject to the requirements prescribed herein.

b. For purposes of this Section, *joint venture* shall refer to a contractual arrangement/undertaking between a QB and a duly registered real estate development company (developer) for the purpose of developing the above- mentioned properties of the QB. The QB contributes said properties to the undertaking while the developer contributes all the development funds, resources, technical expertise, equipment, personnel and all other requirements desired or needed for the implementation and completion of the undertaking including marketing, where applicable. The QB and the developer shall be bound by the contract that establishes joint control of the undertaking. Although the developer may be designated as operator or manager of the undertaking, it does not, however, absolutely control the undertaking but only acts in accordance with the authorities granted to him under the JVA.

c. *Forms of a joint venture.* A QB and a developer may undertake a joint venture under the following forms:

(1) A jointly-controlled operation/undertaking, which does not involve the establishment of a corporation, partnership or other entity, or a financial structure that is separate from the QB and the developer themselves. Under this form of joint venture, the rights and obligations of the QB and the developer shall be governed primarily by their contract that must clearly specify the following:

(a) authority of the developer to develop/subdivide the property and subsequently, to sell the individual lots under a special power of attorney;
(b) sharing in the sales proceeds of the developed ROPAs or in the developed lots;
(c) sharing in taxes;
(d) sharing in the assets of the joint venture particularly in the developed/subdivided lots should there still be unsold lots at the time of termination of the joint venture; and
(e) name under which the subdivided lots shall be registered pending their sale.

(2) A jointly-controlled entity, which involves the establishment of a new juridical entity, preferably a corporation that is separate and distinct from the QB and the developer. A jointly controlled corporation may be established either for the purpose of developing properties of QBs for immediate sale or converting them into earning assets such as hotels and shopping malls.

d. *Requirements and limitations in a joint venture.* A QB desiring to enter into a JVA with a developer for the purpose of developing its ROPAs and/or other properties acquired as a consequence of merger/consolidation shall comply with the following:

(1) The JVA shall be approved by the board of directors of the QB.
(2) The QB's contribution to the joint venture, in whatever form undertaken, shall be limited to ROPAs and properties acquired as a consequence of the QB's merger/consolidation with another QB/FI.
(3) The QB shall not recognize income out of its contribution to the joint venture, regardless of the agreed valuation of said properties.
(4) The QB shall not provide funds to the joint venture either as a loan or capital contribution.
(5) The JVA or contractual arrangement shall clearly stipulate the rights and obligations of the QB and the developer.
(6) The QB shall secure prior Monetary Board approval of the JVA.

e. *Application for authority to enter into JVA.* A QB desiring to enter into a JVA with a developer for the purpose of developing its ROPAs and other properties acquired as a consequence of its merger/consolidation with another QB/FI shall secure prior Monetary Board approval of said agreement. For that purpose, the concerned QB shall submit an application for Monetary Board approval to the appropriate supervising department of the Bangko Sentral. The application shall be signed by the QB's president or officer of equivalent rank and shall be accompanied by the following documents/information:

(1) The name of the developer;

(2) Name of the principal stockholders and officers as well as members of the board of directors of said company;

(3) Relationship of the QB with the developer, if any;

(4) List and brief description of the properties to be contributed by the QB including their market values, book values and the valuation agreed upon under the proposed JVA;

(5) Certification by the QB's president or officer of equivalent rank that the JVA is strictly in compliance or will strictly comply with the requirements of Joint venture of quasi- banks with real estate development companies in this Section; and

(6) Such other documents/information that the appropriate supervising department of the Bangko Sentral may require.

f. *Non-financial allied undertaking* All types of QBs are hereby authorized to invest in the equities of companies engaged in real estate development as a non-financial allied undertaking, subject to the following conditions:

(1) Investments shall be limited to ROPAs and other properties acquired as a consequence of a QB's merger/consolidation with another QB/FI;

(2) Investments shall be subject to existing Bangko Sentral requirements applicable to investments in non-financial allied undertakings; and

(3) If there is already an existing subsidiary or affiliate relationship between the QB and the investee corporation prior to the investment, the QB shall not recognize income out of its invested properties. The excess of the value of the capital stock received by the QB over the book value of its invested properties shall be booked as "Deferred Credits".

g. *Accounting treatment.* Accounting treatment of the properties contributed by a QB to a joint venture or invested in the equities of developers.

(1) In a joint venture in the form of a jointly controlled operations/undertaking, which does not involve the establishment of a corporation or other entity, the QB shall continue to recognize in its books the properties contributed to the undertaking. However, the regular provisioning against probable losses required under existing regulations may be discontinued upon execution and implementation of the JVA.

(2) In a joint venture in which a corporation is created, the QB shall book the properties contributed to the undertaking as investment pursuant to the provisions of PAS 31. It shall also recognize its interest in the corporation using the proportionate consolidation method or the equity method as long as it continues to have joint control over the corporation: *Provided,* That the QB shall not recognize income out of its contribution to the joint venture. The excess of the value of the capital stock received by the QB over the book value of the contributed properties shall be credited to the account "Deferred Credits".

(3) Properties invested in equities of developers shall be booked in accordance with the PAS: *Provided,* That the QB shall not recognize income out of the properties invested if there is already an existing subsidiary or affiliate relationship between the QB and the investee corporation prior to the investment, regardless of the agreed valuation of said properties. The excess of the agreed valuation of said properties over their book value shall be booked as "Deferred Credits".

h. *Coverage.* The provisions of Joint venture of quasi- banks with real estate development companies in this Section shall apply to ROPAs existing, as well as those which may be acquired by QBs in settlement of non-performing or past due loans and advances outstanding, as of 09 March 2006 and to properties acquired as a consequence of merger or consolidation which are outstanding in the books of QBs as of said date.

i. *Sanctions.* Any violation of the provisions of Joint venture of quasi- banks with real estate development companies in this Section and/or any misrepresentation in the certification and information required to be submitted to the Bangko Sentral under this Section shall subject the QB and the officer or officers responsible therefore, to the penalties provided under Sections 35, 36 and 37 of R. A. No. 7653.

(Circular No. 1011 dated 14 August 2018)

363-Q SALE/TRANSFER AND INVESTMENT TRANSACTIONS OF BSFIs PURSUANT TO R.A. NO. 11523, OTHERWISE KNOWN AS THE FINANCIAL INSTITUTIONS STRATEGIC TRANSFER (FIST) ACT

Policy Statement.

This Section sets forth the guidelines governing the sale/transfer and investment transactions of banks, and other institution licensed by the Bangko Sentral to perform (i) quasi-banking functions and (ii) credit-granting activities, including but not limited to pawnshops, NSSLAs, and non-bank credit card issuers pursuant to R.A. No. 11523, otherwise known as the FIST Act and its IRR. The implementation of the FIST Act reinforces the BSFIs' primary role of providing financial services and liquidity to support households, business enterprises and productive sectors of economy by allowing BSFIs to dispose of their NPAs and increase their liquidity and risk-bearing capacity.

Sale/transfer transactions of non-performing assets (NPAs) by BSFIs for purposes of availing of the tax exemptions and incentives/privileges under the FIST Act shall comply with the provisions under this Section.

Definition of Terms.

For purposes of this Section, the following definitions shall apply:

a. **Certificate of Eligibility (COE)** refers to the certificate issued by the Bangko Sentral as to the eligibility of the non-performing loan (NPL) or real and other properties acquired (ROPA) for purposes of availing the tax exemptions and privileges pursuant to the provisions of the FIST Act.

b. **Data Package** refers to the set of documents prescribed by the Securities and Exchange Commission (SEC) under Rule No. 5.1.j of the IRR and the additional documentation required under this Section (*Sale and Transfer of Assets*), which must be prepared and made available by the selling BSFI in respect of the sale/transfer of NPAs to FIST Corporations (FISTCs)/individuals. The Data Package should contain, among others, scanned copy of all pertinent documents and the particulars of each property or loan account being sold and should be made electronically available to potential bidders.

c. **FISTC** refers to a stock corporation organized in accordance with R.A. No. 11232, otherwise known as the "Revised Corporation Code of the Philippines," the provisions of Section 4 of the FIST Act and Rule 4 of the IRR. It is incorporated primarily to invest in or acquire NPAs of financial institutions under the FIST Act. With respect to foreign FISTCs, existing laws on ownership of real properties shall apply.

d. **Individual** refers to a natural person who, subject to certain conditions, is entitled to the tax exemptions, incentives, and fee privileges under the FIST Act.

e. **NPAs** refers to the NPLs and ROPA of BSFIs. NPAs are those NPLs and ROPA that are classified as such under the FIST Act on or before 31 December 2022.

f. **NPLs** refer to secured or unsecured loans and other receivables, including restructured loans and sales contracts receivables (SCRs), whose principal and/or interest have remained unpaid for at least ninety (90) days after they have become past due or any of the events of default under the loan agreement/restructuring agreement/sales contract, as applicable, has occurred.

NPLs shall also include loans that are classified as items in litigation on or before 31 December 2022 for which collection and foreclosure cases have been filed or are subject to pending cases that see to restrain foreclosure or consolidation of title of foreclosed assets, or where a restraining order or injunction has been issued to prevent foreclosure of mortgage or consolidation of title of foreclosed assets.

g. **ROPAs** refers to real and other properties acquired by a BSFI in settlement of loans and receivables, including real properties, shares of stocks, and personal properties which have been acquired by way of dation in payment (dacion en pago) or judicial or extra-judicial foreclosure or execution of judgement or enforcement of security interest.

h. **SCRs** refer to the amortized cost of assets acquired in settlement of loans through foreclosure or dation in payment and subsequently sold on installment basis whereby the title to the said property is transferred to the buyers only upon full payment of the agreed selling price.

i. **Special Purpose Vehicles (SPVs)** refer to entities created under R.A. No. 9182, as amended, otherwise known as the "The Special Purpose Vehicle (SPV) Act of 2002," primarily incorporated to invest in or acquire NPAs of financial institutions under the SPV Act, whose application for reconfirmation has been approved by the SEC.

j. **True sale** refers to a sale wherein the selling BSFI transfers or sells its NPAs to an individual/FISTC, without recourse for cash or property in exchange for the transfer or sale, and without prejudice to the BSFI and the FISTC agreeing on sharing of profits and subject to the following results:

(1) The transferor transfers full legal and beneficial title to and relinquishes effective control over the transferred NPAs; and
(2) The transferred NPAs are legally isolated and put beyond the reach of the transferor and its creditors;

Provided, That the transferring BSFI shall not have direct or indirect control, of the transfereee FISTC: *Provided, further,* That the selling BSFI does not have legal or beneficial ownership of more than ten percent (10%) of the (a) total number of outstanding shares of stock entitled to vote in the election of directors; and (b) the total number of outstanding shares of stock, whether or not entitled to vote, of the transferee FISTC.

For purposes of determining existence of control, the provisions of Sec. 131-Q shall apply.

All references to FISTCs in subsequent provisions of this Section shall also refer to SPVs as defined under this Section (*Definition of Terms*).

Issuance of COEs.

A BSFI which intends to avail of the tax exemptions and fee privileges under the FIST Act shall apply for a COE in accordance with the Bangko Sentral's guidelines for obtaining a COE[1] under the FIST Act. The following transactions shall require a COE:

a. The sale/transfer of NPAs by a BSFI to a FISTC;

b. The dation in payment (dacion en pago) of NPL by a borrower or third party on behalf of the borrower to a BSFI; and

[1] Issued under Memorandum No. M-2021-034 dated 4 June 2021 [*Guidelines for Obtaining a Certificate of Eligibility (COE) under Republic Act (R.A.) No. 11523, otherwise known as the Financial Institutions Strategic Transfer (FIST) Act*].

c. The sale/transfer of NPL (secured by a real estate mortgage on a residential unit or an empty lot) or ROPA (single family residential unit or an empty lot) by a BSFI to an individual: *Provided,* That an individual is limited to only one acquisition of NPA (either NPL or ROPA).

Notice, Manner and Nature of Sale/Transfer of NPAs

The following provisions on notice, manner and nature sale/transfer of NPAs under Sections 12 and 13 of the FIST Act and Rules 12 and 13 of the IRR shall apply:

a. ***Prior Notice.*** No transfer of NPLs to a FISTC/individual shall take effect unless the BSFI concerned gives prior notice to the borrowers of the NPLs and all persons actually or constructively known to the BSFI to be holding prior encumbrances upon the assets mortgaged or subject to security interest. The BSFI's notification to the borrower shall include a breakdown of his/her loan and related credit obligations that shall be the subject of the sale/transfer. Such notice shall be in writing and made in accordance with the 2019 Revised Rules of Civil Procedure, including Rule 13. Sections 5-15 and 17 on the modes and proof of service, and Rule 14, Section 12 on the service upon domestic private juridical entity. The borrower shall be given a period of at most thirty (30) calendar days upon receipt of notice from the BSFI to restructure or renegotiate the loan under such terms and conditions as may be agreed upon by the borrower and the BSFI concerned.

b. ***Sale/Transfer of Assets***

A selling BSFI shall provide prospective bidders, including individuals and FISTCs, with a data package as defined under this Section (*Definition of Terms*). At a minimum, the data package shall include the documents prescribed under Rule 5.1.j of the IRR and the following documents, if available:

(1) For NPLs:

(a) Promissory Note/Pawn ticket;
(b) Restructuring Agreement, debt settlement agreement and other loan agreements of similar nature; and
(c) Chattel Mortgage and Security Agreement, third-party financial guarantee or surety arrangement.

(2) For ROPA:

(a) Proof of property's ownership, e.g., Transfer Certificate of Title (TCT), with registered real estate mortgage (REM), tax declaration for unregistered land, Certificate of Stocks or other certificate/proof of participation in securities, Official Receipt/Certificate of Registration for motor vehicle;

(b) Certificate of Sale (COS) for Extra-judicial foreclosure/Notarized Deed of Dacion in case of dation in payment/judgment in case of judicial foreclosure for real estate ROPA with unconsolidated land title; and

(c) Latest Real Estate Tax Receipt.

(3) For SCRs:

(a) Notarized Sales Contract;

(b) Proof of property's ownership, e.g., TCT, with REM, tax declaration for unregistered land, Certificate of Stocks or other certificate/proof of participation in securities, Official Receipt/Certificate of Registration for motor vehicle;

(c) COS for Extra-judicial foreclosure/Notarized Deed of Dacion in case of dation in payment/judgment in case of judicial foreclosure for real estate ROPA with unconsolidated land title; and

(d) Latest Real Estate Tax Receipt.

All sales or transfers of NPAs by a BSFI shall meet the definition of a true sale under this Section (*Definition of Terms*) and shall be made in accordance with the provisions of Section 13 of the FIST Act and Rule 13 of the IRR. Sales/Transfers of NPAs shall be in the nature of a "true sale" after proper notice in accordance with the procedure provided under this Section (*Notice, Manner and Nature of Sale/Transfer of NPAs*), without need for the borrower's consent: *Provided,* That in the Transfer of the NPLs, the provisions on the right of the debtor to reimburse the assignee or transferee under Article 1634 of the New Civil Code shall not apply: *Provided, further,* That after the sale, the FISTC/individual shall assume all legally transferrable rights and obligations of the transferring BSFI.

The Bangko Sentral shall not issue the COE to a BSFI in case of its non-compliance with the FIST Act, its IRR, and this Section, including, but not limited to, the following: (1) the asset subject of the sale/transfer transaction does not meet the definition of an NPA under this Section (*Definition of Terms*), or (2) the sale/transfer transaction (i) does not meet the definition of a "true sale", (ii) falls under the transactions not considered "true sale" under *Appendix Q-93,* or (iii) is presumed to be not a "true sale" transaction under the same Appendix, based on documents submitted/presented relative to its COE application, without prejudice to the submission by the BSFI of a new application/request with complete requirements and accurate documents.

Moreover, the Bangko Sentral reserves its authority to pass upon the "true sale" nature of the sale/transfer even after the issuance of the COE, and revoke a COE already issued upon finding of any violation of the "true sale" nature of the transaction.

The guidelines in determining whether the sale/transfer satisfies the requirements of a "true sale" is in *Appendix Q-93.*

c. ***Subsequent notice.***

Within fifteen (15) business days after the execution of the NPL's sale or transfer documents, the transferring BSFI shall inform the borrower, in writing sent to the latter's last known address or email address, of the fact of the sale or transfer of the NPLs. Non-compliance with the post-notification requirement shall not invalidate the sale or transfer of NPLs but shall subject the erring BSFI to appropriate sanctions and penalties under the FIST Act and its IRR, as well as other pertinent laws, rules, and regulations.

d. ***Subsequent transfers.***

The re-acquisition of the NPA by the borrower or owner from the FISTC, individual, or subsequent transferee other than by the exercise of the right of redemption as provided for in Section 20 of the FIST Act and Rule 20 of the IRR shall be in accordance with the terms and conditions as may be agreed upon by them.

Investment Transactions of a BSFI.

A BSFI may subscribe to, acquire or hold Investment Unit Instruments (IUIs) issued by a FISTC in accordance with Section 11 of the FIST Act, Rule 11 of the IRR, and other applicable Bangko Sentral rules and regulations: *Provided,* That a transferor-BSFI cannot acquire the IUIs of the transferee-FISTC: *Provided, further,* That the parent, subsidiaries, affiliates or stockholders, directors, officers, or any related interest of the selling BSFI or the parent's subsidiaries, affiliates or stockholders, directors, officers, or any related interest shall not acquire or hold, directly or indirectly, the IUIs of the FISTC that acquired the NPAs of the BSFI.

The definition of the parties mentioned under this Sections (*Investment Transactions of a BSFI*) is in *Appendix Q-94.*

A BSFI may acquire or hold IUIs issued by a FISTC in the minimum amount of ₱10 million. A BSFI may also subscribe to, acquire, or hold shares and other securities that are not considered as IUIs and are issued by a FISTC, subject to the provisions of the FIST Act, its IRR and other applicable Bangko Sentral regulations.

A bank's equity investment in a FISTC shall be considered an investment in a non-financial allied undertaking and shall be subject to the provisions of Sec. 375 and the prudential limits and restrictions under Sec. 378 of the MORB.

Prudential Relief Measures on the Sale/Transfer of NPAs

BSFIs may avail of the prudential relief measures that shall be granted by the Bangko Sentral in relation to their NPA sale/transfer transactions.

Limitations on Amount Available for Dividends

BSFIs may carry-over any loss incurred as a result of the transfer of an NPA within a period of not more than two-years from the date of effectivity of the FIST Act (i.e., on 18 February 2021) for a period of five (5) consecutive taxable years immediately following the year of the transfer that resulted to such loss: *Provided,* That the loss meets the requirements under Section 17 of the FIST Act and Rule 17.1 of the IRR: *Provided, further,* That the tax savings derived by a BSFI from this net operating loss carry-over shall not be made available for dividend declaration under Sec. 123-Q but shall be retained as a form of capital build-up pursuant to Section 17 of the FIST Act and Rule 17.2 of the IRR.

Prudential Report

BSFIs that avail of the tax exemptions and incentives/privileges under the FIST Act shall submit a Monthly Report on the Sale/Transfer and Investment Transactions of BSFIs under the FIST Act to the Bangko Sentral. The report shall be considered a Category B report and shall be submitted within twenty (20) banking/business days after end of reference month. The submission of the aforementioned report shall be subject to the guidelines provided under Sec. 172-Q.

Penalties and Administrative Sanctions

A BSFI and/or its concerned directors, officers, and employees who violate any provision of the FIST Act, its IRR, and this Section, or who, in a notice or certification, makes any untruthful statement of a material fact or omits to state a material fact, or who violate the required "true sale" nature of the sale/transfer of NPAs shall be penalized pursuant to Sections 18 and 24 of the FIST Act, Rules 18 and 24 of the IRR; Section 37 of R.A. No. 7653, or "The New Central Bank Act", as amended, and other applicable laws, without prejudice to the enforcement actions that may be deployed by the Bangko Sentral consistent with Sec. 002-Q (*Supervisory enforcement policy*).

(Circular No. 1117 dated 27 May 2021)

PART FOUR

TRUST, OTHER FIDUCIARY BUSINESS AND INVESTMENT MANAGEMENT ACTIVITIES

A. STATEMENT OF PRINCIPLES AND SCOPE

401-Q STATEMENT OF PRINCIPLES

The cardinal principle common to all trust and other fiduciary relationships is fidelity. Policies predicated upon this principle shall be directed towards observance of the following:

a. *Prudent Administration.* The trust, investment management and other fiduciary accounts shall be administered in conformity with the intention and purpose of the client as manifested in the terms of the agreement, and with the skill, care, prudence and diligence necessary under the circumstance then prevailing that a prudent man acting in like capacity and familiar with such matters would exercise in the conduct of an enterprise of like character and with similar aims.

b. *Undivided loyalty and utmost care.* In the discharge of fiduciary responsibility, the interests of clients shall be placed above those of the trust entity other than stand- alone trust corporation. Clear policies and procedures shall be developed in dealing with conflict of interest situations. The fiduciary assets shall be objectively and fairly administered, invested and distributed giving due regard to the beneficiaries' respective interests.

c. *Non-delegation of responsibilities.* The administration of the trust, investment management, or fiduciary responsibilities or the performance of acts that should be personally performed shall not be delegated as the client's confidence is reposed on the trust entity (TE).

d. *Preserving and protecting property.* Reasonable care and diligence shall be observed to preserve and protect the property entrusted. Fiduciary assets shall be kept legally separate and distinct from proprietary assets and from one (1) fiduciary/trust/investment management account (IMA) to another.

e. *Keeping and rendering accounts.* A true and accurate account or record of transactions entered into shall be kept. Reports on the trust, investment management and other fiduciary accounts shall be rendered to the trustor, principal, beneficiary, or other party in interest, or the court concerned, or any party duly designated by a court order, as the case may be, in accordance with Sec. 435-Q. Likewise, all material facts within the knowledge or reasonably discoverable by the TE, particularly information that would enable clients to make well-informed decisions, shall be promptly transmitted/relayed to clients for them to protect their interests.

Furthermore, practices shall be carried out in accordance with the basic standards *(Appendix Q-49)* and Risk Management Guidelines *(Appendix Q-50)* for trust, other fiduciary and investment management accounts.

An institution incorporated or authorized to engage in trust and fiduciary business is under no obligation, either legal or moral, to accept any such business being offered nor has it the right to accept if the same is contrary to law, rules, regulations, public order and public policy. It shall advertise its services in a dignified manner and enter such business only when demand for such service is evident, when specially equipped to render such service and upon full appreciation of the responsibilities involved. It shall be ready and willing to give full disclosure of the services being offered and shall conduct its dealing with transparency. Harmonious relationship shall likewise be pursued with other professions to achieve the common goal of mutual service to the public and protection of its interest.

402-Q SCOPE OF REGULATIONS

These regulations shall govern the grant of authority to and the management, administration and conduct of *trust, other fiduciary business and investment management activities* (as these terms are defined in Sec. 403-Q) (e.g., investment houses (IHs) and trust corporations) allowed by law to perform such operations.

The regulations are divided into three (3) Sub-Parts where:

a. *Trust and Other Fiduciary Business* shall apply to institutions authorized to engage in trust and other fiduciary business including investment management activities;
b. *Investment Management Activities* shall apply to institutions without trust authority but engaged in investment management activities; and
c. *General Provisions* shall apply to both.

403-Q DEFINITIONS

For purposes of regulating the operations of trust and other fiduciary business and investment management activities, unless the context clearly connotes otherwise, the following shall have the meaning indicated.

a. *Trust entity (TE)* shall refer to a: (1) QB/NBFI through its specifically designated business unit to perform trust functions; or (2) trust corporation, authorized by the Bangko Sentral to engage in trust and other fiduciary business under Section 79 of R.A. No. 8791 (The General Banking Law of 2000) or to perform investment management services under Section 53 of R.A. No. 8791.

b. *Trust business* shall refer to any activity resulting from a trustor-trustee relationship (trusteeship) involving the appointment of a trustee by a trustor for the administration, holding, management of funds and/or properties of the trustor by the trustee for the use, benefit or advantage of the trustor or of others called beneficiaries.

c. *Other fiduciary business* shall refer to any activity of trust-licensed institutions resulting from a contract or agreement whereby the institution binds itself to render services or to act in a representative capacity such as in an agency, guardianship, administratorship of wills, properties and estates, executorship, receivership and other similar services which do not create or result in a trusteeship. It shall exclude collecting or paying agency arrangements and similar fiduciary services which are inherent in the use of the facilities of the other operating departments of such institution. Investment management activities, which are considered as among other fiduciary business, shall be separately defined in the succeeding item to highlight its being a major source of fiduciary business.

d. *Investment management* activity shall refer to any activity resulting from a contract or agreement primarily for financial return whereby the institution (the investment manager) binds itself to handle or manage investible funds or any investment portfolio in a representative capacity as financial or managing agent, adviser, consultant or administrator of financial or investment management, advisory, consultancy or any similar arrangement which does not create or result in a trusteeship.

e. *Trust* is a relationship or an arrangement whereby a person called a trustee is appointed by a person called a trustor to administer, hold and manage funds and/or property of the trustor for the benefit of a beneficiary.

f. *Trust agreement* is an instrument in writing covering the terms and conditions of the trust.

g. *Trustee* is any person who holds legal title to the funds and/or property of a trust.

h. *Trustor* is any person who creates a trust.

i. *Beneficiary* is any person for whose benefit a trust is created.

j. *Fiduciary* shall refer to any person or entity engaged in any of the other fiduciary business as herein defined where no trustor- trustee relation exists.

k. *Agency* shall refer to a contract whereby a person binds himself to render some service or to do something in representation or on behalf of another, with the consent or authority of the latter.

l. *Principal* shall refer to the person who grants authority to another person called an agent, under a contract to enter into transactions in his behalf.

m. *Agent* shall refer to a person who acts in representation or on behalf of another person with the latter's authority.

n. *Trust Department* shall refer to the department, office, unit, group, division or any aggrupation which carries out the trust and other fiduciary business of an institution.

o. *Trust Officer* shall refer to the designated head or officer-in-charge of the trust department.

p. *Trust account* shall refer to an account where transactions arising from a trusteeship are kept and recorded.

q. *Fiduciary account* shall refer to an account where transactions arising from any of the other fiduciary businesses are kept and recorded.

r. *Investment Manager* shall refer to any person or entity engaged in investment management activities as herein defined.

s. *Investment Management Department* shall refer to the department, unit, group, division or any aggrupation which carries out the investment management activities of an institution that does not have an authority to engage in trust and other fiduciary business.

t. *Investment Management Officer* shall refer to the designated head or officer-in- charge of the investment management department of an institution which does not have the authority to engage in trust and other fiduciary business.

u. *Investment management account* shall refer to an account where transactions arising from investment management activities are kept and recorded.

v. *Personal Management Trust* shall refer to a living trust[1] created by an agreement whereby the trustor conveys property or a sum of money to be managed by the trustee, as the agreement dictates, generally for the preservation of the assets or property for future use of the beneficiaries and/or to answer for their current needs. The trustor may or may not nominate third-party beneficiary/ies. The trust agreement must specify the name/s of the beneficiary/ies.

w. *Unit Investment Trust Funds (UITFs)* shall refer to an open-ended pooled trust funds denominated in pesos or any acceptable currency, which are operated and administered by a trust entity and made available by participation. As an open-ended fund, participation or redemption is allowed as often as stated in its plan rules.

UITFs shall not include long term funds designed for the primary purpose of availing the tax incentives/exemption under Section 24(B)(1) of R.A. No. 8424 (The Tax Reform Act of 1997).

x. *Board of directors*, for UITFs purpose, shall include a trust entity's duly constituted board of directors or its functional oversight equivalent which shall include the country head in the case of foreign institutions.

y. *Collective investment scheme* shall refer to an investment vehicle where funds are solicited from investors for collective investment and which are managed for the account of such investors.

z. *Feeder fund* shall refer to a UITF structure that mandates the fund to invest at least ninety percent (90%) of its assets in a single collective investment scheme.

aa. *Fund-of-funds* shall refer to a UITF structure that mandates the fund to invest at least ninety percent (90%) of its assets in more than one (1) collective investment scheme.

bb. *Target fund* shall refer to a local or foreign collective investment scheme in which the UITF invests all or a portion of its assets.

cc. *Investor fund* shall refer to a UITF created to take the form of a feeder fund or a fund- of-funds and is approved by the Bangko Sentral under existing Bangko Sentral regulations.

dd. *Multi-class fund* shall refer to a UITF structure which has more than one (1) class of units in the fund and is invested in the same pool of securities and the same portfolio, investment objectives and policies.

ee. *Related party/company,* for UITFs purpose, shall refer to another entity which is the trust entity's (1) parent or holding company or (2) subsidiary or affiliate, and wholly or majority-owned or controlled-entities of such subsidiaries.

B. TRUST AND OTHER FIDUCIARY BUSINESS

411-Q AUTHORITY TO PERFORM TRUST AND OTHER FIDUCIARY BUSINESS

With prior approval of the Monetary Board, trust corporations and IHs may engage in trust and other fiduciary business under Chapter IX of R.A. No. 8791, as amended and Section 7 of P.D. No. 129, as amended.

Entities whose articles of incorporation[2] or any amendments thereto, include the purpose or power to engage in trust and other fiduciary business, shall secure the prior favorable recommendation of the Monetary Board pursuant to Section 17 of the Corporation Code.

If an entity is found to be engaged in unauthorized trust and other fiduciary business and/or investment management activities, whether as its primary, secondary or incidental business, the Monetary Board may impose administrative sanctions against such entity or its principal officers and/or majority stockholders or proceed against them in accordance with law.

The Monetary Board may take such action as it may deem proper such as, but may not be limited to, requiring the transfer or turnover of any trust and other fiduciary and/or IMA to duly incorporated and licensed entities of the choice of the trustor, beneficiary or client, as the case may be.

[1] Being a living trust, PMT becomes operational during the lifetime of the trustor as soon as the agreement is accomplished.
[2] SEC Memorandum Circular No. 14 dated 8 December 2017, as amended by Circular No. 9 dated 18 July 2018.

No entity shall advertise or represent itself as being engaged in trust and other fiduciary business or in investment management activities or represent itself as trustee or investment manager or use words of similar import and/or use in connection with its business title, the words *trust, trust corporation, trust company, trust plan* or words of similar import, without having obtained the required authority to do so.

Starting year 2001, IHs authorized to engage in trust and other fiduciary business shall renew their existing licenses yearly, subject to the implementing guidelines to be issued thereon.

Application for Authority to Perform Trust and Other Fiduciary Business. An institution may engage in trust and other fiduciary business subject to approval of the Monetary Board and compliance with the applicable prudential criteria provided under Sec. 111-Q. Entities applying for authority to engage in trust and other fiduciary business shall submit the following documents to the appropriate supervising department of the Bangko Sentral:

a. Application letter signed by the president or officer of equivalent rank with justifications on how the license is aligned with the institution's business model and strategic direction;

b. Corporate secretary's certificate on the approval of the board of directors to engage in trust and other fiduciary business; and

c. Certification signed by the president or officer of equivalent rank and the chief compliance officer certifying that the institution has complied with the: (i) applicable prudential criteria prescribed under Sec. 111-Q; and (ii) other pertinent laws, rules and regulations on trust and other fiduciary business.

Licensing fees. Applicable licensing fee provided under Sec. 111-Q (*Processing and licensing fees*) shall be immediately charged upon approval of the institution's application for the authority to perform trust and other fiduciary business.

Prerequisites for engaging in trust and other fiduciary business. An institution, applying for authority to engage in trust and other fiduciary business, shall submit the following requirements to the appropriate supervising department of the Bangko Sentral:

a. The applicant has combined capital accounts of not less than P300 million or such amount as may be required by the Monetary Board or other regulatory agency. For this purpose, *combined capital accounts* shall have the same meaning as in Sec. 121-Q;

b. The applicant has been duly licensed or incorporated as an FI by the appropriate government agency or created by special law or charter;

c. The articles of incorporation or charter of the institution shall include among its powers or purposes, acting as trustee or administering any trust or holding property in trust or on deposit for the use, or in behalf of others;

d. The by-laws of the institution shall include, among other things, provisions on the following:

   (1) The organization plan or structure of the department, office, or unit which shall conduct the trust and other fiduciary business;
   (2) The creation of a trust committee, the appointment of a trust officer and subordinate officers of the trust department; and
   (3) A clear definition of the duties and responsibilities as well as the line and staff functional relationships of the various units, officers and staff within the organization.

e. Where the applicant is not authorized to engage in quasi-banking functions, it shall meet the following additional requirements:

   (1) The adoption of a formula or criteria for QBs in the determination of compliance with the capital-to-risk assets ratio and ceilings on loans to DOSRI; and
   (2) The substitution of the reserve requirements with the cash ratio, as follows:

      (a) Primary reserves to Bills Payable; and

      (b) Primary and secondary reserves to Bills Payable; where primary reserves consist of cash on hand, cash in vault, COCIs, due from the Bangko Sentral and due from banks; and where secondary reserves consist of Bangko Sentral supported government securities, T-Bills and other government securities.

Pre-operating requirements. An institution authorized to engage in trust and other fiduciary business shall comply with the following, before engaging in actual operations:

a. Deposit with the Bangko Sentral eligible government securities amounting to P500,000 as minimum basic security deposit for the faithful performance of trust and other fiduciary duties required under Sec. 416-Q (*Basic security deposit*); and

b. Completion of the following activities and retention of corresponding supporting documents:

(1) Establishment of the trust department, development of policies and procedures related to the trust business, risk management system and internal controls, and delineation of duties and responsibilities of the different units in the trust department; and

(2) Establishment of personnel and management positions for trust operations and defining the corresponding qualification requirements and duties and responsibilities. Records of profiles of individuals holding the positions shall be maintained.

The guidelines on the issuance of the Certificate of Authority to register with the SEC and to operate trust and other fiduciary business are provided under Sec. 102-Q (*Issuance of Bangko Sentral Certificate of Authority*).

(Circular No. 1031 dated 07 February 2020)

412-Q ORGANIZATION AND MANAGEMENT

Organization. An institution authorized to engage in trust and other fiduciary business shall, pursuant to Sec. 411-Q, include in its by-laws, provisions on the organization plan or structure of the department, office or unit which shall conduct such business. The by-laws shall also include provisions on the creation of a trust committee, the appointment of a trust officer and other subordinate officers and a clear definition of their duties and responsibilities as well as their line and staff functional relationships within the organization which shall be in accordance with the following guidelines:

a. Trust and other fiduciary business of an institution shall be carried out through a trust department which shall be organizationally, operationally, administratively and functionally separate and distinct from the other departments and/or businesses of the institution.

An institution which is also engaged in investment management activities shall conduct the same only through its trust department and the responsibilities of the board of directors, trust committee and trust officer shall be construed to include the proper administration and management of investment management activities.

No institution shall undertake any of the trust and other fiduciary business and, whenever applicable, investment management activities outside the direct control, authority and management of the trust department or through any department or office which is involved in the other businesses of the institution, such as the Treasury, Funds Management or any similar department; otherwise, any such business shall be considered part of the institution's real liabilities.

The institution proper and the trust department may share the following activities: (1) electronic data processing; (2) credit investigation; (3) collateral appraisal; and (4) messengerial, janitorial and security services.

b. The trust department, trust officer and other subordinate officers of the trust department shall only be directly responsible to the institution's trust committee which shall, in turn, be only directly responsible to the institution's board of directors.

No director, officer or employee taking part in the management of trust and other fiduciary accounts shall perform duties in other departments or the audit committee of the institution and vice versa. However, branch managers duly authorized by the board of directors may, for or on behalf of the trust officer, sign pre-drawn trust instruments such as UITFs.

c. The organization structure and definition of duties and responsibilities of the trust committee, officers and employees of the trust department shall reflect adherence to the minimum internal control standards prescribed by the Bangko Sentral.

d. Provisions shall be made by the institution to have legal assistance readily available in the review of proposed and/or existing trust and fiduciary agreements and documents and in the handling of legal and tax matters related thereto.

Composition of trust committee. The Trust Committee (TC) shall be composed of at least five (5) members including the (1) president or any senior officer of the NBFI and (2) the trust officer. The remaining committee members, including the chairperson, may be any of the following: (1) non-executive directors[1] or independent directors[2] who are both not part of the audit committee; or (2) those considered as qualified *"independent professionals": Provided,* That the Philippine branch of a foreign bank may appoint its resident manager or chief executive officer in lieu of the president while the positions allotted for members of the board may be filled up by the area manager and/or officers/representatives from the Head Office, or affiliates or subsidiaries of the head office who are not involved in audit-related activities: *Provided, further,* That in case of more than five (5) trust committee membership, majority shall be composed of qualified non-executive members.

A qualified *"independent professional"* shall refer to a person who –

a. is not a director/officer/employee of the NBFI during the last twelve (12) months counted from the date of committee membership;

b. is not a relative within the fourth degree of consanguinity or affinity, legitimate or common-law of any executive director or those involved in the day to day management of institution's operations or officer of the NBFI; and

c. is not engaged or does not engage in any transactions with the NBFI whether by himself or with other persons or through a firm of which he is a partner, other than transactions which are conducted at arm's length and could not materially interfere with or influence the exercise of his judgment.

An independent professional may be appointed as a TC member of other NBFIs that belong to the same financial conglomerate.

For purposes of this Section (*Composition of trust committee)*, the definition of officer under Item "k" of Sec. 131-Q (*Definition of Terms*) shall apply.

***Qualifications of committee members, officers and staff*.** The trust entity shall be staffed by persons of competence, integrity and honesty. Directors, committee members and officers charged with the administration of trust and other fiduciary activities shall, in addition to meeting the qualification standards prescribed for directors and officers of NBFIs or for qualified "independent professionals", possess the necessary technical expertise and relevant experience in such business which may be indicated by any of the following:

a. at least one (1) year of actual experience in trust, other fiduciary business, or investment management activities;
b. at least three (3) years of professional experience in relevant field such as banking, finance, economics, law, and risk management;
c. completion of at least ninety (90) training hours on trust, other fiduciary business, or investment management activities acceptable to the Bangko Sentral; or
d. completion of a relevant global or local professional certification program.

A TC member should be familiar with Philippine laws, rules and regulations on trust business, as well as uphold at all times ethical and good governance standards.

The trust officer who shall be appointed shall possess any of the following:

a. at least five (5) years of actual experience in trust operations;
b. at least three (3) years of actual experience in trust operations and must have:

    (1) completed at least ninety (90) training hours in trust, other fiduciary business, or investment management activities acceptable to the Bangko Sentral; or
    (2) completed a relevant global or local professional certification program; or

c. at least five (5) years of actual experience as an officer of a NBFI and must have:

    (1) completed at least ninety (90) training hours in trust, other fiduciary business, or investment management activities acceptable to the Bangko Sentral; or
    (2) completed a relevant global or local professional certification program.

For the purpose of this Section (*Qualifications of committee members, officers and staff)*, *actual experience* refers to exposures in trust operations either as officer of a trust entity or member of trust committee.

[1] As defined under item *"(i)"* of Sec. 131-Q
[2] As defined under item *"(g)"* of Sec. 131-Q

Responsibilities of administration.

a. Board of directors

The responsibilities of the board of directors in relation to trust activities of NBFI shall be those set forth under Sec. 132-Q (*Specific duties and responsibilities of the board of directors*). The Board of Directors shall ensure an appropriate degree of independence between the activities of the NBFI proper and its trust department.

b. Trust Committee (TC)

The TC is a special committee which reports directly to the board of directors and is primarily responsible for overseeing the fiduciary activities of the NBFI. In discharging its function, it shall:

(1) ensure that fiduciary activities are conducted in accordance with applicable laws, rules and regulations, and prudent practices;
(2) ensure that policies and procedures that translate the board's objectives and risk tolerance into prudent operating standards are in place and continue to be relevant, comprehensive and effective;
(3) oversee the implementation of the risk management framework and ensure that internal controls are in place relative to the fiduciary activities;
(4) adopt an appropriate organizational structure/staffing pattern and operating budgets that shall enable the trust department to effectively carry out its functions;
(5) oversee and evaluate performance of the trust officer;
(6) conduct regular meetings at least once every quarter, or more frequently as necessary, depending on the size and complexity of the fiduciary business; and
(7) report regularly to the board of directors on matters arising from fiduciary activities.

c. Trust Officer

The management of day-to-day fiduciary activities shall be vested in the trust officer. In this regard, the trust officer shall:

(1) ensure adherence to the basic standards in the administration of trust, other fiduciary and investment management accounts pursuant to *Appendix Q-49;*
(2) develop and implement relevant policies and procedures on fiduciary activities;
(3) observe sound risk management practices and maintain necessary controls to protect assets under custody and held in trust or other fiduciary capacity;
(4) carry out investment and other fiduciary activities in accordance with agreements with clients and parameters set by the TC as approved by the board of directors;
(5) report regularly to the TC on business performance and other matters requiring its attention;
(6) maintain adequate books, records and files for each trust or other fiduciary account and provide timely and regular disclosure to clients on the status of their accounts; and
(7) submit periodic reports to regulatory agencies on the conduct of the trust operations.

Outsourcing services in trust departments. The rules on outsourcing of banking functions as shown in Sec. 112 (*Statement of Principle on Outsourcing*) of the MORB and *Appendix Q-36* shall be adopted insofar as they are applicable to trust departments of QBs performing trust and other fiduciary business and investment management activities.

***Confirmation of the appointment/designation of trust officer and independent professional*.** An independent professional and trust officer must be fit and proper to discharge their respective functions. In determining whether a person is fit and proper for the position, regard shall be given to the following: Integrity/probity, physical/mental fitness, competence, relevant education/financial literacy/training, diligence and knowledge/experience.

The appointment or designation of independent professional and trust officer shall be subject to confirmation by the Monetary Board. The bio-data of the proposed independent professional and trust officer shall be submitted to the Bangko Sentral, in a prescribed form indicated in *Appendix Q-3,* within seven (7) banking days from approval of the board of directors. Moreover, the independent professional shall certify that he/she possesses the qualifications as herein prescribed and that all the information thereby supplied are true and correct.

If after evaluation, the Monetary Board shall find grounds for disqualification, the concerned NBFI shall be informed thereof and the independent professional and trust officer so appointed or delegated shall be removed from office even if he/she has assumed the position to which he/she was appointed or delegated.

(Circular Nos. 1031 dated 07 February 2020 and 970 dated 22 August 2017)

413-Q TRUST AND OTHER FIDUCIARY BUSINESS

The conduct of trust and other fiduciary business shall be subject to the following regulations.

Minimum documentary requirements. Each trust or fiduciary account shall be covered by a written document establishing such account, as follows:

a. In the case of accounts created by an order of the court or other competent authority, the written order of said court or authority.

b. In the case of accounts created by corporations, business firms, organizations or institutions, the voluntary written agreement or indenture entered into by the parties, accompanied by a copy of the board resolution or other evidence authorizing the establishment of, and designating the signatories to, the trust or other fiduciary account.

c. In the case of accounts created by individuals, the voluntary written agreement or indenture entered into by the parties.

The voluntary written agreement or indenture shall include the following minimum provisions:

(1) Title or nature of contractual agreement in noticeable print;
(2) Legal capacities, in noticeable print, of parties sought to be covered;
(3) Purposes and objectives;
(4) Funds and/or properties subject of the arrangement;
(5) Distribution of the funds and/or properties;
(6) Duties and powers of trustee or fiduciary;
(7) Liabilities of the trustee or fiduciary;
(8) Reports to the client;
(9) Termination of contractual arrangement and, in appropriate cases, provision for successor-trustee or fiduciary;
(10) The amount or rate of the compensation of trustee or fiduciary;
(11) A statement in noticeable print to the effect that trust and other fiduciary business are not covered by the PDIC and that losses, if any, shall be for the account of the client; and
(12) Disclosure requirements for transactions requiring prior authority and/or specific written investment directive from the client, court of competent jurisdiction or other competent authority.

Lending and investment disposition. Assets received in trust or in other fiduciary capacity shall be administered in accordance with the terms of the instrument creating the trust or other fiduciary relationship.

When a trustee or fiduciary is granted discretionary powers in the investment disposition of trust or other fiduciary funds and unless otherwise specifically enumerated in the agreement or indenture and directed in writing by the client, court of competent jurisdiction or other competent authority, loans and investments of the fund shall be limited to:

a. Traditional deposit products of UBs and KBs in the Philippines with long-term credit rating of at least AA- or its equivalent by a third party credit assessment agency recognized by the Bangko Sentral;

b. Evidences of indebtedness of the Republic of the Philippines and of the Bangko Sentral, and any other evidences of indebtedness or obligations where the servicing and repayment of which are fully guaranteed by the Republic of the Philippines or loans against such government securities;

c. Loans fully guaranteed by the Republic of the Philippines as to the payment of principal and interest;

d. Tradable securities issued by the government of a foreign country or any supranational entity with long-term credit rating of at least AA- or its equivalent by a third party credit assessment agency recognized by the Bangko Sentral;

e. Loans fully secured by a hold-out on, assignment or pledge of deposits maintained either with the bank proper or other banks, or of deposit substitutes of the institution, or of mortgage and chattel mortgage bonds issued by the trustee or fiduciary;

f. Loans fully secured by real estate or chattels in accordance with Secs. 302-Q, 143-Q (*Credit granting and loan evaluation/analysis process and underwriting standards)* and 301-Q (*Additional requirements*);

The specific directives required under this Section (*Lending and investment disposition)* shall consist of the following information:

(1) The transaction to be entered into;
(2) Name of the issuer or borrower;
(3) Amount involved; and
(4) Terms of the security, including collateral, if any.

Trust Entities with composite rating of at least "3" under the Revised Trust Rating System in the latest Bangko Sentral examination will not be subject to the investment limitations provided under this Section (*Lending and investment disposition)*.

Transactions requiring prior authority. A trustee or fiduciary shall not undertake any of the following transactions for the account of a client, unless prior to its execution, such transaction has been fully disclosed and specifically authorized in writing by the client, beneficiary, other party-in-interest, court of competent jurisdiction or other competent authority:

a. Lend, sell, transfer or assign money or property to any of the departments, directors, officers, stockholders or employees of the trustee or fiduciary, or relatives within the first degree of consanguinity or affinity, or the related interests of such directors, officers and stockholders; or to any corporation where the trustee or fiduciary owns at least fifty percent (50%) of the subscribed capital or voting stock in its own right and not as trustee nor in a representative capacity;

b. Purchase or acquire property or debt instruments from any of the departments, directors, officers, stockholders, or employees of the trustee or fiduciary, or relatives within the first degree of consanguinity or affinity, or the related interest of such directors, officers and stockholders; or from any corporation where the trustee or fiduciary owns at least fifty percent (50%) of the subscribed capital or voting stock in its own right and not as trustee nor in a representative capacity;

c. Invest in equities of, or in securities underwritten by, the trustee or fiduciary or a corporation in which the trustee or fiduciary owns at least fifty percent (50%) of the subscribed capital or voting stock in its own right and not as trustee nor in a representative capacity; and

d. Sell, transfer, assign, or lend money or property from one trust or fiduciary account to another trust or fiduciary account except where the investment is in any of those enumerated in Items *"a"* to "d" of this Section (*Lending and investment disposition)*.

Directors, officers, stockholders, and their related interest covered by this Section shall be those considered as such under existing regulations on loans to DOSRI in Part III-E of this Manual. The procedural and reportorial requirements in said regulations shall also apply.

The disclosure required under this Section shall consist of the following minimum information:

a. The transactions to be entered into;
b. Identities of the parties involved in the transactions and their relationships (shall not apply to Item *"d"* of this Section (*Transactions requiring prior authority*);
c. Amount involved; and
d. Collateral security(ies), if any.

The above information shall be made known to clients in a separate instrument or in the very instrument creating the trust or fiduciary relationship.

Ceilings on loans. Loans funded by trust accounts shall be subject to the single borrower's loan limit and DOSRI ceilings imposed on QBs under Part III - D and - C of this Manual. For purposes of determining compliance with said ceilings, the total amount of said loans granted by the institution and its trust department to the same person, firm or corporation shall be combined.

Funds awaiting investment or distribution. Funds held by the trustee or fiduciary awaiting investment or distribution shall not be held uninvested or undistributed any longer than is reasonable for the proper management of the account.

Other applicable regulations on loans and investments - trust and other fiduciary accounts. The loans and investments of trust and other fiduciary accounts shall be subject to pertinent laws, rules and regulations for QBs that shall include, but need not be limited to, the following:

a. Requirements of Sections 39 and 40 of R.A. No. 8791 (The General Banking Law of 2000);

b. Criteria for past due accounts;

c. Qualitative appraisal of loans, investments and other assets that may require provisions for probable losses which shall be booked in accordance with the Financial Reporting Package for Trust Institutions (FRPTI);

d. Requirements of Sections 3 and 8 of the Securities and Regulation Code (SRC); and

e. Provisions of Section 44 – Investments by Philippine residents – of the Bangko Sentral Manual of Regulations on Foreign Exchange Transactions (FX Manual), such that the cross-currency investments of peso trust and other fiduciary accounts, including peso unit UITFs, shall be subject to the following conditions:

(1) All cash flows of the trustee or fiduciary shall only be in pesos. In case the foreign exchange acquired or received by the trustee or fiduciary as dividends/earnings or divestment proceeds on such investment are intended for reinvestment abroad, the same proceeds are not required to be inwardly remitted and sold for pesos through authorized agent banks*: Provided*, That such proceeds are reinvested abroad within two (2) banking days from receipt of the funds abroad;

(2) The trustee or fiduciary shall purchase, invest, reinvest, sell, transfer or dispose foreign currency-denominated financial instruments, including securities as defined in Section 3 of the SRC, through a distributor or underwriter duly authorized or licensed by the government of the issuer of such instruments, or a counterparty FI (seller or buyer) accredited by the trustee or fiduciary: *Provided,* That, the conduct, documentation, and settlement of any of these transactions shall be outside Philippine jurisdiction;

(3) The trustee of fiduciary shall record cross-currency investment transactions in the peso regular books at their foreign currency amounts and their local currency equivalent using the Philippine Dealing System peso/US dollar closing rate and the New York US dollar/third currencies closing rate; and

(4) The trustee or fiduciary shall comply with the reportorial requirements that may be prescribed by the Bangko Sentral, which shall include as a minimum, the foreign currency amount and the local currency equivalent of the total cross currency investments with details on: (a) type of investments; and (b) amount of cash flow converted.

For purposes of this Section (*Other applicable regulations on loans and investments – trust and other fiduciary accounts)*, "resident", as defined under Section 1 of the FX Manual, shall refer to the (a) trustee or fiduciary that administers the assets received in trust or in other fiduciary capacity; or (b) principal that engages the services of the investment manager under an investment management agreement.

Operating and accounting methodology. Trust and other fiduciary accounts shall be operated and accounted for in accordance with the following:

a. The trustee or fiduciary shall administer, hold or manage the fund or property in accordance with the instrument creating the trust or other fiduciary relationship; and
b. Funds or property of each client shall be accounted separately and distinctly from those of other clients herein referred to as *individual account accounting*.

Tax-exempt individual trust accounts. The following shall be the features/requirements of individual trust accounts which may be exempted from the twenty percent (20%) final tax under Section 24(B)(1) of R.A. No. 8424 (The Tax Reform Act of 1997):

a. The trust indenture/agreement shall only be between individuals who are Filipino citizens or resident aliens and QBs acting as trustee. The trust indenture/agreement shall be non-negotiable and non- transferable;

b. The trust indenture/agreement shall indicate that pursuant to Section 24(B)(1) of R.A. No. 8424, interest income of the trust fund derived from investments in interest- bearing instruments (e.g., time deposits, government securities, loans and other debt instruments) which are otherwise subject to the twenty percent (20%) final tax shall be exempt from said final tax provided the fund was held by the trustee-QB for at least five (5) years. If said fund was held for a period less than five (5) years interest income shall be subject to a final tax based on the following schedule –

Holding Period	Rate of Tax
Four (4) years to less than five (5) years	5%
Three (3) years to less than four (4) years	12%
Less than three (3) years	20%

Necessarily, the trust indenture/agreement shall clearly indicate the date when the trustee-bank actually received the trust funds which shall serve as basis for determining the holding period of the funds.

c. A trustee may accept additional funds for inclusion in trust accounts which have been established as tax-exempt under R.A. No. 8424. However, the receipt of additional funds shall be properly documented by indicating that they are part of existing tax-exempt trust accounts and that the interest income of the additional funds derived from investments in interest- bearing instruments shall be exempt from the twenty percent (20%) final tax under the same conditions mentioned in the preceding item. The document shall also indicate the date when the funds were received by the trustee-bank to serve as basis for determining the minimum five (5) - year holding period for tax exemption purposes of the additional funds; and

d. Tax-exempt individual trust accounts established under this Section (*Tax-exempt individual trust accounts)* shall be subject to the provisions of this Section under Item c of *Minimum documentary requirements and Lending and investment disposition up to Operating and accounting methodology.*

Personal management trust. The guidelines on personal management trust (PMT) accounts are as follows:

a. *Minimum criteria*. A PMT account shall meet the following criteria:

(1) Minimum entry amount and maintaining balance shall be equivalent to at least P100,000; *Provided*, That PMT with balances of up to P500,000 shall only be invested in deposits and government securities;

(2) The agreement shall clearly state the specific purpose(s) for which the account was established which shall be consistent with the general objectives of the PMT which is the preservation of the assets or property for the future use of the beneficiaries and/or to answer for their current needs;

The distribution clause shall clearly and specifically define the manner and conditions under which the assets (including income thereof) will be distributed. Any distribution/withdrawal of assets (including income thereof) shall be consistent with the purpose of the PMT, strictly in accordance with the distribution clause, and made only to the designated beneficiary/ies. Consequently, the trustee is expected to obtain adequate documentation to ensure the propriety of distribution/withdrawal of assets (including income thereof).

Pre-printed PMT agreements may be allowed for expediency: *Provided*, That the section for the trust purpose and the distribution clause shall not be pre-printed and shall be filled up only upon signing thereof by the trustor;

(3) The length of PMT's existence should be consistent with the purpose of the trustor. Any termination for causes that are inconsistent with the purpose/distribution clause shall render the trustor ineligible from opening a new PMT within a period of one (1) year from termination date; and

(4) Management of the trust assets shall be aligned with the investment objective/s and risk parameters set forth by the trustor.

PMT accounts that do not meet any of the above criteria shall be considered as other fiduciary accounts subject to applicable reserves.

b. *Marketing*. Officers and personnel of the Bank proper, including Branch Managers, shall not be allowed to market PMT products and sign pre-printed PMT agreements. However, Branch Managers/Officers may refer clients to the Trust Department and give a short introduction on the PMT product to prospective clients.

c. *Reserve Requirement*. The PMT shall be subject to zero-percent (0%) reserve requirement.

Qualification and accreditation of quasi-banks acting as trustee on any mortgage or bond issuance by any municipality, government-owned or controlled corporation, or any body politic.

a. *Applicability*. QBs duly accredited by the Bangko Sentral may act as trustee on any mortgage or bond issued by any municipality, GOCC, or any body politic.

b. *Application for accreditation*. A QB desiring to act as trustee on any mortgage or bond issued by any municipality, GOCC, or any body politic shall file an application for accreditation with the appropriate supervising department of the Bangko Sentral. The application shall be signed by the president or officer of equivalent rank of the QB and shall be accompanied by the following documents:

(1) certified true copy of the resolution of the institution's board of directors authorizing the application; and
(2) a certification signed by the president or officer of equivalent rank that the institution has complied with all the qualification requirements for accreditation.

c. *Qualification requirements*. A QB applying for accreditation to act as trustee on any mortgage or bond issued by any municipality, GOCC, or any body politic must comply with the requirements in *Appendix Q-31*.

d. *Independence of the trustee*. A QB is prohibited from acting as trustee of a mortgage or bond issuance if any elective or appointive official of the LGU, GOCC, or body politic which issued said mortgage or bond and/or his related interests own such number of shares of the QB that will allow him or his related interests to elect at least one (1) member of the board of directors of such QB or is directly or indirectly the registered or beneficial owner of more than ten percent (10%) of any class of its equity security.

e. *Investment and management of the funds.* A domestic QB designated as trustee of a mortgage or bond issuance may hold and manage, in accordance with the provisions of the trust indenture or agreement, the proceeds of the mortgage or bond issuance and such assets and funds of the issuing municipality, corporation, or body politic as may be required to be delivered to the trustee under the Trust indenture/agreement, subject to the following conditions/restrictions:

(1) Pending the utilization of such funds pursuant to the provisions of the trust indenture/agreement, the same shall only be (i) deposited in a bank authorized to accept deposits from the Government or government entities: *Provided*, That the depository bank is not a subsidiary or affiliate of the trustee QB, or (ii) invested in peso-denominated treasury bills acquired/purchased from any securities dealer/entity, other than the trustee or any of its unit/department, its subsidiary or affiliate.

(2) Investments of funds constituting or forming part of the sinking fund created as the primary source for the payment of the principal and interests due the mortgage or bonds shall also be limited to deposits in any bank authorized to accept deposits from the Government or government entities and investments in government securities that are consistent with such purpose which must be acquired/purchased from any securities dealer/entity, other than the trustee or any of its unit/department, its subsidiary or affiliate.

f. *Waiver of confidentiality*. A QB designated as trustee of any mortgage or bond issued by any municipality, GOCC, or any body politic shall submit to the appropriate supervising department of the Bangko Sentral a waiver of the confidentiality of information under Sections 2 and 3 of R.A. No. 1405, as amended, duly executed by the issuer of the mortgage or bond in favor of the Bangko Sentral.

g. *Reportorial requirements*. A QB authorized by the Bangko Sentral to act as trustee of the proceeds of mortgage or bond issuance of a municipality, GOCC, or body politic shall comply with reportorial requirements that may be prescribed by the Bangko Sentral.

h. *Applicability of the rules and regulations on Trust, Other Fiduciary Business and Investment Management Activities*. The provisions of the Rules and Regulations on Trust, Other Fiduciary Business and Investment Management Activities not inconsistent with the provisions of this Section (*Qualification and accreditation of quasi-banks acting as trustee on any mortgage or bond issuance by any municipality, government-owned or controlled corporation, or any body politic)* shall form part of these rules.

i. *Sanctions*. Without prejudice to the penal and administrative sanctions provided for under Sections 36 and 37, respectively, of the R.A. No. 7653, as amended, violation of any provision of this Section (*Qualification and accreditation of quasi-banks acting as trustee on any mortgage or bond issuance by any municipality, government-owned or controlled corporation, or any body politic)* shall be subject to the following sanctions/penalties depending on the gravity of the offense:

(1) *First offense –*

(a) Fine of up to P10,000 a day for the institution for each violation reckoned from the date the violation was committed up to the date it was corrected; and
(b) Reprimand for the directors/officers responsible for the violation.

(2) *Second offense –*

(a) Fine of up to P20,000 a day for the institution for each violation reckoned from the date the violation was committed up to the date it was corrected;
(b) Suspension for ninety (90) days without pay for directors/officers responsible for the violation; and
(c) Revocation of the authority to act as trustees on any mortgage or bond issuance by any municipality, GOCCs, or body politic.

(3) *Subsequent offense –*

(a) Fine of up to P30,000 a day for the institution for each violation reckoned from the date the violation was committed up to the date it was corrected;
(b) Suspension or revocation of the trust license; and
(c) Suspension for 120 days without pay of the directors/officers responsible for the violation

Trust fund of pre-need companies. The following rules and regulations shall govern the acceptance, management and administration of the trust funds of pre-need companies by entities authorized to perform trust and other fiduciary functions.

a. *Administration of trust fund.* In line with the policy of providing greater protection to pre-need planholders, prudential measures are hereby laid out in the administration of trust funds of pre-need companies. The trust fund, inclusive of earnings, shall be administered and managed by the trustee with the skill, care, prudence and diligence necessary under the circumstances then prevailing that a prudent man, acting in the same capacity and familiar with such matters, would exercise in the conduct of an enterprise of a like character and similar aims.

The trustee shall have exclusive management and control over the trust fund and the right at any time to sell, convert, invest, change, transfer or otherwise dispose of the assets comprising the funds.

b. *Trustee.* No trust entity shall act as a trustee or administer or hold a trust fund established by a pre-need company, which is a subsidiary or affiliate, as defined under existing Bangko Sentral regulations, of such trust entity.

Trust entities currently holding or administering trust funds of an affiliate pre-need company may continue to act as trustee of such funds after the transition period provided under Item "g" only upon prior approval of the Monetary Board on the basis of a clear showing that no potential conflict of interest will arise. An absence of any exception or finding on conflicts of interest during an examination of the trust entity shall be deemed as prima facie evidence that no potential conflict of interest will arise.

c. *Investment of the trust fund.* Unless otherwise allowed under existing laws or regulations issued by the agency having jurisdiction and supervision over pre-need companies, or with prior written approval by said agency, loans and investments of the trust funds shall be limited to:

(1) Evidences of indebtedness of the Republic of the Philippines and of the Bangko Sentral, and any other evidences of indebtedness or obligations wherein the servicing and repayment of which are fully guaranteed by the Republic of the Philippines or loans against such government securities;

(2) Commercial papers duly registered with the SEC with a credit rating of one (1) for short term and "AAA" for long-term or their equivalent;

(3) Loans fully guaranteed by the Republic of the Philippines, as to the payment of principal and interest;

(4) Loans fully secured by a hold-out on, assignment or pledge of deposits maintained with banks, and/or of deposit substitutes or of mortgage and chattel mortgage bonds issued by the trustee/fiduciary or by banks;

(5) Loans fully secured by real estate in accordance with Section 37 and subject to the requirements of Sections 39 and 40 of R.A. No. 8791 and their implementing regulations; and

(6) Loans fully secured by unconditional payment guarantees (such as standby letters of credit and letter of indemnity) issued by banks/multilateral FIs.

d. *Transactions with DOSRI.* The trustee shall not, for the account of the trustor or the beneficiary of the trust, purchase or acquire property from, or sell, transfer, assign or lend money or property to, or purchase debt instruments of, any of the departments, directors, officers, stockholders, employees, subsidiaries and affiliates of the trustee and/or the trustor, and relatives within the first degree of consanguinity or affinity, or the related interests, of such directors, officers and stockholders, without prejudice to any rule that may be issued by the agency having jurisdiction and supervision over such pre-need company allowing such transaction with the prior written approval of such agency. Such written approval shall clearly specify the amount of the loan and/or investment including the name of the concerned director, officer, stockholder and their related interests.

e. *Applicability of the Rules and Regulations on Trust, Other Fiduciary Business and Investment Management Activities (Trust Rules*). The provisions of the Trust Rules consistent with the provisions of this Section (*Trust fund of pre-need companies)* shall supplementarily apply to trust funds of pre-need companies.

f. *Penalties and sanctions.* Any violation of the provisions of this Section (*Trust fund of pre-need companies)* shall be a ground for prohibiting the concerned entity from accepting, managing and administering trust funds of pre-need companies without prejudice to the imposition of the applicable sanctions prescribed or allowed under the Trust Rules.

(Circular Nos. 966 dated 11 July 2017, 961 dated 02 June 2017, 920 dated 18 August 2016, M-2016-016 dated 18 November 2016, Circular No. 913 dated 02 June 2016)

414-Q UNIT INVESTMENT TRUST FUNDS

The following rules and regulations shall govern the creation, administration and investment/s of Unit Investment Trust Funds (UITFs).

Establishment of a UITF. Any trust entity authorized to perform trust functions may establish, administer and maintain one (1) or more UITFs subject to applicable provisions under this Section. A UITF may be allowed to operate as a 1) feeder fund, 2) fund-of-funds and/or 3) multi-class fund: *Provided*, That the plan rules and related documents shall state that the UITF is a feeder fund or a fund-of-funds, and/or multi-class fund, and provide an explanation or illustration of such structures. A UITF may also be allowed to have a unit-paying feature where the income of the fund is distributed in the form of units called unit income.

Administration of a UITF. The trustee shall have exclusive management and control of each UITF under its administration, and the sole right at any time to sell, convert, reinvest, exchange, transfer or otherwise change or dispose of the assets comprising the fund: *Provided*, That no participant in a UITF shall have or be deemed to have any ownership or interest in any particular account or investment in the UITF but shall have only its proportionate beneficial interest in the fund as a whole.

Relationship of trustee with UITF. A trustee administering a UITF shall not have any other relationship with such fund other than its capacity as trustee of the UITF: *Provided*, however, That a trustee which simultaneously administers other trust, fiduciary or investment management funds may invest such funds in the trustee's UITF, if allowed under a policy approved by the board of directors.

Operating and accounting methodology. A UITF shall be operated and accounted for in accordance with the following:

a. The total assets and accountabilities of each fund shall be accounted for as a single account referred to as *pooled-fund accounting method*. The investments of a multi-class fund shall remain as one (1) pool and are not separately allocated to classes.

b. Contributions to each fund by clients shall always be through participation in units of the fund and each unit shall have uniform rights and privileges, as any other unit; in the case of multi-class fund, units shall be issued as units in a class of a fund.

c. All such participations shall be pooled and invested as one (1) account (referred to as collective investments).

d. The beneficial interest of each participation unit shall be determined under a unitized net asset value per unit (NAVPu) valuation methodology defined in the written plan of the UITF, and no participation shall be admitted to, or redeemed from, the fund or class of a fund, except on the basis of such valuation. To arrive at a fund's NAVPu, the fund's total Net Assets is divided by the total outstanding units. *Total Net Assets* is a summation of the market value of each investment less fees, taxes, and other qualified expenses, as defined under the plan rules.

   When there is a different fee structure for each class, the NAVPu of each class shall be computed by dividing total net assets of a class by the total outstanding units of such class; where, the net assets of each class shall represent its proportionate share on the net assets of the multi-class fund less the trustee fee and expenses attributable to that class. *The net assets of the multi-class fund* is the summation of the market value of each investment less fees, taxes, and other qualified expenses, but gross of trustee fees and expenses attributable to a particular class, as defined under the plan rules.

e. For a UITF with unit-paying feature, the trustee may distribute the income of the Fund subject to the minimum conditions enumerated hereunder:

   (1) Distribution of income shall be made only from cash received from interest income earned and cash dividends;

   (2) Distribution of income shall be made after the trust entity has taken into consideration the following:

      (a) income for the period; and
      (b) the investment objective and distribution policy of the fund;

   (3) Distribution of income to participants shall be after deduction of taxes and expenses (net distribution);

   (4) Distribution of income shall be effected through conversion of the income for distribution into its equivalent units based on the NAVPu as at the first business day when units in the fund are quoted ex- distribution[1]. Participants shall be entitled to his/her pro-rata share if said units which, on distribution date, shall be automatically considered redeemed;

   (5) The Plan rules shall state the distribution policy, including the sources of income to be distributed and the intended frequency of distribution;

[1] Cum-distribution and ex-distribution refer to the date before and after distribution, respectively

(6) For monitoring purposes, the trustee shall separately account for the fund's income due for distribution; and

(7) Where a distribution is made, a notice to each participant on his/her unit income shall be made available containing information on the total amount of income for distribution by the trustee, NAVPu ex- distribution and its basis, total number of units for distribution, and unit income. *Unit income* refers to the number of units for every unit held by the participant entitled for distribution.

Plan rules. Each UITF shall be established, administered and maintained in accordance with a written trust agreement drawn by the trustee, referred to as the "Plan" which shall be approved by the board of directors of the trustee and a copy of which shall be submitted to the Bangko Sentral for processing and approval prior to its implementation. Each new UITF Plan filed for approval shall be charged a processing fee of P10,000.00.

The Plan shall contain the following minimum elements:

a. *Title of the Plan*. This shall correspond to the product/brand name by which the UITF is proposed to be known and made available to its clients. The Plan rules shall state the classification of the UITF (e.g., money market fund, bond fund, balanced fund and equity fund).

b. *Manner by which the fund is to be operated*. A statement of the fund's investment objectives, policies and limitations, and if applicable, income distribution policies, the distinctive features of the different classes of units such as the level of trustee fees and expenses for each class and other peculiarities which the Bangko Sentral may allow.

c. *Risk disclosure*. The Plan rules shall state both the general risks and risks specific to the type of fund.

d. *Investment powers of the trustee with respect to the fund, including the character and kind of investments, which may be purchased, by the fund*. There must be an unequivocal statement of the full discretionary powers of the trustee as far as the fund's investments are concerned. These powers shall be limited only by the duly stated investment objective and policies of the fund.

e. The unitized NAVPu valuation methodology as prescribed under Item *"d"* of this Section (*Operating and accounting methodology*) shall be employed. The plan rules shall also provide the method of determining the proportionate share of the classes of units to the value of the assets of the fund.

f. *Terms and conditions governing the admission or redemption of units of participation in the fund*. The Plan rules shall state that the trustee, prior to admission of a client's initial participation in the UITF, shall conduct a client suitability assessment to profile the risk-return orientation and suitability of the client to the specific type of fund. If the frequency of admission or redemption is other than daily; that is, any business day, the same should be explicitly stated in the Plan rules*: Provided*, That the admission and redemption prices shall be based on the end of day NAVPu of the fund or of the class of a fund, if applicable, computed after the cut-off time for fund participation and redemption for that reference day, in accordance with existing Bangko Sentral regulations on mark to market valuation of investment securities.

g. Aside from the regular audit requirement applicable to all trust accounts, an external audit of each UITF shall be conducted annually by an independent auditor acceptable to the Bangko Sentral and the results thereof made available to participants. The external audit shall be conducted by the same external auditor engaged for the audit of the trust entity.

h. *Basis upon which the fund may be terminated*. The Plan rules shall state the rights of participants in case of termination of the fund. Termination of the fund shall be duly approved by the trustee's board of directors and a copy of the resolution submitted to the appropriate department of the Bangko Sentral.

i. *Liability clause of the trustee*. There must be a clear and prominent statement adjacent to where a client is required to sign the participating trust agreement that (1) the UITF is a trust product and not a deposit account or an obligation of, or guaranteed, or insured by the trust entity or its affiliates or subsidiaries; (2) the UITF is not insured or governed by the PDIC; (3) due to the nature of the investment, yields and potential yields cannot be guaranteed; (4) any loss/income arising from market fluctuations and price volatility of the securities held by the UITF, even if invested in government securities, is for the account of the client/participant; (5) as such, the units of participation of the investor in the UITF, when redeemed, may be worth more or be worth less than his/her initial investment contributions; (6) historical performance, when presented, is purely for reference purposes and is not a guarantee of similar future result; and (7) the trustee is not liable for losses unless upon willful default, bad faith or gross negligence.

j. *Amount of fees/commission and other charges to be deducted from the fund*. The amount of fees that shall be charged to a fund shall cover the fund's fair and equitable share of the routine administrative expenses of the trustee such as salaries and wages, stationery and supplies, credit investigation, collateral appraisal, security, messengerial and janitorial services, EDP expenses, Bangko Sentral supervision fees and internal audit fees.

However, the trustee may charge a UITF for special expenses in case such expenses are (1) necessary to preserve or enhance the value of the fund, (2) payable to a third party covered by a separate contract, and (3) disclosed to participants. The trustee shall secure prior Bangko Sentral approval for outsourcing services provided under existing regulations. No other fees shall be charged to the fund.

Sales, distribution, marketing, and/or other promotional related expenses shall be for the account of the trustee and shall be presumed covered by the trust fee.

In the case of a multi-class fund that have different level of trustee fees and expenses, there shall be a policy on the equitable allocation of any costs, charges, and expenses payable out of the multi-class fund, which are not attributable to any particular class.

k. Such other matters as may be necessary or proper to define clearly the rights of participants in the UITF. The provisions of the Plan shall govern participation in the fund including the rights and benefits of persons having interest in such participation, as beneficiaries or otherwise. The Plan may be amended by a resolution of the board of directors of the trustee: *Provided, however*, That participants in the fund shall be immediately notified of such amendments and shall be allowed to withdraw their participations within a reasonable time but in no case less than thirty (30) calendar days after the amendments are approved by the board, if they are not in conformity with the amendments made thereto: *Provided, further*, That amendments to the Plan may be allowed subject to notification to the Bangko Sentral and continuing compliance of the trustee with the prudential criteria prescribed under Sec. 111-Q. For this purpose, the trustee shall submit the following documents to the appropriate supervising department of the Bangko Sentral within ten (10) banking days from the approval of the board of directors of the amendments:

(a) Notification letter signed by the president or officer of equivalent rank indicating the amendments in the UITF;

(b) Corporate secretary's certificate on the approval of the board of directors of the amendments;

(c) Certification signed by the president or officer of equivalent rank and the chief compliance officer, that the trustee has complied with all the prudential criteria prescribed under Sec. 111-Q (*Prudential criteria*) and other pertinent laws, rules and regulations; and

(d) Amended Plan Rules and Appendices.

Provided, finally, That amendments to the Plan that involve change in the investment objective and/or strategy, and risk profile shall be subject to the approval of the Bangko Sentral. For purposes of imposing monetary penalties provided under Sec. 172-Q (*Sanctions in case of willful delay in the submission of reports/refusal to permit examination*) for Delayed/Unsubmitted reports, the notification on the amendments to the Plan shall be considered as "Category A-3" report.

A copy of the Plan shall be available at the principal office of the trustee during regular office hours, for inspection by any person having an interest in the fund or by his authorized representative. Upon request, a copy of the Plan shall be furnished such interested person.

Minimum disclosure requirements.

a. *Key Information and Investment Disclosure Statement (KIIDS).* This document shall contain the key features and the prospective and outstanding investments of a UITF. It shall use plain language presented in a concise manner, and shall comply substantially with the format prescribed in *Appendix Q-33*. This document shall be updated and made available to participants at least every calendar quarter thereof.

For investments of feeder funds/fund-of- funds, the trustee shall likewise make available to all UITF clients all relevant information on the target fund/s.

For a UITF with unit-paying feature, the KIIDS shall include the intended frequency of income distribution and the last five (5) distribution dates, with information on the unit income and the distribution yield: *Provided*, That the KIIDS shall disclose that distributions are not guaranteed and are determined by the trustee in accordance with the plan rules; and that income distribution may result in an immediate decrease in NAVPu by the amount of the distribution.

b. *Distribution of investment units.* The trustee may issue such conditions or rules, as may affect the distribution of investment units subject to the minimum conditions enumerated hereunder:

(1) *Marketing materials.* All marketing materials related to the sale of a UITF shall clearly state:

(a) The designated name and classification of the fund, the fund's trustee, and the classes of a UITF, if any.

(b) Minimum information regarding:

(i) The general investment policy and applicable risk profile. There shall be a clear description/explanation of the general risks attendant with investing in a UITF, including risk specific to a type of fund. Technical terms should likewise be defined in laymen's terms[1].

(ii) Particulars including administrative and marketing details, such as but not limited to, pricing, cut-off time for participation and redemption, early redemption penalty/ies, and any special features of the UITF, as applicable. For a UITF with unit-paying feature, the marketing materials shall provide relevant information on this feature including, but not limited to, disclosures that distributions are not guaranteed and shall be determined by the trustee in accordance with the plan rules; and that income distribution may result in an immediate decrease in NAVPu by the amount of distribution.

(iii) All charges made/to be made against the Fund or class of a UITF, including trust fees and other related charges.

(iv) The availability of the Plan Rules governing the Fund, upon the client's request and the contact details of the trustee.

(v) Client and Product Suitability Standards. Prior to admission, the trustee shall perform a client profiling process for all UITF participants under the general principles on client suitability assessment to guide the client in choosing investment outlets that are best suited to his objectives, risk tolerance, preferences and experience. The profiling process shall, at the minimum, require the trustee to obtain client information through the Client Suitability Assessment (CSA) form, classify the client according to his financial sophistication and communicate the CSA results to the subject client. The general principles on CSA shall also require the trustee to adopt a notice mechanism whereby clients are advised and/or reminded of the explicit requirement to notify the trustee or its UITF marketing personnel of any change in their characteristics, preferences or circumstances to enable the trustee to update client's profile at least every three (3) years.

(c) The participation is not a "deposit account" but a trust product; and that any loss/income is for the account of the participant; that the trustee is not liable for losses unless upon willful default, bad faith or gross negligence.

(d) A balanced assessment of the possible gains and losses of the UITF and that the participation does not carry any guaranteed rate of return, and is not insured by the PDIC.

(e) An advisory that the investor must read the complete details of the fund in the Plan Rules, make his/her own risk assessment, and when necessary, he/she must seek independent/professional opinion, before making an investment.

(2) *Evidence of participation*. Every UITF participant shall be given –

(a) A participating trust agreement. Such agreement shall clearly indicate that (1) the UITF is a trust product and not a deposit account or an obligation of, or guaranteed, or insured by the trust entity or its affiliates or subsidiaries; (2) the UITF is not insured or governed by the PDIC; (3) due to the nature of the investment, yields and potential yields cannot be guaranteed; (4) any loss/income arising from market fluctuations and price volatility of the securities held by the UITF, even if invested in government securities, is for the account of the client/participant; (5) as such, the units of participation of the investor in the UITF, when redeemed, may be worth more or be worth less than his/her initial investment/contributions; (6) historical performance, when presented, is purely for reference purposes and is not a guarantee of similar future result; and (7) the trustee is not liable for losses unless upon willful default, bad faith or gross negligence.

In addition to the agreement, every UITF participant shall be provided with –

(i) CSA form to be accomplished during the profiling process required under the general principles on CSA. This is designed to ensure that based on relevant information about the client, his investment profile is matched against the investment parameters of the UITF. At the minimum, client information shall include personal or institutional data, investment objective, investment horizon, investment experience, and risk tolerance; and

[1] Example: "Fixed income securities" does not really mean a guarantee of fixed earnings on the investor's participation; "Risk-free" government securities which may be sovereign risk-free but not interest rate risk-free

(ii) Risk disclosure statement, which in reference to Item "*c*" of this Section (*Plan rules)*, shall describe the attendant general and specific risks that may arise from investing in the UITF. This statement shall be accomplished by the client every time he participates in a different fund and shall be substantially in the form as shown in *Annex A* of *Appendix Q-34.*

Both documents shall be signed by the client/participant and the UIT marketing personnel who assessed and explained to the concerned client his/her ability to bear the risks and potential losses.

(b) A confirmation of participation and redemption made to/from the fund that shall contain the following information:

(i) NAVPu of the fund on day of purchase/redemption;
(ii) Number of units purchased/redeemed; and
(iii) Absolute peso or foreign currency value.

No indicative rates of return shall be provided in the trust participating agreement. Marketing materials may present relevant historical performance purely for reference and with clear indication that past results do not guarantee similar future results.

(3) A participating trust agreement or confirmation of contribution/redemption need not be manually signed by the trustee or his authorized representative if the same is in the form of an electronic document that conforms with the implementing rules and regulations of R.A. No. 8792, otherwise known as the E-Commerce Act.

c. *Regular computation and availability of NAVPu and other information*. The trustee managing a UITF shall:

(1) Compute the NAVPu daily;

(2) Publish at least weekly the NAVPu in one (1) or more newspapers of national circulation: *Provided*, That a pooled weekly publication of such NAVPu shall be considered as substantial compliance with this requirement. The said publication, at a minimum, shall clearly state the name of the fund, its general classification, the fund's NAVPu and the moving return on investment (ROI) of the fund on a year-to-date (YTD) and year-on-year (YOY) basis; and

(3) Make available the historical net asset value per unit, declaration of trust or its equivalent document, disclosure documents, and other pertinent information about a UITF via its website or the Trust Officers Association of the Philippines (TOAP)-administered website. For a UITF with unit-paying feature, it shall also disclose when there is an income declaration, the total amount of income for distribution, NAVPu ex-distribution and its basis, total number of units for distribution, unit income and historical distributions, if any.

Exposure limits. The combined exposure of the UITF to any entity and its related parties shall not exceed fifteen percent (15%) of the market value of the UITF: *Provided*, That, a UITF invested, partially or substantially, in exchange traded equity securities shall be subject to the fifteen percent (15%) exposure limit to a single entity/issuer: *Provided*, *further*, That, in the case of an exchange traded equity security which is included in an index and tracked by the UITF, the exposure of the UITF to a single entity shall be the actual benchmark weighting of the issuer or fifteen percent (15%), whichever is higher.

This limitation shall not apply to non- risk assets as defined by the Bangko Sentral.

In the case of feeder fund/fund-of-funds, the exposure limit shall be applied on the target fund's underlying investments. Notwithstanding said limit, if the target fund is allowed by its respective regulatory authority to invest in units/shares of other open-ended CIS, the exposure limit prescribed by said regulatory authority shall instead apply. Furthermore, the investments in any one target fund shall not exceed ten percent (10%) of the total net asset value of the target fund.

In case the limits prescribed above are breached due to the marking-to-market of certain investment/s or any extraordinary circumstances, e.g., abnormal redemptions which are beyond the control of the trustee, the trustee shall be given thirty (30) days from the time the limit is breached, or in case of investor funds thirty (30) days from date of receipt of report indicating the net asset value of the fund, to correct the same.

Allowable investments and valuation. UITF investments shall be limited to bank deposits and the following financial instruments:

a. Securities issued by or guaranteed by the Philippine government, or the Bangko Sentral;

b. Tradable securities issued by the government of a foreign country, any political subdivision of a foreign country or any supranational entity;

c. Exchange-listed securities;

d. Marketable instruments that are traded in an organized exchange;

e. Loans traded in an organized market;

f. Loans arising from repo agreements which are transacted through an exchange recognized by the SEC, subject to the condition that the repo contracts may be pre-terminated lawfully by the trust entity administering the UITF and acting as lender, with due notice to its counterparty and the market operator;

g. Units/shares in collective investment schemes (CIS), i.e., target fund, shall include exchange traded fund (ETF) and other CIS, subject to the following:

(1) The investment objectives of the target fund are aligned with that of the investor fund;
(2) The underlying investments of target funds are limited to the allowable investment outlets set forth in this Section (*Allowable investments and valuation)*;
(3) The target fund is neither structured nor similarly structured as a feeder fund or fund-of-funds; and
(4) The target fund is supervised by a regulatory authority, as follows:

(a) A local target fund shall either be approved by the Bangko Sentral or registered with the SEC.

(b) A target fund constituted in another jurisdiction shall be registered/authorized/approved, as the case may be, and is recognized as a collective investment scheme in its home jurisdiction by a regulatory authority that is a member of the International Organization of Securities Commissions (IOSCO); or any regulatory authority acceptable to the Bangko Sentral to supervise the CIS.

h. Such other tradable investments outlets/categories as the Bangko Sentral may allow:

Provided, That the investment of the peso UITF in tradable foreign currency denominated financial instruments shall be subject to Items "*e*" and "*f*" of Sec. 413-Q (*Other applicable regulations on loans and investments - trust and other fiduciary accounts)*.

Provided, further, That a financial instrument is regarded as tradable if quoted two-way prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis: *Provided*, *finally*, That the financial instrument is easy to realize upon sale at any time.

The UITF may avail itself of financial derivatives instruments solely for the purpose of hedging risk exposures of the existing investments of the Fund, provided these are accounted for in accordance with existing Bangko Sentral hedging guidelines as well as the trust entity's risk management and hedging policies duly approved by the Trust Committee and disclosed to participants.

The use of hedging instruments shall also be disclosed in the "*Plan*" as provided in Item "*c*" of this Section (*Plan rules*) and specified in the KIIDS as provided in Item "*a*" of this Section (*Minimum disclosure requirements*).

In the case of Feeder Fund or Fund-of-Funds, offshore/global funds which use financial derivatives for efficient portfolio management (EPM) may be allowed as target fund: *Provided*, That financial derivatives shall not be extensively or primarily used as an investment strategy of the target fund and that the risk level of the target fund remain consistent with the objective and risk profile of the investor fund. For this purpose, the use of financial derivatives is deemed to be for EPM if:

a. it is economically appropriate in that it is realized in a cost effective manner;
b. the exposure is fully covered to meet any obligation to pay or deliver;
c. it has at least one of the following aims:

(1) reduction of risk;
(2) reduction of cost with no increase or a minimal increase in risk; or
(3) generation of additional capital or income for the scheme with no increase or a minimal increase in risk.

Alternatively, the target fund should comply with the relevant regulatory requirements of its home jurisdiction as regards the use of financial derivatives for EPM.

Other related guidelines on valuation of allowable investments

a. In marking to market debt securities, the provisions of *Appendix Q-23* shall apply.

b. In case outstanding UITF investments may deteriorate in quality, i.e., no longer tradable as defined under this Section (*Allowable investments and valuation*), the trustee shall immediately provision to reflect fair value in accordance with generally accepted accounting principles or as may be prescribed by the Bangko Sentral. If no fair value is available, the instrument shall be assumed to be of no market value.

Unit investment trust fund administration support

a. *Backroom operations*. Administrative rules on backroom under Sec. 435-Q shall be applicable to UITF. Adequate systems to support the daily marking-to- market of the fund's financial instruments shall be in place at all times. In this respect, a daily reconcilement of the fund's resultant marked-to-market value with the unrealized market losses and gains (respective contra asset balance) versus the book value of the fund for investments in financial instruments shall be done and all differences resolved within the day.

b. *Custody of securities*. Investments in securities of a UITF shall be held for safekeeping by Bangko Sentral accredited custodians which shall perform independent marking-to-market of such securities.

Investments in target funds of a UITF structured as an investor fund shall be held for safekeeping by an institution registered/authorized/approved by a relevant regulatory authority in its home jurisdiction to act as custodian.

Counterparties

a. *Dealings with related interests/trust entity other than stand-alone trust corporation proper/holding company/subsidiaries/affiliates and related companies*. A trustee of a UITF shall be transparent at all times and maintain an audit trail for all transactions with related parties or entities. The trustee shall observe the principle of best execution and no purchase/sale shall be made with related counterparties without considering at least two (2) competitive quotes from other sources.

Consistent with the provisions of this Section (*Relationship of trustee with UITF*), a trustee may invest the funds of a UITF structured as an investor fund in a target fund that is administered by the trustee or its related party/company: *Provided*, That:

(1) there shall be no cross-holding between the investor fund and the target fund, where cross-holding refers to the holding of shares/units of participation in one another by two (2) or more funds;
(2) all initial charges on the target fund are waived; and
(3) the trust/management fee shall be charged only once, either at the level of the investor fund or at level of the target fund

b. *Accreditation of counterparties*. The Fund shall only invest with approved counterparties qualified in accordance with the policy duly approved by the TC. Counterparties shall be subject to appropriate limits in accordance with sound risk management principles.

Foreign currency denominated UITFs. UITF denominated in any acceptable foreign currency provided under existing Bangko Sentral rules and regulations may be established. Such fund may only be invested in allowable investments denominated in pesos or any acceptable foreign currency as expressly allowed under the fund's Plan rules and properly disclosed to fund participants.

Exemptions from statutory and liquidity reserves, single borrowers limit, directors, officers, stockholders and their related interest. The provisions on reserves, single borrower's limit and DOSRI ceilings under Secs. 325-Q and 326-Q, respectively, applicable to trust funds in general shall not be made applicable to UITF.

UITF Marketing personnel[1]. The trustee shall ensure that there are board-approved policies and procedures covering the following:

a. Duties and responsibilities of all UIT Marketing personnel;
b. Conduct of due diligence check on the fitness and propriety of all UIT marketing personnel which includes monitoring and reviewing on an ongoing basis their performance; and
c. Conduct of continuing training and education especially on updates relative to the fund products.

For purposes of this Section (*UITF marketing personnel and Minimum disclosure requirements*), a UITF may be sold by a bank employee belonging to the same financial conglomerate as the trustee, subject to the provision of the cross-selling framework.

[1] During the transitory period, UITF Marketing Personnel authorized to sell UITFs under the existing requirements, who shall undergo and fail to pass the UCP, will forfeit their existing qualification and will not be allowed to sell UITF until such time that they obtain the required certification. The Certification requirement shall be fully implemented beginning year 2023.

To ensure the competence and integrity of all duly designated UITF Marketing Personnel, all personnel involved in the sales of UITF must be certified as a UITF Marketing Personnel through a UITF Certification Program (UCP) administered by a reputable financial services industry association/organization acceptable to the Bangko Sentral. The Certification Program, at a minimum, should have a qualifying examination, a requirement for continuing education, and a requirement for registration of the Certified UITF Marketing Personnel. The Guidelines for the Administration of the UCP are provided in *Appendix Q-87.*

It shall be the responsibility of the Trust Entity (TE) to ensure that its UITF Marketing Personnel continuously comply with the qualification requirements prescribed by the Bangko Sentral, and that they conduct themselves with integrity, honesty and with proper representation to the clients of the TE.

(Circular Nos. 1121 dated 8 June 2021, 1103 dated 26 November 2020, 1031 dated 07 February 2020, 1021 dated 15 November 2018, 1018 dated 26 October 2018, 999 dated 14 March 2018, and 907 dated 10 March 2016)

415-Q INVESTMENT MANAGEMENT ACTIVITIES

The conduct of investment management activities shall be subject to the following regulations.

Minimum documentary requirements. An investment management account (IMA) shall be covered by a written document establishing such account, as follows:

a. In the case of accounts created by corporations, business firms, organizations or institutions, the voluntary written agreement or indenture entered into by the parties, accompanied by a copy of the board resolution or other evidence authorizing the establishment of, and designating the signatories, to the investment management account.

b. In the case of accounts created by individuals, the voluntary written agreement or indenture entered into by the parties.

The voluntary written agreement or contract shall include the following minimum provisions:

(1) Pre-numbered contractual agreement form;
(2) Title or nature of contractual agreement in noticeable print;
(3) Legal capacities, in noticeable print, of parties sought to be covered;
(4) Purposes and objectives;
(5) The initial amount of funds and/or value of securities subject of the arrangement delivered to the investment manager;
(6) Statement in underlined noticeable print that:

(a) The agreement is an agency and not a trust agreement. As such, the client shall at all times retain legal title to funds and properties subject of the arrangement;

(b) The arrangement does not guaranty a yield, return or income by the investment manager. As such, past performance of the account is not a guaranty of future performance and the income of investments can fall as well as rise depending on prevailing market conditions; and

(c) The investment management agreement is not covered by the PDIC and that losses, if any, shall be for the account of the client

(7) Duties and powers of the investment manager;
(8) Liabilities of the investment manager;
(9) Reports to the client;
(10) The amount or rate of the compensation of the investment manager;
(11) Terms and conditions governing withdrawals from the account;
(12) Termination of contractual arrangement; and
(13) Disclosure requirements for transactions requiring prior authority and/or specific written investment directives from the client.

A sample investment management agreement which conforms to the foregoing requirements is shown as *Appendix Q-18*.

Minimum size of each investment management account (IMA). BSFIs may determine the minimum amount that should be maintained by a client in an IMA: *Provided*, That the same shall at least be P100,000: *Provided further*, That the initial contribution and the carrying balance shall not fall below the said amount, except in cases where the reduction is due to investment losses and/or fund management fees. BSFIs should consider the adequacy of their risk management processes and operational capabilities in setting the minimum amount for their IMAs.

Commingling of funds. For purposes of this regulation, commingling of funds shall refer to the act of combining funds from multiple IMAs for the sole purpose of investing in qualified asset/s enumerated under Item *"b"* below. Funds from IMAs may be commingled: *Provided*, That all of the following conditions are met:

a. The investment of each of the IMAs in the commingled fund shall at least be P100,000;

b. The commingled funds shall only be invested in (i) securities directly issued by the Philippine National Government, (ii) exchange-traded equities and fixed income securities[1] and commercial papers, *Provided*, That these securities/papers are registered with the Securities and Exchange Commission, (iii) securities issued by banks incorporated in the Philippines, except those issued through the trust units, or (iv) securities issued by other sovereigns that are exempt from registration under Section 9(b) of the Securities Regulation Code;

c. The commingling of funds and the manner of termination of the same shall be specifically agreed in writing by the clients. The investment manager should ensure that the agreement to commingle funds with other IMAs is legally binding and enforceable. Furthermore, the risks associated with commingling of funds, such as market liquidity risks, shall be fully disclosed to the clients;

d. The investment manager shall determine that is possesses the operational capability to manage the accounts participating in commingled funds. In doing so, the investment manager shall undertake an assessment taking the following into consideration: (i) sufficiency of personnel handling commingled IMAs; (ii) capability of existing systems to accurately and readily identity the allocation of each investor in a commingled fund and generate the following information on a per IMA basis, at a minimum: accruals, coupons received, dividends received, mark-to-market gains or losses and required reports; and (iii) ability to conduct periodic reconciliation of relevant records; and

e. The maximum number of IMAs that can be commingled into one fund shall be determined by the investment manager based on its own operational capability to commingle IMAs.

An investment manager shall have adequate policies, procedures, and control mechanisms to ensure that the conditions for commingling set forth herein are consistently complied with.

Lending and investment disposition. Assets received in investment management capacity shall be administered in accordance with the terms of the instrument creating the investment management relationship.

When an investment manager is granted discretionary powers in the investment disposition of investment management funds and unless otherwise specifically enumerated in the agreement or indenture and directed in writing by the client, loans and investments of the fund shall be limited to:

a. Traditional deposit products of UBs and KBs in the Philippines with long-term credit rating of at least AA- or its equivalent by a third party credit assessment agency recognized by the Bangko Sentral;

b. Evidences of indebtedness of the Republic of the Philippines and of the Bangko Sentral, and any other evidences of indebtedness or obligations where the servicing and repayment of which are fully guaranteed by the Republic of the Philippines or loans against such government securities;

c. Loans fully guaranteed by the Republic of the Philippines as to the payment of principal and interest;

d. Tradable securities issued by the government of a foreign country or any supranational entity with long-term credit rating of at least AA- or its equivalent by a third party credit assessment agency recognized by the Bangko Sentral;

e. Loans fully secured by a hold-out on, assignment or pledge of deposit maintained either with the bank proper or other banks, or of deposit substitutes of the bank/institution, or of mortgage and chattel mortgage bonds issued by the investment manager; and

f. Loan fully secured by real estate or chattels in accordance with Secs. 302-Q, 143-Q and 301-Q (*Additional requirements*).

The specific directives required under this Section (*Lending and investment disposition*) shall consist of the following information:

a. The transaction to be entered into;
b. Name of the issuer or borrower;
c. Amount involved; and
d. Terms of the security, including collateral, if any.

[1] Including those issued offshore

Trust entities with composite rating of at least "3" under the Revised Trust Rating System in the latest Bangko Sentral examination will not be subject to the investment limitations provided under this Section (*Lending and investment disposition*).

Transactions requiring prior authority. An investment manager shall not undertake any of the following transactions for the account of a client, unless prior to its execution, such transaction has been fully disclosed and specifically authorized in writing by the client:

a. Lend, sell, transfer or assign money or property to any of the departments, directors, officers, stockholders, or employees of the investment manager, or relatives within the first degree of consanguinity or affinity, or the related interests of such directors, officers and stockholders; or to any corporation where the investment manager owns at least fifty percent (50%) of the subscribed capital or voting stock in its own right and not as trustee nor in a representative capacity;

b. Purchase or acquire property or debt instruments from any of the departments, directors, officers, stockholders, or employees of the investment manager, or relatives within the first degree of consanguinity or affinity, or the related interests of such directors, officers and stockholders; or from any corporation where the investment manager owns at least fifty percent (50%) of the subscribed capital or voting stock in its own right and not as trustee nor in a representative capacity;

c. Invest in equities of or in securities underwritten by the investment manager or a corporation in which the investment manager owns at least fifty percent (50%) of the subscribed capital or voting stock in its own right and not as trustee, nor in a representative capacity; and

d. Sell, transfer, assign or lend money or property from one trust fiduciary or IMA to another trust, fiduciary or IMA except where the investment is in any of those enumerated in Items "*a*" to "*d*" of this Section (*Lending and investment disposition*).

Directors, officers, stockholders and their related interest covered by this Section shall be those considered as such under existing regulations on loans to DOSRI under Part III - C of this Manual. The procedural and reportorial requirements in said regulations shall also apply.

The disclosure required under this Section (*Transactions requiring prior authority)* shall consist of the following minimum information:

a. The transactions to be entered into;
b. Identities of the parties involved in the transaction and their relationships (shall not apply to Item "*d*" of this Section on *Transactions requiring prior authority*);
c. Amount involved; and
d. Collateral security(ies), if any.

The above information shall be made known to clients in a separate instrument or in the very instrument creating the investment management relationship.

Title to securities and other properties. Securities such as promissory notes, shares of stocks, bonds and other properties of the portfolio shall be issued or registered in the name of the principal or of the investment manager: *Provided*, That in case of the latter, the instrument shall indicate that the investment manager is acting in a representative capacity and that the principal's name is disclosed thereat.

Ceilings on loans. Loans funded by IMAs shall be subject to the DOSRI ceilings imposed on QBs in Part III - C of this Manual. For purposes of determining compliance with said ceilings, the total amount of said loans granted by the institution and its trust department to the same person, firm or corporation shall be combined.

Other applicable regulations on loans and investments - investment management account. The loans and investments of IMAs shall be subject to pertinent laws, rules and regulations for QBs that shall include, but need not be limited to, the following:

a. Requirements of Sections 39 and 40 of R.A. No. 8791 (The General Banking Law of 2000);
b. Criteria for past due accounts;
c. Qualitative appraisal of loans, investments and other assets that may require provision for probable losses which shall be booked in accordance with the FRPTIs;
d. Requirements of Sections 3 and 8 of the SRC; and
e. Provisions of Section 44 – Investments by Philippine Residents – of the FX Manual, such that the cross- currency investments of peso IMAs, shall be subject to the following conditions:

(1) All cash flows of the investment manager shall only be in pesos. In case the foreign exchange acquired or received by the principal as dividends/earnings or divestment proceeds on such investment are intended for reinvestment abroad, the same proceeds are not required to be inwardly remitted and sold for pesos through authorized agent banks: *Provided*, That such proceeds are reinvested abroad within two banking days from receipt of the funds abroad.

(2) The investment manager shall purchase, invest, reinvest, sell, transfer or dispose foreign currency-denominated financial instruments, including securities as defined in Section 3 of the SRC, through a distributor or underwriter duly authorized or licensed by the government of the issuer of such instruments, or a counterparty FI (seller or buyer) authorized in writing by the principal and/or accredited by the investment manager: *Provided*, That, the conduct, documentation, and settlement of any of these transactions shall be outside Philippine jurisdiction;

(3) The investment manager shall record cross-currency investment transactions in the peso regular books at their foreign currency amounts and their local currency equivalent using the Philippine Dealing System peso/US dollar closing rate and the New York US dollar/third currencies closing rate; and

(4) The investment manager shall comply with the reportorial requirements that may be prescribed by the Bangko Sentral, which shall include as a minimum, the foreign currency amount and the local currency equivalent of the total cross currency investments with details on: (a) type of investments; and (b) amount of cash flow converted.

For purposes of this Section (*Other applicable regulations on loans and investments - investment management account)*, "resident", as defined under Section 1 of the FX Manual, shall refer to the principal that engages the services of the investment manager under an investment management agreement.

Operating and accounting methodology. IMAs shall be operated and accounted for in accordance with the following:

a. The investment manager shall administer, hold or manage the fund or property in accordance with the instrument creating the investment management relationship; and
b. Funds or property of each client shall be accounted separately and distinctly from those of other clients herein referred to as *individual account* accounting.

Tax-exempt individual investment management accounts. The following shall be the features/requirements of IMAs of individuals which may be exempted from the twenty percent (20%) final tax under Section 24(B)(1) of R.A. No. 8424 (The Tax Reform Act of 1997):

a. The investment management agreement shall only be between individuals who are Filipino citizens or resident aliens and investment manager banks. The agreement shall be non-negotiable and non- transferable;

b. The minimum amount of investment for an IMA shall be the amount prescribed by the BSFIs, but not lower than P100,000;

c. The investment management agreement shall indicate that pursuant to Section 24(B)(1) of R.A. No. 8424, interest income of the investment management funds derived from investments in interest-bearing instruments (e.g., time deposits, government securities, loans and other debt instruments) which are otherwise subject to the twenty percent (20%) final tax, shall be exempt from said final tax provided the funds are held under investment management by the investment manager for at least five (5) years. If said funds are held by the investment manager for a period less than five (5) years, interest income shall be subject to a final tax which shall be deducted and withheld from the proceeds of the IMA based on the following schedule–

Holding Period	Rate of Tax
Four (4) years to less than five (5) years	5%
Three (3) years to less than four (4) years	12%
Less than three (3) years	20%

Necessarily, the investment management agreement shall clearly indicate the date when the investment manager actually received the funds which shall serve as basis for determining the holding period of the funds;

d. The investment manager may accept additional funds for inclusion in IMAs which have been established as tax-exempt under R.A. No. 8424. However, the receipt of additional funds shall be properly documented by indicating that they are part of existing tax-exempt IMAs and that the interest income of the additional funds derived from investments in interest bearing instruments shall be exempt from the twenty percent (20%) final tax under the same conditions mentioned in the preceding item. The document shall also indicate the date when the additional

funds were received by the investment manager bank to serve as basis for determining the minimum five (5)- year holding period for tax exemption purposes of the additional funds; and

e. Tax-exempt individual IMAs established under this Section shall be subject to the provisions of this Section *(Item b of Minimum documentary requirements and Minimum size of each investment management account to Other applicable regulations on loans and investments – IMA*).

(Circular Nos. 1109 dated 04 February 2021 and 966 dated 11 July 2017)

416-Q SECURITY FOR THE FAITHFUL PERFORMANCE OF TRUST AND OTHER FIDUCIARY BUSINESS

Basic security deposit. Bangko Sentral-supervised financial institutions (BSFIs) authorized to engage in trust and other fiduciary business shall deposit with the Bangko Sentral eligible government securities, pursuant to Sec. 416-Q (*Eligible securities*), as security for the faithful performance of its trust and other fiduciary duties equivalent to at least one percent (1%) of the book value of the total volume of trust, other fiduciary and investment management assets: *Provided,* That at no time shall such deposit be less than P500,000.

Scripless securities under the Registry of Scripless Securities (RoSS) System of the Bureau of Treasury (BTr) may be used as basic security deposit for trust and other fiduciary duties using the Guidelines enumerated in *Appendix Q-24* of this Manual.

The security for the faithful performance of PERA Administrator shall be separately accounted for and calculated as prescribed under Sec. 1121-Q and *Appendix Q-25* of this Manual.

***Eligible securities*.** Government securities which shall be deposited in compliance with the above basic security deposit shall consist of evidences of indebtedness of the Republic of the Philippines or of the Bangko Sentral or any other evidences of indebtedness or obligations the servicing and repayment of which are fully guaranteed by the Republic of the Philippines; or such other kinds of securities which may be declared eligible by the Monetary Board: *Provided*, That such securities shall be free, unencumbered, and not utilized for any other purpose: *Provided*, *further*, That such government securities shall have remaining maturity of not more than three (3) years from the date of deposit with the Bangko Sentral.

The requirement for the abovementioned government securities to have remaining maturity of not more than three (3) years from the date of deposit with the Bangko Sentral shall no longer apply starting 31 March 2018.

Valuation of securities and basis of computation of the basic security deposit requirement. For purposes of determining compliance with the basic security deposit under this Section hereof:

a. Prior to 31 March 2018:

(1) The amount of securities so deposited shall be based on their book value, that is, cost as increased or decreased by the corresponding discount or premium amortization.
(2) The base amount for the basic security deposit shall be the average of the month-end balances of total trust, investment management and other fiduciary assets of the immediately preceding calendar quarter.

Effective 31 March 2018, the provisions under items "*a.(1)"* and "a.(2)" shall no longer apply.

b. The following provisions on the valuation of eligible assets and computations of the basic security deposit requirement shall be adopted starting 31 March 2018:

(1) Government securities deposited with the Bangko Sentral shall be measured at fair value according to the marking-to-market guidelines for government securities prescribed under *Appendix Q-22,* subject to applicable haircuts.

The haircuts that shall be applied to the government securities shall be, as follows:

Residual Maturity of Government Security	Minimum Haircut (in Percent) for Basic Security Deposit
3 years and below	0.0
>3 years up to 5 years	2.0
>5 years	4.0

(2) The base amount for the basic security deposit shall be the total trust, investment management and other fiduciary assets reported as of the end of the calendar quarter.

Compliance with the basic security deposit requirement.

a. Compliance[1]. The trustee or fiduciary shall ensure compliance with the required basic security deposit at all times. Any deficiency arising from a withdrawal, replacement or redemption transaction must be corrected through the immediate posting of additional securities. In case a deficiency is calculated at the end of the calendar quarter, the trustee or fiduciary shall have a grace period of thirty (30) calendar days reckoned from the end of the reference calendar quarter within which to deposit with the Bangko Sentral the securities required under this Section.

(1) *Quarterly compliance.* The trustee or fiduciary shall comply with the basic security deposit requirement on a quarterly basis. In determining quarterly compliance, the fair value of government securities used as compliance with the basic security deposit requirement shall be reckoned as of the end of the calendar quarter and the base amount for the basic security requirement provided under Sec. 416-Q (*Valuation of securities and basis of computation of the basic security deposit requirement)* shall be applied.

Haircuts for government securities prescribed under this Section (*Valuation of securities and basis of computation of the basic security deposit requirement)* shall be determined based on the remaining maturity of the security from the end of the reference quarter, and applied on the fair value of the government securities used as compliance with the basic security deposit.

The trustee or fiduciary shall have a thirty (30)-calendar day grace period after the end of every quarter within which to deposit with the Bangko Sentral, government securities pursuant to existing regulations to comply with the basic security deposit requirement as of the preceding quarter-end.

(2) *Compliance upon deposit withdrawal, replacement or redemption.* The trustee or fiduciary shall ensure compliance with the basic security deposit requirement after every deposit, withdrawal, replacement or redemption of government securities. The basic security deposit requirement shall be the amount computed as of the quarter-end preceding the date of deposit, withdrawal, replacement or redemption pursuant to this Section (*Valuation of securities and basis of computation of the basic security deposit requirement)*. The fair value of the remaining government securities, adjusted for relevant haircuts, shall be based on amounts reported as of the quarter-end preceding the date of deposit, withdrawal, replacement or redemption, pursuant to this Section (*Valuation of securities and basis of computation of the basic security deposit requirement)*. The haircut shall be determined based on the remaining maturity of the security from the quarter-end preceding the date of the securities transfer transaction.

Securities used as compliance with the basic security deposit requirement that are issued within the calendar quarter shall be valued at their purchase price, adjusted for relevant haircuts that are determined based on their remaining maturity as of the purchase date.

b. *Required Reports.* Trustees or fiduciary shall submit the following reports in accordance with *Appendix Q-3.*

(1) Quarterly Report on Compliance with the Basic Security Deposit Requirement (BSD-Form-1); and
(2) Report on Basic Security Deposit Transactions (BSD-Form-2).

Trustees or fiduciary shall maintain adequate documentation (e.g., screenshots of fair values) to support the computation of their compliance with the basic security deposit requirement, which shall be made available to the Bangko Sentral upon request.

c. Other Procedural Requirements.

(1) Opening of a securities account. The guidelines on the opening of an account with the BTr Registry are provided in *Appendix Q-24.*

(2) Deposit, withdrawal or replacement. The trustee or fiduciary/investment manager shall input the details of securities transfer transactions that are properly supported by notification reports in the BTr Registry to effect the deposit, withdrawal or replacement of securities on the intended date of transfer in the BTr Registry. The input of details of transactions shall be made on or before 12:00 noon for withdrawal or replacement transactions, and on or before 3:30 pm for deposit transactions, on the intended date of transfer as provided in the BSD-Form-2.

Withdrawal or replacement transactions entered after the cut-off time shall be processed on the next banking day: *Provided*, That the trustee or fiduciary/investment manager re-enters the details of the withdrawal or replacement transaction on or before 12:00 noon of the next banking day: *Provided further*, That deficiency in the basic security deposit arising from failure of the trustee or fiduciary to input details of withdrawal or replacement transactions in the BTr Registry on the intended date of transfer shall cause the imposition of sanctions/penalties under this Section (*Compliance with the basic security deposit requirement*).

[1] The provisions on quarterly compliance and compliance upon deposit, withdrawal, replacement or redemption became effective on 31 March 2018.

Failure to enter or re-enter the transaction details on the next banking day will result in the cancellation of the previously submitted BSD-Form-2. To effect withdrawal or replacement transactions, the trustee or fiduciary shall re-submit the BSD-Form-2 in accordance with the prescribed timelines.

(3) Administration of Proceeds from Deposited Securities. Coupon or interest payments and the redemption value of matured securities that are deposited with the Bangko Sentral shall be credited to the DDA of the trustee or fiduciary or the DDA of the trustee or fiduciary settlement bank.

Trustees or fiduciary shall develop and maintain systems to ensure compliance with the required basic security deposit as prescribed in this Section (*Compliance with the basic security deposit requirement*).

d. *Sanctions.*

(1) The following sanctions shall be imposed for any deficiency in the basic security deposit for the faithful performance of trust, investment management and other fiduciary duties:

(a) On the QB:

(i) Monetary penalty/ies:

	Offense/Trust Asset Size		First	Second	Third and
Penalty per Calendar Day	QBs with Full Trust Authority and with Trust Assets of	Up to P500 million	P600.00	P700.00	P800.00
		Above P500 million but not exceeding P1 billion	P1,000.00	P1,250.00	P1,500.00
		Above P1 billion but not exceeding P10 billion	P2,000.00	P3,000.00	P4,000.00
		Above P10 billion but not exceeding P50 billion	P5,000.00	P6,000.00	P7,000.00
		Above P50 billion	P8,000.00	P9,000.00	P10,000.00

A quasi-bank/trust entity which incurs a deficiency with the basic security deposit within the quarter, or reports a deficiency with the basic security deposit as of the end of the quarter and fails to deposit government securities to comply with the said requirement within the thirty (30)-calendar day grace period, shall be considered deficient with the basic security deposit requirement from the date the deficiency is incurred up to date the deficiency is corrected or the succeeding quarter-end, whichever comes earlier.

(ii) Non-monetary penalty beginning with the third offense (all QBs) - Prohibition against the acceptance of new trust and other fiduciary accounts, and from renewing expiring trust and other fiduciary contracts up to the time the violation is corrected.

(b) On the trust officer and/or other officer(s) responsible for the deficiency/non-compliance:

(i) *First offense* - warning that subsequent violations shall be dealt with more severely;
(ii) *Second offense* - written reprimand with a stern warning that subsequent violations shall be subject to suspension;
(iii) *Third offense* - thirty (30) calendar day-suspension without pay; and
(iv) *Subsequent offense(s)* - sixty (60) calendar day-suspension without pay.

(2) Notwithstanding the execution of a basic security deposit, withdrawal, or replacement transaction, the Bangko Sentral is not precluded from imposing sanctions against the trustee or fiduciary for non-compliance with the regulations on the basic security deposit, if warranted.

(Circular Nos. 1032 dated 15 February 2019 and 998 dated 1 March 2018)

417-Q RESERVES AGAINST TRUST AND OTHER FIDUCIARY ACCOUNTS (TOFA)- OTHERS

In addition to the basic security deposit, institutions authorized to engage in trust and other fiduciary business shall maintain reserves on TOFA-Others, except accounts held under (1) Administratorship; (2) Trust Under Indenture; (3) Custodianship and Safekeeping; (4) Depository and Reorganization; (5) Employee Benefit Plans Under Trust; (6) Escrow; (7) Personal Trust (testamentary and living trust); (8) Executorship; (9) Guardianship; (10) Life Insurance Trust; (11) Pre-need Plans (institutional/individual); (12) Personal Equity and Retirement Account (PERA); and (13) Legislated and Quasi-Judicial Trust.

The reserves to be maintained shall be seventeen percent (17%).

Composition of reserves. The provisions of Sec. 212-Q shall govern the composition of reserves against TOFA-Others of institutions authorized to engage in trust and other fiduciary business.

For purposes of this Section hereof, a separate deposit account shall be maintained by the institutions with the Bangko Sentral exclusively for trust reserves which deposits in compliance with the reserve requirement shall not earned interest.

Computation of reserve position. An institution authorized to engage in trust and other fiduciary business shall calculate daily the required and available reserves on the value per books of its TOFA-Others, based on the seven-day week, starting Friday and ending Thursday including Saturdays, Sundays, holidays, non-business days and days when there is no clearing: *Provided*, That with reference to holidays, non- business days and days where there is no clearing, the reserve position at the close of business day immediately preceding such holidays, non-business days and days where there is no clearing, shall apply thereon. For the purpose of computing reserve position, the principal office in the Philippines and all branches and agencies located therein shall be treated as a single unit.

The required reserves in the current period (reference reserve week) shall be computed based on the corresponding levels of TOFA- Others of the prior week.

For purposes of computing the required and available statutory and liquidity reserves for TOFA- Others, the term value per books shall refer to the total volume of TOFA-Others less booked "Allowance for Probable Losses".

Reserve deficiencies; sanctions. The provisions of Sec. 215-Q shall govern the computation of reserve deficiencies for TOFA-Others of institutions authorized to engage in trust and other fiduciary business, including the sanctions provided in said Section.

Report of compliance. Every institution shall make a weekly report to the Bangko Sentral of its daily required and available reserves on TOFA-Others, to be submitted not later than the close of the third business day following the reference week.

(Circular Nos. 1025 dated 13 December 2018, 1004 dated 24 May 2018, 997 dated 15 February 2018, and 906 dated 10 March 2016)

418-Q REQUIRED RETAINED EARNINGS APPROPRIATION

An institution authorized to engage in trust and other fiduciary business shall, before the declaration of dividends, carry to retained earnings appropriated for trust business at least ten percent (10%) of its net profits realized out of its trust, investment management and other fiduciary business since the last preceding dividend declaration until the retained earnings shall amount to twenty percent (20%) of its authorized capital stock and no part of such retained earnings shall at any time be paid out in dividends but losses accruing in the course of its business may be charged against retained earnings.

419-Q UNSAFE OR UNSOUND MANNER

Whether a particular activity may be considered as conducting business in an unsafe or unsound manner, all relevant facts must be considered. An analysis of the impact thereof on the QB's/trust entity's operations and financial conditions must be undertaken, including evaluation of capital position, asset condition, management, earnings posture and liquidity position.

In determining whether a particular act or omission, which is not otherwise prohibited by any law, rule or regulation affecting QBs/trust entities may be deemed as conducting business in an unsafe or unsound manner, the Monetary Board, upon report of the head of the supervising sector of the Bangko Sentral based on findings in an examination or a complaint, shall consider any of the following circumstances:

a. The act or omission has resulted or may result in material loss or damage, or abnormal risk or danger to the safety, stability, liquidity or solvency of the institution;

b. The act or omission has resulted or may result in material loss or damage or abnormal risk to the institution's depositors, creditors, investors, stockholders, or to the Bangko Sentral, or to the public in general;

c. The act or omission has caused any undue injury, or has given unwarranted benefits, advantage or preference to the QB/trust entity or any party in the discharge by the director or officer of his duties and responsibilities through manifest partiality, evident bad faith or gross inexcusable negligence; or

d. The act or omission involves entering into any contract or transaction manifestly and grossly disadvantageous to the QB/trust entity whether or not the director or officer profited or will profit thereby.

The list of activities which may be considered unsafe and unsound is shown in *Appendix Q-28*.

In line with the statement of principles governing trust and other fiduciary business under Sec. 401-Q, the trustee, fiduciary or investment manager shall desist from the following unsound manner:

a. Entering in an arrangement whereby the client is at the same time the borrower of his own fund placement, or whereby the trustor or principal is a borrower of other trust, fiduciary or investment management funds belonging to the same family or business group of such trustor or principal;

b. Granting loans or accommodations to any trust committee member, officer and employee of the trust department except where such loans are obtained by said persons as members of an employee benefit fund of the trustee's own institution;

c. Borrowing from, or selling trust, other fiduciary and/or investment management assets to, the trust corporation or IH proper to cover portfolio losses and/or to guarantee the return of principal or income;

d. Granting new loans to any borrower who has a past due and/or classified loan account with the institution itself or its trust department; and

e. Requiring clients to sign documents in blank.

Sanctions. The Monetary Board may, at its discretion and based on the seriousness and materiality of the acts or omissions, impose any or all of the following sanctions provided under Section 37 of R.A. No. 7653 and Section 56 of R.A. No. 8791, whenever a QB/trust entity conducts business in an unsafe and unsound manner:

a. Issue an order requiring the QB/trust entity to cease and desist from conducting business in an unsafe or unsound manner and may further order that immediate action be taken to correct the conditions resulting from such unsafe or unsound manner;

b. Fines in amounts as may be determined by the Monetary Board to be appropriate, but in no case to exceed P30,000 a day on a per transaction basis taking into consideration the attendant circumstances, such as the gravity of the act or omission and the size of the QB/trust entity to be imposed on the QB/trust entity, their directors and/or responsible officers;

c. Suspension of lending or foreign exchange operations or authority to accept new deposit substitutes and/or new trust accounts or to make new investments;

d. Suspension of responsible directors and/or officers;

e. Revocation of quasi-banking license and/or trust authority; and/or

f. Receivership and liquidation under Section 30 of R.A. No. 7653.

All other provisions of Sections 30 and 37 of R.A. No. 7653, whenever appropriate, shall also be applicable on the conduct of business in an unsafe or unsound manner.

The imposition of the above sanctions is without prejudice to the filing of appropriate criminal charges against culpable persons as provided in Sections 34, 35 and 36 of R.A. No. 7653.

C. INVESTMENT MANAGEMENT ACTIVITIES

421-Q AUTHORITY TO PERFORM INVESTMENT MANAGEMENT

An IH may act as financial consultant, investment adviser or portfolio manager under Section 7 of P.D. No. 129, as amended. However, this shall not be construed as authority to engage in trust and other fiduciary business. Entities whose articles of incorporation[1] or any amendments thereto, include the purpose or power to act as financial consultant, investment adviser or portfolio manager shall secure the prior favorable recommendation of the Monetary Board before the filing of said articles of incorporation or amendments thereto with the SEC.

If an entity is found to be engaged in unauthorized investment management activities, whether as its primary, secondary or incidental business, the Monetary Board may impose administrative sanctions against such entity or its principal officers and/or majority stockholders or proceed against them in accordance with law.

The Monetary Board may take such action as it may deem proper such as, but may not be limited to, requiring the transfer or turnover of any IMA to duly incorporated and licensed entities of the choice of the client.

An entity not authorized to engage in investment management activities shall not advertise or represent itself as being engaged in investment management activities or represent itself as investment manager or use words of similar import.

[1] SEC Memorandum Circular No. 14 dated 8 December 2017, as amended by Circular No. 9 dated 18 July 2018

Starting year 2001, IHs authorized to engage in investment management activities shall renew their existing licenses yearly, subject to the implementing guidelines to be issued thereon.

Prerequisites for engaging in investment management activities. An entity before it may engage in investment management activities shall comply with the same pre-requisites for engaging in trust and other fiduciary business set forth in Sec. 411-Q however, the following terminologies shall then be used:

a. *Authority to engage in investment management activities* in lieu of acting as trustee or administering any trust or holding property in trust or on deposit for the use, or in behalf of others;
b. *Investment management activities* in lieu of trust and other fiduciary business;
c. *Investment Management Committee* In lieu of Trust Committee;
d. *Investment Management Officer* In lieu of Trust Officer; and
e. *Investment Management Department* In lieu of Trust Department.

Compliance with the foregoing, as well as with other requirements under existing regulations, shall be maintained up to the time the investment management authority is granted. An applicant that fails in this respect shall be required to show compliance for another test period of the same duration.

Pre-operating requirements. An institution authorized to engage in investment management activities shall, before engaging in actual operations, submit to the Bangko Sentral the following:

a. Government securities acceptable to the Bangko Sentral amounting to P500,000 as minimum basic security deposit for the faithful performance of investment management duties required under Sec. 424-Q (*Basic security deposit*);
b. Organization chart of the investment management department which shall carry out the investment management activities of the institution; and
c. Names and positions of individuals designated as chairman and members of the investment management committee, investment management officer and other subordinate officers of the investment management department.

422-Q ORGANIZATION AND MANAGEMENT

The provisions under Sec. 412-Q (except on *Confirmation of the appointment/designation of trust officer and independent professional*) shall govern the organization and management of institutions without trust license which are engaged in investment management activities only. The following terms shall, however, be used:

a. *Investment management activities* in lieu of trust and other fiduciary business;
b. *IMAs* in lieu of trust and other fiduciary accounts;
c. *Investment management committee* in lieu of trust committee;
d. *Investment management officer* in lieu of trust officer; and
e. *Investment management department* in lieu of trust department

423-Q CONDUCT OF INVESTMENT MANAGEMENT ACTIVITIES

The provisions of Sec. 415-Q shall govern the conduct of investment management activities of an institution without trust license that is engaged in investment management activities.

424-Q SECURITY FOR THE FAITHFUL PERFORMANCE OF INVESTMENT MANAGEMENT ACTIVITIES

Basic security deposit. Bangko Sentral-supervised financial institutions (BSFIs) authorized to engage in investment management activities shall deposit with the Bangko Sentral eligible government securities, pursuant to Sec. 416-Q (*Eligible securities*), as security for the faithful performance of its investment management activities equivalent to at least one percent (1%) of the book value of the total volume of investment management assets: *Provided*, That at no time shall such deposit be less than P500,000.

Scripless securities under the RoSS system of the BTr may be used as basic security deposit for the faithful performance of investment management activities using the guidelines in *Appendix Q-24*.

Eligible securities. The provisions of Sec. 416-Q (*Eligible securities*) shall govern the basic security deposit requirement for faithful performance of investment management activities.

Valuation of securities and basis of computation of the basic security deposit requirement. For purposes of determining compliance with the basic security deposit under this Section:

a. Prior to 31 March 2018:

   (1) The amount of securities so deposited shall be based on their book value, that is, cost as increased or decreased by the corresponding discount or premium amortization.

(2) The base amount for the basic security deposit shall be the average of the month- end balances of the total assets of investment management funds of the immediately preceding calendar quarter.

Effective 31 March 2018, the provisions under Items *"a.(1)"* and *"a.(2)"* shall no longer apply.

b. The following provisions on the valuation of eligible assets and computation of the basic security deposit requirement shall be adopted starting 31 March 2018:

(1) Government securities deposited with the Bangko Sentral shall be measured at fair value according to the marking-to-market guidelines for government securities under *Appendix Q-20*, subject to applicable haircuts.

The haircuts that shall be applied to the government securities shall be as follows:

Residual Maturity of Government Security	Minimum Haircut (In Percent) for Basic Security Deposit
3 years and below	0.0
> 3 years up to 5 years	2.0
> 5years	4.0

(2) The base amount for the basic security deposit shall be the total investment management assets reported as of the end of the calendar quarter.

Compliance with the basic security deposit requirement.

a. Compliance[1]. The investment manager shall ensure compliance with the required basic security deposit at all times. Any deficiency arising from a withdrawal, replacement or redemption transaction must be corrected through the immediate posting of additional securities. In case a deficiency is calculated at the end of the calendar quarter, the trustee or fiduciary shall have a grace period of thirty (30) calendar days reckoned from the end of the reference calendar quarter within which to deposit with the Bangko Sentral the securities required under this Section.

(1) *Quarterly compliance.* The investment manager shall comply with the basic security deposit requirement on a quarterly basis. In determining quarterly compliance, the fair value of government securities used as compliance with the basic security deposit requirement shall be reckoned as of the end of the calendar quarter and the base amount for the basic security deposit requirement provided under this Section (*Valuation of securities and basis of computation of the basic security deposit requirement*) shall be applied.

Haircuts for government securities prescribed under this Section (*Valuation of securities and basis of computation of the basic security deposit requirement*) shall be determined based on the remaining maturity of the security from the end of the reference quarter, and applied on the fair value of the government securities used as compliance with the basic security deposit.

The investment manager shall have a thirty (30)-calendar day grace period after the end of every quarter within which to deposit with the Bangko Sentral, securities pursuant to existing regulations to comply with the basic security deposit requirement as of the preceding quarter-end.

(2) *Compliance upon deposit, withdrawal, replacement or redemption.* The investment manager shall ensure compliance with the basic security deposit requirement after every deposit, withdrawal, replacement or redemption of government securities. The basic security deposit requirement shall be the amount computed as of the quarter-end preceding the date of deposit, withdrawal, replacement or redemption under this Section (*Valuation of securities and basis of computation of the basic security deposit requirement*). The fair value of the remaining government securities, adjusted for relevant haircuts, shall also be based on amounts reported as of the quarter-end preceding the date of deposit, withdrawal, replacement or redemption, pursuant to this Section (*Valuation of securities and basis of computation of the basic security deposit requirement*). The haircuts shall be determined based on the remaining maturity of the security from the quarter-end preceding the date of the securities transfer transaction.

Securities used as compliance with the basic security deposit requirement that are issued within the calendar quarter shall be valued at their purchase price, adjusted for relevant haircuts that are determined based on their remaining maturity as of the purchase date.

b. Required Reports. Trustees or fiduciary/investment managers shall submit the following reports in accordance with *Appendix Q-3:*

[1] The provisions on quarterly compliance and compliance upon deposit, withdrawal, replacement or redemption became effective on 31 March 2018.

(1) Quarterly Report on Compliance with the Basic Security Deposit Requirement (BSD-Form-1); and
(2) Report on Basic Security Deposit Transactions (BSD-Form-2).

Investment managers shall maintain adequate documentation (e.g., screenshots of fair values) to support the computation of their compliance with the basic security deposit requirement, which shall be made available to the Bangko Sentral upon request.

c. Other Procedural Requirements.

(1) Opening of a Securities Account. The guidelines on the opening of an account with the BTr Registry are provided in *Appendix 29*.

(2) Deposit, Withdrawal or Replacement. The investment manager shall input the details of securities transfer transactions that are properly supported by notification reports in the BTr Registry to effect the deposit, withdrawal or replacement of securities on the intended date of transfer in the BTr Registry. The input of details of transactions shall be made on or before 12:00 noon for withdrawal or replacement transactions, and on or before 3:30 pm for deposit transactions, on the intended date of transfer as provided in the BSD-Form-2.

Withdrawal or replacement transactions entered after the cut-off time shall be processed on the next banking day: *Provided*, That the investment manager re-enters the details of the withdrawal or replacement transaction on or before 12:00 noon of the next banking day: *Provided further*, That deficiency in the basic security deposit arising from failure of the investment manager to input details of withdrawal or replacement transactions in the BTr Registry on the intended date of transfer shall cause the imposition of sanctions/penalties under this Section (*Compliance with the basic security deposit requirement*). Failure to enter or re-enter the transaction details on the next banking day will result in the cancellation of the previously submitted BSD-Form-2. To effect withdrawal or replacement transactions, the investment manager shall re-submit the BSD-Form-2 in accordance with the prescribed timelines.

(3) Administration of Proceeds from Deposited Securities. Coupon or interest payments and the redemption value of matured securities that are deposited with the Bangko Sentral shall be credited to the DDA of the investment manager or the DDA of the investment manager's settlement bank.

Investment managers shall develop and maintain systems to ensure compliance with the required basic security deposit as prescribed in this Section (*Compliance with the basic security deposit*).

d. *Sanctions*

(1) The following sanctions shall be imposed for any deficiency in the basic security deposit for the faithful performance of investment management activity:

(a) On the QB:

(i) Monetary penalty/ies:

Penalty per Calendar Day	Trust Asset Size/Offense		First	Second	Third and subsequent offense(s)
	QBs with Full Trust Authority and with Trust Assets of	Up to P500	P600.00	P700.00	P800.00
		Above P500 million but not exceeding P1 billion	P1,000.00	P1,250.00	P1,500.00
		Above P1 billion but not exceeding P10 billion	P2,000.00	P3,000.00	P4,000.00
		Above P10 billion but not exceeding P50 billion	P5,000.00	P6,000.00	P7,000.00
		Above P50 billion	P8,000.00	P9,000.00	P10,000.00

An investment manager which incurs a deficiency with the basic security deposit within the quarter, or reports a deficiency with the basic security deposit as of the end of the quarter and fails to deposit securities to comply with the said requirement within the thirty (30)-calendar day grace period, shall be considered deficient with the basic security deposit requirement from the date the deficiency is incurred up to the date the deficiency is corrected or the succeeding quarter-end, whichever comes earlier.

(ii) Non-monetary penalty beginning with the third offense (all QBs) - Prohibition against the acceptance of new IMAs, and from renewing expiring investment management contracts up to the time the violation is corrected.

(b) On the Head of the Investment Management Department and/or other officer(s) responsible for the deficiency/non-compliance:

(i) First offense - warning that subsequent violations shall be dealt with more severely;
(ii) Second offense - written reprimand with a stern warning that subsequent violations shall be subject to suspension;
(iii) Third offense - thirty (30) calendar day-suspension without pay; and
(iv) Subsequent offense(s) - sixty (60) calendar day-suspension without pay.

(2) Notwithstanding the execution of a basic security deposit, withdrawal, or replacement transaction, the Bangko Sentral is not precluded from imposing sanctions against the investment manager for non-compliance with the regulations on the basic security deposit, if warranted.

(Circular Nos. 1032 dated 15 February 2019 and 998 dated 1 March 2018)

425-Q REQUIRED RETAINED EARNINGS APPROPRIATION

An institution authorized to engage in investment management activities shall, before the declaration of dividends, carry to retained earnings appropriated for trust business at least ten percent (10%) of its net profits realized out of its investment management activities since the last preceding dividend declaration until the retained earnings shall amount to twenty percent (20%) of its authorized capital stock and no part of such retained earnings shall at any time be paid out in dividends, but losses accruing in the course of its business may be charged against retained earnings.

426-Q UNSOUND MANNER

The provisions of Sec. 419-Q shall govern the unsound manner for IMAs.

D. GENERAL PROVISIONS

431-Q SECURITIES CUSTODIANSHIP AND SECURITIES REGISTRY OPERATIONS

(Transferred to Sec. 631-Q pursuant to Circular No. 1121 dated 8 June 2021, and as previously amended by Circular No. 1032 dated 15 February 2019)

432-Q CUSTODY OF ASSETS

All monies, properties or securities received by an institution in its capacity as trustee, fiduciary, or investment manager shall be kept physically separate and distinct from the assets of its other businesses and shall be under the joint custody of at least two (2) persons, one of whom shall be an officer of the trust or investment management department, designated for that purpose by the board of directors.

The investment of each trust, other fiduciary or IMA shall be kept physically separated from those of other trust, other fiduciary or IMAs, and adequately identified as the assets or property of the relevant account.

433-Q FEES AND COMMISIONS

An institution acting as trustee, fiduciary or investment manager shall be entitled to reasonable fees and commissions which shall be determined on the basis of the cost of services rendered and the responsibilities assumed: *Provided*, That where the trustee, fiduciary or investment manager is acting as such under appointment by a court, the compensation shall be that allowed or approved by the court: *Provided, further*, That in the case of UITFs, the fee which a trustee may charge each participant shall be fully disclosed by the trustee in the UITF plan, prospectus, flyers, posters and all forms of advertising materials to market the fund and in the documents given to clients as proof of participation in the fund. In no case shall such fees and commissions be based on the excess of the income of the trust, other fiduciary or investment management funds over a certain amount or percentage.

No trustee, fiduciary or investment manager shall solicit or receive rebates on commissions, fees and other payments for the services rendered to the trust, other fiduciary or IMA or beneficiaries of the trust, other fiduciary or IMA by stockbrokers, real estate brokers, insurance agents and similar persons or entities unless the rebates, fees and other payments shall accrue to the benefit of the trust, other fiduciary or IMA or the beneficiaries thereof.

Officers and employees of the trust department or investment management department of institutions, while serving as such, shall be prohibited from retaining any compensation for acting as co-trustee or fiduciary in the administration of a trust, other fiduciary or IMA.

No institution shall collect, for its own account, referral and/or arrangement fees, or any other fees that take the nature of payment to the institution from whatever source, in connection with loans sourced from trust funds managed by its trust department: *Provided*, That if such fees are collected, the same shall be properly disclosed to the trustor, and shall accrue to the benefit of the trust, in accordance with the provisions of Secs. 401-Q and 438-Q.

434-Q TAXES

The terms and conditions of trust, other fiduciary or IMAs, including UITF plans, shall contain provisions regarding the applicability of regulations governing taxation on the income of trust, other fiduciary or investment management accounts. For this purpose, the trustee, fiduciary or investment manager shall maintain adequate records and shall include information such as the amount of final income tax withheld at source and the amount withheld by the trustee, fiduciary or investment manager in the periodic reports submitted to trustors, beneficiaries, principals and other parties in interest.

With respect to tax-exempt UITFs, individual trust and IMAs established under Section 24(B)(1) of R.A. No. 8424, the bank's trust department or investment management department shall be responsible for obtaining the tax-exemption certifications which may be required by the BIR for the interest-bearing instruments where the UITFs, individual trust funds and investment management funds will be invested. Likewise, the banks shall ensure that the correct amount of final tax on the interest income on the interest-bearing instruments is withheld/deducted from the proceeds from the UITF participation, trust or IMA and remitted to the BIR in the event said tax becomes due such as when funds are withdrawn before the required five (5)-year holding period or when corporations happen to invest in the tax-exempt trust instruments created within the purview of No. 8424.

435-Q BOOKS, RECORDS AND REPORTS REQUIRED

Books and Records. The institution's trust department or investment management department shall keep books and records on trust, other fiduciary and IMAs separate and distinct from the books and records of its other businesses and shall follow the FRPTI prescribed by the Bangko Sentral.

Each trust, other fiduciary or IMA shall have a record separate from all other accounts except only in the case of UITF where the trustee can maintain common records utilizing pooled fund accounting method for each fund: *Provided*, That the trustee shall clearly indicate in the records the trustors owning participation in the UITF and the extent of the interest of such trustors.

Books and records shall contain full information relative to each trust, other fiduciary or IMA and shall be supported by duplicate signed copies of related documents. Said records and duplicate signed copies or related documents shall be compiled and kept as to allow inspection by Bangko Sentral examiners and submission of information or reports as may be required by competent authorities.

The QB's trust department or investment management department shall maintain separate general ledger accounts and other relevant sub-accounts for tax-exempt individual trust accounts, UITFs and individual management accounts established under Section 24(B)(1) of R.A. No. 8424 and Secs. 413-Q (*Tax-exempt individual trust* accounts) and 415-Q *(Operating and accounting methodology)*. The bank's trust department or investment management department shall also adopt appropriate systems, internal control procedures and audit trail mechanisms to ensure that the correct amount of final tax is withheld or exempted from such accounts.

Reports required to trustor, beneficiary, principal. An entity acting as trustee, fiduciary or investment manager shall render reports on the trust, other fiduciary or IMAs to the trustor, beneficiary, principal or other party in interest or the court concerned or any party duly designated by the court order, as the case may be. The reports shall be in such forms as to apprise the party concerned of the significant developments in the administration of the account and shall comply with the following guidelines:

a. All clients shall be provided with a schedule of earning assets which contains the following information:

   (1) Borrower's or issuer's name
   (2) Type of instrument;
   (3) Collateral, if any;
   (4) Principal amount or Acquisition cost;
   (5) Market value
   (6) Marking-to-market gains or losses;
   (7) Earning rate or yield;
   (8) Amount of earnings/Accrued interest;
   (9) Transaction date; and
   (10) Maturity date, if any

b. Additional reports shall be required depending on the investment discretion as follows:

(1) For Discretionary accounts, the reports shall also consist of balance sheet, income statement; investment activity report; and Return on Investment report.
(2) For Non-Discretionary accounts, a confirmation of transaction shall be required covering every purchase and sale instructions. It shall contain the following information:

(a) Transaction entered into;
(b) Borrower's or issuer's name;
(c) Amount involved;
(d) Terms of the security, including collateral, if any;
(e) Settlement price;
(f) Value date and settlement date; and
(g) Fees and charges related to the transaction

c. The reports, except for Item "*b.(2)*", shall be prepared in such frequency as required under the agreement but shall not in any case be longer than once every quarter; and
d. The reports shall be made available to clients not later than twenty (20) calendar days from the end of the reference date/period in Item *"c"* above.

Reports required to the Bangko Sentral. An institution acting as trustee, fiduciary or investment manager shall submit periodic reports prescribed by the appropriate supervising department of the Bangko Sentral on the institution's trust and other fiduciary business and investment management activities within the deadline indicated in *Appendix Q-3*.

Audited financial statements. The trust/investment management department of an institution shall adopt the provisions of the Philippine Financial Reporting Standards (PFRS)/Philippine Accounting Standards (PAS) in all respect, for purposes of preparing the AFS of its trust and other fiduciary and investment management activities. The guidelines under Sec. 171-Q (*Philippine Financial Reporting Standards/ Philippine Accounting Standards)* shall be adopted.

(Circular Nos. 1075 dated 07 February 2020 and 966 dated 11 July 2017)

436-Q AUDITS

Internal audit. The QB's internal auditor shall include among his functions, the conduct of annual audit of the trust department or investment management department. However, should the board of directors, in a resolution entered in its minutes, require the internal auditor to adopt a suitable continuous audit system to supplement and/or to replace the performance of the annual audit, the audit may be conducted in intervals commensurate with the assessed levels of risk in trust and investment management operations: *Provided*, That such intervals shall be supported and reassessed regularly to ensure appropriateness given the current risk and volume of the trust and investment management operations. In any case, the audit shall ascertain whether the institution's trust and other fiduciary business and investment management activities have been administered in accordance with laws, Bangko Sentral rules and regulations, and sound trust or fiduciary principles.

External audit. The trust and other fiduciary business and investment management activities of an institution shall be included in the annual financial audit by independent external auditors required under Sec. 173-Q.

The audit of the assets and accountabilities of the trust department/investment management department of an NBFI authorized to engage in trust and other fiduciary business/investment management activities, which shall cover at the minimum a review of the trust/investment management operations, practices and policies, including audit and internal control system, shall be subject to auditing standards to the extent necessary to express an opinion on the financial statements.

The audit of the trust/investment management department of an institution authorized to engage in trust and other fiduciary business/investment management activities shall be covered by a separate supplemental audit report to be submitted to the institution's board of directors and to the Bangko Sentral within the prescribed period containing, among other things, the complete set of financial statements of the trust/investment management department of an institution prepared in accordance with the provisions of Sec. 436-Q together with the other information required by the Bangko Sentral to be submitted under Sec. 173-Q: *Provided*, That a reconciliation statement of the balance sheet in the AFS and the FRPTI shall be prepared for each of the general categories of contractual relationships (i.e., UITF-trust, institutional- trust, and individual trust; other fiduciary; institutional-agency, and individual-agency; and special purpose trust) of the trust/investment management department of an institution with its clients following the format in *Appendix Q-52.*

Board action. A report of the foregoing audits, together with the actions thereon, shall be noted in the minutes of the board of directors of the institution.

437-Q AUTHORITY RESULTING FROM MERGER OR CONSOLIDATION

In merger of FIs, the authority to engage in trust and other fiduciary business and in investment management activities shall continue to be in effect if the surviving institution has such authority and the same has not been withdrawn by the Bangko Sentral. In case the surviving institution does not have previous authority but desires to engage in trust and other fiduciary business and in investment management activities, it shall secure the prior approval of the Monetary Board to engage in such business as part of its application for merger to enable it to incorporate such among its powers or purpose clause in its articles of incorporation, articles of merger, by-laws and such other pertinent documents. In the consolidation of FIs where the resulting entity is an entirely new one, it shall secure from the Monetary Board an authority to engage in trust and other fiduciary business or in investment management activities before it may engage in such business.

438-Q NON-TRUST, NON-FIDUCIARY AND/OR NON-INVESTMENT MANAGEMENT ACTIVITIES

The basic characteristic of trust, other fiduciary and investment management relationship is the absolute non-existence of a debtor-creditor relationship, thus, there is no obligation on the part of the trustee, fiduciary or investment manager to guarantee returns on the funds or properties regardless of the results of the investment. The trustee, fiduciary or investment manager is entitled to fees/commissions which shall be stipulated and fixed in the contract or indenture and the trustor or principal is entitled to all the funds or properties and earnings less fees/commissions, losses and other charges. Any agreement/arrangement that does not conform to these shall not be considered as trust, other fiduciary or investment management relationship.

The following shall not constitute a trust, other fiduciary and/or investment management relationship:

a. When there is preponderance of purpose or of intent that the arrangement creates or establishes a relationship other than a trust, fiduciary and/or investment management;

b. When the agreement or contract is itself used as a certificate of indebtedness in exchange for money placement from clients and/or as the medium for confirming placements and investment thereof;

c. When the agreement or contract of an account is accepted under the signature(s) of those other than the trust officer or subordinate officer of the trust department or those authorized by the board of directors to represent the trust officer;

d. Where there is a fixed rate or guaranty of interest, income or return in favor of its client or beneficiary: *Provided, however*, That where funds are placed in fixed income-generating investments, a quotation of income expectation or like terms, shall neither be considered as arrangements with a fixed rate nor a guaranty of interest, income or return when the agreement or indenture categorically states in bold letters that the quoted income expectation or like terms is neither assured nor guaranteed by the trustee or fiduciary and it does not, therefore, entitle the client to a fixed interest or return on his investments: *Provided, further*, That any of the following practices or practices similar and/or tantamount thereto shall be construed as fixing or guaranteeing the rate of interest, income or return:

   (1) Issuance of certificates, side agreements, letters of undertaking, or other similar documents providing for fixed rates or guaranteeing interest, income or return;

   (2) Paying trust earnings based on indicated or expected yield regardless of the actual investment results;

   (3) Increasing or reducing fees in order to meet a quoted or expected yield; and

   (4) Entering into any arrangement, scheme or practice which results in the payment of fixed rates or yield on trust investments or in the payment of the indicated or expected yield regardless of the actual investment results; and

e. Where the risk or responsibility is exclusively with the trustee, fiduciary or investment manager in case of loss in the investment of trust, fiduciary or investment management funds, when such loss is not due to the failure of the trustee or fiduciary to exercise the skill, care, prudence and diligence required by law.

Trust, other fiduciary and investment management activities involving any of the foregoing which are accepted, renewed or extended after 16 October 1990 shall be reported as deposit substitutes and shall be subject to the reserve requirement for deposit substitutes from the time of inception, without prejudice to the imposition of the applicable sanctions provided for in Sections 36 and 37 of R.A. No. 7653, and Sections 12 and 16 of P.D. No. 129, as amended.

439-Q RECEIVERSHIP

Whenever a receiver is appointed by the Monetary Board for an institution that is authorized to engage in trust and other fiduciary business or in investment management activities, the receiver shall, pursuant to the instructions of the Monetary Board, proceed to close the trust, other fiduciary and IMAs promptly and/or transfer all other accounts to substitute trustees, fiduciaries or investment managers acceptable to the trustors, beneficiaries, principals or other parties in interest: *Provided*, That where the trustee, fiduciary or investment manager is acting as such under appointment by a court, the receiver shall proceed pursuant to the instructions of said court.

The guidelines on Receivership and liquidation proceedings of NBQBs are provided in *Appendix Q-60*.

440-Q SURRENDER OF TRUST OR INVESTMENT MANAGEMENT LICENSE

Any NBFI which has been authorized to engage in trust and other fiduciary business or in investment management activities and which intends to surrender said authority shall file with the Bangko Sentral a certified copy of the resolution of its board of directors manifesting such intention. The appropriate supervising department of the Bangko Sentral shall then conduct an examination of the institution's trust, other fiduciary business and investment management activities. If the institution is found to have satisfactorily discharged its duties and responsibilities as trustee, fiduciary or investment manager, and has provided for the orderly closure or transfer of its trust, fiduciary or IMAs, the Monetary Board, on the basis of the recommendation of the examining department, shall order the withdrawal of the institution's authority to engage in trust and other fiduciary management activities.

E. GENERAL PROVISION ON SANCTIONS

499-Q SANCTIONS

Any violation of the provisions of this Part shall be subject to Sections 36 and 37 of R.A. No. 7653, without prejudice to the imposition of other sanctions as the Monetary Board may consider warranted under the circumstances that may include the suspension or revocation of an institution's authority to engage in trust and other fiduciary business or in investment management activities, and such other sanctions as may be provided by law.

In the case of non- compliance with the requirements of Secs. 401-Q and 412-Q *(Composition of trust committee* to *Responsibilities of administration* and *Confirmation of the appointment/designation of trust officer and independent professional)* additional sanction may be imposed, which may include but not limited to curtailment of fiduciary activities and/or introduction of new business.

The guidelines for the imposition of monetary penalty for violations/offenses with sanctions falling under Section 37 of R. A. No. 7653, as amended, on QBs, their directors and/or officers are shown under Sec. 1102-Q (*Other Payments of NBFIs)* and *Appendix Q-26.*

(Circular Nos. 1125 dated 20 August 2021 and 988 dated 20 December 2017)

PART FIVE

FOREIGN EXCHANGE OPERATIONS

501-Q AUTHORITY; COVERAGE

With prior approval of the Monetary Board, and subject to the provisions of Article III, Chapter IV of R.A. No. 7653 and Section 7(13) of P.D. No. 129, as amended, an IH may engage in foreign exchange operations which shall be limited to the servicing of project or program requirements of the following enterprises:

a. BSP-certified export-oriented firms;
b. Board of Investment-registered export-oriented firms; and
c. Construction or service firms with overseas contracts approved by the Department of Labor and Employment.

502-Q SPECIFIC FOREIGN EXCHANGE ACTIVITIES

The specific foreign exchange operations which IHs may undertake in connection with the preceding Section are:

a. Arranging or contracting of foreign loans for the account of the client firm, or contracting of foreign loans for the account of the IH for relending to the client firm, subject to pertinent Bangko Sentral rules and regulations;

b. Providing import- and export- related services to said firms such as letters of credit and other acceptable modes of payment, and the discounting of export drafts: Provided, That the total amount of foreign exchange transactions IHs may deal in shall not exceed the amount of the financing arranged or provided by the IH which involves the importation and exportation of related goods and services: Provided, further, That the amount of letters of credit outstanding of an IH shall not exceed, at any given time, twice its net worth, except as may otherwise be specifically authorized by the Monetary Board;

c. Holding foreign currency balances with foreign correspondents in connection with export-related services but in no case for speculative purposes;

d. Entering into forward foreign exchange contracts with the Bangko Sentral in connection with the foregoing activities; and/or

e. Such other related foreign exchange activities as may be approved by the Monetary Board.

503-Q SEPARATE DEPARTMENT

Any IH that may be authorized to engage in foreign exchange operations shall set up a separate department/unit to handle such operations.

504-Q APPLICABILITY OF PERTINENT BANGKO SENTRAL RULES

The foreign exchange operations of an IH are subject to all applicable Bangko Sentral rules and regulations on foreign exchange operations, including modifications thereof, considering the special nature of IH operations, and the sanctions in connection therewith.

Circular No. 988 dated 20 December 2017

PART SIX

TREASURY AND MONEY MARKET OPERATIONS

A. MONETARY OPERATIONS OF THE BANGKO SENTRAL

601-Q MONETARY OPERATIONS

Monetary operations refer to the buying/selling of government securities, lending/borrowing against underlying assets as collateral, acceptance of fixed-term deposits, foreign exchange swaps, and other monetary instruments of the Bangko Sentral aimed at influencing the underlying demand and supply conditions for money.

The following rules and regulations shall govern the buying and selling of government securities in the open market pursuant to Section 91 of R.A. No. 7653:

a. The Bangko Sentral may buy and sell in the open market for its own account:

(1) Evidences of indebtedness issued directly by the Government of the Philippines or by its political subdivisions; and
(2) Evidences of indebtedness issued by government instrumentalities and fully guaranteed by the Government.

The above evidences of indebtedness must be freely negotiable and regularly serviced and must be available to the general public through banks, QBs and accredited government securities dealers.

b. Outright purchases and sales of government securities shall be effected on the basis of the lowest price offered or the highest price bid.

c. Repo agreements shall be open to banks (except RBs), QBs and accredited government securities dealers and shall be made under the terms provided for under this Section on Repurchase agreements with the Bangko Sentral and the following:

(1) The repo agreement may be paid at any time before maturity at the option of the issuer of the repo agreement;

(2) In the event the securities covered by the repo agreement are not repurchased by the issuer of such agreement, they may be sold in the open market or transferred to the Bangko Sentral Portfolio; and

(3) Should an issuer of a repo agreement become no longer qualified as such, its outstanding repo agreement shall immediately become due and payable. If settlement of the amount due is not made within three (3) days from the date of its disqualification, the Bangko Sentral shall proceed to collect said amount in accordance with the preceding paragraph.

d. Reverse repo agreements covering the sale of portion of the security holdings of the Bangko Sentral portfolio may be made under the terms provided for under this Section on Reverse repurchase agreements with the Bangko Sentral.

Repurchase agreements with the Bangko Sentral.

a. Repo agreements may be entered into with the Bangko Sentral subject to the following terms and conditions:

(1) *Rate*. The rates on repurchase transactions shall be determined by auction, based on guidelines as prescribed by the Bangko Sentral.

(2) *Term*. The tenor of the repurchase agreement shall be set by the Bangko Sentral.

(3) *Security*. Only direct obligations of the National Government and its instrumentalities and political subdivisions, which are fully guaranteed by the Government, with a remaining maturity of at least six (6) days and longer than the tenor of the Repo Agreement and which are freely negotiable, unencumbered and regularly serviced, shall be eligible as underlying instruments for repurchase agreements, subject to the collateral requirement prescribed by the Bangko Sentral.

(4) *Delivery*. Delivery of the underlying instruments shall be made to the Bangko Sentral at the prescribed time based on guidelines as prescribed by the Bangko Sentral.

(5) At the maturity of the repo agreement, the Bangko Sentral Treasury Department shall return the underlying instruments to the issuer of such agreement.

b. US dollar (USD) denominated repo agreement facility may likewise be entered into with the Bangko Sentral, subject to the following terms and conditions, and as may be provided under the repo agreement facility:

(1) *Eligible borrowers*. The USD denominated repo facility shall only be available to banks with legitimate foreign currency denominated funding needs as may be provided under the repurchase facility: *Provided*, That the borrowing shall be for the account of the applicant bank and shall not be used to fund liquidity requirements of foreign branches, affiliates, or subsidiaries.

(2) *Security*. Only USD denominated obligations of the National Government of the Republic of the Philippines shall be eligible as collateral.

(3) The guidelines on the availment of USD repurchase agreement with the Bangko Sentral are shown in *Appendix 89* of the MORB.

The Monetary Board may, at its discretion, impose any or all of the following sanctions to a bank and/or its director/s or officer/s found to be responsible for violation of the provisions on the terms and conditions of the USD-denominated repo agreement with the Bangko Sentral:

(1) Termination of eligibility and pre-termination of any outstanding balance through repayment and/or sale of the collateral;
(2) Fine of up to P30,000 per transaction per day of violation reckoned from the time the violation was committed up to the date it is corrected;
(3) Suspension of interbank clearing privileges/immediate exclusion from clearing;
(4) Suspension of access to Bangko Sentral rediscounting facilities;
(5) Suspension of lending or foreign exchange operations or authority to accept new deposits or make new investments;
(6) Revocation of authority to perform trust operations;
(7) Revocation of quasi-banking license;
(8) Suspension for 120 days without pay of the officers and/or directors responsible for the violation; and
(9) Other sanctions as may be provided by law.

Reverse repurchase agreements with the Bangko Sentral. Reverse Repurchase Agreement (RRP) refers to the Bangko Sentral's monetary instrument where the Bangko Sentral sells government securities with a commitment to buy them back at a later date. RRPs shall be open to banks (UBs/KBs, digital banks and TBs) and QBs. These counterparties may enter into RRP transactions with the Bangko Sentral by participating in the RRP auction operation and said transactions with the Bangko Sentral shall be subject to the following terms and conditions:

a. *Rate*. The interest rate on the RRP facility shall be set by the Bangko Sentral in accordance with its monetary policy decision making.

b. *Term*. Tenors shall be set at a minimum of one (1) day (overnight) and a maximum of 364 days, or as determined by the Bangko Sentral.

c. *Auction Schedule*. RRP auctions will be held regularly based on a schedule prescribed by the Bangko Sentral.

d. *Volume*. The auction size will be determined by the Bangko Sentral based on its assessment of liquidity conditions.

e. *Eligible Security*. The underlying securities shall consist of securities representing obligations of the National Government. Such securities shall be valued at 100%. The Bangko Sentral shall prescribe the rules for the constructive delivery of securities.

f. Access to the RRP facility shall be governed by guidelines issued by the Bangko Sentral.

RRPs entered into by the Bangko Sentral with any authorized agent bank (AAB) are included in the definition of the term "*deposit substitutes*" under Sec. 22 (y) Chapter 1 of the National Internal Revenue Code of 1997.

The Bangko Sentral shall withhold twenty percent (20%) Final Withholding Tax (FWT) on its interest payments on RRPs, under the following guidelines:

(1) All overnight RRPs with the Bangko Sentral shall be subject to the twenty percent (20%) FWT, which is deducted from interest payments on each maturity date, for remittance to the BIR; and
(2) The Bangko Sentral shall withhold the twenty percent (20%) FWT from the concerned QBs interest income from RRPs with the Bangko Sentral upon payment or accrual, whichever comes first.

The concerned QBs shall bear the direct liability for, and the payment of, the Gross Receipts Tax (GRT) due on the interest payments above.

Settlement procedures on the purchase and sale of government securities under the repurchase agreements with the Bangko Sentral. Purchase and sale of government securities under repo agreements (GS/repo agreements) between and among banks and QBs and Bangko Sentral in connection with the latter's open market operations shall be settled in accordance with the provisions of the agreement for the PhilPaSS executed on 12 December 2002 between the Bangko Sentral and IHAP and any subsequent amendments thereto.

Borrowings from the Overnight Lending Facility (OLF) of the Bangko Sentral. The OLF is a Bangko Sentral standing facility which allows counterparties to obtain overnight liquidity from the Bangko Sentral on an open-volume basis against eligible collateral in order to cover short-term liquidity requirements. The OLF shall be open to banks (UBs/KBs, digital banks and TBs) and QBs.

Counterparties may avail of borrowings from the Bangko Sentral's OLF subject to the following terms and conditions:

a. Rate. The interest rate on borrowings from the OLF shall be set by the Bangko Sentral in relation to the policy interest rate.

b. Term. Tenor shall be for one (1) day only.

c. Volume. Open volume, limited only by the eligible collateral offered by the availing counterparties.

d. Eligible collateral. Only direct obligations of the National Government or of its instrumentalities and political subdivisions which are fully guaranteed by the Government, with a remaining maturity of not less than six (6) days and which are freely negotiable and are unencumbered, shall be eligible as collateral. The Bangko Sentral shall prescribe rules for the delivery of collateral.

e. Operating hours. The OLF is available on demand to eligible counterparties during trading hours as prescribed by the Bangko Sentral.

Overnight deposits with the Bangko Sentral. The Overnight Deposit Facility (ODF) is a Bangko Sentral standing facility which allows banks (UBs/KBs, digital banks and TBs) and QBs to place overnight deposits with the Bangko Sentral, subject to the following terms and conditions:

a. *Rate*. The interest rate on the ODF shall be set by the Bangko Sentral in relation to the policy interest rate.
b. *Term*. Tenor shall be one (1) day only.
c. *Volume*. No limit.
d. *Operating hours*. The ODF is available on demand to eligible counterparties during trading hours as prescribed by the Bangko Sentral.
e. Access to the ODF shall be governed by guidelines issued by the Bangko Sentral.

The Bangko Sentral shall withhold the twenty percent (20%) FWT on its interest payments on overnight deposit transactions, under the following guidelines:

(1) All overnight deposit transactions with the Bangko Sentral shall be subject tothe twenty percent (2O%) FWT, which is deducted from interest payments on each maturity date, for remittance to the BIR; and
(2) The Bangko sentral shall withhold the twenty percent (20%) FWT from the concerned QBs interest income from overnight deposits with the Bangko Sentral upon payment or accrual, whichever comes first.

The concerned QBs shall bear the direct liability for, and the payment of, the GRT due on the interest payments above.

The Bangko Sentral Term Deposit Facility (TDF). The TDF is a key liquidity absorption facility of the Bangko Sentral used to withdraw liquidity from the system in bulk.[1] Term deposit transactions shall be open to banks (UBs/KBs, digital banks and TBs) and QBs and may be effected with the Bangko Sentral subject to the following terms and conditions:

a. *Rate*. The interest rates shall be determined by auction, based on guidelines as prescribed by the Bangko Sentral.
b. *Term*. The tenor of term deposits shall be set by the Bangko Sentral.
c. *Auction Schedule*. TDF auctions will be held on a weekly basis or as determined by the Bangko Sentral.
d. *Volume*. The auction size will be determined by the Bangko Sentral and announced with an appropriate lead time ahead of the auction date.
e. Placements in the TDF shall be governed by guidelines issued by the FM-DMOD of the Bangko Sentral.

[1] The TDF also refers to the Term Deposit Facility in Participation Agreements and Rules and Regulation pertaining to the Bangko Sentral facilities under the Monetary Operations System.

The Bangko Sentral shall withhold the twenty percent (20%) FWT on its interest payments on term deposit transactions, under the following guidelines:

(1) All term deposit transactions with the Bangko Sentral shall be subject to the twenty percent (20%) FWT, which is deducted from interest payments on each maturity date, for remittance to the BIR; and
(2) The Bangko Sentral shall withhold the twenty percent (20%) FWT from the concerned QBs interest income from term deposits with the Bangko Sentral upon payment or accrual, whichever comes first.

The concerned QBs shall bear the direct liability for, and the payment of, the GRT due on the interest payments above.

The Bangko Sentral Issued Securities (Bills and Bonds). The issuance of Bangko Sentral Securities is an additional monetary instrument for liquidity management. Issued Bangko Sentral Securities shall be offered to QBs, subject to the rules and guidelines issued by the Bangko Sentral. The Bangko Sentral issued Securities shall be subject to the following terms and conditions:

a. Rate. The interest rates shall be determined by auction, based on the guidelines as prescribed by the Bangko Sentral.

b. Term. The tenor of the issued Bangko Sentral Securities shall be set by the Bangko Sentral.

c. Auction Schedule. Issued Bangko Sentral Securities shall be held on a weekly basis or as determined by the Bangko Sentral.

d. Volume. The auction size shall be determined by the Bangko Sentral and to be announced with sufficient lead time ahead of the auction date.

e. Placements in the Bangko Sentral Securities Facility (BSP-SF) shall be governed by guidelines issued by the Bangko Sentral.

f. Currency. Denomination shall be in Philippine peso.

g. Buy-back/Early Redemption Feature. The Bangko Sentral has the right to buyback or redeem Bangko Sentral Securities. The Bangko Sentral shall announce its intent to buy-back or redeem outstanding Bangko sentral securities prior to its Maturity Date, at par and by lot, subject to the terms and conditions as may be determined by the Bangko Sentral.

h. Secondary market trading. Issued Bangko Sentral Securities shall be available for trading in the secondary market and shall be done on the trading platform operated by the Philippine Dealing and Exchange Corporation (PDEx). Banks (UBs/KBs, digital banks and TBs), QBs and trust entities are eligible participants of Bangko Sentral Securities in the secondary market, subject to the rules and guidelines issued by the Bangko Sentral. *Provided*, That in the case of trust entities only unit investment trust funds may be invested in Bangko Sentral Seurities. The Trading and Settlement Window/Timeline for secondary market transactions shall follow the Self-Regulatory Organization (SRO) Rules, Guidelines and Conventions. In case of extensions or amendments related trading and settlement hours, these shall be made in close coordination with SEC, PDEx and related parties in the secondary market.

The Bangko Sentral shall withhold the twenty percent (20%) FWT on its coupon payments and discounts on issued Bangko Sentral Securities transactions, under the following guidelines:

(1) Coupon earned on all issued Bangko Sentral Securities transactions with the Bangko Sentral shall be subject to the twenty percent (20%) FWT, which tax is deducted on each maturity date and remitted to the BIR;

(2) Discount on issued Bangko Sentral Securities shall be subject to the twenty percent (20%) FWT, which tax shall be paid upon issuance of the issued Bangko Sentral Security to form part of the net settlement amount; and

(3) The Bangko Sentral shall withhold the twenty percent (2O%) FWT from the concerned QBs coupon receipts from issued Bangko Sentral Securities transactions upon payment or accrual, whichever comes first.

The concerned QBs shall bear the direct liability for, and payment of, the GRT due on the coupon payments above.

Bangko Sentral trading windows and services during Philippine holidays. The guidelines on Bangko Sentral's trading windows and services during Philippine holidays are shown in *Appendix Q-51*.

Prohibition against funds from non-residents being accepted in the TDF, ODF and BSP-SF (primary and secondary markets). The TDF, ODF, and BSP-SF are monetary instruments deployed by the Bangko Sentral for the purpose of managing domestic liquidity in the financial system. These facilities should not be made available for opportunistic investment activities funded from non-resident sources. Further, placements in the TDF, the ODF and the BSP-SF are contractual in nature and thus shall be governed by the intent of the contracting parties. In keeping with the nature of these facilities, counterparties of the Bangko Sentral shall comply with the Guidelines on the Prohibition Against the Use of Funds from Non-Resident Sources for Placements in the Bangko Sentral's TDF, the ODF and the BSP-SF, as shown in *Appendix Q-48.*

(Circular Nos. 1130 dated 23 November 2021, 1095 dated 08 September 2020, 1043 dated 02 August 2019, 961 dated 02 June 2017, M-2016-016 dated 18 November 2016, Circular Nos. 921 dated 22 August 2016, and 913 dated 02 June 2016)

B. TREASURY OPERATIONS

611-Q TREASURY OPERATIONS

*Policy statement***.** The Bangko Sentral is cognizant that treasury activities may expose BSFIs to significant risks along with profitable opportunities. These regulations are being issued to set out minimum expectations on BSFIs' treasury activities pursuant to Section 4 of R.A. No. 8791 or the General Banking Law of 2000, which recognizes the authority of the Bangko Sentral to issue rules of conduct and establish standards of operation for its supervised financial institutions. These regulations, which cover the governance and operation of the trading function, among others, are aligned with the thrust of the Bangko Sentral to ensure that the activities of BSFIs are undertaken with prudence and integrity, and that these are supported by commensurate risk management systems and internal controls.

Treasury operations.[1] A BSFI's treasury activities may be a significant source of operational risk,[2] apart from giving rise to market, liquidity and credit risks.[3] Losses to the institution may arise from the failure to meet professional obligations to clients, faulty product design, unethical business practices, and the failure to execute transactional processes. The institution must likewise be cognizant of the increased exposure to reputational risk in the presence of such factors.

In this regard, the operational risk management framework for treasury activities shall include the following elements: a strong governance structure that safeguards the integrity of the Treasury unit, especially the trading function; comprehensive policies and procedures; effective internal controls; a reliable management information system that facilitates the comprehensive monitoring and timely reporting of exposures; and a robust process for dealing with clients.

The BSFI shall:

a. Conduct its treasury activities with a high degree of integrity. Consistent with the principles embodied in Sec. 132-Q (*Specific duties and responsibilities of the board of directors*), the board of directors shall be primarily responsible for establishing the tone of good governance from the top and setting standards of appropriate and ethical behavior for itself, senior management, and other employees. The board shall ensure compliance with 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.

   In accordance with the board's duty to articulate acceptable and unacceptable activities, transactions and behaviors (collectively referred to as "unacceptable practices"), it must adopt a code of conduct and standards of practice that are binding on the Treasury unit, especially personnel involved in risk-taking. The code and standards should highlight and provide specific guidance on upholding market integrity and professionalism. Unacceptable practices refer to (a) practices that undermine market integrity which include engaging in trading transactions which have the effect, or are likely to have the effect, of creating a false or misleading appearance of active trading in any security, currency or commodity, or with respect to the market for, or the price of, any security, currency or commodity (e.g., pre-arranged transactions, wash sales, painting the tape and marking the close), and (b) practices that result in the misstatement of the BSFI's financial condition, results of operations, disclosures and prudential reports. The code and standards should likewise include safeguards to prevent conflict of interest or self-dealing in any form when allowing personnel to deal for their own account.

   The code and standards should highlight and provide specific guidance on upholding market integrity and professionalism. Practices which undermine market integrity include engaging in trading transactions which have the effect, or are likely to have the effect, of creating a false or misleading appearance of active trading in any security, currency or commodity, or with respect to the market for, or the price of, any security, currency or commodity. The code and standards should likewise include safeguards to prevent conflict of interest or self-dealing in any form when allowing personnel to deal for their own account.

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[1] This Section should be read in conjunction with existing regulations on Operational Risk Management.

[2] Operational risk refers to the risk of loss resulting from inadequate or failed internal processes, people and systems; or from external events. This definition includes legal and compliance risks.

[3] BSFIs should refer to Sec. 144-Q for the Guidelines on Market Risk Management, Sec. 145-Q for the Guidelines on Liquidity Risk Management and Sec. 143-Q for the Guidelines on Sound Credit Risk Management Practices.

The code and standards shall be complementary to any codes adopted by the entire institution, as well as those promulgated by the industry. It is likewise the responsibility of the board to institute mechanisms to ensure compliance with the provisions of the code of conduct and the standards of practice, as well as to mete out appropriate sanctions for violations thereof.

b. Conduct Treasury activities within a board-approved structure that is designed to meet the BSFI's objectives while enabling the strict enforcement of controls. The structure shall clearly distinguish between different functions (e.g., between asset liability management trading/dealership, underwriting, and brokering) and recognize the need for effective separation between operational units. The scope of authority and responsibility of each personnel shall be adequately defined, documented, and clearly communicated.

c. Appoint personnel who possess a high degree of integrity and sufficient expertise to understand the financial instruments dealt and transactions entered into by the Treasury unit. These qualifications shall not only apply to personnel who originate and process the transactions but also to those who are responsible for reviewing the transactions' conformity to the BSFI's accepted trading practices. There shall likewise be manpower adept at operating and maintaining the MIS.

d. Segregate the duties of the front, risk control and back office functions. The dealers in the front office are primarily responsible for transacting and managing positions. In this regard, the settlement and confirmation of transactions, the recording of contracts in the accounting system, the revaluation of positions, the reconciliations and procedures required to avoid errors, and other related processes in the back office shall be performed outside the dealing room to ensure objectivity and to prevent manipulation or fraud. There should be comprehensive and well-documented policies and procedures that describe the activities performed by each function.

e. Provide for the prompt evaluation and escalation of suspicious trading trends and patterns, and unusual gains or losses. While the primary responsibility for ensuring that transactions are undertaken with integrity lies with front office personnel, there should be units tasked to perform reviews of treasury activities. The unit responsible for executing such reviews shall be independent from the risk-taking function and accorded sufficient resources and stature in the institution. In this way, it shall be empowered to quickly escalate any activity that seems unusual or inconsistent with compliance, financial and operational controls to the appropriate authorities. *"Appropriate authorities"* shall refer to persons, units, or committees that are independent of the Treasury function and its management but possess equivalent or higher stature, such as the chief executive officer, chief operating officer, the chief risk officer, the chief compliance officer, or a Board-level committee. Personnel tasked to perform reviews shall have, among others, sufficient understanding of the strategies engaged in by trading desks to allow them to evaluate whether trading activities are aligned with the risk appetite of the financial institution.

f. Regularly and actively engage the control functions namely, risk management, internal audit and compliance, in the oversight of treasury activities. Owing to their inherent responsibilities and stature within the BSFI, the control functions are well placed to perform reviews and render assessments of the Treasury unit and its activities. The operational risk management framework shall include tools and mechanisms to identify, measure, monitor and control risks in all aspects of treasury operations. As an example, risk and performance indicators may consist of those that identify errors in deal entry, track the cancellation of deals, analyze unusual trading activity, and flag limit exceptions, among others. Meanwhile, the compliance function/system referred to in Sec. 161-Q and Sec. 161-Q (*Compliance function*) is responsible for the regular conduct of reviews to ensure that the BSFI's activities conform to applicable laws, rules, and regulations, including securities laws, as well as its obligations as a market participant. Lastly, internal audit shall be tasked with evaluating the Treasury unit's compliance with the BSFI's own policies and procedures, especially in the conduct of trading activities, in accordance with Sec. 163-Q (*Duties and responsibilities of the internal audit function or the chief audit executive*). The scope of internal audit shall likewise include the review of the performance of risk management and compliance duties in respect of treasury activities.

g. Employ treasury systems that are able to support the volume and complexity of the treasury transactions in the areas of deal entry, confirmation, settlement and accounting. Institutions that engage in heavy trading should endeavor to move to the use of straight-through processing to minimize input errors. On the other hand, institutions whose processes involve manual intervention should ensure that the integrity of data is preserved through proper controls.

h. Ensure that the MIS is able to serve the needs of its users. The MIS should enable the accumulation and production of accurate and timely financial, regulatory, and management reports. At a minimum, management reports should highlight trading positions, profits/losses, and limit utilization. If the institution uses more than one (1) system for its information needs, it should establish controls and perform reconciliations to minimize the likelihood of producing corrupted consolidated data.

i. Subject new products to a rigorous approval process. The handling of new products shall be embodied in an internal policy that, among others, defines the circumstances under which a product shall be considered "new". The policy shall likewise contain guidelines for the review of the product, including the conduct of an analysis of its risks, costs and benefits to the institution; the identification of product features, uses, and target markets, as applicable; potential risks and mitigants to such risks; and the procedures involved in operationalizing the product. The policy shall identify the stages within the product development process at which approvals shall be obtained and from whom. All relevant units should sign off on the product program as part of the new product approval process.

j. Act with honesty, fairness, and professionalism, and pursue the best interests of its clients. Due to the increasingly sophisticated products being introduced in the market, a BSFI acting as a dealer or broker shall have a clearly articulated strategy for the sale and marketing of financial products. The BSFI is expected to manage the risks arising from such activities and protect the interest of its clients. In this regard, a BSFI shall have appropriate policies, procedures and controls in place to ensure the suitability of products being offered to its clients. It shall ensure that (1) the client understands the nature of the transaction and the risks involved and (2) the transaction meets the client's financial objectives and is aligned with his/its risk tolerance. It shall also provide sufficient, accurate and comprehensible information about the products, including inherent risks, in a clear and balanced manner to enable its clients to make informed financial decisions. The BSFI shall likewise use reasonable diligence to ascertain the best market for the products offered to customers and buy and sell in such market so that the result to the customer is as favorable as possible under prevailing market conditions.

Management should refer to the existing Consumer Protection Framework and Sales and Marketing Guidelines under Sec. 612-Q.

k. Uphold the accountability in its treasury activities by retaining reliable, accurate, and complete records of transactions. In accordance with Sec. 001-Q, deals or transactions that are consummated orally or in written form should be coursed through official recorded media. It shall be the responsibility of the BSFI to ensure that other parties to the transaction are aware that a record of the same is being made and shall be deemed part of the formal documentation of the BSFI's transactions. Moreover, it shall also be the responsibility of the BSFI to inform its counterparties that the records of such transactions may be disclosed to regulators. To ensure effective compliance with these requirements, the official telephone lines used by the BSFI to consummate deals or transactions should have an automatic voice-prompted announcement at the start of the conversation/transaction between the BSFI and its counterparties stating that: (1) said conversation/transaction will be recorded; and (2) the recording and/or contents thereof may be disclosed to regulators. The recordings of the conversations and any other records of the exchanges pertaining to the said deals or transactions should be placed under custody of an independent unit and stored in a manner that is practicable to retrieve.

The failure of an institution covered by these guidelines to consistently observe the same may be considered by the Bangko Sentral as conducting business in an unsafe or unsound manner, subject to applicable provisions of laws and regulations.

Supervisory enforcement actions. The Bangko Sentral reserves the right to deploy its range of supervisory tools to promote adherence to the requirements set forth in these guidelines and bring about timely corrective actions and compliance with Bangko Sentral directives. In this regard, the Bangko Sentral may, among others, issue directives to refrain from engaging in treasury activities with serious supervisory issues. Sanctions may likewise be imposed on the BSFI and responsible persons, which may include restrictions or prohibitions from certain authorities/activities; and warning, reprimand, suspension, removal and disqualification of concerned directors, officers and employees.

(Circular Nos. 1088 dated 11 May 2020, 972 dated 22 August 2017, 970 dated 22 August 2017, and 957 dated 17 April 2017)

612-Q SALES AND MARKETING GUIDELINES FOR FINANCIAL PRODUCTS[1]

General principles. A BSFI shall always act with honesty, fairness, and professionalism, and pursue the best interests of its clients. Due to the increasingly sophisticated products being introduced in the market, a BSFI acting as a dealer or broker shall have a clearly articulated strategy for the sale and marketing of financial products. The BSFI is expected to manage the risks arising from such activities and protect the interest of its clients. In this regard, a BSFI shall have appropriate policies, procedures and controls in place to ensure the suitability of the products being offered to its clients. It shall ensure that (1) the client understands the nature of the transaction and the risks involved and (2) the transaction meets the client's financial objectives and is aligned with the client's risk tolerance. It shall also provide sufficient, accurate and comprehensible information about the products, including inherent risks, in a clear and balanced manner to enable its clients to make informed financial decisions.

[1] BSFIs shall be given three (3) months from 28 November 2015 to make appropriate changes in their sales and marketing policies, processes and materials in order to comply with the requirements of Sec. 612-Q as well as Sec. 612-Q (*Scope of application*) to Sec. 612-Q (*Enforcement actions*).

The BSFI shall be guided by the principle of proportionality in setting policies and procedures for its sales and marketing activities. It shall differentiate between less and more sophisticated clients, and tailor the manner by which they are engaged in accordance with such sophistication. Controls shall be in place to ensure that the BSFI complies with its internal policies and procedures, as well as relevant rules and regulations. At the minimum, BSFIs must satisfy the expectations set out in these guidelines.

The BSFI's sales and marketing policies, procedures and controls shall form part of its consumer protection risk management system, consistent with the regulations on financial consumer protection set forth under Part Ten.

Scope of application. These guidelines prescribe the minimum standards for sales and marketing activities of BSFIs acting as dealers or brokers of financial products.

These shall apply to all banks and non-bank financial institutions performing quasi-banking functions. Trust departments shall not be covered by these regulations; they shall continue to be governed by the provisions of Part IV as applicable. Likewise, cross-selling activities shall not be covered by these guidelines; they shall be governed by the provisions of Sec. 113.

Definition of terms. For purposes of this section, the following terms shall have the meanings set forth below:

a. *Financial products* – refer to debt and equity securities, hybrid securities, derivatives as defined under Sec. 612-Q, securitization structures, and similar products with substantial investment characteristics.

b. *Broker* - a person engaged in the business of buying and selling securities for the account of others.

c. *Dealer* - a person who buys and sells securities for own account in the ordinary course of business.

d. *Complex products* – refer to financial products whose terms, features and risks are not reasonably likely to be understood by a non-sophisticated client because of their complex structure, and which are also difficult to value, particularly when there is a very limited or no secondary market.

Client suitability guidelines. A BSFI shall ensure that the financial products it recommends to a client are appropriate for that client through a client suitability process, which involves obtaining client information, classifying a client according to financial sophistication and risk tolerance, and conducting a suitability review.

a. *Client Information*

The BSFI shall obtain necessary and sufficient information about the client that will serve as bases for its suitability assessment. At a minimum, the following information shall be obtained in addition to the basic account information:

(1) Investment amount/investible funds or amount of exposure to be hedged;

(2) Financial situation - the client's financial standing, which includes information on assets, net worth, financial commitments, regular income, and capacity to withstand losses arising from financial transactions;

(3) Knowledge of financial products - the client's knowledge and understanding of the financial markets and products and the risks involved therein;

(4) Investment/hedging experience - the nature of investments and/or derivatives transactions undertaken by the client, including the length of time, frequency of dealings, and the extent to which he/it has relied on the advice of a bank or a financial advisor, if any;

(5) Financial objectives - the client's goal or purpose for entering into a transaction, whether it be for regular income, capital appreciation, capital preservation, maintenance of purchasing power, hedging as against investment, and/or long-term buy and hold as opposed to short-term active trading;

(6) Risk appetite – the level of risk a client is willing to take;

(7) Holding period or investment horizon – the length of time over which the position or exposure to be hedged will be held by the client;

(8) Regulatory and legal constraints – prohibitions or limitations imposed on the activity of the client by existing laws, rules, and regulations, and;

(9) Liquidity needs – the client's need to convert positions into cash and the timing of such requirement.

To foster cooperation from the client, the BSFI shall explain the reason for assessing suitability. If the BSFI is unable to obtain sufficient information, it shall refrain from offering or recommending any financial product.

A BSFI may design and use its own system for obtaining client information, which may include questionnaires and interviews. However, pre-formatted questions and responses shall be fit for the purpose and presented in a clear and understandable manner. Likewise, technical or unfamiliar terms shall be explained as needed, in order to prevent different interpretations and/or erroneous responses.

While the client is responsible for providing accurate and updated information, BSFI personnel shall exercise diligence in reviewing the consistency of the responses and reliability of the information provided based on available documents, such as publicly disclosed information and those obtained from the client's existing contractual relationships with the BSFI. It is highly recommended that the BSFI requests for documents to support the client's representations, particularly where the client wishes to transact in complex products. Subsequent changes to client information, if any, shall be adequately documented and concurred with by the client along with the discussions and/or clarifications made.

For a legal entity or a group of two or more natural persons, the BSFI shall obtain evidence that: (1) the client is specifically authorized to enter into all or specific kinds of financial transactions, and (2) the client's representative/s is/are authorized to carry out transactions on behalf of the entity/other parties, in accordance with the applicable legal framework.

When gathering information from a representative, the BSFI should be able to demonstrate that it has taken steps to ascertain that the information obtained is reflective of the entity or group's situation. In addition, it shall determine if the client has competent/qualified personnel to handle the proposed activities.

If a corporate client seeks to participate in complex products, the BSFI shall require the client to incorporate in the document authorizing the latter's activities that it likewise has appropriate risk management systems sufficient to manage and monitor the risks it will take.

At a minimum, client information, including client classification, shall be reviewed and updated prior to transacting in a product that is new to the client, or earlier in case of material changes in the client's financial situation or goals. Adequate controls shall be implemented to ensure the confidentiality and security of client information.

b. *Client Classification*

Based on the information obtained from a client, a BSFI should be able to classify a client into one of the following categories according to financial sophistication:

(1) *Market counterparty* - refers to any financial institution, only with respect to the instruments in which it is authorized to engage as a broker dealer;
(2) *Sophisticated institutional client* - refers to an institution that is not a market counterparty but has the level of net worth, knowledge, expertise, and experience to deal with financial products;
(3) *Sophisticated individual client* - refers to an individual who has demonstrated to the BSFI that he has the level of net worth, knowledge and experience to deal with financial products; or
(4) *Other clients* – refer to all other institutional or individual clients not categorized as market counterparty, sophisticated institutional client or sophisticated individual client.

BSFIs are encouraged to adopt a more granular categorization according to financial sophistication, provided that the categories can be mapped into the broad classifications above and the differences between categories are clearly set out.

In addition, a BSFI shall classify a client according to risk tolerance. This entails assessing the client's preferences, willingness to take on the risks associated with a product, and ability or capacity to absorb the losses that may arise from such product, as well as whether such losses will have a detrimental impact on the client's financial condition. At a minimum, a BSFI's classification of a client according to risk tolerance shall include, but need not be limited to, the following categories:

(1) *Conservative* - Client prefers an investment and/or hedging strategy where the primary goal is to prevent the loss of principal;
(2) *Moderate* - Client is willing and able to expose funds to a moderate level of risk in consideration for higher returns or to meet certain objectives; and
(3) *Aggressive* - Client is willing and able to accept higher risks involving volatility of returns and even possible loss of investment in return for potentially higher long-term results.

Whenever a scoring system is used for client profiling, the BSFI shall ensure that the system is robust, fit for the purpose, and adequately tested. Any limitation in the system shall be mitigated through client discussions and the suitability review process. The system shall be calibrated as necessary to reflect appropriate results.

The BSFI shall make a record of the classification under which each client is categorized, including sufficient information to support the categorization. The classifications of the client according to sophistication and risk tolerance shall serve as bases for the BSFI's product offerings and the level of disclosures required.

c. Suitability Review

Before proposing or recommending a particular product to a client, a BSFI shall determine that the product is:

(1) Suitable to the client's needs, financial situation, and objectives;
(2) Consistent with the client's mandate, risk tolerance, and constraints; and
(3) Aligned with the client's knowledge and experience, such that he/it understands the nature of and risks associated with the product.

Likewise, the BSFI shall inform its client of alternative products that are suitable to his/its circumstances.

A BSFI shall maintain a record of the assessment as well as all information used as bases of its suitability review. This includes written documentation to the extent that such was created to evidence interviews and analyses made in the performance of its due diligence process. The BSFI is expected to conduct a more in-depth assessment before offering complex products. It is highly recommended that a BSFI requires a client to sign his/its conformity to the suitability assessment (including the information on which it is based) in order to avoid disputes with the client.

A client who is classified as conservative may only transact in plain vanilla financial products as follows: (i) peso-denominated Government Securities representing direct obligations of the Government of the Republic of the Philippines; (ii) foreign currency-denominated Government Securities representing direct obligations of the Government of the Republic of the Philippines; (iii) highly liquid sovereign bonds, corporate bonds, and commercial papers issued off-shore rated at least "AA-" or its equivalent by a reputable international credit rating agency; (iv) highly liquid domestic corporate bonds and commercial papers rated at least "AAA" or its equivalent by a reputable credit rating agency; and/or (v) foreign exchange derivatives solely for hedging, subject to the results of the suitability review.[1]

In cases where the client is classified as a market counterparty, the BSFI does not need to comply with the required suitability review, considering the client's recognized sophistication. However, a BSFI should be able to provide sufficient support for its classification.

Appropriate controls shall be in place to deter unauthorized overriding of the results of the suitability assessment. A BSFI shall only offer the range of products that is viewed as suitable for the client. Nevertheless, it is recognized that, in certain instances, a client may insist on transacting in a particular product that has previously been assessed as unsuitable for his/its profile. In such cases, the BSFI shall obtain the client's confirmation in writing that:

(1) The BSFI has informed the client of the protections he/it may lose and conversely, of the risks that he/it is exposed to,
(2) The client still wishes to proceed with the transaction despite the BSFI's assessment, and
(3) The client fully understands and is willing to take the risks attendant to the product to be availed of.

However, in no case shall the BSFI offer to its clients the option to automatically and comprehensively waive the outcome of the client classification process and the resulting protections offered by the rules on client suitability.

Disclosures. A BSFI shall always be mindful of its statements regarding its products/services, whether the statements pertain to promotion, marketing or sale thereof or in the course of making the required disclosures. It shall institute measures to ensure that its clients understand the nature of and risks in a financial transaction. Although a BSFI can tailor-fit information, marketing and sales presentations/materials depending upon the sophistication of its client, it shall institute measures to ensure that its clients understand the nature of the financial transaction. The BSFI shall also take further steps to adequately disclose the attendant risks of the financial transactions when dealing with an unsophisticated client, either generally or with respect to a particular product being offered. A BSFI shall adopt standards for its publications/materials/disclosure statements and regularly review the aforementioned documents to ensure that they meet the standards.

[1] The BSFI is expected to have an internal policy for the identification of reputable credit rating agencies and prudent use of external credit assessment.

A BSFI shall not misrepresent or give a false impression of the financial products it offers in any of its advertisements, electronic communications, written materials (whether publicly disseminated or not) or oral representations. A misrepresentation is any statement that deviates from the truth or omits a material fact or even tends to mislead the recipients.

a. *Financial promotion* (marketing and sales)

A BSFI embarking on a financial promotion, whether through a direct offer or information/sales publications, shall ensure that it gives sufficient information on the entire transaction, including the underlying financial instruments, if any, to enable a client to make an informed decision. A BSFI shall prominently indicate its name in all its promotional materials and specify its role or capacity in the transaction (e.g., issuer, dealer, broker).

A financial promotion is considered clear, fair and not misleading if all of the following requisites are present:

(1) The information provided does not only emphasize the potential benefits of the product but also presents a fair and prominent description of the relevant risks and assumptions;

(2) It draws the customer's attention to the warnings, exclusions and disclaimers in all documents relating to the financial product;

(3) The design, content or format of the presentation does not disguise, obscure or diminish the significance of any statement, warning or other matters that the customer should be aware of;

(4) A client, by himself, can discern from the presentation whether a statement is a fact, promise or forecast;

(5) The accuracy of all material statements of fact can be substantiated;

(6) Any comparison or contrast of a product offered is made with another product that is intended to meet the same needs or to serve the same purpose. The comparison or contrast shall include all relevant factors. The facts presented shall be verifiable; alternatively, the relevant assumptions shall be disclosed;

(7) No reference to an approval by a regulatory body or its officials is made, unless a written approval was actually obtained;

(8) A recommendation to consult/refer to a financial advisor is made; and

(9) It does not omit any information, the omission of which causes a material fact to be misleading, unclear, or unfair.

A BSFI shall consider the client's knowledge of the transaction to which the given information relates. However, it shall not assume that clients/recipients necessarily have an understanding of the product being promoted. It shall also assess its usage of terms, especially those which are technical in nature. If promotional or marketing materials are specially designed for a targeted client base that is reasonably believed to have particular knowledge of the investment, this fact shall be made clear in the materials.

b. *Product disclosures*

A BSFI shall endeavor to explain the financial products it offers to its clients to enable the latter to make an informed decision. Product disclosures shall present an adequate description of (a) the nature and features of the financial product, including any underlying instrument(s), (b) the amount of outlay required, (c) the costs involved, and (d) the risks related to the product. In general, disclosures shall always be presented in a balanced manner whereby the potential benefits of a product are tempered by a fair indication of the risks involved.

Disclosure statements shall be presented in a clear, concise and effective manner to promote the client's understanding of the product. The use of industry and legal jargon shall be minimized to the extent possible. If such cannot be avoided, these terms shall be clearly defined and explained to the client. A greater level of disclosure shall be provided if a product is not generally understood by clients, for instance, in the case of new or complex products.

Should the BSFI make use of materials provided by the issuer of a particular instrument, the client shall be made aware that the issuer is responsible for the representations contained therein. However, the BSFI is responsible for communicating the relevance of said materials to the client.

A product disclosure that includes an illustration of past or future performance shall comply with the following:

(1) When the product's past performance is used to illustrate possible future returns, the disclosure shall state that past performance is not necessarily indicative of future performance. This shall be presented in the main text of the presentation material. Past performance shall be culled from a reasonable time frame to provide a fair and balanced indication of a product's performance;

(2) When using any forecast on the economy or financial markets, the disclosure shall state that such forecast is not necessarily indicative of the future performance of the product; and

(3) Illustrations of returns shall include worst-case scenarios (i.e., not just the likely or best scenarios). Benefits shown in headline rates (pro-forma returns highlighted) should be realistic and achievable, and not based on unreasonably optimistic views of events.

Disclosures for products with some form of guarantee or protection should highlight which benefits are guaranteed/protected and those which are not. In instances where the guarantee or protection involves a cost to the client, the BSFI shall disclose the fees or charges for the same. A BSFI shall also disclose to the client the counterparty (e.g., issuer/guarantor) risk involved so that he/it is not misled about the product's capital security/principal protection. When applicable, a BSFI shall state if the guaranteed or protected amount is payable only at the end of the term.

Product disclosures for leveraged transactions[1] should emphasize that while these types of products/strategies amplify the potential gain from an investment, they also increase the potential loss thereof. A client who intends to engage in margin buying, a means of applying leverage in investing, shall be cautioned on possible loss exceeding the margin or initial cash outlay.

c. *Minimum required disclosures*

The minimum required disclosures shall always be in writing. A BSFI shall require its client to sign or initial the disclosure statement as affirmation of the client's receipt and understanding of the disclosure statement, unless the client is a market counterparty. A BSFI may opt to draft an individual or separate disclosure statement for its client or incorporate the same in the main transaction agreement/contract.

Product-specific minimum disclosures shall include:

(1) The nature of the financial product, including the underlying financial instruments, and how these products work;
(2) Investment horizon or tenor of the financial product;
(3) Fees and charges, if any;
(4) Details on the issuing entity in case the dealing BSFI is not the issuing institution (i.e., the BSFI acts as a broker/dealer or market maker);
(5) Returns or benefits likely to be derived from the instrument, the amount and timing thereof and whether the benefits are guaranteed or not;
(6) All risk factors that may result in the client receiving returns less than the illustrated returns and factors affecting the recoverable amount by the client;
(7) Details of conflicts of interest, if any;
(8) Information on the handling of complaints related to the product;
(9) All termination clauses, when appropriate, including charges and restrictions;
(10) Any warning, exclusion or disclaimer in relation to the risk and rewards of the product, including, but not limited, to the following:

    (a) The product carries higher risks than those associated with ordinary bank savings or time deposits;
    (b) The product is risky and may not be appropriate if the client is not willing and able to accept the risk of adverse movements in the underlying securities or reference rates;
    (c) Past performance of the product is not a guarantee of its future performance;

(11) Other disclosures that may be required by existing laws, rules and regulations.

Where applicable, a BSFI shall draw the attention of the client to the following:

(1) The effect of early redemption of a product on the return (e.g., penalties and/or a poor returns);
(2) The availability of maximum benefit advertised after a specified period; and
(3) The required conditions for the advertised growth rate of income to materialize.

[1] Leverage or gearing can be employed in a structured product in order to offer higher yields.

Complex products should carry a standard warning that they are not suitable for all clients, and are intended for experienced and sophisticated clients. They should likewise carry appropriate warnings on the high economic risks of the transaction, such as:

(1) Loss of all or a substantial portion of the investment due to leveraging or other sophisticated practices;
(2) Mismatch between the change in the price of a hedge versus the change in the price of the exposure it hedges;
(3) Volatility of returns;
(4) Lack of liquidity considering that there may be no secondary market for the instrument;
(5) Restrictions on transferring interests; and
(6) Absence of information regarding valuation and pricing.

Sales and marketing personnel. Any informational or promotional presentation regarding financial products shall be undertaken only by personnel who are knowledgeable on the products involved. In assessing the knowledge of its personnel, a BSFI may consider their educational background; relevant training; certification; and professional experience in rendering investment advice, making presentations regarding financial products and/or assessing the propriety of financial products for a client. The personnel involved in the transactions shall likewise be familiar with all relevant laws and applicable rules and regulations and shall ensure compliance therewith.

At a minimum, a BSFI shall establish qualification standards for personnel involved in sales and marketing activities and require compliance with the registration requirements prescribed by existing securities laws, rules and regulations. In addition, a BSFI shall implement, and maintain a reasonably comprehensive system of training geared at enhancing the technical knowledge of its personnel to enable them to understand, and explain the nature and risks of a BSFI's financial products, and ensure client suitability.

Management shall regularly review the BSFI's compensation and incentive programs and ensure that such remuneration schemes do not place the interests of the sales and marketing personnel in conflict with those of their clients.

The BSFI's board of directors and senior management shall be liable for the acts performed and representations made by sales and marketing personnel in their official capacity. Notwithstanding the foregoing, a BSFI's board of directors and senior management are not precluded from filing the necessary action against the erring sales and marketing personnel.

Role of control functions. The control functions shall periodically monitor and evaluate the continuing effectiveness and adequacy of the sales and marketing policies and procedures. They shall regularly provide senior management or the Board, as appropriate, with written reports on the results of their review.

A BSFI's operational risk management framework shall take into account sales and marketing activities in the identification and assessment, monitoring and reporting, and control and mitigation of risks[1]. The compliance function referred to in Sec. 161-Q and Sec. 161-Q (*Compliance function*) shall be responsible for monitoring and assessing the BSFI's compliance with applicable laws, rules and regulations in the conduct of sales and marketing activities. The internal audit function shall include in its scope the review and evaluation of the BSFI's compliance with internal policies and procedures for the sales and marketing of financial products, issuance of recommendations based on the results of the audits conducted, and the verification of compliance with those recommendations, in accordance with Sec.161-Q (*Compliance program*).

Record retention. Documents evidencing compliance with this Section shall be retained for a period of not less than five (5) years unless an investigation is being conducted, or a criminal, civil, or administrative case has been filed in a competent judicial or administrative body where a client is involved or impleaded as a party to the case or investigation. In such cases, the above documents shall be preserved beyond the five (5)-year period until such time that a final judgment has been reached by the judicial or administrative body.

Enforcement actions. The Bangko Sentral may deploy its range of supervisory tools to promote adherence to the requirements set forth in these guidelines and bring about timely corrective actions and compliance with Bangko Sentral directives. Sanctions may likewise be imposed on the BSFI and responsible persons, which may include restrictions or prohibitions from certain authorities/activities; and warning, reprimand, suspension, removal and disqualification of concerned directors, officers and employees.

(Circular Nos. 972 dated 22 August 2017 and 917 dated 08 July 2016)

613-Q DERIVATIVES ACTIVITIES

A QB may engage in authorized derivatives activities: *Provided,* That a QB:

[1] BSFIs should refer to existing Guidelines on Operational Risk Management.

a. Understands, measures, monitors and controls the risks assumed from its derivatives activities;
b. Adopts effective risks management practices whose sophistication are commensurate to the risks being monitored and controlled; and
c. Maintains capital commensurate with the risk exposures assumed.

Further, a QB may engage in financial derivatives activities in accordance with these guidelines. The transacting QB shall have the responsibility to comply with the guidelines set out in this Section, including the relevant appendices, and other applicable laws, rules and regulations governing derivatives transactions. In case of derivatives instruments involving foreign currencies and/or other foreign currency-denominated assets, the transacting QB shall observe the pertinent FX rules and regulations. For purposes of these guidelines, a QB that transacts (i.e., transacting bank), whether as end-user, broker or dealer, in derivatives instruments is considered to be engaging in a derivatives activity.

Derivative is broadly defined as a financial instrument that primarily derives its value from the performance of an underlying variable. For purposes of these guidelines, a *financial derivative* is any financial instrument or contract with all of the following characteristics:

a. Its value changes in response to a change in a specified interest rate, financial instrument price, commodity price, FX rate, index of prices or rates, credit spread, credit rating or credit index or other variables not prohibited under existing laws, rules and regulations ("the underlying");

b. It requires either no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and

c. It is settled at a future date.

Financial derivatives activities shall also include transactions in cash instruments with embedded derivatives that reshape the risk-return profile of the host instrument, such as credit-linked notes ("CLNs") and their structured products ("SPs").

A market participant may take any of the following roles in a derivatives transaction:

a. An *end-user* is defined as a financial market participant that enters, for its own account, in a derivatives transaction for legitimate economic purposes. These purposes may include, but are not limited to, the following: hedging proprietary trading, managing capital or funding costs, obtaining indirect exposures to desired market factors, investment, yield-enhancement, and/or altering the risk-reward profile of a particular item or an entire balance sheet.

   An end-user may be classified according to its financial sophistication:

   (1) *Market counterparty* - refers to FI, only with respect to the instruments for which it is authorized to engage in as a dealer;

   (2) *Institutional counterparty* - refers to an institution which is not a market counterparty and has the level of net worth, knowledge, expertise, and experience to deal with financial derivatives;

   (3) *Sophisticated individual end-user* - refers to an individual who has demonstrated to the FI as having the level of net worth, knowledge and experience in dealing with financial products, including financial derivatives. An individual may register as a sophisticated individual end-user with the appropriate supervising department of the Bangko Sentral.

   (4) *Other end-user* - this refers to all other institutional or individual clients not categorized as market counterparty, institutional counterparty or sophisticated individual end-user.

b. A *broker* is a financial market participant that facilitates a derivatives transaction between a dealer and its client, for a fee or commission. The counterparties to the derivatives contract are the client and an authorized dealer.

c. A *dealer* is defined as a financial market participant that engages in a derivatives activity as an originator of derivatives products or as market-maker in derivatives products. A dealer can distribute its own derivatives products, including those of others. A dealer can also act as broker and/or end-user of derivatives instruments.

Definition of terms

a. *Credit default swap (CDS)* – refers to a credit derivative wherein the protection buyer may exchange the reference asset or any deliverable obligation of the reference entity for cash equal to a specified amount, or get compensated to the extent of the difference between the par value and market value of the asset upon the occurrence of a defined credit event.

b. *Credit derivative* – a contract wherein one party called the protection buyer or credit risk of a reference asset or assets issued by a reference entity or entities, which it may or may not own, to another party called the protection seller or credit risk buyer. In return, the protection buyer pays a premium or interest-related payments to the protection seller reflecting the underlying credit risk of the reference asset/s.

c. *Credit-linked note (CLN)* – refers to a pre-funded credit derivative instrument wherein the note holder acts as protection seller while the note issuer is the protection buyer. As such, the repayment of the principal to the note holder is contingent upon the non-occurrence of a defined credit event. All references to CLNs shall be taken to generically include similar instruments, such as credit-linked deposits (CLDs). Unless otherwise stated in this section, the term shall refer only to plain vanilla CLNs. Plain vanilla CLNs are composed of a debt or deposit instrument and a CDS. Non-plain vanilla CLNs are those that are leverages and/or include features of other SPs (e.g., coupon payments linked to interest or FX rate movements) and/or contains more than one (1) embedded derivative.

d. *Currency swap* shall refer to an arrangement in which two parties exchange a series of cash flows in one currency for a series of cash flows in another currency, at specified exchange and/or interest rates and at an agreed intervals over an agreed period.

e. *Financial futures* – refers to standardized forward contracts traded on exchanges. For purposes of this section, "analogous financial futures" pertain to exchange-traded contracts similar to the instruments being referred to. For instance, interest rate futures are considered analogous to forward rate agreements.

f. *Foreign exchange swap* shall refer to a transaction involving the actual exchange of two (2) currencies (principal amount only) on a specific date at a rate agreed on deal date (the first leg), and a reverse exchange of the same two (2) currencies at a date further in the future (the second leg) at a rate (different from the rate applied to the first leg) agreed on deal date.

g. *Foreign exchange forward* shall refer to a contract to purchase/sell a specified amount of currency against another at a specified exchange rate for delivery at a specified future date three (3) or more business days after deal date.

h. *Forward rate agreement (FRA)* shall refer to an agreement fixing the interest rates for a specified period whereby the buyer received (or pays) and the seller pays (or receives) the interest rate differential if the reference rate rises above (or falls below) the contract rate, respectively.

i. *Interest rate swap (IRS)* shall refer to swaps to an agreement in which the parties agree to exchange interest cash flows on a principal amount at certain times in the future according to an agreed upon formula.

j. *Structured product (SP)* shall refer to a financial instrument where the total return is a function of one (1) or more underlying indices, such as interest rates, equities and exchange rates. It is composed of a host contact (e.g., plain vanilla debt or equity securities) and an embedded derivative (e.g., swaps, forwards or options) that reshape the risk-return pattern of the hybrid instrument. For purposes of guidelines under this Section, the term SP does not include asset-backed securities.

Generally authorized derivatives activities. A QB may transact in the following financial derivatives instruments with Bangko Sentral-authorized dealers and brokers as an end-user without need of prior Bangko Sentral approval:

a. Deliverable FX forwards, FX swaps, and currency swaps;

b. Interest rate swaps, forward rate agreements and analogous financial futures; and

c. Any financial derivative instrument solely for hedging purposes: *Provided,* That the QB observes all the requirements for hedging transactions under existing accounting standards: *Provided, further,* That it observes the provisions of *Appendix Q-19.*

A trust department of a QB may transact, as an institutional counterparty, in the following financial derivatives instruments with the Bangko Sentral-approved authorized dealers and brokers, on behalf of its trustor/principal/s as may be authorized by such trustor/principals/s without need of prior Bangko Sental approval: *Provided,* That it observes the provisions of *Appendices Q-19* and *Q-49*:

a. Any financial derivative instrument solely for hedging purposes: *Provided,* That the trust department observes all the requirements for hedging transactions under existing accounting standards;
b. Deliverable FX forwards, FX swaps and currency swaps; and
c. Interest rate swaps, forward rate agreements and analogous financial futures.

Activities requiring additional derivatives authority. A QB may apply for prior Bangko Sentral approval of additional derivatives authority to engage in all other financial derivatives activities not expressly allowed under Generally authorized derivatives activities and those that are not part of Activities requiring notification. A QB may apply for two (2) or more additional authorities. A QB applying for additional derivatives authority/ies must have and maintain a risk management system commensurate to the additional authority/ies being applied for, in accordance with the provisions of Sec. 612-Q, *Appendix Q-19* and meet other conditions specified under this Section.

A trust department of a QB shall apply for prior Bangko Sentral approval of additional derivatives authority as an end-user to engage in all other financial derivatives activities not expressly allowed under Generally authorized derivatives activities and those that are not part of Activities requiring notification. A trust department applying for additional derivatives authority/ies as an end-user must have and maintain a risk management system commensurate to the additional authority/ies being applied for, in accordance with the provisions of *Appendices Q-19* and *Q-49* and meet other conditions specified under this Section.

a. *Classification of additional derivatives authority*

(1) Type 2 - Limited Dealer Authority

A QB that is also an investment house may apply for a Type 2 Authority. A QB with Type 2 Authority may operate as a dealer in specific types of derivatives products with specific underlying reference, as applied for by the QB: *Provided*, That a QB with Type 2 Authority shall comply with the sales and marketing guidelines prescribed in Sec. 612-Q. The Type 2 Authority also carries authority to transact as broker and end-user of the said specific derivatives instruments.

(2) Type 3 - Limited User Authority

A QB or a trust department of a QB, may apply for a Type 3 Authority. A QB or a trust department of a QB with Type 3 Authority may transact, as an end-user, in specific types of derivatives product, with specific underlying reference, as applied for by the QB, outside of those instruments that meet the conditions under Sec. 613-Q (*Generally authorized derivatives activities*). A Type 3 Authority will enable said QB or trust department to transact as end-user of derivatives instruments as may be applied for by the QB or trust department.

(3) Type 4 - Special Broker Authority

A QB that is also an investment house may likewise apply for a Type 4 Authority. A QB with Type 4 Authority may facilitate a derivatives transaction between a Bangko Sentral-authorized dealer and end-user clients: *Provided*, That the QB, acting as broker, ensures that its client fully understands its limited responsibility as a broker and observes the provisions of *Appendix Q-1*.

A QB with additional Type 2 or 4 Authorities shall be responsible for complying with pertinent securities laws, rules and regulations.

For purposes of this Section, the types of derivatives are classified as follows: forwards, swaps and options, and structured products. *Underlying reference* pertains to the following: interest, foreign currencies/foreign exchange, equity, credit and commodity.

b. *Qualification requirements.* A QB or its trust department applying for additional authority to engage in additional derivatives activities shall:

(1) Demonstrate adequate competence in its general operations as evidenced by:

(a) CAMELS composite rating of at least "3" with a similar rating for Management, as applicable;
(b) No unresolved major safety and soundness issues that threaten liquidity or solvency; and
(c) Substantial compliance with regulations on anti-money laundering, corporate governance and risk management.

(2) Hold capital commensurate to the risks assumed or to be assumed from the derivatives activities. A QB applying for or holding a Type 2 Limited Dealer Authority or Type 3 Limited User Authority automatically agrees to be covered by all regulations prescribing capital for market risk, notwithstanding any provision to the contrary. In addition, the Bangko Sentral expects a QB applying for or holding additional derivatives authority to have adequate capital to accommodate existing and future risks from additional and generally authorized derivatives activities as well as risks arising from the QB's other business activities. For this purpose, the Bangko Sentral may require capital higher than the minimum required under prudential regulations.

(3) Have and maintain a risk management system that conforms to the principles and complies with the minimum standards prescribed in *Appendix Q-19*.

(4) Demonstrate the relevance of proposed derivatives activities to the QB's main purpose as an institution. The Bangko Sentral reserves the right to deny applications whose proposed derivatives activities do not reasonably fit the nature of their business operations.

c. *Application procedures*. The applicant shall submit to the appropriate supervising department of the Bangko Sentral a written application for additional derivatives authority/ies accompanied by:

(1) A copy of the board resolution approving the application for a specific type of derivatives authority;

(2) A notarized certification signed jointly by the president, treasurer, or equivalent trust officer and compliance officer of the applicant QB stating that the QB complies with all the requirements for the authority being applied for specified in Sec. 613-Q (*Activities requiring derivatives authority*); and

(3) A list of the types of derivatives and underlying reference the QB intends to engage in, including the following information for each derivatives class or type:

(a) Target customers for such derivatives;
(b) The capacity in which the QB intends to engage in such derivatives;
(c) Description of each type of derivatives and underlying reference with which it will deal;
(d) Analysis of the risks involved in transacting in each type of derivatives;
(e) Procedures/methodologies that the QB will implement to measure, monitor (including risk management reports) and control the risks inherent in the type of derivatives;
(f) Relevant accounting guidelines, including pro-forma accounting entries;
(g) Analysis of any actual or potential legal/regulatory restrictions; and
(h) Process flow chart, from deal initiation to risk reporting, indicating the departments and personnel involved in identified processes.

(4) The Bangko Sentral will not accept applications lacking any of the above-stated requirements. The Bangko Sentral however, may require additional documents to aid its evaluation of the application. By virtue of the application, the applicant automatically authorizes the Bangko Sentral to conduct an on-site evaluation of the applicant's risk management capabilities, if this is deemed necessary.

(5) Payment of the following non-refundable processing fee shall be made upon approval or denial of the QB's application:

	Amount
Type 2 Authority	P 50,000.00
Type 3 Authority	25,000.00
Type 4 Authority	25,000.00

(6) A QB whose application for additional derivatives authority/ies or an upgrade thereof (e.g., from Type 3 to Type 2 Authority) has been denied cannot submit a new application for additional derivatives authorities until after six (6) months from receipt of denial. The same rule applies for a QB whose authorities have been limited or downgraded.

(7) A QB that holds an additional derivatives authority may apply for additional derivatives authorities (e.g., currently holding Type 3 Authority who wish to apply for Type 4 Authority) or an upgrade thereof only after the lapse of six (6) months from the grant of the previous additional derivatives authority.

Activities requiring notification. A QB or its trust department shall notify the Bangko Sentral prior to engaging in any of the derivative instruments below:

a. Any variant of a stand-alone derivative for which a QB has an existing type 2 or type 3 additional derivatives authority; or for which a trust department has an existing type 3 additional derivatives authority

For this purpose, a variant refers to an instrument where the features of the authorized product are altered to effect a change in the timing of cash flows, the commencement of the contract, or the basis of payments (e.g., amortizing or accreting notional amount). The adoption of a different underlying for a previously-authorized product (e.g., a different reference entity of a credit default swap, if the latter has been approved under a Type 2 or Type 3 authority) would likewise result in the creation of a variant;

b. A structure or combination of (i) two or more separate stand-alone derivatives contracts, or (ii) stand-alone derivatives contract/s and a plain vanilla cash instrument, where the instruments are offered or distributed together, where (all of) the derivative(s) is (are) part of a QB's existing type 2 or type 3 additional derivatives authority or part of a trust department's existing type 3 additional derivatives authority.

The QB or trust department shall only transact in the instruments that are the subject of its notification to the Bangko Sentral in the capacity allowed for the previously-authorized product.

It is understood that the determination of a specific product as a structure or a variant, as defined under this Section, should be made in accordance with a QB's/trust department's internal risk management processes and should involve the risk management unit.

A QB or trust department that intends to engage in a variant or a structure as described in these provisions shall notify the appropriate supervising body of the Bangko Sentral in writing within ten (10) days from the approval by the appropriate committee of the QB/trust department of QB and submit the following:

a. A copy of the resolution of the appropriate board/management committee approving the QB or its trust department's intention to engage in the specific derivatives product(s);
b. A certification signed jointly by the president, treasurer or trust officer, as applicable, and chief risk officer of the QB, stating that:

    (1) The QB/trust department has reviewed the product(s) and has deemed that such would qualify as a variant(s) or a structure(s) as described under this framework; and
    (2) The QB/trust department continues to comply with the prudential criteria under Sec. 111-Q;

c. The list of financial derivative variants and/or structures that the QB/trust department intends to enter into or offer, the reasons for doing so and the target market for the same, if any; and
d. References to existing product and/or operations manuals covering the process flows and relevant risk management processes governing the products subject of the notification to the Bangko Sentral.

Intra-group transactions. All derivatives transactions between a QB and any of its subsidiaries and affiliates shall comply with minimum risk management standards for related-party transactions outlined in *Appendix Q-19* as part of the QB's internal control procedures. The Bangko Sentral expects QBs to establish internal reporting and monitoring system for derivatives activities for related-party transactions. Failure to comply with minimum standards shall be a ground for citing non-compliance with provisions under Sec. 613-Q (*Generally authorized derivatives activities*) and Sec. 613-Q (*Activities requiring additional derivatives authority*) without prejudice to other Bangko Sentral rules and regulations such as those related to corporate governance and unsafe and unsound banking practices.

Accounting guidelines. A QB that engages in derivatives activities must strictly account for such transactions in accordance with relevant existing accounting standards.

Sanctions

a. *Unauthorized transactions*

    Sanctions prescribed under Sections 36 and 37 of R.A. No. 7653 shall be imposed on any QB (including its directors and officers) found to have engaged in an unauthorized derivatives activity.

    A QB undertaking unauthorized derivatives activities may be considered as conducting its business in an unsafe and unsound manner under Section 56 of R.A. No. 8791.

b. *Delayed/Erroneous/Inaccurate reporting*

    QBs failing to submit the reports required under Sec. 613-Q (*Reporting requirements*) within the prescribed deadline shall be subject to monetary penalties applicable for delayed reporting under existing regulations. Moreover, submission of incomplete, uncertified or improperly certified or otherwise erroneous reports shall be considered non-reporting, subject to applicable penalties for amended/delayed reports. For purposes of imposing monetary penalties, the reports shall be classified as a *Category A-1* report. Habitual delayed or erroneous reporting may be a ground for further sanction, including limitation of generally authorized activities and/or additional authorities and/or suspension of authority to engage in such derivatives activities.

c. *Non-compliance with the provisions of this Section and Appendices Q-19*

    Any QB found violating any of the provision of Sec. 121-Q and and/or *Appendices Q-19* shall be sanctioned with the penalties prescribed under Sections 36 and 37 of R.A. No. 7653 in accordance with the gravity/seriousness of the offense taking into consideration the number of times the offense was committed, possible consequent losses on the clients, effect on the financial markets and other relevant factors.

d. *Curtailment of derivatives authority*

The Bangko Sentral reserves the right to suspend, modify, downgrade, limit or revoke any QB's derivatives authority (including any or all of those generally authorized activities) for prudential reasons as may be evidenced by any or all of the following:

(1) The QB is assigned a CAMELS composite rating or component Management rating of lower than that prescribed under Sec. 613-Q (*Activities requiring additional derivatives authority*) in the most recent regular examination.

(2) The QB has not maintained adequate risk management systems given the level and type of derivatives activities it has engaged in as may be determined by the Bangko Sentral in any on-site evaluation and confirmed by the Monetary Board.

(3) The Monetary Board has confirmed a finding of the appropriate supervising department of the Bangko Sentral that the QB has conducted business in an unsafe and unsound manner.

An erring QB may apply for reinstatement of its derivatives authority only after six (6) months from lapse of the implementation of the sanction, provided the QB has satisfactorily addressed all the Bangko Sentral concerns.

(Circular Nos. 1119 dated 07 June 2021 and 917 dated 08 July 2016)

614-Q INVESTMENT ACTIVITIES OF BANGKO SENTRAL-SUPERVISED FINANCIAL INSTITUTIONS (BSFIs)[1]

Policy Statement. The Bangko Sentral recognizes that the effective management of risks associated with a BSFI's investment activities is essential in ensuring its continued safety and soundness. These guidelines are being issued to set expectations on the prudent conduct of investment activities and the minimum practices that a BSFI should establish for the management and control of risks associated with investments. These guidelines neither limit nor expand the activities that BSFIs may undertake under existing regulations.

Scope of Application. These guidelines cover all of a BSFI's investments in the trading and banking books. These guidelines do not apply to BSFI's (a) investments that grant control over an enterprise and are accounted for using the equity method, (b) transactions in derivatives involving stand-alone contracts, and (c) receivables arising from repurchase agreements.

Risk Management Framework. A BSFI shall have systems to manage the risks arising from its investment activities. While risk management system will differ among BSFIs, the following elements are fundamental in ensuring that risks are effectively identified, measured, monitored and controlled:

a. Board and senior management oversight

As investment activities comprise a major area of BSFI's operations, the board of directors shall perform the following, in accordance with Sec. 132-Q *(Specific duties and responsibilities of the board of directors):*

(1) Approve portfolio objectives, overall investment strategies, general investment policies, and limits that are consistent with the BSFI's financial condition and risk tolerance. Board-approved objectives, strategies, policies and procedures, and limits shall be documented and clearly communicated to all the personnel involved in their implementation. Changes in strategies and the manner by which investments are managed shall be made under the control of the BSFI's appropriate board-level committees.

(2) Actively monitor the performance and risk profile of its investments against established objectives, strategies, and policies. Consistent with Sec. 132-Q *(Specific duties and responsibilities of the board of directors)*, the members of the board shall act judiciously on matters pertaining to investments. They shall ensure that investment transactions or proposals undergo a thorough evaluation process.

(3) Ensure that there is an effective management structure for conducting the BSFI's investment activities that enables the achievement of the objectives, the strict enforcement of controls, and the independence between different functions (e.g., trading and asset/liability management), in accordance with Item *"b"* of Sec. 611-Q *(Treasury Operations).*

As senior management is responsible for implementing board-approved strategic objectives, it shall therefore:

(1) Develop portfolio objectives that set out the acceptable instruments, expected business returns, desired asset allocation and diversification parameters, and other elements of sound investment management. Portfolios managed for the purpose of generating short term profits must be distinct from those utilized to maintain ample balance sheet liquidity, generate accrual income or modify and manage risk profiles.

[1] Banks shall be given a period of six (6) months from 16 August 2019 to develop or make appropriate changes to their policies and procedures on the risk management system for investment activities.

(2) Set clear lines of authority and responsibility for investing and managing the risks attendant thereto. Personnel conducting investment activities shall have the requisite technical knowledge and experience.

b. Policies, Procedures, and Limits

A BSFI shall institute policies, procedures, and limits that provide a framework for managing investment activities. The framework shall be consistent with the organization's broader business strategies, capital adequacy, technical expertise, and risk tolerance. In setting policies, procedures and limits, a BSFI shall be guided by the following:

(1) Policies and procedures should clearly articulate guidelines for the acquisition and recording of investments. A BSFI should be able to designate at the onset a specific investment (e.g., trading or short-term profit taking, or generating accrual income) for a particular security/portfolio and identify the desks/personnel responsible for managing such positions.

(2) Policies should promote the development of a comprehensive understanding of the risks associated with investments prior to acquisition and on an ongoing basis. In particular, these should require the following:

(a) an appropriate level of due diligence to be conducted prior to taking a position in any investment. The depth of the due diligence should depend on an instrument's quality, the complexity of its structure, and the size of the investment. Structured products, in particular, should be subject to more thorough analyses than those applied to traditional products;

(b) the investment analysis to be founded on an analytical review of investment opportunities, and be sufficient to support a conclusion that a financial instrument is a sound investment;

(c) the due diligence review to cover:

(i) an analysis of the risks and cash flow characteristic of the specific investments, especially for products that have unusual, leveraged, or highly variable cash flows;

(ii) an assessment of the valuation and accounting policies to be adopted by the BSFI and the extent of its compliance with accounting rules;

(iii) an analysis of assumed and actual investment exit strategies, particularly for securities that are illiquid or not readily marketable, and the resulting effect on earnings; and

(iv) the identification of appropriate methodologies for the allocation of capital based on the risk inherent in the BSFI's investment activities, and the identification of all material risks and their potential impact on the safety and soundness of the institution;

(d) periodic and timely reviews of the investment strategy and performance to be conducted at the individual and portfolio levels;

(e) the due diligence and ongoing reviews to be performed by qualified personnel or a unit independent from the risk-taking function. Any third-party analysis independent of the seller or counterparty (e.g., reports prepared by investment managers or credit rating agencies) may only be used to complement a BSFI's own evaluation. Irrespective of any responsibility, legal or otherwise, assumed by a dealer, counterparty, or financial advisor regarding any transaction, the investing BSFI is ultimately responsible for understanding and managing the risks of the transaction; and

(f) the adequate documentation of the due diligence reviews and the formal approval of results thereof.

The conduct of due diligence reviews for the new plain vanilla instruments to be entered into by a BSFI for the purpose of trading or short-term profit taking (i.e., to be held in the trading book) may be made at the option of the BSFI: *Provided*, That the incremental positions arising from the investments do not require higher country, market, and other applicable risk limits.

(3) The limits for investment activities shall be consistent with the BSFI's institution-wide risk limits. The limits structure may apply at the institutional, portfolio, sub-portfolio, or individual instrument levels, or a combination thereof. The BSFI's determination of the appropriate limits structure shall be guided by the diversity, complexity and purpose of its portfolios (e.g., A BSFI with substantial holdings of non-resident issued instruments should establish country risk limits.)

(4) The limits structure should reflect the amount of exposure that the BSFI is willing to accept, taking into consideration the impact of such exposure to earnings and capital in both normal and stressed conditions. Limits and triggers should be customized to address the nature of the products and any unique risk characteristics thereof (e.g., instruments bearing optionality features or credit event triggers).

c. Risk Measurement, Monitoring and Management Information Systems (MIS)

Given the impact of investments on the risk profile of an institution, BSFIs shall ensure that they possess the capability to measure and monitor the risks associated with their investments prior to acquisition and periodically thereafter. In doing so, a BSFI shall be guided by the following:

(1) A BSFI shall have the capability to value its positions and measure exposures to each type of risk arising from such positions under both normal and stressed market conditions. Moreover, the risk measurement system should be able to generate timely information about the market value of investments carried at cost and any significant decline from the carrying value. For this purpose, the BSFI shall use reliable data and appropriate tools and metrics that have been properly and independently vetted and approved prior to use (see also Item "*d(3) Internal Controls and Audit*"). A BSFI with investments in complex instruments shall use a more sophisticated tool for identifying, measuring and controlling risks. On the other hand, BSFIs whose investments are limited to plain vanilla instruments in the banking book should, at a minimum, have the capability to periodically mark the positions to market/obtain the market values of their positions.

(2) A BSFI shall adopt a proper framework for valuing all positions, including those that are concentrated, less liquid and stale, and make appropriate valuation adjustments for uncertainties in determining the fair value of its investments. It shall likewise establish triggers that would determine whether a presumptive case for challenging the valuation model exists.

(3) The valuation methodologies shall be adequately documented. The documentation shall set out the BSFI's practices for the initial pricing and marking-to-market/model of its positions. The documentation should also cover model inputs and assumptions, the detail of which would depend on the nature of the financial instruments held by BSFI and its sources of independent prices.

(4) The Management of a BSFI with significant holdings of complex financial products such as structured products, asset-backed and mortgage-backed securities, or those measured using either inputs other than quoted market prices or unobservable inputs, shall be responsible for reviewing and understanding the assumptions used to price such instruments. The reviews should be sufficiently documented. Further, a BSFI that employs internal models shall have adequate procedures to validate the models and to periodically review all elements of the modeling process, including the assumptions.

(5) When an incremental change in the value of an investment position is likely to have a significant effect on the risk profile of the BSFI, the BSFI is expected to analyze the impact of such change on its overall financial condition.

(6) Reports to the board and senior management shall summarize the risks related to the BSFI's investment activities and the performance of portfolios vis-à-vis the established investment objectives and constraints, as well as any exceptions to established policies, procedures, and limits. Reporting should be frequent enough to provide timely and adequate information and enable the execution of appropriate adjustments to address the changing nature of the BSFI's risk profile. The BSFI is expected to adjust the frequency of reporting when there are developments that warrant closer monitoring of its positions (e.g., periods of excessive market volatility) and when actions are taken to adjust the level of its exposures.

d. Internal Controls and Audit

In addition to complying with the supervisory expectations set out in Secs. 162-Q and 163-Q, a BSFI shall:

(1) Adopt internal controls that shall ensure the robustness of the approval process for new investment products/activities. Consistent with the requirements under Item "*i*" of Sec. 611-Q (*Treasury Operations*), a BSFI shall ensure that the risks involved in new products/activities are fully understood through the implementation of a formal risk assessment program, and that adequate policies, procedures and controls are in place prior to roll out;

(2) Adopt appropriate accounting policies and processes, and maintain adequate records pertaining to investments. In this respect, a BSFI shall strictly comply with relevant accounting standards and at the same time ensure the consistency of its accounting policies and practices with portfolio objectives and strategies;

(3) Ensure the integrity of investment valuations, risk measurement methodologies, and controls that address model risk. The valuation process shall be undertaken independently from the risk-taking units. New valuation and risk measurement models shall be validated by an independent, suitably qualified individual/group prior to use. The models, including any material changes made thereon, shall likewise be periodically reviewed to ensure that they remain fit for their intended use. Model validation processes of a BSFI shall meet the minimum expectations set forth under *Appendix Q-42 (Guidelines on market risk management)* and Sec. 143-Q (*Credit Risk Measurement, Validation and Stress Testing)*;

(4) Conduct independent reviews of the risk management system on a periodic basis, but by no means to exceed three years, to ensure its integrity and reasonableness. These may be in the form of internal or external audits that cover, at a minimum:

(a) compliance with and the appropriateness of investment policies, procedures and limits;
(b) propriety of fair valuations and the related processes and controls; and
(c) a determination of whether the BSFI's risk measurement and monitoring systems are commensurate to the nature and complexity of its activities.

Risks of Investment Activities. The management of risks arising from a BSFI's investment activities shall be integrated into the BSFI's overall risk management system, as required under Secs. 141-Q (*Supervision by Risk*); 143-Q (*Credit Risk Management*); 144-Q (*Market Risk Management*); and 146-Q (*Operational Risk Management*).

The guidelines below set out the supervisory expectations on the management of the major risks that are inherent to investment activities. It is incumbent upon a BSFI to identify and manage other risk areas based on a thorough assessment of its activities.

a. Market Risk

The management of exposures to market risk arising from investment activities requires the BSFI to clearly designate positions belonging to either the trading book or the banking book. In accordance with the provisions of Sec. 125 (*Market Risk Capital Requirement*) and its appendices, the trading book consists of proprietary positions in financial instruments which are taken on with the intention of short-term resale or benefiting in the short-term from actual or expected differences between the buying and selling prices or from other price or interest rate variations; positions which arise from the execution of trade orders from customers and market making; and positions taken in order to hedge other elements of the trading book. All other instruments held by a BSFI shall be categorized as banking book positions.

Trading book

(1) A BSFI that actively engages in the trading of securities is primarily exposed to the risk of adverse movements in the price of their holdings before such holdings can be liquidated or offset. It shall have the capability to measure such exposures on a timely basis, and control the effect of changing rates and prices on its earnings and capital.

(2) A BSFI shall conduct a price sensitivity analysis for individual or a class of instruments, under both normal and stress scenarios, as part of the due diligence requirement prior to acquiring a position in any investment and on a continuing basis. Where appropriate, such analysis shall encompass a wider range of scenarios, including non-parallel changes in the yield curve and other relevant factors, such as changes in interest rate volatility and in credit spreads. It is recognized, however, that the substance and form of such analyses will vary according to the complexity of an instrument.

(3) Market risk from trading portfolios shall be calculated at least daily. While this is commonly measured using value-at-risk (VaR),[1] a BSFI may use other risk models. In any case, the board and senior management shall ensure that the measure used is reasonably accurate and rigorous; appropriate to the sophistication and complexity of the BSFI's products, activities and lines of business; and adequately incorporated into the BSFI's risk management process.

Banking Book

(4) A BSFI with banking book portfolios that are subjected to regular mark-to-market valuation shall monitor the price sensitivity of relevant securities over different interest rate/yield curve scenarios. Price sensitivity limits or triggers at portfolio levels or on individual securities should also be established.

[1] VaR is the probable maximum loss over a target horizon at a given confidence level.

b. Interest Rate Risk in the Banking Book

Investments under the banking book usually represent a significant component of a BSFI's overall interest rate risk profile. Exposures from investments shall feed into the BSFI's institution-wide measurement and monitoring of interest rate risk through earnings- and/or economic value-based methodologies.

c. Credit Risk

(1) A BSFI's investment policies and objectives shall be consistent with its overall credit risk strategy, as set out under Sec. 143-Q *(Role of the Board and Senior Management* and *Credit Risk Strategy)*.

(2) In accordance with Sec. 143-Q (*Credit granting and loan evaluation/analysis process and underwriting standards*), which requires the conduct of a comprehensive assessment of the creditworthiness of obligors, a BSFI shall not acquire an investment without conducting an independent assessment of the creditworthiness of the issuer. The latter shall form part of the due diligence review to be conducted in accordance with Item "*b(2)*" (*Policies, Procedures and Limits*) of this Section.

(3) In addition to the guidelines on the factors to be considered in approving credits under Item "*b*" of Sec. 143-Q (*Credit granting and loan evaluation/analysis process and underwriting standards*), a BSFI shall consider a variety of factors relevant to a particular security when determining whether it is a permissible and sound investment. The range and type of specific factors a BSFI should consider will vary depending on the particular type and nature of a security. An individual security may require more or less analysis depending on its risk characteristics. The following are examples of factors that a BSFI may consider as part of its credit risk due diligence review:

(a) Credit spread to a benchmark security and risk of default compared to bonds of similar credit quality;

(b) Issuer's capacity to pay, and operating and financial performance levels and trends through internal credit analysis and/or other third-party analytics, as appropriate for the particular security;

(c) The value of an instrument with a prepayment option compared to a plain vanilla security of similar credit quality;

(d) Potential impact to an instrument's value of specific product features such as credit-related triggers; and

(e) For an investment in a securitization structure, the class or tranche, loss allocation rules, specific definition of default, support provided by credit and/or liquidity enhancements, and the impact of collateral deterioration and potential credit losses under adverse economic conditions.

(4) Complex financial instruments, such as those enumerated in Item "*k*" of Sec. 143-Q (*Credit granting and loan evaluation/analysis process and underwriting standards*), shall be subject to a greater degree of credit-related due diligence, even when the credit quality is perceived to be very high.

(5) A BSFI shall conduct a thorough analysis of country and transfer risks in accordance with the guidelines under Sec. 143-Q (*Country and transfer risks*), as appropriate. Moreover, BSFIs should monitor exposures on a broader (e.g., regional) basis as a country's economic, social and political conditions may be adversely affected through the contagion of problems in other countries. When a BSFI's country and transfer risks are significant, such risk shall also be considered in its Internal Capital Adequacy Assessment Process (refer to *Appendix Q-54)*.

(6) A BSFI's policies shall incorporate credit risk diversification and concentration limits and prudently define what constitutes concentration to a single or related issuer/s, consistent with the provisions under Sec. 143-Q *(Credit limits, large exposures and credit risk concentrations)*.

(7) A BSFI's investments shall be subjected to periodic impairment testing in accordance with existing accounting rules and prudential standards. A BSFI shall have processes in place to determine on a timely and holistic basis whether credit risk on an individual financial instrument has increased significantly since its initial recognition, and accordingly provide accounting adjustments when necessary. The analysis shall take into account not only the credit risk of the individual issuer but also the relevant country and transfer risks.

(8) Engaging in investment activities also exposes a BSFI to counterparty credit risk. Counterparty credit risk arises when a counterparty to a transaction who has received a payment or delivery of assets defaults before delivery of the asset or payment, or when technical difficulties interrupt delivery or settlement despite the counterparty's ability or willingness to perform.

Transactions with a counterparty shall not commence until a credit line has been approved. Credit limits shall consider both settlement and pre-settlement exposures for all counterparties with whom the bank trades. While the structure of the credit approval process may differ across institutions, the process should reflect the organizational and geographic structure of the institution and the specific needs of its treasury activities.

d. Market Liquidity Risk

(1) The BSFI's process of specifying permissible instruments shall clearly articulate the desired market liquidity[1] characteristics of investments under both trading and banking books. For instance, a BSFI may limit its investments to or in certain securities in view of a perceived lack of market liquidity. Such characteristics shall be aligned with the investment objectives set by the Board.

(2) The due diligence review required under Item "*b(2)*" of this Section (*Risk Management Framework*) shall take into account the market liquidity of proposed investments and relate the effect that such characteristics have on achieving the BSFI's investment objectives. A BSFI shall ensure that it considers the effects that market risk can have on the liquidity of different types of instruments under various scenarios.

(3) A BSFI shall ensure that valuation and risk measurement models are able to capture the illiquidity of investments. Complex and illiquid instruments can often involve greater risk than those that are actively traded. For instance, securities with embedded options may make them highly illiquid during periods of market volatility and stress, despite their high credit rating. If market prices or rates do not move as expected, the demand for such instruments can evaporate, decreasing the market value of the instrument. Such risk is particularly acute for instruments that are highly leveraged.

e. Operational Risk

(1) A BSFI shall be mindful that effective internal controls at the business units serve as the first line of defense in the management of operational risk in investment activities. Consistent with the operational support for other activities within a BSFI, personnel handling back office functions shall be as independent as practicable from business units. A BSFI shall institute internal controls that ensure the separation of duties and supervision of persons executing transactions from those responsible for processing contracts, confirming transactions, controlling various clearing accounts, preparing or posting the accounting entries, approving the accounting methodology or entries, and performing revaluations.[2]

(2) Adequate resources shall be devoted to supporting processes, such that systems and capacity are commensurate with the size and complexity of investment activities. Effective risk management should include, at least, the following:

(a) Personnel. Due to the increasingly complex nature of instruments available in the marketplace, BSFIs shall ensure that personnel responsible for managing operational risks have strong technical skills. This enables a better understanding of the complex financial structures of certain investment instruments.

(b) Documentation. A BSFI shall set policies on the required documentation for specific financial instruments, especially complex instruments, as well as for saving and safeguarding important documents, and maintaining possession and control of instruments.

(c) Conflict of interest. In accordance with Item "*a*" of Sec. 611-Q (*Treasury Operations*), a BSFI shall develop policies and guidelines governing conflicts of interest between traders and other market counterparties. Policies should likewise be developed to ensure that all directors, officers, and employees act in the best interest of the BSFI. Such policies may contain restrictions and prohibitions on engaging in personal transactions, and on the receipt of gifts and gratuities from approved dealer firms and their representatives.

(3) A BSFI shall comprehensively evaluate the enforceability of any agreements related to its investment activities before individual transactions are consummated. Institutions shall also ensure that the counterparty is authorized to enter into the transaction and that the terms of the agreement are legally enforceable. A BSFI should have knowledge of laws and interpretations governing the use of these instruments and arrangements.

Application of the guidelines.

a. General Rule. These guidelines shall apply to all banks and non-bank financial institutions performing quasi-banking functions (QBs) and their financial subsidiaries.

[1] Market liquidity risk is defined under *Appendix Q-43.*
[2] See also Item "*d*" of Sec. 611-Q (*Treasury Operations*).

b. Group Structures. The parent bank shall be responsible for ensuring that the risks in the investment activities of its financial subsidiaries are managed in accordance with the guidelines in this Section.

c. Branches of Foreign Banks. A foreign bank branch may adopt the risk management approach of its parent/regional office/group in respect of its investment activities: *Provided*, That the applicable provisions under this Section are met.

d. Minimum Requirements for Stand-alone Thrift, Rural and Cooperative Banks and Quasi-Banks with Investments that are Limited to Peso Denominated Government Securities.

(1) The board shall approve investment objectives consistent with the BSFI's financial condition, profile and risk tolerance. Senior management shall set clear lines of authority and responsibility for investing and monitoring the risks attendant to the BSFI's investments. These functions shall be conducted by personnel with adequate technical knowledge and experience;

(2) A BSFI shall institute policies and procedures for formally approving investments in government securities. The BSFI shall ensure that it conducts an analysis of its investments prior to acquisition and on an ongoing basis. The periodic analysis should incorporate a review of the key risks, including market, market liquidity, liquidity and operational risks, and their impact to earnings and capital, as well as the BSFI's mechanisms for divesting of the investments, if so warranted;

(3) The Board shall institute limits that reflect its tolerance for risks related to investment activities (e.g., maximum amount of government securities that may be invested in by the BSFI at any point in time, maximum acceptable amount of mark-to-market losses for investments designated at fair value through other comprehensive income or profit and loss). An independent unit/officer shall be assigned to monitor the exposures against the limits and report breaches, as well as the resolution of the breaches, to senior management and the board in timely manner;

(4) The BSFI shall properly value its investments and measure its exposures under both normal and stressed market conditions (e.g., circumstances that result in sudden decline in value of investments affecting the BSFI's other comprehensive income). The result of stress tests should aid the board and senior management of the BSFI in determining whether the risks and rewards associated with its investments are consistent with its investment objective and business strategy; and

(5) The BSFI shall set out a process for the effective and timely monitoring and reporting to the Board and senior management of information pertaining to its investments (e.g., coupon vs. prevailing interest rates, market values, gains/losses arising from derecognition).

Supervisory enforcement actions. The Bangko Sentral reserves the right to deploy its range of supervisory tools to promote adherence to the requirements set forth in these guidelines and bring about timely corrective actions and compliance with Bangko Sentral directives. The Bangko Sentral may, among others, cite a BSFI for conducting business in an unsafe or unsound manner should its investment activities result in abnormal risk to the institution. A BSFI may likewise be directed to refrain from engaging in specific investment activities with serious supervisory issues. Lastly, sanctions may be imposed on the BSFI and responsible persons, which may include restrictions or prohibitions from certain authorities/activities; and reprimand, suspension, removal and disqualification of concerned directors, officers and employees.

(Circular No. 1042 dated 25 July 2019)

C. FINANCIAL INSTRUMENTS

621-Q FORWARD AND SWAP TRANSACTIONS

(Deleted by Circular No. 1119 dated 07 June 2021)

622-Q ASSET-BACKED SECURITIES

The following regulations shall govern the origination, issuance, sale, servicing and administration of asset-backed securities (ABS) by any QB including its subsidiaries and affiliates engaged in allied activities, which are domiciled in the Philippines.

Definition of terms

a. *Assets* shall mean loans or receivables existing in the books of the originator prior to securitization. Such assets are generated in the ordinary course of business of the originator and may include mortgage loans, consumption loans, trade receivables, lease receivables, credit card receivables and other similar financial assets.

b. *Asset-backed securities* shall refer to the certificates issued by a special purpose trust (SPT) representing undivided ownership interest in the asset pool.

c. *Asset pool* shall mean a group of identified, self-amortizing assets that is conveyed to the SPT issuing the ABS and such other assets acquired as a consequence of the securitization.

d. *Clean-up call* shall refer to an option granted to the seller to purchase the remaining assets in the asset pool.

e. *Credit enhancement* shall refer to any legally enforceable scheme that is intended to enhance the marketability of the ABS and increase the probability that investors receive payment of amounts due them.

f. *Guarantor* shall refer to an entity that guarantees the repayment of principal and interests on loans or receivables included in the asset pool in the event of default by the borrower.

g. *Investible funds* shall refer to the proceeds of collection of loans or receivables included in the asset pool which are not yet due for distribution to investors.

h. *Issuer* shall refer to the SPT that issues the ABS.

i. *Originator* shall refer to a QB and/or its subsidiary or affiliate engaged in allied activities that grants or purchases loans or receivables and assembles them into a pool for securitization.

j. *Residual certificates* shall refer to certificates issued representing claims on the remaining value of the asset pool after all ABS holders are paid.

k. *Seller* shall refer to the entity which conveys to the SPT the assets that constitute the asset pool.

l. *Servicer* shall refer to the entity designated by the issuer primarily to collect and record payments received on the assets, to remit such collections to the issuer and perform such other services as may be specifically required by the issuer excluding asset management or administration.

m. *Special purpose trust* shall refer to a trust administered by a trustee and created solely for the purpose of issuing and administering an ABS.

n. *Trustee* shall refer to the entity designated to administer the SPT.

o. *Underwriter* shall refer to the entity engaged in the act or process of distributing and selling of the ABS either on guaranteed or best-efforts basis.

Authority. Any QB including its subsidiaries and affiliates engaged in allied activities, may securitize its assets upon prior approval of the Bangko Sentral.

Management oversight. The originator/seller shall have the securitization program approved by its board of directors. The originator/seller shall integrate such securitization program into its corporate strategic plan. The board of directors shall ensure that the securitization of assets is consistent with such program.

Minimum documents required. The application to securitize must be accompanied by the following documents as a minimum requirement:

a. *Trust indenture* evidencing the conveyance of the assets from the seller to the issuer or SPT, the features of which shall include the following:

(1) Title or nature of the contract in noticeable print;
(2) The parties involved, indicating in noticeable print, their respective legal capacities, responsibilities and functions;
(3) Features and amount of ABS;
(4) Purposes and objectives;
(5) Description and amount of assets comprising the asset pool;
(6) Representation and warranties;
(7) Credit enhancements;
(8) Distribution of funds;
(9) Authorized investment of investible funds;
(10) Rights of the investor;
(11) Reports to investors; and
(12) Termination and final settlement.

The trust indenture shall include as annexes the servicing agreement between the trustee and the servicer and the underwriting agreement between the seller and the underwriter.

b. *Prospectus.* As a minimum requirement, it shall contain the following:

(1) Summary of the contents of the prospectus;
(2) Description of each class of certificates, including such matters as probable yields, payment dates and priority of payments;
(3) Description of the assets comprising the asset pool as well as the representations and warranties set forth by the originator and/or seller;
(4) Assumptions underlying the cash flow projections for each class of certificate;
(5) Description of any credit enhancement;
(6) Identity of the servicer; and
(7) Disclosure statements as required under Sec. 622-Q (*Disclosures*).

c. Specimen of application to purchase ABS. It shall include the terms and conditions of the purchase and the disclosures required under Sec. 622-Q (*Disclosures*).
d. Specimen of certificate. It shall indicate the features of the ABS and the disclosures required under Sec. 622-Q (*Disclosures*).

Minimum features of asset-backed securities. The ABS shall be pre-numbered and printed on security paper. The ABS shall be signed and authenticated by the trustee. They are transferable by endorsement of the certificate. The transfer shall be recorded in the books of the trustee, indicating the names of the parties to the transaction, the date of the transfer and the number of the certificate transferred.

The minimum denomination of any ABS shall be P10,000.

Disclosures. The following disclosures must be provided in a conspicuous manner in any document inviting investment, application to purchase ABS and in the certificate itself:

a. The ABS do not represent deposit substitutes or liabilities of the originator, servicer or trustee and that they are not insured with PDIC;
b. The investor has investment risks;
c. The trustee does not guarantee the capital value of the ABS or the collectibility of the asset pool; and
d. The rights of an investor.

The investors shall be required to sign an acknowledgment indicating that they have read and understood the disclosures.

Conveyance of assets

a. The conveyance of the assets comprising the asset pool shall be done within the context of a true sale and, for this purpose, the seller may not retain in its books the ABS, except the residual certificate, if any.

b. The seller shall have no obligation to repurchase or substitute an asset or any part of the asset pool at any time, except in cases of a breach of representation or warranty, or under a revolving structure, to replace performing assets which have been paid out in part or in full.

c. The seller shall be under no obligation to provide additional assets to the SPT to maintain a coverage ratio of collateral to outstanding ABS. A breach of this requirement will be considered a credit enhancement and should be charged against capital. However, this will not apply to an asset pool conveyed under a revolving structure such as the securitization of credit card receivables.

d. Securitized assets shall be considered the subject of a true sale between the seller and the SPT. Sold assets shall be taken off the books of the seller and shall be transferred to the books of the SPT.

For accounting purposes, the transfer shall only be considered a true sale if the following three (3) conditions have been satisfied:

(1) the transferred assets have been isolated and put beyond the reach of the seller and its creditor;
(2) the SPT has the right to pledge or exchange its interest in the assets; and
(3) the seller does not effectively maintain control over the transferred assets by any concurrent agreement.

e. All expenses incidental to underwriting, conveyance of the asset pool including expenses for credit enhancement may be paid by the originator/seller:

Provided, That no further expenses shall be borne by the originator/seller after the asset pool has been conveyed to the SPT.

Representations and warranties

a. *Standard representations and warranties* refer to an existing state of facts that the originator, seller or servicer can either control or verify with reasonable due diligence at the time the assets are sold. Any breach of representation or warranty may give rise to legal recourse.

b. The representations or warranties shall be clear and explicit and, in particular, shall not relate to the future creditworthiness of the assets in the asset pool or the performance of the SPT or the securities issued.

c. Any agreement to pay damages as a result of breach of warranties and representations shall hold only where:

(1) there is a well-documented negotiation of the agreement in good faith;
(2) the burden of proof for a breach of representation or warranty rests with the other party;
(3) damages are limited to the loss incurred as a result of the breach; and
(4) there is a written notice of claim specifying the basis for the claim.

The Bangko Sentral shall be notified of any instance where a QB or its subsidiaries/affiliates has agreed to pay damages arising out of any breach of representation or warranty.

Third party review. A due diligence review by an independent entity mutually agreed upon by the seller and the issuer shall be done before the assets are sold.

Originator and seller

a. The seller may itself be the originator, and may likewise be designated as the servicer.
b. The seller or originator shall deliver to the trustee all original documents or instruments with respect to each asset sold.

Trustee and issuer

a. The trustee shall be the trust department of a bank licensed to do business in the Philippines.

b. The trustee shall have the right to manage or administer the asset pool. The trustee shall see to it that necessary measures are taken to protect the asset pool.

c. The trustee shall undertake a performance review of the asset pool at least quarterly and shall prepare a report to investors indicating, among others, collections, fees and other expenses as well as defaults, which report shall be made available to the investors at anytime after thirty (30) days from end of the reference quarter.

d. The trustee shall initiate all civil actions including foreclosure of mortgaged properties to effect collection of receivables in the asset pool. The servicer or any other party may be designated by the trustee to perform such function on a case-by-case basis.

e. The trustee may invest the investible funds only in obligations issued and/or fully guaranteed by the government of the Republic of the Philippines or by the Bangko Sentral and such other high-grade readily marketable debt securities as the Bangko Sentral may approve.

f. The trustee shall designate a replacement of the servicer if the latter fails to satisfactorily perform its duties and responsibilities according to the terms and conditions of the servicing agreement.

Servicer

a. The servicer shall perform its duties according to the terms and conditions of the servicing agreement and such other written instructions as the trustee may issue on a case-by-case basis. Collections made by the servicer shall be remitted promptly to the trustee or as may be agreed upon by the parties in the servicing agreement, but in no case shall the remittance period be longer than one (1) month.

b. The servicer shall prepare periodic reports as may be required by the trustee.

c. The servicer shall report to the trustee within thirty (30) days any borrower which fails to pay its debt at maturity date or any adverse development that may affect the collectibility of any loan account or receivable comprising the asset pool.

d. The servicer shall have no authority to waive penalties and charges except with a written authority from the trustee.

Underwriter

a. A UB or IH shall have written policies and procedures on underwriting of ABS.

b. The underwriter shall perform its functions according to the terms and conditions of the underwriting agreement.

c. An underwriter may deal in ABS, except those administered by its trust department, the trust departments of its subsidiaries/affiliates, the trust department of its parent bank or the trust department of its parent bank's subsidiaries/affiliates.

d. A UB/IH may act as underwriter, on a firm basis, of ABS except those administered by its trust department, the trust departments of its subsidiaries/affiliates, the trust department of its parent bank or the trust department of its parent bank's subsidiaries/affiliates.

e. The underwriter may not extend credit for the purpose of purchasing the ABS which such UB/IH underwrites or that which is underwritten by its subsidiaries/affiliates, its parent bank or its parent bank's subsidiaries/affiliates.

Guarantor

a. Only an entity the regular business of which includes the issuance of guarantees or similar undertaking may act as guarantor.

b. The guarantor must have the financial capacity to perform its responsibilities in accordance with the terms and conditions of the guarantee agreement. It shall submit to the trustee at least once in every six (6) months such financial reports as the trustee may require.

c. The originator or seller may not issue a counter-guarantee in favor of the guarantor.

Credit enhancement. Credit enhancement may be provided in any of the following manner:

a. Standby letter of credit issued by an UB/KB other than the originator's/seller's subsidiary/affiliate, parent bank or the parent bank's subsidiary/affiliate, and trustee or its subsidiary/affiliate.

b. Surety bond issued by any insurance company other than the originator's/seller's subsidiary or affiliate, the subsidiary or affiliate of the originator's seller's parent bank and the trustee or its subsidiary/affiliate.

c. Guarantee issued by any entity other than the originator/seller or its subsidiary/affiliate, its parent bank or the parent bank's subsidiary/affiliate, and trustee or its subsidiary/affiliate.

d. Overcollateralization provided by the originator/seller wherein the assets conveyed to the SPT exceed the amount of securities to be issued.

   Losses arising from overcollateralization shall be recognized by the originator/seller upfront. Such losses shall be treated as capital charges.

e. Spread account wherein the income from the underlying pool of receivables is made available to cover any shortfall in the repayment of ABS. The spread account shall be handled by the trustee which shall account for it separately. If not needed, this "spread" generally reverts to the holder of the residual certificate.

f. Subordinated securities that are lower ranking, or junior to other obligations and are paid after claims to holders of senior securities are satisfied.

g. Other credit enhancements as may be approved by the Monetary Board.

To be consistent with the concept of a true sale, subordinated securities shall be sold to third party investors other than the originator's/seller's parent company or its subsidiary/affiliate and the trustee or its subsidiary/affiliate or, if held by the seller, capital charges should be booked upfront. Otherwise, the subordinated securities shall be treated as deposit substitute subject to legal reserves.

Clean-up call. A *clean-up call* may be exercised by the seller once the outstanding principal balance of the receivable component of the asset pool falls to ten percent (10%) or less of the original principal balance of the asset pool. Where the asset pool includes foreclosed and other assets, such assets shall be included in the clean-up call and the consideration thereof shall be at current market value. Such a *clean-up call* shall not be considered recourse or in violation of Sec. 622-Q on conveyance of assets.

Prohibited activities.

a. The seller may not, under any circumstance, designate its trust department, the trust department of its subsidiaries/affiliates, the trust department of its parent bank or the trust department of its parent bank's subsidiaries/affiliates as trustee.

b. Any director, officer or employee of the originator, seller or servicer may not serve as a member of the board of directors or trust committee of the trustee or vice versa for the duration of the securitization.

c. The trust indenture shall not contain any stipulation whereby the seller, its subsidiaries/affiliates, its parent bank or the parent bank's subsidiaries/affiliates shall commit to extend any credit facility to the issuer and/or trustee.

d. The ABS shall not be eligible as collateral for a loan extended by a QB which originated/sold the underlying assets of such ABS.

e. The trust department of a bank that has discretion in the management of any trust or investment management account may not purchase for said trust/investment management account ABS administered by the trust department of the same bank, the trust department of such trustee's subsidiaries/affiliates, the trust department of such trustee's parent bank and the trust department of the parent bank's subsidiaries/affiliates.

f. The trustee may not designate its subsidiary/affiliate, its parent or the parent's subsidiaries/affiliates as servicer or vice versa.

Amendment. Any amendment to the trust indenture shall require the prior approval of the Bangko Sentral.

Miscellaneous provision. Without prior approval of the Bangko Sentral, any entity supervised by the Bangko Sentral authorized to engage in trust and fiduciary business may act as trustee or servicer in a securitization scheme originated by an entity not supervised by the Bangko Sentral: *Provided,* That the assets which are the subject of such securitization are existing in the books of the entity prior to securitization: *Provided, further,* That such entity acting as trustee or servicer is not a subsidiary/affiliate of the originator/seller, its parent bank or the parent bank's subsidiaries/affiliates or vice versa: *Provided, finally,* That such entity acting as trustee may not designate its subsidiaries/affiliates, its parent or the parent's subsidiaries/affiliates as servicer or vice versa.

Report to Bangko Sentral. The trustee shall submit a report of every securitization scheme in formats to be prescribed by the Bangko Sentral. The report shall be submitted to the appropriate department of the appropriate supervising department of the Bangko Sentral, within fifteen (15) business days after the end of every reference quarter. Such report shall be considered a *Category A* report for purposes of implementing fines in the submission of required reports pursuant to existing regulations.

D. GENERAL PROVISIONS

631-Q SECURITIES CUSTODIANSHIP AND SECURITIES REGISTRY OPERATIONS

Policy Statement. It is the policy of the Bangko Sentral to promote the protection of investors in order to gain their confidence and encourage their participation in the development of the domestic capital market. Therefore, the following rules and regulations are promulgated to enhance transparency of securities transactions with the end in view of protecting investors.

Definition of Terms. The following definitions shall apply:

a. *Securities custodian* is a financial institution accredited by the Bangko Sentral that is designated by investor to perform the functions of safekeeping, holding title to the securities in a nominee capacity, reports rendition, mark-to-market valuation, collection and payment of dividends, interest earnings or proceeds from the sale/redemption/maturity of securities held under custodianship, and representation of the client in corporate actions. It may also perform the value-added service as a securities lending agent, subject to the conditions specified under this Section.

b. *Securities registry* is a financial institution duly authorized by the Bangko Sentral and the Securities and Exchange Commission (SEC) that is designated or appointed by an issuer of securities to maintain the securities registry book either in electronic or in printed form. It records the initial issuance of the securities and subsequent transfers of ownership and issues registry confirmations to the buyers/holders.

c. *Self-managed custodianship arrangement* refers to an arrangement where securities sold to or managed on behalf of a BSFI's clients are maintained under a BSFI's own unit performing securities custodian services.

d. *Central securities depository (CSD)* is an entity duly-authorized by the SEC that provides securities accounts, central safekeeping services, and asset services, which may include the administration of corporate actions and redemptions, and helps ensure the integrity of securities issues.

e. *International Central Securities Depository (ICSD)* refers to a central securities depository (CSD) such as Clearstream and Euroclear, where foreign currency denominated Philippine securities, such as the Republic of the Philippines and US dollar denominated bonds, are held under custody. Dealers and banks in the Philippines usually maintain accounts with the ICSDs that will facilitate settlement and safekeeping of the covered securities under this regulation.

f. *Omnibus securities custodianship account* is an account structure where securities or collateral belonging to some or all customers of a securities custodian is commingled and held in a single account that is segregated from the account that holds the assets of the BSFI acting as custodian. The ultimate ownership of all the assets in the account is maintained by the custodian in its books of records.

Applicability of this regulation. This regulation shall govern securities custodianship and securities registry operations of banks, QBs, and NBFIs under Bangko Sentral supervision. It shall cover all their transactions in securities as defined in Section 3 of the SRC, whether exempt or required to be registered with the SEC, that are sold, borrowed, purchased, traded, held under custody or otherwise transacted in the Philippines where at least one (1) of the parties is a bank or an NBFI under Bangko Sentral supervision. However, this regulation shall not cover the operations of stock and transfer agents duly registered with the SEC pursuant to the provisions of SRC Rule 36-4.1 and whose only function is maintain the stock and transfer book for shares of stock.

Application for authority. A QB and NBFI applying for authority to engage in securities custodian and/or securities registry operations shall submit the following documents to the appropriate supervising department of the Bangko Sentral:

a. Notification letter signed by the president or officer of equivalent rank that the BSFI will engage in securities custodianship operations. For this purpose, the notification letter shall describe the unit that will handle the securities custodianship operations and how the BSFI complied with Item b of the prequalification requirements;

b. Corporate secretary's certificate on the approval of the board of directors (or equivalent management committee in the case of foreign bank branches) to engage in securities custodianship operations; and

c. Certification signed by the president or officer of equivalent rank and the chief compliance officer (CCO) certifying that the institution has complied with all the:

   (1) prudential criteria prescribed under Sec. 111-Q; and
   (2) pre-qualification requirements for a securities custodian and securities registry under this Section.

The Bangko Sentral reserves the right to issue a notice of objection, within thirty (30) calendar days from receipt of the notification letter and other required documents from the QB and NBFI, to the application for authority to engage in securities custodianship operations and/or securities registry operations. In this regard, the QB or NBFI that did not receive any notice of objection from the Bangko Sentral within the said thirty (30)-day period may proceed with the securities custodianship and/or securities registry operations.

Pre-qualification requirements for a securities custodian/registry.

a. The securities custodian/registry must be a U/KB, an investment house with the quasi-banking authority (IHQB), or a NBFI under the Bangko Sentral supervision with a trust authority, or a stand-alone trust corporation. A U/KB or an IHQB may propose to offer securities custodianship services either through the bank/investment house (IH) proper or its trust department;

b. The securities custodianship operations shall be conducted in a unit that is separate from the securities underwriting, dealing, or brokering operations of the BSFI;

c. The securities custodianship must have adequate information technology (IT) infrastructure to ensure the protection, safety and integrity of client assets;

   (1) It can maintain an electronic registry dedicated to recording of accountabilities to its clients; and
   (2) It must also have an updated, comprehensive and secured IT security system network and telecommunication facilities that will:

      (a) limit access only to authorized users;
      (b) preserve data integrity; and

(c) provide for audit trail of transactions.

d. At the minimum, it maintains the following documents/information which shall be made available upon request by the appropriate supervising department of the Bangko Sentral:

(1) relevant standard custody/registry agreement and other documents. In the case of self-managed securities custodianship arrangement, these shall include the written consent of the owner of securities to said arrangement;
(2) policies, procedures, and organizational structure related to the custody/registry business; and
(3) transaction records

e. It shall be headed by a qualified person with at least two (2) years of experience in treasury, trust, or custody/registry operations;

f. Its system can interface with the: (1) clearing and settlement system of any recognized exchange in the country that settles securities transactions on a Delivery-versus-Payment (DvP) basis, and (2) with a payment system that facilitates real time gross settlement of securities transactions; and

g. A securities custodian which offers the value-added service of lending securities that are sold, offered for sale or distributed within the Philippines, must be a duly-licensed lending agent registered with the SEC.

Functions and responsibilities of a securities custodian. A securities custodian shall have the following basic functions and responsibilities:

a. Safekeeps the securities of the client;

b. Holds title to the securities in a nominee capacity;

c. Executes purchase, sale and other related instructions;

d. Conducts at least a monthly reconciliation for securities custodians and an end-of-day reconciliation in the case of self-managed securities custodians to ensure that all securities custodianship positions are properly recorded and accounted for;

e. Confirms tax withheld;

f. Represents clients in corporate actions in accordance with the direction provided by the securities owner;

g. Conducts mark-to-market valuation and statement rendition;

h. Does earmarking of encumbrances or liens such as, but not limited to, Deeds of Assignment and court orders; and

i. Acts as a collecting and paying agent in respect of dividends, interest earnings or proceeds from the sale/redemption/maturity of securities held under custodianship: *Provided*, That the custodian shall immediately make known to the securities owner all collections received and payments made with respect to the securities under custody.

j. In addition to the above basic functions, it may perform the value-added service as a securities lending agent: *Provided,* That it complies with the Item "(g)" of the prequalification requirements for a securities custodian/registry under this Section: *Provided, further,* That the securities custodian complies with the SEC regulations governing securities lending transactions and with the guidelines of the organized market in which the deal is transacted; *Provided, finally,* That the service shall be covered by a Securities Lending Authorization Agreement (SLAA) which shall be attached to the custody contract.

Functions and responsibilities of a securities registry

a. Maintains an electronic registry book;
b. Delivers confirmation of transactions and other documents within agreed trading periods;
c. Issues registry confirmations for transfers of ownership as it occurs;
d. Prepares regular statement of securities balances at such frequency as may be required by the owner on record but not less frequent than every quarter; and
e. Follows appropriate legal documentation to govern its relationship with the Issuer.

Protection of securities of the customer. A custodian must incorporate the following procedures in the discharge of its functions in order to protect the securities of the customer:

a. *Full disclosure to clients.* Selling or dealings banks or other BSFIs authorized to transact in securities with clients shall inform their clients of the arrangements for the custody of their securities. The selling or dealing bank or BSFI must inform their clients that the choice of securities custodian of CSD is the sole prerogative of the securities purchaser or investor. It shall also provide the complete list of all Bangko Sentral- accredited custodians or SEC-authorized central securities depositories to its clients. The transacting bank or BSFI may, however, indicate to their clients their preferred arrangements.

The securities custodian shall ensure that its clients are informed of relevant laws and regulations that are applicable to the securities custodianship arrangement as well as the client's rights over the securities held in custody by the QB.

b. *Accounting and recording for securities*. Custodians must employ accounting and safekeeping procedures that fully protect customer securities. It is essential that custodians segregate customer securities from one another and from its proprietary holdings to protect the same from the claims of its general creditors.

The securities account in the registry shall be recorded at the nominal amount of one (Php 1.00) peso. Such securities account shall reflect the name and relevant customer information of the individual clients.

For securities held at CSDs/ICSDs on behalf of clients, the account in the CSD/ICSD shall reflect the name and relevant customer information of individual clients to the extent practicable. An omnibus account for clients that is segregated from that of the custodian's proprietary assets, shall be allowed provided that the name and relevant customer information of the individual clients are reflected in the records of the custodian that maintains the account in the CSD/ICSD.

c. *Documentation.* The appropriate documentation for securities custodianship shall be made and it shall clearly define, among others, the authority, role, responsibilities, fess and provision for succession in the event the securities custodian can no longer discharge its functions. It shall be accepted in writing by the counterparties.

The governing securities custodianship agreement shall be pre-numbered and this number shall be referred to in all amendments and supplements thereto. The securities custodianship agreement shall contain at the minimum the; (a) rights and obligations of the parties; (b) fees for the services offered by the custodian/depository; (c) scope and term/period of the Agreement.

The securities purchasers/owners may, designate/appoint a representative or agent for the purpose of opening of the custodianship/securities deposit account and the execution of trade transactions (i.e., buying and selling instructions including relaying of instructions to the custodian/CSD to receive or deliver securities in order to consummate the buy/sell transactions).

In addition, a BSFI offering self-managed securities custodianship arrangement shall: (i) secure a written consent from the client designating the BSFI as the custodian for securities bought (ii) tag the securities as non-tradeable unless with prior consent of the clients; and (iii) subject the arrangement to periodic review or audit by a third party.

d. *Confirmation of custody*. The custodian shall issue a custody confirmation to the purchaser or borrower of securities to evidence receipt or transfer of securities as they occur. It shall contain, as a minimum, the following information on the securities under custody:

(1) Owner of securities;
(2) Issuer;
(3) Securities types and type of transactions (free deliver/free receipt, receive vs. payment/deliver vs/ payment);
(4) Identification or serial numbers;
(5) Quantity;
(6) Face Value;
(7) Settlement Amount;
(8) Trade Date;
(9) Counterparty; and
(10) Other information, which may be requested by the parties.

e. *Periodic reporting.* The client statements of accounts (SOA) shall be prepared either in print or electronic form on a quarterly basis. In the case of self-managed securities custodians, it shall be prepared at least on a monthly basis. The SOA shall also be prepared at such interval as the owner of securities will require provided that it shall not be less frequent that the quarterly or monthly reporting requirement. The SOA shall be delivered to the registered owner's home/email address on record. Said statement shall present detailed information such as, but not limited to, inventory of securities of the client held under custody, outstanding, and market values.

Independence of the securities custodian and securities registry. A BSFI authorized to offer securities custodianship/securities registry services are prohibited from performing the said services for its own securities issued. A BSFI performing custodianship/securities registry service for a related party shall ensure that appropriate safeguards and controls as provided under Sec. 136 on related party transactions shall be instituted to prevent conflict of interest on the said arrangement.

National Registry of Scripless Securities of the Bureau of the Treasury. The National Registry of Scripless Securities (NRoSS), operated by the Bureau of the Treasury which sis acting as a registry for government securities is deemed to be automatically accredited for purposes of this Section and is likewise exempted from the independence requirement under this Section *(Independence of the securities custodian and securities registry).* Securities registered under the NRoSS shall be delivered in accordance with the guidelines set forth in *Appendix Q-38.*

Confidentiality. A Bangko Sentral-accredited securities custodian/registry shall not disclose to any unauthorized person any information relative to the securities under its custodianship/registry. The management shall likewise ensure the confidentiality of client accounts of the custody or registry unit from other units within the same organization.

Compliance with Anti-Money Laundering laws/regulations. Compliance with the requirements on R.A. No. 9160, otherwise known as the "Anti-Money Laundering (AML) Act of 2001", as amended, by Bangko Sentral-accredited securities custodians/securities registries or SEC-authorized central securities depositories shall be governed by AML rules and regulations issued by their supervising authorities, such as the Bangko Sentral or the SEC.

For purposes of compliance with the customer identification, record keeping, and reporting of covered and suspicious transactions, a Bangko Sentral-accredited custodian may rely on referral by the seller issuer of securities: *Provided,* That it maintains a record of such referral together with the minimum identification, information/documents required under the law and its implementing rules and regulations: *Provided, further,* That, the ultimate responsibility for customer due diligence (CDD) and record-keeping remains with such Bangko Sentral-accredited securities custodian.

A Bangko Sentral-accredited custodian must maintain accounts only in the true and full name of the owners of the security. However, said securities owners may be identified by number or code in reports and correspondences to keep his identity confidential.

Additionally, a Bangko Sentral-accredited securities custodian/securities registry or SEC-authorized central securities depository may rely on the customer identification process undertaken by a third party pursuant to existing AML rules and regulations. Notwithstanding the above, the custodian, registry or CSD is not precluded from conducting its own Know-Your-Customer (KYC) activities and maintaining direct holding of the KYC information/documents of its clients.

Basic security deposit. Securities held under custodianship whether booked in the Trust Department or carried in the regular books of the quasi-bank/trust entity/NBFI shall be subject to a security deposit for faithful performance of duties at the rate of 1/25 of one percent (1%) of the total face value or 500,000 whichever is higher.

However, securities held under custodianship where the custodian also performs securities lending as agent shall be subject to a higher basic security deposit of one percent (1%) of the total face value of securities held under custodianship.

Compliance shall be in the form of eligible government securities deposited with the Bangko Sentral, pursuant to existing regulations governing security for the faithful performance of trust and other fiduciary business under Sec. 417 (*Eligible securities to compliance period; sanction*).

Required Reports. An accredited securities custodian shall comply with the reportorial requirements, prescribed under Item "*b*" of Sec. 416-Q (*Compliance with the basic security deposit requirement).*

Supervisory enforcement action. Consistent with Sec. 002-Q, the Bangko Sentral reserves the right to deploy a range of supervisory tools to ensure compliance with the requirements set forth in these guidelines. Non-compliance with, and any other violations of these guidelines shall constitute reasonable grounds for the Bangko Sentral to deploy its enforcement tools, including but not limited to, citing a BSFI for conducting business in an unsafe or unsound manner should its activities result in abnormal risk to the institution. A BSFI may likewise be directed to refrain from engaging in or be suspended from securities custodianship and/or securities registry operations if there are serious supervisory issues. Sanctions may be imposed on the BSFI and responsible persons, including monetary sanctions against the BSFI and/or erring directors, officers, and employees under Sec. 1102-Q (*Other Payments of NBFIs*) and *Appendix Q-26*.

(Circular Nos. 1125 dated 20 August 2021, 1121 dated 8 June 2021 and 1032 dated 15 February 2019)

PART SEVEN

ELECTRONIC PAYMENT AND FINANCIAL SERVICES

701-Q POLICY STATEMENT

The Bangko Sentral recognizes that electronic payment and financial services contribute to economic growth by facilitating the transfer of funds which are necessary for all productive activities. Thus, the Bangko Sentral promotes a safe, efficient, reliable, affordable, and inclusive national payment system to support the delivery of said services.

Definition of terms. In addition to the definitions under Sec. 801-Q (*Definition of terms*), the definitions of the following terms shall apply for the purpose of this Section:

a. Electronic Payment and Financial Services (EPFS) – products or services offered by BSP-supervised Financial Institutions (BSFIs) to enable customers to receive payments or initiate financial transactions and other related services through an electronic device such as a computer, mobile phone, Automated Tellering Machine (ATM), and other devices. In particular, EPFS allow customers to electronically access information on their transaction accounts, move or receive funds from one account to another, or avail of credit, investment, trust, or other banking products and/or services (e.g., online or mobile loan application, electronic placement of funds in certain investment outlets, etc.).

b. Transaction account – an account (e.g., deposit account, e-money, electronic wallet, etc.) held or maintained with a BSFI, which could be a bank or a non-bank.

Classification of EPFS. For the purpose of authorizing BSFIs to render EPFS, such services shall be classified as follows:

a. Basic EPFS – These are limited to services allowing only receipt of funds or access to information (e.g., account balance, statement of account, etc.).
b. Advanced EPFS – In addition to basic services, advanced EPFS enable customers to send funds and initiate other financial transactions.

Requirements for the grant of authority to offer EPFS[1]. Pursuant to Sec. 111-Q on the Bangko Sentral Policy and Regulations on Licensing, BSFIs that intend to offer EPFS shall obtain the appropriate authority/license, as follows:

Classification	Category of License/Authority
Advanced EPFS	Type A[2]/B[3]
Basic EPFS	Type C

BSFIs shall observe the "Guidelines on Licensing of Electronic Payment and Financial Services" shown in *Appendix Q-89.*

Compliance with relevant regulations. A BSFI that has been granted an advanced EPFS authority shall at all times comply with the following relevant regulations:

a. Oversee its EPFS through an appropriate top-level committee to ensure that concerns on these services are timely and properly addressed;

b. Make its EPFS with funds transfer functionality interoperable by participating in an Automated Clearing House pursuant to the guidelines provided under Part 8 of the Q-regulations on Payment Systems;

c. Integrate EPFS in its overall strategic plan to ensure that these services do not put undue strain on its systems, financial performance, and risk management capability;

d. Promote EPFS by implementing appropriate marketing strategies;

e. Ensure that it satisfies the legal and regulatory requirements for Anti-Money Laundering/Combating Financing of Terrorism; and

[1] **Transitory Provision.** The BSFIs shall re-register their EPFS by accomplishing the attached re-registration form with covering certification *(Annex B of Appendix Q-89).* The re-registration form shall be electronically submitted with the subject ""EPFS Re-registration -<name of BSFI> -<date-YYYYMMDD>" to epfs-licensing@bsp.gov.ph not later than 31 March 2019 while the covering certification shall be sent to the Financial Technology Sub-sector of the Bangko Sentral. Failure to submit the re-registration form by 31 March 2019 shall result in the revocation of the issued license/s.

[2] This applies to BSFIs that *can* be assessed against the prudential criteria provided in the Policy and Regulations on Licensing. These applicants must have been examined by the Bangko Sentral.

[3] This applies to proponents that *cannot* be assessed against the prudential criteria provided in the Policy and Regulations on Licensing. These include newly-established BSFIs and new applicants for an authority to operate as "Electronic Money Issuer-Others".

Classification: GENERAL

f. Comply with the relevant regulations on payments, Information Technology (IT) Risk Management Standards, Guidelines on Electronic Products and Services, Business Continuity Management regulations, and Consumer Protection Standards of Conduct for BSFIs.

Enhancements and other changes in EPFS. BSFIs shall seek prior Bangko Sentral approval for the following enhancements and changes in their licensed EPFS:

a. Replacement of platform;
b. Upgrade in EPFS from purely informational to transactional services; and
c. Change in system architecture, altering the risk score or assessment on the system or the other systems related to it.

Reportorial requirements. BSFIs shall provide the BSP with the required data and updates on their EPFS.

a. *Required Reports*. The following reports shall be submitted to the appropriate supervising department of the Bangko Sentral in the manner prescribed under *Appendix Q-3*:

   (1) EPFS Transactions and Indicators; and
   (2) Changes and Enhancements in EPFS.

b. *Sanctions*. Failure to comply with the reportorial requirements shall subject the concerned BSFI to applicable sanctions for "Erroneous/Delayed/Erroneous and Delayed/Unsubmitted reports" as prescribed under Sec. 172-Q (*Sanctions in case of willful delay in the submission of reports/refusal to permit examination*).

Enforcement action. Failure to comply with the provisions of this Section shall cause the concerned BSFI to be subject to enforcement action in accordance with Sec. 002-Q and/or Sec. 111-Q (*Enforcement actions*).

Outsourcing of internet and mobile electronic services. The rules on outsourcing of banking functions as shown in Sec. 112 (*Statement of principle on outsourcing*) of the MORB and *Appendix Q-36* shall be adopted insofar as they are applicable to QBs' outsourcing of internet and mobile electronic services.

(Circular Nos. 1033 dated 22 February 2019 and 1031 dated 07 February 2019)

702-Q ISSUANCE AND OPERATIONS OF ELECTRONIC MONEY

The following guidelines shall govern the issuance of electronic money (e-money) and the operations of electronic money issuers (EMIs).

Declaration of policy. It is the policy of the Bangko Sentral to foster the development of efficient and convenient retail payment and fund transfer mechanism in the Philippines. The availability and acceptance of e-money as a retail payment medium will be promoted by providing the necessary safeguards and controls to mitigate the risks associated in an e-money business.

Definitions

E-money shall mean monetary value as represented by a claim on its issuer, that is –

a. electronically stored in an instrument or device;
b. issued against receipt of funds of an amount not lesser in value than the monetary value issued;
c. accepted as a means of payment by persons or entities other than the issuer;
d. withdrawable in cash or cash equivalent; and
e. issued in accordance with this Section.

Electronic money issuer (EMI) shall be classified as follows:

a. Banks (hereinafter called EMI-Bank);
b. NBFI supervised by the Bangko Sentral (hereinafter called EMI-NBFI); and
c. Non-bank institutions registered with the Bangko Sentral as a money transfer agent under Sec. 901-N (hereinafter called EMI-Others).

For purposes of this Section:

a. *Electronic instruments or devices* shall mean cash cards, e-wallets accessible via mobile phones or other access device, stored value cards, and other similar products.
b. E-money issued by QBs shall not be considered as deposits.

Prior Bangko Sentral approval. QBs planning to be an EMI-NBFI shall comply with the requirements of Sec. 701-Q and Sec. 111-Q (*Guidelines on outsourcing*), when applicable.

Common provisions. In addition to the provisions under Sec. 701-Q (*Compliance with relevant regulations*), EMIs shall comply with the following requirements:

a. E-money instrument issued shall be subject to aggregate monthly load limit of P100,000 unless a higher amount has been approved by Bangko Sentral. In case an EMI issues several e-money instruments to a person (e-money holder), the total amount loaded in all the e-money instruments shall be consolidated in determining compliance with the aggregate monthly load limit;

b. EMIs shall put in place a system to maintain accurate and complete record of e-money instruments issued, the identity of e-money holders, and the individual and consolidated balances thereof. The system must have the capability to monitor the movement of e-money transactions and link e-money instruments issued to common e-money holders. The susceptibility of a system to intentional or unintentional misreporting of transactions and balances shall be sufficient ground for imposition by the Bangko Sentral of sanctions, as may be applicable.

c. E-money may only be redeemed at face value. It shall not earn interest nor rewards and other similar incentives convertible to cash, nor be purchased at a discount. E-money is not considered a deposit, hence, it is not insured with the PDIC.

d. EMIs shall ensure that e-money instruments clearly identify the issuer who is ultimately responsible to the e-money holders. This shall be communicated to the client who shall acknowledge the same in writing.

e. It is the responsibility of EMIs to ensure that their distributors/e-money agents comply with all applicable requirements of the Anti-Money Laundering laws, rules and regulations.

f. EMIs shall provide an acceptable redress mechanism to address the complaints of its customers.

g. EMIs shall disclose in writing and its customers shall signify agreement to the information embodied in Item "c" above upon their participation in the e-money system. In addition, it shall provide clear guidance in English and Filipino on consumers' right of redemption, including conditions and fees for redemption, if any. Information on available redress procedures for complaints together with the address and contact information of the issuer shall also be provided.

h. Prior to the issuance of e-money, EMIs should ensure that the following minimum systems and controls are in place:

   (1) Sound and prudent management, administrative and accounting procedures and adequate internal control mechanisms;
   (2) Properly-designed computer systems which are thoroughly tested prior to implementation;
   (3) Appropriate security policies and measures intended to safeguard the integrity, authenticity and confidentiality of data and operating processes;
   (4) Adequate business continuity and disaster recovery plan; and
   (5) Effective audit function to provide periodic review of the security control environment and critical systems.

i. EMIs shall provide the SDC quarterly statements containing, among others, information on investments, volume of transactions, total outstanding e-money balances, and liquid assets in such forms as may be prescribed later on.

j. EMIs shall notify Bangko Sentral in writing of any change or enhancement in the e-money facility thirty (30) days prior to implementation. If said change or enhancement requires prior Bangko Sentral approval, the same shall be evaluated accordingly. Any change or enhancement that shall expand the scope or change the nature of the e-money instrument shall be subject to prior approval of the Deputy Governor of the supervising sector of the Bangko Sentral. These changes or enhancements may include the following:

   (1) Additional capabilities of the e-money instrument/s, like access to new channels (e.g. inclusion of internet channel in addition to merchant Point of Sale terminals);
   (2) Change in technology service providers and other major partners in the e-money business (excluding partner merchants), if any; and
   (3) Other changes or enhancements.

Quasi-bank license requirement. EMI-NBFIs and EMI-Others that engage in lending activities must secure a quasi-banking license from the Bangko Sentral.

Classification: GENERAL

Sanctions. Monetary penalties and other sanctions for the following violations committed by EMI-NBFIs shall be imposed:

Nature of Violation/Exception	Sanction/Penalties
1. Issuing e-money without prior to Bangko Sentral approval	Applicable penalties under Sections 36 & 37 of R.A. No. 7653; Watchlisting of owners/partners/principal officers
2. Violation of any of the provisions of R.A. No. 9160 (Anti-Money Laundering Law of 2001 as amended by R.A. No. 9194) and its implementing rules and regulations	Applicable penalties prescribed under the Act
3. Violation/s of this Section	Penalties and sanctions under the abovementioned laws and other applicable laws, rules and regulations

In addition, the susceptibility of a system to intentional or unintentional misreporting of transactions and balances shall be sufficient ground for appropriate Bangko Sentral action or imposition of sanctions, whenever applicable.

Outsourcing of services by Electronic Money Issuers (EMIs) to Electronic Money Network Service Providers (EMNSP). The guidelines on outsourcing of services by Electronic Money Issuers (EMIs) to Electronic Money Network Service Providers (EMNSP) are shown in *Appendix Q-56*.

Sanctions. Violations committed by EMIs pertaining to outsourcing activities to EMNSP shall be subject to appropriate monetary penalties under Sec. 1102-Q (*Other Payments of NBFIs*), *Appendix* Q-26 and/or other non-monetary sanctions under Section 37 of RA No. 7653.

(Circular Nos. 1125 dated 20 August 2021, 1033 dated 22 February 2019 and 988 dated 20 December 2017)

Classification: GENERAL

PART EIGHT

NATIONAL RETAIL PAYMENT SYSTEMS

801-Q NATIONAL RETAIL PAYMENT SYSTEM (NRPS) FRAMEWORK

Adoption of NRPS Framework. It is the policy of the Bangko Sentral to promote the establishment of a safe, efficient, and reliable retail payment system in the Philippines. Towards this end, the Bangko Sentral adopts the NRPS consistent with Bangko Sentral regulations on risk management in light of the complex interplay of different types of risk arising from the rapid evolution of retail payment activities of BSFIs. The NRPS vision will help achieve higher economic growth and enhance the overall competitiveness of our economy.

In carrying out retail payment-related activities, BSFIs shall adhere to the NRPS Framework as set forth in this Section and *Appendix 78.* This framework requires BSFIs to ensure that the retail payment systems they participate in demonstrate sound risk management, and effective and efficient interoperability. BSFIs shall comply with Bangko Sentral rules and regulations, particularly on information technology, consumer protection, and anti-money laundering/combating the financing of terrorism (AML/CFT).

Definition of terms. For purposes of this Section, the following definitions shall apply:

a. *Automated Clearing House (ACH)* - a multilateral agreement among ACH participants governing the clearing and settlement of payment orders for a specific payment stream.

b. *ACH Participant*- a financial institution duly licensed by the Bangko Sentral that is a Payment System Management Body (PSMB) member, and undertakes clearing in and is a signatory to at least one (1) ACH.

c. *ACH Participant Group (ACH-PG)* - a group organized by ACH participants for a payment stream or a group of similar payment streams for the purpose of approving and implementing the clearing rules and agreements applicable to a specific payment stream. It also liaises and consults with other parties in relation to clearing.

d. *Channel* - the means by which an electronic financial product or service is delivered. e.*g.,* internet, phone, ATM.

e. *Clearing* - the process of transmitting, reconciling and, in some cases, confirming payment orders prior to settlement, and the establishment of the final obligations for settlement.

f. *Clearing Switch Operator (CSO)* - provides clearing switch services.

g. *Direct clearing participant*- a financial institution that is: (a) duly licensed by the Bangko Sentral and is authorized to provide electronic financial and payment services; (b) engaged in holding of funds of customers in the form of accounts (bank account or electronic money account); (c) clears transactions through an ACH and is the participant ultimately responsible for obligations generated from cleared transactions; and (d) has a demand deposit account with the Bangko Sentral and a PhilPaSS member, or is sponsored into settlement by a qualified sponsor which is a member of PhilPaSS and maintains a DDA with the Bangko Sentral, to settle its clearing obligations.

h. *Electronic payment*- synonymous to electronic fund transfer (EFT); refers to transfers of funds between two transaction accounts in the same or different BSFIs which are initiated and received using electronic devices and channels to transmit payment instructions. This excludes domestic remittance transaction under existing Bangko Sentral regulations.

i. *Fund*- any unit of value that forms the consideration or object of transactions.

j. *Interoperability* - enables financial products and services belonging to a particular scheme or business model to be used or interoperated between other schemes or business models usually of another institution. While interoperability often times require technical compatibility between systems, it can only take effect once commercial/business interconnectivity agreements have been completed.

k. *NRPS* - a policy and regulatory framework that aims to establish a safe, efficient, and reliable retail payment system in the Philippines.

l. *Payment instrument* - any instrument, whether tangible or intangible, that enables a person to transfer funds.

m. *Payment order* - an order or message requesting the transfer of funds to the order of the payee.

n. *Payment system* - the set of payment instruments, processes, procedures and participants that ensures the circulation of money or movement/transfer of funds.

o. *PSMB* - a private industry-led self-governing body that is duly recognized by the Bangko Sentral to develop and enforce rules and agreements pertaining to members' clearing and settlement activities in accordance with the NRPS Framework and applicable Bangko Sentral regulations. The body shall be comprised of retail payment industry participants which are direct clearing participants. This body shall be a juridical entity that is not-for-profit and with the power to set and implement rules pertaining to members' clearing activities.

p. *Point of Interaction (POI)* - a hardware and/or software whereby a customer or user is able to query or initiate a transaction from his account. Examples of POI include kiosk, smart device, etc.

q. *Retail payments* - payments that meet at least one of the following characteristics: (i) the payment is not directly related to a financial market transaction; (ii) the settlement is not time-critical; (iii) the payer, the payee, or both are individuals or non-financial organizations; and (iv) either the payer, the payee, or both are not direct participants in the payment system that is processing the payment. This definition of retail payment includes person-to-person, person-to-business, business-to-person, business-to-business, person/business-to-government, and government-to-person/business payments.[1]

r. *Settlement* - an act that discharges obligations in respect of fund transfers between two (2) or more parties.

s. *Sponsored into Settlement Member* - PSMB members who undertake settlement in at least one (1) ACH by engaging the settlement services of an ACH participant that can directly settle transactions through PhilPaSS.

t. *Settlement sponsor bank or Sponsoring bank* - PSMB members who undertake settlement directly through PhilPaSS.

u. *Working Group*- In the context of an ACH, it is a group organized for a specific payment stream under an ACH Participant Group. The ACH Working Group is responsible for drawing up, reviewing or revising the rules and agreements applicable to a specific ACH.

Purpose and scope. The NRPS Framework shall apply to all BSFIs which meet regulatory requirements and the criteria set on a per ACH basis under the NRPS framework.

The NRPS framework covers all retail payment-related activities, mechanisms, institutions and users. It applies to all domestic payments which are denominated in Philippine Peso (Php), and which may be for payments of goods and services, domestic remittances or fund transfers.

Retail payments under the NRPS Framework are payments that meet at least one of the following characteristics:

a. the payment is not directly related to a financial market transaction;
b. the settlement is not time-critical;
c. the payer, the payee, or both are individuals or non-financial organizations; and
d. either the payer, the payee, or both are not direct participants in the payment system that is processing the payment.

NRPS key principles. Under the NRPS framework, sound governance shall be performed by a PSMB, an industry-led self-governing body that is duly recognized and overseen by the Bangko Sentral. In the absence of a PSMB which conforms to the NRPS principles in *Appendix Q-126,* the functions of providing sound governance to the retail payment system participated in by BSFIs shall be discharged by the Bangko Sentral. The CSOs shall not participate in the governance of the payment system.

All clearing shall be done within the NRPS governance structure, wherein exclusive bilateral clearing arrangements are not allowed.

Non-discriminatory participation shall be espoused in the retail payment system. Hence, all BSFIs are highly encouraged to join the NRPS governance structure provided they meet the qualification criteria.

A reasonable market-based and transparent pricing mechanism shall be adopted by all BSFIs participating in the NRPS governance structure.

Further details on the key principles are embodied in the NRPS Framework shown in *Appendix 78*.

Specific rules applicable to transactions performed under the NRPS framework. The following rules shall apply to retail payment transactions which are cleared and settled in accordance with the NRPS Framework:

a. Minimum requirements to offer Electronic Payment and Financial Services (EPFS). EPFS shall require notification to or approval by the Bangko Sentral in accordance with Sec. 701-Q. To offer EPFS, BSFIs shall conform to the following requirements:

[1] Developing a comprehensive National Retail Payments Strategy, Financial Infrastructure Service line Payment Systems Policy and Research, World Bank, October 2012, available at http://siteresources.worldbank.org/FINANCIALSECTOR/Resources/Developing_a_comprehensive_national_retail_payments_strategy_for_GPW_10_20%28vl%29.pdf.

(1) BSFIs shall make electronic payments available in all its delivery channels whenever applicable;
(2) BSFIs shall enable its clients to move/receive funds to/from accounts with other BSFIs, or, at a minimum, receive funds. Movement of funds between BSFIs shall be carried out through participation in an ACH;
(3) BSFIs shall immediately credit the account of its clients after receipt of clearing advice; and
(4) BSFIs shall conform to Sec. 701-Q, the IT Risk Management Standards and Guidelines on electronic banking, electronic payment, electronic money and other electronic products and services provided in *Appendix 66.*

b. *Fees on transactions*. The BSFI's board of directors shall adopt a policy on the imposition of any fee on electronic payment transactions. The policy shall include the basis and quantitative support for the setting of fees and rationalization of the fee structure or amount. Imposition of fees for transactions performed by BSFIs that meet the requirements in Item *"a"* of this Section *(Specific Rules Applicable to Transactions Performed under the NRPS Framework)* shall be consistent with the following:

(1) On consumer pricing-

(a) BSFIs shall adopt reasonable and fair market-based pricing models, which do not arise from agreements with other BSFIs to fix the price of product or service delivery.

(b) The service fees for electronic payments are expected to be lower than the fees collected from transactions made manually or over-the-counter (OTC) as electronic payments are considered to provide more efficient and cost-effective means of delivering service.

(c) The recipient shall not pay for electronic crediting to recipient's account and the recipient shall receive the amount in full. Such account to account fund transfers shall not be considered as domestic remittance transactions under Sec. 251-Q.

(2) The BSFI shall disclose to the Bangko Sentral the details of all fees that will be charged to the client. This will be posted in an electronic bulletin board of fees for transactions performed under the NRPS framework. The bulletin board shall be maintained by the Bangko Sentral in its website for enhanced transparency and competitiveness.

c. *Anti-Money Laundering Requirements*. All BSFIs shall observe applicable AML/CFT requirements under Part Nine for all transactions performed under the NRPS framework. As part of on-going monitoring of customers and their transactions, the following rules shall apply to transactions performed under the NRPS framework by BSFIs that meet the requirements in Item *"a"* of this Section (*specific rules applicable to transactions performed under the NRPS Framework*):

(1) The *originating institution (OJ)* shall be responsible for monitoring, including appropriate watchlist screening or monitoring, its own client's transactions. It is the responsibility of the 0I to ensure that the account name of the source account and the amount are consistent with the Sender Name and the amount indicated in the Payment Instruction sent by the OJ.

(2) The *receiving institution (RI)* shall be responsible for monitoring, including appropriate watchlist screening or monitoring, its own client's transactions. It is the responsibility of the RI to ensure that the actual account number credited and the amount are consistent with the Beneficiary Account Number and the amount indicated in the Payment Instruction received by the RI.

(3) On the basis of the above, account number matching will suffice for domestic account-to-account electronic payments. OJs and RIs shall ensure that customers are informed that account number matching will suffice to implement a transaction, and OJs and RIs shall be held free and harmless from liability for their reliance on account number matching.

d. BSFIs participating in the NRPS governance structure are required to comply with existing regulations of the Bangko Sentral.

Reports. BSFIs participating in the NRPS governance structure shall comply with requirements, which will be covered by a separate issuance.

Examination of BSFIs. BSFIs shall make available all policies, procedures and other documents/information related to this Section during the on-site examination, as well as provide copies thereof when a written request is made by the Bangko Sentral.

Sanctions. Consistent with Sec. 002-Q, the Bangko Sentral may deploy enforcement actions to promote adherence to the requirements set forth in this Section and bring about timely corrective actions. The Bangko Sentral may issue directives to enforce compliance with the NRPS Framework or impose sanctions to limit the level of or suspend any business activity that has adverse effects on the safety and soundness of the BSFI, among others.

Any violation of this Section shall subject the BSFI and/or its directors, officers and/or employees to the monetary and non-monetary sanctions under Section 37 of R.A. No. 7653, including but not limited to the following depending on the gravity of the violation committed and the circumstances attendant thereto:

a. Suspension of offering new electronic financial products and services;
b. Suspension/revocation of authority to provide electronic financial products and services; and
c. Suspension/revocation of authority to settle through the Philippine Payments and Settlements System.

(Circular Nos. 1033 dated 22 February 2019, 1022 dated 26 November 2018, and 980 dated 06 November 2017)

802-Q SETTLEMENT OF INSTANT RETAIL PAYMENTS

Policy Statement. It is the thrust of the Bangko Sentral to ensure efficiency of payment systems in the country. In line with this thrust, the Bangko Sentral requires BSFIs participating in an ACH for instant retail payments to ensure that this ACH provides for certainty of settlement of the multilateral clearing obligations of the clearing participants. The settlement scheme agreed upon by the clearing participants shall form an integral part of the comprehensive credit risk management for instant retail payment services.

For the purpose of this Section, an instant retail payment, otherwise known as fast payment, is defined as an electronic payment in which the transmission of the payment message and the availability of "final" funds to the payee occur in real time or near-real time on as near to a 24-hour and seven-day (24/7) basis as possible[1]. Moreover, as used in this Section, clearing participants shall refer to direct clearing participants.

Minimum requirements for the operation of a settlement mechanism for instant retail payments. The settlement mechanism for instant payments shall meet the following minimum requirements:

a. A clearing participant or its settlement sponsor shall maintain with the Bangko Sentral a demand deposit account (DDA) which shall be used specifically for the settlement of the clearing participant's net clearing obligations arising from instant retail payments;

b. The clearing participant or its settlement sponsor shall prefund the settlement of its net clearing obligation through the DDA stated above, ensuring that such account can sufficiently cover said obligation at any point during a settlement cycle. When prefunding, the clearing participant/settlement sponsor shall consider increasing the fund in its account for longer settlement cycles such as during weekends and holidays;

c. The clearing participants shall agree on thresholds which shall be the bases of the Clearing Switch Operator (CSO) to execute a notification process that enables the clearing participants to efficiently monitor movements in their instant retail payment positions, and at the same time alerts them to place additional funds in their DDAs particularly when the ultimate threshold is breached;

d. The service contract between the clearing participants and the CSO shall include, at a minimum, the following provisions:

   (1) The CSO shall record the clearing participants' DDA balances obtained from the Bangko Sentral at the start of every settlement cycle and monitor the clearing participants' net clearing obligations against their respective account balances;

   (2) Should the instant retail payments position (Funds in the DDA minus net clearing obligation/withdrawal from the DDA) of any of the clearing participants breach their agreed-upon thresholds, the CSO shall immediately send an electronic notification to the concerned clearing participant; and

   (3) Any instant retail payment which is not fully covered by the corresponding DDA or which will result in a negative instant retail payments position shall be rejected by the CSO. A clearing participant with an instant retail payments position of zero shall be suspended from carrying out further outgoing instant payment transactions until said participant registers a positive position on account of its incoming payment transactions and/or subsequent deposits into its DDA;

e. Should the clearing participants determine that the funds in their DDAs for instant retail payments are excessive after taking into account their highest potential clearing obligations, the clearing participants shall be allowed to withdraw from their DDAs to enable them to make optimal use of their funds; and

f. The Bangko Sentral shall not be precluded from deploying applicable regulatory enforcement actions to concerned clearing participants notwithstanding the inclusion of sanctions in the ACH for non-compliance with the clearing participants' agreed-upon settlement mechanism.

[1] Based on the *paper "Fast payments – Enhancing the speed and availability of retail payments"* of the Committee on Payments and Market Infrastructures, Bank for International Settlements

Risk management. In view of the risks involved in the prescribed settlement mechanism for instant retail payments, including the possibility that a rejected payment transaction of a client due to prefunding issues may give rise to serious reputational damages to the concerned clearing participant, the BSFIs participating in the instant retail payment ACH shall ensure that they have the necessary operational and liquidity risk management measures in place. Such measures shall be designed in accordance with the guidelines provided under Sec. 146-Q on Operational Risk Management and Sec. 145-Q on Liquidity Risk Management.

Demand deposits for instant payments as eligible reserves. The DDAs maintained with the Bangko Sentral for the settlement of net clearing obligations arising from instant retail payment transactions shall form part of the QB' reserves against deposit and deposit substitute liabilities pursuant to Sec. 212-Q.

Supervisory enforcement action. Consistent with Sec. 002-Q, the Bangko Sentral may deploy enforcement actions to promote compliance with the requirements set forth in this Section and ensure timely implementation of preventive or corrective measures as needed. As part of its enforcement actions, the Bangko Sentral may issue directives or impose sanctions which limit the level of or suspend any business activity that adversely affects the safety and soundness of a BSFI.

(Circular No. 1000 dated 23 April 2018)

803-Q PARTICIPATION IN AUTOMATED CLEARING HOUSES (ACHS)

BSFIs that have been licensed to offer funds transfer services shall make these services interoperable by participating in an ACH. Prior to its participation, a BSFI shall observe the following guidelines:

a. Secure a Confirmation of Eligibility (COE) by submitting to the Bangko Sentral through the appropriate supervising department of the Bangko Sentral a letter of intent to participate in an identified ACH. This letter shall be accompanied by a certification (*Annex A of Appendix Q-89*) signed by the president (or any officer of equivalent rank and function) and chief compliance officer (CCO).

   If the BSFI is not yet a member of the Payment System Management Body (PSMB), it shall also indicate in its letter that it intends to become a member of this body;

b. Submit the following minimum documentary requirements to the PSMB duly recognized by the Bangko Sentral.

   (1) Valid COE. A COE shall be valid for a period of six (6) months from date of issuance;

   (2) Corporate Secretary's Certificate (or equivalent document in the case of foreign bank branches) on the approval of the board of directors (or equivalent management committee in the case of foreign bank branches) of the participation of the BSFI in the ACH; and

   (3) Copy of the agreement with the bank sponsoring the BSFI into settlement, if applicable; and

c. Comply with any other requirements set by the PSMB or provided in the ACH.

(Circular No. 1033 dated 22 February 2019)

PART NINE

ANTI-MONEY LAUNDERING (AMLA) AND COMBATTING THE FINANCING OF TERRORISM REGULATIONS

901 - Q BANGKO SENTRAL AUTHORITY TO CHECK COMPLIANCE WITH THE AMLA, AS AMENDED

In the course of a periodic or special examination, the Bangko Sentral may inquire into or examine bank accounts or investments, including customer identification, account opening, and transaction documents, for the purpose of checking compliance by covered persons under its supervision or regulation with the requirements of these rules, the AMLA, as amended and the Terrorism Financing Prevention and Suppression Act (TFPSA), their respective RIRR, and other Anti-Money Laundering Council (AMLC) and Bangko Sentral issuances.

The Bangko Sentral may likewise conduct annual testing solely limited to the determination of the existence and true identity of the owners of numbered and similar accounts.

In the course of the periodic and special examination for purposes of complying with the provisions of the AMLA, as amended, its RIRR, and this Part, the covered person, their officers and employees, and the Bangko Sentral, shall not be deemed to have violated the provisions of R. A. No. 1405, as amended, R.A. No. 6426, as amended, R.A. No. 8791 and other similar laws, and Sec. 922-Q *(Confidentiality provision)* when disclosing information to Bangko Sentral relative to covered and suspicious transaction reports filed with the AMLC.

(Circular No. 1022 dated 26 November 2018, and 950 dated 15 March 2017)

902 - Q POLICY STATEMENT

The Bangko Sentral adopts the policies of the State to (a) protect and preserve the integrity of the Philippine financial system, including the confidentiality of bank accounts; (b) ensure that the Philippines, in general, and the covered persons, in particular, shall not be used, as money laundering sites and conduit for the proceeds of unlawful activities as herein defined; (c) protect life, liberty and property from acts of terrorism and to condemn terrorism and those who support and finance it and reinforce the fight against terrorism by criminalizing the financing of terrorism and related offenses; (d) recognize terrorism and terrorist financing as inimical and dangerous to national security and the welfare of the people; and make the financing of terrorism a crime against the Filipino people, against humanity and against the law of nations; and (e) adhere to international commitments to combat financing of terrorism, specifically the International Convention for the Suppression of the Financing of Terrorism, as well as other binding terrorism related resolutions of the United Nations Security Council, pursuant to Chapter 7 of the United Nations Charter.

(Circular Nos. 1022 dated 26 November 2018, and 950 dated 15 March 2017)

903 - Q SCOPE OF REGULATIONS

These regulations shall apply to all covered persons supervised and regulated by the Bangko Sentral. The term "*covered persons*" shall refer to banks, non-banks, QBs, trust entities, non-stock savings and loan associations, pawnshops, foreign exchange dealers, money changers, remittance and transfer companies, electronic money issuers and other financial institutions which under special laws are subject to Bangko Sentral and/or regulation, including their subsidiaries and affiliates, which are also covered persons, wherever they may be located. For this purpose, subsidiary and affiliate shall be defined as:

a. A *subsidiary* means an entity more than fifty percent (50%) of the outstanding voting stock of which is owned by a covered person.
b. An *affiliate* means an entity the voting stock of which, at least twenty percent (20%) to not more than fifty percent (50%), is owned by a covered person.

Pursuant to Section 20 of the General Banking Law of 2000, a bank authorized by Bangko Sentral to establish branches or other offices within or outside the Philippines shall be responsible for all business conducted in such branches and offices to the same extent and in the same manner as though such business had all been conducted in the head office. A bank and its branches and offices shall be treated as one (1) unit.

If the host country does not permit the proper implementation of this Part or any of the provisions of the AMLA, as amended, the TFPSA, or their Implementing Rules and Regulation (IRR), and other Anti-Money Laundering Council (AMLC) and Bangko Sentral issuances by reason of local laws, regulations or a supervisory directive, the covered person shall (1) formally notify the Bangko Sentral of this situation and furnish a copy of the applicable laws and/or regulations or the supervising authority's directive, as the case may be; and (2) apply appropriate additional measures or mitigating controls to manage the money laundering (ML) and terrorist financing (TF) risks.

In cases where the minimum AML/CFT requirements of the host country are less strict, covered persons, including their foreign branches and majority-owned subsidiaries abroad, shall apply AML/CFT measures consistent with the AMLA and the TFPSA and their respective RIRR, and other AMLC and Bangko Sentral issuances, to the extent that the laws and regulations of the host country permit.

(Circular Nos. 1022 dated 26 November 2018, and 950 dated 15 March 2017)

904 - Q DEFINITION OF TERMS

Except as otherwise defined herein, all terms used shall have the same meaning as those terms that are defined in the AMLA, as amended, and its RIRR.

a. *Money laundering* is committed by any person who, knowing that any monetary instrument or property represents, involves, or relates to the proceeds of any unlawful activity:

(1) transacts said monetary instrument or property;
(2) converts, transfers, disposes of, moves, acquires, possesses or uses said monetary instrument or property;
(3) conceals or disguises the true nature, source, location, disposition, movement or ownership of or rights with respect to said monetary instrument or property;
(4) attempts or conspires to commit money laundering offenses referred to in Items *"(1)", "(2)" or "(3)"* above;
(5) aids, abets, assists in or counsels the commission of the money laundering offenses referred to in Items *"(1)", "(2)" or "(3)"* above; and
(6) performs or fails to perform any act as a result of which he facilitates the offense of money laundering referred to in Items *"(1)", "(2)" or "(3)"* above.

Money laundering is also committed by any covered person who, knowing that a covered or suspicious transaction is required to be reported to the Anti-Money Laundering Council (AMLC) under any of the provisions of the AMLA, as amended, its RIRR, or this Part, fails to do so.

b. *Financing of terrorism* is a crime committed by a person who, directly or indirectly, willfully and without lawful excuse, possesses, provides, collects or uses property or funds or makes available property, funds or financial service or other related services, by any means, with the unlawful and willful intention that they should be used or with the knowledge that they are to be used, in full or in part: (1) to carry out or facilitate the commission of any terrorist act; (2) by a terrorist organization, association or group; or (3) by an individual terrorist.

c. *Covered transaction* (CT) refers to a transaction in cash or other equivalent monetary instrument exceeding five hundred thousand pesos (P500,000).

d. *Suspicious transaction* (ST) refers to a transaction with a covered person, regardless of the amount involved, where any of the following circumstances exists:

(1) There is no underlying legal or trade obligation, purpose or economic justification;
(2) The client is not properly identified;
(3) The amount involved is not commensurate with the business or financial capacity of the client;
(4) Taking into account all known circumstances, it may be perceived that the client's transaction is structured in order to avoid being the subject of reporting requirements under the AMLA, as amended;
(5) Any circumstance relating to the transaction which is observed to deviate from the profile of the client and/or the client's past transactions with the covered person;
(6) The transaction is in any way related to an unlawful activity or any money laundering activity or offense, that is about to be committed, is being or has been committed; or
(7) Any transaction that is similar, analogous or identical to any of the foregoing.

Any unsuccessful attempt to transact with a covered person, the denial of which is based on any of the foregoing circumstances, shall likewise be considered as ST.

e. *Monetary instrument* shall include, but is not limited to the following:

(1) Coins or currency of legal tender of the Philippines, or of any other country;

(2) Credit instruments, including bank deposits, financial interest, royalties, commissions and other intangible property;

(3) Drafts, checks, and notes;

(4) Stocks or shares, participation or interest in a corporation or in a commercial enterprise or profit-making venture and evidenced by a certificate, contract, instrument, whether written or electronic in character including those enumerated in Section 3 of the Securities Regulation Code;

(5) A participation or interest in any non-stock, non-profit corporation;

(6) Securities or negotiable instruments, bonds, commercial papers, deposit certificates, trust certificates, custodial receipts or deposit substitute instruments, trading orders, transaction tickets and confirmations of sale or investments and money market instruments;

(7) Contracts or policies of insurance, life or non-life, contracts of suretyship, pre-need plans and member certificates issued by mutual benefit association; and

(8) Other similar instruments where title thereto passes to another by endorsement, assignment or delivery.

f. *Unlawful activity* refers to any act or omission or series or combination thereof involving or having direct relation to the following:

(1) Kidnapping for ransom under Article 267 of Act No. 3815, otherwise known as the Revised Penal Code (RPC), as amended;
(2) Sections 4, 5, 6, 8, 9, 10, 11, 12, 13, 14, 15 and 16 of R.A. No. 9165, otherwise known as the Comprehensive Dangerous Drugs Act of 2002;
(3) Section 3 paragraphs *"B", "C", "E", "G", "H"* and *"I"* of R.A. No. 3019, as amended, otherwise known as the Anti-Graft and Corrupt Practices Act;
(4) Plunder under R.A. No. 7080, as amended;
(5) Robbery and extortion under Articles 294, 295, 296, 299, 300, 301 and 302 of the RPC, as amended;
(6) Jueteng and Masiao punished as illegal gambling under P.D. No. 1602;
(7) Piracy on the high seas under the RPC, as amended, and P.D. No. 532;
(8) Qualified theft under Article 310 of the RPC, as amended;
(9) Swindling under Article 315 and "Other Forms of Swindling" under Article 316 of the RPC, as amended;
(10) Smuggling under R.A. Nos. 455 and 1937, as amended, otherwise known as the Tariff and Customs Code of the Philippines;
(11) Violations under R.A. No. 8792, otherwise known as the Electronic Commerce Act of 2000;
(12) Hijacking and other violations under R.A. No. 6235, otherwise known as the "Anti-Hijacking Law"; "Destructive Arson"; and "Murder", as defined under the RPC, as amended;
(13) Terrorism and conspiracy to commit terrorism as defined and penalized under Sections 3 and 4 of R.A. 9372;
(14) Financing of terrorism under Section 4 and offenses punishable under Sections 5, 6, 7 and 8 of R.A. No. 10168, otherwise known as the Terrorism Financing Prevention and Suppression Act of 2012;
(15) Bribery under Articles 210, 211 and 211-a of the RPC, as amended, and Corruption of Public Officers under Article 212 of the RPC, as amended;
(16) Frauds and illegal exactions and transactions under Articles 213, 214, 215 and 216 of the RPC, as amended;
(17) Malversation of public funds and property under Articles 217 and 222 of the RPC, as amended;
(18) Forgeries and counterfeiting under Articles 163, 166, 167, 168, 169 and 176 of the RPC, as amended;
(19) Violations of Sections 4 to 6 of R.A. No. 9208, otherwise known as the Anti-trafficking in Persons Act of 2003, as amended;
(20) Violations of Sections 78 to 79 of Chapter IV, of Presidential Decree No. 705, otherwise known as the Revised Forestry Code of the Philippines, as amended;
(21) Violations of Sections 86 to 106 of Chapter IV, of R.A. No. 8550, otherwise known as the Philippine Fisheries Code of 1998;
(22) Violations of Sections 101 to 107, and 110 of R.A. No. 7942, otherwise known as the Philippine Mining Act of 1995;
(23) Violations of Section 27(C), (E), (F), (G) and (I), of R.A. No. 9147, otherwise known as the Wildlife Resources Conservation and Protection Act;
(24) Violation of Section 7(B) of R.A. No. 9072, otherwise known as the National Caves and Cave Resources Management Protection Act;
(25) Violation of R.A. No. 6539, otherwise known as the Anti-Carnapping Act of 2002, as amended;

(26) Violations of Sections 1, 3 and 5 of P.D. No. 1866, as amended, otherwise known as the Decree Codifying the Laws on Illegal/Unlawful Possession, Manufacture, Dealing in, Acquisition or Disposition of Firearms, Ammunition or Explosives;
(27) Violation of P.D. No. 1612, otherwise known as the Anti-Fencing Law;
(28) Violation of Section 6 of R.A. No. 8042, otherwise known as the Migrant Workers and Overseas Filipinos Act of 1995, as amended by R.A. No. 10022;
(29) Violation of R.A. No. 8293, otherwise known as the Intellectual Property Code of the Philippines, as amended;
(30) Violation of Section 4 of R.A. No. 9995, otherwise known as the Anti-photo and Video Voyeurism Act of 2009;
(31) Violation of Section 4 of R.A. No. 9775, otherwise known as the Anti-child Pornography Act of 2009;
(32) Violations of Sections 5, 7, 8, 9, 10 (C), (D) and (E), 11, 12 and 14 of R.A. No. 7610, otherwise known as the Special Protection of Children against Abuse, Exploitation and Discrimination;
(33) Fraudulent practices and other violations under R.A. No. 8799, otherwise known as the Securities Regulation Code of 2000; and
(34) Felonies or offenses of a nature similar to the aforementioned unlawful activities that are punishable under the penal laws of other countries.

In determining whether or not a felony or offense punishable under the penal laws of other countries is "of similar nature", as to constitute an unlawful activity under the AMLA, the nomenclature of said felony or offense need not be identical to any of the unlawful activities listed above.

g. *Transaction* refers to any act establishing any right or obligation or giving rise to any contractual or legal relationship between the parties thereto. It also includes any movement of funds by any means with a covered person.

h. *Proceed* refers to an amount derived or realized from any unlawful activity.

i. *Monetary instrument or property related to an unlawful activity* refers to:

(1) All proceeds of an unlawful activity;
(2) All monetary, financial or economic means, devices, accounts, documents, papers, items or things used in or having any relation to any unlawful activity;
(3) All moneys, expenditures, payments, disbursements, costs, outlays, charges, accounts, refunds and other similar items for the financing, operations, and maintenance of any unlawful activity; and
(4) For purposes of freeze order and bank inquiry: related and materially-linked accounts.

(a) *"Related accounts"* refer to those accounts, the funds and sources of which originated from and/or are materially-linked to the monetary instruments or properties subject of the freeze order or an order of inquiry.
(b) *"Materially-linked accounts"* shall include the following:

(i) All accounts or monetary instruments under the name of the person whose accounts, monetary instruments, or properties are the subject of the freeze order or an order of inquiry;

(ii) All accounts or monetary instruments held, owned, or controlled by the owner or holder of the accounts, monetary instruments, or properties subject of the freeze order or order of inquiry, whether such accounts are held, owned or controlled singly or jointly with another person;

(iii) All "In Trust For" accounts where either the trustee or the trustor pertains to a person whose accounts, monetary instruments, or properties are the subject of the freeze order or order of inquiry;

(iv) All accounts held for the benefit or in the interest of the person whose accounts, monetary instruments, or properties are the subject of the freeze order or order of inquiry; and

(v) All other accounts, shares, units, or monetary instruments that are similar, analogous, or identical to any of the foregoing.

j. *Client/Customer* refers to any person or entity who keeps an account, or otherwise transacts business with a covered person. It includes the following: (1) any person or entity on whose behalf an account is maintained or a transaction is conducted, as well as the beneficiary of said transactions; (2) beneficiary of a trust, an investment fund or a pension fund; (3) a company or person whose assets are managed by an asset manager; (4) a grantor of a trust; and (5) any insurance policy holder, whether actual or prospective.

k. *Shell company* refers to a legal entity which has no business substance in its own right but through which financial transactions may be conducted.

l. *Shell bank* refers to a shell company incorporated as a bank or made to appear to be incorporated as a bank but has no physical presence and no affiliation with a regulated financial group. It can also be a bank that (a) does not conduct business at a fixed address in a jurisdiction in which the shell bank is authorized to engage; (b) does not employ one (1) or more individuals on a full time basis at this fixed address; (c) does not maintain operating records at this address, and (d) is not subject to inspection by the authority that licensed it to conduct banking activities.

m. *Beneficial owner* refers to any natural person(s) who ultimately owns or controls a customer and/or on whose behalf a transaction is being conducted; or those who has ultimate effective control over a juridical person or legal arrangement.

Ultimate effective control refers to situation in which ownership/control is exercised through actual or a chain of ownership or by means other than direct control.

Beneficial owner shall be:

(1) The natural persons, if any, who ultimately have controlling ownership interest in a juridical person.

A shareholding or ownership interest of at least twenty percent (20%) in the customer held by a natural person shall be an indication of direct ownership. A shareholding or ownership interest of at least twenty percent (20%) in the customer held by a corporate entity, which is under the control of a natural person(s), or by multiple corporate entities, which are under the control of the same natural person(s), shall be an indication of indirect ownership.

(2) The natural persons, if any, exercising control over the juridical person through other means, to the extent that there is a doubt under Item *"(1)"* above, as to whether the persons with the controlling ownership interest are the beneficial owners or where no natural person exerts control through ownership interests.

Control through other means, includes control exerted by means of trusts, agreements, arrangements, understandings, or practices, or when an individual can exercise control through making decisions about financial and operating policies. In addition, control also includes: (a) power to govern the financial and operating policies of the enterprise under statute or an agreement; (b) power to appoint or remove the majority of the members of the board of directors or equivalent governing body; (c) power to cast the majority votes at a meeting of the board of directors or equivalent governing body; or (d) any other arrangement similar to any of the above.

(3) The natural person(s) who hold the position of senior managing official(s) or equivalent ranks, where no person under Items *"(1)"* and *"(2)"* is identified, or if there is any doubt that the person(s) identified are the beneficial owner(s).

n. *Politically exposed person or PEP* refers to an individual who is or has been entrusted with prominent public position in (1) the Philippines with substantial authority over policy, operations or the use or allocation of government-owned resources; (2) a foreign state, or (3) an international organization.

The term *PEP* shall include immediate family members, and close relationships and associates that are reputedly known to have:

(1) Joint beneficial ownership of a legal entity or legal arrangement with the main/principal PEP; or
(2) Sole beneficial ownership of a legal entity or legal arrangement that is known to exist for the benefit of the main/principal PEP.

Immediate family members of PEPs refer to individuals who are related to a PEP within the second degree of affinity or consanguinity

Close associates of PEPs refer to persons who are widely and publicly known to maintain a particularly close relationship with the PEP, and include persons who are in a position to conduct substantial domestic and international financial transactions on behalf of the PEP.

o. *Correspondent banking* refers to the provision of banking services by one (1) bank (the "correspondent bank") to another bank (the "respondent bank").

p. *Payable-through account* refers to a correspondent account that is used directly by third parties to transact business on their own behalf.

q. *Fund/wire transfer* refers to any transaction carried out on behalf of an originator (both natural and juridical) through an FI (originating institution) by electronic means with a view to making an amount of money available to a beneficiary at another FI (beneficiary institution). The originator person and the beneficiary person may be the same person.

r. *Cross border transfer* refers to any wire transfer where the originating and beneficiary institutions are located in different countries. It shall also refer to any chain of wire transfer that has at least one (1) cross border element.

s. *Domestic transfer* refers to any wire transfer where the originating and beneficiary institutions are located in the same country. It shall refer to any chain of wire transfers that takes place entirely within the borders of a single country, even though the system used to effect the fund/wire transfer may be located in another country.

t. *Originating financial institution* refers to the financial institution which initiates the wire transfer and transfers the funds upon receiving the request for a wire transfer on behalf of the originator.

u. *Beneficiary financial institution* refers to the financial institution which receives the wire transfer from the originating financial institution, directly or through an intermediary financial institution, and makes the funds available to the beneficiary.

v. *Intermediary financial institution* refers to a financial institution in a serial or cover payment chain that receives and transmits a wire transfer on behalf of the originating financial institution and the beneficiary financial institution, or another intermediary financial institution.

w. *Official document* refers to any of the following identification documents:

(1) For Filipino citizens: Those issued by any of the following official authorities:

(a) Government of the Republic of the Philippines, including its political subdivisions, agencies, and instrumentalities;
(b) Government-Owned or -Controlled Corporations (GOCCs); or
(c) Covered persons registered with and supervised or regulated by the Bangko Sentral, SEC or IC;
(d) Philippine Statistics Authority (PSA) under the Philippine Identification System (PhilSys)

(2) For foreign nationals: Passport or Alien Certificate of Registration;
(3) For Filipino students: School ID signed by the school principal or head of the educational institution; and
(4) For low risk customers: Any document or information reduced in writing which the covered person deems sufficient to establish the client's identity.
(5) Other identification document that can be verified using reliable, independent source documents, data or information.

x. *Juridical person* refers to an entity other than a natural person as defined under Chapter 3 of the Civil Code of the Philippines, that can establish a permanent customer relationship with any financial institution or otherwise own property.

y. *Money or Value Transfer Service (MVTS) or Money Service Business (MSB)* refers to financial services that involve the acceptance of cash, checks, other monetary instruments or other stores of value, and the payment of a corresponding sum in cash or other form to a beneficiary by means of a communication, message, transfer, or through a clearing network to which the service provider belongs.

z. *Originator* refers to the account holder who allows the wire transfer from an account, or where there is no account, the person that places an order with the originating financial institution to perform a wire transfer.

aa. *Philippine Identification Card* (PhilID) refers to the non-transferrable identification card issued by the PSA to all citizens and resident aliens registered under the PhilSys, which serves as the official government-issued identification document of cardholders in dealing with all government agencies, local government units, government and controlled corporations, government financial institutions, and all private sector entities.

bb. *Cover payment* refers to a wire transfer that combines a payment message sent directly by the originating financial institution to the beneficiary financial institution with the routing of the funding instruction (the cover), from the originating financial institution to the beneficiary financial institution through one or more intermediary financial institutions.

cc. *Serial Payment* refers to a direct sequential chain of payment where the wire transfer and accompanying payment message travel together from the originating financial institution to the beneficiary financial institution, directly or through one (1) or more intermediary financial institutions.

dd. *Settlor/Grantor/Trustor* refers to a person who transfers ownership of his assets to trustees by means of a trust deed or similar arrangement.

ee. *Source of Fund* refers to the origin of the funds or other monetary instrument that is the subject of the transaction or business or professional relationship between a covered person and its customer, such as cash on hand, safety deposit box with a covered person, and a particular bank or investment account.

ff. *Source of Wealth* refers to the resource from which the customer's wealth, including all monetary instruments and properties, came, comes, or will come from, such as employment, business, investments, foreign remittance, inheritance and donation.

gg. *Straight-through Processing* refers to payment transactions that are conducted electronically without the need for manual intervention.

(Circular Nos. 1022 dated 26 November 2018, 950 dated 15 March 2017)

905 - Q BASIC PRINCIPLES AND POLICIES TO COMBAT MONEY LAUNDERING

In line with the declaration of policy, covered persons shall apply the following principles:

a. Conduct business in conformity with high ethical standards in order to protect its safety and soundness as well as the integrity of the national banking and financial system;

b. Know sufficiently your customer at all times and ensure that the financially or socially disadvantaged are not denied access to financial services while at the same time prevent suspicious individuals or entities from opening or maintaining an account or transacting with the covered person by himself or otherwise;

c. Adopt and effectively implement a sound AML and terrorist financing risk management system that identifies, assesses, monitors and controls risks associated with money laundering and terrorist financing;

d. Comply fully with this Part and existing laws aimed at combating money laundering and terrorist financing by making sure that officers and employees are aware of their respective responsibilities and carry them out in accordance with superior and principled culture of compliance; and

e. Fully cooperate with AMLC for the effective implementation and enforcement of the AMLA, as amended, and its RIRR.

(Circular No. 950 dated 15 March 2017)

A. RISK MANAGEMENT

911 - Q RISK MANAGEMENT

All covered persons shall develop sound risk management policies and practices to ensure that risks associated with ML/TF such as reputational, operational, and compliance risks are identified, assessed, monitored, mitigated and controlled, as well as to ensure effective implementation of this Part, to the end that covered persons shall not be used as a vehicle to legitimize proceeds of unlawful activity or to facilitate or finance terrorism.

The four (4) areas of sound risk management practices are adequate and active board and senior management oversight, acceptable policies and procedures embodied in a money laundering and terrorist financing prevention compliance program, appropriate monitoring and Management Information System and comprehensive internal controls and audit.

Board and senior management oversight. Notwithstanding the provisions specifying the duties and responsibilities of the compliance office and internal audit, it shall be the ultimate responsibility of the board of directors to fully comply with the provisions of this Part, these rules, the AMLA, as amended, the TFPSA and their RIRR. It shall ensure that ML/TF risks are effectively managed and that this forms part of the covered person's enterprise risk management system.

Senior management shall oversee the day-to-day management of the covered person, ensure effective implementation of AML/CFT policies approved by the board and alignment of activities with the strategic objectives, risk profile and corporate values set by the board. Senior management shall establish a management structure that promotes accountability and transparency and upholds checks and balances.

a. *Compliance Office.* Management of the implementation of the covered person's Money Laundering and Terrorist Financing Prevention Program (MLPP) shall be a primary task of the compliance office. To ensure the independence of the office, it shall have a direct reporting line to the board of directors or any board-level or approved committee on all matters related to AML and TF compliance and their risk management. It shall be principally responsible for the following functions among other functions that may be delegated by senior management and the board, to wit:

   (1) Ensure compliance by all responsible officers and employees with this Part, the AMLA, as amended, the RIRR and its own MLPP. It shall conduct periodic compliance checking which covers, among others, evaluation of existing processes, policies and procedures including on-going monitoring of performance by staff and officers involved in ML and TF prevention, reporting channels, effectiveness of the electronic money laundering transaction monitoring system and record retention system through sample testing and review of audit or examination reports. It shall also report compliance findings to the board or any board-level committee;

   (2) Ensure that infractions, discovered either by internally initiated audits, or by special or regular examination conducted by the Bangko Sentral, or other applicable regulators, are immediately corrected;

   (3) Inform all responsible officers and employees of all resolutions, circulars and other issuances by the Bangko Sentral and the AMLC in relation to matters aimed at preventing ML and TF;

   (4) Alert senior management, the board of directors, or the board-level or approved committee if it believes that the covered person is failing to appropriately address AML/CFT issues; and

   (5) Organize the timing and content of AML training of officers and employees including regular refresher trainings as stated in Sec. 931-Q.

b. *Group-wide Money Laundering and Terrorist Financing Prevention Program (MTPP)*. Financial groups shall implement group-wide MTPP, which shall be applied to their branches and majority-owned subsidiaries as provided in Sec. 903-Q. The group-wide MTPP shall include the measures set out in Sec. 911-Q (*Monitoring and reporting tools*).

   The group-wide compliance officer or in its absence, the compliance officer of the parent entity, shall oversee the AML/CFT compliance of the entire group with reasonable authority over the compliance officers of said branches, subsidiaries or offices.

Money Laundering and Terrorist Financing Prevention Program (MTPP). All covered persons shall adopt a comprehensive and risk-based MTPP geared toward the promotion of high ethical and professional standards and prevention of the covered person from being used, intentionally or unintentionally, for ML/TF activities. The MTPP shall include policies, controls and procedures to enable the covered persons to manage and mitigate the risks that have been identified in their risk assessment, including taking enhanced measures for those classified as posing higher risks. The MTPP shall also be consistent with the AMLA, as amended, the TFPSA, their respective RIRR and the provisions set out in this Part. It shall be in writing, approved by the board of directors or by the country/regional head or its equivalent for local branches of foreign banks, and well disseminated to all officers and staff who are obligated by law and by their program to implement the same. Where a covered person has branches, subsidiaries, affiliates or offices located within and/or outside the Philippines, there shall be a consolidated ML/TF risk management system to ensure the coordination and implementation of policies and procedures on a group-wide basis, taking into account local business considerations and the requirements of the host jurisdiction and the level of country risk.

The MTPP shall also be readily available in user-friendly form, whether in hard or soft copy. The covered person must put up a procedure to ensure an audit trail evidencing dissemination process for new and amended policies and procedures. The program shall embody the following at a minimum:

a. Detailed procedures of the covered person's compliance and implementation of the following major requirements of the AMLA, as amended, its RIRR, and this Part, to wit:

   (1) Customer identification process including acceptance policies and on-going monitoring processes;

   (2) Record keeping and retention;

   (3) Covered transaction reporting; and

   (4) ST reporting including the adoption of a system, electronic or manual, of flagging, monitoring and reporting of transactions that qualify as suspicious transactions, regardless of amount or that will raise a *"red flag"* for purposes of conducting further verification or investigation, or transactions involving amounts below the threshold to facilitate the process of aggregating them for purposes of future reporting of such transactions to the AMLC when their aggregated amounts breach the threshold. The ST reporting shall include a reporting chain under which a ST will be processed and the designation of a board-level or approved committee who will ultimately decide whether or not the covered person should file a report to the AMLC. If the resources of the covered person do not permit the designation of a committee, it may designate the compliance officer to perform this function instead: ***Provided,*** That the board of directors is informed of his decision.

b. An effective and continuous AML/CFT training program for all directors, and responsible officers and employees, to enable them to fully comply with their obligations and responsibilities under this Part, the AMLA, as amended, its RIRR and their internal policies and procedures as embodied in the MLPP. The training program shall also include refresher trainings to remind these individuals of their obligations and responsibilities as well as update them of any changes in AML laws, rules and internal policies and procedures.

c. An adequate screening and recruitment process to ensure that only qualified personnel who have no criminal record/s are employed to assume sensitive banking functions;

d. An internal audit system in accordance with Sec. 911-Q *(Internal audit)*;

e. An independent audit program with written scope of audit that will ensure the completeness and accuracy of the information and identification documents obtained from clients, the covered and suspicious transactions reports submitted to the AMLC, and the records retained in compliance with this Part as well as adequacy and effectiveness of the training program on the prevention of money laundering and terrorism financing;

f. A mechanism that ensures all deficiencies noted during the audit and/or Bangko Sentral regular or special examination or other applicable regulator's examination are immediately corrected and acted upon;

g. Cooperation with AMLC and Bangko Sentral; and

h. Designation of an AML compliance officer, who shall at least be at senior officer level, as the lead implementor of the program within an adequately staffed compliance office. The AML compliance officer may also be the liaison between the covered person, the Bangko Sentral and the AMLC in matters relating to the covered person's AML/CFT compliance. Where resources of the covered person do not permit the hiring of an AML compliance officer, the compliance officer shall also assume the responsibility of the former.

i. Policies and procedures for sharing information required for the purposes of customer due diligence (CDD) and risk management;

j. A provision that the group-level compliance, audit, and/or AML/CFT functions should be provided with customer, account, and transaction information from branches and subsidiaries when necessary for AML/CFT purposes. This should include information on analysis of transactions or activities which appear unusual, if such analysis was done. Similarly, branches and subsidiaries should receive such information from these group-level functions when relevant and appropriate to risk management. The MTPP may require a potential and/or existing customer to sign a waiver on the disclosure of information within the group;

k. Adequate safeguards on the confidentiality and use of information exchanged, including safeguards to prevent tipping-off;

l. A mechanism to comply with freeze, bank inquiry and asset preservation orders, and all directives of the AMLC; and

m. A mechanism to comply with the prohibitions from conducting transactions with designated persons and entities, as set out in the relevant United Nations Security Council Resolutions (UNSCRs) relating to the prevention and suppression of terrorism and terrorist financing and financing of proliferation of weapons of mass destruction.

Submission of the revised and updated MLPP. Approval by the board of directors or country head. Within six (6) months from 05 April 2017, all covered persons shall prepare and have available for inspection an updated MLPP, approved by the board of directors, embodying the principles and provisions stated in this Part.

Henceforth, each MLPP shall be regularly updated at least once every two (2) years to incorporate changes in AML policies and procedures, latest trends in ML and TF typologies, and latest pertinent Bangko Sentral issuances. Any revision or update in the MLPP shall likewise be approved by board of directors or the country/regional head or its equivalent for local branches of foreign banks.

Monitoring and reporting tools. All covered persons shall adopt an AML/CFT monitoring system that is appropriate for their risk profile and business complexity and in accordance with this Part. The system should be capable of generating timely, accurate and complete reports to lessen the likelihood of any reputational and compliance risks, and to regularly apprise the board of directors and senior management on AML/CFT compliance.

a. *Electronic monitoring and reporting systems for AML/CFT*. UBs and KBs and such covered persons that are considered complex pursuant to Sec. 133-Q shall adopt an electronic AML system capable of monitoring risks associated with ML/TF as well as generating timely reports for the guidance and information of its board of directors and senior management, in addition to the functionalities mentioned in Sec. 922-Q *(Electronic monitoring system for money laundering).*

b. *Manual monitoring.* Covered persons not required to adopt an AML/CFT electronic system must ensure that they have the means of complying with Sec. 911-Q *(Monitoring and reporting tools).*

Internal audit. The internal audit function associated with money laundering and terrorist financing should be conducted by qualified personnel who are independent of the office being audited. It must have the support of the board of directors and senior management and have a direct reporting line to the board or a board-level audit committee.

The internal audit shall, in addition to those specified by this Part, be responsible for the periodic and independent evaluation of the risk management, degree of adherence to internal control mechanisms related to the customer identification process, such as the determination of the existence of customers and the completeness of the minimum information and/or documents establishing the true and full identity of, and the extent and standard of due diligence applied to, customers, CT and ST reporting and record keeping and retention, as well as the adequacy and effectiveness of other existing internal controls associated with money laundering and terrorist financing.

For covered persons with electronic AML/CFT transaction monitoring system, in addition to the above, the internal audit shall include determination of the efficiency of the system's functionalities as required by Sec. 911-Q *(Monitoring and reporting tools)* and Sec. 922-Q *(Electronic monitoring system for money laundering)*.

The results of the internal audit shall be timely communicated to the board of directors and shall be open for scrutiny by Bangko Sentral examiners in the course of the regular or special examination without prejudice to the conduct of its own evaluation whenever necessary. Results of the audit shall likewise be promptly communicated to the Compliance Office for appropriate monitoring of corrective actions taken by the different business units concerned. The Compliance Office shall regularly submit reports to the board to inform them of management's action to address deficiencies noted in the audit.

Risk assessment. Consistent with risk-based approach, covered persons are required to identify, understand and assess their ML/TF risks, arising from customers, countries or geographic areas of operations and customers, products, services, transactions or delivery channels. The assessment methodology shall be appropriate to the nature of operations and complexity of the business of the covered person. The institutional risk assessment shall (a) consider all relevant risk factors; (b) adequately document results and findings; and (c) be updated periodically or as necessary. The institutional risk assessment shall be conducted, at least once every two (2) years, or as often as the Board or senior management may direct, depending on the level of risks identified in the previous risk assessment, or other relevant AML/CFT developments that may have an impact on the covered person's operations.

Based on the risk assessment, the covered person shall take appropriate measures to manage and mitigate ML/TF risks and take enhanced measures on identified high risks area, which should be incorporated in its MTPP. The risk assessment shall be made available to the Bangko Sentral during examination or in other circumstances deemed necessary as part of continuous supervision.

New products and business practices risk assessment. Covered persons are also required to identify and assess the ML/TF risks that may arise in relation to the development of new products and new business practices, including new delivery mechanisms, and the use of new or developing technologies for both new and pre-existing products. Such risk assessment should be an integral part of product or service development process and should take place prior to the launch of the new products, business practices or the use of new or developing technologies. Covered persons should take appropriate measures to manage and mitigate the identified risks.

(Circular No. 1022 dated 26 November 2018 and, 950 dated 15 March 2017)

B. PREVENTIVE MEASURES

921 - Q CUSTOMER DUE DILIGENCE

a. In conducting customer due diligence, a risk-based approach shall be undertaken depending on the type of customer, business relationship or nature of the product, transaction or activity. In this regard, a covered person shall maintain a system that will ensure the conduct of customer due diligence which shall include:

(1) Identifying the customer and verifying the true identity of the customer based on official documents or other reliable, independent source documents, data or information. In case of corporate and juridical entities, verifying their legal existence and organizational structure, as well as the authority and identification of all persons purporting to act on their behalf;

(2) Identifying the beneficial owner and taking reasonable measures to verify the identity of the beneficial owner based on official documents, or using relevant information or data obtained from reliable sources, such that the covered person is satisfied that it knows who is the beneficial owner. The covered person should have a system to understand the nature of the customer's business and its ownership and control structure, in case of juridical persons or legal arrangements.

Where the customer, or the owner of the controlling interest is a company listed in a stock exchange and subject to disclosure requirements (either by stock exchange rules or through law or enforceable means) to ensure adequate transparency of beneficial ownership, or is a majority-owned subsidiary of such a company, the covered person is not required to verify the identity of any shareholder or beneficial owner of such companies. The relevant identification data may be obtained from a public register, from the customer or from other reliable sources.

The covered person shall keep records of the actions taken in order to identify the beneficial owner.

(3) Understanding and, as appropriate, obtaining information on the purpose and intended nature of the business relationship; and

(4) Conducting ongoing due diligence on the business relationship and scrutiny of transactions undertaken throughout the course of the relationship to ensure that the transactions being conducted are consistent with the covered person's knowledge of the customer, their business and risk profile, including, where necessary, the source of funds.

Where a covered person is unable to comply with the relevant CDD measures, it shall (a) refuse to open an account, commence business relations or terminate the business relationship or perform the transaction; and (b) consider filing a suspicious transaction report (STR) in relation to the customer.

In cases where a covered person forms a suspicion of ML/TF and associated unlawful activities, and reasonably believes that performing the CDD process will tip-off the customer, the covered person need not pursue the CDD process, but should file an STR, closely monitor the account, and review the business relationship.

b. A covered person shall be required to undertake customer due diligence when:

(1) It establishes business relations with any customer;
(2) It undertakes any occasional but relevant business transaction for any customer who has not otherwise established relations with the covered person;
(3) There is a suspicion of ML or TF; or

(4) There is doubt about the veracity or adequacy of previously obtained customer identification data.

c. *"Business relations"* means the opening or maintenance of an account or the provision of financial advice by the covered person to a customer.

d. *"Relevant business transaction"* shall refer to:

(1) A transaction with a value exceeding P100,000, except money changing or remittance transactions;
(2) Two (2) or more transactions believed to be linked and with an aggregate value exceeding P100,000; or
(3) In relation to remittance and money changing transactions, any transaction or two (2) or more transactions believed to be linked, with an aggregate value exceeding P5,000.00.

For this purpose, covered persons should have appropriate system to identify and determine occasional customer or transaction.

e. *For existing customers.* Covered persons shall apply CDD requirements to existing customers on the basis of materiality and risk, and conduct due diligence on existing relationships at appropriate times, taking into account CDD measures previously undertaken as well as the adequacy of information and documents obtained.

Customer acceptance and identification policy. Every covered person shall develop clear, written and graduated customer acceptance and identification policies and procedures, which shall include sanctions screening. Covered persons shall ensure that the financially or socially disadvantaged are not denied access to financial services while at the same time prevent suspicious individuals or entities from opening an account or establishing a relationship. A covered person shall formulate a risk-based and tiered customer acceptance, identification and retention policy that involves reduced CDD for potentially low risk clients and enhanced CDD for higher risk accounts.

a. *Criteria for type of customers: low, normal and high risk; Standards for applying reduced, average and enhanced due diligence.* Covered persons shall specify the criteria and description of the types of customers that are likely to pose low, normal or high ML/TF risk to their operations, as well as the standards in applying reduced, average and enhanced due diligence, including a set of conditions for the denial of account opening or services.

Enhanced due diligence shall be applied to customers that are assessed by the covered person or under this Part as high risk for ML/TF. For customers assessed to be of low risk such as small account balance and transactions, a covered person may apply reduced due diligence. Some entities may likewise be considered as low risk clients, e.g., banking institutions, trust entities and QBs authorized by the Bangko Sentral to operate as such and publicly listed companies subject to regulatory disclosure requirements.

In designing a customer acceptance and risk profiling policy, the following criteria relating to the product or service, the customer, and geographical location, at a minimum, shall be taken into account:

(1) The nature of the service or product to be availed of by the customers and the purpose of the account or transaction;

(2) Source of funds**,** source of wealth/nature of business, employment;

(3) Public or high profile position of the customer or its directors/trustees, stockholders, officers and/or authorized signatory;

(4) Country of origin and residence of operations or the fact that a customer came from a high risk jurisdiction;

(5) The existence of ST indicators;

(6) Watchlist of individuals and entities engaged in illegal activities or terrorist related activities as circularized by the Bangko Sentral, AMLC, and other international entities or organizations, such as the Office of Foreign Assets Control (OFAC) of the U.S. Department of the Treasury and United Nations Security Council; and

(7) Such other factors, e.g., the amount of funds to be deposited by a customer or the size of transactions, and regularity or duration of the transaction, as the covered person may deem reasonable or necessary to consider in assessing the risk of a customer to ML/TF.

In assessing the risk profile of customers which are juridical entities, the covered person should also consider the financial profile and other relevant information of the active authorized signatories.

The covered person shall document the risk profiling results as well as how a specific customer was profiled and what standard of CDD (reduced average or enhanced) was applied.

b. *Enhanced due diligence (EDD).* Whenever EDD is applied as required by this Part, or by the covered person's customer acceptance policy, or where the risk of ML/TF are higher, the covered person shall do all of the following, in addition to profiling of customers and monitoring of their transactions:

(1) Gather additional customer information and/or identification documents, other than the minimum information and/or documents required for the conduct of average due diligence as enumerated under Sec. 921-Q *(Customer identification).*

(a) In case of individual customers:

(i) supporting information on the intended nature of the business relationship/source of funds/source of wealth (such as financial profile, ITR, Loan Application, Deed of Donation, Deed of Sale, etc.);
(ii) reasons for intended or performed transactions;
(iii) list of companies where he is a stockholder, director, officer, or authorized signatory;
(iv) other relevant information available through public databases or internet; and (v) a list of banks where the individual has maintained or is maintaining an account.

(b) In case of entities:

(i) prior or existing bank references;

(ii) the name, present address, nationality, date of birth, nature of work, contact number and source of funds of each of the primary officers (e.g., President, Treasurer);

(iii) volume of assets, other information available through public databases or internet and supporting information on the intended nature of the business relationship, source of funds or source of wealth of the customer (ITR, Audited Financial Statement, Loan Application, Deed of Donation, Deed of Sale, etc.); and

(iv) reasons for intended or performed transactions.

(2) Conduct validation procedures in accordance with Item "(c)" of Sec. 921-Q *(Customer acceptance and identification policy)* on any or all of the information provided;
(3) Secure senior management approval to commence or continue business relationship/transacting with the customer;
(4) Conduct enhanced ongoing monitoring of the business relationship, by, among others, increasing the number and timing of controls applied, and selecting patterns of transactions that need further examination;
(5) Require the first payment to be carried out through an account in the customer's name with a bank subject to similar CDD standards, where applicable; and
(6) Perform such other measures as the covered person may deem reasonable or necessary.

Where additional information cannot be obtained, or any information or document provided is false or falsified, or result of the validation process is unsatisfactory, the covered person shall deny banking relationship with the customer without prejudice to the reporting of a suspicious transaction to the AMLC when circumstances warrant.

c. *Minimum validation procedures for EDD.* The procedures performed must enable the covered person to achieve a reasonable confidence and assurance that the information obtained are true and reliable.

Validation procedures for individual customers shall include, but are not limited to, the following:

(1) Confirming the date of birth from a duly authenticated official document;
(2) Verifying the address through evaluation of utility bills, bank or credit card statement, sending thank you letters, or other documents showing address or through on-site visitation;
(3) Contacting the customer by phone or e-mail;

(4) Determining the authenticity of the identification documents through validation of its issuance by requesting a certification from the issuing authority or by any other effective and reliable means; or
(5) Determining the veracity of the declared source of funds.

For corporate or juridical entities, verification procedures shall include, but are not limited to, the following:

(1) Validating source of funds or source of wealth from reliable documents such as audited financial statements, ITR, bank references, etc.;
(2) Inquiring from the supervising authority the status of the entity;
(3) Verifying the address through on-site visitation of the company, sending thank you letters, or other documents showing address; or
(4) Contacting the entity by phone or e-mail.

d. *Reduced due diligence.* Where lower risks of ML/TF have been identified, through an adequate analysis of risk by the covered person and based on the results of the institutional risk assessment, reduced due diligence procedures may be applied commensurate with the lower risk factors. The reduced due diligence procedures shall not be applied in cases of suspicion of higher ML/TF risk scenarios.

Whenever reduced due diligence is applied as provided in this Part or in the covered person's customer acceptance policy, the following rules shall apply:

(1) For individual customers, a covered person may open an account/establish relationship under the true and full name of the account owner/s or customers upon presentation of an acceptable identification card (ID) or official document as defined in this Part or other reliable, independent source documents, data or information: *Provided*, That, for accounts used purely for digital or electronic payments, the covered person may define appropriate reduced due diligence procedures provided that ML/TF risks are effectively managed.

(2) For corporate, partnership, and sole proprietorship entities, a covered person may open an account under the official name of these entities by presenting a Board Resolution duly certified by the Corporate Secretary, or equivalent document, authorizing the signatory to sign on behalf of the entity, obtained at the time of account opening.

Verification of the identity of the customer, beneficial owner or authorized signatory can be made after the establishment of the business relationship.

e. *Restricted account*. To promote financial inclusion and to ensure that the micro-business owners and the low-income households are able to manage their finances through the financial system, customers who may not be able to provide any of the required information under Sec. 921-Q *(Customer identification)* for valid reasons or any valid identification document under Item *"(c)"* of Sec. 921 *(Customer identification)* may be allowed to open a restricted account with a covered person, provided:

(1) the aggregate credits in a year shall not exceed P100,000; and
(2) the account shall not be allowed to receive/send foreign remittances.

In lieu of a valid ID, the covered person shall obtain the customer's complete name, birth date, address and nationality and ensure that it has in its records a clear photograph and signature or biometric of the customer.

The account opening shall be subject to the condition that the customer shall obtain a valid ID within twelve (12) months; otherwise the account shall be closed and the remaining balance therein shall be returned to the customer. An extension of another twelve (12) months may be allowed: *Provided*, That the customer is able to show to the covered person a proof of application for a valid ID.

The covered person shall ensure that the above conditions are not breached; otherwise complete information and valid ID shall immediately be required or the account shall be closed accordingly.

Customer identification. Covered persons shall establish and verify the true identity of their customers based on official document as defined in this Part or other reliable, independent source documents, data or information

a. Minimum information/documents required:

(1) *New individual customers.* Covered persons shall develop a systematic procedure for establishing the true and full identity of new individual customers, and shall open and maintain the account/relationship only in the true and full name of the account/relationship owner/s.

Unless otherwise stated in this Part, average CDD requires that the covered person obtain from individual customers, at the time of account opening/establishing the relationship, the following minimum information and confirming these information with the official or valid identification documents:

(a) name of customer and/or PhilSys Number (when available);
(b) date and place of birth;
(c) address;
(d) contact number or information;
(e) citizenship or nationality;
(f) specimen signature or biometric of the customer; and
(g) name, address, date and place of birth, contact number or information and citizenship or nationality of beneficiary or beneficial owner, whenever applicable;

(2) *New juridical persons.* A covered person shall develop a systematic procedure for identifying corporate, partnership and sole proprietorship entities, as well as their stockholders/partners/owners, directors, officers and authorized signatories. It shall open and maintain accounts only in the true and full name of the entity and shall have primary responsibility to ensure that the entity has not been, or is not in the process of being dissolved, struck-off, wound-up, terminated, or otherwise placed under receivership or liquidation.

Unless otherwise stated in this Part, average due diligence requires that the covered person obtain the following minimum information and/or documents before establishing business relationships:

(a) Customer Information

(i) Name of juridical person;
(ii) Name, address, and citizenship or nationality of beneficial owner, if applicable, and authorized signatories;
(iii) Official address;
(iv) Contact numbers or information;
(v) Nature of business; and
(vi) Specimen signatures or biometrics of the authorized signatory.

(b) Identification Documents

(i) Certificates of Registration issued by the Department of Trade and Industry (DTI) for single proprietors, or by the Securities and Exchange Commission (SEC) for corporations and partnerships, and by the Bangko Sentral for money changers/foreign exchange dealers and remittance agents and transfer companies;

(ii) Secondary license or certificate of authority issued by the supervising authority or other government agency;

(iii) Articles of Incorporation/Partnership

(iv) Latest General Information Sheet which lists the names of directors/trustees/partners, principal stockholders owning at least twenty percent (20%) of the outstanding capital stock and primary officers such as the President and Treasurer;

(v) Board or Partners' resolution duly certified by the Corporate/Partners' Secretary, or other equivalent document, authorizing the signatory to sign on behalf of the entity; and

(vi) For entities registered outside of the Philippines, similar documents and/or information shall be obtained, duly authenticated by a senior officer or the designated officer of the covered person assigned in the country of registration; in the absence of said officer, the documents should be authenticated by the Philippine Consulate, company register or notary public, where said entities are registered.

(3) For legal arrangement (e.g., Trust), the following must be obtained:

(a) Name of legal arrangement and proof of existence;
(b) Address and country of establishment;
(c) Nature, purpose and objects of the legal arrangement;
(d) The names of the settlor, the trustee, the trustor, the protector, if any, the beneficiary and any other natural person exercising ultimate effective control over the legal arrangement;
(e) Description of the purpose/activities of the legal arrangement;
(f) Expected use of the account; and
(g) Amount, number, type, purpose and frequency of the transaction expected.

In addition, the following rules shall apply for trustees:

(a) *trustees of any express trust* shall obtain and hold adequate, accurate, and current information on the identity of the trustor/settlor/grantor, the trustee, the beneficiary or class of beneficiaries, and any other natural person exercising ultimate effective control over the trust.

Covered persons shall likewise obtain sufficient information, such as the full name, place and date of birth or date of registration of the beneficiary/ies of these trusts, or of similar legal arrangements. This is to ensure that covered persons will be able to identify and verify the identity of the beneficiary at the time of the payout or at the time of the exercise by the beneficiary of its vested rights.

(b) *trustees of any trust* shall hold basic information on other regulated agents of, and service providers to, the trust, including investment advisors or managers, accountants, and tax advisors;

(c) trustees shall disclose their status when forming a business or professional relationship, or in carrying out an occasional transaction above the threshold under Item *"d"* of Sec. 921-Q; and

(d) trustees shall make available to competent authorities, to the extent allowed by law, information on the beneficial ownership and the assets of the trust to be held or managed under the terms of the business or professional relationship.

(4) *Identification and Verification of Agents and Authorized Representatives.* Covered persons shall verify that any person purporting to act on behalf of a customer is so authorized and shall identify and verify the identity of that person.

For this purpose, the covered person shall obtain the name, address and citizenship or nationality of agents and authorized representatives.

b. Customer verification process. Covered persons shall verify the identity of the customer before or during the course of establishing a business relationship, or conducting transactions for occasional customers. They may complete the verification process after the establishment of the business relationship: *Provided*, That:

(1) this occurs as soon as reasonably practicable;
(2) this is essential not to interrupt the normal conduct of business; and
(3) the ML/TF risks are effectively managed, taking into consideration risk and materiality.

c. Valid identification documents.

(1) Customers and the authorized signatory/ies of a corporate or juridical entity who engage in a financial transaction with covered person for the first time shall be required to present official identification document which shall include any of the official documents as defined in this Part or other identification information which can be verified from reliable, independent source, documents, data or information, such as third-party verified customer information database.

(2) A covered person may classify identification documents based on its reliability and ability to validate the information indicated in the identification document with that provided by the customer. Whenever it deems necessary, a covered person may accept other IDs not provided herein: *Provided,* That it shall not be the sole means of identification.

In case the identification document presented does not bear any photo of the customer or authorized signatory, or the photo-bearing ID or a copy thereof does not clearly show the face of the customer or authorized signatory, a covered person may utilize its own technology to take the photo of the customer or authorized signatory.

Relief in case of calamity. In case of a disastrous calamity and subject to a declaration by the Bangko Sentral on the applicability of this relief, any requirement for the presentation of valid ID shall be relaxed, subject to the following conditions:

(3) The amount of transactions shall not exceed P50,000.00 per day;

(4) The customer is either a permanent or temporary resident or who conducts business in a severely affected area which has been declared to be under a state of calamity by a competent authority;

(5) The customer shall submit a written certification, which need not be notarized, that he/she is a victim of the subject disastrous calamity and has lost his/her valid IDs; and

(6) The customer's account activities shall be subject to strict monitoring by the covered person to identify potential abuse of the relaxed requirement and any STs shall be reported to the AMLC within the prescribed period.

In customer identification process, covered persons shall implement appropriate systems of data collection and recording, such as: (1) photocopying/scanning of identification document presented; (2) using Information and Communication Technology (ICT) to capture and record the biometric and other personal information of customers; and/or (3) manual recording of identification information.

d. *Face-to-face contact.* Covered persons shall conduct face-to-face contact and/or personal interview at the commencement of the relationship. Face-to-face contact may likewise be conducted as soon as reasonably practicable so as not to interrupt the normal conduct of business, taking into account the nature of the product, type of business and the risks involved: *Provided,* That there are policies and procedures to address any specific risk associated with the same including a clear definition of instances when it will be allowed.

The use of ICT in the conduct of face-to-face contact and/or interview may be allowed: *Provided,* That the covered person has measures in place to mitigate the ML/TF risks and the entire procedure is documented.

e. *Outsourcing of the customer identification and verification procedures.* Subject to existing rules on outsourcing of specified banking activities, a covered person may, without prior Monetary Board approval, outsource to a counterparty, which may or may not be a covered person as herein defined, the customer identification and verification procedures under Items *"a", "b"* and *"d"* above: *Provided*, That the ultimate responsibility for knowing the customer, keeping the identification documents, and managing attendant risks shall rest with the covered person and the following conditions are complied with:

For covered person counterparty:

(1) There is a written service level agreement approved by the board of directors or senior management of the covered persons and its counterparty;
(2) The counterparty has a reliable and acceptable customer identification system and training program in place.

For non-covered person counterparty:

(1) All conditions required for covered person counterparty;

(2) The covered person outsourcing the activity shall ensure that the employees or representatives of the counterparty gathering the required information/documents of, and/or conducting face-to-face contact with, the customer undergo equivalent training program as that of the covered person's own employees undertaking a similar activity; and

(3) The covered person shall monitor and conduct annual review of the performance of the counterparty to determine whether or not to continue with the arrangement.

All identification information and/or documents shall be turned over within a period not exceeding ninety (90) calendar days to the covered person, which shall carefully review the documents or information and conduct the necessary risk assessment of the customer. The covered person may, however, include in the coverage of the outsourcing agreement the safekeeping of the documents gathered subject to the condition that customer identification documents shall be made available to the covered person or to the competent authorities within three (3) banking days from the date of request.

f. *Third party reliance.* A covered person may rely on third parties to perform the CDD procedures under Item *"(a) 1 to 3"* of Sec. 921-Q subject to the following rules:

(1) *Where the third party is a covered person specifically defined by this Part and as generally defined by AMLA, as amended, and its RIRR* - The covered person shall obtain from the third party a written sworn certification containing the following:

(a) The third party has conducted the prescribed customer identification procedures in accordance with this Part and its own MLPP, including the face-to-face contact requirement, to establish the existence of the ultimate customer and has in its custody all the minimum information and/or documents required to be obtained from the customer; and

(b) The relying covered person shall have the ability to obtain identification documents from the third party upon request without delay.

(2) *Where the third party is a financial institution operating outside the Philippines that is other than covered persons referred to in Item "1" above but conducts business operations and activities similar to them.* All the contents required in the sworn certification mentioned in Item "*1*" above shall apply, with the additional requirement that the laws of the country where the third party is operating has equal or more stringent customer identification process requirement and that it has not been cited in violation thereof. It shall, in addition to performing normal due diligence measures, do the following:

When determining in which countries the third party that meets the requirements above can be based, covered persons should consider available information on the level of country risk.

(3) For both Items *"(1)"* and *"(2)"* above, it shall, in addition to performing normal due diligence measures, do the following:

(a) Gather sufficient information about the third party and the group to which it belongs to understand fully the nature of its business and determine from publicly available information the reputation of the institution and the quality of supervision, including whether or not it has been subject to ML or TF investigation or regulatory action. Satisfy itself that the third party is regulated, and supervised or monitored for, and has measures in place for compliance with CDD and record-keeping requirements;

(b) Document the respective responsibilities of each institution; and

(c) Obtain approval from senior management at inception of relationship before relying on the third party.

(4) Covered persons may rely on a third party that is part of the same financial group under the following circumstances:

(a) the group applies CDD, record-keeping and MTPP requirements;
(b) the implementation of CDD and record-keeping requirements, and the MTPP is supervised at a group level by a competent authority, such as a Group Compliance Officer; and
(c) any higher country risk is adequately mitigated by the group's AML/CFT policies.

A Bangko Sentral-accredited custodian may likewise rely, in accordance with this Part, on the face-to-face contact and gathering of minimum information performed by the seller or issuer of securities or by the global custodian to establish the existence and full identity of the customer: *Provided,* That the said third party has an equivalent customer identification requirement.

Notwithstanding the foregoing, the ultimate responsibility for identifying the customer still lies with the covered person relying on the third party.

In cases where the customer is assessed as high risk by the third party, the covered person shall conduct its separate enhanced due diligence procedure.

g. *Trustee, nominee, agent or intermediary account.* Where (1) an account is opened by; (2) relationship is established through; or (3) any transaction is conducted by, a trustee, nominee, agent or intermediary, either as an individual or through a fiduciary relationship or similar arrangements, the covered person shall establish and record the true and full identity and existence of both the (1) trustee, nominee, agent or intermediary; and (2) trustor, principal, beneficial owner or person on whose behalf the account/relationship/transaction is being opened/established/conducted. The covered person shall determine the true nature of the parties' capacities and duties by obtaining a copy of the written document evidencing their relationship and apply the same standards for assessing the risk profile and determining the standard of due diligence to be applied to both.

In case of several trustors, principals, beneficial owners, or persons on whose behalf the account is being opened/relationship is being established, where the trustee, nominee, agent or intermediary opens a single account but keeps therein sub-accounts that may be attributable to each trustor, principal, or beneficial owner, the covered person shall, at the minimum, obtain the true and full name, place and date of birth or date of registration, as the case may be, present address, nature of work or business and source of funds as if the account was opened by them separately. Where the covered person is required to report a CT or circumstances warrant the filing of an ST, it shall obtain such information on every trustor, principal, beneficial owner, or person on whose behalf the account is being opened in order that a complete and accurate report may be filed with the AMLC.

In case a covered person entertains doubts as to whether the trustee, nominee, agent, or intermediary is being used as a dummy in circumvention of existing laws, it shall apply enhanced due diligence in accordance with this Section on *Customer acceptance and identification policy* and file an ST report, if warranted.

h. *Prohibited accounts.* A covered person shall maintain accounts only in the true and full name of the account owner. The provisions of existing law to the contrary notwithstanding, anonymous accounts, accounts under fictitious names, numbered checking accounts and all other similar accounts shall be absolutely prohibited.

On-going monitoring of customers, accounts and transactions.

a. Covered persons shall, on the basis of materiality and risk, ensure that pertinent identification information and documents collected under the CDD process are kept up-to-date and relevant, by undertaking reviews of existing records, particularly for higher risk categories of customers. The covered person shall document the actions taken in connection with updating of customer's records/information, and accordingly update customer's risk profile.

Covered persons shall establish a system that will enable them to understand the normal and reasonable account or business activity of customers to ensure that the customers' accounts and transactions are consistent with their knowledge of the customers, and the latter's commercial activities, risk profile, and source of funds and detect unusual or suspicious patterns of account activity. Thus, a risk-and-materiality-based on-going monitoring of customer's accounts and transactions, including periodic sanction screening, should be part of a covered person's customer due diligence.

b. Enhanced due diligence. Covered persons shall examine the background and purpose of all complex, unusually large transactions, all unusual patterns of transactions, which have no apparent economic or lawful purpose, and other transactions that may be considered suspicious. Covered persons shall apply enhanced due diligence on the customer in accordance with Item *"(b)"* of Sec. 921-Q *(Customer acceptance and identification policy)* if they acquire information in the course of customer account or transaction monitoring that:

(1) Raises doubt as to the accuracy of any information or document provided or the ownership of the entity;
(2) Justifies reclassification of the customer from low or normal risk to high risk pursuant to this Part or by their own criteria; or
(3) Indicates that any of the circumstances for the filing of an ST report exists such as but not limited to the following:

(a) Transacting without any underlying legal or trade obligation, purpose or economic justification;
(b) Transacting an amount that is not commensurate with the business or financial capacity of the customer or deviates from his profile;
(c) Structuring of transactions in order to avoid being the subject of covered transaction reporting; or
(d) Knowing that a customer was or is engaged in any unlawful activity as herein defined.

If the covered person:

(1) fails to satisfactorily complete the enhanced due diligence procedures; or
(2) reasonably believes that performing the enhanced due diligence process will tip-off the customer,

it shall file a ST report, and closely monitor the account and review the business relationship.

Non-discrimination against certain types of customers. The provisions of this Part shall not be construed or implemented in a manner that will discriminate against certain customer types, such as PEPs, as well as their relatives, or against a certain religion, race or ethnic origin, or such other attributes or profiles when used as the only basis to deny these persons access to the covered person's services. In this regard, covered persons shall have appropriate policies and procedures to ensure non-discrimination against certain customer types when implementing AML/CFT regulations. Covered persons who will commit said discriminatory act shall be subject to appropriate sanctions provided under existing laws and regulations.

(Circular Nos 1022 dated 26 November 2018 and 950 dated 15 March 2017)

922 - Q COVERED AND SUSPICIOUS TRANSACTION REPORTING

Covered persons shall report to the AMLC all covered and STs within five (5) working days, unless the AMLC prescribes a different period not exceeding fifteen (15) working days, from the occurrence thereof.

For STs, *"occurrence"* refers to the date of determination of the suspicious nature of the transaction, which determination should be made not exceeding ten (10) calendar days from the date of transaction. However, if the transaction is in any way related to, or the person transacting is involved in or connected to, an unlawful activity or money laundering offense, the ten (10)-day period for determination shall be reckoned from the date the covered person knew or should have known the suspicious transaction indicator.

Should a transaction be determined to be both a covered and suspicious transaction, the covered person shall be required to report the same as an ST.

Covered persons shall ensure the accuracy and completeness of covered and ST report, which shall be filed in the forms prescribed by the AMLC and submitted in a secured manner to the AMLC in electronic form.

Deferred reporting of certain covered transactions. *Covered persons* shall refer to the issuances of the AMLC from time to time on transactions that are considered as "non-cash, no/low risk covered transactions", hence subject to deferred reporting.

The Bangko Sentral may consider other transactions as "no/low risk covered transactions" and propose to the AMLC that they be likewise subject to deferred reporting by covered persons.

Electronic monitoring systems for AML/CFT. Covered persons required under Item *"(a)"* of Sec. 911-Q *(Monitoring and reporting tools)* to have an electronic monitoring system for AML/CFT should ensure that the system, at a minimum, shall detect and raise to the covered person's attention, transaction and/or accounts that qualify either as CT or ST as herein defined. The covered person shall endeavor to interface the electronic monitoring system with the systems of its branches, subsidiaries and affiliates, if any, for group-wide AML/CFT monitoring.

The system must have at least the following automated functionalities:

a. Covered and suspicious transaction monitoring – performs statistical analysis, profiling and able to detect unusual patterns of account activity;
b. Watch list monitoring – checks transfer parties (originator, beneficiary, and narrative fields) and the existing customer database for any listed undesirable individual or corporation;
c. Investigation – checks for given names throughout the history of payment stored in the system;
d. Can generate all the CTRs of the covered person accurately and completely with all the mandatory field properly filled up;
e. Must provide a complete audit trail;
f. Capable of aggregating activities of a customer with multiple accounts on a consolidated basis for monitoring and reporting purposes; and
g. Has the capability to record all STs and support the investigation of alerts generated by the system and brought to the attention of senior management whether or not a report was filed with the AMLC.

Covered persons with existing electronic system of flagging and monitoring transactions already in place shall ensure that their existing system is updated to be fully compliant with functionalities as those required herein.

Manual monitoring. Covered persons which are not required, under this Part, to have an electronic system of flagging and monitoring transactions shall ensure that they have the means of flagging and monitoring the transactions mentioned in Sec. 922-Q *(Electronic monitoring system for money laundering)*. They shall maintain a register of all STs that have been brought to the attention of senior management whether or not the same was reported to the AMLC.

Electronic submission of reports. The CTR and STR shall be submitted to the AMLC in a secured manner, in electronic form and in accordance with the reporting procedures prescribed by the AMLC. The covered persons shall provide complete and accurate information of all the mandatory fields required in the report. In order to provide accurate information, the covered person shall regularly update customer identification information at least once every three (3) years.

For the purpose of reporting in a secured manner, all covered persons shall register with the AMLC within ninety (90) days from 27 January 2011 by directly coordinating with that office for the proper assignment of their institution code and facilitation of the reporting process. All covered institutions that have previously registered need not re-register.

Only their respective compliance officers shall electronically sign their CTRs and STRs.

Electronic copies of CTRs and STRs shall be preserved and safely stored for at least five (5) years from the dates the same were reported to the AMLC.

Exemption from bank secrecy laws. When reporting covered or suspicious transactions to the AMLC, covered persons and their officers and employees shall not be deemed to have violated R.A. No. 1405, as amended, R.A. No. 6426, as amended, R.A. No. 8791 and other similar laws, but are prohibited from communicating, directly or indirectly, in any manner or by any means, to any person, the fact that a covered or suspicious transaction report was made, the contents thereof, or any other information in relation thereto. In case of violation thereof, the concerned officer and employee of the covered person shall be criminally liable in accordance with the provision of the AMLA, as amended.

Confidentiality provision. When reporting CTs and STs to the AMLC, covered persons, their directors, officers and employees, are prohibited from communicating, directly or indirectly, in any manner or by any means, to any person or entity, or the media, the fact that a covered or suspicious transaction report was made, the contents thereof, or any other information in relation thereto. Any information about such reporting shall not be published or aired, in any manner or form, by the mass media, or through electronic mail, or other similar devices. In case of violation thereof, the concerned director, officer and employee of the covered person shall be criminally liable.

Safe harbor provision. No administrative, criminal or civil proceedings shall lie against any person for having made a CTR or an STR in the regular performance of his duties in good faith, whether or not such reporting results in any criminal prosecution under the AMLA, as amended, its RIRR or any other law.

(Circular No. 950 dated 15 March 2017)

923 - Q ADDITIONAL PREVENTIVE MEASURES FOR SPECIFIC CUSTOMERS AND ACTIVITIES

Private banking/wealth management operations. These services, which by their nature involve high measure of client confidentiality, are more open to the elements of reputational risk especially if the customer identification process is not diligently followed. Covered persons shall therefore establish and record the true and full identify and take reasonable measures to establish the source of wealth and source of funds, of the customer and beneficial owners, if any, and establish a policy on what standard of due diligence will apply to them. They shall also require approval by a senior officer other than the private banking/wealth management/similar activity relationship officer or the like for acceptance of customers of private banking, wealth management and similar activities.

PEP. Covered persons shall establish and record the true and full identity of PEPs, as well as their immediate family members and entities related to them.

a. In case of domestic PEPs or persons who have been entrusted with a prominent function by an international organization, or their immediate family members or close associates, in addition to performing the applicable due diligence measures, covered persons shall:

(1) Take reasonable measures to determine whether a customer or the beneficial owner is a PEP; and
(2) In cases when there is a higher risk business relationship, adopt measures under paragraphs *"(2)(b)" to "(2)(d)"* below.

b. In relation to foreign PEPs or their immediate family members or close associates, in addition to performing the applicable customer due diligence measures, covered persons shall:

(1) Put in place risk management systems to determine whether a customer or the beneficial owner is a PEP;
(2) Obtain senior management approval before establishing (or continuing, for existing customers) such business relationship;
(3) Take reasonable measures to establish the source of wealth and the source of funds of customers and beneficial owners identified as PEPs; and
(4) Conduct enhanced ongoing monitoring on that relationship.

Correspondent banking. Covered persons shall adopt policies and procedures to prevent correspondent banking activities from being utilized for ML/TF activities, and designate an officer responsible in ensuring compliance with these regulations and the covered person's policies and procedures.

A covered person may rely on the customer identification process undertaken by the respondent bank and apply the rules on third party reliance under Item *"(f)"* of Sec. 921-Q *(Customer identification)*, treating the respondent bank as the third party. The correspondent bank shall:

a. In relation to cross border correspondent banking and other similar relationship:

(1) Gather sufficient information about the respondent institution to understand fully the nature of the respondent's business, and to determine from publicly available information the reputation of the institution and the quality of supervision, including whether it has been subject to ML/TF investigation or regulatory action;

(2) Assess the respondent institution's AML/CFT controls;

(3) Obtain approval from senior management before establishing new correspondent relationships; and

(4) Clearly understand and document the respective AML/CFT responsibilities of each institution.

b. With respect to *"payable-through accounts,"* satisfy themselves that the respondent bank:

(1) Has performed customer due diligence obligations on its customers that have direct access to the accounts of the correspondent bank; and
(2) Is able to provide relevant customer due diligence information upon request to the correspondent bank.

Covered persons are prohibited from entering into, or continuing, correspondent banking relationships with shell banks and should have measures to satisfy themselves that respondent financial institutions do not permit their accounts to be used by shell banks.

Fund/Wire transfer. Because of the risk associated with dealing with fund/wire transfers, where a covered person may unknowingly transmit proceeds of unlawful activities or funds intended to finance terrorist activities, it shall establish policies and procedures designed to prevent it from being utilized for that purpose which shall include, but not limited to, the following:

a. Originating financial institution:

(1) Shall not accept instructions to fund/wire transfer from a non-customer originator, for occasional transactions exceeding the set threshold as defined in this Part, unless it has conducted the necessary CDD to establish the true and full identity and existence of said originator;

(2) Shall ensure that all wire transfers are always accompanied by the required information such that:

(a) Cross border and domestic fund/wire transfers and related message not exceeding P50,000.00 or its equivalent in foreign currency, shall include accurate and meaningful originator and beneficiary information. The following information shall remain with the transfer or related message through the payment chain:

(i) Name of the originator;
(ii) Name of the beneficiary; and
(iii) Account number of the originator and beneficiary, or in its absence, a unique reference number.

(b) For cross border and domestic fund/wire transfers and related message amounting to ₱50,000.00 or more, or its equivalent in foreign currency, the following information shall be obtained and accompany the wire transfer:

(i) Name of the originator;
(ii) Originator account number where such an account is used to process the transaction or a unique transaction reference number which permits traceability of the transaction;
(iii) Originator's address, or national identity number, or customer identification number, or date and place of birth;
(iv) Name of the beneficiary; and
(v) Beneficiary account number where such an account is used to process the transaction, or unique transaction reference number which permits traceability of the transaction.

For domestic wire transfers, the originating institution should ensure that the required information accompanies the wire transfers, unless this information can be made available to the beneficiary institution and relevant authorities by other effective means. In the latter case, the originating institution shall include only the account number or a unique identifier within the message or payment form which will allow the transaction to be traced back to the originator or beneficiary. Originating institutions are required to provide the information within three (3) working days from receiving the request either from the beneficiary institution or from relevant authorities or agencies.

(3) May be exempted from the requirements of Item *"(b)"* above in respect of originator information, where several individual cross-border wire transfers from a single originator are bundled in a batch file for transmission to beneficiaries: *Provided*, That it includes the originator's account number or unique transaction reference number and that the batch file contains the required and accurate originator information, and full beneficiary information, that is fully traceable within the beneficiary country;

(4) Need not verify for accuracy the information mentioned in Item *"b(i)"* hereof. However, the originating financial institution shall verify the information pertaining to its customer where there is a suspicion of ML/TF;

(5) Shall ensure that, for domestic wire transfers, the information accompanying the wire transfer includes originator information as indicated for cross-border wire transfers, unless this information can be made available to the beneficiary financial institution and relevant authorities by other effective means.

(6) Shall only include the account number or a unique transaction reference number, where the information accompanying the domestic wire transfer can be made available to the beneficiary financial institution and appropriate authorities by other effective means: *Provided*, That this number or identifier will permit the transaction to be traced back to the originator or the beneficiary. The information shall be made available within three (3) working days from receipt of the request either from the beneficiary financial institution or from appropriate authorities;

(7) Shall maintain all originator and beneficiary information collected, in accordance with Sec. 924-Q; and

(8) Should not execute the wire transfer if the requirements under Item *"a"*, as applicable, are not complied with.

b. Intermediary financial Institution shall:

(1) Ensure that, for cross-border wire transfers, all originator and beneficiary information that accompany a wire transfer are retained in the payment message.

Where technical limitations prevent the required originator or beneficiary information accompanying a cross-border wire transfer from remaining with a related domestic wire transfer, intermediary financial institution should keep a record of all the information received from the originating financial institution or another intermediary financial institution for at least five (5) years;

(2) Take reasonable measures, which are consistent with straight-through processing, to identify cross-border wire transfers that lack required originator information or required beneficiary information;

(3) Conduct transactional sanction screening on the payment parties, both for the originator and beneficiary;

(4) Adopt risk-based policies and procedures for determining: (i) when to execute, reject, or suspend a wire transfer lacking required originator or required beneficiary information; and (ii) the appropriate follow-up action.

c. Beneficiary financial institution shall:

(1) Verify the identity of the beneficiary, if the identity has not been previously verified and maintain this information in accordance with Sec. 924-Q. Should the originator and beneficiary be the same person, the beneficiary institution may rely on the customer due diligence conducted by the originating institution provided the rules on third party reliance under Item *"(f)"* of Sec. 921-Q *(Customer identification)* are met, treating the originating institution as third party as herein defined;

(2) Take reasonable measures, which may include post-event monitoring or real-time monitoring where feasible, to identify cross-border wire transfers that lack required originator or beneficiary information, as applicable; and

(3) Adopt risk-based policies and procedures for determining: (i) when to execute, reject, or suspend a wire transfer lacking required originator or beneficiary information, as applicable; and (ii) the appropriate follow-up action.

d. In case a Money or Value Transfer Service (MVTS) provider controls both the originating and the beneficiary side of a wire transfer, it shall:

(1) consider all the information from both the originating and beneficiary sides in order to determine whether an STR has to be filed; and
(2) file an STR in any country affected by the suspicious wire transfer, and make relevant transaction information available to the AMLC.

Buyers of cashier's, manager's or certified checks. A covered person may sell cashier's, manager's or certified checks only to its existing customers and shall maintain a register of said checks indicating the following information:

a. True and full name of the buyer or the applicant if buying on behalf of an entity;
b. Account number;
c. Date of issuance and the number of the check;
d. Name of the payee;
e. Amount; and
f. Purpose of such transaction.

Buyers of cashier's, manager's or certified checks other than its existing customer. Where an individual or an entity other than an existing customer applies for the issuance of cashier's, manager's or certified checks, the covered person shall, in addition to the information required in Sec. 921 (*Customer identification*), obtain all the identification documents and minimum information required under this Part to establish the true and full identity and existence of the applicant. In no case shall reduced due diligence be applied to the applicant and, where circumstances warrant, enhanced due diligence should be applied.

Buyers of cashier's, manager's or certified checks in blank or payable to cash, bearer or numbered account. A covered person may issue cashier's, manager's or certified checks or other similar instruments in blank or payable to cash, bearer or numbered account subject to the following conditions:

a. The amount of each check shall not exceed P10,000;

b. The buyer of the check is properly identified in accordance with its customer acceptance and identification policies and as required under. Sec. 921;

c. A register of said checks indicating all the information required under Sec. 921;

d. A covered person which issues as well as those which accepts as deposits, said cashier's, manager's or certified checks or other similar instruments issued in blank or payable to cash, bearer or numbered account shall take such measure(s) as may be necessary to ensure that said instruments are not being used/resorted to by the buyer or depositor in furtherance of an ML activity;

e. The deposit of said instruments shall be subject to the same requirements of scrutiny applicable to cash deposits; and

f. Transactions involving said instruments should be accordingly reported to the AMLC if there is reasonable ground to suspect that said transactions are being used to launder funds of illegitimate origin.

Second-endorsed checks. A covered person shall enforce stricter guidelines in the acceptance of second-endorsed checks including the application of enhanced due diligence to ensure that they are not being used as instruments for money laundering or other illegal activities.

For this purpose, a covered person shall limit the acceptance of second-endorsed checks from properly identified customers and only after establishing that the nature of the business of said customer justifies, or at least makes practical, the deposit of second-endorsed check. In case of isolated transactions involving deposits of second- endorsed checks by customer who are not engaged in trade or business, the true and full identity of the first endorser shall be established and the record of the identification shall also be kept for five (5) years.

Foreign exchange dealers/money changers/remittance and transfer companies. A covered person shall require its customers who are remittance and transfer companies, foreign exchange dealers and money changers to submit proof of registration with the Bangko Sentral as part of their customer identification document, and shall only deal with these entities if they are duly registered as such. Also, these customers shall be required to use company accounts for their remitting, foreign exchange dealing and money changing business.

Remittance and transfer companies, foreign exchange dealers and money changers presenting greater risk shall be subject to enhanced due diligence, which includes, among others, requiring proof of registration with the AMLC, reviewing and assessing their AML/CFT program to have reasonable assurance on their AML compliance, obtaining additional information and securing senior management approval for establishing business relationship.

Other high risk customer, jurisdiction or geographic location. A customer from a foreign jurisdiction that is recognized as having inadequate internationally accepted AML standards, or presents greater risk for ML/TF or its associated unlawful activities, shall be subject to enhanced customer due diligence. Information relative to these are available from publicly available information such as the websites of FATF, FATF Style Regional Bodies (FSRB) like the Asia Pacific Group on Money Laundering and the Egmont Group, national authorities like the OFAC of the U.S. Department of the Treasury, or other reliable third parties such as regulators or exchanges, which shall be a component of a covered person's customer identification process.

Covered persons shall apply countermeasures (such as conduct of enhanced due diligence, limit business relationship or financial transactions with the identified country or persons in that country) proportionate to the risks when called upon to do so by the FATF, or independently of any call by the FATF to do so, when warranted.

Shell company/shell bank/bearer share entities. A covered person shall undertake banking relationship with a shell company with extreme caution and always apply enhanced due diligence on both the entity and its beneficial owner/s.

No shell bank shall be allowed to operate or be established in the Philippines. Covered persons shall refuse to deal, enter into, or continue, correspondent banking relationship with shell banks. They shall likewise guard against establishing relations with foreign financial institutions that permit their accounts to be used by shell banks.

Bearer share entities refer to those juridical entities where the ownership is accorded to those who possess the bearer share certificate. A covered person dealing with bearer share entities shall conduct enhanced due diligence on said entities and their existing stockholders and/or beneficial owners at the time of opening of the account. These entities shall be subject to ongoing monitoring at all times and the list of stockholders and/or beneficial owners shall be updated within thirty (30) days after every transfer of ownership and the appropriate enhanced due diligence shall be applied to the new stockholders and/or beneficial owners.

Numbered accounts. No peso and foreign currency non-checking numbered accounts shall be allowed without establishing the true and full identity and existence of customers and applying enhanced due diligence in accordance with Item "(b)" of Sec. 921-Q (*Customer acceptance and identification policy*).

Peso and foreign currency non-checking numbered accounts existing prior to 17 October 2001 shall continue to exist but the covered person shall establish the true and full identity and existence of the beneficial owners of such accounts and apply enhanced due diligence in accordance with Item *"(b)"* of Sec. 921-Q (*Customer acceptance and identification policy*).

Compliance with United Nations Security Council Resolutions (UNSCR). As part of CDD process, covered persons shall adopt appropriate policies and procedures:

a. To implement targeted financial sanctions without delay to comply with UNSCR, adopted under Chapter VII of the Charter of the United Nations, relating to the prevention, suppression and disruption of proliferation of weapons of mass destruction and its financing;

b. To ensure that individuals/entities be prohibited from making any types of transactions or services for the benefit of designated persons and entities owned or controlled, directly or indirectly, by designated persons or entities; and persons and entities acting on behalf of, or at the direction of, designated persons or entities pursuant to relevant UNSCR such as 1267 (1999) and its successor resolutions, and 1373 (2001); and

To report to AMLC the actions taken in compliance with the prohibition requirements of the relevant UNSCRs, including attempted transactions.

(Circular Nos. 1022 dated 26 November 2018 and 950 dated 15 March 2017)

924 - Q RECORD KEEPING

All customer identification records of covered persons shall be maintained and safely stored as long as the account exists. All transaction records and documents of covered persons shall be maintained and safely stored for five (5) years from the date of transaction.

Said records and files shall contain the full and true identity of the owners or holders of the accounts involved in the transactions such as the ID card and photo of individual customers and the documents mentioned in Item *"(b)"* of Sec. 921-Q (*Customer identification*) for entities, customer information file, signature card of authorized signatory/ies, and all other pertinent customer identification documents as well as all factual circumstances and records involved in the transaction. Covered persons shall undertake the necessary adequate security measures to ensure the confidentiality of such file, including all information shared by the group-wide compliance. Covered persons shall prepare and maintain documentation, in accordance with the aforementioned client identification requirements, on their customer accounts relationships and transactions such that any account, relationship or transaction can be reconstructed as to enable the AMLC, and/or the courts to establish an audit trail for money laundering.

Closed accounts and terminated relationships. Covered persons shall maintain and safely store all records of customer identification, and transactions documents, including the results of any analysis undertaken, for at least five (5) years following the closure of the account, termination of the business relationship or after the date of the occasional transaction.

Retention of records where the account or customer is the subject of a case. If a money laundering case has been filed in court involving the account or customer, records must be retained and safely kept beyond the five (5)-year retention period, until it is officially confirmed by the AMLC Secretariat that the case has been resolved, decided or terminated with finality.

***Safekeeping of records and documents*.** The covered person shall designate at least two (2) officers who will be jointly responsible and accountable in the safekeeping of all records and documents required to be retained by the AMLA, as amended, its RIRR and this Part. They shall have the obligation to make these documents and records readily available without delay during Bangko Sentral regular or special examinations.

Form of records. Covered persons shall retain all records as originals or in such forms as are admissible in court pursuant to existing laws, such as the E-Commerce Act and its implementing rules and regulations, and the applicable rules promulgated by the Supreme Court.

Covered persons shall, likewise, keep the electronic copies of all CTRs and STRs for at least five (5) years from the dates of submission to the AMLC.

For low risk customers, it is sufficient that covered persons shall maintain and store, in any form, a record of customer information and transactions, but should be sufficient to permit reconstruction of individual transactions so as to provide, if necessary, evidence for prosecution of criminal activity.

C. TRAINING PROGRAM

931 - Q AML TRAINING PROGRAM

Covered persons shall formulate an annual AML training program aimed at providing all their responsible officers and personnel with efficient, adequate and continuous education program to enable them to fully and consistently comply with all their obligations under this Part, the AMLA, as amended, and its RIRR.

Trainings of officers and employees shall include awareness of their respective duties and responsibilities under the MLPP particularly in relation to the customer identification process, record keeping requirements and CT and ST reporting and ample understanding of the internal processes including the chain of command for the reporting and investigation of suspicious and money laundering activities.

The program shall be designed in a manner that will comprise of various focuses for new staff, front-line staff, compliance office staff, internal audit staff, officers, senior management, directors and stockholders. Regular refresher trainings shall likewise be provided in order to guarantee that officers and staff are informed of new developments and issuances related to the prevention of money laundering and terrorism financing as well as reminded of their respective responsibilities vis-à-vis the covered person's processes, policies and procedures.

Covered person's annual AML training program and records of all AML seminars and trainings conducted by the covered institution and/or attended by its personnel (internal or external), including copies of AML seminar/training materials, shall be appropriately kept by the compliance office/unit/department, and should be made available during periodic or special Bangko Sentral examination.

(Circular No. 950 dated 15 March 2017)

D. ENFORCEMENT ACTIONS

941 - Q SANCTIONS AND PENALTIES

In line with the objective of ensuring that covered persons maintain high AML/CFT standards in order to protect its safety and soundness as well as protecting the integrity of the national banking and financial system, violation of this Part shall constitute a major violation subject to the following enforcement actions against the board of directors, senior management and line officers, not necessarily according to priority and whenever applicable:

a. Written reprimand;
b. Restriction on certain licenses/product, as appropriate;
c. Suspension or removal from the office they are currently holding; and/or
d. Disqualification from holding any position in any covered institution.

In addition to the non-monetary sanctions stated above, the Bangko Sentral may also impose monetary penalties computed in accordance with existing regulations and in coordination with the AMLC.

Enforcement action shall be imposed on the basis of the overall assessment of the covered person's AML risk management system. Whenever a covered person's AML compliance system is found to be grossly inadequate, this may be considered as unsafe and unsound banking practice that may warrant initiation of prompt corrective action.

To implement the enforcement action provision of this Part along with the AML Risk Rating System (ARRS), the following rules shall apply:

a. An AML Composite rating of 4 and 3 will require no enforcement action.

b. An AML Composite rating of 2 or 1 will require submission by the covered person to the appropriate supervising department of the Bangko Sentral, of a written action plan duly approved by the BOD aimed at correcting the noted inefficiency in BOD and SM oversight, inadequacy in AML and TF policies and procedures, weakness in internal controls and audit, and/or ineffective implementation within a reasonable period of time.

The appropriate supervising department of the Bangko Sentral shall assess the viability of the plan and shall monitor the covered person's performance.

In the event of non-submission of an acceptable plan within the deadline or failure to implement its action plan, the appropriate supervising department of the Bangko Sentral shall recommend appropriate enforcement action on the covered person and its responsible officers including monetary penalties to be computed on a daily basis until improvements are satisfactorily implemented.

c. An AML rating of 1 shall also be considered as an unsafe and unsound banking practice. For this reason, prompt corrective action shall be initiated on the covered person.

Escalation of enforcement action. In cases of heightened AML/CFT supervisory concern as reflected in the overall AML risk rating over a certain period of time, the Bangko Sentral shall impose escalated enforcement action which shall include corrective action, sanction and/or additional supervisory enforcement action, consistent with Sec. 002-Q on supervisory enforcement policy.

Monetary penalty guidelines. These guidelines are divided into three (3) parts.

Part I – *Monetary penalty matrices*. The monetary penalty matrices, where monetary penalties are categorized based on the (1) Composite rating and (2) Asset size of the Bangko Sentral covered institution.

Part II – *Guiding principles*.

a. The first step is to determine the over-all risk rating of the Bangko Sentral covered institution for purposes of identifying which penalty matrix will be used. If the Composite rating is "1" or "2", penalty matrix A or B, respectively shall be used. If the over-all rating is "3" and "4", no monetary penalty shall be imposed.

b. Second step is to establish the asset size of the Bangko Sentral covered institution as of the cut-off period of examination;

c. Third step is to identify the aggravating and mitigating factors. If the aggravating factors are more than the mitigating factors, then the maximum range shall be used. On the other hand, if the mitigating factors are more than the aggravating factors, then the minimum range shall be applied. In case there are no aggravating and mitigating factors or there is a tie, the medium range shall be used.

d. For Composite ratings of 1 and 2 where the covered institution concerned was required to submit within a reasonable period of time an acceptance plan, non-submission of the plan within the deadline or failure to implement the action plan shall be a basis for imposition of monetary penalties computed on a daily and continuing basis from the time the covered institutions is notified until corrective measures are satisfactorily effected. The penalty may be imposed on the covered institution itself or directly on the Board of Directors as a body, or the individual directors who have direct oversight, or the line officers involved in the management of money laundering and terrorist financing prevention.

Part III – *Aggravating and mitigating factors.*

a. *Aggravating factors*

(1) *Frequency of the commissions or omissions of specific violation* – Majority of the following violations were noted:

(a) Deficient Know Your Customer process
(b) Unsatisfactory Covered Transaction reporting system
(c) Non-reporting of and Improper Suspicious Transaction reporting
(d) Non-compliance with the Record keeping requirement
(e) Inadequate AML Training Program
(f) Deficient AML Electronic system

(2) *Duration of violations prior to notification* – This pertains to the length of time prior to the latest notification on the violation. Violations that have been existing for a long time before it was revealed/discovered in the examination or are under the evaluation for a long time due to pending requests or correspondences from covered institutions on

whether a violation has actually occurred shall be dealt with through this criterion. Violations outstanding for more than one (1) year prior to notification, at the minimum, will qualify as violations outstanding for a long time.

(3) *Continuation of offense or omission after notification* – This pertains to the persistence of an act or omission after the latest notification on the existence of the violation, either from the appropriate Bangko Sentral Group, Department or from the Monetary Board and/or Deputy Governor, in cases where the violation has been elevated accordingly. This covers the period after the final notification of the existence of the violation until such time that the violation has been corrected and/or remedied. The corrective action shall be reckoned with from the date of notification.

(4) *Concealment* – This factor pertains to the cover up of a violation. In evaluating this factor, one shall consider the intention of the party/ies involved and whether pecuniary benefit may accrue accordingly. The act of concealing an act or omission constituting the violation carries with it the intention to defraud regulators. Moreover, the amount of pecuniary benefit, which may or may not accrue from the offense or omission, shall also be considered under this factor.

Concealment may be apparent when a covered institution's personnel purposely complicate the transaction to make it difficult to uncover or refuse to provide information and/or document that would support the violation/offense committed.

(5) *Loss or risk of loss to bank* – In asserting this factor, "potential loss" refers to any time at which the covered institution was in danger of sustaining a loss.

b. *Mitigating factors*

(1) *Good faith* – is the absence of intention to violate on the part of the erring individual/entity.

(2) *Full cooperation* – covered person's personnel or the covered institution immediately took action to correct the violation after it is brought to its attention either verbally or in writing.

(3) *With positive measures* – covered person's personnel or the covered institution commits to undertake concrete action to correct the violation but is being restrained by valid reasons to take immediate action.

(4) *Voluntary disclosure of offense* – covered person's personnel or the covered person disclosed the violation before it is discovered in the course of a regular or special examination or off-site monitoring.

(Circular No. 950 dated 15 March 2017)

942 - Q SEPARABILITY CLAUSE

If any provision, sections of this Part, or its application to any person or circumstance is held invalid, the other provisions or sections of this Part, and the application of such provision or section to other persons or circumstance shall not be affected thereby.

(Circular No. 950 dated 15 March 2017)

PART TEN

BANGKO SENTRAL REGULATIONS ON FINANCIAL CONSUMER PROTECTION

1001-Q FINANCIAL CONSUMER PROTECTION FRAMEWORK[1]

Policy Statement. The Framework is in line with the responsibility of the Bangko Sentral under Section 3 of R.A. No. 7653, as amended by Republic Act No. 11211, to promote broad and convenient access to high quality financial services and consider the interest of the general public. Bangko Sentral aims to ensure that financial service providers conduct ethical business practices and do not engage in practices that may cause harm to the consumer as well as consider consumer outcomes in the conduct of their business. Practices that harm consumers introduce risks not only at the level of the financial institution but also to the overall health of the financial sector particularly through decreased public trust and confidence. A well-informed and protected consumer can better benefit from the financial services received and be a more responsible client.

The Framework establishes the guidelines and expectations from Bangko Sentral supervised financial institutions (BSFIs) to institutionalize consumer protection as an integral component of corporate governance and culture as well as risk management. The objective of the Framework is for BSFIs to manage the risks of financial loss that are detrimental to the financial consumers or consumer protection risks inherent to the BSFIs' operations that, if not properly managed, would affect other relevant risks, such as compliance, reputational, legal, operational and credit risks.

Scope and Applicability**.** The Framework applies to all BSFIs in the conduct of their business. The BSFIs' adoption of the Framework shall be proportionate to their asset size, structure, nature of products and services, and complexity of operations.

Consumer protection risk management system **(CPRMS).** A BSFI should have a CPRMS that is integrated into the BSFI's enterprise-wide risk management processes and risk governance framework. The CPRMS includes the governance structure, policies, processes, measurement and control procedures to ensure that consumer protection risks are identified, measured, monitored, and mitigated. A carefully devised, implemented, and monitored CPRMS provides the foundation for ensuring the BSFI's adherence to consumer protection standards of conduct and compliance with consumer protection laws, rules and regulations, thereby, ensuring that identified risks to the BSFI and associated risk of financial harm or loss to consumers are properly managed.

Consumer Protection Oversight.

a. *Responsibilities of the Board of Directors.* The Board shall be primarily responsible for approving and overseeing the implementation of the BSFI's CPRMS. The Board's responsibilities shall include the following:

   (1) Approve the CPRMS and consumer assistance mechanism (CAM) that takes into consideration the BSFI's business model, market, product lines, and relationships with third parties that may give rise to consumer protection risks;

   (2) Promote a culture of ethical behavior and adherence to the highest standards of fair and responsible dealing with consumers;

   (3) Ensure that adequate information and actions taken are reported on a regular basis in terms of the measurement of consumer protection related risks, reports from the CAM as well as other material consumer related developments that will impact the BSFI;

   (4) Ensure the adequate provision of resources and effective implementation of personnel training and competency requirements;

   (5) Approve remuneration and compensation packages structured to encourage responsible business conduct, fair treatment and avoidance/mitigation of conflicts of interest; and

   (6) Review periodically the implementation and effectiveness of the CPRMS including how findings are reported and whether the audit mechanisms are in place to enable adequate oversight, and put in place a regular mechanism to review the relevance of the CPRMS in case of changes in the BSFI business model and/or operating environment.

b. *Responsibilities of Senior Management.* The Senior Management shall be responsible for ensuring that the practices of the BSFIs are aligned with the approved consumer protection policies and risk management system and consistently displayed throughout the BSFI's place of business particularly across all business units that deal directly with consumers. In this regard, the Senior Management shall:

[1] BSFIs shall be given six (6) months from 26 September 2019 to: (1) perform a gap analysis of their current consumer protection practices vis-i-vis this Section and (2) propose an action plan duly approved by the Board of Directors to achieve full compliance within a reasonable period of time but in no case longer than one (1) year from 26 September 2019.

(1) Ensure that approved CPRMS and CAM policies and procedures are clearly documented, properly understood and appropriately implemented across all levels and business units.

(2) Establish an effective monitoring and management information system to regularly measure, aggregate, and analyze consumer related issues to determine the level of consumer protection risk. An appropriate and clear reporting and escalation mechanism should also be integrated in the risk governance framework. The management information system shall be able to:

(a) Provide adequate information on the performance and quality of the BSFI's CAM that allows for identification of emerging consumer issues and root cause analysis;

(b) Determine the level of consumer protection risk exposure through assessment of its implementation of the Consumer Protection Standards of Conduct (i.e. transparency and disclosure, protection of client information, fair treatment, effective recourse and financial learning and awareness);

(c) Identify and monitor, in a timely manner, consumer protection risk exposures approaching risks of loss to financial consumers, legal and reputational risk as well as other related risks; and

(d) Identify and assess emerging or increasing consumer risks that affect the BSFI such as through social media monitoring and market monitoring.

(3) Ensure that adequate systems and controls are in place to promptly identify issues that affect the consumer across all phases of the relationship with the consumer;

(4) Ascertain that weaknesses in the consumer protection practices or consumer protection emerging risks are addressed and corrective actions are taken in a timely manner; and

(5) Ensure observance of expectations and requirements prescribed under relevant regulations on compliance and internal audit.

(Circular Nos. 1048 dated 6 September 2019, 972 dated 22 August 2017, 890 dated 02 November 2015, and 857 dated 21 November 2014)

1002-Q POLICIES AND PROCEDURES, CONSUMER PROTECTION STANDARDS OF CONDUCT

The CPRMS and CAM should ensure systematic application of policies and procedures, including the Consumer Protection Standards of Conduct (Standards). The Standards should reflect the core principles, which BSFIs must observe at all times in their dealings with financial consumers: *Provided, further*, That these Standards should be embedded into the corporate culture of the BSFI, enhancing further its defined governance framework while addressing conflicts that are inimical to the interests of the financial consumer.

Disclosure and transparency.[1] BSFIs must ensure that their consumers have a reasonable holistic understanding of the products and services, which they may be acquiring or availing. In this context, full disclosure and utmost transparency, to the extent allowed under applicable laws and regulations, are the critical elements that empower the consumer to make comparisons and informed financial decisions. This is made possible by providing the consumer with ready access to information that accurately represents the nature and structure of the product or service, its terms and conditions, as well as its fundamental benefits and risks.

The BSFI demonstrates adherence to appropriate and adequate disclosure and transparency when:

a. The manner of disclosure, whether in advertising materials, terms and conditions, and other forms of communication, are clear, concise, accurate, understandable and not misleading.

b. Information are disclosed before, during and after a sale of a financial product or service and during key stages of the relationship with the consumer; especially if there are any changes in the terms and conditions.

c. Terms and Conditions contain all significant provisions of the financial product or service giving prominence to key features/facts. It includes the following with specific details relating to the type of product or service being offered:

(1) Information on risks, return, possible warnings, any waiver of rights and limitations of liabilities, consumer's rights and responsibilities, consequences of failure to meet obligations, rights and responsibilities of the BSFI, involvement of authorized agents, any conflict of interest by BSFI staff, cancellation and product portability, among others;

[1] This Section should be read in conjunction with existing regulations related to disclosure and transparency of key information on loan and investment products and services, regulations on the conduct of treasury and trust activities of BSFIs and regulations governing fees on retail bank product/services and dormant deposit accounts.

(2) The full price or cost to the consumer including all interest, fees, charges, and penalties. The terms and conditions must clearly state whether interest, fees, charges, and penalties can change over time. The method for computing said interest, fees, charges, and penalties shall be disclosed consistent with existing regulations; and

(3) For more complex products, such as investment products, the key features as well as costs and risks shall be highlighted in a key facts statement or Product Highlight Sheet (PHS). The PHS shall enable comparison with other products and shall be provided at no additional cost. Before the consumer signs any contract, the BSFI should ensure that the consumer has freely signed a statement to the effect that the consumer has duly received, read, and understood the PHS.

d. Advertising materials are not false, misleading, or contain deceptive statements or omit key information that may materially and/or adversely affect the decision of the consumer to avail of a service or acquire a product. BSFIs are responsible for all the statements made in said advertising materials.

e. The terms and conditions, advertising materials and other communications contain the following:

(1) Contact and information of the BSFI's internal complaints handling unit; and
(2) Statement that the BSFI is a regulated entity and contact information of the regulator.

f. Communication of the BSFI staff is conducted in such a manner that clients can understand the terms of the contract and their rights and obligations, taking into consideration client segments that may have financial literacy limitations.

g. Adequate time is given to consumers to review, ask questions and receive information to fully understand the terms and conditions prior to signing the contract or executing the transaction. BSFI should ensure that documents signed by the consumer are completely filled out and have no blank terms. The consumer should be given a copy of each of the documents he/she signed (including, but not limited to the contract) with all terms and conditions. The consumer should also be provided with proof of the transaction, whether printed or in electronic copy at the option of the consumer, immediately after the transaction has been completed.

h. Statements of Account or Billing Statements are provided regularly in a convenient manner to the consumer, or through the channel through which the product was sold, commensurate to the type of product and terms.

i. Notifications in writing (or electronic form) and through other channels are provided to the consumer with regard to any of the key features and terms of the product, the nature and extent of the change and its potential impact on the consumer. This notification requirement also apply to similar changes to any condition/s specified in the contract. Nonetheless, this does not cover financial products that have been identified at the inception to be subject to floating interest rate all throughout their life cycle as long as basis has not changed.

The principles of the above standards for disclosure and transparency shall be applicable even to products and services offered electronically as well as to products catering to different market segments with particular consideration for segments that may have limited financial literacy.

Protection of client Information.[1] Financial consumers have the right to expect that their financial transactions, as well as relevant personal information disclosed in the course of a transaction, are kept confidential and are secured. Towards this end, BSFIs must ensure that they have well-articulated information security guidelines, well-defined protocols, a secure database, and periodically re-validated procedures in handling the personal information of their financial consumers. This should be an end-to-end process that should cover, among others, the array of information that will be pre-identified and collected, the purpose and manner of gathering each information, the Information Technology (IT)-security infrastructure of the BSFI, and the protocols for disclosure, both within the BSFI and especially to third parties.

The BSFI demonstrates the ability to protect client information if it is able to:

a. Have a written privacy policy to safeguard its customers' personal information. This policy should govern the gathering, processing, use, distribution, storage, and eventual disposal of client information and the identification of levels of permissible access to consumer's data for employees. The BSFI should ensure that privacy policies and sanctions for violations are implemented and strictly enforced.

b. Ensure that privacy policies are regularly communicated throughout the organization.

c. Have appropriate systems in place to protect the confidentiality and security of the personal data of its consumers against any threat or hazard to the security or integrity of the information and against unauthorized access. This includes a written information security plan that describes its program to protect customer personal information. The plan must be appropriate to its size and complexity, nature and scope of its activities, and the sensitivity of customer information it handles.

[1] This Section should be read in conjunction with existing regulations on IT Risk Management System and laws and regulations on data privacy.

d. Have a strong IT System in place to protect the confidentiality, security, accuracy, and integrity of customer's personal information. This includes network and software design, as well as information processing, database storage, transmission, retrieval, and disposal. Security must be maintained throughout the life-cycle of consumer information, from data entry to disposal, and provide clear policies and procedures on data breaches including mechanisms to compensate consumers.

e. Subject to the provisions of existing laws and regulations on data privacy, send written communication to its consumers informing and explaining how it will use and share the consumer's personal information.

f. Obtain the consumers' written consent, unless in situations allowed as an exception by law or Bangko Sentral-issued regulations on confidentiality of consumer's information, before sharing consumers' personal information with third parties such as credit bureau, collection agencies, marketing and promotional partners, financial technologies that use a varied range of consumer data and other relevant external parties.

g. Provide access to consumers to the information shared and allow consumers to challenge the accuracy and completeness of the information and have these amended as appropriate.

Fair treatment. This principle ensures that financial consumers are treated fairly, honestly, and professionally at all stages of its relationship with the BSFI. BSFIs shall adopt mechanisms to safeguard the interest of their consumers which shall include rules regarding ethical staff behavior, acceptable selling practices, fair and equitable terms and conditions, provision of products and services appropriate to the capacity and risk appetite of the consumers, among others, and incorporate the same in their policies and procedures, control functions and agreements with outsourced third parties.

The BSFI demonstrates the principle of fair treatment towards financial consumers if the policies and practices observe the following:

a. Terms and conditions are not unfair in that there is significant imbalance in the parties' rights and obligations arising under the contract, to the detriment of the consumer.

b. Product and services are offered with skill, due care and diligence and shall consider the consumers' financial situation, needs, capabilities and overall risk profile. Adequate product suitability and affordability mechanisms shall be in place subject to existing rules and regulations. If the requested products are of higher risk rating than a consumer's risk tolerance assessment results, the BSFI should draw the consumer's attention to the risk mismatch and provide a written disclosure of consequences which is accepted by the client. Product bundling should also take into consideration the product suitability and should not unduly limit consumer choice.

c. Adequate product approval are in place to ensure that products and services are fit for the targeted consumer. Product development, review, distribution and after sales process shall take into consideration the risks to consumers.

d. BSFIs do not unduly limit a consumer's ability to cancel or transfer the product to another provider as disclosed in the terms and conditions. As may be appropriate, BSFIs shall provide the consumer who is a natural person with a cooling off period subject to the following conditions:

   (1) The "cooling-off' period shall be for a reasonable number of days, of at least two (2) banking days, immediately following the submission of any agreement or contract, particularly for financial instruments with a remaining term of at least one (1) year: *Provided*, That consumers with aggregate investment size of P500 thousand and above are excluded from invoking the cooling off period: *Provided, further*, That securities "traded" or "to be traded" are exempt from the coverage of the cooling-off period.

   (2) Consumers may be permitted to cancel the agreement without penalty of any kind upon his or her written notice to the BSFI during the cooling-off period. The BSFI may however collect or recover reasonable amount of processing fees. Conditions and fees for products with automatic right to cooling off must be appropriately determined, discussed and explained to consumers.

e. BSFI staff treats consumers with professional competence and in a manner that is fair and responsible. The BSFI shall:

   (1) Incorporate in its Code of Conduct (Code) the values and standards that uphold protection of consumers and embed the Consumer Protection Standards of Conduct; and have process in place to detect, respond to and enforce sanctions on violations thereof.

   (2) Align its recruitment and training policies around professional, fair and responsible treatment of clients, for instance:

      (a) BSFI staff receives adequate training suitable for the complexity of the products or services they sell and are able to explain the key features of the product, including statutory and regulatory requirements.

(b) BSFI staff does not use deceptive or high pressure/aggressive sales techniques and should not force clients to sign contracts or rush into a financial deal without the benefit of shopping around.

(c) BSFI staff involved in collections, as well as agents contracted for the purpose, receives training in acceptable debt collection practices and loan recovery procedures consistent with existing relevant regulations.

(d) BSFI staff does not employ practices that discriminate or take advantage of difficulties faced by, vulnerable groups such as the low-income earners, and persons with disability.

(e) Establish policies and procedures that aim to protect consumers' deposits and other assets against internal or external fraud or misuse and have mechanisms in place to manage and resolve actual conflicts of interest with respect to compensation policies that arise in the interaction between their staff and agents and their consumers and potential consumers.

(3) Include ethical behavior, professional conduct, and quality of interaction with consumers as part of staff performance evaluations.

(4) Ensure that the remuneration structure for staff of BSFI and authorized agent is in a manner that encourages responsible business conduct, fair treatment and avoidance/mitigation of conflicts of interest.

(5) Perform appropriate due diligence before selecting the authorized agents/outsourced parties taking into account the agents' integrity, professionalism, financial soundness, operational capability and capacity, and compatibility with the FI's corporate culture and implement controls to monitor the agents' performance on a continuous basis.

Effective recourse. Financial consumers should be provided with accessible, affordable, independent, fair, accountable, timely, and efficient means for resolving complaints with their financial transactions. BSFIs should have in place mechanisms for complaint handling and redress, and may employ various modalities or technological innovations.

The BSFI demonstrates the ability to provide effective recourse if it is able to:

a. Establish an effective Consumer Assistance Management System (CAMS) designed to receive, record, evaluate, resolve, monitor and report consumer complaints, concerns, inquiries or requests to be implemented by a designated officer, unit, group or department commensurate to the size, structure, nature of products and services, and complexity of operations, ensuring that there is no conflict of interest.

b. Establish, maintain and implement internal policies and practices for a reasonable and prompt handling of consumer concern.

c. Make available a wide range of channels in which consumers can conveniently lodge their complaints, inquiries and requests; and put in place a dedicated helpdesk or hotline for the said purpose.

d. Maintain a management information system for the complaints from consumers that allows for consolidation, comparison and analysis on a regular basis including investigating whether complaints indicate an isolated issue or a more widespread issue for consumers. This analysis and reports of consumer complaints must have clear reporting and escalation structure within the BSFI's risk governance framework. The complaints reports shall be submitted in accordance with the existing regulations.

e. Establish clear policies on investigation, resolution and restitution of complaints and making the process clear to the consumer.

f. Ensure that information on the consumer assistance channels and applicable timelines for handling concerns are published in the following:

(1) Terms and Conditions of a BSFIs product or service;
(2) Various channels of service delivery; and
(3) Conspicuous places within the premises of BSFIs and their branches/other offices.

g. Provide for adequate resources to handle financial consumer complaints efficiently and effectively. Staff handling complaints should have appropriate experience, knowledge, and expertise. Depending on the BSFI's size and complexity of operation, a Senior staff member should be appointed to be in charge of the complaint handling process.

Financial education and awareness. Financial education initiatives give consumers the knowledge, skills, and confidence to understand and evaluate the information they receive and empower them to make informed financial decisions.

Because BSFIs deal directly with financial consumers, they have the reach, expertise, and established relationships ideal to deliver financial education, distinct and separate from information about their products. BSFIs should provide basic information on consumers' and the BSFI's rights and responsibilities.

BSFIs should demonstrate efforts at financial education, which may include digital literacy for products offered electronically, with the presence of programs whether as specific initiatives or as aspects embedded in their regular interface with consumers.

(Circular Nos. 1048 dated 06 September 2019, 1003 dated 16 May 2018, 930 dated 18 November 2016, 898 dated 14 January 2016, 890 dated 02 November 2015, and 857 dated 21 November 2014)

1003-Q ENFORCEMENT ACTIONS

Consistent with Sec. 002-Q, the Bangko Sentral may deploy enforcement actions to promote adherence to the Bangko Sentral Regulations on Financial Consumer Protection.

(Circular Nos. 1048 dated 06 September 2019, 890 dated 02 November 2015, and 857 dated 21 November 2014)

PART ELEVEN

OTHER NON-BANKING REGULATIONS

A. FEES/CHARGES

1101-Q ASSESSMENT FEES ON QUASI-BANKS

Annual fees on quasi-banks. QBs shall contribute to the Bangko Sentral an annual fee to help defray the cost of maintaining the appropriate supervision department of the Bangko Sentral.

For purposes of computing the annual fees chargeable against QBs, the term *Total Assessable Assets* shall be the amount referred to as the total assets under Section 28 of R.A. No. 7653 (end-of-quarter total assets per balance sheet, after deducting cash on hand and amounts due from banks, including the Bangko Sentral and banks abroad) plus Trust Department accounts and personal equity and retirement accounts (PERA) administered by the quasi-bank.

Average Assessable Assets shall be the summation of end-of-quarter total assessable assets divided by the number of quarters in operation during a particular assessment period.

The annual fees for QBs for the current year shall be one twenty-eighth (1/28) of one percent (1%) multiplied by the Average Assessable Assets of the preceding year.

Securities held under custodianship shall be exempt from annual fees.

Annual fees to be collected from QBs shall be debited from their respective deposit accounts with the Bangko Sentral by the Comptrollership Department upon receipt of the notice of the assessment from the appropriate supervision department of the Bangko Sentral.

Where the deposit account is insufficient to cover the assessment fee, the Bangko Sentral shall bill the QB for the full amount of the annual fee or for the balance thereof not covered by its deposit account, as the case may be.

Within thirty (30) calendar days from receipt of the bill, the QB shall make the corresponding remittance to the Bangko Sentral. Failure to pay the bill within the prescribed period shall subject the QB to administrative sanctions.

The guidelines in the collection of the annual supervisory fees are provided in *Appendix Q-53*.

M-2021-024 dated 12 April 2021, M-2019-009 dated 8 April 2019, Circular No. 903 dated 29 February 2016, and M-2016-001 dated 24 February 2016)

1102-Q OTHER PAYMENTS OF NBFIs

Payments to the Bangko Sentral. NBFIs shall make payments for transactions, including penalties and other charges, other than those required to be paid through the NBFIs' DDA, in accordance with the manner of payment provided in the billing notice, or through any such acceptable means of payment as may be provided in pertinent advisories issued by the Bangko Sentral. Such payments shall be accompanied by the appropriate form as shown in *Appendix Q-27*. Payments not accompanied by the required payment forms shall be presumed to be additions to reserves and shall be credited to the DDA of the paying NBFI.

Check payments shall be value-dated when the check is cleared.

(Circular Nos. 1125 dated 20 August 2021 and 988 dated 20 December 2017)

B. PHILIPPINE & FOREIGN CURRENCY NOTES AND COINS

1111-Q PHILIPPINE AND FOREIGN CURRENCY NOTES AND COINS

The following rules and regulations shall govern the treatment and disposition of counterfeit Philippine and foreign currency notes and coins, the reproduction and/or use of facsimiles of legal tender Philippine currency notes and coins, the replacement and redemption of legal tender Philippine currency notes and coins considered mutilated or unfit for circulation, and the treatment and disposition of Philippine currency notes and coins called in for replacement.

Definition of terms.

For purposes of this Section, the following terms are defined:

a. *Legal tender Philippine currency* - Notes and coins issued and circulating in accordance with R.A No. 265, as amended, and/or R.A. No. 7653, which when offered for the payment of public or private debt must be accepted.

b. *Counterfeit note* - An imitation of a legal and genuine note intended to deceive or to be taken for that which is original, legal and genuine.

c. *Counterfeit coin* - An imitation or forged design of a genuine and legal coin regardless of its intrinsic value or metallic composition, intended to deceive or pass for the genuine coin.

d. *Unauthorized reproduction of legal tender Philippine note* – A reproduction of a facsimile or any illustration or object bearing the likeness or similitude of legal tender Philippine currency note or any part thereof, without prior authority from the Governor of Bangko Sentral or his duly authorized representative.

e. *Unauthorized reproduction of legal tender Philippine coin* – A reproduction of a facsimile or any object in metal form bearing the likeness or similitude of legal tender Philippine currency coin or any part thereof, without prior authority from the Governor of Bangko Sentral or his duly authorized representative.

Treatment and disposition of counterfeit Philippine and foreign currency notes and coins. Any person or entity, public or private, who receives or takes hold of a note or coin which is counterfeit or whose genuineness is questionable, whether Philippine or foreign currency, shall issue a temporary receipt to its owner/holder and must indicate therein his name, address and community tax certificate number or a reference number sourced from any Philippine government issued ID or passport number, or in case of a foreigner, the date of receipt, the denomination, serial number of the note or the coin series as the case may be. The owner/holder shall be required to countersign the receipt and in case of refusal, the reason shall be stated in the receipt.

Any person or entity, public or private, who receives, takes hold or has in his possession a note or a coin which is counterfeit or whose genuineness is questionable, whether Philippine or foreign currency, shall forward the same within five (5) working days from date of receipt/possession thereof, together with a copy of the temporary receipt required herein for examination to:

THE CURRENCY ISSUE AND INTEGRITY OFFICE
Security Plant Complex Bangko Sentral ng Pilipinas East Avenue,
Diliman 1101 Quezon City

In cases where personal delivery to the Currency Issue and Integrity Office (CIIO), Bangko Sentral ng Pilipinas, Quezon City, is not feasible, delivery of the aforestated notes or coins may be made through any of the following agencies:

(1) The Bangko Sentral Regional Offices/Branches; or
(2) Any banking institution under the supervision of the Bangko Sentral.

Any law enforcement agency which conducted any seizure of notes and coins, whether Philippine or foreign, which are counterfeits or suspected to be counterfeit currency shall, within five (5) working days from date of seizure, advise in writing the CIIO, Bangko Sentral ng Pilipinas, Quezon City, of said seizure enclosing therewith a copy of the receipt and inventory taken on the seized items. All seized notes or coins which are not or no longer needed as evidence in any investigation/legal proceedings shall be immediately turned over to the CIIO, Bangko Sentral, for proper disposition.

The CIIO, Bangko Sentral, after examining all notes and coins, whether Philippine or foreign, submitted to it for examination and/or determination as to its genuineness, shall:

(a) Issue a corresponding certification for the currency examined, if needed;
(b) Stamp the word “COUNTERFEIT” on both the front and the back of each note found to be counterfeit; and
(c) Return to the owner/holder and/or sender the Philippine or foreign currency notes or coins found to be genuine in accordance with existing accounting and auditing regulations.

All notes and coins, whether Philippine or foreign, determined by the CIIO, Bangko Sentral, to be counterfeit currency, shall not be returned to the owner/holder, but shall be retained and later disposed of in accordance with such guidelines as may be adopted by the Bangko Sentral, except those which will be used as evidence in an investigation or legal proceedings, in which case, the same shall be retained and preserved by the Bangko Sentral for evidentiary purposes.

The Bangko Sentral shall extend assistance as may be requested of it in the investigation, apprehension and/or prosecution of person/s responsible for counterfeiting of notes and coins, both Philippine and foreign.

Reproduction and/or use of facsimiles of legal tender Philippine currency notes. No person or entity, public or private, shall design, engrave, print, make or execute in any other manner, or utter, issue, distribute, circulate or use any handbill, advertisement, placard, circular, card, or any other object whatsoever bearing the facsimile, likeness or similitude of any legal tender Philippine currency note, or any part thereof, whether in black and white or any color or combination of colors, without prior authority therefor having been secured from the Governor, Bangko Sentral, or his duly authorized representative.

The reproduction and/or use of facsimiles or any illustration bearing the likeness or similitude of legal tender Philippine currency notes referred to above may be authorized by the Governor, Bangko Sentral, or his duly authorized representative, for printed illustrations in articles, books, journals, newspapers, or other similar materials and strictly for numismatic, educational, historical, newsworthy or other purposes which will maintain, promote or enhance the integrity and dignity of said note: *Provided, however*, That any such facsimile or illustration shall be of a size less than three-fifths (3/5) or more than one and one-half (1-1/2) times in size of the currency note being illustrated and that there will be no deviation from the purpose for which the notes will be used.

Reproduction and/or use of facsimiles of legal tender Philippine currency coins. No person or entity, public or private, shall design, engrave, make or execute in any other manner, or use, issue, distribute any object whatsoever bearing the likeness or similitude as to design, color or the inscription thereon of any legal tender Philippine currency coin or any part thereof, in metal form, irrespective of size and metallic composition, without prior authority from the Governor, Bangko Sentral, or his duly authorized representative.

The reproduction and/or use of facsimiles or of any object bearing the likeness or similitude of legal tender Philippine currency coins referred to in the foregoing paragraph may be authorized by the Governor, Bangko Sentral, or his duly authorized representative, strictly for numismatic, educational, historical and other purposes which will maintain, promote or enhance the integrity and dignity of said coins.

Replacement and redemption of legal tender Philippine currency notes and coins considered mutilated or unfit for circulation.

a. *Unfit currency note*. A currency note shall be considered unfit for circulation when:

   (1) It contains heavy creases which break the fiber of the paper and indicate that disintegration has begun; or
   (2) It is badly soiled/contaminated and/or with writings even if it has proper life or sizing; or
   (3) It presents a limp or rag-like appearance and/or it cannot sustain its upright position when held at the mid portion of one of the shorter borders.

b. *Mutilated currency note*. A currency note shall be considered mutilated when:

   (1) Torn parts of the banknote are joined together with adhesive tape aimed at preserving as nearly as possible the original design and size of the note; or
   (2) The original size of the note has been reduced/lost through wear and tear or has been otherwise torn, damaged, defaced or perforated through action of insects, chemicals or other causes; or
   (3) It is scorched or burned to such an extent that although recognizable as such, it has become frail and brittle as to render further handling thereof impossible without disintegration or breaking; or
   (4) It is split edgewise; or
   (5) It has lost all the signatures inscribed thereon; or
   (6) The Embedded Security Thread or Windowed Security Thread placed on the banknote is lost.

c. *Unfit currency coin***.** A currency coin shall be considered unfit for circulation when:

   (1) It is bent or twisted out of shape or defaced or show signs of corrosion, but its genuineness and/or denomination can still be readily and clearly determined/identified; or
   (2) It has been considerably reduced in weight by natural abrasion/wear and tear.

d. *Mutilated currency coin*. A currency coin shall be considered mutilated when:

   (1) It shows signs of filing, clipping or perforation; or
   (2) It shows signs of having been burned, or has been so defaced, that its genuineness and/or denomination cannot be readily and clearly identified.

e. Currency notes and coins considered unfit for circulation shall not be re-circulated, but may be presented for exchange to or deposited with any bank.

f. Banks shall accept from the public mutilated notes and coins for referral/transmittal to CIIO, Bangko Sentral – Quezon City or any of the Bangko Sentral Regional Offices/Branches for determination of redemption value. Banks may charge reasonable handling fees from clients and/or the general public relative to the handling/transporting to Bangko Sentral of mutilated notes and coins.

g. The Bangko Sentral shall replace or redeem notes and coins considered unfit for circulation or mutilated except under the following conditions:

(1) Identification of notes and coins is impossible; or

(2) Coins that show signs of filing, clipping or perforations; or

(3) Notes which have lost more than two-fifths (2/5) of their surface or all of the signatures inscribed thereon; or

(4) Notes which are split edgewise resulting in loss of the whole of or part of, either the face or back portion of the banknote paper; or

(5) Notes where the Embedded Security Thread or Windowed Security Thread placed thereon is completely lost except when the damage appears to be caused by wear and tear, accidental burning, action of water or chemical or bites of rodents/insects and the likes.

Notes and coins falling under any of the classifications mentioned under Item *"g"* above shall be withdrawn from circulation and demonetized without compensation to the owner/bearer.

Treatment and disposition of Philippine currency notes and coins called in for replacement. Any person or entity, public or private, who receives, takes, holds or has in his possession Philippine currency notes and coins called in for replacement shall forward the same during the redemption period to:

a. Any authorized agent banks of the Bangko Sentral when the notes are still considered legal tender, within one (1) year from the date of call; or
b. The CD or Regional Offices/Branches of the Bangko Sentral, within the redemption period as may be determined by the Monetary Board.

The CD or Regional Offices/Branches of the Bangko Sentral shall exchange the notes/coins called in for replacement if presented to the Bangko Sentral within the redemption period as determined by the Monetary Board and subsequently dispose the same in accordance with Bangko Sentral procedures for disposal.

Penalties. Any violation of the provisions of Sec. 1111-Q *(Reproduction and/or use of facsimiles of legal tender Philippine currency notes and Reproduction and/or use of facsimiles of legal tender Philippine currency coins*), shall subject the offender to imprisonment of not less than five (5) years, but not more than ten (10) years. In case the Revised Penal Code provides for a greater penalty, then that penalty shall be imposed.

C. PERSONAL EQUITY AND RETIREMENT ACCOUNT (PERA)

1121-Q PERSONAL EQUITY AND RETIREMENT ACCOUNT (PERA) MARKET PARTICIPANTS AND PERA INVESTMENT PRODUCTS

The following are the guidelines on the qualification/accreditation of PERA Market Participants and PERA Investment Products which are issued pursuant to R.A. No. 9505 also known as the PERA Act of 2008 (PERA Act), and its implementing Rules and Regulations (the PERA Rules).

The operational guidelines on the administration of the PERA are found in *Appendix Q-69.*

***Applicability*.** These guidelines apply to banks, trust entities[1] and other entities determined by the Bangko Sentral as eligible that seek to be qualified/accredited and are qualified/accredited as PERA Market Participants, and to PERA Investment Products that are considered eligible by the Bangko Sentral for PERA purposes.

Eligibility criteria.

a. *PERA investment products*. The following PERA investment products are considered to be Bangko Sentral-eligible PERA investment products: *Provided*, That, with respect to Items *"(1)"* and *"(2)"* below, they are issued by Bangko Sentral-supervised entities with CAMELS rating of not lower than "3" or its equivalent, to wit:

[1] Trust entity shall refer to a (a) bank or non-bank financial institution, through its specifically designated business unit to perform trust functions, or (b) trust corporation, authorized by the Bangko Sentral to engage in trust and other fiduciary business under Section 79 of R.A. No. 8791 (General Banking Law of 2000) or to perform investment management services under Section 53 of R.A. No. 8791.

(1) Unit Investment Trust Fund (UITF);
(2) Debt-instruments such as, but not limited to, long term negotiable certificate of deposits and unsecured subordinated debt;
(3) Deposits; and
(4) Government-issued securities.

In the case of UITF, the existing approval process shall be observed. The Bangko Sentral may allow other category of investment products or outlets for PERA purposes: *Provided,* that the product is non-speculative, readily marketable, and with a track record of regular income payments to investors.

b. PERA market participants

PERA Participants	Market Eligible Entities
Administrator	Banks, trust entities and other entities as may determine by the B angko Sentral as eligible to act as PERA Administrator
Investment Manager	Trust entities and other entities as may be determined by the Bangko Sentral as having the qualifications to be accredited as PERA Investment
Cash Custodian	Banks
Securities Custodian	Banks and trust entities
Investment Product Provider	Any Bangko Sentral - supervised entity that wishes to offer PERA Investment Product to Contributors

Qualification/Accreditation requirements.

a. *As an administrator.* The Bangko Sentral shall issue a Qualification Certificate as Administrator to an entity upon compliance with the following requirements:

(1) The applicant shall have a net worth of at least P100 million.

Net worth shall refer to the total of the unimpaired paid-in capital, surplus and undivided profits, net of:

(a) The required basic security deposit for the faithful performance of PERA Administrators' duties;
(b) Total outstanding unsecured credit accommodations, both direct and indirect, extended by the administrator to DOSRI; and
(c) Other capital adjustments as may be required by the Bangko Sentral.

DOSRI cited in Item *"1(b)"* above shall refer to that provided in Sec. 321-Q *(Definition)*: *Provided,* That for purposes of this provision, references to a QB as an entity shall be understood to include references to any other type of entity acting as Administrator.

(2) It has adopted a Manual of Corporate Governance approved by the Bangko Sentral, and is in full compliance therewith.

(3) It has a clear and sufficient organization plan or structure of its personnel who will perform the PERA administration functions, stating the definition of the duties and responsibilities as well as the line and staff functional relationships.

(4) It possesses adequate systems and technological capabilities, and the necessary technical expertise and personnel to administer all types of PERA Investment Products, ensure the proper recording and tracking of a contributor's PERA, and perform the other required functions of an Administrator.

(5) It has sufficient personnel who have undergone the requisite training prescribed by the Bangko Sentral to educate the contributor on:

(a) The nature of a PERA;
(b) Privileges, conditions and requirements of a PERA;
(c) The risks and benefits of each type of PERA investment products; and
(d) Respective roles of the Administrator, Investment Manager and Custodian.

(6) It has adopted the following forms that the Administrator shall use in dealing with the Contributor and his PERA:

(a) Pre-Acceptance Disclosure Policy described in PERA Rule 6.A.2.a;
(b) Client Suitability Assessment Questionnaire referred to in PERA Rule 6.A.2.b(i);

(c) Risk Disclosure Statement, which shall include the standard minimum information referred to in PERA Rule 6.A.2.d; and
(d) Contract between the Contributor and the administrator referred to in PERA Rule 6.A.2.c.

(7) It has a board-approved policy on fees and charges to be imposed for its services as administrator which shall be subject to Bangko Sentral approval.

Failure to satisfy any of the above requirements shall be a ground for the denial of the application, without prejudice to the re-filing of an application.

An administrator who has been issued with a "Qualification Certificate" shall then file an application for accreditation with the PERA Processing Office of the BIR to complete its application process to become a PERA administrator.

b. *As an investment manager*. The Bangko Sentral shall accredit an entity as an investment manager upon submission of a written application certified by the chief executive officer (CEO) together with the following documentary requirements:

(1) Written supervision and control procedures for the conduct of the investment management functions;
(2) Proof of at least five (5) years of experience in professional investment management;
(3) Certified true copy of educational, professional/technical or other academic qualifications of its principal officers;
(4) Copy of its form contract to be utilized. The agreement between the contributor and the investment manager shall contain the following minimum contents:

(a) Overall investment philosophy, standards and practices of the investment manager; and
(b) Validation of contributor's Client Suitability Assessment and Investment Policy Statement made by contributor's administrator referred to in PERA Rule 6.A.2.b (i) and (ii); and

(5) A schedule of commission charges and/or other fees it will charge for its services.

c. *As a custodian*

Cash custodian. In addition to the standard pre-qualification requirements for the grant of banking authorities enumerated in *Appendix 5,* banks applying for authority to act as cash custodian for PERA shall also comply with the following conditions:

(1) The applicant bank must have complied with the minimum capital required under Sec. 121 (*Minimum capitalization)*; and
(2) The Bank's CAMELS composite rating in its latest examination is not lower than "3" with Management component score of not lower than "3".

Securities custodian. Only banks and other entities with trust license which have complied with the requirements under Sec. 431-Q *(Pre-qualification requirements for a securities custodian/registry)* may be accredited as securities custodian.

For purposes of this Section, the Bangko Sentral may provide for such other requirements or qualifications as it may deem necessary for the qualification/accreditation of a supervised entity as a PERA Market Participant.

Application for qualification/accreditation. An eligible supervised entity seeking qualification/accreditation as PERA Market Participant (Administrator, Investment Manager, Cash Custodian or Securities Custodian) shall file an application for qualification/accreditation with the appropriate supervision department of the Bangko Sentral. The application shall be signed by the CEO and shall be accompanied by the following documents:

a. Certified true copy of the resolution of the entity's board of directors authorizing the application;

b. Certification signed by the CEO that the entity has complied with all the relevant qualification/accreditation requirements enumerated under Sec. 1121-Q *(Qualifications/accreditation requirements)* and an undertaking to comply with the aforementioned requirements while it acts as an administrator, investment manager, cash custodian and/or securities custodian; and

c. Relevant PERA forms, Board-approved policy on fees and charges, and proof of compliance with Item *"a.(5)"* of Sec. 1121-Q (*Qualifications/accreditation requirements)* insofar as the application of the Administrator is concerned.

The qualification/accreditation of PERA Market Participants and accreditation of PERA Investment Products granted by the Bangko Sentral shall be valid until revoked.

***Security for the faithful performance of Administrators' duties*.** As a security for the faithful performance of its duties under the PERA Act, an Administrator shall hold eligible government securities, equivalent to at least one half percent (0.5%) of the book value of the total volume of PERA assets administered, earmarked in favor of the Bangko Sentral: *Provided*, That the Administrator shall issue an authorization in favor of the Bangko Sentral to withdraw, dispose and disburse the proceeds thereof to settle any claims arising from the breach of its duties as evidenced by a final and executory court order; *Provided, further*, That the Administrator shall not withdraw, transfer or replace such earmarked securities without prior written instruction from the Bangko Sentral. The security for the faithful performance of the Administrator's duties shall be in addition to and shall be treated separately from the capital, surplus, and undivided profits of the Administrator.

For this purpose, eligible government securities shall consist of evidences of indebtedness of the Republic of the Philippines or of the Bangko Sentral or any other evidences of indebtedness or obligations the servicing and repayment of which are fully guaranteed by the Republic of the Philippines or such other kinds of securities which may be declared eligible by the Monetary Board: *Provided,* That, such securities shall be free, unencumbered, and not utilized for any other purpose: *Provided further*, That such government securities shall have remaining maturities of not more than three (3) years from the date the securities have been earmarked in favor of the Bangko Sentral.

The requirement for the above-mentioned government securities to have remaining maturity of not more than three (3) years from the date of deposit with the Bangko Sentral shall no longer apply starting 31 March 2018.

a. *Valuation of securities and basis of computation of the basic security deposit requirement.*

Prior to 31 March 2018:

(1) For purposes of determining compliance with the security for the faithful performance of administrators under the PERA Act, the amount of securities so earmarked shall be based on their book value, that is, cost as increased or decreased by the corresponding discount or premium amortization.

The base amount for the basic security shall be the average of the month-end balances of administered assets for the immediately preceding calendar quarter.

The provisions under Item "a(i)" above shall no longer apply effective 31 March 2018. Meanwhile, Item "a(ii)" shall no longer apply starting the reporting period 31 December 2019. The provisions on the valuation of government securities shall be adopted, as follows:

(a) Government securities deposited with the Bangko Sentral shall be measured at fair value according to the marking-to-market guidelines for government securities under *Appendix Q-20*, subject to applicable haircuts (effective 31 March 2018).

The haircuts that shall be applied to the government securities shall be as follow:

Residual Maturity	Minimum Haircut (In Percent) for Basic Security Deposit
3 years and below	0.0
> 3 years up to 5 years	2.0
> 5 years	4.0

(b) The base amount for the basic security deposit shall be the PERA assets reported as of the end of the calendar quarter (effective 31 December 2019).

b. *Compliance with the basic security deposit requirement.*

(1) *Compliance.*[1] The administrator shall ensure compliance with the required basic security deposit at all times. Any deficiency arising from a withdrawal, replacement or redemption transaction must be corrected through the immediate posting of additional securities. In case a deficiency is calculated at the end of the calendar quarter, the Administrator shall have a grace period of thirty (30)-calendar days reckoned from the end of the reference calendar quarter within which to deposit with the Bangko Sentral the securities required under this Section.

(a) *Quarterly compliance*. The administrator shall comply with the basic security deposit requirement on a quarterly basis. In determining quarterly compliance, the fair value of government securities used as compliance with the basic security deposit requirement shall be reckoned as of the end of the calendar quarter and the base amount for the basic security deposit requirement provided under Item *"a"* of this Section shall be applied.

[1] The provisions on quarterly compliance and compliance upon deposit, withdrawal, replacement or redemption became effective on 31 March 2018.

Haircuts for government securities as prescribed under Item *"a"* of this Section (S*ecurity for the faithful performance of administrators*) shall be determined based on the remaining maturity of the security from the end of the reference quarter, and applied on the fair value of the government securities used as compliance with the basic security deposit.

(b) *Compliance upon deposit, withdrawal, replacement or redemption.* The Administrator shall ensure compliance with the basic security deposit requirement after every deposit, withdrawal, replacement or redemption of government securities. The basic security deposit requirement shall be the amount computed as of the quarter-end preceding the date of deposit, withdrawal, replacement or redemption pursuant to Item "*a*" of this Section (*Security for the faithful performance of administrators*). The fair value of the remaining government securities, adjusted for the relevant haircuts, shall also be based on amounts reported as of the quarter-end preceding the date of withdrawal, replacement or redemption pursuant to Item "*a*" of this Section (*Security for the faithful performance of administrators*). The haircuts shall be determined based on the remaining maturity of the security from the quarter-end preceding the date of the securities transfer transaction.

Securities used as compliance with the basic security deposit requirement that are issued within the calendar quarter shall be valued at their purchase price, adjusted for relevant haircuts that are determined based on their remaining maturity as of the purchase date.

(2) Required Reports. The Administrator shall submit the following reports in accordance with *Appendix Q-3.*

(a) Quarterly Report on Compliance with the Basic Security Deposit Requirement (BSD-PERA-Form-1); and
(b) Report on Basic Security Deposit Transactions (BSD-PERA-Form-2).

Administrators shall maintain adequate documentation (e.g., screenshots of fair values) to support the computation of their compliance with the basic security deposit requirement, which shall be made available to the Bangko Sentral upon request.

(3) Other Procedural Requirements.

(a) Opening of a securities account. The guidelines on the opening of an account with the BTr Registry are provided in *Appendix Q-25.*

(b) Deposit, withdrawal or replacement. The Administrator shall input the details of securities transfer transactions that are properly supported by notification reports in the BTr Registry to effect the deposit, withdrawal or replacement of securities on the intended date of transfer in the BTr Registry. The input of details of transactions shall be made on or before 12:00 noon for withdrawal or replacement transactions, and on or before 3:30 pm for deposit transactions, on the intended date of transfer as provided in the BSD-PERA-Form-2.

Withdrawal or replacement transactions entered after the cut-off time shall be processed on the next banking day: *Provided*, That the Administrator re-enters the details of the withdrawal or replacement transaction on or before 12:00 noon of the next banking day: *Provided further*, That deficiency in the basic security deposit arising from failure of the Administrator to input details of withdrawal or replacement transactions in the BTr Registry on the intended date of transfer shall cause the imposition of sanctions/penalties under this Section (*Security for the faithful performance of administrators*). Failure to enter or re-enter the transaction details on the next banking day will result in the cancellation of the previously submitted BSD-PERA-Form-2. To effect withdrawal or replacement transactions, the Administrator shall re-submit the BSD-PERA-Form-2 in accordance with the prescribed timelines.

(c) Administration of proceeds from deposited securities. Coupon or interest payments and the redemption value of matured securities that are deposited with the Bangko Sentral shall be credited to the DDA of the Administrator or the DDA of the Administrator's settlement bank.

Administrators shall develop and maintain systems to ensure compliance with the required basic security deposit as prescribed in this Section.

(a) An administrator which incurs a deficiency with the basic security deposit within the quarter, or reports a deficiency with the basic security deposit as of the end of the quarter and fails to deposit securities to comply with the said requirement within the one (1)-week grace period, shall be considered deficient with the basic security deposit requirement from the date the deficiency is incurred up to the date the deficiency is corrected or the succeeding quarter-end, whichever comes earlier.

Any non-compliance with the security requirements shall be subject to Sections 36 and 37 of R.A. No. 7653 also known as the New Central Bank Act without prejudice to the imposition of other sanctions as the Monetary Board may consider warranted under the circumstances that may include the suspension or revocation of the entity's authority to engage in PERA administration, and such other sanctions as may be provided by law.

(b) Notwithstanding the execution of a basic security deposit, withdrawal, or replacement transaction, the Bangko Sentral is not precluded from imposing sanctions against the Administrator for non-compliance with the regulations on the basic security deposit, if warranted.

Grounds for suspension or revocation of qualification/accreditation of administrator, investment manager or custodian. The qualification of an administrator, and the accreditation of an investment manager and custodian may be refused, restricted, suspended or revoked by the Bangko Sentral if, after due notice and hearing, the Bangko Sentral determines that the applicant or licensee has:

a. Willfully violated any provision of the PERA Act, the PERA Rules or any regulations and issuances by the Bangko Sentral made pursuant thereto, or any other law administered by the Bangko Sentral relevant to its function as a PERA Market Participant, or providing prudential standards for asset management or has aided, abetted, counseled, commanded, induced or procured such violation;

b. Failed to supervise, with a view to preventing such violation, a person associated to the applicant or licensee by virtue of an agreement or other types of arrangement and who commits such violation;

c. Willfully made or caused to be made a materially false or misleading statement in the application for qualification/accreditation or report filed with the Bangko Sentral, or has wilfully omitted to state any material fact that is required to be stated therein or necessary to make the statement therein not misleading;

d. Failed to maintain the qualifications or requirements for accreditation prescribed under the PERA Rules, these guidelines or has failed to maintain compliance with any of them;

e. Failed to carry on and manage its PERA-related business and activities in a proper, diligent and efficient manner to the prejudice of the Contributor;

f. Been subject to regulatory sanctions for (a) violations, which the Bangko Sentral determines to affect its operating conditions and ability as a PERA Market Participant, such as but not limited to violations affecting required capitalization and/or solvency, or (b) any act or behavior prejudicial to the PERA Contributors;

g. Been enjoined or restrained by a competent body from engaging in securities, banking or insurance activities;

h. Failed to enforce or monitor PERA contribution limits entitled to tax incentives; or

i. Failed to manage or adequately address conflicts of interest in the performance of its functions, which may be identified by the Bangko Sentral as prejudicial to the interests of the PERA Contributor.

For purposes of this section, the term *"competent body"* shall include a foreign court of competent jurisdiction and a foreign financial regulator.

Penalty**.** A fine of not less than Php50 Thousand nor more than P200 Thousand or imprisonment of not less than six (6) years and one (1) day to not more than twelve (12) years or both such fine and imprisonment, at the discretion of the court, shall be imposed upon any person, association, partnership or corporation, its officer, employee or agent, who, acting alone or in connivance with others, shall:

a. Act as administrator, custodian or investment manager without being properly qualified or without being granted prior accreditation by the Bangko Sentral;
b. Invest the contribution without written or electronically authenticated authority from the contributor, or invest the contribution in contravention of the instructions of the contributor;
c. Knowingly and willfully make any statement in any application, report, or document required to be filed under the PERA Act, which statement is false or misleading with respect to any material fact;
d. Misappropriate or convert, to the prejudice of the contributor, contributions to and investments or income from the PERA;
e. By gross negligence, cause any loss, conversion, or misappropriation of the contributions to, or investments from the PERA; or
f. Violate any provision of the PERA Act or rules and regulations issued pursuant to the PERA Act.

Notwithstanding the foregoing, any willful violation by the accredited administrator, custodian or investment manager of any of the provisions of the PERA Act, the PERA Rules, relevant rules and regulations issued by the Bango Sentral or other terms and conditions of the authority to act as administrator, custodian or investment manager may be subject to the administrative sanctions provided for in applicable laws such as those set forth in Section 37 of R.A. No. 7653.

The above penalties shall be without prejudice to whatever civil and criminal liability provided for under applicable laws for the same act or omission such as those set forth in Sections 35 and 36 of R.A. No. 7653.

Reportorial requirements. An entity qualified/accredited by the Bangko Sentral to be a PERA Market Participant shall comply with the reportorial requirements that may be prescribed by the Bangko Sentral.

(Circular Nos. 1081 dated 04 March 2020, 1032 dated 15 February 2019, and 998 dated 1 March 2018)

D. CREDIT RATING AGENCIES

1131-Q RECOGNITION AND DERECOGNITION OF DOMESTIC CREDIT RATING AGENCIES FOR QUASI-BANK SUPERVISORY PURPOSES

The following regulations shall govern the recognition and derecognition of domestic credit rating agencies (CRAs) for QB supervisory purposes.

Statement of policy. The introduction in the financial market of new and innovative products create increasing demand for and reliance on CRAs by the industry players and regulators as well. As a matter of policy, the Bangko Sentral wants to ensure that the reliance on credit ratings is not misplaced. The following rules and regulations that shall govern the recognition/derecognition of domestic CRAs for QB supervisory purposes.

***Minimum eligibility criteria*.** Only ratings issued by CRAs recognized by the Bangko Sentral shall be considered for Bangko Sentral QB supervisory purposes. The Bangko Sentral, through the Monetary Board, may officially recognize a credit rating agency upon satisfaction of the following requirements:

a. *Organizational structure*

(1) A domestic CRA must be a duly registered company under the SEC; and

(2) A domestic CRA must have at least five (5) years track record in the issuance of reliable and credible ratings. In the case of new entrants, a probationary status may be granted: *Provided,* That the CRA employs professional analytical staff with experience in the credit rating business.

b. Resources

(1) Human Resources

(a) The size and quality of the CRA's professional analytical staff must have the capability to thoroughly and competently evaluate the assessed/rated entity's creditworthiness;

(b) The size of the CRA's professional analytical staff must be sufficient to allow substantial on-going contact with senior management and operational levels of assessed/rated entities as a routine component of the surveillance process;

(c) The CRA shall establish a Rating Committee composed of adequately qualified and knowledgeable individuals in the rating business, majority of whom must have at least five (5) years experience in credit rating business;

(d) The directors of the CRA must possess a high degree of competency equipped with the appropriate education and relevant experience in the rating business;

(e) The directors, officers, members of the rating committee and professional analytical staff of the CRA have not at any time been convicted of any offense involving moral turpitude or violation of the SRC; and

(f) The directors, officers, members of the rating committee and professional analytical staff of the CRA are not currently involved as a defendant in any litigation connected with violations of the SRC nor included in the Bangko Sentral watchlist.

(2) Financial Resources

(a) The CRA must have the financial capability to invest in the necessary technological infrastructure to ensure speedy acquisition and processing of data/information and timely release of reliable and credible ratings; and

(b) The CRA must have financial independence that will allow it to operate free from economic and political pressures.

c. *Objectivity*

(1) The CRA must use a rigorous and systematic assessment methodology that has been established for at least one (1) year; however, a three-year period is preferable;
(2) The assessment methodology of the CRA must be based both on qualitative and quantitative approaches; and
(3) The CRA must use an assessment methodology that is subject to on-going review and is responsive to changes in the operations of assessed/rated entities.

d. *Independence*

(1) The CRA must be free from control of and undue influence by the entities it assesses/rates;
(2) The assessment process must be free from ownership pressures to allow management to exercise independent professional judgement;
(3) Persons directly involved in the assessment process of the CRA are free from conflicts of interest with assessed/rated entities, and
(4) The CRA does not assess/rate an associate entity.

e. *Transparency*

(1) A general statement of the assessment methodology used by the CRA should be publicly available;
(2) The CRA shall disseminate to the public thru a well-circularized publication, all assigned ratings disclosing whether the rating issued is solicited or unsolicited;
(3) The rationale of ratings issued and risk factors considered in the assessment should be made available to the public;
(4) The ratings issued by the CRA should be available both to domestic and foreign institutions with legitimate interest; and
(5) Publication of changes in ratings together with the basis for the change should be done on a timely basis.

f. *Disclosure requirements*

(1) Qualitative disclosures

(a) Definition of ratings along with corresponding symbols;

(b) Definition of what constitutes a default, time horizon within which a default is considered and measure of loss given a default;

(c) Material changes within the CRA (i.e., changes in management or organizational structure, rating personnel, modifications of rating practices, financial deterioration) that may affect its ability to provide reliable and credible ratings.

(2) Quantitative disclosures

(a) Actual default rates experienced in each rating category; and
(b) Rating transitions of assessed/rated entities over time (i.e., likelihood of an AAA credit rating transiting to AA etc. over time).

g. *Credibility*

(1) The CRA must have a general reputation of high standards of integrity and fairness in dealing with its clients and conducts its business in an ethical manner;
(2) The CRA is generally accepted by predominant users in the market (i.e., issuers, investors, bankers, FIs, securities traders); and
(3) The CRA must carry out its rating activities with due diligence to ensure ratings are fair and appropriate.

For purposes of this Section, a *subsidiary* refers to a corporation, more than fifty percent (50%) of the voting stock of which is owned or controlled directly or indirectly by the CRA while an *affiliate* refers to a corporation, not more than fifty percent (50%) but not less than ten percent (10%) of the voting stock of which is owned or controlled directly or indirectly by the CRA.

Control exists when the parent owns directly or indirectly through subsidiaries more than one-half (½) of the voting power of an enterprise unless, in exceptional circumstance, it can be clearly demonstrated that such ownership does not constitute control. Control may also exist even when ownership is one-half (½) or less of the voting power of an enterprise when there is:

(a) power over more than one-half (½) of the voting rights by virtue of an agreement with other stockholders;
(b) power to govern the financial and operating policies of the enterprise under a statute or an agreement;
(c) power to appoint or remove the majority of the members of the board of directors or equivalent governing body;
(d) power to cast the majority votes at meetings of the board of directors or equivalent governing body; or
(e) any other arrangement similar to any of the above.

h. *Internal compliance procedures*

(1) The CRA must have the necessary internal procedures to prevent misuse or unauthorized disclosure of confidential/non-public information; and
(2) The CRA must have rules and regulations that prevent insider trading and other conflict of interest situations.

Prequalification requirements. The application of a domestic CRA for Bangko Sentral recognition shall be submitted to the appropriate supervision department of the Bangko Sentral together with the following information/documents:

a. *An undertaking*

(1) That the CRA shall comply with regulations, directives and instructions which the Bangko Sentral or other regulatory agency/body may issue from time to time; and

(2) That the CRA shall notify the Bangko Sentral in writing of any material changes within the organization (i.e., changes in management or organizational structure, rating personnel, modifications of its rating practices, financial deterioration) that may affect its ability to provide reliable and credible ratings.

b. *Other documents/information:*

(1) Brief history of the CRA, major rating activities handled including information on the name of the client, type of instruments rated, size and year of issue;

(2) Audited financial statements for the past three (3) years and such other information as the Monetary Board may consider necessary for selection purposes;

(3) For new entrants, employment of professional analytical staff with experience in the credit rating business;

(4) List of major stockholders/partners [owning at least ten percent (10%) of the voting stocks of the CRA directly or along with relatives within the 1st degree of consanguinity or affinity];

(5) List of directors, officers, members of the rating committee and professional analytical staff of the CRA; including their qualifications, experience related to rating activities, directorship and shareholdings in the CRA and in other companies, if any;

(6) List of subsidiaries and affiliates including their line of business and the nature of interest of the CRA in these companies;bak

(7) Details of the denial of a previous request for recognition, if any (i.e., application date, date of denial, reason for denial, etc.); and

(8) Details of all settled and pending litigations connected with the securities market against the CRA, its directors, officers, stockholders, members of the rating committee and professional analytical staff, if any.

Inclusion in Bangko Sentral list. The Bangko Sentral will regularly circularize to all banks and NBFIs an updated list of recognized CRAs. The Bangko Sentral, however, shall not be liable for any damage or loss that may arise from its recognition of CRAs to be engaged by users.

Derecognition of credit rating agencies.

a. *Grounds for derecognition.* CRAs may be derecognized from the list of Bangko Sentral recognized CRAs under the following circumstances:

(1) Failure to maintain compliance with the requirements under Sec. 1131-Q (*Minimum eligibility criteria)* or any willful misrepresentation in the information/documents required under Sec. 1131-Q *(Pre-qualification requirements);*

(2) Involvement in illegal activities such as ratings blackmail; creation of a false market or insider trading; divulging any confidential information about a client without prior consent to a third party without legitimate interest; indulging in unfair competition (i.e., luring clients of another rating agency by assuring higher ratings, etc.); and

(3) Any violation of applicable laws, rules and regulations.

b. *Procedure for derecognition.* A CRA shall only be derecognized upon prior notice and after being given the opportunity to defend itself.

Recognition of PhilRatings as domestic credit rating agency for bank supervisory purposes. Credit ratings assigned by Philippine Rating Services Corporation (PhilRatings) may be used, among others, for determining appropriate risk weights in ascertaining compliance with existing rules and regulations on risk-based capital requirements.

1132-Q INTERNATIONALLY ACCEPTED CREDIT RATING AGENCIES

Internationally accepted CRAs are recognized for bank supervisory purposes to undertake local and national ratings: *Provided*, That said CRAs shall have at least a representative office in the Philippines. Accordingly, credit ratings assigned by said CRAs may be used, among others, as basis for determining appropriate risk weights in ascertaining compliance with existing rules and regulations on risk-based capital requirements.

***Recognition of Fitch Singapore Pte Ltd. as International credit rating agency for bank supervisory purposes*.** The national or domestic credit ratings of Fitch Singapore Pte Ltd., a BSP-recognized international CRA with representative office in the Philippines, is hereby recognized by the Bangko Sentral for bank supervisory purposes. Accordingly, national or domestic credit ratings assigned by Fitch Singapore Pte Ltd. may be used, among others, as basis for determining appropriate risk weights in ascertaining compliance with existing rules and regulations on risk-based capital requirements.

E. OTHERS

1141-Q UNDERWRITING BY INVESTMENT HOUSES

Underwriting commitments and fees of IHs shall be subject to the rules issued by the SEC to implement the provisions of P.D. No. 129, as amended *(Appendix Q-20).*

1142-Q REGULATORY RELIEF POLICY

The Policy sets forth the guidelines on the grant of regulatory relief measures to QBs affected by calamities. The Bangko Sentral recognizes that the Philippines is vulnerable to calamities, whether caused by natural or human-induced hazards, that may adversely affect certain areas/localities, and result in declaration thereof under state of calamity. The damages brought about by calamities to people's resources and livelihood may affect the paying capacity and risk profile of the borrowers/clients of QBs. This may translate to higher past due ratios and inability to meet the legal reserve requirements.

Nothing in this Section shall be construed as superseding the previously granted temporary regulatory relief to QBs under *Appendix Q-73*.

a. *Objectives*

The Bangko Sentral's regulatory relief policy aims to achieve the following:

(1) Set a uniform and systematic approach in granting regulatory relief to QBs affected by calamities; and
(2) Provide an adequate support to the recovery efforts of QBs.

b. *Definition of terms*[1]

(1) *Hazard* - a dangerous phenomenon, substance, human activity or condition that may cause loss of life, injury or other health impacts, property damage, loss of livelihood and services, social and economic disruption, or environmental damage.

(2) *Local Disaster Risk Reduction and Management Council (LDRRMC)* – is a working group responsible for ensuring the integration of disaster risk reduction and climate change adaptation into local development plans, programs and budgets as a strategy in sustainable development and poverty reduction.

(3) *National Disaster Risk Reduction and Management Council (NDRRMC)* – also known as the National Council, is composed of various government agencies, non-government, civil sector and private sector organizations in the Philippines, which is responsible for advising the President on the status of disaster preparedness, prevention, mitigation, response, and rehabilitation operations being undertaken by the government, civil society organizations, private sector, and volunteers; recommending to the President the declaration of a state of calamity in areas extensively damaged; and submitting proposals to restore normalcy in the affected areas, to include calamity fund allocation.

(4) *Regional Disaster Risk Reduction and Management Council (RDRRMC)* – is a working group responsible in ensuring disaster sensitive regional development plans, and in case of emergencies shall convene the different regional line agencies and concerned institutions and authorities.

(5) *State of Calamity* - a condition involving mass casualty and/or major damages to property, disruption of means of livelihoods, roads and normal way of life of people in the affected areas as a result of the occurrence of natural or human-induced hazard.

c. *Declaration of State of Calamity*

Section 16 of R.A. No. 10121 or the Philippine Disaster Risk Reduction and Management Act of 2010, states that the NDRRMC shall recommend to the President of the Philippines the declaration of a cluster of barangays, municipalities, cities, provinces, and regions under a state of calamity, and the lifting thereof, based on the criteria set by the NDRRMC. It further provides that the declaration and lifting of the state of calamity may also be issued by the local sanggunian, upon the recommendation of the R/LDRRMC, based on the results of the damage assessment and needs analysis.

d. *Regulatory relief package*[2]

For a period of one (1) year from the date of declaration of state of calamity, QBs may avail of the following:

<u>For All Banks/QBs</u>

(1) Allowing QBs to provide financial assistance under Sec. 135-Q *(Loans, advances, and other credit accommodations to officers)* to officers who are affected by the calamity even in the absence of Bangko Sentral-approved purposes or even if not within the scope of the existing Bangko Sentral-approved purposes, for the grant of loans, advances, or any other forms of credit accommodations to officers, subject to subsequent submission of request for approval of the purpose for the grant of loans, advances, or any other forms of credit accommodations to officers affected by calamities, within thirty (30) calendar days from the approval thereof of the QB's Board of Directors, to the appropriate supervising department of the Bangko Sentral for regularization.

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[1] *Sources: Republic Act (R.A.) No. 10121 or the Philippine Disaster Risk Reduction and Management Act of 2010 and its Implementing Rules and Regulations*

[2] The Bangko Sentral deployed targeted and time-bound Coronavirus Disease 2019 (COVID-19) regulatory relief packages that facilitated the uninterrupted flow of financial services in the country through the issuance of various memorandum, such as: (a) M-2020-008 (*Regulatory Relief for BSFIs Affected by the COVID-19*) dated 14 March 2020 as amended by M-2020-032 dated 27 April 2020, M-2020-075 dated 27 September 2020 and M-2020-087 dated 2 December 2020,M-2021-026 dated 26 April 2021; (b) M-2020-011 (*Additional Operational Relief for BSFIs Affected by Measures to Manage the COVID-19 Situation and its Health and Safety Risk)* dated 19 March 2020, as amended by M-2020-025 dated 13 April 2020, M-2020-049 dated 9 June 2020, M-2020-057 dated 21 July 2020, M-2020-63 dated 7 August 2020 and M-2020-075 dated 27 September 2020, M-2021-026 dated 26 April 2021, M-2021-029 dated 07 May 2021; (c) M-2020-015 (*Relief Measure on Customer Identification to Manage the COVID 19 Situation)* dated 30 March 2020, as amended by M-2020-057 dated 21 July 2020, M-2021-029 dated 07 May 2021; (d) M-2020-020 *(Reduction in the Minimum Liquidity Ratio in response to COVID-19)* dated 7 April 2020, as amended by M-2020-085 dated 1 December 2020; (e) M-2020-022 (*Reclassification of Debt Securities Measured at Fair Value to the Amortized Cost Category)* dated 8 April 2020 as amended by M-2021-003 dated 08 January 2021, M-2021-011 dated 02 February 2021; (f) M-2020-034 *(Relaxation in the Credit Risk Weight for Loans to MSMEs under the Bangko Sentral's Risk-Based Capital Adequacy Frameworks)* dated 28 April 2020; (g) M-2020-039 *(Utilization of Basel III Capital and Liquidity Buffers)* dated 4 May 2020; (h) M-2020-050 *(Regulatory Relief through Temporary Relaxation of the Maximum Borrowing Limit of Pawnshops)* dated 15 June 2020. (i)M-2021-002 (*Regulatory Relief on the Non-imposition of Sanctions for Breach in SBL by Foreign Bank Branches Established Prior to R.A.No. 10641);(j)M-2021-055 dated 19 October 2021 [Temporary Regulatory Relief on the Capital Treatment of Provisioning Requirements under the Philippine Financial Reporting Standard (PFRS) 9];(k) M-2021-056 dated 21 October 2021 (Regulatory Treatment of Restructured Loans for Purposes of Measuring Expected Credit Losses); and (l)M-2021-065 dated 23 November 2021 (Temporary Regulatory Relief for Banks that Offer Basic Deposit Accounts).*

For Thrift Banks (TBs)/Rural Banks (RBs)/Cooperative Banks (Coop Banks)/QBs

(1) Upon grant by TBs/RBs/Coop Banks/QBs of a temporary grace period for payment or upon approval of the restructuring, but subject to reporting to Bangko Sentral, exclusion from the computation of past due ratio of the loans of borrowers in affected areas which should have been reclassified as past due under Sec. 303-Q beginning on the date of declaration of state of calamity, including those loans becoming past due six (6) months thereafter: *Provided*, That the exclusion shall be for a period of one (1) year from declaration date of state of calamity. For this purpose, Bangko Sentral documentary requirements for restructuring of loans may be waived: *Provided*, That the QB will adopt appropriate and prudent operational control measures.

(2) Non-imposition of monetary penalties for delays incurred in the submission of all supervisory reports due to be submitted from date of declaration of state of calamity up to six (6) months thereafter.

(3) Subject to prior approval of the Bangko Sentral, staggered booking of allowance for credit losses computed under Sec. 143-Q (*Credit classification and provisioning*), over a maximum period of five (5) years for all types of credits extended to individuals and businesses directly affected by calamities as of the date of declaration of state of calamity.

(4) Moratorium, without penalty, on monthly payments due to the Bangko Sentral, for a period of six (6) months from the date of declaration of state of calamity, for QBs with ongoing rehabilitation upon filing of application for extension/rescheduling with the Department of Loans and Credit.

(5) Subject to prior approval of the Bangko Sentral, non-imposition of penalties on legal reserve deficiencies computed under Sec. 215-Q, starting from reserve week following the date of declaration of state of calamity up to six (6) months thereafter.

For All Rediscounting Banks[1]

(1) Upon application, grant of a 60-day grace period to settle the outstanding rediscounting obligations with the Bangko Sentral as of the date of declaration of state of calamity of all rediscounting banks except those with serious violations or findings as may be determined by the Bangko Sentral; Provided, interest shall be charged, but no penalty shall be imposed for the 60-day grace period.

(2) In addition to the above, allowing the rediscounting banks to restructure with the Bangko Sentral, on a case-to-case basis, the outstanding rediscounted loans as of date of declaration of state of calamity of their end-user borrowers affected by the calamity, subject to the terms and conditions stated in the implementing guidelines (*Appendix Q-74*).

(3) Allowing the relaxation of eligibility requirements by excluding the criteria on reserve requirement for the renewal of rediscounting line and for the availment of rediscounting loans from the date of declaration of state of calamity up to six months thereafter.

e. *Eligibility*

All QBs with head offices and/or branches/branch-lite units or with end-user borrowers located in areas under state of calamity as declared by the President or the local sanggunian, upon the recommendation of the NDRRMC or R/LDRRMC, may avail of the relief package specified in Item *"d": Provided*, That the QBs shall notify the Bangko Sentral, through the appropriate supervising department of the Bangko Sentral, of their intention to avail said regulatory relief package within a period of one (1) year from the date of declaration of state of calamity.

For Banks/QBs with head office and/or branches/branch-lite units or with end-user borrowers located in areas declared as under state of calamity beginning year 2018 for which no regulatory relief packages were approved yet, the relief package under this policy may be availed of within a period of one (1) year reckoned from the date of declaration of state of calamity.

f. *Reportorial requirements*

Banks/QBs which opt to avail of the regulatory relief shall submit the following:

(1) Letter-notification stating the QB's intention to avail of the relief package, signed by the President of the QB or officer of equivalent rank, provided that the notice shall specify, at a minimum, the specific relief measures to be availed and the affected branches/branch-lite units located in areas declared as under a state of calamity;

[1] As governed by Sec. 282

(2) Resolution of the Board of Directors authorizing the QB to avail of the relief package; and

(3) Memorandum Order/Proclamation/Resolution approving the declaration of state of calamity of the area where the affected head office/branches/branch-lite units of QB are located.

g. *Supervisory Enforcement Action.* Consistent with Sec. 002-Q, the Bangko Sentral may deploy enforcement actions to promote adherence to the requirements set forth in this Section and bring about timely corrective actions. As part of its enforcement actions, the Bangko Sentral may issue directives or impose sanctions on any misrepresentation in the document and information required to be submitted to the Bangko Sentral in relation to the availment of regulatory relief measures.

(Circular No. 1017 dated 10 October 2018)

LIST OF APPENDICES

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GUIDELINES TO EVALUATE INVESTMENT HOUSES
(Appendix to Sec. 102-Q)

a. *Capital* - The requirement is a minimum paid-in capital of P200.0 million for an investment house to be established in Metro Manila and P100.0 million for all others. Foreign equity, if any, shall be registered with and approved by the Board of Investments and the Bangko Sentral.

b. *Citizenship* – Majority fifty-one percent (51%) of the voting stock shall be owned by Filipinos.

c. *Directorship/Officership* - Majority of the board members shall be Filipinos. Resident foreign directors and technicians shall register with the Bureau of Immigration and Deportation. Compliance with the prohibition on interlocking directorship/officership between banks and investment houses and between QBs shall be observed.

d. *Promotion of Public Interest and Economic Growth* –

(1) Submission of a one (1)-year investment program indicating:

(a) *Underwriting and distribution activities.* These shall show in details the various stages leading to the completion of an agreement. Target dates for each stage in the underwriting process shall be indicated which should serve as reference points in the event that an investment house is unable to bring the program and its components to fruition. Target volume of underwriting would be set initially at twenty-five percent (25%) of paid-in capital.

(b) *Fund mobilization.* Emphasis shall be on maturities beyond one (1) year. Domestic and foreign sources shall be indicated and the latter shall be evaluated in terms of pertinent Bangko Setral regulations.

(c) *Fund usage.* Support of priority investment areas of the Government and other projects which may be determined by the Bangko Sentral shall be emphasized. Funds placed on maturities beyond one (1) year shall be preferred.

(d) *Planned distribution of portfolio.* Activities indicating money-market services and investment in subsidiaries and affiliates, while necessary to sustain the investment house, shall be subordinated to the preferred activities above-indicated. Other activities as financial management, counseling, distribution of equity and debentures for "public" ownership, etc., shall be considered.

(2) The one (1)-year investment program of the investment house shall be related to the government development plan by indicating the portion of the investment and savings targets in the plan which would be supported by the investment house industry.

(3) A one (1)-year projected income statement showing major sources of income and expense items.

(4) Operational agreement with other FIs.

(5) A statement justifying the operation of the investment house as not in conflict with public interest and economic growth, taking into account the existing number of investment houses, indicating:

(a) record of underwriting;
(b) evidence of medium and long-term loans;
(c) evidence of obtaining funds with maturity beyond one (1) year; and
(d) equity investments which were subsequently distributed to the public.

e. *Organization, Direction and Administration* - The organizational/functional chart should match the organization framework with operational objectives. The management of the company, board of directors and the managerial staff, must be firmly designated before it can be granted a license to operate as an investment house.

f. *Integrity, Experience and Expertise of Board and Management Staff*

(1) Formal training, academic or others;
(2) Experience along financial management, securities dealing, fund management, project evaluation and feasibility studies;
(3) Absence of administrative or criminal conviction; and
(4) Affiliation with professional organizations.

g. *Branching* - The rate at which branch offices are to be established shall depend upon the ability of the company to conduct operations from headquarters/head offices as well as on correspondent (banking) arrangements.

Other factors to be considered are the following:

(1) Reserve and liquidity position; and
(2) Profitability and capacity to absorb losses.

DETERMINATION OF AMOUNT OF ADDITIONAL CAPITAL THE ENTITY MUST PUT UP
(PROJECTION BASE - LATEST AVAILABLE REPORT)
(in thousand pesos)
[Appendix to Sec. 104-Q (Additional capital, if required)]

_____
(Name of Entity)

A. 1. Estimated Amount of Risk Assets of Present Office for the Next 12 Months

a.	Actual Risk Assets		P xxx
b.	Add: xx% of (a)		xxx
	Risk Assets – (Base Period)	P xxx	
	Risk Assets – (Previous Year)	xxx	
	Increase	P xxx	
	Rate of Increase = $\frac{\text{increase}}{\text{actual risk assets}}$ = xx%		
c.	Total of (a) and (b)		P xxx

2. Maximum Possible Level of Risk Assets Based on the Base Period Figures:

a.	Net worth Less 30% of Paid-in Capital (P xxx – xxx)	P xxx	
b.	100% of Borrowings (Bills Payable)	xxx	
c.	80% of Unutilized Acceptances or Credit Line with Foreign Bank(s)	xxx	P xxx

B. Estimated Risk Assets for the First 12 Months of Operation:

1.	Branch Approved but not yet Opened:	P xxx	
2.	Branch Being Applied for:	xxx	
	Add: Lower of A.1 or A.2	xxx	

C.	Total Estimated Risk Assets for 12 Months		P xxx
D.	10% of C (Minimum Paid-in Capital Required)		P xxx
E.	Less:		
	Present Combined Capital Accounts (Base Period Figures)	P xxx	
	Add: xx% of above	xxx	xxx
	Capital Accounts – (Base Period)	P xxx	
	Capital Accounts – (Previous Year)	xxx	
	Increase		
	*Rate of Increase = $\frac{\text{Increase}}{\text{Capital Accounts of Previous Year}}$ = xx%		
F.	Estimated Excess of Capital over Minimum Capital Required or Additional of Capital Applicant Must Put Up, as the case may be		P xxx

* The computation to arrive at the "rate of increase" in capital accounts shall only be considered if there is sufficient indication or evidence that the NBQB will continue to follow the same amount of increase in capital accounts for the succeeding year. If no evidence is found that the NBQB will continue to increase its capital accounts for the same amount for the succeeding year, then computations should consider only the amount of net profits (after dividends) plowed into the business for the year immediately preceding the date of application plus the amount of capital that the NBQB promised to put up per its schedule or program submitted to the Bangko Sentral. If no such schedule or program was submitted, then only the amount of net profits (after dividends) for the year immediately preceding the date of application should be considered.

LIST OF REPORTS REQUIRED FROM QUASI-BANKS
[Appendix to Sec. Sec. 172-Q (2008- Sec. 111-Q)]

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
A-1		Section 145-Q *(Cir no. 1007 dated 6.6.18, M-28 dated 10.5.18)*	Basel Net Stable Funding Ratio Report (NSFR)			
			Solo	Monthly	15 banking days from measurement date	sdcnbqb-nsfr@bsp.gov.ph
			Consolidated	Quarterly	30 banking days from measurement date	sdcnbqb-nsfr@bsp.gov.ph
A-1		Section 145-Q *(M-2019-008 dated 22 March 2019, M-07 dated 2.22.18, Circular No. 996 dated 2.8.18)*	MLR Report	Quarterly	30 banking days from measurement date	sdcnbqb-mlr@bsp.gov.ph
			Solo	Quarterly	30 banking days from measurement date	sdcnbqb-mlr@bsp.gov.ph
A-1	Unnumbered	Sec. 125-Q *(M-024 dated 12.28.16 and M-028 dated 09.11.17)*	Basel III Capital Adequacy Ratio (CAR) Report - Consolidated basis (applicable to parent banks/subsidiary NBQBs with financial allied undertakings excluding insurance companies)	Quarterly	15 business days after end of reference quarter 30th business days after end of reference quarter	sdcnbqb-Basel3CAR@bsp.gov.ph
A-1	Unnumbered	Sec. 171-Q *(Philippine Financial Reporting Standards/Philippine Accounting Standards*) *(M-2017-028 dated 09.11.17)*	Supplementary Report on Early Adoption of PFRS 9 - solo (applicable to early adopter BSFIs)	Monthly	15 banking days after end of reference month	sdcnbfi-pfrs@bsp. gov.ph
A-1		Sec. 172-Q (*Publication Requirements*)	Copy of Published Statement of Condition with Publisher's Certificate	Quarterly	5th business day from publication date	Appropriate supervising department of the Bangko Sentral

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
A-1	Unnumbered	Sec. 613-Q *(Reporting requirements*)	Report on Outstanding Derivatives Contracts	Monthly	15 banking days from end of reference month	-do-
A-1	Unnumbered	Sec. 613-Q *(Reporting requirements*)	Report on Trading Gains/(Losses) on Financial Derivatives	Monthly	15 banking days from end of reference month	-do-
A-2		Sec. 124-Q (*Required reports*) *(Circular Nos. 914 dated 23 June 2016)*	Basel 1 Risk-Based Capital Adequacy ratio - Solo basis (Head Office plus branches) - Consolidated basis (Parent QB plus subsidiary financial allied undertakings but excluding insurance companies)	Quarterly	15 business days from end of reference month 30th business days after end of reference quarter	Appropriate supervising department of the Bangko Sentral
A-1	Sec. 128 (*Domestic systemically important banks (D-SIBs)*)	Sec. 126-Q (*Domestic systematically important banks*)	Report on Selected Accounts and Activities for the Banks[1] (Consolidated Basis)	Semestral	30th business days after end of reference quarter	electronic submission - SDC
A-1		Sec. 127-Q *(M-028 dated 09.11.17)*	Basel III Leverage Ratio (BLR) Report	Semestral	15 banking days from end of reference month	sdcnbqb-leverage@bsp.gov.ph

[1] For guidelines and line item instructions please refer to http://www.bsp.gov.ph/regulations/regulations.asp?type = 1&id =3371

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
			- Solo basis - Consolidated basis (applicable to parent UKBs/subsidiary financial allied undertakings, but excluding insurance companies		30th business days after end of reference quarter	
A-1	Unnumbered	Sec. 123-Q (*Reporting and verification*)	Report on Dividend Declared		10th banking/business day after date of dividend declaration	Appropriate supervising department of the Bangko Sentral
A-1	Unnumbered	*(Cir. 996 dated 2.8.18 and M-08 dated 2.22.18)*	Basel III Liquidity Coverage Ratio Report (LCR) Solo	Monthly	15 banking days after the end of the quarter	sdcqb-lcr@bsp.gov.ph
			Consolidated	Quarterly	30 banking days after the end of the quarter	sdcqb-lcr@bsp.gov.ph
A-2	Unnumbered (no prescribed form)	Sec. 132-Q (*Specific duties and responsibilities of a director*) *(Cir. No. 970 dated 08.22.17)*	Certification under oath of directors that they have received copies of the general responsibility and specific duties and responsibilities of the board of directors and that they fully understand and accept the same.	Upon election as first-time director with a QB or NBFI with trust authority or banking group	20th business day from date of election	Hard copy to appropriate supervising department of the Bangko Sentral
A-2	BSP-7-26-02-A/B	Sec. 172-Q	Financial Reporting Package with Supplementary Report on: Schedules	Monthly	15 banking days after end of the reference month	sdcnbqb_csoc@bsp.gov.ph
	BSP-7-26-02-A Schedule 1 (His only)		Loans/Receivables, Trading Account Securities (TAS) - Loans Underwritten Debt Securities			
	BSP-7-26-02-B Schedule 1 (FCs only)		Loans/Receivables, Trading Account Securities (TAS) - Loans Underwritten Debt Securities			

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
	BSP-7-26-02-A Schedule 5 (For IHs)		Bills Payable and Bonds Payable			
	BSP 7-26-02-B Schedule 5 (For FCs)		Bills Payable and Bonds Payable			
	BSP-7-26-02 A/B Schedule 4		Remaining Maturities of Selected Accounts Interest Rate and Maturity Matching			
	BSP-7-26-02-A/B Schedule 3		Interest Rate and Maturity			
	BSP-7-26-02-A Schedule 2 (For His)		Underwritten Securities, Trading Account Securities - Investments, Available for Sale Securities and Investments in Bonds & Other Debt Instruments			
	BSP-7-26-02-B Schedule 2 (For FCs)		Trading Account Securities - Investments, Available for Sale Securities and Investments in Bonds & Other Debt Instruments (Government Issue – Local Government Units)			
	BSP-7-26-02-A Schedule 1 (For IHs)		Loans/Receivables, Trading Account Securities - Loans and Underwritten Debt Securities			
	BSP-7-26-02-B Schedule 1 (For FCs)		Loans/Receivables and trading Account Securities - Loans			
	BSP-7-26-02-B Schedule 1.1 (For FCs)		Loans/Receivables and Trading Account Securities - Loans (Borrowing of Local Government Units)			

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
	BSP-7-26-02-A Schedule 1.1 (For IHs)		Loans/Receivables, Trading Account Securities - Loans and Underwritten Debt Securities (Borrowings of Local Government Units)			
	BSP-7-26-02-B Schedule 6 (FCs only)		Data on Firm's Businesses			
A-2	BSP-7-26-03-A/B	Sec. 172-Q *(M-028 dated 09.11.17, Cir. 941 dated 1.20.17, and M-009 dated 2.24.18)*	Consolidated Statement of Condition/Consolidated Statement of Income and Expenses	Monthly	15 banking days after end of reference month	sdcnbqb-csoc@bsp.gov.ph
A-2	BSP-7-26-05	Sec. 211-Q *(M-028 dated 09.11.17)*	Consolidated Report on Required and Available Reserves Against Deposit Substitutes and Special Financing (CRRAR)	Weekly	4 banking days after end of reference week	sdcnbqb-crrar@bsp.gov.ph
A-2	BSP-7-26-05.1	Sec. 211-Q	Components of Gross Deposit Substitutes with Original Maturities of 730 Days or Less	Weekly	4th business day following end of reference week	Separate report for Head Office and each branch; and a Consolidated Report for Head Office and Branches; to be submitted via electronic mail
	BSP-7-26-05.2	Sec. 211-Q	Components of Gross Deposit Substitutes with Original Maturities of more than 730 days			
A-2	BSB-7-26-05.3	Sec. 211-Q	Eligible Philippine Government Securities Utilized as Reserves Against Deposit Substitutes	-do-	-do-	-do-
A-2	BSP-7-26-06	Sec. 125-Q *(M-028 dated 09.11.17)*	Statement of Capital Required and Capital Accounts Control Prooflist duly signed by the authorized officer of the institution	Semi-Monthly	7 banking days after 15th and end of month	sdcnbqb-crca@bsp.gov.ph

Category	Form No.	MOR Ref.	Report Title		Frequency	Submission Deadline	Submission Procedure
A-2	BSP-7-26-24	Sec. 172-Q *(M-028 dated 09.11.17)*	Report on Credit and Equity Exposures to Individuals/Companies/Groups Aggregating P1 million and above (CREDEX)		Quarterly	15 banking days after end of reference quarter	srso-credex@bsp.gov.ph
			Notarized Control Prooflist				
A-2	Unnumbered (no prescribed form)	Sec. 205-Q (*Notice to Bangko Sentral ng Pilipinas*) *(Cir. No. 975 dated 10.10.17)*	Notice to Bangko Sentral on BOD's approval of the bond issue		As approved	5 banking days from approval by the QB's board of directors	Appropriate supervising department of the Bangko Sentral
A-2	Unnumbered	*(Cir. No. 913 dated 06.05.16, M-009 dated 06.23.16, and M- 028 dated 09.11.17)*	Financial Reporting Package for Trust Institutions (FRPTI) (with Supplementary Report on Early Adoption of PFRS 9 where applicable) Schedules:				
			Balance Sheet				
			A1 to A2	Main Report			
			B to B2	Details of Investments in Debt and Equity Securities			
			C to C2	Details of Loans and Receivables			
			D to D2	Management – UITF			

Category	Form No.	MOR Ref.	Report Title		Frequency	Submission Deadline	Submission Procedure
			E	Fiduciary Accounts			
			E1 to E1B	Other Fiduciary Services - UITF			
			Income Statement				
			Control Prooflist		Quarterly	20 banking days after end of reference quarter	Sdcnbfi-frpti@bsp.gov.ph
A-3	BSP-7-26-18DF	Sec. 321-Q	Consolidated Monthly Report on Credit Accommodations to Directors, Officers, Stockholders and their Related Interests		Monthly	15th calendar days from end of reference month	SDC
A-3	BSP-7-26-18.1	Sec. 321-Q	Credit Accommodations to Officers, Directors, Stockholders, and Their Related Interests		Monthly	15th calendar days from end of reference month	Appropriate supervising department of the Bangko Sentral
A-3	Unnumbered	Sec. 172-Q	Report on Borrowings of Bangko Sentral Personnel		Quarterly	15th calendar day from end of reference month	SDC
A-3	Unnumbered	Sec. 328-Q	Copy of Written Approval of Board of Directors on Credit Accommodations to Directors, Officers, Stockholders, and their Related Interests		As approved	20th business day from date of approval	Appropriate supervising department of the Bangko Sentral
A-3	Unnumbered	Sec. 323-Q (*Loans, Other Credit Accommodations and Guarantees Granted to Subsidiaries and/or Affiliates*)	Transmittal of Board Resolution/Written Approval on Credit Accommodations to Subsidiaries and/or Affiliates		As loan to subsidiaries and/or affiliates is approved	20th banking day from date of approval	Original and duplicate appropriate supervising department of the Bangko Sentral
A-3	Unnumbered	Sec. 141-CC *(Cir. Nos. 1003 dated 5.16.18 and M-002 dated 03.10.16)*	Credit Card Business Activity Report		Quarterly	15th banking day from reference quarter	DSA – e-mail

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
A-3	Unnumbered	Sec. 701-Q (*Reportorial Requirements*) (*Cir. No. 1033 dated 02.22.19*)	EPFS Transactions and Indicators	Monthly	15 banking days after end of reference month	sdc-ccbar@bsp.gov.ph
A-3	Unnumbered	Sec. 701-Q (*Reportorial Requirements*) (*Cir. No. 1033 dated 02.22.19*)	Changes and Enhancements in EPFS	Semi-annually	15 banking days after end of reference semester	sdc-ccbar@bsp.gov.ph
B	Unnumbered	Sec. 136-Q (*Confirmation of election/appointment of directors/officers*) *(Cir. No. 970 dated 08.22.17)*	Notice of Election/Appointment of Members of Board of Directors and Committees	As change occurs	10th day from election/assumption of office	Appropriate supervising department of the Bangko Sentral
B	Unnumbered (no prescribed form)	Sec. 137-Q (*Effect of non-possession of qualifications or possession of disqualifications*) *(Cir. No. 970 dated 08.22.17)*	Report on Disqualification of Director/Officer	As disqualification occurs	Within 72 hours from receipt of report by board of directors	Appropriate supervising department of the Bangko Sentral
B	BSP-7-26-13	Sec. 303-Q	Past Due Receivables, Loans and/or Commercial Papers/Private Securities	Quarterly	15th calendar day after end of reference quarter	-do-
B	BSP-7-26-20	Sec. 172-Q	Report on Equity Investments in Non-Allied Undertakings	Semestrally following	15th business day end of reference semester	-do-
B	BSP-7-26-21	Sec. 418-Q	Borrowing-Investment Program	Annually	On or before Nov. 30	-do-
B	BSP-7-26-22 *(IH only)*	Sec. 172-Q	Annual Underwriting Program	Annually	1st working day of March of reference year	-do-

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
B	BSP-7-26-26	Sec. 172-Q (*Publication Requirements*)	Statement of Condition for Publication (See Sec. 172-Q (*Publication Requirements*) for requirement on publication of names of directors/officers)	Quarterly	20th business day from receipt of call	-do-
			Control Prooflist duly signed by the authorized officer of the institution		20th business day from receipt of call	E-mail to SDC: srso-nbqb@bsp.gov.ph
B	Unnumbered	Sec. 173-Q *(Circular No. 1075 dated 7 February 2020)*	Consolidated Annual Financial Statement of Financial Intermediaries and their Allied Undertakings/Affiliates/Subsidiaries supported by Individual Annual Undertakings/Affiliates/Subsidiaries and their Audited Financial Statements	Annually	Not later than 120 calendar days after the close of the reference calendar or fiscal year.	Appropriate supervising department of the Bangko Sentral
B	Unnumbered (no prescribed form)	Sec. 173-Q *(Circular No. 1075 dated 7 February 2020)*	Audited Financial Statements together with attachments listed in *Appendix Q-32*	Annually	Not later than 120 calendar days after the close of the reference calendar or fiscal year.	Appropriate supervising department of the Bangko Sentral
B	Unnumbered (no prescribed form)	Sec. 172-Q	Annual Report of Management to Stockholders Covering Results of Operations for the Previous Year	Annually	As soon as possible	-do-
B	Unnumbered (no prescribed form)	Sec. 173-Q	Audited Financial Statements for Previous Year Prepared by the External Auditor and the Corresponding Auditor's Letter of Comments	Annually	90th day after the start of audit	-do-
B	Unnumbered	Sec. 172-Q *(M-028 dated 09.11.17)*	Report on Crimes/Losses (RCL) - Initial report	As crime/incident occurs	Not later than 10 calendar days from knowledge of crime/incident	sdcnbqb-rcl@bsp.gov.ph

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
			- Complete/final report		Not later than 20 calendar days from termination of investigation	
B	Unnumbered	Sec. 172-Q	Board resolution on quasi-bank's signatories of report submitted to Bangko Sentral	As authorized	3rd day from date of resolution	Appropriate supervising department of the Bangko Sentral
B	Unnumbered	Sec. 172-Q	Documentary requirements/information on organizational structure and operational policies	Upon submission of application to engage in QB		-do-
			See Annex Q-3-e for documentary requirements/ information required	As change occurs	15th calendar day from change/ issuance	Appropriate supervising department of the Bangko Sentral
B	Unnumbered (no prescribed form)	Sec. 172-Q	Corporate Secretary's Certification under oath on list of stockholders and/or groups of stockholders	As change in composition of stockholders occurs	Immediately after change	Appropriate supervising department of the Bangko Sentral
B	Unnumbered	Sec. 435-Q (*To the Bangko Sentral*)	Report on Required and Available Available Reserves on Peso-Denominated CTFs, Such Other Similarly Managed Peso Funds and TOFA-Others	Weekly	3 banking days after end of reference week	-do-
			Control Prooflist duly signed by the authorized officer of the institution			Email to SDC: srso-nbqb@bsp.gov.ph Fax to SDC @ (02) 708-7554
B	Unnumbered	Sec. 312-Q *(Circular No. 1096 dated 16 September 2020)*	DDA Reconciliation Statement[1]	Semestral	15th business day from the end of reference semester	Email address will be provided by Financial Supervision Sector (FSS)

[1] The regular submission of the DDA Reconciliation Statement shall commence as of the end-December 2021 reporting period.

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
B	Unnumbered (no prescribed form)		Reconciliation statement on demand deposit with Bangko Sentral	Monthly	7th business day from receipt of Bangko Sentral statement of account	Original to be submitted to Bangko Sentral Controllership Department; one copy to appropriate supervising department of the Bangko Sentral
B	Unnumbered		Disclosure statement on SPV Transactions	Quarterly	15th banking day after end of reference quarter	SDC
			Report on NDF transactions with non-resident	Weekly	2nd banking day after end of reference week	Email to SDC sdc-ndf@bsp.gov.ph cc: Treasury Dept. fx-omo@bsp.gov.ph
			Control Prooflist			Fax to SDC @ (02) 708-7554
B	Unnumbered	Sec. 201-Q (*Repurchase agreements covering government securities, commercial papers and other negotiable and non-negotiable securities or instruments*)	Report on Undocumented Repurchase Agreements	-do-	Within 72 hours from knowledge of transactions	Appropriate supervising department of the Bangko Sentral
B	Unnumbered	Sec. 201-Q (*Repurchase agreements covering government securities, commercial papers and other negotiable and non-negotiable securities or instruments*)	Notarized certification that the QB did not enter in the Repurchase Agreement covering Government Securities, Commercial Papers and other Non- Negotiable Securities or Instruments that are not documented	Semestral	5th banking day after end of every semester	-do-
B	SES Form 6H (CBP-7-16-21), revised	Sec. 145-Q	Notice of Write-off of Loans, Other Credit Accommodations, Advances and Other Assets (i) Sworn statement signed by the President or officer of equivalent rank stating that the write-off did not include	As write-off occurs	Within 30 business days after every write-off	-do-

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
			DOSRI (ii) board resolution approving write-off			
A-1		Sec. 145-Q *(Cir. No. 1064 dated 03 December 2019)*	Report on Intraday Liquidity (on a per currency basis)	Monthly	15 banking days from the end of the reference month[1]	e-mail to DSA
A-1		Section 145-Q *(Cir. No. 1123 dated 13 July 2021)*	Report on Intraday Liquidity	Monthly	15 banking days from the end of the reference month[2]	e-mail to DSA
A-1	Unnumbered	Section 172-Q *(963 dated 06.27.27, and Cir. No. 1131 dated 13 December 2021)*	Comprehensive Credit and Equity Exposures Report (COCREE)[3]	Monthly	15 banking days after end of reference month	Via FI portal
B		Sec. 413-Q (*Qualification and accreditation of quasi-banks acting as trustee on any mortgage or bond issuance by any municipality, government owned or controlled corporation, or any body politic*)	Waiver of the Confidentiality of Information under Sections 2 and 3 of R.A. No. 1405, as amended	As transaction occurs		-do-
B	SES II Form 15 (NP08-TB)	Sec. 136-Q (*Bio-data of directors and officers*) *(Cir. No. 970 dated 08.22.17)*	Biographical Data of Director/Officer with ID picture - If submitted in CD form- Notarized first page of each of the directors'/officers' Biographical Data saved in CD and control proof list - If sent by electronic mail- Notarized first page of Biographical Data or Notarized list of names of	Upon every election/re-election or appointment/ promotion or if change in name occurs, or if requesting for approval of interlocks	20th business day from the date of election of the directors/officers meeting of the board of directors in which the officers are appointed/promoted. 10th business day from date the change of name occurred	Hard copy to the appropriate supervising department of the Bangko Sentral

[1] Regular submission of reports shall commence one (1) year and sic (6) months from 24 December 2019.
[2] Regular submission of reports shall commence with the end-January 2022 month-end report.
[3] To facilitate the transition to the COCREE Report, the CREDEX Report shall continue to be submitted quarterly in accordance with its existing deadline and reporting rules until otherwise advised by the Bangko Sentral, while the COCREE Report shall be submitted based on the schedule provided in Circular No. 1131 dated 13 December 2021. Digital Banks shall comply with the same COCREE reporting requirements applicable to UBs/KBs

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
			Directors/Officers whose Biographical Data were submitted thru electronic mail to be faxed to SDC			
B	Unnumbered	Sec. 172-Q (*Report on Repurchase Agreements*) *(Cir. No. 923 dated 08.31.16, M-025 dated 12.28.16, M-021 dated 07.12.17 and M-028 dated 09.11.17*)	Solo Report on Repurchase Agreements (Repos)	Monthly[1]	30th business day from the end of reference month	sdcnbqb-repo@bsp.gov.ph
B		Sec. 172-Q *(Cir. No. 970 dated 08.22.17)*	Certification under oath of the independent directors that he/she is an independent director as defined under Item "*g*" of Sec. Sec. 131-Q and that all the information thereby supplied are true and correct	Upon election	20th business day from date of election	Hard copy to appropriate supervising department of the Bangko Sentral
B		Sec. 172-Q	Certification under oath of directors/officers that he/she has all the qualifications and none of the disqualifications	Upon every election/re-election or appointment/ promotion	20th business day from date of election of the directors/ meeting of the board of directors in which the officers are appointed/promoted.	-do-
B	Unnumbered	Sec. 136-Q (*Bio-data of directors and officers*), Item "*(c)*" *(Cir. No. 970 dated 08.22.17)*	List of Members of the Board of Directors and Officers	Annually	20th business day from the annual election of the board of directors	-do-

[1] Effective 30 June 2017 reference period.

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
			Duly accomplished and notarized authorization form for querying the Bangko Sentral watchlist files	Upon election or appointment/ promotion as first-time director/officer within a QB or NBFI with trust authority or banking group	20th business day from date of election of the directors/meeting of the board of directors in which the officers are appointed/ promoted	-do-
B	Form 1 Schedule 1	*(M-028 dated 09.11.17)*	Report on Electronic Money Transactions (applicable to Electronic Money Issuers)	Quarterly	15 banking days after end of reference quarter	sdcnbfi-emoney@bsp.gov.ph
	Unnumbered		IT Profile Report	Annually	25 calendar days after end of reference year	sdcnbfi-itprofile@bsp.gov.ph
	Unnumbered	*(M-007 dated 05.25.16, M-021 dated 07.12.17, and M-026 dated 09.11.17)*	Registration Form (e-correspondences)	As changes occur		sdcnbqb-rf@bsp.gov.ph
B			Complaints Report	Quarterly	Not later than one (1) month after the end of every quarter	SDC
B	Unnumbered (no prescribed form)	Sec. 174-Q (*Posting and submission of annual report*) *(Cir. No. 956 dated by 04.17.17)*	Annual Report of Management to Stockholders Covering Results of Operations for the Previous Year	Annually	Non-government QBs - 180th day after the close of the calendar/fiscal year elected by the QB	Soft copy in Portable Document Format (PDF) with covering transmittal letter - Appropriate supervising department of the Bangko Sentral
					Government QBs - 100th day after the close of the calendar/fiscal year elected by the QB	-do-

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
B	Unnumbered	Sec. 174-Q (*Posting and submission of annual report*) *(Cir. No. 956 dated by 04.17.17)*	Annual Report Assessment Checklist (ARAC)	Annnually	Non-government QBs - 180th day after the close calendar/fiscal year elected by the QB	Hard copy to appropriate department
					Government QBs - 100th day after the close of the calendar/fiscal year elected by the QB	-do-
B	Unnumbered	Sec. 148 (*Reports*)/ Sec. 147-Q (*Reports*)/ Sec. 142-P/ Sec. 126-N (*Reports*)	Reportable Major Cyber-Related Incidents	As incidents occur	Within two (2) hours upon discovery	citsg@bsp.gov.ph[1]
					Within twenty-four (24) hours from discovery	citsg@bsp.gov.ph
B	Unnumbered	Sec. 148 (*Reports*)/ Sec. 147-Q (*Reports*)/ Sec. 142-P/ Sec. 126-N (*Reports*)	Disruptions of financial services and operations	As incidents occur	Within two (2) hours upon discovery	citsg@bsp.gov.ph
					Within twenty-four (24) hours from discovery	citsg@bsp.gov.ph

[1] For speedy identification, the email transmission should use the following required format as the subject:

<EDRN>underscore<eventtype>underscore<bank/NBQB name>underscore<reportstatus>underscore<yyyymmdd>.

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
B	BSD-Form-1; BSD-PERA-Form-1	Sec. 416-Q (*Compliance with the basic security deposit requirement*) *(Cir. No. 1032 dated 02.15.19)* Sec. 1121-Q (*Security for the faithful performance of administrators*) *(Cir. No. 1032 dated 02.15.19)*	Quarterly Report on Compliance with the Basic Security Deposit Requirement (with certification from Trust Officer in the case of trust entities, and designated/authorized officer)	Quarterly	20 banking days after end of every quarter	e-mail to BSD-Quarterly@bsp.gov.ph, SDC e-mail and to appropriate supervising departments
B	BSD-Form-2; BSD-PERA-Form-2	Sec. 416-Q (*Compliance with the basic security deposit requirement*) *(Cir. No. 1032 dated 02.15.19)* Sec. 1121-Q (*Security for the faithful performance of administrators*) *(Cir. No. 1032 dated 02.15.19)*	Report on Basic Security Deposit Transactions with certification from designated/authorized officer	On every deposit, withdrawal, replacement or redemption of securities	3 banking/business days prior to date of securities transfer	e-mail to BSD-Transactional@bsp.gov.ph and to appropriate supervising departments
B		*(Cir. No. 1117 dated 27 May 2021)*	Monthly Report on the Sale/Transfer and Investment Transactions of BSFIs under the Financial Institutions Strategic Transfer (FIST) Act	Monthly	20 banking/business days after end of reference month	E-mail to the DSA

INFORMATION ON ONE-YEAR BORROWING-INVESTMENT PROGRAM
TO BE SUBMITTED BY QUASI BANKS
(Annex to Appendix Q-3)

1. Investment areas indicating industry direction of the corporation engaged in quasi-banking, indicating as a minimum, the following:

   (a) money market operations;
   (b) investments in stocks and bonds;
   (c) investments in government securities;
   (d) receivables financing;
   (e) leasing activities; and
   (f) direct loaning operations.

   Likewise to be disclosed are the other preferred areas of investment, e.g., real estate, condominium, and those related to the government programs and other projects which may be determined by the Bangko Sentral.

   For investment houses with quasi- banking functions, the proposed underwriting program, as well as the previous year's activities, shall also be submitted identifying debt and equity issues.

2. Borrowing operations to support the investment program indicating among others:

   (a) Maturity
   - Short-term: less than a year
   - Medium-term: one (1) year to five (5) years
   - Long-term: more than five (5) years

   (b) Interest rate per annum for the above three types of borrowings (more indicatory than fixed).

   Individual or institutional source of funds; whether domestic or foreign, governmental or private, financial or non-financial.

3. Preference shall be given to fund usage and mobilization at terms beyond one (1) year.

REPORTING GUIDELINES ON CRIMES/LOSSES
(Annex to Appendix Q-3)

1. QBs shall report on the following matters through the appropriate supervising department of the Bangko Sentral:

   a. Crimes whether consummated, frustrated or attempted against property/ facilities (such as robbery, theft, swindling or estafa, forgery and other deceits) and other crimes involving loss/destruction of property of the QBs when the amount involved in each crime is P20,000 or more.

      Crimes involving QB personnel, regardless of whether or not such crimes involve the loss/destruction of property of the QB, even if the amount involved is less than those above specified, shall likewise be reported to the Bangko Sentral.

   b. Incidents involving material loss, destruction or damage to the institution's properties/facilities, other than arising from a crime, when the amount involved per incident is P100,000 or more.

2. The following guidelines shall be observed in the preparation and submission of the report.

   a. The report shall be prepared in two (2) copies and shall be submitted within five (5) business days from knowledge of the crime or incident, the original to the appropriate supervising department of the Bangko Sentral and the duplicate to the Bangko Sentral Security Coordinator, thru the Director, Security Services Department.

   b. Where a thorough investigation and evaluation of facts is necessary to complete the report, an initial report submitted within the five (5)-business day deadline may be accepted: *Provided,* That a complete report is submitted not later than fifteen (15) business days from termination of investigation.

DOCUMENTS/INFORMATION ON ORGANIZATIONAL STRUCTURE AND OPERATIONAL POLICIES
(Annex to Appendix Q-3)

I. Documents on organizational structure and operational policies

1. Chart of the firm's organizational structure or any substitute therefor;
2. Name of departments/units/offices with their respective duties and responsibilities;
3. Designations of positions in each department/unit/office with the respective duties and responsibilities;
4. Manual of Instructions or the like embodying the operating policies/ procedures of each department/unit/office, covering such areas as:

   (a) Signing/delegated authority;
   (b) Procedure/flow of paper work; and
   (c) Other matters.

5. Memoranda-Circulars or the like issued covering organizational and operational and operation policies;
6. Sample copies of each of the forms/reports used by each office/unit/department other than those submitted to the Bangko Sentral; and
7. Such other documents/information which may be required from time to time.

II. Other Data

1. Name of Institution
2. Address
3. P.O. Box number
4. Board of Directors including Corporate Secretary:

   (a) Names of Chairman, Vice-Chairman and Directors
   (b) Number of directors per By-Laws
   (c) Number of vacancies in the Board
   (d) Names of corporations where they serve as Chairman of the Board or as President and names of other business enterprises of which they are proprietors or partners
   (e) For the Corporate Secretary, indicate if he is also a Director
   (f) Date of annual election of directors per By-Laws

5. Executive officers including Auditor:

   (a) Names and titles
   (b) Telephone number of each officer (office)
   (c) For the Executive Vice-President, state the names of corporations where he serves as Chairman of the Board and names of other business enterprises where he is proprietor or partner
   (d) For Vice-Presidents and other officers with non-descriptive titles, indicate area of responsibility, e.g., Vice-President for Operations or Vice-President, International Department
   (e) Include officers from President to Vice-President

6. Branches, agencies and extension offices:

   (a) Name of branch, agency or extension office, e.g., Quiapo Branch or Makati Agency
   (b) Address
   (c) Names and telephone number of:

      (1) Manager
      (2) Cashier
      (3) Accountant

   (d) For agencies and extension offices, indicate name of mother branch.

GUIDELINES ON CALCULATING ADDITIONAL INFORMATION REQUIRED IN PUBLISHED STATEMENT OF CONDITION
(*Annex to Appendix Q-3)*

In calculating the additional information required to be disclosed in the Statement of Condition for publication, the following guidelines shall be observed:

1. All amounts and ratios to be reported shall be as of the same call date. However, the basis for computing the Return on Average Equity shall be the latest quarter immediately preceding the call date.

2. Return on Average Equity shall be computed as follows:

$$Return\ on\ Average\ Equity\ (\%) = \frac{Net\ \frac{Income}{(Loss)}\ After\ Income\ Tax}{Average\ Total\ Capital\ Accounts} * 100$$

Where Net Income After Tax and Average Total Capital Accounts shall be:

	Net Income After Tax	Average Total Capital Accounts
March	Quarter End Net Income After Tax Multiplied by 4	Sum of end-month Capital Accounts (December-March) divided by 4.
June	Semester End Net Income After Tax Multiplied by 2	Sum of end-month Capital Accounts (December - June) divided by 7.
September	Nine (9) months Ended Net Income After Tax multiplied by 1.333333	Sum of end-month Capital Accounts (December - September) divided by 10.
December	Year Ended Net Income After Tax	Sum of end-month Capital Accounts (December - December) divided by 13.

GUIDELINES ON PRESCRIBED REPORTS SIGNATORIES AND SIGNATORY AUTHORIZATION
[Appendix to Sec. 172-Q [(Sanctions in case of willful delay in the submission of reports/refusal to permit examination)]

Category A-1 reports shall be signed by the chief executive officer, or in his absence, by the executive vice president, and by the comptroller, or in his absence, by the chief accountant, or by officers holding equivalent positions. The designated signatories in this category, including their specimen signatures, shall be contained in a resolution approved by the board of directors in the format prescribed in *Appendix Q-9*.

Category A-2 reports of head offices shall be signed by the president, executive vice-presidents, vice-presidents or officers holding equivalent positions. Such reports of other offices/units (such as branches) shall be signed by their respective managers/officers in-charge. Likewise, the signing authority in this category shall be contained in a resolution approved by the board of directors in the format prescribed in *Appendix Q-10*.

Categories A-3 and B reports shall be signed by officers or their alternates, who shall be duly designated in a resolution approved by the board of directors in the format as prescribed in *Appendix Q-11*.

Copies of the board resolutions on the report signatory designations shall be submitted to the appropriate supervising department of the Bangko Sentral within three (3) days from the date of resolution.

FORMAT OF RESOLUTION FOR SIGNATORIES OF CATEGORY A-1 REPORTS

Resolution No. _____

Whereas, it is required under Sec. 172-Q *(Categories and signatories of reports)* that Category A-1 reports be signed by the Chief Executive Officer, or in his absence, by the Executive Vice-President, and by the comptroller, or in his absence, by the Chief Accountant, or by officers holding equivalent positions.

Whereas, it is also required that aforesaid officers of the institution be authorized under a resolution duly approved by the institution's Board of Directors;

Whereas, we, the members of the Board of Directors of (Name of Institution), are conscious that, in designating the officials who would sign said Category A-1 reports, we are actually empowering and authorizing said officers to represent and act for or in behalf of the Board of Directors in particular and (Name of Institution) in general; Whereas, this Board has full faith and confidence in the institution's Chief Executive Officer, Executive Vice-President, Comptroller and Chief Accountant, as the case may be, and, therefore, assumes responsibility for all the acts which may be performed by aforesaid officers under their delegated authority;

Now, therefore, we, the members of the Board of Directors, resolve, as it is hereby resolved that:

1. Mr. _____	President or	_____ Specimen Signature
2. Mr. _____	Executive Vice-President	_____ Specimen Signature
3. Mr. _____	and Comptroller	_____ Specimen Signature
4. Mr. _____	or Chief Accountant	_____ Specimen Signature

and hereby authorized to sign Category A-1 reports of (Name of Institution).

_____
CHAIRMAN OF THE BOARD

_____ DIRECTOR	_____ DIRECTOR
_____ DIRECTOR	_____ DIRECTOR
_____ DIRECTOR	_____ DIRECTOR

ATTESTED BY:

_____
CORPORATE SECRETARY

FORMAT OF RESOLUTION FOR SIGNATORIES OF CATEGORY A-2 REPORTS

Resolution No. _____

Whereas, it is required under Sec. 172-Q *(Categories and signatories of reports)* that Category A-2 reports of head offices be signed by the President, Executive Vice-Presidents, Vice-Presidents or officers holding equivalent positions, and that such reports of other offices be signed by the respective managers/officers-in-charge;

Whereas, it is also required that aforesaid officers of the institution be authorized under a resolution duly approved by the institution's Board of Directors;

Whereas, we, the members of the Board of Directors of (Name of Institution), are conscious that, in designating the officials who would sign said Category A-2 reports, we are actually empowering and authorizing said officers to represent and act for or in behalf of the Board of Directors in particular and (Name of Institution) in general;

Whereas, this Board has full faith and confidence in the institution's President (and/or the Executive Vice-President, etc., as the case may be) and, therefore, assumes responsibility for all the acts which may be performed by aforesaid officers under their delegated authority;

Now, therefore, we, the members of the Board of Directors, resolve, as it is hereby resolved that:

Name of Officer	*Specimen Signature*	*Position Title*	*Report No.*

are hereby authorized to sign the Category A-2 reports of (Name of Institution).

Done in the City of_____Philippines, this___day of___, 20_____.

_____
CHAIRMAN OF THE BOARD

_____ DIRECTOR	_____ DIRECTOR
_____ DIRECTOR	_____ DIRECTOR
_____ DIRECTOR	_____ DIRECTOR

ATTESTED BY:

_____
CORPORATE SECRETARY

FORMAT OF RESOLUTION FOR SIGNATORIES OF CATEGORY A-3 AND B REPORTS

Resolution No. _____

Whereas, it is required under Sec. 172-Q *(Categories and signatories of reports)* that Categories A-3 and B reports be signed by officers or their alternates;

Whereas, it is also required that aforesaid officers of the institution be authorized under a resolution duly approved by the institution's Board of Directors;

Whereas, we the members of the Board of Directors of (Name of Institution) are conscious that, in designating the officials who would sign said Categories A-3 and B reports, we are actually empowering and authorizing said officers to represent and act for or in behalf of the Board of Directors in particular and (Name of Institution) in general;

Whereas, this Board has full faith and confidence in the institutions authorized signatories and, therefore, assumes responsibility for all the acts which may be performed by aforesaid officers under their delegated authority;

Now, therefore, we, the members of the Board of Directors, resolve, as it is hereby resolved that:

Name of Authorized Signatory/Alternate	Specimen Signature	Position Title	Report No.
1. Authorized			
(Alternate)			
2. Authorized			
(Alternate)			
etc.			

are hereby authorized to sign the Category A-3 reports of (Name of Institution).

Done in the City of_____Philippines, this___day of___, 20_____.

_____
CHAIRMAN OF THE BOARD

_____	_____
DIRECTOR	DIRECTOR
_____	_____
DIRECTOR	DIRECTOR
_____	_____
DIRECTOR	DIRECTOR

ATTESTED BY:

_____
CORPORATE SECRETARY

MINIMUM INTERNAL CONTROL STANDARDS FOR QUASI-BANKS
(Appendix to Sec. 162-Q)

I. Proper Accounting Records

1. QBs should maintain proper and adequate accounting records.
2. These records should be kept currently posted and should contain sufficient detail so that an audit trail is established.
3. All entries should bear official approval and should be initialed by the person originating and another person checking them.

II. Independent Balancing

1. Independent balancing shall mean that records posted by a person or cash held by a cashier shall be balanced or counted by another person.

2. The minimum independent balancing procedures which should be adopted are the following:

    a. Monthly reconcilement of general ledger balances against their respective subsidiary and supporting records and documentations by someone other than the bookkeeper, the person handling the records, or the person directly connected with processing the transactions.

    b. Irregular and unannounced count of cashier's cash and checks and other cash items at least twice a month by the auditor/ control officer or by an officer not connected with the treasurer's/cashier's office or its equivalent.

    c. Monthly reconcilement of cash in banks accounts (domestic and foreign) and due from/to head office/branches by someone other than the check custodian, the person posting the general ledger entries or the authorized signatory of the bank account.

    d. Periodic verification of securities and collaterals by someone other than their custodians. Verification should include both the physical inventory of securities and the record checking.

    e. Periodic verification of the accuracy of the interest credits and payments to deposit substitute liabilities accounts.

3. All exceptions in the reconciliation/ verification should be followed up immediately until satisfactorily corrected.

III. Divisions of Duties and Responsibilities

1. The duties of all the officers and employees should be segregated, clearly defined, understood, documented and manualized if possible. No individual shall have complete authority and responsibility for handling all phases of any transaction from beginning to end.

2. The physical handling of a transaction should be separated from its recording and supervision as follows:

    a. A person handling cash should not be permitted to post the ledger records nor should posting of the general ledger be performed by an employee who posts the investor's/creditor's subsidiary ledgers;
    b. A loaning officer should never be allowed to disburse proceeds of notes, accept note payment nor process loan ledgers;
    c. The functions of issuing, recording and signing of checks should be separated;
    d. The receipt of statements from depository banks should be assigned to an employee other than the one connected with the preparation, recording and signing of checks;
    e. Custodians of securities should not be allowed to handle security transactions;
    f. Collateral appraisals should be done by an employee/officer other than the ones approving the loans;
    g. Incoming checks and other cash items should be recorded chronologically in a register by an employee other than the bookkeeper;

h. Credit reports should be obtained by someone other than lending officers;
i. Mailing of client's statements and delinquent notices should be done by an employee other than the one who granted the loan or the one handling the records; and
j. Paid checks/drafts should be controlled and maintained by an officer/ employee other than the authorized signatory or the cashier.

3. Extensive background checking of persons intended to be assigned to handle cash and securities should be conducted. Frequent follow-up checking after their employment should also be made.

IV. Joint Custody

1. Joint custody shall mean the processing of transactions in the presence of and under the direct observation of a second person. Both persons shall be equally accountable for the physical protection of the items and records involved.

2. Physical protection should be deemed established through the use of two (2) locks or combinations on a file chest or vault compartment.

3. Two (2) or more persons should be assigned to each half of the control so that operating efficiency is not impaired if one person is not immediately available.

4. Persons who are related to each other within the third degree of consanguinity or affinity should not be made joint custodians.

5. The following should be under joint custody:

a. Cash on hand or in vault
b. All accountable forms
c. Collaterals
d. Securities
e. Documents of title and/or ownership of properties or fixed assets
f. Safekeeping items
g. Vault doors and safe combinations.

V. Signing Authority

Signing authorities for the different levels of officers to sign for and in behalf of the institutions should be approved by the board of directors and the extent of each level of authority should be clearly defined. These signing authorities should include but need not be limited to the following:

a. Lending;
b. Borrowing;
c. Investments;
d. Approval of expenses;
e. Various supervisory reports; and
f. Checks.

VI. Dual Control

1. Dual control shall mean the work of one (1) person is to be verified by a second person to determine (a) that proper authority has been given to handle the transaction, (b) that the transaction is properly recorded, and (c) that proper settlement of the transaction is made.

2. The routine of each transaction should be designed so that at least two (2) or more individuals are involved in the completion of every transaction.

3. The following accounts/transactions should be under dual control:

a. Checks - The signature of at least two (2) officers should be required in the issuance of checks.

b. Borrowing - The signature of at least two (2) authorized officers should be required.

c. All transactions giving rise to "due to" or "due from" account and all instruments of remittances evidencing these transactions particularly those involving substantial amounts, should be approved by two (2) authorized officers.

VII. Number Control

1. Sequence number controls should be incorporated in the accounting systems and should be used in registering notes, in issuing official checks and in other similar situations. Number control should be policed by a person designated by senior management who should be detached from the particular operations involved.

2. The following are the forms, instruments and accounts that should be number-controlled:

   a. Checks;
   b. Promissory notes and other commercial papers;
   c. Official and provisional receipts;
   d. Certificate of stocks;
   e. Loan accounts; and
   f. Expense vouchers.

VIII. Rotation of Duties

1. The duties of personnel handling cash, securities and bookkeeping records should be rotated.

2. Rotation assignment should be irregular, unannounced and long enough to permit disclosure of irregularities or manipulations.

IX. Independence of the Internal Author

1. The position of internal auditor should be provided for in the by-laws together with the duties and responsibilities, scope and objectives of internal auditing.

2. The internal auditor should report directly to the Audit Committee.

3. The internal auditor should not install nor develop procedures, prepare records or engage in other activities which he normally reviews or appraises.

X. Direct Verification

1. Direct verification shall mean the confirmation of account or records by direct correspondence/visits with the institution's customers.

2. The following accounts, among others, should be subject to direct verification by the internal auditing staff at least once a year:

   a. Balances of loans and credit accommodations of borrowers;
   b. Outstanding balances of borrowings and other liabilities;
   c. Outstanding balances of receivables/ payables; and
   d. Collaterals securing said accounts.

XI. Other Internal Control Standards

1. Investments

    a. Investment limits and a list of accredited companies as approved by the Board of Directors or by its Credit Committee should be established as a guide for investing in any FI engaged in money market trading.
    b. Investments should be secured by assets approved by the Board of Directors or by its Credit Committee.
    c. Checks representing placements of investments should be released only upon receipt of either the deposit substitute instrument or the underlying securities or documents of title.

2. Miscellaneous

    a. Loan applications and related documents should be spot-checked to insure their authenticity, including verification of name, residence, employment and current reputation of the borrowers.
    b. No employee should be permitted to process transaction affecting his own account.
    c. Cashiers and other employees having contact with customers should be prohibited from preparing deposit substitute tickets or other records for the customers.
    d. QBs should have a sound recruitment policy since internal control begins from point of hiring.
    e. QBs should secure adequate insurance coverage, fidelity and other indemnity protection, viz:

        (1) Insurance coverage - for losses arising from calamities and theft/ robberies.
        (2) Fidelity bonds - for losses arising from dishonest, fraudulent and criminal acts of accountable officers/employees.

STANDARDIZED DEPOSIT SUBSTITUTE INSTRUMENTS
(Appendix to Sec. 201-Q)

Serial No._____

_____
(Name of Quasi-Bank)

PROMISSORY NOTE

Issue Date : _____, 20__

Maturity Date : _____, 20__

FOR PESOS _____(P _____), RECEIVED.
(Present Value/Principal)

_____ promises to pay _____
(Name of Issuer/Maker) (Name/Account Number of Payee)

or order, the sum of PESOS _____ (P _____), subject to the
(Maturity Value/Principal & Interest)

terms and conditions on the reverse side hereof.

_____
Duly Authorized Officer

NOT INSURED WITH THE PHILIPPINE DEPOSIT INSURANCE CORPORATION (PDIC)

TERMS AND CONDITIONS OF A PROMISSORY NOTE

1. ***Computation of Yield***

   Interest is hereby stipulated/computed at ____ % per annum, compounded
   ( ) monthly ( ) quarterly ( ) semi-annually ( ) Others.

2. ***No Pretermination***

   This promissory note shall not be honored or paid by the issuer/maker before the maturity date indicated on the face hereof.

3. ***Liquidated Damages***

   In case of default, issuer/maker shall pay, in addition to stipulated interest, liquidated damages of (amount or %), plus attorney's fees of (amount or %) and costs of collection in case of suit.

4. ***Renewal***

   ( ) No automatic renewal.
   ( ) Automatic renewal under the following terms:
   _____
   _____

5. ***Collateral/Delivery***

   ( ) No collateral
   ( ) Collateralized/secured by (describe collateral)_____
   ( ) Physically delivered to payee
   ( ) Evidenced by Custodian Receipt No. _____ dated _____ issued by _____.
   ( ) Collateralized/secured by (fraction or %) share of (describe collateral)_____ as evidenced by Custodian Receipt No. _____ dated _____ issued by _____.

6. ***Substitution of Securities***

   ( ) Not acceptable to Payee
   ( ) Acceptable to Payee, however, actual substitution shall be with prior written consent of payee.

7. ***Separate Stipulations***

   ( ) This Agreement is subject to the terms and conditions of (describe document) dated _____, executed by (name of party/ies) and made an integral part hereof.

Serial No._____

Serial No._____

_____
(Name of Quasi-Bank)

REPURCHASE AGREEMENT

Issue Date : _____, 20__
Repurchase Date : _____, 20__

FOR AND IN CONSIDERATION OF PESOS _____ (₱ _____)

Vendor, _____ , hereby sells, transfers and conveys in favour of
(Name of Issuer/Vendor)

Vendee, _____, the security(ies) described below, it being
(Name of Vendee)

that the same shall be resold by Vendee and repurchased by Vendor on the repurchase date indicated above at the price of PESOS _____ (₱ _____), subject to the terms and conditions stated on the reverse side hereof.

(Description of Securities)

Issuer	**Serial Number/s**	**Maturity Date/s**	**Face Value** ₱	**Interest/Yield** ₱
		TOTAL	₱	₱

CONFORME:

_____
Duly Authorized Officer

_____
(Signature of Vendee)

NOT INSURED WITH THE PHILIPPINE DEPOSIT INSURANCE CORPORATION (PDIC)

TERMS AND CONDITIONS OF A REPURCHASE AGREEMENT

1. *Computation of Yield*

   Yield is hereby stipulated/computed at ____ % per annum, compounded
   ( ) monthly ( ) quarterly ( ) semi-annually ( ) Others.

2. *No Pretermination*

   Vendor shall not repurchase subject security/ies before the repurchase date stipulated on the face of this document.

3. *Liquidated Damages*

   In case of default, the Vendor shall be liable, in addition to stipulated yield, for liquidated damages of (amount or %), plus attorney's fees of (amount or %) and costs of collection in case of suit.

4. *Renewal*

   ( ) No automatic renewal.
   ( ) Automatic renewal under the following terms:
   _____
   _____

5. *Delivery/Custody of Securities*

   ( ) Physically delivered to payee
   ( ) Evidenced by Custodian Receipt No. _____ dated _____ issued by _____.

6. *Substitution of Securities*

   ( ) Not acceptable to Payee
   ( ) Acceptable to payee, however, actual substitution shall be with prior written consent of payee.

7. *Separate Stipulations*

   ( ) This Agreement is subject to the terms and conditions of (describe document) dated _____, executed by (name of party/ies) and made an integral part hereof.

Serial No. _____

_____
(Name of Quasi-Bank)

CERTIFICATE OF ASSIGNMENT WITH RECOURSE

Issue Date: _____, 20__

FOR AND IN CONSIDERATION OF PESOS _____(₱_____),

_____ hereby assigns, conveys, and transfers
(Name of Assignor)

with recourse to_____the debt of _____
(Name of Assignee) (Name of Principal Debtor)

to the Assignor, specifically described as follows:

(Description of Debt Securities)

Principal Debtor/s	**Serial Number/s**	**Maturity Date/s**	**Face Value**	**Interest/Yield**
			₱	₱
		T O T A L	₱	₱

and Assignor hereby undertakes to pay, jointly and severally with the Principal Debtor, the face value of, and the interest/yield on, said debt securities. This assignment shall be subject to the terms and conditions on the reverse side hereof.

CONFORME:

_____
Duly Authorized Officer

_____
(Signature of Vendee)

NOT INSURED WITH THE PHILIPPINE DEPOSIT INSURANCE CORPORATION (PDIC)

TERMS & CONDITIONS OF CERTIFICATE OF ASSIGNMENT WITH RECOURSE

1. *No Pretermination*

Assignor shall not pay nor repurchase subject security/ies before the maturity date thereof.

2. *Liquidated Damages*

In case of default, Assignor shall be liable, in addition to interest, for liquidated damages of (amount or %) plus attorney's fees of (amount or %) and costs of collection in case of suit.

3. *Delivery/Custody of Securities*

( ) Physically delivered to payee
( ) Evidenced by Custodian Receipt No. _____ dated _____ issued by _____.

4. *Separate Stipulations*

( ) This Agreement is subject to the terms and conditions of (describe document) dated _____, executed by (name of party/ies) and made an integral part hereof.

Serial No. _____

_____
(Name of Quasi-Bank)

CERTIFICATE OF ASSIGNMENT WITH RECOURSE

Issue Date: _____, 20__

FOR AND IN CONSIDERATION OF PESOS _____(₱_____),

_____ hereby assigns, conveys, and transfers
(Name of Assignor)

with recourse to_____the debt of _____
(Name of Assignee) (Name of Principal Debtor)

to the Assignor, specifically described as follows:

(Description of Debt Securities)

Principal Debtor/s	**Serial Number/s**	**Maturity Date/s**	**Face Value**	**Interest/Yield**
			₱	₱
		T O T A L	₱	₱

and hereby undertakes that in case of default of the Principal Debtor, Assignor shall pay the face value of, and the interest/yield on, said debt securities, subject to the terms and conditions on the reverse side hereof.

CONFORME:

_____
Duly Authorized Officer

_____
(Signature of Vendee)

NOT INSURED WITH THE PHILIPPINE DEPOSIT INSURANCE CORPORATION (PDIC)

TERMS & CONDITIONS OF CERTIFICATE OF ASSIGNMENT WITH RECOURSE

1. *No Pretermination*

Assignor shall not pay nor repurchase subject security/ies before the maturity date thereof.

5. *Liquidated Damages*

In case of default, Assignor shall be liable, in addition to interest, for liquidated damages of (amount or %) plus attorney's fees of (amount or %) and costs of collection in case of suit.

6. *Delivery/Custody of Securities*

( ) Physically delivered to payee
( ) Evidenced by Custodian Receipt No. _____ dated _____ issued by _____.

7. *Separate Stipulations*

( ) This Agreement is subject to the terms and conditions of (describe document) dated _____, executed by (name of party/ies) and made an integral part hereof.

Serial No:_____

_____
(Name of Quasi-Bank)

CERTIFICATE OF PARTICIPATION WITH RECOURSE

Issue Date : _____, 20__

FOR AND IN CONSIDERATION OF PESOS _____,

this certificate of participation is hereby issued to evidence the _____ share of
(fraction or %)
_____in the loan/s of _____ granted
(Name of Participant)

by/assigned to the herein issuer, specifically described as follows:

(Description of Debt Securities)

Principal Debtor/s	**Serial Number/s**	**Maturity Date/s**	**Face Value**	**Interest/Yield**
			₱	₱
		T O T A L	₱	₱

The issuer shall pay, jointly and severally with the Principal Debtor, (Fraction or %) share of the face value of, and the interest/yield on, said debt security(ies), subject to the terms and conditions on the reverse side hereof.

C O N F O R M E :

_____
Duly Authorized Officer

_____
(Signature of Vendee)

NOT INSURED WITH THE PHILIPPINE DEPOSIT INSURANCE CORPORATION (PDIC)

TERMS AND CONDITIONS OF CERTIFICATE OF PARTICIPATION WITH RECOURSE

1. *No Pretermination*

   Issuer shall not pay nor repurchase the participation before the maturity date of subject security(ies).

2. *Liquidated Damages*

   In case of default, the issuer of this instrument shall be liable, in addition to interest, for liquidated damages of (amount or %), plus attorney's fees of (amount or %) and costs of collection in case of suit.

3. *Delivery/Custody of Securities*

   ( ) Physically delivered to payee
   ( ) Evidenced by Custodian Receipt No. _____ dated _____ issued by _____.

4. *Separate Stipulations*

   ( ) This Agreement is subject to the terms and conditions of (describe document) dated _____, executed by (name of party/ies) and made an integral part hereof.

Serial No:_____

_____
(Name of Quasi-Bank)

CERTIFICATE OF PARTICIPATION WITH RECOURSE

Issue Date: _____, 20__

FOR AND IN CONSIDERATION OF PESOS _____,

this certificate of participation is hereby issued to evidence the _____ share of (fraction or %)
_____in the loan/s of _____ granted
(Name of Participant)

by/assigned to the herein issuer, specifically described as follows:

(Description of Debt Securities)

Principal Debtor/s	**Serial Number/s**	**Maturity Date/s**	**Face Value**	**Interest/Yield**
			₱	₱
		T O T A L	₱	₱

In case of default of the Principal Debtor, the Issuer shall pay the_____(Fraction or %) share of the face value of, and the interest/yield on, said debt security(ies), subject to the terms and conditions on the reverse side hereof.

C O N F O R M E:

_____
Duly Authorized Officer

_____
(Signature of Vendee)

NOT INSURED WITH THE PHILIPPINE DEPOSIT INSURANCE CORPORATION (PDIC)

TERMS AND CONDITIONS OF CERTIFICATE OF PARTICIPATION WITH RECOURSE

1. *No Pretermination*

Issuer shall not pay nor repurchase the participation before the maturity date of subject security(ies).

2. *Liquidated Damages*

In case of default, the issuer of this instrument shall be liable, in addition to interest, for liquidated damages of (amount or %), plus attorney's fees of (amount or %) and costs of collection in case of suit.

3. *Delivery/Custody of Securities*

( ) Physically delivered to payee
( ) Evidenced by Custodian Receipt No. _____ dated _____ issued by _____.

4. *Separate Stipulations*

( ) This Agreement is subject to the terms and conditions of (describe document) dated _____, executed by (name of party/ies) and made an integral part hereof.

BASIC GUIDELINES IN SETTING UP OF ALLOWANCE FOR CREDIT LOSSES
[Appendix to Sec. 143-Q (Credit classification and provisioning)]

BSFIs with credit operations that may not economically justify a more sophisticated loan loss estimation methodology or where practices fall short of expected standards shall, at a minimum, be subject to the following guidelines:

As a general rule, Especially Mentioned and Substandard – Underperforming [e.g., substandard accounts that are unpaid or with missed payment of less than ninety (90) days] shall be considered as Stage 2 accounts, while Substandard Non-performing, Doubtful, and Loss accounts shall be considered as Stage 3 accounts.

I. Individually Assessed Credit Exposures[1]

1. Loans and other credit exposures with unpaid principal and/or interest shall be classified and provided with allowance for credit losses (ACL) based on the number of days of missed payments as follows:

   For unsecured loans and other credit exposures:

No. of Days Unpaid/ with Missed Payment	Classification	Minimum ACL	Stage
31 – 90 days	Substandard (underperforming)	10%	2
91 – 120 days	Substandard (non-performing)	25%	3
121 – 180 days	Doubtful	50%	3
181 days and over	Loss	100%	3

   For secured loans and other credit exposures:

No. of Days Unpaid/with Missed Payment	Classification	Minimum ACL	Stage
31 – 90 days*	Substandard (underperforming)	10%	2
91 – 180 days*	Substandard (non-performing)	10%	3
181 – 365 days	Substandard (non-performing)	25%	3
Over a year – 5 years	Doubtful	50%	3
Over 5 years	Loss	100%	3
** When there is imminent possibility of foreclosure and expectation of loss, ACL shall be increased to 25%.*			

   Provided, That where the quality of physical collaterals or financial guarantees securing the loans and advances are determined to be insufficient, weak or without recoverable values, such loans and advances shall be treated as if these are unsecured.

2. Loans and other credit exposures that exhibit the characteristics for classified accounts described under *Sec. 143-Q (Credit classification and provisioning*) shall be provided with ACL as follows:

Classification	Minimum ACL	Stage
Especially Mentioned	5%	2
Substandard – Secured	10%	2 or 3[2]
Substandard – Unsecured	25%	2 or 3[2]
Doubtful	50%	3
Loss	100%	3

[1] Other credit exposures include exposures under the scope of PFRS 9, such as investments in debt securities measured at fair value through other comprehensive income and amortized cost, loan commitments, sales contract receivables, accounts receivables, accrued interest receivables, and advances.
[2] The stage depends on whether the accounts are classified as non-performing (Stage 3) or underperforming (Stage 2).

3. Unsecured loans and other credit accommodations classified as "Substandard" in the last two (2) internal credit reviews which have been continuously renewed/extended without reduction in principal and is not in process of collection, shall be downgraded to "Doubtful" classification and provided with a fifty percent (50%) ACL.

4. Loans and other credit accommodations under litigation which have been classified as "Pass" prior to the litigation process shall be classified as "Substandard" and provided with twenty five percent (25%) ACL.

5. Loans and other credit accommodations that were previously classified as "Pass" but were subsequently restructured shall have a minimum classification of EM and provided with a five percent (5%) ACL, except for loans which are considered non-risk under existing laws, rules and regulations.

6. Classified loans and other credit accommodations that were subsequently restructured shall retain their classification and provisioning until the borrower has sufficiently exhibited that the loan will be fully repaid.

II. Collectively Assessed Loans[3] and Other Credit Exposures

1. Current "Pass" loans and other credit accommodations should be provided with a reasonable level of collective allowance, using historical loss experience adjusted for current conditions.

2. Loans and other credit exposures with unpaid principal and/or interest shall be classified and provided with ACL based on the number of days of missed payments as follows:

<u>For unsecured loans and other credit exposures:</u>

No. of Days Unpaid/ with Missed Payment*	Classification	Minimum ACL	Stage
1 – 30 days	Especially Mentioned	2%	2
31 – 60 days / 1st restructuring	Substandard	25%	2 or 3[4]
61 – 90 days	Doubtful	50%	3[5]
91 days and over / 2nd restructuring	Loss	100%	3

** Par for microfinance loans*

<u>For secured and other credit exposures:</u>

No. of Days Unpaid/with Missed Payment	Classification	ACL %		Stage
		Other types of collateral	Secured by real estate	
31 – 90 days	Substandard (underperforming)	10	10	2
91 – 120 days	Substandard (non-performing)	25	15	3
121 – 360 days	Doubtful	50	25	3
361 days – 5 years	Loss	100	50	3
Over 5 years	Loss	100	100	3

(Circular no. 1011 dated 14 August 2018)

[3] This includes microfinance loans, micro enterprises and small business loans and consumer loans such as salary loans, credit card receivables, auto loans, housing loans and other consumption loans, and other loan types which fall below the FI's materiality threshold for individual assessment.

[4] The stage depends on whether the accounts are classified as non-performing (Stage 3) or underperforming (Stage 2).

[5] Sec. 303-Q *(Non-performing loans)* provides that doubtful accounts are considered as non-performing hence, shall be classified under Stage 3 notwithstanding the number of missed amortizations.

FORMAT OF DISCLOSURE STATEMENT ON SMALL BUSINESS/RETAIL/CONSUMER CREDIT
(Appendix to Sec. 305-Q on "Truth in Lending Act" Disclosure Requirements)

_____
(Business Name of Creditor)

DISCLOSURE STATEMENT ON LOAN/CREDIT TRANSACTION
(As Required under R.A. No. 3765, Truth in Lending Act)

NAME OF BORROWER _____
ADDRESS _____

1. CREDIT TRANSACTION AMOUNT	**₱ XXX**
2. OTHER BANK CHARGES/DEDUCTIONS COLLECTED[1]	**₱ XXX**
a. Documentary/Science Stamps	₱ _____
b. Mandatory Credit Insurance	_____
c. Others (Specify) _____	_____
3. NET PROCEEDS OF CREDIT TRANSACTION (Item 1 less Items 2)	**₱ XXX**

4. SCHEDULE OF PAYMENTS

a. Single payment due on	**date**	**₱ XXX**
b. Installment Payments	**(Please see attached amortization schedule)**	

5. EFFECTIVE INTEREST RATE (Interest and Other Charges) **XXX%**

Explanation: The effective interest rate is higher than the contractual interest rate of _____% because of Item 2 deductions above.

6. CONDITIONAL CHARGES THAT MAY BE IMPOSED (if applicable). Please specify manner of imposition:

a. Late Charge	₱ _____
b. Prepayment (penalty/refund)	_____
c. Others (Specify) _____	_____
_____	_____

CERTIFIED CORRECT:

_____ _____
(Signature of Creditor/Authorized Representative Over Printed Name) Position

I ACKNOWLEDGE RECEIPT OF A COPY OF THIS STATEMENT PRIOR TO THE CONSUMMATION OF THE CREDIT TRANSACTION

_____ _____
(Signature of Borrower over Printed Name) Date

[1] **Notes:**
- Small business/Retail/Consumer Loans includes microfinance, auto (motor), salary, personal, medical, educational and other loans of similar nature.
- This document contains the minimum information required to be disclosed to the borrower and may be enhanced to improve client information. Itemize all charges including advance deductions.

AMORTIZATION SCHEDULE
(Sample Only)

Installment (A)	Loan (B)	Principal (C)	Interest (D)	Total (E)	O/S Balance (F)
	xxx				*xxx*
1		xxx	xxx	xxx	xxx
2		*xxx*	*xxx*	*xxx*	*xxx*
3		*xxx*	*xxx*	*xxx*	*xxx*
4		*xxx*	*xxx*	*xxx*	*xxx*
5		*xxx*	*xxx*	*xxx*	*xxx*
6		*xxx*	*xxx*	*xxx*	*xxx*
7		*xxx*	*xxx*	*xxx*	*xxx*
8		*xxx*	*xxx*	*xxx*	*xxx*
9		*xxx*	*xxx*	*xxx*	*xxx*
10		*xxx*	*xxx*	*xxx*	*xxx*
11		*xxx*	*xxx*	*xxx*	*xxx*
12		*xxx*	*xxx*	*xxx*	*xxx*
	Total	*xxx*	*xxx*	*xxx*	

Legends:

A - Number of installment periods based on loan term
B - Gross amount of loan
C - Installment payment on the principal
D - Installment payment on the interest
E - Total amortization payment for the installment period
F - Outstanding principal balance of the loan

(Circular No. 1052 dated 2 October 2019)

ABSTRACT OF "TRUTH IN LENDING ACT" (Republic Act No. 3765)
(Appendix to Sec. 305-Q)

Section 1. This Act shall be known as the "Truth in Lending Act."

Sec. 2. Declaration of Policy. It is hereby declared to be the policy of the State to protect its citizens from a lack of awareness of the true cost of credit to the user by assuring a full disclosure of such cost with a view of preventing the uninformed use of credit to the detriment of the national economy.

xxxx xxxx xxxx

Sec. 3. As used in this Act, the term –

xxxx xxxx xxxx

(3) "Finance charge" includes interest, fees, service charges, discounts, and such other charges incident to the extension of credit as the Board may by regulation prescribe.

xxxx xxxx xxxx

Sec. 4. Any creditor shall furnish to each person to whom credit is extended, prior to the consummation of the transaction, a clear statement in writing setting forth, to the extent applicable and in accordance with rules and regulations prescribed by the Board, the following information:

a. the cash price or delivered price of the property or service to be acquired;
b. the amounts, if any, to be credited as down payment and/or trade-in;
c. the difference between the amounts set forth under clauses (1) and (2);
d. the charges, individually itemized, which are paid or to be paid by such person in connection with the transaction but which are not incident to the extension of credit;
e. the total amount to be financed;
f. the finance charge expressed in terms of pesos and centavos; and
g. the percentage that the finance charge bears to the total amount to be financed expressed as a simple annual rate on the outstanding unpaid balance of the obligation.

xxxx xxxx xxxx

Sec. 6. (a) Any creditor who in connection with any credit transaction fails to disclose to any person any information in violation of this Act or any regulation issued thereunder shall be liable to such person in the amount of ₱100 or in an amount equal to twice the finance charge required by such creditor in connection with such transaction, whichever is the greater, except that such liability shall not exceed ₱2,000 on any credit transaction.

xxxx xxxx xxxx

(c) Any person who willfully violates any provision of this Act or any regulation issued thereunder shall be fined by not less than ₱1,000 nor more than ₱5,000 or imprisonment for not less than 6 months nor more than one year or both.

xxxx xxxx xxxx

(d) Any final judgment hereafter rendered in any criminal proceeding under this Act to the effect that a defendant has willfully violated this Act shall be prima facie evidence against such defendant in an action or proceeding brought by any other party against such defendant under this Act as to all matters respecting which said judgment would be an estoppel as between the parties thereto.

Sec. 7. This Act shall become effective upon approval.

Approved, 22 June 1963.

ENHANCED INTRADAY LIQUIDITY FACILITY
(Appendix to Sec. 232-Q)

Given the increasing volume of PhilPaSS transactions as well as concerns of having temporary gridlocks in the PhilPaSS, the current features of the ILF had been enhanced, specifically on the following areas:

a. Flexibility in changing the securities that will be used for the ILF;
b. Availment of the facility on a "as the need arises" basis; and
c. Removal of commitment fees

The revised features of the ILF are described below.

A. Access to ILF

Government securities (GS) held by an Eligible Participant bank in its Regular Principal Securities Account that will be used for ILF purposes shall be delivered to a sub-account under the BSP-ILF Securities Account with the Bureau of the Treasury's (BTr) Registry of Scripless Securities (RoSS). The delivered GS to be used for ILF purposes shall be recorded by RoSS in a sub-account (the "Client Securities Account (CSA)"-ILF) under the BSP-ILF Securities Account in the name of the Eligible Participant/banks.

Banks without RoSS securities accounts who intend/desire to avail of the ILF shall be required to open/maintain a Securities Account with the RoSS. The documentation requirements for RoSS membership shall be prescribed by the BTr.

Banks desiring to avail of the ILF shall be further required to open a sub-account under the BSP-ILF Securities Account with the BTr's RoSS by accomplishing an application letter addressed to the Treasurer of the Philippines, Attn: The Director, Liability Management Service and the Chief, Scripless Securities Registration Division. The application letter shall be in the form of ANNEX 1 hereto.

B. Timeline

From 9:00AM to 9:30AM of each banking day, an Eligible Participant bank shall electronically instruct the BTr to move/ transfer from its Principal Securities Account with the BTr's ROSS to the CSA-ILF under the name of the Eligible Participant bank, the pool of peso-denominated GS to be set aside for the ILF purpose. The Eligible Participant bank hereby confirms to the BTr that pursuant to an ILF availment, it has authorized the transfer without consideration unto the CSA- ILF the pool of GS to be used for ILF purposes.

From 9:30 AM to 10:00 AM, the BTr RoSS shall electronically submit a consolidated report to Bangko Sentral showing the details of the GS that were transferred to the BSP-ILF Securities Account.

From 10:00 AM to 4:00PM, Eligible Participant banks with insufficient balances in its Demand Deposit Account No.2 (PhilPaSS Account) may avail of the ILF.

Eligible Participant banks may avail of the ILF as necessary to fund pending payment instructions. Thus, when the ILF system detects queued transactions in the PhilPaSS-Central Accounting System, the Eligible Participant bank with insufficient balance in its PhilPaSS Account will automatically sell to the BSP-Treasury the GS in the CSA-ILF pool corresponding to the amount which may be needed to cover any pending payment instruction, and the proceeds of the sale of securities shall be immediately credited to the bank's PhilPaSS Account. There may be more than one availment during the day. Until a sale to the Bangko Sentral or an Overnight Repurchase (O/N-RP) transaction with the Bangko Sentral is executed, the beneficial ownership of the GS that have been transferred to the CSA- ILF still belongs to the banks.

At 5:00PM, the Bangko Sentral shall sell back to the Eligible Participant bank the GS at the same price as the original Bangko Sentral purchase. Partial repayment of a particular availment will not be allowed.

In case the PhilPaSS Account balance of the participating bank is not sufficient to cover the afternoon repayment transaction, the Bangko Sentral and the participating bank may agree on the following:

a. Bangko Sentral shall extend to the Eligible participant bank an O/N-RP at 600 basis points over the Bangko Sentral's regular overnight lending rate for the day. The O/N-RP shall be paid not later than 11:00AM on maturity date. Unpaid O/N-RP shall be automatically converted into an absolute sale to the Bangko Sentral of the subject GS earlier delivered/transferred to the CSA-ILF, pursuant to an ILF availment by the Eligible Participant bank, in which case, Bangko Sentral shall issue an instruction to BTr to deliver/transfer the subject GS from the BSP-ILF Securities Account to the Bangko Sentral regular Principal Securities Account. The sale shall be evidenced by the issue of Confirmation of Sale by the Eligible Participant bank (Annex 2) and the Confirmation of Purchase by the Bangko Sentral Treasury Department (Annex 3), or,

b. Only in extreme cases, the Bangko Sentral shall sell back to the participating bank GS up to the extent of the PhilPaSS Account balance. The Bangko Sentral shall issue an instruction to the BTr to transfer the remaining GS amounting to the unpaid ILF availment from the BSP-ILF Securities Account to the Bangko Sebtral's Regular Principal Securities Account.

At the end of the day and after Bangko Sentral's sell-back of the GS to ILF participants, normally by 5:45PM, the Bangko Sentral Treasury Department shall electronically instruct RoSS, using the ILF RoSS system developed for herein purpose, to return/ deliver from the CSA-ILF of the participating banks to their respective Regular Principal Securities Accounts with the RoSS all unused/unencumbered GS. GS used for O/N-RP shall remain in the CSA-ILF until repayment of subject O/N- RP or conversion to outright sale the following day.

Upon receipt of Bangko Sentral's electronic instruction for the return of GS back to the participating banks' regular Principal Securities Accounts, the BTr shall update their database after which participating banks may request/download statements of securities accounts for their verification.

C. Eligible Securities

Peso-denominated scripless securities of the National Government that are free and unencumbered and with remaining maturity of eleven (11) days to ten (10) years shall be eligible for the ILF. GS that will be used for ILF purposes would be reclassified with due consideration to the original booking of the security, as follows:

Original Booking of GS	**To be reclassified to**
a. Held for Trading	Held for Trading – ILF
b. Designated Fair Value Through Profit or Loss	Designated Fair Value Through Profit or Loss - ILF
c. Available for Sale	Available for Sale – ILF
d. Held to Maturity	Held to Maturity – ILF

D. Valuation of Securities

The GS subject of an ILF transaction shall be valued based on the 11:16AM fixing rates of the previous business day, from the applicable Reuters PDEX pages or any other valuation benchmark as may be prescribed by the Bangko Sentral.

E. Margins

Margins shall be applied based on prevailing policies of the Bangko Sentral Treasury Department.

F. Transaction Fee

The BTr shall collect a monthly maintenance fee of One Thousand Pesos (P1,000.00) from each Eligible Participant bank for the use of the CSA-ILF Securities Account. The maintenance fees herein required to be paid by each Eligible Participant bank shall be separate from and exclusive of any other fees being assessed and collected by BTr for membership in the RoSS. For this purpose, the Eligible Participant bank shall issue to the BTr an autodebit instruction to authorize the BTr to debit its DDA with Bangko Sentral for the above- mentioned monthly maintenance fee. The BTr will inform the Eligible Participant banks of any change in fee at least fifteen (15) days prior to implementation.

G. DDA Statements/Transaction Details

Eligible Participating banks will be able to verify the status of their accounts by initiating the SWIFT/PPS-Front-end System inquiry request.

AVAILABILITY OF SERVICE

The ILF is covered by a Memorandum of Agreement (MOA) dated 25 March 2008 by and among the Bangko Sentral, the BTr, the Bankers Association of the Philippines (for BAP members) and the Money Market Association of the Philippines (for non-BAP members). Participating banks shall sign individual participation agreements. The services outlined in the MOA shall be available at the Bangko Sentral and the BTr at a fixed hour on all banking days. Banking days refer to the days banking institutions are open for business Mondays thru Fridays as authorized by the Bangko Sentral.

PARTICIPATION AGREEMENT

_____
Date

Bangko Sentral ng Pilipinas
A. Mabini corner P. Ocampo Sr. Streets, Manila

Bureau of the Treasury Palacio del Gobernador Intramuros, Manila

Bankers Association of the Philippines
11th Floor, Sagittarius Building
H. V. dela Costa Street, Salcedo Village Makati City

Money Market Association of the Philippines
Penthouse, PDCP Bank Center
Herrera corner L. P. Leviste Streets, Salcedo Village Makati City

Gentlemen:

Please be advised that we agree to participate in the Agreement for the Establishment of Intraday Liquidity Facility to support the Philippine Payment and Settlement System (the "System") which is covered by the Memorandum of Agreement dated _____ (the "Agreement") among yourselves and its subsequent amendments of revisions as may be agreed upon by the parties thereto from time to time.

We agree to be bound by all the terms and conditions of the Agreement and adopt it as an integral part of this Participation Agreement, including the authority of the Bangko Sentral to execute payment instructions and the authority of the Bureau of the Treasury (BTr) to execute our instructions on transfer to/from, credit and debit to/against our Securities Account. Further, we agree to comply with all our obligations as participating bank/financial institution as provided in the Agreement. Lastly, we agree to keep yourselves free and harmless from any claim or liability arising from, or in connection with, our transactions transmitted through the System in accordance with the provisions of the Agreement.

This participation will become effective upon your conformity hereto and your notification of the same to us, the Bangko Sentral and the BTr.

Very truly yours,

_____
Participating Bank/Financial Institutions

APPROVED:

Bangko Sentral ng Pilipinas	By:	_____
Bureau of the Treasury	By:	_____
Bankers Association of the Philippines	By:	_____
Money Market Association of the Philippines	By:	_____

Annex 1

(LETTERHEAD OF THE APPLICANT)

The Treasurer of the Philippines
Palacio del Gobernador
Intramuros, Manila

Sir:

The undersigned hereby makes an application to open a Client Securities Account under the BSP-ILF RoSS Account in the Registry of Scripless Securities (RoSS) operated and maintained by the Bureau of the Treasury (BTr).

The undersigned will pay to BTr an additional monthly fee of P1,000.00 for the Client Securities Account opened payable on the first business day of each month. The BTr will inform the undersigned of any change in fee at least fifteen (15) days prior to implementation.

Please debit/credit our Regular Demand Deposit Account No._____with the Bangko Sentral for the payment of said monthly fee.

_____Manila, Philippines
(Date)

_____
(Name of Applicant)

_____
(Signature of Authorized Signatory)

_____
(Designation)

Annex 2

LETTERHEAD OF THE SELLER

Transaction No. _____ Value Date _____

CONFIRMATION OF SALE OF GOVERNMENT SECURITIES

The _____, does hereby CONFIRM that it has SOLD, TRANSFERRED AND CONVEYED unto_____ _____, pursuant to the Memorandum of Agreement for Intraday Liquidity Facility and the Participation Agreement executed on _____ and _____, respectively, all of its rights, titles and interests over the following described Government Securities, held by the Bureau of the Treasury under the Registry of Scripless Securities System.

ISIN	TERM	ISSUE DATE	MATURITY DATE	FACE AMOUNT

_____ (Code)

_____ (Account Number)

_____ (Name of GSED)

_____ (Signature of Authorized Signatory)

_____ (Designation)

Annex 3

Transaction No. _____
Value Date _____

CONFIRMATION OF PURCHASE OF GOVERNMENT SECURITIES

The _____, does hereby CONFIRM that it has PURCHASED from _____, pursuant to the Memorandum of Agreement for Intraday Liquidity Facility and the Participation Agreement executed on _____ and _____, respectively, all of its rights, titles and interests over the following described Government Securities, held by the Bureau of the Treasury under its Registry of Scripless Securities System.

ISIN	TERM	ISSUE DATE	MATURITY DATE	FACE AMOUNT

_____ _____
(Code) (Account Number)

_____
(Name of GSED)

_____
(Signature of Authorized Signatory)

_____
(Designation)

SAMPLE INVESTMENT MANAGEMENT AGREEMENT

[Appendix to Sec. 415-Q (Minimum documentary requirements)]

IMA No. (Prenumbered)

INVESTMENT MANAGEMENT AGREEMENT

KNOW ALL MEN BY THESE PRESENTS

This AGREEMENT, made and executed this _____ day of _____ at _____, Philippines by and between:

_____

(Hereinafter referred to as the "PRINCIPAL")

and

_____, an institution authorized to perform trust functions, organized and existing under and by virtue of the laws of the Philippines, with principal office and place of business at _____,_____ Philippines. (Hereinafter referred to as the "INVESTMENT MANAGER")

WITNESSETH: THAT –

WHEREAS, the Principal desires to avail of the services of the Investment Manager relative to the management and investment of Principal's investible funds.

WHEREAS, the Investment Manager is willing to render the services required by the Principal relative to the management and investment of Principal's investible funds, subject to the terms and conditions hereinafter stipulated;

NOW, THEREFORE, for and in consideration of the foregoing and of the mutual conditions stipulated hereunder, the parties hereto hereby agree and bind themselves to the following terms and conditions:

INVESTMENT PORTFOLIO

1. Delivery of the Fund - Upon execution of this Agreement, the Principal shall deliver to the Investment Manager the amount of PHILIPPINE PESOS:

   _____ (P _____).

2. Composition - The cash which the Principal has delivered to the Investment Manager as well as such securities in which said sums are invested, the proceeds, interest, dividends and income or profits realized from the management, investment and reinvestment thereof, shall constitute the managed funds and shall hereafter be designated and referred to as the Portfolio. For purposes of this Agreement, the term securities shall be deemed to include commercial papers, shares of stock and other financial instruments.

3. Delivery of Additional Funds - At any time hereafter and from time to time at the discretion of the Principal, the latter may deliver additional funds to the Investment Manager which shall form part of the Portfolio and shall be subject to the same terms and conditions of this Agreement. No formalities other than a letter from the Principal and physical delivery to the Investment Manager of cash will be required for any addition to the Portfolio.

4. Nature of Agreement - THIS AGREEMENT IS AN AGENCY AND NOT A TRUST AGREEMENT. AS SUCH, THE CLIENT SHALL AT ALL TIMES RETAIN LEGAL TITLE TO FUNDS AND PROPERTIES SUBJECT OF THIS ARRANGEMENT.

   THIS AGREEMENT IS FOR FINANCIAL RETURN AND FOR THE APPRECIATION OF ASSETS OF THE ACCOUNT. THIS AGREEMENT DOES NOT GUARANTEE A YIELD, RETURN OR INCOME BY THE INVESTMENT MANAGER. AS SUCH, PAST PERFORMANCE OF THE ACCOUNT IS NOT A GUARANTY OF FUTURE PERFORMANCE AND THE INCOME OF INVESTMENTS CAN FALL AS WELL AS RISE DEPENDING ON PREVAILING MARKET CONDITIONS.

IT IS UNDERSTOOD THAT THIS INVESTMENT MANAGEMENT AGREEMENT IS NOT COVERED BY THE PHILIPPINE DEPOSIT INSURANCE CORPORATION (PDIC) AND THAT LOSSES, IF ANY, SHALL BE FOR THE ACCOUNT OF THE PRINCIPAL.

POWERS

5. Powers of the Investment Manager - The Investment Manager is hereby conferred the following powers:

   a. To invest or reinvest the Portfolio in (1) Evidences of indebtedness of the Republic of the Philippines and of the Bangko Sentral ng Pilipinas, and any other evidences of indebtedness or obligations the servicing and repayment of which are fully guaranteed by the Republic of the Philippines or loans against such government securities; (2) Loans fully guaranteed by the government as to the payment of principal and interest; (3) Loans fully secured by hold-out on, assignment or pledge of, deposits or of deposit substitutes, or mortgage and chattel mortgage bonds; (4) Loans fully secured by real estate and chattels in accordance with Sec. 78 of R.A. No. 337, as amended, and subject to the requirements of Secs. 75, 76 and 77 of R.A. No. 337, as amended; and (5) Such other investments or loans as may be directed or authorized by the Principal in a separate written instrument which shall form part of this Agreement: *Provided,* That said written instrument shall contain the following minimum information: (a) The transaction to be entered into; (b) The amount involved; and (c) The name of the issuer, in case of securities and/or the name of the borrower and nature of security, in the case of loans;

   b. To endorse, sign or execute any and all securities, documents or contracts necessary for or connected with the exercise of the powers hereby conferred or the performance of the acts hereby authorized;

   c. To cause any property of the Portfolio to be issued, held, or registered in the name of the Principal or of the Investment Manager: *Provided*, That in case of the latter, the instrument shall indicate that the Investment Manager is acting in a representative capacity and that the Principal's name is disclosed thereat;

   d. To open and maintain savings and/or checking accounts as may be considered necessary from time to time in the performance of the agency and the authority herein conferred upon the Investment Manager;

   e. To collect and receive matured securities, dividends, profits, interest and all other sums accruing to or due to the Portfolio;

   f. To pay such taxes as may be due in respect of or on account of the Portfolio or in respect of any profit, income or gains derived from the sale or disposition of securities or other properties constituting part of the Portfolio;

   g. To pay out of the Portfolio all costs, charges and expenses incurred in connection with the investments or the administration and management of the Portfolio including the compensation of the Investment Manager for its services relative to the Portfolio; and

   h. To perform such other acts or make, execute and deliver all instruments necessary or proper for the exercise of any of the powers conferred herein, or to accomplish any of the purposes hereof.

LIABILITY OF INVESTMENT MANAGER

6. Exemption from Liability - In the absence of fraud, bad faith, or gross or willful negligence on the part of the Investment Manager or any person acting in its behalf, the Investment Manager shall not be liable for any loss or damage to the Portfolio arising out of or in connection with any act done or performed or caused to be done or performed by the Investment Manager pursuant to the terms and conditions herein agreed, to carry out the powers, duties and purposes for which this Agreement is executed.

ACCOUNTING AND REPORTING

7. The Investment Manager shall keep and maintain books of accounts and other accounting records as required by law. The Principal or the authorized representative of the Principal shall have access to and may inspect such books of accounts and all other records related to the Portfolio, including the securities held in custody by the Investment Manager for the Portfolio.

8. Reporting Requirements - The Investment Manager shall prepare and submit to the Principal the following reports within_____: (a) Balance Sheet; (b) Income Statement; (c) Schedule of Earning Assets; (d) Investment Activity Report; and (e) (such other reports as may be required by the Principal).

INVESTMENT MANAGER'S FEE

9. Investment Fee - The Investment Manager, in addition to the reimbursement of its expenses and disbursements in the administration and management of the Portfolio including counsel fees, shall be entitled to receive as compensation for its services a management fee of (Specify amount or rate).

WITHDRAWALS FROM THE PORTFOLIO

10. Withdrawal of Income/Principal - Subject to availability of funds and the non- diminution of the Portfolio below (the amount prescribed by the trust entity, but not lower than P100,000), the Principal may withdraw the income/ principal of the Portfolio or portion thereof upon written instruction or order given to the Investment Manager. The Investment Manager shall not be required to see as to the application of the income/principal so withdrawn from the Portfolio. Any income of the Portfolio not withdrawn shall be accumulated and added to the principal of the Portfolio for further investment and reinvestment.

11. Non-alienation of Encumbrance of the Portfolio or Income – During the effectivity of this Agreement, the Principal shall not assign or encumber the Portfolio or its income or any portion thereof in any manner whatsoever to any person without the prior written consent of the Investment Manager.

EFFECTIVITY AND TERMINATION

12. Term – This Agreement shall take effect from the date of signing hereof and shall be in full force and effect until terminated by either party by giving written notice thereof to the other at least ( ) days prior to the termination date.

13. Powers upon Liquidation – The powers, duties and discretion conferred upon the Investment Manager by virtue of this Agreement shall continue for the purpose of liquidation and return of the Portfolio, after the notice of termination of this Agreement has been served in writing, until final delivery of the Portfolio to the Principal.

14. Accounting of Transaction – Within ( ) days after the termination of this Agreement, the Investment Manager shall submit to the Principal an accounting of all transactions effected by it since the last report up to the date of termination. Upon the expiration of the( ) days from the date of submission, the Investment Manager shall forever be released and discharged from all liability and accountability to anyone with respect to the Portfolio or to the propriety of its acts and transactions shown in such accounting, except with respect to those objected to in writing by the Principal within the _____ ( ) day period.

15. Remittance of Net Assets of the Portfolio – Upon termination of the Agreement, the Investment Manager shall turn over all assets of the Portfolio which may or may not be in cash to the Principal less the payment of the fees provided in this Agreement in carrying out its functions or in the exercise of its powers and authorities.

    This Agreement or any specific amendments hereto constitute the entire agreement between the parties, and the Investment Manager shall not be bound by any representation, agreement, stipulations or promise, written or otherwise, not contained in this Agreement or incorporated herein by reference, except pertinent laws, circulars or regulations approved by the Government or its agencies. No amendment, novation, modification or supplement of this Agreement shall be valid or binding unless in writing and signed by the parties hereto.

    IN WITNESS WHEREOF, the parties have hereunto set their hands on the date and at the place first above set forth.

_____ _____

(PRINCIPAL) (INVESTMENT MANAGER)

By:

_____ _____

(Circular No. 1109 dated 4 February 2021)

RISK MANAGEMENT GUIDELINES FOR DERIVATIVES
(Appendix to Sec. 613-Q)

I. Introduction

This appendix, together with the Guidelines on Supervision by Risk (*Appendix Q-41*) and other Bangko Sentral issuances on management of the different risks attendant to FI activities, provides a framework on which an FI can establish its risk management activities. Accordingly, this set of risk management guidelines for derivatives should be read and used in conjunction with all related Bangko Sentral issuances on risk management.

An FI, in using these guidelines to evaluate the propriety and adequacy of its risk management, must consider the following principles:

a. No single risk management system for derivatives is expected to work for all FIs considering that the structure and level of derivatives activities will vary from one FI to another. Each FI should apply the principles set in these guidelines in a manner appropriate to its needs and circumstances. The Bangko Sentral shall evaluate the quality of an FI's risk management system based on the principles and minimum requirements of these guidelines, scaled to the derivatives activities being undertaken.

b. The requirements prescribed in these guidelines are merely minimum standards and therefore, should not be taken as the "be-all" for all FI's risk management. The Board of Directors ("BOD") has the responsibility of ensuring that an FI's risk management system appropriately captures its risk exposures and affords proper management of these.

II. Risks associated with derivatives

While derivatives primarily help manage existing and anticipated risks, derivatives themselves are exposed to the risks they are designed to manage. Moreover, simple derivatives, when combined with other financial instruments, may result in a structure that exposes an FI to complicated risks. Thus, derivatives can aggravate the risks of FIs and of counterparties if derivatives are not clearly understood and properly managed.

A single derivatives product may expose an FI to multiple risks as enumerated under Section III of *Appendix Q-41*. These categories are not mutually exclusive of each other. Hence, derivatives activities must be managed with consideration of all of these risks.

III. Risk management process for derivatives

The management of derivatives activities should be integrated into an FI's overall risk management system using a conceptual framework common to the FI's other businesses. For example, price risk exposure arising from derivatives transactions should be assessed in a manner comparable to and aggregated with all other price risk exposures. Risk consolidation is particularly important because the various risks contained in derivatives and other market activities can be interconnected and may transcend specific markets.

At a minimum, the risk management process for derivatives should be able to:

a. **Identify** the risks arising from its derivatives activities in whatever capacity it deals with the same. An FI must likewise identify the impact of its derivatives activities on its overall risk profile. To properly identify risks, an FI must understand the derivatives products with which it is transacting and the factors that affect them.

Considering that changes in the value of derivatives are highly influenced by changes in market factors, risk identification should be a continuing process and should occur at both a transaction and portfolio level.

b. **Measure** the risks arising from its derivatives activities. An FI must have measurement models or tools to quantify the risks identified. These measurement tools should be suitable to the nature and volume of an FI's derivatives activities. As the complexity and volume of the derivatives activity increases, the measurement tools should correspondingly be more sophisticated. The primary criteria for the propriety of the measurement tools are accuracy, timeliness, efficiency and comprehensiveness with which these tools can capture the risks involved and their contribution to the decision-making process of FI management.

c. **Monitor** the risks arising from its derivatives activities. Derivatives products are very sensitive to market factors, which continually change. Thus, an FI should have a mechanism to monitor the responsiveness of derivatives to market factors to enable it to review and assess its risk positions. In order to effectively monitor the risks, reports must be timely generated in order to aid management in determining whether there is need to adjust the FI's derivatives positions.

d. **Control** the risks arising from its derivatives activities. An FI must establish limits to its derivatives exposure. These limits should be comprehensive and aligned with an FI's overall risk tolerance. An FI's policies and procedures on control should provide for contingencies when limits are breached. An FI must allot lead time and have a mechanism that enables management to act

in time to control unacceptable or undesired exposures. An FI must also establish a system that separates functions susceptible to conflicts of interest.

IV. Sound risk management practices for derivatives

Consistent with the criteria for sound risk management practices in Section V of *Appendices Q-42* and *Q-43*, the Bangko Sentral shall assess the propriety and adequacy of an FI's risk management system for its derivatives activities in accordance with the following basic principles.

a. Active and appropriate board and senior management oversight

An FI's BOD must set the general policy or the policy direction relating to the management of an FI's risks, including those arising from its derivatives activities. This policy should be consistent with the FI's business strategies, capital strength, management expertise and risk profile. Accordingly, the BOD must understand the nature and purpose of the FI's derivatives activities and the role derivatives play in the FI's overall business strategy. Passive BOD approval is not acceptable. There must be verifiable evidence of the BOD approval processes and that senior management exerted effort to explain the nature and purpose of the derivatives activities to the BOD (e.g. minutes of BOD meetings documenting presentations and reports to the BOD and the approval processes).

The BOD must review and pre-approve new derivatives products as well as significant related policies and procedures. Central to the approval of new products is defining when a product or activity is new in order to ensure that variations on existing products receive the proper review and authorization. Policies should also detail authorized activities (e.g., at what stages approvals should be obtained, from whom approvals should be obtained), those that require on-time approval and those that are considered inappropriate.

The BOD must be apprised of the FI's derivatives exposures on a timely basis in order to enable the BOD to act on such exposures accordingly. Consequently, there should be an established reporting methodology to ensure that the BOD receives, on a continuing basis, detailed information regarding the FI's risk exposures from derivatives, including the impact to the FI's overall risk profile, earnings and capital. These reports should include both normal and stress scenarios.

Pursuant to the general policy or policy direction on risk management set by the BOD, senior management must adopt adequate policies and procedures for conducting the FI's derivatives activities on both a long-range and day-to-day basis. Policies should clearly delineate responsibility for managing risk, and provide effective internal controls and a comprehensive risk-reporting process. Policies must also keep pace with the changing nature of derivatives products and markets and therefore must be reviewed on an on-going basis. Senior management should ensure that the various components of an FI's risk management process are regularly reviewed and evaluated. Internal evaluations may be supplemented by external auditors or other qualified outside parties.

The quality of oversight provided by the BOD and senior management to an FI's derivatives activities will be reflected in the overall risk management process, the adequacy of resources (financial, technical expertise, and systems technology) devoted to handle derivatives activities and its use of the monitoring reports. The BOD and senior management shall be responsible for ensuring that FI personnel comply with prescribed risk management standards and sales and marketing guidelines.

b. Adequate risk management policies and procedures

An FI must establish policies and procedures to guide its personnel in conducting derivatives activities. These risk management policies must be reflective of an FI's current strategy and practice.

An FI should not issue policies and procedures for derivatives in isolation. All aspects of the risk management process for derivatives activities should be integrated into the FI's over-all risk management system to the fullest extent possible using a conceptual framework common to the FI's other activities. Risk management policies should be comprehensive, covering all activities of the FI. The Bangko Sentral will evaluate the degree to which controls covering derivatives activities have been integrated in other issuances of the FI covering aggregate risk- taking activities.

For FIs that conduct derivatives transactions with subsidiaries and affiliates, there should be policies and procedures that describe the nature, pricing, monitoring, and reporting of acceptable related-party transactions.

All risk management policies and procedures must be written, well- communicated to all personnel involved in the derivatives activities and readily available in user-friendly form, whether the same is a hard or soft copy thereof. An FI must also put up systems and procedures to ensure an audit trail evidencing the dissemination process for new and amended policies and procedures.

At a minimum, an FI is expected to have:

(1) Comprehensive, updated and relevant risk policy manual(s);

(2) Operations manual(s) or similar documents that describe the flow of transactions among and between the relevant units and personnel in an FI's treasury (front office, back office and accounting) and risk management unit;

(3) Approved product manual(s) that includes product definition, benefits and risks, pricing mechanisms, risk management processes, capital allocation guidelines, tax implications and other operating procedures and controls for the FI's derivatives activities.

c. Appropriate risk measurement methodologies, limits structure, monitoring and management information system

The process of measuring, monitoring and controlling risk should be carried out independently from individuals conducting derivatives activities. An independent system of reporting exposures to both senior level management and to the BOD is critical to the effectiveness of the process.

(1) Measurement methodologies

An FI must be able not only to accurately quantify the multiple risk exposures arising from its derivatives activities but also aggregate similar risks across the different activities of the FI to the fullest extent possible. An FI must develop a risk measurement model appropriate to its portfolio. Accordingly, an FI must evaluate the assumptions used, computational requirements, procedures for computing the risk metric, sourcing of inputs used in the measurement process, including the theoretical reasons for a particular input choice, and how these concepts apply to the FI's portfolio.

The risk measurement system should be structured to enable management to initiate prompt remedial action, facilitate stress- testing, and assess the potential impact of various changes in market factors on earnings and capital. A risk measurement system is considered sound if it is capable of comprehensively capturing risks from: (a) the FI's on and off-balance sheet exposure; (b) all relevant market factors; and (c) normal circumstances and stress events. Sound risk measurement practice includes identifying possible events or changes in market behavior that could have unfavorable effects on the FI and assessing the ability of the FI to withstand these events or changes. The stress testing should include not only quantitative exercises that compute potential gains or losses but also qualitative analyses of actions that management might take under particular scenarios.

An FI's risk measurement system should provide appropriate pricing and valuation procedures to ensure best execution for both proprietary trading and those undertaken for clients and a mark-to- market/model (MTM) methodology for derivatives instruments that follows established MTM regulations and Philippine Financial Reporting Standard (PFRS 9).

New measurement models, whether developed internally or purchased from vendors, should be subject to an initial validation before it is used. Internally developed models require more intensive evaluation where they have not been market-tested by external parties. The validation process should consist of a review of the logic, mathematical or statistical theories, assumptions, internal processes and overall reliability of an FI's measurement models, including the compatibility of the measurement model with the FI's technology and systems. The validation must be undertaken by a technical expert independent from the unit that developed the model. For example, pricing systems developed by a trader is required to be independently validated by a corresponding technical expert from the FI's risk management unit. If no such personnel from the risk management unit exists, an independent validation may be performed by internal audit provided that internal audit has the necessary expertise. An FI may also avail of the services of an independent outside expert. Thereafter, the frequency and extent to which models are validated depends on changes that affect pricing, risk presentation or the existing control environment. Changes in market conditions that affect pricing and risk conventions, which model performance, should trigger additional validation review.

Risk management policies should clearly address the scope of the validation process, the frequency of validations, documentation requirements, and management responses. At a minimum, policies should require the evaluation of significant underlying algorithms and assumptions before the model is put in regular use, and as market conditions warrant thereafter. Such internal evaluation should be conducted by parties who, where practicable, are independent of the business sector using or developing the model. The evaluation may, if necessary, be conducted or supplemented with reviews by qualified outside parties, such as experts in highly technical models and risk management techniques.

(2) Limits structure

An FI must specify individual limits for all types of risks involved in an FI's derivatives activities. An FI should use a variety of limits to adequately capture the range of risks or to address risks that the measurement system does not capture. These limits should be integrated into the FI-wide limit structure to ensure consistency with the BOD-approved risk appetite and business strategy.

The limit structure should be realistic taking into consideration the target budget, level of earnings and capital. Limits must be documented and promptly communicated to all relevant personnel. Limits must be reviewed at least annually or more frequently, if circumstances warrant, in order to ensure that limits reflect the FI's past performance and current position.

Limits should be continually analyzed as regards its impact on target income, earnings and capital. These analyses should be submitted/reported to the BOD. Any excess over the limit must be approved only by authorized personnel and immediately reported to senior management and depending on the seriousness, also to the BOD. The seriousness of limit exceptions depends upon management's approach towards setting limits and on the actual size of individual and organizational limits relative to the FI's capacity to take risks. An FI with relatively conservative limits may encounter more exceptions to those limits than that with less restrictive limits. There must also be mechanisms for the correction of breach of these limits.

An FI's limit structure should address the following:

(a) Definition of a credit exposure;
(b) Maximum credit exposure to an individual counterparty;
(c) Credit concentrations;
(d) Maximum nominal exposure:

(i) Per trader and per transaction; and
(ii) Position limits

(e) Approved credit risk mitigation techniques; and
(f) Appropriate loss exposure triggers:

(i) Loss alert;
(ii) Stop loss;
(iii) Value-at-risk; and
(iv) Earnings-at-risk

(3) Monitoring

Monitoring of risk exposures, market conditions, and trading positions should be done at least daily. Derivatives instruments are highly influenced by movements in market factors. Thus, an FI must have a mechanism that can track and analyze the effect of market movements on its derivatives exposures. To ensure proper monitoring of risks, an FI is expected to have technology and systems that can (a) track movements in reference variables (underlying) and other market factors affecting the value of the derivatives instruments, such as trigger events; and (b) incorporate observed market movements into the pricing and valuation of derivatives instruments.

While monitoring is undertaken independently from the personnel conducting derivatives activities, FI traders are expected to actively monitor their positions to ensure that they do not breach their limits. FI traders should not wait until a limit is breached to alert senior management and risk control units. Instead, traders should promptly report unanticipated changes and progressively deteriorating positions, as well as other significant issues arising from their positions, to the risk control function and responsible management.

(4) Management information system

An FI must institute an information system that generates accurate and incisive reports to ensure that management and the BOD are timely and regularly apprised of the FI's derivatives exposures. An FI is expected to have policies and procedures pertaining to the derivatives reporting specifying, among others, the types of derivatives reports to be generated, the purpose and contents thereof, responsible units that will generate the reports, frequency and deadlines of reports, recipients/users of reports, and the type of action expected from the users of the report. At a minimum, management reports should contain the following: outstanding derivatives positions, compliance with or status of positions as against limits, analysis of derivatives positions, along with other FI exposures, in relation to the impact to earnings and capital, monitoring of trigger events, and deviations from established policies and procedures and justifications thereof.

The management information system must be able to translate the measured risks from derivatives activities from a technical and quantitative format to one that can easily be read and understood by senior managers and directors, who may not have specialized and technical knowledge of derivatives products. Such a system enables management and the BOD to judge the changing nature of the FI's risk exposures. The electronic data processing capability must be commensurate to the volume and complexity of the FI's derivatives activities to facilitate the generation of needed reports.

The frequency and content of BOD and management reporting will ultimately depend upon the nature and significance of derivatives activities. Where applicable, BOD and management reports should consolidate information across functions and divisions. BOD and management reporting should be tailored to the intended audience, providing summary information to senior management and the BOD and more detailed information to FI traders.

Management reports should be generated by control departments independent of the risk-takers. When risk- takers provide information (e.g., valuations or volatilities on thinly traded derivatives contracts) for management reports, senior management should be informed of possible weaknesses in the data, and these positions should be audited frequently.

d. Comprehensive internal controls and independents audits.

A sound system of internal controls promotes effective and efficient operations, reliable financial and regulatory reporting, and compliance with relevant laws, regulations and policies of the FI. In determining whether an FI's internal controls meet these objectives, the Bangko Sentral will consider the overall control environment of the FI, particularly, the process of identifying, measuring, analyzing and managing risk, the adequacy of management information systems, and degree of adherence to control activities such as approvals, confirmations and reconciliations. Control of the reconciliation process is particularly important where there are differences in the valuation methodologies or systems used by the front and back offices.

(1) Risk Control

An FI should have an independent risk control unit responsible for the design and implementation of the FI's risk management system. A strong risk control function is a key element in fulfilling the oversight responsibilities of BOD members and senior managers. This unit must be independent from business trading units and should report directly to the BOD. The role and structure of risk control function should be commensurate to the nature, complexity and extent of an FI's derivatives activities.

A risk control unit should regularly evaluate risk-taking activities by assessing risk levels and the adequacy of risk management processes. It should also monitor the development and implementation of control policies and risk measurement systems. It should analyze daily reports produced by the FI's risk measurement model, including an evaluation of the relationship between measures of risk exposure and trading limits. Risk control personnel staff should periodically communicate their observations to senior management and the BOD.

An FI's control structure shall be considered sound if all the following elements are present:

(a) Formal approval process for new products

An FI should have an effective process to evaluate and review risks involved in products that are either new to the FI or new to the market and of potential interest to the FI. An FI that desires to engage in new products and transactions must first subject these products and transactions to a rigorous review and approval process. This will ensure that all FI personnel involved in the activity have sufficient knowledge of the product or transaction, and that the ensuing risk exposures can be identified, measured and analyzed. The process must be contained in a BOD-approved policy that is fully documented and must be implemented consistently and with integrity.

Before initiating a new derivatives activity, all relevant personnel should understand the product. Risks arising from the new product should be integrated into the FI's risk measurement and control systems. The new product approval process should include a sign-off by all relevant areas such as risk control, operations, accounting, legal, audit, and senior management and trading operations.

Defining a product or activity as "new" is central to ensuring that variations on existing products receive the proper review and authorization. Factors that should be considered in classifying a product/activity as "new" include: capacity changes (e.g., end-user to dealer), structure variations (e.g., non-amortizing swap versus amortizing interest rate swap), products which require a new pricing methodology, legal or regulatory considerations, or market characteristics (e.g., foreign exchange forwards in major currencies as opposed to emerging market currencies).

An FI should introduce new products in a manner that adequately limits potential losses and permits the testing of internal systems.

(b) Segregation of functions/units subject to conflict of interest

An FI must separate the business unit conducting the derivatives activities from the unit/s tasked with the checking, accounting, reporting and control functions of its derivatives activities.

An FI should have policies and procedures addressing conflicts of interest, particularly among the following functions: proprietary trading, sales or marketing desks/units, personal trading, and asset management.

An FI that conducts derivatives activities with its subsidiaries and/or affiliates must establish policies and procedures to avoid actual, or even the appearance of a conflict of interest. Off-market rates between related parties should generally be forbidden.

An FI should avoid dealing in transactions conducted at off-market rates. An FI should have internal policies defining what constitutes "market rates" and identify the range of deviation from the benchmark rates which could still be considered as

"market rates". The FI's monitoring system should be able to alert management of any breaches in the rate tolerance levels and the appropriate action that should be taken. An FI must be able to justify any off-market transaction.

(c) Competent and adequate personnel who are properly supervised

The increased complexity of derivatives activities requires highly skilled staff particularly in the risk-taking, risk control, and operational functions. Management should regularly review the knowledge, skills and number of people needed to engage in the FI's derivatives activities. The staff must be appropriately balanced among the different areas involved in derivatives activities such that no area is understaffed in terms of number or skill.

Staff turnover can create serious problems, especially if knowledge is concentrated in a few individuals. The impact of staff turnover can be particularly acute in specialized trading markets where FI traders are in high demand and are often recruited in teams.

To mitigate business continuity and succession risk arising from a high staff turnover, an FI should devise a system of building technical expertise across involved personnel through continuous technical training, periodic rotation and cross-training of staff members performing key functions and developing understudies.

The BOD should ensure that the power and control delegated to these expert personnel are not abused. Therefore, the BOD must establish appropriate controls over their activities.

(d) Independent control functions or units

The risk control and audit units should possess the authority, independence, and corporate stature to enable them to identify and report their findings, unimpeded by FI traders. It is equally important to employ individuals with sufficient experience and technical expertise to be credible to the business line they monitor and senior executives to whom they report.

(2) Audit

Audit should be conducted by qualified professionals who are independent of the business line being audited. Audits should supplement, and not be substitute for risk control function.

The scope of audit coverage should be commensurate with the level of risk and volume of derivatives activity. The audit should include an appraisal of the effectiveness and independence of the FI's risk management process; the adequacy of operations, compliance, accounting and reporting systems; propriety of risk measurement models; and the effectiveness of internal controls. Auditors should test compliance with the FI's policies, including limits.

The level of auditor expertise should be consistent with the level and complexity of activities and degree of risk assumed. An FI may choose to outsource audit coverage to ensure that the professionals performing the work possess sufficient knowledge and experience.

Procedures should be in place to ensure that auditors are informed of significant changes in product lines, risk management methods, risk limits, operating systems, and internal controls so that the auditors can update their scope and procedures accordingly. Auditors should periodically review and analyze performance and risk management reports to ensure that areas showing significant changes are given appropriate attention.

The audit function must have the support of management and the BOD in order to be effective. Management should respond promptly to audit findings by investigating identified system and internal control weaknesses and implementing corrective action. Thereafter, management should periodically monitor newly implemented systems and controls to ensure they are working appropriately. The BOD, or designated committee, should receive reports tracking management's actions to address identified deficiencies.

(Circular No. 1011 dated 14 August 2018)

SECURITIES AND EXCHANGE COMMISSION BASIC RULES AND REGULATIONS TO IMPLEMENT THE PROVISIONS OF PRESIDENTIAL DECREE NO. 129, OTHERWISE KNOWN AS "THE INVESTMENT HOUSES LAW"
(Appendix to Sections 1141-Q and 102-Q)

To effectively carry out the provisions of Presidential Decree (P.D.) No. 129, otherwise known as "The Investment Houses Law", the Commission, pursuant to the powers vested in it by said Decree, and by R.A. Nos. 1143 and 5050, hereby promulgates the following rules and regulations for the information and guidance of the public:

Section 1. Scope of Applicability.

These rules and regulations shall apply to any enterprise which engages or purports to engage in the underwriting of securities.

Section 2. Definitions.

The following terms as used in P.D. No. 129 and these rules shall be understood to mean as follows:

a) *Investment House* (IH) is any enterprise which engages or purports to engage, whether regularly or on an isolated basis, in the underwriting of securities of another person or enterprise, including securities of the Government and its instrumentalities.

b) *Underwriting of securities* is the act or process of guaranteeing the distribution and sale within the Philippines of securities issued by another person or enterprise, including securities of the Government or its instrumentalities. The distribution and sale may be on a public or private placement basis.

c) *Securities* are written evidences of ownership, interest or participation, in any enterprise, or written evidences of indebtedness of a person or enterprise. It includes, but is not limited to, the instruments enumerated in Section 2 of the Securities Act.

d) *Guarantee* is any commitment and/or undertaking made by a person, firm or entity to an issuer or holder of securities to raise funds for said issuer or holder, by the distribution of such securities for sale, resale, or subscription, either through an outright purchase or through a corresponding commitment to purchase the balance not subscribed or sold.

e) *Private placement* refers to the underwritten sale of securities to less than 20 persons or enterprises.

f) *Public distribution* refers to the underwritten sale of securities to at least 20 persons or enterprises.

g) *Voting stock* is that portion of the authorized capital stock of an IH, as are subscribed and entitled to vote.

h) *Paid-in capital* are all payments on subscriptions to the authorized capital of an IH, including premiums paid in excess of par.

i) *Officer* shall be understood to mean a senior officer of an IH or bank, which includes the president, executive vice-president, general manager, vice-president, assistant vice-president, corporate secretary, head of an operating department and branch manager and such other officers as the Commission, in consultation with the Bangko Sentral, shall determine.

j) *Organizers* are persons who undertake to form an IH, among themselves and others, and who are indicated in the articles of incorporation as the incorporators and the incorporating directors.

k) *Managerial staff* are the officers of an IH. Where an IH is under a management contract the terms shall be understood to include the officers of the management firm.

l) *Unimpaired capital and surplus* means the total of the unimpaired paid-in capital, surplus, and undivided profits net of such valuation reserves as may be required by the Commission provided that the Commission may include such other items as it may deem appropriate.

m) *Quasi-banking functions* shall refer to the functions defined as such by law and appropriate implementing rules and regulations.

n) *Commission* shall mean the Securities and Exchange Commission.

Section 3. Organization and Registration.

A. *Investment Houses* shall be organized in the form of stock corporations in accordance with the provisions of the Corporation Law, subject to the following requirements:

1) At least a majority of the voting stock of the corporation shall be owned by citizens of the Philippines. In determining the percentage of foreign-owned voting stocks in an IH, the basis of the computation shall be the citizenship of each stockholder, and, with respect to corporate owners of voting stock, the citizenship of the individual owners of voting stock in the corporation holding shares in the IH;

2) The majority of the members of the Board shall be citizens of the Philippines;

3) Foreign equity participation shall be registered or reported with the Board of Investment in accordance with the rules and regulations of that Office, prior to or simultaneous with the registration with the Commission;

4) The corporation shall have a minimum initial paid-in capital of P20.0 million at the time of incorporation;

5) Resident foreign directors or technicians of an IH, if any, shall register with the Bureau of Immigration and Deportation;

6) In no event shall an officer of an IH be at the same time an officer of a bank, as defined in Section 3 of R.A. No. 337, as amended;

7) No director or officer of an IH shall at the same time be a director of a bank, and no director of an IH shall at the same time be an officer of a bank, except as may be authorized as an exception by the Monetary Board of the Bangko Sentral.

B. *Procedure* - The organizers shall file with the Commission, a sworn application for registration in accordance with the prescribed form, together with the following documents:

(1) All documents required for registration as a stock corporation;

(2) An information sheet of the registrant corporation; [SEC Form 129-2]

(3) A statement under oath by the organizers and the proposed managerial staff, of their educational background and work experience, as well as information on any position currently held by them in banking and other FIs, if any (SEC Form 129-3);

(4) A one (1)-year projected statement of assets and liabilities of the proposed IH;

(5) A tentative program of operation for one year, including its investment direction and volume, its expected sources and intended uses of funds and its quasi-banking functions, if any.

C. *Hearing on Application* – The Commission shall conduct a hearing to determine whether the establishment of the proposed IH will promote public interest and economic growth. The Bangko Sentral shall be officially notified. The SEC Commissioner shall not register any articles of incorporation unless his Office shall have consulted the Bangko Sentral and is satisfied on the basis of the evidence submitted that:

(1) All the requirements of P.D. No. 129 and of existing laws relative to the organization of an IH have been complied with;

(2) Public interest and economic growth are promoted;

(3) The amount of capital, the proposed organization, direction and administration, as well as the integrity, experience and expertise of the organizers and the proposed managerial staff, provide reasonable assurance that the enterprise will be conducted with financial prudence.

D. *Issuance of Certificate of Incorporation* - Upon compliance with all the requirements of law and implementing rules, and the Commission is satisfied that the formation of the IH will promote public interest and economic growth, a Certificate of Incorporation will be issued to it. A license to operate shall also be granted after it shall have adopted its by-laws, elected its directors and appointed its officers.

E. *Annual Fees* - On or before the fifteenth day of January of each year, and for as long as its license to operate remains in effect, each IH shall pay a fee of P200. At the time of payment, the Commission may require the licensee to appear and inform the Commission of the results of its operations.

F. *Branch Operations* - No IH shall open, maintain or operate a branch or agency without first securing from the Commission a license to operate a branch in a particular locality. All applications for a license to operate a branch shall be acted upon by the Commission within ninety (90) days after submission of such documents as may be required by the Commission in support of such application.

G. *Use of the Term "Investment House"* - No person, association, partnership or corporation other than those duly licensed as an IH in accordance with these rules and regulations, shall advertise or hold itself out as being engaged in the business of an IH.

Sec. 4. Underwriting Requirements.

Underwriting agreements entered into by an IH, with respect to public distribution of securities, including the fees to be charged in connection therewith, shall be subject to the approval of the Commission, it being understood that no public distribution of securities shall be made without such approval. The Commission may impose such terms and conditions as may be necessary in the public interest and for the protection of investors; and it may require the submission of such documents as may be necessary to ascertain compliance with such standards of operation as it may establish. Transactions which constitute quasi-banking functions shall be subject to Bangko Sentral regulation.

As a gesture of faith in the issue, an IH may take for its own account a portion of the securities it underwrites but shall sell such securities to the public.

Section 5. Management of Funds.

The Commission, by circular, shall provide limitations on investments of discretionary accounts under the management of an IH.

Should the IH engage in the management of funds, it must at all times adhere to the prudent man's rule. The IH shall ensure that the interest of the funds managed is promoted and that the operation of the funds is undertaken on an arms' length basis.

The Commission may require such documents and reports as may be necessary, in order to determine if prudence and safety of the principal have been paramount in the decision of the IH.

Section 6. Underwriting Fees.

Except in highly meritorious cases, as approved by the Commission, an IH shall not collect underwriting fees in excess of five percent (5%) of the amount generated by the underwriter for the issuer.

Section 7. Contingency Reserves.

An IH shall provide annually a reserve for contingencies in such reasonable amount as may be required by the Commission.

Section 8. Prohibitions

(1) No IH shall undertake underwriting commitments for its own account in an aggregate outstanding amount exceeding twenty (20) times its unimpaired capital and surplus.

(2) An IH shall not at any time allow its unimpaired capital and surplus to fall below P20.0 million; otherwise, it shall be prohibited from underwriting securities for so long as such deficiency remains.

(3) Whenever an IH is engaged in the management of funds, its officers and other personnel directly involved in the management of funds are prohibited from simultaneously or concurrently buying or selling the shares of stock of the same firm that the funds are buying or selling.

(4) No advance to directors, officers and stockholders owning at least ten percent (10%) of the outstanding capital of an IH shall be allowed, unless sufficiently collateralized.

Section 9. Reporting Requirements.

Every registered IH shall file with the Commission the following periodic reports in triplicate:

A. *Progress Reports* - a quarterly report of the results of its underwriting operations and activities of funds managed on all commitments entered into in such form as may be provided for the purpose, within fifteen (15) days from the end of each quarter.

B. *Semi-Annual Financial Statement* signed under oath by its chief accountant and verified by the president, within a period of sixty (60) days after the end of each semester containing such data, and in such form as the Commission shall require. A copy shall be filed with the Bangko Sentral.

C. *Annual Report* concerning its operational activities for the year just ended, signed by its president (SEC Form 129-1) within the month of March of each year. A copy shall be filed with the Bangko Sentral.

D. A *Report* on the composition of the board of directors or any resignation, dismissal, suspension, or filling of vacancies therein, or of any officers or managerial staff, signed under oath by the secretary, within fifteen (15) days after occurrence of the event.

Every registered IH shall maintain and preserve such records and documents as the Commission may prescribe by way of circulars. Such circulars shall provide for a reasonable degree of uniformity in accounting policies and principles to be followed by IHs in maintaining their accounting records and in preparing statements as required by these rules.

Section 10. Transitory Provisions

A. All existing enterprises which have been operating as Investment Houses, prior to 15 February 1973, shall:

(1) Within six (6) months from 15 February 1973 file an information sheet with the Commission in such form and containing such data as may be required, pay the required fee under Sec. 3-E of these rules, and the Commission in consultation with the Monetary Board, after determining compliance with the requirements of P.D. No. 129 and of these Rules, shall issue a License to Operate an IH.

(2) Within one (1) Year from 15 February 1973 comply with the requirement of a minimum paid-in capital of P20.0 million, citizenship requirements, and the prohibition on interlocking directorate or officership.

Section 11. Stockbrokerage or Dealership Functions.

If an IH engages in the business of a stockbroker or dealer pursuant to P.D. No. 129, it shall comply with the provisions of C.A. No. 83, otherwise known as the Securities Act, and the rules and regulations of the Commission promulgated pursuant thereto: *Provided, however*, that an IHe need not obtain a separate license under Section 14 of the Securities Act.

Section 12. Bangko Sentral Rules.

IHs shall also be subject to the rules and regulations promulgated by the Bangko Sentral for non-bank financial intermediaries as provided by law.

Section 13. Visitorial Power.

The Commission may, at its discretion, make such investigations as it deems necessary to determine whether or not an IH is complying with any of the provisions of P.D. No. 129 or of any applicable laws, rules and regulations. It shall determine all the

facts and circumstances concerning the matter to be investigated for the imposition of sanctions/penalties or remedial or preventive measures.

Section 14. General Exemption Power.

The Commission may, upon proper petition and payment of a fee of P100, grant an exemption from compliance with any requirements of these rules as may be consistent with public interest and the protection of investors.

Section 15. Penalties.

Any violation of P.D. No. 129 or of these rules and regulations, shall be penalized by suspension or revocation of the License to Operate, after proper notice and hearing. In appropriate cases, a fine not exceeding P200 per day for every day during which such violation continues, shall be imposed upon the IH and the officer or director who ordered or authorized the violation, without prejudice to the criminal liabilities provided in the second paragraph of Section 16 of P. D. No. 129.

In the exercise of its regulatory powers under Section 12 of P.D. No. 129, the Monetary Board may issue a cease-and desist order upon an IH which is not complying with Bangko Sentral rules and regulations pertaining to non-bank financial intermediaries or, in appropriate cases, rules governing quasi-banking functions of IHs. Failure to comply with the cease-and desist order shall subject an IH to a fine to be imposed by the Monetary Board.

Section 16. Effectivity.

These rules shall take effect immediately. They shall be published in a newspaper of general circulation in the Philippines and in the Official Gazette.

Manila, Philippines, 09 July 1973.

(SGD.) ARCADIO E. YABYABIN
Securities and Exchange Commissioner

APPROVED:

(SGD.) TROADIO T. QUIAZON, JR.
Acting Secretary of Trade

Date: 13 July 1973

Republic of the Philippines Department of Finance
SECURITIES AND EXCHANGE COMMISSION
SEC Building, EDSA, Greenhills Mandaluyong, Metro Manila

NEW RULES AND REGULATIONS TO IMPLEMENT THE PROVISIONS OF REPUBLIC ACT (R.A.) NO. 5980 (THE FINANCING COMPANY ACT), AS AMENDED
(Appendix to Sec. 102-Q)

To effectively carry out the provisions of R.A. No. 5980 (The Financing Company Act), as amended, the Securities and Exchange Commission, pursuant to the powers vested in it under said Act, R.A. No. 1143 and Presidential Decree No. 902-A, as amended, hereby promulgates the following rules and regulations:

Section 1. Definition of Terms. The following definition of terms shall apply for purposes of these Rules:

a. FINANCING COMPANIES are corporations or partnerships, except those supervised by the Central Bank of the Philippines, Office of the Insurance Commissioner and the Bureau of Cooperatives Development, which are primarily organized for the purpose of extending credit facilities to consumers and to industrial, commercial, or agricultural enterprises: by discounting or factoring commercial papers or accounts receivable; by buying and selling contracts, leases, chattel mortgages, or other evidences of indebtedness; or by leasing of motor vehicles, heavy equipment and industrial machinery, business and office machines and equipment, appliances and other movable property.

b. PRIMARILY ORGANIZED shall mean organized for the primary purpose of operating as a financing company and that more than 50% of its funds shall be used or invested in financing company activities, *Provided, That* in the computation thereof direct loans and temporary investments in government securities shall be taken into account.

c. FUNDS as used herein shall mean total assets inclusive of allowance for doubtful accounts and deferred income less investment in real estate, shares of stock in a real estate development corporation and real estate based projects which shall not exceed 25% of networth of the investing company, leasehold rights and improvements, fixed assets inclusive of appraisal surplus, foreclosed properties and prepayments.

d. COMMISSION shall mean the Securities and Exchange Commission.

e. CREDIT shall mean any loan, mortgage, deed of trust, advance or discount, any conditional sales contract, any contract to sell, or sale or contract of sale of property or service, either for present or future delivery, under which, part or all of the price is payable subsequent to the making of such sale or contract, any rental-purchase contract, any option, demand, lien, pledge, or other claim against, or for the delivery of, property or money, any purchase, or other acquisition of or any credit upon the security of any obligation or claim arising out of the foregoing; and any transactions having a similar purpose or effect.

f. PURCHASE DISCOUNT is the difference between the value of the receivables purchased or credit assigned, and the net amount paid by the finance company for such purchase or assignment, exclusive of fees, service charges, interest and other charges incident to the extension of credit.

g. RECEIVABLES FINANCING is a mode of extending credit through the purchase by, or assignment to, a financing company of evidences of indebtedness or open accounts by the discounting or factoring.

h. DISCOUNTING is a type of receivables financing whereby evidences of indebtedness of a third party, such as installments contracts, promissory notes, and similar instruments, are purchased by, or assigned to, a financing company in an amount or for a consideration less than their face value.

i. FACTORING is a type of receivables financing whereby open accounts, not evidenced by a written promise to pay supported by documents such as but not limited to invoices of manufacturers and suppliers, delivery receipts and similar documents, are purchased by, or assigned to, a financing company in an amount or for a consideration less than the outstanding balance of the open accounts.

j. LEASING shall refer to the financial leasing which is a mode of extending credit through a non-cancellable contract under which the lessor purchases or acquires at the instance of the lessee heavy equipment, motor vehicles, industrial machinery, appliances, business and office machines, and other movable property in consideration of the periodic payment by the lessee of a fixed amount of money sufficient to amortize at least 70% of the purchase price or acquisition cost, including any incidental expenses and a margin of profit, over the lease period. The contract shall extend over an obligatory period during which the lessee has the right to hold and use the leased property and shall bear the cost of repairs, maintenance, insurance and preservation thereof, but with no obligation or option to the part of the lessee to purchase the leased property at the end of the lease contract.

k. PAID-UP CAPITAL refers to the amount paid for the subscription of stock in a corporation including the amount paid in excess of par value, while CAPITAL CONTRIBUTION refers to the total contributions of the partners in a partnership.

l. NETWORTH is the excess of assets over liabilities, net of appraisal surplus, and booked valuation reserves, capital adjustments, overstatement of assets and unrecorded liabilities.

Sec. 2. Form of Organization. Financing companies shall be organized in the form of: stock corporations in accordance with the provisions of the Corporation Code of the Philippines (Batas Pambansa Blg. 68) or general partnerships pursuant to the provisions of the New Civil Code of the Philippines and subject to the following:

a. At least sixty percentum (60%) of the outstanding capital stock of the corporation, and in case of a partnership, at least sixty percentum (60%) of the total capital contributions of the partners, shall be owned by citizens of the Philippines.

b. A minimum paid-up capital, in case of corporations, and capital contribution in case of partnerships, that shall maintain their principal offices in the areas hereunder specified, shall be made in cash or in property of at least:

1. P10,000,000 – Metro Manila Area
2. 5,000,000 – First Class Cities Outside Metro Manila
3. 2,500,000 – Second Class Cities and First Class Municipalities
4. 1,000,000 – Third Class Cities and Second Class Municipalities
5. 500,000 – Fourth Class Cities, Third Class Municipalities and below

In case the area where the principal office of a financing company is located has been upgraded, the corresponding increase in capitalization requirement shall be undertaken within such period as the Commission shall fix.

Unless otherwise authorized by the Commission, all financing companies with a paid-up capital or capital contribution less than that mentioned above shall be given five (5) years within which to build up their capital requirement according to the following schedule:

	Metro Manila Area	1st Class Cities Outside Metro Manila	2nd Class Cities & 1st Class Municipalities	3rd Class Cities & 2nd Class Municipalities
6-30-92	2,000,000	1,000,000	500,000	500,000
6-30-93	4,000,000	2,000,000	1,000,000	625,000
6-30-94	6,000,000	3,000,000	1,500,000	750,000
6-30-95	8,000,000	4,000,000	2,000,000	875,000
6-30-96	10,000,000	5,000,000	2,500,000	1,000,000

Any existing and/or new branch, agency, extension office or unit may operate subject to the provision of Section 5 thereof.

c. At least two-thirds of all the members of the board of directors in the case of a corporation and all the managing partners in case of a partnership shall be citizens and residents of the Philippines.

Any change in the membership in, or composition of, the board of directors, officers from the rank of VP and up or their equivalent, branch manager, cashier and administrative officer, or in the managing partners, as the case may be, shall be reported to the Commission within seven (7) working days thereafter, and the requirement prescribed under Section 3.a.4 and 7 and Section 5.a.3. and 4 hereof, shall be submitted within thirty (30) working days from date of the aforesaid change.

d. The corporate/partnership name of financing companies shall contain the term "financing company","finance company", or "finance and investment company" or other title or word(s) descriptive of its operations and activities as a financing company.

Sec. 3. Requirements for Registration

a. *Registration papers to be submitted to the Commission* - Any corporation or partnership may be registered as a financing company by filing with the Commission in five (5) copies an application to operate as a financing company under R.A. No. 5980, as amended, signed under oath by its President/Managing Partner, together with the following documents in the prescribed forms:

1. All documents required for registration as a corporation or partnership;
2. By-laws;
3. Information Sheet of registrant company;
4. Personal Information Sheet of each of the directors, officers with the rank of Vice-President and up or their equivalent or managing partners;
5. Answers to the questionnaire of the Commission;
6. Projected balance sheet, income statement and cash flow statement for three (3) years, together with a schedule of discounting, factoring, leasing and other financing activities and all related income therefrom.
7. Documents required of each director, officer to be appointed from the rank of Vice-President and up or their equivalent, or managing partner such as the following:

    a) Police clearance from local police of the city or municipality of which he is a resident;
    b) NBI clearance;
    c) Certificate of good moral character to be executed under oath by at least two (2) reputable and disinterested persons in the community;
    d) Bank credit information to be issued by his depository or creditor bank(s), if any; and
    e) Such other documents as may be required by the Commission whenever it deems necessary.

b. Publication and Posting of Notice and Order for Registration - Upon receipt of the above registration papers of a proposed financing company, the Commission shall cause the notice and order to be published by the applicant company at its expense in a newspaper of general circulation in the Philippines once a week for two (2) consecutive weeks, and the notice shall simultaneously be posted in a public and conspicuous place where the principal office of the company will be located and in the Office of the Commission for the same period.

The notice shall state, among others, the name of the proposed financing company, the capital structure in case of a corporation or the total capital contribution in case of a partnership, and the names and residences of its directors or managing partners.

c. Opposition to Registration, if any - Any interested party may oppose the registration of a financing company in writing, personally or through counsel, within fifteen (15) days after the last date of the publication of the notice. If after the hearing, the Commission finds that the requirements of R. A. No. 5980, as amended, its implementing rules and regulations and other pertinent laws have been complied with and that no valid reason exists for the disapproval of the application, the Commission shall take appropriate action on said application.

Sec. 4. Issuance of Certificate of Filing of Articles of Incorporation and By-Laws; Certificate of Authority; Conditions for Commencement of Operations

a. The Commission, in consultation with the Central Bank, shall register the articles of incorporation and by-laws or articles of partnership of, and issue the Certificate of Authority to Operate to, any proposed financing company if

it is satisfied that the establishment of such company will promote public interest and convenience, and on the basis of the documents and/or evidences submitted, that;

1) All the requirements of R. A. No. 5980, as amended, other existing laws, and applicable rules and regulations to engage in the business for which the applicant is proposed to be incorporated, or organized, have been complied with;

2) The organization, direction and administration of the applicant, as well as the integrity and responsibility of the organizers and administrators, presumably assure the protection of the interest of the general public; and

3) Proof of the publication and posting of the notice and order for registration is in accordance with Sec. 3.b. hereof.

b. A corporation or partnership which has been duly registered, and granted a Certificate of Authority to Operate as a financing company in accordance with the law and these Rules, shall commence operations within ninety (90) days from date of grant of such certificate. Failure to operate within the prescribed ninety (90) days period shall subject the financing company to a fine of not less than One Thousand (P1,000.00) Pesos unless its non- operation is reasonably justified, as determined by the Commission.

c. The financing company may be granted a grace period of another ninety (90) days from the expiry date of the first ninety (90) days within which to commence operations notwithstanding its failure to operate as aforestated. Failure to operate within the extended period shall empower the Commission, after notice and hearing, to revoke its Certificate of Authority.

Sec. 5. Branches, Agencies, Extension Offices or Units

a. *Certificate of Authority* - No financing company shall establish or operate a branch, agency, extension office or unit without a prior certificate of authority to be issued by the Commission. The application for authority filed under this section shall be accompanied by the following documents:

1) **I**nformation Sheet of the proposed branch;
2) Answer to SEC questionnaire;
3) Police clearance of the manager, cashier, and administrative officer of the proposed branch;
4) NBI clearance of the branch manager, cashier and administrative officer of the proposed branch;
5) Copy of the proposed personnel chart; and
6) Such other documents as may be required by the Commission whenever it deems necessary.

The above application shall be published in accordance with the provisions of Sec. 3.b. of these Rules. However, the Notice and Order shall be posted in a public and conspicuous place where the aforesaid branch, agency, extension office or unit shall be established.

b. *Evaluation Guideposts* - The number of branches, agencies, extension offices or units to be established shall depend upon the capacity of the company to conduct expanded operations and/or upon the capacity of the area wherein the proposed branch, extension office, agency or unit will be established, to absorb new entities engaged in financing, as may be determined by the Commission.

c. *Additional Capital Requirement* - A financing company may be required to put up additional capital for branches, agencies, extension offices or units in an amount to be determined by the Commission.

d. *Prescribed Period to Operate* - Such branch, agency, extension office or unit shall operate within ninety (90) days from the issuance of the certificate of authority and failure to operate within such period shall subject said branch, agency, extension office or unit to a fine of not less than One Thousand (P1,000) Pesos or revocation of the certificate of authority, after due hearing at the discretion of the Commission, unless its non-operation is reasonably justified as determined by the Commission.

e. *Term of Authority to Operate* - The certificate of authority to operate a branch, agency, extension office or unit shall be co- terminus with that of the head office.

Sec. 6. Applicability of Central Bank Regulations - Financing companies duly licensed to operate as such, their branches, agencies, extension offices or units shall also be subject to applicable Central Bank regulations.

Sec. 7. Licensing Fees - A fee of 1/10 of 1% of the minimum paid-up capital or capital contribution required under Section 2.b. shall be charged for the issuance of the Certificate of Authority to Operate as a financing company.

A fee of one-tenth of one percent (1/10 of 1%) of the additional required capital under Sec. 5.c., but in no case less than P250.00 shall be charged likewise for the issuance of original Certificate of Authority of each branch, agency, extension office or unit of such financing company.

Sec. 8. Loans and Investments

a. Financing companies may engage in direct lending if authorized by the secondary purposes in its articles of incorporation and in accordance with Section 42 of the Corporation Code of the Philippines (B.P. 68).

b. Unless otherwise authorized by the Commission, the total investment in real estate and in shares of stock in a real estate development corporation and other real estate based projects shall not at any time exceed twenty-five (25%) per cent of the net worth of the investing financing company.

Sec. 9. Conveyance of Evidences of Indebtedness and Financed Receivables

a. The negotiation, sale or assignment by financing companies of evidences of indebtedness shall be in accordance with the rules of the Commission on registration of commercial papers.

b. Accounts which have been factored or discounted by, the lease receivables of, and other evidences of indebtedness (not covered in Item a. above) issued or negotiated to, a financing company shall not be sold, assigned or transferred in any manner except to banks including their trust accounts, trust companies, QBs, investment houses including their trust accounts, financing companies, investment companies, NSSLAs, insurance companies, government FIs, pension and retirement funds approved by the Bureau of Internal Revenue, educational assistance funds established by the National Government; *Provided*, That the negotiation of evidence of indebtedness to pension funds or educational assistance funds shall be on a recourse basis.

Sec. 10. Other Activities

a. Financing companies not duly authorized to perform quasi-banking functions shall not act as dealers in commercial papers but may act as dealers in other securities provided they are duly licensed by the Commission as such.
b. Financing companies shall not act as dealers of certificates of time deposit.
c. Except in cases of issuances to primary institutional lenders, financing companies without quasi-banking license shall not issue instruments other than promissory notes, to cover placements with, or borrowing by, them.

Sec. 11. Purchase Discount/Fees/Service and Other Charges - The purchase discounts, fees, service and other charges of financing companies on assignments of credit, purchases of installment papers, accounts receivable or other evidences of indebtedness, factoring of accounts receivable or other evidences of indebtedness, or leasing transactions shall be in accordance with the rules prescribed by the Monetary Board, in consultation with the Commission, pursuant to the provisions of Section 5 of R.A. No. 5980, as amended by P.D. No. 1454.

Sec. 12. Networth for Operating Financing Companies - The company's networth shall be maintained at an amount not less than that required under Sections 2.b. and 5.c. hereof.

Sec 13. Prohibitions

a. No corporation shall be allowed to include financing activities as herein defined as one of its secondary purposes.
b. No person, association, partnership or corporation shall do or hold itself out as doing business as a financing company or finance and investment company or under any other title or name tending to give the public the impression that it is a financing company unless so authorized under R. A. No. 5980, as amended.

Sec. 14. Periodic Reports - Every financing company shall file with the Commission the following quarterly reports: a) Statement of Condition and Statement of Income and Expenses, together with the schedule of aging of receivables (indicating the maturity pattern of the aforesaid receivables under due within 1 year, due over 1 year to be applicable to long term receivables only, past due accounts to subdivided further to past due accounts within 1 year, over 1 year and litigation items), payable (indicating likewise the same maturing pattern of within 1 year and over 1 year) and off-balance sheet items; *Provided*, however, That respective collateral/s (if any) for past due accounts over 1 year and litigation items shall be adequately disclosed in the aforementioned Schedules and b) list of officers, directors, and stockholders. These reports shall be signed under oath by the company's principal executive officer and principal financial officer and shall be submitted within thirty (30) calendar days after the end of each quarter. They shall, likewise, file four (4) copies of their audited financial statements within 120 days after the end of their fiscal years and such other reports as may be required by the Commission.

Sec. 15. Administrative Sanctions - If the Commission finds that there is a violation of these Rules and Regulations and their implementing circulars or any of the terms and conditions of the Certificate of Authority to operate as a financing company, or any Commission order, decision or ruling, or refuses to have its books of accounts audited, or continuously fail to comply with SEC requirements, the Commission shall, in its discretion, impose any or all of the following sanctions:

a. Suspension or revocation of the certificate of authority to operate as a financing company after proper notice and hearing;
b. A fine in accordance with the guidelines that the Commission shall issue from time to time;
c. Other sanctions within the power of the Commission and the Central Bank under existing laws.

The imposition of the foregoing administrative sanctions shall not preclude the institution of appropriate action against the officers and directors of the financing company or any person who might have participated therein, directly or indirectly, in violation of R. A. No. 5980, as amended, and these Rules and Regulations.

Sec. 16. Cease and Desist Order - The Commission may, on its own motion or upon verified complaint of any aggrieved party, issue a Cease and Desist Order ex-parte, if the violation(s) mentioned in the preceding sections may cause grave or irreparable injury to the public or may amount to culpable fraud or violation of these Rules and Regulations, implementing circulars, certificates of authority issued by the Commission, or of any order, decision or ruling thereof.

The issuance of such Cease and Desist Order automatically suspends the authority to operate as a financing company.

Immediately upon the issuance of an ex-parte Cease and Desist Order, the Commission shall notify the parties involved and schedule a hearing on whether to lift such order or to impose administrative sanctions provided for in Section 16 not later than fifteen (15) days after service of notice.

Sec. 17. Transitory Provision - Any corporation/partnership at the time of the effectivity of these Rules has been registered and licensed by the Commission to operate as a financing company, shall be considered as registered and licensed under the provisions of these Rules, subject to the terms and conditions of the license, and shall be governed by the provisions hereof; *Provided*, however, That financing companies with existing certificate of authority shall surrender the same to the Commission upon payment of the annual fee pursuant to Section 7 hereof to be replaced by new certificate of authority and, *Provided*, That where such corporation/ partnership is affected by the new provisions hereof, said corporation/ partnership shall, unless otherwise herein provided, be given a period of not more than one (1) year from the effectivity of these Rules within which to comply with the same.

Sec. 18. Effectivity - These Rules and Regulations shall take effect fifteen (15) days after publication in two (2) newspapers of general circulation in the Philippines.

Mandaluyong, Metro Manila, Philippines 16 October 1991.

(SGD.) ROSARIO N. LOPEZ
Chairman
Securities and Exchange Commission

Guidelines on the Adoption of Philippine Financial Reporting Standards (PFRS 9) – Classification and Measurement
(Appendix to Sec. 171-Q)

Section 1. Classification and Measurement of Financial Assets and Financial Liabilities

BSFIs shall classify and measure financial assets and financial liabilities, including those which are designated as hedged items, in accordance with the provisions of PFRS 9. In this respect, BSFIs shall observe the following:

A. **Classification of Financial Assets** - Financial assets shall be classified based on their contractual cash flow characteristics and the business model for holding the instruments.

(1) *Financial assets that are debt instruments.* Financial assets that are debt instruments shall be classified under any of the following categories:

a. **Financial assets measured at fair value through profit or loss (FVPL).** A financial asset shall be measured at fair value through profit or loss, except in the following cases:

- The financial asset is part of a hedging relationship, in which case, the provisions of PFRS 9 on hedge accounting shall apply;
- The financial asset is measured at fair value through other comprehensive income (FVOCI); or
- The financial asset that is a debt instrument is measured at amortized cost.

Financial assets measured at fair value through profit or loss shall consist of the following:

i. Financial assets held for trading (HFT), which include stand-alone and/or embedded derivatives, except a derivative that is a financial guarantee contract or designated and effective hedging instruments, as defined in PFRS 9;

ii. Financial assets designated at fair value through profit or loss (DFVPL) as defined in PFRS 9.

BSFIs may, at initial recognition, irrevocably designate financial assets that are debt instruments as measured at fair value through profit or loss in accordance with the condition mentioned under PFRS 9, subject to the following requirements:

- BSFIs shall have in place appropriate risk management systems including related risk management policies, procedures, and controls; and
- BSFIs shall apply the fair value option only to instruments for which fair values can be reliably estimated.

iii. Other financial assets which are mandatorily measured at fair value through profit or loss (MMFVPL) refers to financial assets that are required to be measured at fair value through profit or loss under PFRS 9, other than those that are HFT and DFVPL.

b. **Financial Assets at Fair Value through Other Comprehensive Income (FVOCI).** A financial asset measured at FVOCI shall meet both of the following conditions:

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

c. **Financial assets measured at amortized cost**. A financial asset that is a debt instrument, other than those that are designated at fair value through profit or loss, which meet both of the following conditions:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

(2) *Financial assets that are equity instruments.* Financial assets that are equity instruments shall be classified under any of the following categories:

a. Financial assets measured at fair value through profit or loss which shall include financial assets HFT;
b. Financial Assets at Fair Value through Other Comprehensive Income (FVOCI) which shall consist of:

i. Financial asset designated at fair value through other comprehensive income (DFVOCI). BSFIs may, at initial recognition, irrevocably designate financial assets that are equity instruments that are neither held for trading nor contingent consideration recognized by an acquirer in a business combination to which PFRS 3 applies, as measured at fair value through other comprehensive income.

ii. Financial assets mandatorily measured at fair value. This includes investment in an equity instrument, previously accounted at cost per PAS 39, which does not have a quoted price in an active market for an identical instrument.

B. **Classification of Financial Liabilities** - Financial liabilities shall be classified and subsequently measured at amortized cost using the effective interest method, except for:

(1) Financial liabilities measured at fair value through profit or loss. This shall consist of the following:

a. Financial liabilities HFT, including derivative liabilities that are not accounted for as hedging instruments; and

b. Financial liabilities DFVPL. A BSFI may, at initial recognition, irrevocably designate financial liabilities as measured at fair value through profit or loss subject to the conditions mentioned under PFRS 9 and the regulatory requirements for financial assets DFVPL under Item "*A (1) a ii"* above.

(2) Financial liabilities which shall be subsequently measured in accordance with the provisions of PFRS 9, as follows:

a. Financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies;
b. Financial guarantee contracts, as defined under PFRS 9;
c. Commitments to provide a loan at a below-market interest rate; and
d. Contingent consideration recognized by an acquirer in a business combination.

C. **Classification of hybrid contracts and derivatives** - Investments in hybrid securities, securities overlying securitization structures, other structured products and credit-linked notes (CLNs) and similar structured products with embedded credit derivatives, as defined under Sec. 624-A shall be classified and measured in accordance with PFRS 9 based on the following guidelines:

(1) An entire hybrid contract, which contains a host that is an asset within the scope of PFRS 9, shall be classified in accordance with the requirements on the classification of financial assets.

(2) A hybrid contract, which contains a host that is not an asset within the scope of PFRS 9 shall require the separation of an embedded derivative from the host and the same shall be accounted for as a derivative based on the requirements and conditions provided under the standard. If an embedded derivative is separated, the host contract and the derivative, individually, shall be accounted for in accordance with appropriate standards.

(3) If a contract contains one or more embedded derivatives and the host is not an asset within the scope of this Standard, a BSFI may designate the entire hybrid contract as at fair value through profit or loss unless:

- the embedded derivative(s) do(es) not significantly modify the cash flows that otherwise would be required by the contract; or

- it is clear with little or no analysis when a similar hybrid instrument is first considered that the separation of the embedded derivative(s) is prohibited, such as a prepayment option embedded in a loan that permits the holder to prepay the loan for approximately its amortized cost.

(4) If a BSFI is unable to measure the embedded derivative separately either at acquisition or at the end of a subsequent financial reporting period, it shall designate the entire hybrid contract as at fair value through profit or loss.

Section 2. Business Model in Managing Financial Assets

Business model pertains to the manner by which a portfolio of financial assets will be managed to generate cash flows such as by collecting contractual cash flows or by both collecting contractual cash flows and selling the financial assets, among others. BSFIs shall determine the business model for a portfolio of financial assets based on scenarios that are reasonably expected to occur, taking into consideration the expected changes to asset allocations or to balance sheet structure as a result of business strategies. In this respect, these scenarios do not include "worst case" or "stress case" scenarios.

a) The criteria that will be used in determining the business model for managing financial assets shall be applied to a portfolio of financial assets and not on an instrument-by-instrument basis.

b) Business models for managing financial assets shall be observed through specific activities being undertaken by the BSFI to achieve their stated objectives. A BSFI shall exercise sound judgment and shall use all relevant evidences available at the date of assessment in determining the business model for managing portfolios of financial assets. Such relevant evidences include but are not limited to:

- Risks affecting the performance of financial assets and the business model and how these risks will be managed;
- Frequency, volume, timing and nature of sales in prior periods, the reasons for such sales, and expectations about future sales activity;
- The manner by which business model and the financial assets held within it are evaluated (e.g., based on trading income) and reported to the BSFI's board of directors or any equivalent position in the case of branches of foreign banks and senior management; and
- The basis for compensation of concerned personnel and/officers (e.g., whether the compensation is based on the fair value of the assets managed or the contractual cash flows collected).

c) Business models for managing financial assets shall be approved by the board of directors and shall be adequately documented. The documentation for each business model shall include, among others, detailed description of specific business objectives (whether to hold in order to collect contractual cashflows, to sell or both); cases of sales and/or derecognition of financial assets and conditions for changes in business model that are considered consistent with the provisions of PFRS 9; and appropriate level of authority designated to approve determination of business model of specific portfolios of financial assets as well as the sales, derecognition, and changes in business model of financial assets.

d) Changes in business model are expected to be rare and shall be determined as a result of external or internal changes which are significant to the BSFI's operations and evident to external parties. Change in intention related to the management of particular financial assets does not constitute a change in business model. The change in business model shall be approved by the appropriate level of authority based on sound justifications and in accordance with accounting standards. The qualitative and quantitative impact of the change in business model shall be adequately documented and appropriately disclosed in the audited financial statements in line with the disclosure of risk management policies on the relevant risk exposure.

e) All affected financial assets shall be reclassified when, and only when, a BSFI changes its business model for managing financial assets in accordance with the provisions of Item *("d). Financial liabilities*" are not allowed to be reclassified.

If cash flows are realized in a way that is different from the expectations at the date at which the BSFI assessed the business model, it does not constitute a change in the classification of the remaining financial assets as long as the BSFI considered all relevant and objective information available when it initially made the business model assessment.

In cases where a BSFI changes a business model, the financial assets within the said model shall not be reclassified within the reporting period that the change in business model was made. The reclassification in this case shall only take effect in the next financial reporting month. In this respect, any previously recognized gains, losses or interest shall not be restated.

Section 3. Contractual Cash Flow Characteristics

a) In order for a financial asset to be classified and measured at amortized cost or FVOCI, the contractual terms of the financial asset must give rise on specific dates to cash flows that are SPPI on the principal amount outstanding. A financial asset that does not meet the SPPI criterion shall be measured at FVPL, unless it is an equity instrument which shall be classified and measured at FVOCI.

b) The cashflows that are considered SPPI are consistent with basic lending arrangement where the principal is the fair value of the financial asset at initial recognition and the interest represents consideration for the time value of money, credit risk, profit margin and other basic lending risks and costs associated with holding the financial asset for a particular period of time.

c) A BSFI shall determine if the contractual cashflows are SPPI in accordance with the provisions of PFRS 9. In this respect, a BSFI shall assess the contractual terms of a financial instrument before investing in the same and determine if such instrument introduces exposure to risks or volatility that is unrelated to a basic lending arrangement.

d) Policies and procedures shall include guidelines in performing the SPPI assessment, and shall identify the units responsible for conducting and reviewing the propriety of the assessment as well as the documentation supporting the classification of financial assets.

Section 4. Supervisory Expectations on Classification and Measurement of Financial Assets and Financial Liabilities

a) The business model for managing financial assets shall be assessed in line with the BSFI's internal risk management policies such as credit, market and liquidity risk management. For instance, the financial assets classified and measured at FVPL are commonly associated with the management of market risks since the business model objective is to actively trade the securities. On the other hand, financial assets which were classified and measured at amortized cost mostly relate to the management of credit risk and/or interest rate risk in the banking book since there is no intent to sell the financial asset prior to maturity.

b) The business model for managing financial assets shall be assessed based on the objective information on the activities undertaken for the portfolios of financial assets. This shall include the comparison of frequency of sales activities across portfolios of financial assets. Portfolios of financial assets that are held for trading are expected to exhibit more frequent and higher turnover as compared with financial assets managed under a hold to collect cash flow and sell business model.

c) The manner by which the performance of financial assets is measured given a specific business model shall be assessed. Key performance indicators should be consistent with the specific business models for portfolios of financial assets. For instance, the performance of financial assets accounted at fair value through profit or loss may be gauged through actual trading/capital gains since the objective is to optimize earnings from interest rate volatilities/price movements. Performance of financial assets classified at amortized cost may be measured through (net) interest income since the objective is to generate accrual income from long-term investments. The results of the impairment testing and credit review of accounts may likewise be considered.

d) Bases for incentives or compensation granted to personnel involved in managing specific portfolios of financial assets shall be evaluated in line with the expected activities under a specific business model.

e) The roles and responsibilities of units involved in the management, monitoring, and reporting of performance of financial assets for specific business models shall be clearly defined. Pursuant to Section 146 (*Duties and Responsibilities*) the Bangko Sentral shall assess the effective implementation of the three lines of defense, which shall include the evaluation of the propriety of segregation of functions.

For instance, part of the first line of defense is the trading desk which is expected to manage financial assets that are measured at FVPL as these assets are usually acquired for short term profit taking. On the other hand, the asset/liability management desk is expected to manage financial assets classified as FVOCI since the financial assets booked under said classification are being used to manage the BSFI's liquidity position or to maintain a particular interest yield profile or duration.

The delineation of the roles and responsibilities of the second and third lines of defense shall be evaluated as well as the effectiveness of the scope and frequency of their review. These lines of defense are expected to evaluate consistency of internal policies and practices with the provisions of PFRS 9 and adherence of the BSFI with established policies.

f) The review of the second and third lines of defense shall cover, among others, the assessment of the following:

i. Comprehensiveness of reports submitted to the board or senior management. These should include the risks that may affect the performance of the business model; consistency of the performance of the financial assets held within the business model against strategic and financial objectives; and results of internal and external validation on management and monitoring of business model.

ii. Propriety of sales or derecognition of financial assets based on the business model for managing the same. For instance, the BSFI decides to sell a portion of a portfolio of financial assets held and measured at amortized cost, a review should be conducted to ascertain whether the business models has not changed as a result of such sale. In case of change in business model, the self-assessment functions shall look into the circumstances that triggered the decisions to change, consistency of said decision with internal policies and principles of the standard, propriety of the governance process, and adequacy of documentation.

Section 5. Financial Instruments Under Management of Trust Entities

Consistent with the expectations from BSFIs on the adoption of PFRS 9, as provided under Item *"d"* of Sec. 171-Q (*Philippine Financial Reporting Standards/Philippine Accounting Standards*), the board of directors of a trust entity (TE) shall ensure that the TE appropriately and consistently adopts PFRS 9 as part of its reporting governance process.

In this respect, the board of directors shall approve policies and guidelines relative to the classification and measurement of financial assets under management of the TE.

The TE shall adhere to the provisions of Sections 1 to 4 of these guidelines on the classification and measurement of financial assets, to the extent applicable to trust operations. In addition, considering that the management of financial assets under the administration of the TE shall vary for each client, the TE shall be governed by the following:

a) The board of directors shall approve the business models that will be adopted by the TE for managing the financial assets of clients under its administration. Such business models shall be in accordance with pre-defined investment objectives. For this purpose, the TE may use as guide the industry convention on the mapping of investment objectives to the corresponding business models.

b) The TE shall use only the board-approved business models in determining the business model/s for each client's financial assets. The assignment of the applicable business model/s, which shall be consistent with the client's investment objectives, liquidity requirement, and investment horizon, shall no longer require a separate approval. The classification of financial assets for each client shall be aligned with the business model/s determined by the TE.

c) For existing accounts, the TE shall assess the impact of the new classification of financial assets on the performance indicator/s set for the client.

i. If the new classification will have a significant unfavorable impact on the performance indicator/s set for the client, a consent or conforme shall be obtained from the client or the authorized signatory/ies of the client, as applicable. The consent or conforme shall document in plain and clearly understandable language: (a) the business model/s determined by the TE in the management of the client's financial assets;(b) a brief description of the new classification; and (c) the corresponding impact on the performance indicator/s set for the client.

A negative consent or conforme may be allowed, subject to the following conditions:

(a) the TE has an adequate monitoring process to ensure actual receipt of the notification by the client;
(b) the client shall be given a reasonable time to respond to the negative consent or conforme or to raise concern/query, if any; and
(c) the client is allowed to amend the business model determined by the TE in the management of the client's portfolio within a reasonable period.

ii. If the new classification will not have a significant unfavorable impact on the performance indicator/s set for the client, the TE shall provide appropriate disclosure in the financial reports provided or made available to the client. The disclosure shall document in plain and clearly understandable language: (a) the business model/s determined by the TE in the management of the client's financial assets; and (b) a statement allowing the client to discuss with the TE any concern/query on the change in the classification of the financial assets of the client.

d) For new accounts opened after the effectivity of these guidelines, the business model/s determined by the TE in the management of the client's financial assets shall be documented in plain and clearly understandable language in the investment policy statement or letter of instruction, whichever is applicable.

e) Reclassification of assets may be allowed if there is a change in the business model/s determined in the management of the client's financial assets.

Any change in the business model/s determined by the TE in the management of the client's financial assets shall be supported by a change in the client's investment objective. In order to strengthen controls and prevent potential abuse, the TE shall have adequate policies and procedures, duly approved by the board of directors, covering, among others, the review process, minimum required documentation, and monitoring mechanism for the change in the business model/s determined by the TE in the management of each client's financial asset/s.

Section 6. Reporting guidelines.

Prudential reports shall be prepared using the existing templates of the Financial Reporting Package (FRP)/FRP for Trust Institutions (FRPTI). The mapping of PFRS 9 based accounts to the existing FRP/Consolidated Statement of Condition (CSOC) and Consolidated Statement of Income and Expenses (CSIE) and FRPTI template is provided in Annex A of *this guidelines.*

(Circular No. 1023 dated 04 December 2018 and 1011 dated 14 August 2018)

Annex A

Mapping of Philippine Financial Reporting Standards 9 (PFRS 9) Accounts in the Consolidated Statement of Condition (CSOC), Consolidated Statement of Income and Expenses (CSIE), Financial Reporting Package (FRP) and FRP for Trust Institutions (FRPTI)

Quasi-banks (QBs), non-bank financial institutions (NBFIs), stand-alone Trust Corporations and trust departments of NBFIs shall report financial assets and financial liabilities using the existing account titles of the CSOC/CSIE/FRP/FRPTI based on the mapping of accounts provided below:

1. Quasi-banks (QBs) and non-bank financial Institutions (NBFIs)

Table 1. Financial Assets Measured at Fair Value Through Profit or Loss

PFRS 9 Accounts	CSOC/CSIE Accounts
Balance Sheet Accounts	
1. Financial Assets Measured at Fair Value Through Profit or Loss	
a. Financial Assets Held for Trading (HFT)	1. Trading Account Securities – Investment a. Government Securities Purchased b. Gov. Sec. Sold under RA 2. Trading Account Securities – Loans b. Priv. Debt Sec. / Commercial Papers (CPs) Purchased
i. HFT Debt Securities	
ii. HFT Equity Securities	3. Trading Account Securities - Equity
iii. Derivatives with Positive Fair Value Held for Trading (stand-alone and embedded derivatives)	
c. Financial Assets Designated at Fair Value Through Profit or Loss (DFVPL)	4. Underwriting Accounts – Debt Securities
d. Other Financial Assets Mandatorily Measured at Fair Value Through Profit or Loss (MMFVPL)	5. Underwriting Accounts – Equity Securities
(CSOC sub-accounts will no longer be used)	6. Underwritten Debt Sec. Purchased, 7. Accum. Market Gains/(Losses) UA 8. Receivables – Underwritten Debt Securities Sold
(CSOC sub-accounts will no longer be used)	9. Underwritten Equity Securities Purchased 10. Accum. Market Gains/(Losses) UA 11. Receivables – Underwritten Equity Securities Sold
(CSOC sub-accounts will no longer be used)	12. Private Debt Sec./Commercial Papers (CPs) Purchased, 13. Private Debt Sec./Commercial Papers (CPs) Sold Under Repurchased Agreements
Income Statement Accounts	
1. Interest Income	**1.** Interest Income
a. Financial Assets Measured at Fair Value Through Profit or Loss	a. TAS - Investments
i. HFT Debt Securities	
ii. Derivatives with Positive Fair Value Held for Trading (stand-alone and embedded derivatives)	
b. Financial Assets Designated at Fair Value Through Profit or Loss (DFVPL)	b. Underwritten Debt Securities Purchased
c. Other Financial Assets Mandatorily Measured at Fair Value Through Profit or Loss (MMFVPL)	
2. Gains/(Losses) on Financial Assets and Liabilities Held for Trading a. Realized Gains/(Losses) from Sale or Derecognition of Financial Assets and Liabilities	2. Trading/Hedging Gain/Loss on: a. Government Securities b. Private Debt/CPs/Equity of Securities c. Financial Derivatives

b. Unrealized Gains/(Losses) from Marking to Market	3. Other Income a. Others 4. Other Expenses
c. Realized Gains/(Losses) from Foreign Exchange Transactions	5. Other Income a. Foreign Exchange Profit (Loss)
3. Gains/(Losses) on Financial Assets and Liabilities DFVPL	6. Trading/Hedging Gain/Loss on: a. Government Securities b. Private Debt/CPs/Equity of Securities c. Financial Derivatives
d. Realized Gains/(Losses) from Sale or Derecognition of Financial Assets and Liabilities	
e. Unrealized Gains/(Losses) from Marking to Market	7. Other Income a. Other 8. Other Expenses
4. Gains/(Losses) on Financial Assets and Liabilities MMFVPL	9. Trading/Hedging Gain/Loss on: a. Government Securities b. Private Debt/CPs/Equity of Securities c. Financial Derivatives
d. Realized Gains/(Losses) from Sale or Derecognition of Financial Assets and Liabilities	
e. Unrealized Gains/(Losses) from Marking to Market	10. Other Income a. Others 11. Other Expenses

Table 2. Financial Assets Measured at Fair Value Through other Comprehensive Income (FVOCI)

PFRS 9 Accounts	FRP Accounts
Balance Sheet Accounts	
1. Financial Assets Measured at Fair Value Through Other Comprehensive Income (FVOCI)	1. Available for Sale Securities (ASS) a. ASS – Gov't b. ASS – Private c. Available for Sale - Foreign
a. Debt Securities at FVOCI	
b. Equity Securities at FVOCI	
i. Designated at FVOCI	
ii. Mandatorily Measured at Fair Value	
2. Other Comprehensive Income	2. Net Unrealized Gains/Losses on Securities Available For Sale
a. Net Unrealized Gains/(Losses) on Financial Assets at FVOCI[1]	
i. Debt Securities at FVOCI	
ii. Equity Securities at FVOCI	
b. Realized and Cumulative/ Gains/(Losses) on Equity Securities Designated at FVOCI	3. Retained Earnings a. Appropriated - Others
Income Statement Accounts	
1. Interest Income	1. Interest Income
a. Financial Assets Measured at Fair Value Through Other Comprehensive Income	a. Available for Sale Securities
2. Gains/(Losses) from Sale/ Redemption/ Derecognition of Financial Assets and Liabilities Measured at FVOCI	2. Other Income a. Others
b. Realized Gains/(Losses) from Sale or Derecognition of Financial Assets and Liabilities	3. Other Expenses
i. Debt Securities at FVOCI	
ii. Equity Securities Mandatorily Measured at Fair Value	

Table 3. Financial Assets Measured at Amortized Cost

PFRS 9 Accounts	FRP Accounts
Balance Sheet Accounts	
1. Debt Securities Measured at Amortized Cost	1. Investment in Bonds and Other Debt Instruments a. Government b. Private c. Foreign
2. Amortized cost of loans arising from repurchase agreements, certificates of assignment, participation with recourse transactions.	2. Trading Account Securities – Loans a. Gov't. Sec. Purchased under Resale Agreements

[1] Loss allowance should also be recognized in Other Comprehensive Income

	b. Gov't. Sec. Purchased under Cert. Of Assignments (CA) /Participation with Recourse c. Gov't. Sec. Purchased under Reverse Rep. Agreements with Bangko Sentral d. Priv. Debt Sec./ CPs Purchased under Resale Agreements e. Priv. Debt Sec./ CPs Purc. Under CA/Part. With Recourse
Income Statement Accounts	
1. Interest Income	1. Interest Income
a. Debt Securities at Amortised Cost	a. IBODI
2. Gains/(Losses) from Sale/ Redemption/ Derecognition of Financial Assets and Liabilities Measured at Amortized Cost	2. Other Income a. Other 3. Other Expenses
a. Realized Gains/(Losses) from Sale or Derecognition of Financial Assets and Liabilities	

Table 4. Financial Liabilities Measured at Amortized Cost

PFRS 9 Accounts	FRP Accounts
Balance Sheet Accounts - Financial liabilities measured at amortized cost under PFRS 9 shall be booked based on corresponding liability accounts in the CSOC.	
Income Statement Accounts	
1. Gains/(Losses) from Sale/ Redemption/ Derecognition of Financial Assets and Liabilities Measured at Amortized Cost	1. Other Income a. Other
b. Realized Gains/(Losses) from Sale or Derecognition of Financial Assets and Liabilities	2. Other Expenses
i. Financial Liability at Amortized Cost	

Table 5. Financial Liabilities Measured at Fair Value Through Profit or Loss

PFRS 9 Accounts	FRP Accounts
Balance Sheet Accounts	
1. Financial Liabilities Measured at Fair Value Through Profit or Loss	1. Bills Payable a. Others
a. Financial Liabilities Held for Trading (HFT)	
i. Derivatives with Negative Fair Value Held for Trading (stand-alone and embedded derivatives)	
b. Financial Liabilities Designated at Fair Value Through Profit or Loss (DFVPL)	
2. Other Comprehensive Income	
a. Net Unrealized Gains/(Losses) on Financial Liabilities Designated at FVPL attributable to changes in credit risk	2. Net Unrealized Gains/Losses on Securities Available For Sale
Income Statement Accounts	
1. Interest Expense	1. Interest/Finance Charges on Borrowed Funds
a. Financial Liabilities Measured at Fair Value Through Profit or Loss	
i. Financial Liabilities Held For Trading	
• Derivatives with Negative Fair Value Held for Trading (stand-alone and embedded derivatives)	
• Liability for Short Position	
b. Financial Liabilities Designated at Fair Value Through Profit or Loss (DFVPL)	

PFRS 9 Accounts	FRP Accounts
2. Gains/(Losses) on Financial Assets and Liabilities Held for Trading	2. Trading/Hedging Gain/Loss on: a. Government Securities b. Private Debt/CPs/Equity of Securities c. Financial Derivatives
a. Realized Gains/(Losses) from Sale or Derecognition of Financial Assets and Liabilities	
b. Unrealized Gains/(Losses) from Marking to Market	3. Other Income a. Others 4. Other Expenses
c. Realized Gains/(Losses) from Foreign Exchange Transactions	5. Other Income Foreign Exchange Profit (Loss)
3. Gains/(Losses) on Financial Assets and Liabilities DFVPL	6. Trading/Hedging Gain/Loss on: a. Government Securities b. Private Debt/CPs/Equity of Securities c. Financial Derivatives
a. Realized Gains/(Losses) from Sale or Derecognition of Financial Assets and Liabilities	
b. Unrealized Gains/(Losses) from Marking to Market, except for changes in fair value attributable to changes in credit risk	7. Other Income a. Others 8. Other Expenses

2. Trust Corporations (proprietary assets and liabilities)

Table 1. Financial Assets Measured at Fair Value through Profit or Loss

PFRS 9 Accounts	FRP Accounts
Balance Sheet Accounts	
Financial Assets Measured at Fair Value through Profit or Loss	Financial Assets Designated at Fair Value through Profit or Loss

Table 2. Financial Assets Measured at Fair Value through Other Comprehensive Income (FVOCI)

PFRS 9 Accounts	FRP Accounts
1. Financial Assets Measured at Fair Value through Other Comprehensive Income (FVOCI)	1. Available for Sale (AFS) Financial Assets
Securities at FVOCI	AFS Securities
Unamortized Discount/Premium	Unamortized Discount/Premium
Securities at FVOCI Net of Amortization	AFS-Securities Net of Amortization
Accumulated Market Gains/(Losses)	Accumulated Market Gains/(Losses)
(FRP Account will no longer be used)	Allowance for Credit Losses
Securities at FVOCI (Fair Value)	AFS Financial Assets - Net
2. Other Comprehensive Income	2. Other Comprehensive Income
a. Net Unrealized Gains/(Losses) on Financial Assets at FVOCI[2]	a. Net Unrealized Gains/(Losses) on AFS Financial Assets

Table 3. Financial Assets Measured at Amortized Cost

PFRS 9 Accounts	FRP Accounts
1. Debt Securities Measured at Amortized Cost	1. Held-to-Maturity (HTM) Financial Assets
Unamortized Discount/Premium	Unamortized Discount/Premium
Debt Securities Measured at Amortized Cost – Net of Amortized	HTM Financial Assets – Net of Amortization
Less: Allowance for Credit Losses	Less: Allowance for Credit Losses
Debt Securities Measured at Amortized Cost – Net	HTM Financial Assets – Net
(FRP Account will no longer be used)	2. Unquoted Debt Securities Classified as Loans

Table 4. Financial Liabilities Measured at Amortized Cost

PFRS 9 Accounts	FRP Accounts
Balance Sheet Accounts – Financial liabilities measured at amortized cost under PFRS 9 shall be booked based on corresponding liability accounts in the FRP.	

2 Loss allowance should also be recognized in Other Comprehensive Income

Table 5. Financial Liabilities Measured at Fair Value Through Profit or Loss

PFRS 9 Accounts	FRP Accounts
Balance Sheet Accounts	
1. Financial Liabilities Measured at Fair Value Through Profit or Loss	1. Financial Liabilities Designated at Fair Value through Profit or Loss
2. Other Comprehensive Income	2. Other Comprehensive Income
a. Net Unrealized Gains/(Losses) on Financial Liabilities Designated at FVPL attributable to changes in credit risk	a. Others

3. Trust Corporations and trust departments of NBFIs, with or without QB license (assets under management).

Table 1. Financial Assets Measured at Fair Value through Profit or Loss

PFRS 9 Accounts	FRPTI Accounts
Financial Assets Measured at Fair Value through Profit or Loss a. Debt and Equity Securities b. Derivatives with Positive Fair Value	Financial Assets Measured at Fair Value through Profit or Loss a. Debt and Equity Securities b. Derivatives with Positive Fair

Table 2. Financial Assets Measured at Fair Value through Other Comprehensive Income (FVOCI)

PFRS 9 Accounts	FRPTI Accounts
1. Financial Assets Measured at Fair Value through Other Comprehensive Income (FVOCI)	1. Available for Sale (AFS) Financial Assets
(a) Debt Securities at FVOCI	(a) AFS Debt Securities
Unamortized Discount/Premium	Unamortized Discount/Premium
Debt Securities at FVOCI (at amortized cost)	AFS Debt Securities (at amortized cost)
Accumulated Market Gains/Losses	Accumulated Market Gains/Losses
Debt Securities at FVOCI (Fair Value)	AFS Debt Securities (Fair Value)
(b) Equity Securities at FVOCI i. Designated at FVOCI ii. Mandatorily Measured at Fair Value	(b) AFS Equity Securities
Accumulated Market Gains/ Losses	Accumulated Market Gains/ Losses
Equity Securities at FVOCI (Fair Value)	AFS Equity Securities (Fair Value)
(FRP Account will no longer be used)	Allowance for Credit Losses
FVOCI – Net of Accumulated market gains/losses	AFS Financial Assets - Net
Accountabilities	**Accountabilities**
1. Net Unrealized Gains/(Losses) on Financial Assets at FVOCI[3]	1. Net Unrealized Gains/(Losses) on AFS Financial Assets
a. Debt Securities at FVOCI	a. Debt Securities
b. Equity Securities at FVOCI	b. Equity Securities
2. Realized and Cumulative/Gains/ (Losses) on Equity Securities Designated at FVOCI	2. Miscellaneous Liabilities

Table 3. Financial Assets Measured at Amortized Cost

PFRS 9 Accounts	FRPTI Accounts
1. Debt Securities Measured at Amortized Cost	1. Held-to-Maturity
Unamortized Discount/Premium	Unamortized Discount/Premium
Debt Securities Measure at Amortized Cost – Net of Amortization	HTM Financial Assets – Net of Amortization
Less: Allowance for Credit Losses	Less: Allowance for Credit Losses
Debt Securities Measured at Amortized Cost – Net	HTM Financial Assets – Net
(FRP Account will no longer be used)	2. Unquoted Debt Securities Classified as Loans
(FRP Account will no longer be used)	3. Investments in Non-Marketable Equity Securities

(Circular Nos. 1023 dated 4 December 2018 and 1011 dated 14 August 2018)

3 Loss allowance should also be recognized in Other Comprehensive Income

MARKING TO MARKET GUIDELINES FOR INVESTMENTS IN DEBT AND EQUITY SECURITIES
[Appendix to Sec. 361-Q (Marking to market of financial instrument)]

Bases/References

Bangko Sentral Supervised Financial Institutions (BSFIs) shall have adequate governance structures and control processes to ensure that valuations are prudent and reliable for risk management and financial reporting purposes. These processes shall be consistently applied across the institution and integrated within the overall governance framework and risk management systems.

In this respect, BSFIs shall mark-to-market (MTM) debt and equity securities in accordance with the provisions of Philippine Financial Reporting Standards 13 (PFRS L3) on Fair Value Measurement and shall observe the following bases/references:

Type of Security		Market Price Basis
A. Equity Securities Listed in the Stock Exchange		
1. Traded in the Philippines		Same day closing price as quoted at the Philippine Stock Exchange. In case of halt trading/suspension or holidays, use the last available closing price.
2. Traded Abroad		Latest available closing price from the exchange where the securities are traded.
B. Foreign Currency-Denominated Debt Securities Quoted in Major Information Systems (e.g., Bloomberg, Reuters)		Latest available price for the day, Manila time.
C. Foreign Currency Denominated Debt Securities Traded in a Local Registered Exchange or Market		The latest available closing price provided by the exchange where the said security is traded and/or enrolled.
D. Peso-Denominated Government Securities		The market prices provided by either a third party pricing service or calculating agent: *Provided,* That the pricing service or the calculation agent and its valuation methodology are recognized by the Securities and Exchange Commission (SEC) – licensed benchmark administrator.
E. Peso-Denominated Private Debt Securities		The basis for MTM peso-denominated debt securities traded in an organized market shall be the same as those used in Section C above.

Other Valuation Guidelines

In the absence of market price described above, the fair value which is the price that would be received in selling the financial instrument in an orderly transaction in the principal (or most advantageous) market under current market condition, shall be used as basis for the MTM. BSFIs shall ensure that such an observed price or the price estimated using another valuation technique, including inputs to valuation technique, are consistent with the provisions of PFRS 13.

(Circular No. 1021 dated 15 November 2018)

GUIDELINES ON THE OPENING OF A SECURITIES ACCOUNT WITH THE BUREAU OF THE TREASURY REGISTRY

(Appendix to Secs. 416-Q and 424-Q)

A. Definition of Terms and Acronyms

Scripless securities - refers to uncertificated securities issued by the Bureau of Treasury (BTr) that are under the BTr's Registry

Trust Entity (TE) – defined under Sec. 403 of the MORB

BTr - Bureau of the Treasury

BTr Registry – Registry of scripless securities maintained by the BTr or any registry system of scripless securities recognized as such by the BTr.

DDA – refers to the regular demand deposit account of a quasi-bank with Bangko Sentral

B. Basic Requirements on the Opening of a Securities Account with the BTr Registry

1. The sector of the Bangko Sentral which is responsible for supervising quasi-banks/trust entities shall file with the BTr an application to open a Registry Account where scripless securities of trust entities used as security deposit for trust duties shall be held.

2. The trust entity shall request for the opening of a Client Securities Account with the BTr. The relevant fees for the maintenance of the Client Securities Accounts with the BTr shall be subject to the terms and conditions of the BTr.

3. A trust entity with a DDA shall act as its own settlement bank.

   A trust entity without a DDA shall designate a settlement bank which will act as consult for transferring securities for trust duties to the Bangko Sentral Registry account and for paying interest, interest coupons and redemption proceeds. The trust entity shall inform the appropriate supervising department of the Bangko Sentral of the designation of a settlement bank.

4. Each trust entity shall accomplish an *Autodebit/Autocredit Authorization* for its client securities account under the supervising sector's Registry account. The document shall authorize the BTr and the Bangko Sentral to credit the DDA of the trust entity or the designated settlement bank for coupons/interest payments and maturity proceeds of securities and to debit the same DDA for the monthly fees payable to the BTr for the maintenance of the trust entity's client securities accounts with the Bangko Sentral. It will also authorize the BTR and Bangko Sentral to credit the deposit account of the trust entity or the designated settlement bank for the redemption proceeds of securities that mature while in the Bangko Sentral – FSS Registry account.

   A trust entity with a DDA with Bangko Sentral shall use *Annex A.1* while a trust entity with a settlement arrangement shall use *Annex A.2.*

(Circular No. 1032 dated 15 February 2019)

To be used by a Trust Entity with own demand deposit account with Bangko Sentral

Letterhead of Trust Entity

AUTODEBIT/AUTOCREDIT AUTHORIZATION

The (name of Trust Entity) hereby authorizes the Bureau of the Treasury (BTr) and the Bangko Sentral to credit our demand deposit account (DDA) with Bangko Sentral for coupons/interest payment including the redemption proceeds of our securities deposited with the Bangko Sentral under the BTr Registry and to debit our DDA to settle the payment of monthly maintenance fees of the BTr for maintaining our client securities account with the Bangko Sentral.

This authorization will take effect on (indicate date).

_____

(Authorized Signatories)

To be used by a trust entity with settlement arrangement with a bank

Letterhead of Trust Entity

AUTODEBIT/AUTOCREDIT AUTHORIZATION

The (Name of settlement bank) for the account of (Name of trust entity) hereby authorizes the Bureau of the Treasury (BTr) and the Bangko Sentral to credit our demand deposit account (DDA) with Bangko Sentral for coupons/interest payment including the redemption proceeds of securities of (Name of Trust Entity) deposited with the appropriate supervising department of the Bangko Sentral under the BTr Registry and to debit our DDA to settle the payment of monthly maintenance fees of the BTr for maintaining the client securities account of (Name of Trust Entity) with the appropriate supervising department of the Bangko Sentral.

This authorization will take effect on (indicate date).

(Authorized Signatories of Settlement Bank)

(Authorized Signatories of Trust Entity)

GUIDELINES ON THE OPENING OF A SECURITIES ACCOUNT WITH THE BUREAU OF THE TREASURY REGISTRY FOR PERA ADMINISTRATOR

[Appendix to Sec. 1121-Q (Security for the faithful performance of Administrators)]

A. Definition of Terms and Acronyms

BTr – Bureau of the Treasury

DDA - refers to the regular demand deposit account of a QBs with Bangko Sentral

Financial Institution (FI) - refers to a bank, non-bank financial institution, or trust entity supervised by the Bangko Sentral that is accredited as a PERA Administrator

BTr Registry – Registry of scripless securities maintained by the BTr or any registry system of scripless securities recognized as such by the BTr.

Scripless Securities - refers to uncertificated securities issued by the BTr

B. Basic Requirements on the Opening of a Securities Account with the BTr Registry

1. The sector of the Bangko Sentral which is responsible for supervising quasi-banks/trust entities shall file with the BTr an application to open a BSP-PERA registry account where the securities for the faithful performance of PERA Administrator shall be held.

2. The FI shall request for the opening of a Client Securities Account with the BTr. The relevant fees for the maintenance of the Client Securities Account with the BTr shall be subject to the terms and conditions of the BTr.

3. An FI without a DDA shall designate a settlement bank and shall inform the appropriate supervising department of its designated settlement bank.

4. Each FI shall accomplish an autodebit/autocredit authorization for its PERA Administrator securities account under the BSP-PERA Registry account. The document shall authorize the BTr and the Bangko Sentral to credit the DDA of the FI or the designated settlement bank for coupons/interest payments and maturity proceeds of securities and to debit the same DDA for the monthly fees payable to the BTr for maintenance of the PERA Administrator securities account.

   An FI with a DDA with Bangko Sentral shall use Annex 1 while an FI with a designated settlement bank shall use Annex 2.

(Circular Nos. 1032 dated 15 February 2019 and 879 dated 22 May 2015)

To be used by an FI with own demand deposit account with Bangko Sentral

Letterhead of PERA Administrator

AUTODEBIT/AUTOCREDIT AUTHORIZATION

The (Name of PERA Administrator) hereby authorizes the Bureau of the Treasury (BTr) and the Bangko Sentral to credit our demand deposit account (DDA) with the Bangko Sentral for coupons/interest payment including the redemption proceeds of our securities deposited with the Bangko Sentral-PERA under the BTr Registry and to debit our DDA to settle the payment of monthly maintenance fees of the BTr for maintaining our client securities with Bangko Sentral-PERA.

This authorization will take effect on_____(indicate date)___.

_____

(Authorized Signatories

Annex 2

To be used by an FI with settlement arrangement with a bank

Letterhead of Trust Entity

AUTO DEBIT/AUTOCREDIT AUTHORIZATION

The (Name of Settlement Bank) for the account of (Name of PERA Administrator) hereby authorizes the Bureau of the Treasury (BTr) and the Bangko Sentral to credit our demand deposit account (DDA) with Bangko Sentral for coupons/interest payment and redemption proceeds of securities of (Name of Financial Institution/trust entity) deposited with Bangko Sentral under the BTr Registry and to debit our DDA to settle the payment of monthly maintenance fees of the BTr of maintaining the client securities of (Name of financial institution/trust entity) with Bangko Sentral-PERA.

This authorization will take effect on (indicate date).

(Authorized Signatories of Settlement Bank)

(Authorized Signatories of PERA Administrator)

GUIDELINES ON THE IMPOSITION OF MONETARY PENALTIES ON QBs, AND/OR THEIR DIRECTORS, OFFICERS AND/OR EMPLOYEES FOR VIOLATIONS OF BANKING AND OTHER APPLICABLE LAWS WITH SANCTIONS FALLING UNDER SECTION 37 OF REPUBLIC ACT NO. 7653 (THE NEW CENTRAL BANK ACT), AS AMENDED

(Appendix to Sec. 004-Q on Monetary Penalties on QBs, and/or their Directors, Officers, and/or Employees)

The following are the guidelines on the imposition of monetary penalties on QBs, and/or their directors, officers and/or employees.

I. *Definition of Terms*. For purposes of this Appendix, the following definitions shall apply:

a. *Transactional violation* refers to an act or omission constituting a violation of any applicable law or any order, instruction/directive or regulation issued by the Monetary Board, or any order, instruction/directive or ruling by the Governor which is consummated and concluded in a single instance/occasion.

For licensing-related violations, transactional violation refers to the failure to obtain approval prior to engaging in an activity which the institution is qualified to undertake at the onset, based on eligibility test and assessment of compliance with the prudential criteria set forth under existing Bangko Sentral rules and regulations.

b. *Continuing violation* refers to an act or omission constituting a violation of any applicable law or any order, instruction/directive or regulation issued by the Monetary Board, or any order, instruction/directive or ruling by the Governor in which the violation persists or lingers over time from the instant the particular act was committed or omitted until the violation is stopped.

For licensing-related violations, continuing violation refers to an act which the institution is not qualified to undertake at the onset based on eligibility test and assessment of compliance with the prudential criteria set forth under existing Bangko Sentral rules and regulations.

II. Imposition and Payment of Monetary Penalties.

a. In accordance with Section 37 of R.A. No. 7653, as amended, monetary penalties may be imposed against QBs and/or their directors, officers and/or employees for any willful violation of its charter or bylaws; willful delay in the submission of reports or publications thereof as required by law, rules and regulations; any refusal to permit examination into the affairs of the institution; any willful making of a false or misleading statement to the Monetary Board or the appropriate supervising and examining department or its examiners; any willful failure or refusal to comply with, or violation of, any banking law or any order, instruction or regulation issued by the Monetary Board, or any order, instruction or ruling by the Governor; or any commission of irregularities, and/or conducting business in an unsafe or unsound manner as may be determined by the Monetary Board.

In the absence of specific provision under other applicable laws or Bangko Sentral rules and regulations prescribing the imposable monetary penalty for the above-mentioned violations/offenses, QBs, and/or their directors, officers and/or employees may be imposed a maximum monetary penalty of ₱1 million for each transactional violation or ₱100 thousand per calendar day for violations of a continuing nature as provided under Section 37 of R.A. No. 7653, as amended. Further, in case profit is gained or loss is avoided as a result of the violation, the Bangko Sentral may impose a fine of no more than three (3) times the profit gained or loss avoided on top of the aforementioned monetary penalty.

The Bangko Sentral considers the attendant circumstances of the case, including aggravating and mitigating factors, in the guided exercise of supervisory discretion to reach a reasonable and proportionate monetary penalty that best achieve the Bangko Sentral's supervisory objectives. These factors include the: (1) nature, gravity and seriousness of the violation or irregularity; (2) financial and/or non-financial impact of the violation or irregularity to the QB, its industry and/or the financial system; (3) intentionality, frequency and duration of the violation or irregularity; and (4) measures undertaken to stop or correct the violation or irregularity.

The appropriate department of the Bangko Sentral shall notify the QB, and/or director, officer and/or employee concerned of the violation, together with a directive for the QB, and/or director, officer and/or employee concerned to show cause within fifteen (15) business days from receipt of the letter why no monetary penalty under Section 37 of R.A. No. 7653, as amended, should be imposed. The recommendation to impose monetary penalties shall be approved by the Governor or the Monetary Board, as the case may be,

pursuant to Section 37 of R.A. No. 7653, as amended: *Provided*, That monetary penalties against directors, officers and/or employees shall be approved only by the Monetary Board. The decision of the Governor/Monetary Board shall be communicated to the QB, and/or director, officer and/or employee concerned.

However, the Bangko Sentral is not precluded from imposing non-monetary sanctions along with monetary penalties if circumstances so warrant.

b. *Basis for the computation of the period or duration of penalty.* The computation of the period or duration of all penalties shall be based on calendar days. For this purpose the terms "per banking day", "per business day", "per day" and/or "a day" as used in this Manual, and other Bangko Sentral rules and regulations shall mean "per calendar day" and/or "calendar day" as the case may be.

c. *Payment of Monetary Penalties/Fines.* QBs, and/or their directors, officers and/or employees shall pay the monetary penalties/fines for reverse deficiency, reportorial delay/deficiency, refusal to permit examination, or failure to comply with, or violation of, any law or any order, instruction or regulation issued by the Monetary Board, or any order, instruction or ruling by the Governor, within fifteen (15) calendar days from receipt of the notice of the decision of the Governor imposing said monetary penalties, and payment thereof shall not be suspended by the filing of an appeal to the Monetary Board.

Monetary penalties imposed by original decisions of the Monetary Board shall be paid within fifteen (15) calendar days from the last day to file a motion for reconsideration where none has been filed or within fifteen (15) calendar days from receipt of the notice of the decision of the Monetary Board affirming the decision on motion for reconsideration, as the case may be.

For uniform implementation of the above regulations the following procedural guidelines shall be observed:

(1) Upon approval of the fines/penalties by the Governor/Monetary Board, the Department/Office concerned shall send the Statement of Account (SOA)/billing letter to the QB with an advice that the penalty should be paid in full within fifteen (15) calendar days from receipt of SOA/billing letter. For QBs which maintain a demand deposit account (DDA) with the Bangko Sentral, the amount of the penalty/ies that remain unpaid shall be automatically debited from their DDA after the lapse of the fifteen (15)-calendar day period within which to pay the monetary penalties. The QB shall likewise be advised that penalty or portion thereof which remained unpaid after the lapse of said fifteen (15)-day period shall be subject to additional charge of six percent (6%) per annum reckoned from the business day immediately following the end of the fifteen (15)-day period up to the day of actual payment.

(2) On the business day immediately following the end of said fifteen (15)-day period, unpaid penalties shall be automatically debited, without additional charge, against the QB's DDA with the Bangko Sentral by the Comptrollership Sub-sector (CoSS) based on the amount booked by the Department/Office concerned after first confirming with the CoSS the sufficiency of the QB's DDA balance to cover the amount of the penalty.

(3) If, based on its confirmation with the CoSS, the Department/Office concerned received information that the QB's DDA balance is insufficient to cover the amount of the penalty, it shall accordingly advise and request the QB to immediately fund its DDA.

(4) As soon as it is funded, the QB's DDA shall be debited by the CoSS for the amount of the penalty, plus the six percent (6%) additional charge for late payment of the penalty reckoned from the business day immediately following the end of the fifteen (15)-day period up to the day of actual payment, based on the amount booked by the Department/Office concerned.

(5) In the absence of DDA with the Bangko Sentral, penalties shall be paid through any acceptable means of payment and in accordance with the provisions of Sec. 1102-Q (*Other Payments of NBFIs*) and *Appendix* Q-26.

(6) In the case of penalty/ies imposed on QB directors, officers and/or employees, the employer QB and said directors, officers and/or employees shall be advised by the appropriate department of the Bangko Sentral that the employer QB's DDA with the Bangko Sentral shall be debited for the amount of the penalty as advance payment on behalf of the director, officer and/or employee whose penalty/ies remain unpaid after the lapse offifteen (15) calendar days within which to pay the monetary penalty. In case the director, officer and/or employee is no longer connected with the QB, payment thereof shall be for the account of the director, officer and/or employee who shall pay directly to the Bangko Sentral through any such acceptable means of payment in accordance with the provisions of

Sec. 1102-Q. The procedures under Items "2", "3" and "4" hereof shall likewise apply.

III. *Appeal or Motion for Reconsideration.*

The imposition of monetary penalties by the Governor shall be final and executory until reversed, modified or lifted by the Monetary Board on appeal. The appeal shall be filed within fifteen (15) calendar days from receipt of the notice of the decision, copy furnished the appropriate department of the Bangko Sentral. No motion for reconsideration of the decision of the Governor or of the Monetary Board on appeal shall be allowed.

Original decisions of the Monetary Board imposing monetary penalties shall become final and executory after fifteen (15) calendar days from receipt of the Monetary Board decision, unless a motion for reconsideration is timely filed, copy furnished the appropriate department of the Bangko Sentral.

The appeal or the motion for reconsideration shall be in writing and shall specify the findings or conclusions in the decision which are not supported by the evidence or which are contrary to law, making express reference to the evidence or to the provisions of law alleged to be contrary to such findings or conclusions.

A *pro forma* appeal or motion for reconsideration shall be denied outright and shall not prevent the decision from attaining finality.

(Circular No. 1125 dated 20 August 2021)

PROFORMA PAYMENT FORM
(Appendix to Sec. 1102-Q)

BANGKO SENTRAL NG PILIPINAS
Manila

_____
(Name of Department/Office)

FOR –

The Director
Cash Department

Please issue OFFICIAL RECEIPT to _____(name of payor)_____ as payment of

_____(nature of payment)_____ and effect the following accounting entries:

Account Code	Account Title/Description Accountee Type/Code/Name	DR/CR	Amount
			P

Total Debit _____
Total Credit P _____

Approved by: _____
(Name of BSP Official/Position)

Date: _____

Received by: _____ Official Receipt No: _____
Date: _____ Date: _____

ACTIVITIES WHICH MAY BE CONSIDERED UNSAFE AND UNSOUND BANKING

[Appendix to Secs.181-Q, 419-Q and 341-Q (Large exposures and credit risk concentrations)]

The following activities are considered only as guidelines and are not irrebutably presumed to be unsafe or unsound. Conversely, not all practices which might under the circumstances be termed unsafe or unsound are mentioned here. The Monetary Board may now and then consider other acts/omissions as unsafe or unsound transactions.

a. Operating with management whose policies and practices are detrimental to the QB/trust entity and jeopardize the safety of its deposit substitutes/trust accounts.

b. Operating with total adjusted capital and reserves that are inadequate in relation to the kind and quality of the assets of the QB/trust entity.

c. Operating in a way that produces a deficit in net operating income without adequate measures to ensure a surplus in net operating income in the future.

d. Operating with a serious lack of liquidity, especially in view of the asset and deposit substitute/liability structure of the QB/trust entity.

e. Engaging in speculative and hazardous investment policies.

f. Paying excessive cash dividends in relation to the capital position, earnings capacity and asset quality of the QB/trust entity.

g. Excessive reliance on large, high- cost or volatile borrowings to fund aggressive growth that may be unsustainable.

   For this purpose, a QB is considered offering high-cost borrowings if the effective interest rate paid on said borrowings and/ or non-cash incentives is fifty percent (50%) over the prevailing comparable market median rate for similar QB categories, maturities and currency denomination.

h. Excessive reliance on letters of credit either issued by the QB/trust entity or accepted as collateral to loans advanced.

i. Excessive amounts of loan participations sold.

j. Paying interest on participations without advising participating institution that the source of interest was not from the borrower.

k. Selling participations without disclosing to the purchasers of those participations material, non-public information known to the QB/trust entity.

l. Failure to limit, control and document contingent liabilities.

m. Engaging in hazardous lending and lax collection policies and practices, as evidenced by any of the following circumstances:

   (1) An excessive volume of loans subject to adverse classification;

   (2) An excessive volume of loans without adequate documentation, include credit information;

   (3) Excessive net loan losses;

   (4) An excessive volume of loans in relation to the total assets and deposit substitutes/trust liabilities of the QB/trust entity;

   (5) An excessive volume of weak and self-serving loans to persons connected with the QB/trust entity, especially if a significant portion of these loans are adversely classified;

   (6) Excessive concentrations of credit, especially if a substantial portion of this credit is adversely classified;
   (7) Indiscriminate participation in weak and undocumented loans originated by other institutions;

(8) Failing to adopt written loan policies;

(9) An excessive volume of past due or NPLs;

(10) Failure to diversify the loan portfolio/asset mix of the institution;

(11) Failure to make provision for an adequate reserve for possible loan losses;

(12) High incidence of spurious and fraudulent loans due to patently inadequate risk management systems and procedures resulting in significant impairment of capital;

(13) QB's niche mostly consists of borrowers who have impaired or limited credit history, or majority of the loans are either clean/unsecured or backed with minimum collateral values except those underwritten using microfinance technology consistent with Sec. 314 and other acceptable cash flow-based lending systems; and the QB does not have a robust risk management system in place leaving the QB vulnerable to losses;

(14) Loan rates are excessively higher than market rates to compensate the added or higher risks involved. Excessively higher rates are those characterized by effective interest rates that are fifty percent (50%) over the prevailing comparable market median rate for similar loan types, maturities and collaterals; and

(15) Assignment of loans on without recourse basis with real estate properties as payment, resulting in total investment in real estate in excess of the prescribed ceiling.

n. Permitting officers to engage in lending practices beyond the scope of their positions.

o. Operating the QB/trust entity with inadequate internal controls.

p. Failure to keep accurate and updated books and records.

q. Operating the institution with excessive volume of out-of-territory loans.

r. Excessive volume of non-earning assets.

s. Failure to heed warnings and admonitions of the supervisory and regulatory authorities.

t. Continued and flagrant violation of any law, rule, regulation or written agreement between the institution and the Bangko Sentral.

u. Any other action likely to cause insolvency or substantial dissipation of assets or earnings of the institution or likely to seriously weaken its condition or otherwise seriously prejudice the interest of its investors/clients.

v. Non-observance of the principles and the requirements for managing and monitoring large exposures and credit risk concentrations under Items *"a"* and *"b"* of Sec. 341-Q *(Large exposures and credit risk concentrations).*

w. Improper or non-documentation of repurchase agreements covering government securities and commercial papers and other negotiable and non- negotiable securities or instruments.

GUIDELINES AND MINIMUM DOCUMENTARY REQUIREMENTS FOR FOREIGN EXCHANGE FORWARD AND SWAP TRANSACTIONS

The following is a list of minimum documentary requirements for FX forward and swap transactions. Unless otherwise indicated, original documents[1] shall be presented on or before deal date to QBs.

A. FORWARD SALE OF FX TO COVER OBLIGATIONS – DELIVERABLE AND NON-DELIVERABLE

1. FORWARD SALE OF FX – TRADE

1.1. Trade Transactions

1.1.1. Under LC

a. Copy of LC opened; and
b. Accepted draft, or commercial invoice/Bill of Lading

1.1.2. Under DA/OA arrangements

a. Certification of reporting QB on the details of DA/OA under Schedule 10 (Import Letters of Credits Opened and DA/OA Import Availments and Extensions) of FX Form 1 (Consolidated Report on Foreign Exchange Assets and Liabilities); and

b. Copy of commercial invoice;

In addition to the above requirements, the QB shall require the customer to submit a Letter of undertaking that:

(i) Before or at maturity date of the forward contract, it (the importer) shall comply with the documentation requirements on sale of FX for trade transactions under existing regulations; and

(ii) No double hedging has been obtained by the customer for the covered transactions.

1.1.3. Direct Remittance

Original shipping documents indicated in Item *"II.a"* of Circular Letter dated 24 January 2002.

2. NON-TRADE TRANSACTIONS

Only non-trade transactions with specific due dates shall be eligible for forward contracts, and shall be subject to the same documentation requirements under Circular No. 388 dated 26 May 2003 with the following additional guidelines for foreign currency loans and investments.

2.1. Foreign Currency Loans owed to non-residents or AABs

2.1.1. Deliverable Forwards

The maturing portion of the outstanding eligible obligation, i.e., those that are registered with the Bangko Sentral registration letter, may be covered by a deliverable forward subject to the documentary requirements under Circular No. 388. A copy of the creditor's billing statement may be submitted only on or before the maturity date of the contract.

2.1.2. NDF's

The outstanding eligible obligation, i.e., those that are registered with the Bangko Sentral, including interests and fees thereon as indicated in the Bangko Sentral registration letter may be covered by a NDF, subject to the documentary requirements under Circular No. 388, except for the creditor's billing statement which need not be submitted.

The amount of the forward contract shall not exceed the outstanding amount of the underlying obligation during the term of the contract.

[1] If copy is indicated, it shall mean photocopy, electronic copy or facsimile of original.

2.2. Inward Foreign Investments

The unremitted amount of sales/maturity proceeds due for repatriation to non-resident investors pertaining to BSP -registered investments in the following instruments issued by a Philippine resident:

a. shares of stock listed in the PSE;
b. GS;
c. money market instruments; and
d. peso time deposits with a minimum tenor of ninety (90) days may be covered by FX forward contracts subject to the presentation of the original BSRD on or before deal date. However, for Item "*2.2.a*" above, original BSRD or BSRD Letter-Advice, together with the broker's sales invoice, shall be presented on or before maturity date of the FX forward contract, which date coincides with the settlement date of the PSE transaction.

Sales proceeds of BSP-registered investments in shares of stock that are not listed in the PSE may be covered by a deliverable FX forward contract only if determined to be outstanding as of the deal date for the contract and payable on a specific future date as may be indicated in the Contract To Sell/Deed of Absolute Sale and subject to the same documentary requirements under Circular No. 388.

B. FORWARD SALE OF FX TO COVER EXPOSURES– DELIVERABLE AND NON-DELIVERABLE

1. TRADE (DELIVERABLE AND NON-DELIVERABLE)

1.1. Under LC

a. Copy of LC opened; and
b. Proforma Invoice, or Sales Contract/Purchase Order

1.2. Under DA/OA, Documents Against Payment (DP) or Direct Remittance (DR)

Any of the following where delivery or shipment shall be made not later than one (1) year from deal date:

a. Sales Contract
b. Confirmed Purchase Order
c. Accepted Proforma Invoice
d. Shipment/Import Advice of the Supplier

In addition to the above requirements, the QB shall require the customer to submit a Letter of undertaking that:

(i) At maturity of the forward contract, it shall comply with the documentation requirements on the sale of FX for trade transactions under Circular-Letter dated 24 January 2002, as amended; and
(ii) No double hedging has been obtained by the customer for the covered transactions.

2. NON-TRADE (NON-DELIVERABLE)

The outstanding balance of BSP-registered foreign investments without specific repatriation date, appearing in the covering BSRD may only be covered by an NDF contract, based on its market/book value on deal date, subject to prior Bangko Sentral approval and if already with BSRD presentation of the covering BSRD and the proof that the investment still exists (e.g., stock certificate, or broker's buy invoice, or confirmation of sale, or certificate of investment in money market instruments, or certificate of peso time deposits). Hedging for permanently assigned capital of Philippine branches of foreign banks/firms is not allowed.

C. FORWARD PURCHASE OF FX

Such FX forward contracts shall be subject to the QB's "Know Your Customer" policy and existing regulations on anti-money laundering. In addition, counterparties must be limited to those that are manifestly eligible to engage in FX forwards as part of the normal course of their operations and which satisfy the QB's suitability and eligibility rules for such transactions.

D. FX SWAP TRANSACTIONS

1. FX SALE (first leg)/FORWARD FX PURCHASE (second leg)
The same minimum documentary requirements for sale of FX under Bangko Sentral Circular No. 388 for non-trade transactions, and Circular-Letter dated 24 January 2002, as amended, for trade transactions, shall be presented on or before deal date.

2. *FX PURCHASE (first leg)/FORWARD FX SALE (second leg)*

The first leg of the swap will be subject to the QB's "Know Your Customer" policy and existing regulations on anti-money laundering. The second leg of the swap transaction will be subject to the swap contract between the counterparties.

Swap contracts of this type intended to fund peso loans to be extended by non-residents in favor of residents shall require prior Bangko Sentral approval.

GUIDELINES ON THE SUSPENSION/DELISTING OF EXTERNAL AUDITOR IN THE LIST OF SELECTED EXTERNAL AUDITORS FOR BANGKO SENTRAL SUPERVISED FINANCIAL INSTITUTIONS (BSFIs)

(Appendix to Sec. 164-Q on Framework on the Selection of External Auditors)

Section 1. Grounds for Suspension/Delisting of External Auditors

An external auditor included in the List of Selected External Auditors for BSFIs shall be suspended or delisted by the Bangko Sentral, without prejudice to the imposition of other sanctions by the Securities and Exchange Commission (SEC)[1], under any of the following grounds:

a. Gross negligence in the conduct of the audit or failure to comply with the Philippine Standards on Auditing and such other issuances of the Auditing and Assurance Standards Council;

b. Issuance of an unqualified opinion which is not supported by full compliance by the auditee with the applicable financial reporting framework due to material deficiencies or misstatements in the financial statements;

c. Conduct of an audit despite the lack or eventual loss of independence as provided for under the Code of Ethics for Professional Accountants in the Philippines;

d. Conduct of any non-audit services for his statutory audit clients, if he has not undertaken the safeguards to reduce the threat to his independence;

e. Any material misrepresentation in the reports submitted to the Bangko Sentral;

f. Failure to comply with the provisions set forth under Sec. 164-Q;

g. Refusal for no valid reason, upon lawful order of the Bangko Sentral, to submit requested documents in connection with an ongoing investigation. The external auditor shall, however, be made aware of such investigation; and

h. Failure to obtain from the Securities and Exchange Commission an accreditation appropriate to the client's category provided under Sec. 164-Q on the appointment of external auditor.

Section 2. Procedures and Effects of Delisting/Suspension

a. On the basis of the results of the assessment of the quality of audited financial statements and evidence on the existence of the grounds for suspension or delisting under Section 1 above, the external auditor shall be notified in writing by the appropriate supervising department of the Bangko Sentral of the existence of the ground for his/her suspension or delisting in the List of Selected External Auditors for BSFIs and shall be allowed to submit within fifteen (15) calendar days from receipt of such notice an explanation on why he/she should not be suspended/delisted, together with the evidence in support of his/her position.

   An external auditor shall only be suspended or delisted after due notice and opportunity to defend/clear himself/herself.

b. Failure of the external auditor concerned to reply within the period prescribed under Item *"a"* above, shall be considered as a waiver on his/her part of the opportunity to defend/clear himself/herself. In this respect, the appropriate supervising department of the Bangko Sentral shall proceed with the evaluation of the case based on available records/evidence.

c. Upon approval by the Monetary Board, the external auditor concerned shall be informed in writing by the appropriate supervising department of the Bangko Sentral of his/her suspension or delisting in the List of Selected External Auditors for BSFIs.

d. A suspended or delisted external auditor shall be automatically included in the Bangko Sentral's Watchlist Disqualification File "B" (temporary).

e. The Securities and Exchange Commission shall be immediately informed of the suspension or delisting of the external auditor.

f. Suspended external auditors may re-apply for inclusion in the List of the Selected External Auditors for BSFIs after the lapse of five (5) years from the date of effectivity of the suspension.

(Circular No. 1040 dated 20 May 2019

[1] Accrediting Agency duly designated by the member-agency of the Financial Sector Forum, comprising of the Bangko Sentral ng Pilipinas, Securities and Exchange Commission, Insurance Commission, and Philippine Deposit Insurance Corporation.

QUALIFICATION REQUIREMENTS FOR A BANK/NON-BANK FINANCIAL INSTITUTION APPLYING FOR ACCREDITATION TO ACT AS TRUSTEE ON ANY MORTGAGE OR BOND ISSUED BY ANY MUNICIPALITY, GOVERNMENT- OWNED OR CONTROLLED CORPORATION, OR ANY BODY POLITIC

[Appendix to Sec. 413-Q (Qualification and accreditation of quasi-banks acting as trustee on any mortgage or bond issuance by any municipality, government owned or controlled corporation, or any body politic]

A bank/NBFI applying for accreditation to act as trustee on any mortgage or bond issued by any municipality, government- owned or controlled corporation, or any body politic must comply with the following requirements:

a. It must be a bank or NBFI under Bangko Sentral supervision;

b. It must have a license to engage in trust and other fiduciary business;

c. It must have complied with the minimum capital accounts required under existing regulations, as follows:

UBs and KBs	The amount required under existing regulations or such amount as may be required by the Monetary Board in the future
Branches of Foreign Banks	The amount required under existing regulations
Thrift Banks	P650 million or such amounts as may be required by the Monetary Board in the future
NBFIs	Adjusted capital of least P300 million or such amounts as may be required by the Monetary Board in the future.

d. Its risk-based capital adequacy ratio is not lower than twelve percent (12%) at the time of filing the application;

e. The articles of incorporation or governing charter of the institution shall include among its powers or purposes, acting as trustee or administering any trust or holding property in trust or on deposit for the use, or in behalf of others;

f. The by-laws of the institution shall include among others, provisions on the following:

(1) The organization plan or structure of the department, office or unit which shall conduct the trust and other fiduciary business of the institution;
(2) The creation of a trust committee, the appointment of a trust officer and subordinate officers of the trust department; and
(3) A clear definition of the duties and responsibilities as well as the line and staff functional relationships of the various units, officers and staff within the organization.

g. The bank's operation during the preceding calendar year and for the period immediately preceding the date of application has been profitable;

h. It has not incurred net weekly reserve deficiencies during the eight (8) weeks period immediately preceding the date of application;

i. It has generally complied with banking laws, rules and regulations, orders or instructions of the Monetary Board and/ or Bangko Sentral Management in the last two preceding examinations prior to the date of application, particularly on the following:

(1) election of at least two (2) independent directors;
(2) attendance by every member of the board of directors in a special seminar for board of directors conducted or accredited by the Bangko Sentral;
(3) the ceilings on credit accommodations to DOSRI;
(4) liquidity floor requirements for government deposits;
(5) single borrower's loan limit; and
(6) investment in bank premises and other fixed assets.

j. It maintains adequate provisions for probable losses commensurate to the quality of its assets portfolio but not lower than the required valuation reserves as determined by the Bangko Sentral;

k. It does not have float items outstanding for more than sixty (60) calendar days in the "Due From/To Head Office/Branches/Other Offices" accounts and the "Due from Bangko Sentral" account exceeding one percent (1%) of the total resources as of date of application;

l. It has established a risk management system appropriate to its operations characterized by clear delineation of responsibility for risk management, adequate risk measurement systems, appropriately structured risk limits, effective internal controls and complete, timely and efficient risk reporting system;

m. It has a CAMELS Composite Rating of at least "3" in the last regular examination with management rating of not lower than "3"; and

n. It is a member of the PDIC in good standing (for banks only).

Compliance with the foregoing as well as with other requirements under existing regulations shall be maintained up to the time the trust license is granted. A bank that fails in this respect shall be required to show compliance for another test period of the same duration.

CHECKLIST OF BANGKO SENTRAL REQUIREMENTS IN THE SUBMISSION OF AUDITED FINANCIAL STATEMENTS AND ANNUAL AUDIT REPORT
[Appendix to Sec. 173-Q (Financial Audit)]

Information/Data Required	Deadline for submission
A. Audited Financial Statements (AFS)	
1. AFS	Not later than 120 calendar days after the close of the calendar year or fiscal year adopted by the QB.
2. Certification by the external auditor on compliance with Bangko Sentral requirements on: a. Confidentiality clause pertinent to read-only access to the Report of Examination; and b. Disclosure under Sec. 173-Q *(Disclosure requirements to the audited financial statements)* and other information that may be required.	For submission together with the AFS, not later than 120 calendar days after the close of the calendar year or fiscal year adopted by the QB.
3. Reconciliation statement, including copies of adjusting entries on the reconciling items, between the AFS and the prudential reports submitted to the Bangko Sentral (i.e. balance sheet and income statement for QB following the formats in Annexes A and B).	For submission together with the AFS, not later than 120 calendar days after the close of the calendar year or fiscal year adopted by the QB.
4. Letter of Comments (LOC)[1] indicating material weaknesses on internal control and risk management system as well as other issues, which may include findings on the quality of governance[2], that should be brought to the attention of the board/management along with the recommendations for corrective action. Otherwise, a certification by the external auditor that there are no issues noted in the course of the audit to warrant the submission of an LOC.	For submission together with the AFS, not later than 120 calendar days after the close of the calendar year or fiscal year adopted by the QB.
5. Copy of the board resolution showing the actions on the AFS and the submitted LOC, if any.	For submission together with the AFS not later than 120 calendar days after the close of the calendar year or fiscal year adopted by the QB.
6. The external auditor shall report directly to the Bangko Sentral the following: a. Any material finding involving fraud or error; b. Actual or potential losses the aggregate of which amounts to at least ten percent (10%) of the consolidated total assets of the QB; c. Significant doubt as to the ability of the QB to continue as a going concern;	Within fifteen (15) calendar days from discovery.

[1] LOC or equivalent letter to management/board of directors
[2] Reportable issues on the quality of governance shall only pertain to financial reporting matter.

d. Material breach of laws or Bangko Sentral rules and regulations such as but not limited to prescribed capital and liquidity ratios, significant deficiency in allowance for credit losses, material weaknesses in fair value measurement methodology, significant vulnerabilities to money laundering and countering the financing of terrorism;	
e. Material internal control weaknesses which may lead to financial reporting problems; and	
f. Findings on matters of corporate governance that may require urgent action by the Bangko Sentral.	
In case there are no matters to report (e.g., fraud, dishonesty, breach of laws, etc.) a notarized certification that there is none to report.	Not later than 120 calendar days after the close of the calendar year or fiscal year adopted by the QB.
B. Annual Audit Report (AAR) - For QBs under the concurrent jurisdiction of the Bangko Sentral and COA	
1. AAR accompanied by:	Within forty (40) calendar days after receipt of the AAR by the board of directors.
a. Certification by the institution concerned on the date of receipt of the AAR by the board of directors;	
b. Reconciliation statement between the AFS in the AAR and the Balance Sheet and Income Statement of QB and trust department submitted to the Bangko Sentral, including copies of adjusting entries on the reconciling items; and	
c. Other information that may be required by the Bangko Sentral.	
2. Copy of the board resolution showing the action taken on the AAR, as well as on the comments and observations, including the names of the directors present and absent, among other things.	Within 30 banking days after receipt of the AAR by the board of directors.

(Circular No. 1075 dated 7 February 2020)

Name of Financial Institution

Comparison of Submitted Consolidated Balance Sheet and Income Statement
and Audited Financial Statements
(Parent and Subsidiaries)
As of (end of calendar or fiscal year)
(In Thousand Pesos)

	Submitted Report	Audited Report	Variance/ Discrepancy	Reason for Discrepancy
Cash and Other Cash Items				
Due from BSP				
Due from Other Banks				
Financial Assets Held for Trading (HFT)				
Held-to-Maturity (HTM) Financial Assets				
Available-for-Sale Financial Assets				
Loans and Receivables, *net*				
Interbank Loans Receivable				
Equity Investments in Subsidiaries, Associates & Joint Ventures				
Bank Premises, Furniture, Fixtures and Equipment, net				
Real and Other Properties Acquired (ROPA), net				
Other Assets				
Due from Head Office/Branches/Agencies Abroad				
Total Assets	= = = = =	= = = = =	= = = = =	= = = = =
Deposit Liabilities				
Bills Payable				
Bonds Payable				
Unsecured Subordinated Debt (UnSD)				
Redeemable Preferred Shares				
Accrued Interest, Taxes and Other Expenses				
Other Liabilities				
Due to Head Office/Branches/Agencies Abroad				
Total Liabilities	= = = = =	= = = = =	= = = = =	= = = = =
Paid-in Capital Stock				
Additional Paid-In Capital				
Retained Earnings				
Assigned Capital				
Total Capital	= = = = =	= = = = =	= = = = =	= = = = =
Total Liabilities and Capital	= = = = =	= = = = =	= = = = =	= = = = =
Total Income				
Total Expenses				
Net Income before Income Tax	= = = = =	= = = = =	= = = = =	= = = = =

ANNEX B

Name of Financial Institution Trust Department
(Contractual Relationship of TE, e.g., Institutional-Trust, etc.)
Comparison of Submitted FRPTI Balance Sheet and
Audited Financial Statements
As of (end of calendar or fiscal year)
(In Thousand Pesos)

Accounts	FRPTI	AFS	Discrepancy	Explanation for Discrepancy
Assets (net)				
Cash on Hand, Checks and Other Cash Items				
Due from BSP				
Deposit in Banks				
Financial Assets Designated at Fair Value through Profit or Loss (DFVPL)				
Available-for-Sale (AFS) Financial Assets				
Held-to-Maturity (HTM) Financial Assets				
Unquoted Debt Securities Classified as Loans				
Investments in Non-Marketable Equity Securities				
Loans and Receivables and Loans Arising from Repurchase Agreements and Securities Lending and Borrowing Transactions				
Other Financial Assets				
Investment Properties and Real and Other Properties Acquired				
Other Assets				
Due from Head Office/Branches/Agencies Abroad				
Total Assets				
Accountabilities				
Principal				
Accumulated Income				
Net Unrealized Gains/(Losses) on AFS Financial Assets				
Other Accountabilities				
Total **Accountabilities**				

DISCLOSURE REQUIREMENTS TO THE AUDITED FINANCIAL STATEMENTS (AFS)
[Appendix to Sec. 173-Q (Disclosure requirements to the audited financial statements)]

QBs shall include the following additional information in the AFS:

a. Notes to the financial statements:

(1) Capital position on solo and consolidated bases. These shall include Common Equity Tier 1 (CET1) capital, Tier 1 capital, Total Qualifying Capital, Total Risk-Weighted Assets; Capital Adequacy Ratio (CAR), Tier 1 ratio, and CET 1 ratio;

(2) Leverage ratio and Total Exposure Measure both on solo and consolidated bases;

(3) Liquidity position on solo and consolidated bases. These shall include:(a) Liquidity Coverage Ratio; and (b) Net Stable Funding Ratio.

In the case of stand-alone QB only the Minimum Liquidity Ratio shall be disclosed;

(4) Provisioning methodology and key assumptions in providing allowance for credit losses; and

(5) Accounting policies which shall include, but not limited to, general accounting principles, valuation policies for financial instruments and Real and Other Properties Acquired (ROPA), and policies on securitizations, foreign currency translations, and repurchase agreements.

b. Supplementary information:

(1) Basic quantitative indicators of financial performance such as (a) return on average equity; (b) return on average assets; and (c) net interest margin, using the following formulas:

(i) Return on Average Equity (%) =

$$\frac{\text{Net Income (or Loss) after Income Tax x 100}}{\text{Average Total Capital Accounts}}$$

Where:

$$\text{Average Total Capital Accounts} = \frac{\text{Total Capital Accounts Current calendar/fiscal year-end balance + Previous calendar/fiscal year-end balance}}{2}$$

(ii) Return on Average Assets (%) =

$$\frac{\text{Net Income (or Loss) after Income Tax x 100}}{\text{Average Total Assets}}$$

Where:

$$\text{Average Total Assets} = \frac{\text{Total Assets Current calendar/fiscal year-end balance + Previous calendar/fiscal year-end balance}}{2}$$

(iii) Net Interest Margin (%) =

$$\frac{\text{Net Interest Income x 100}}{\text{Average Interest Earning Assets}}$$

Where:

Net Interest Income = Total Interest Income – Total Interest Expense

$$\text{Average Interest Assets} = \frac{\text{Total Interest Earning Assets Current calendar/fiscal year-end balance + Earning Previous calendar/fiscal year-end balance}}{2}$$

(2) Description of capital instruments issued;

(3) Significant credit exposures [thirty percent (30%) of the total loan portfolio or ten percent (10%) of Tier 1 capital] as to industry/economic sector;

(4) Breakdown of total loans as to (i) security (secured, including type of security, and unsecured); and (ii) status (performing and non-performing) per product line;

(5) Breakdown of Exposures to Related Parties and Directors, Officers, Stockholders and their Related Interests (DOSRI) as to:

Particulars	DOSRI Loans	Related Party Loans (inclusive of DOSRI Loans)
1. Outstanding loans		
2. Percent of DOSRI/Related Party loans to total loan portfolio		
3. Percent of unsecured DOSRI/ Related Party loans to total DOSRI/Related Party loans		
4. Percent of past due DOSRI/ Related Party loans to total DOSRI/Related Party loans		
5. Percent of non-performing DOSRI/Related Party loans to total DOSRI/Related Party loans		

(6) Aggregate amount of secured liabilities and assets pledged as security; and

(7) Nature and amount of contingencies and commitments arising from off-balance sheet items [include direct credit substitutes (e.g., export Letter of Credit (LCs) confirmed, underwritten accounts unsold), transaction-related contingencies (e.g., performance bonds, bid bonds, standby LCs), short-term self-liquidating trade-related contingencies arising from the movement of goods (e.g., sight/usance domestic LCs, sight/usance import LCs), sale and repurchase agreements not recognized in the balance sheet; interest and foreign exchange rate related items; and other commitments.

For items “5”, “6”, and “7”, indicate if there is none to report.

GUIDE IN PREPARING THE KEY INFORMATION AND INVESTMENT DISCLOSURE STATEMENT FOR UNIT INVESTMENT TRUST FUNDS

[Appendix to Sec. 414-Q (Minimum disclosure requirements)]

1. The Key Information and Investment Disclosure Statement (KIIDS) is a document intended to provide unit investment trust fund (UITF) participants with key information and disclosures to facilitate better understanding and comparison of UITFs offered by trust entities (TEs).

2. The KIIDS is, preferably a one- sheet document with back-to-back information. The text shall be written in Arial style with font size 10 or its equivalent while the disclosures enumerated below shall be in capital letter and in bold font:

    - **THE UIT FUND IS NOT A DEPOSIT AND IS NOT INSURED BY THE PHILIPPINE DEPOSIT INSURANCE CORPORATION (PDIC).**
    - **RETURNS CANNOT BE GUARANTEED AND HISTORICAL NAVPu IS FOR ILLUSTRATION OF NAVPu MOVEMENTS/FLUCTUATIONS ONLY.**
    - **WHEN REDEEMIN G, THE PROCEEDS MAY BE WORTH LESS THAN THE ORIGINAL INVESTMENT AND ANY LOSSES SHALL BE SOLELY FOR THE ACCOUNT OF THE CLIENT.**
    - **THE TRUSTEE IS NOT LIABLE FOR ANY LOSS UNLESS UPON WILLFUL DEFAULT, BAD FAITH OR GROSS NEGLIGENCE.**

3. The attached format serves as a standard template in preparing the KIIDS. The headings, lay-outs and disclosures inside the boxes shall be strictly followed; nonetheless, the trustee may opt to add sub- headings provided that these additions shall result to clearer disclosure of key information.

4. The trustee shall use clear and plain language to ensure that the participants can easily understand the disclosures contained therein.

5. The use of diagrams such as graphs, charts, flowcharts, tables or numerical explanations is highly encouraged.

6. The trustee is advised to be judicious in deciding the information to be disclosed. The KIIDS shall give a fair and balanced view of the investments and shall ensure that no material information is omitted if such omission would make the KIIDS to be misleading. Examples are presented for illustration purposes only and are not meant to be prescribed or exhaustive.

7. The trustee shall include a web address for online access of other disclosure documents, educational resources or explanatory materials. However, key information shall be clearly disclosed in the KIIDS and not merely referred to other sources.

(As amended by Circular Nos. 876 dated 20 April 2015, 852 dated 21 October 2014)

(Name of Bank)

(Name of UIT Fund)

KEY INFORMATION AND INVESTMENT DISCLOSURE STATEMENT

(Reporting Period)

FUND FACTS:	
Classification:	Net Asset value per unit (NAVPu):
Launch Date:	Total Fund NAV:
Minimum Investment:	Dealing Day:
Additional Investment:	Redemption Settlement:
Minimum Holding Period:	Early Redemption Charge:

FEES* (*Indicate trustee fees and special reimbursable expenses, as necessary*)

Trustee Fees: _____% *(Name of Trustee)*	Custodianship Fees: _____% *(Name of Custodian)*	External Auditor Fees: _____% *(Name of External Auditor)*	Other Fees:_____% *(Please specify)*

* As a percentage of average daily NAV for the quarter valued at .

INVESTMENT OBJECTIVE AND STRATEGY [*Indicate the investment objective of the fund and the strategies on how to attain the said objective]*

Example:

The Fund intends to achieve for its participants long-term capital growth by investing into the extent possible, equity securities issued by Philippine domiciled companies which have a value style bias. The Fund aims to provide returns in excess of the return of the Philippine Stock Exchange Index (PSEI).

CLIENT SUITABILITY

A client profiling process shall be performed prior to participating in the Fund to guide the prospective investor if the Fund is suited to his/her investment objectives and risk tolerance. Clients are advised to read the Declaration of Trust/Plan Rules of the Fund, which may be obtained from the Trustee, before deciding to invest.

- The (Name of the Fund) is suitable only for investors who:
    - *[Indicate the risk profile of the target investors/participants]*
    - *[Indicate if the principal will be at risk]*
    - *[Indicate the recommended investment horizon of a participant]*
    - *[Indicate other key characteristics of the fund which can help investors determine if it*
    - *is suitable for them]*

Example:

- The Equity Fund is suitable only for investors who:
    - Have aggresive risk appetite
    - Are comfortable with the greater volatility and risks of an equity fund
- Participants are recommended to stay invested in an equity fund for three (3) years

KEY RISKS AND RISK MANAGEMENT (*Disclose the key risks of the Fund and provide short illustrations/explanations which are stated in plain and simple language, and the risk management process employed in managing the Fund, as necessary*)

You should not invest in this Fund if you do not understant or are not comfortable with the accompanying risks.

Example:

- Market risks. You have greater exposure to market risks as this is an equity fund since equities usually have greater volatility than bonds and other fixed income securities.
- The Fund employs a risk management policy based on duration. Duration measures the sensitivity of NAVPu to interest rate movements. As interest rates rise, bond prices fall.

  The higher the duration, the more NAVPu will fluctuate in relation to changes in interest rates.

  - **THE UIT FUND IS NOT A DEPOSIT AND IS NOT INSURED BY THE PHILIPPINE**
  - **DEPOSIT INSURANCE CORPORATION (PDIC).**
  - **RETURNS CANNOT BE GUARANTEED AND HISTORICAL NAVPu IS FOR ILLUSTRATION OF NAVPu MOVEMENTS/FLUCTUATIONS ONLY.**
  - **WHEN REDEEMING, THE PROCEEDS MAY BE WORTH LESS THAN THE ORIGINAL INVESTMENT AND ANY LOSSES WILL BE SOLELY FOR THE ACCOUNT OF THE CLIENT.**
  - **THE TRUSTEE IS NOT LIABLE FOR ANY LOSS UNLESS UPON WILLFUL DEFAULT, BAD FAITH OR GROSS NEGLIGENCE.**

  (Indicate contact details of the trustee which investors can use if they have queries, include a website address, e-mail address and telephone number)

FUND PERFORMANCE AND STATISTICS AS OF JUNE 30, 2014

(Purely for reference purposes and is not a guarantee of future results)

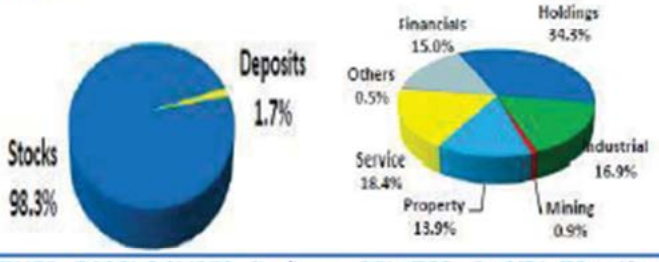
NAVPu Graph *[Include graph showing the NAVPu trend vis-à-vis the benchmark]*
Example:



Cumulative Performance (%)

Period	1 mo	3 mos	6 mos	1 yr	3 yrs
Fund	xx.xx	xx.xx	xx.xx	xx.xx	xx.xx
Benchmark	xx.xx	xx.xx	xx.xx	xx.xx	xx.xx

Portfolio Composition *[Illustrate/describe the composition of the Fund as a percentage of the NAV as of the reference quarter in terms of asset class, maturity profile, and credit rating of trustees, as applicable; use of graphs/charts/tables are highly recommended]*
Example:



NAVPu over the past 12 months

Highest	xx
Lowest	xx

Statistics *[Fill in the information, as necessary]*

Weighted Ave. Duration	xx
Volatility, Past 1 Year *	xx%
Sharpe Ratio **	xx
Information Ratio ***	xx

*Volatility measures the degree to which the Fund fluctuates vis-à-vis its average return over a period of time.
**Sharpe Ratio is used to characterize how well the return of a Fund compensates the investor for the level of risk taken. The higher the number, the better.
*** Information Ratio measures reward-to-risk efficiency of the portfolio relative to the benchmark. The higher the number, the higher the reward per unit of risk.

Top Ten Holdings (%)

ABC Co.	xx.x
DEF Co.	xx.x
XYZ	xx.x
AB & J	xx.x
KYLPN Co.	xx.x
GJ Investments	xx.x
JK Corp.	xx.x
Bank OP	xx.x
FKH Group	xx.x
ANGL Corp.	xx.x
Total	xx.x

OTHER DISCLOSURES *[Indicate RELATED PARTY TRANSACTIONS, prospective investments and other disclosures deemed necessary or relevant] [This heading may be changed as appropriate]*
Example:

RELATED PARTY TRANSACTIONS

The Fund has deposits with the Bank Proper and investments in ABC Co., a wholly-owned subsidiary of the Bank, amounting to Pxxx and Pxxx, respectively, which were approved by the Board of Directors. Likewise, all related party transactions are conducted on an arm's length basis.

OUTLOOK AND STRATEGY

The Fund took advantage of the pockets of rallies supported by the substantial liquidity in the system. It took profit on its bond holdings across the curve in anticipation of increased volatility in the months ahead. Market corrections are likewise seen as opportunities to reposition in the more liquid and tradable bonds. Nonetheless, amidst prospects of further SDA rate hikes, we maintain our overall defensive stance. The Fund's prospective investments include xxx.

(NAME OF TRUST ENTITY) - (TRUST BANKING GROUP/TRUST DEPARTMENT)
Unit Investment Trust Funds
RISK DISCLOSURE STATEMENT

Prior to making an investment in any of the (Name of Trust Entity) Unit Investment Trust Funds (UITFs), (Name of Trust Entity) is hereby informing you of the nature of the UITFs and the risks involved in investing therein. As investments in UITFs carry different degrees of risk, it is necessary that before you participate/invest in these funds, you should have: 1. Fully understood the nature of the investment in UITFs and the extent of your exposure to risks; 2. Read this Risk disclosure Statement completely; and 3. Independently determined that the investment in the UITFs is appropriate for you.

There are risks involved in investing in the UITFs because the value of your investment is based on the Net Asset Value per unit (NAVpu) of the Fund which uses a marked-to- market valuation and therefore may fluctuate daily. The NAVpu is computed by dividing the Net Asset Value (NAV) of the Fund by the number of outstanding units. The NAV is derived from the summation of the market value of the underlying securities of the Fund plus accrued interest income less liabilities and qualified expenses.

Investment in the UITF does not provide guaranteed returns even if invested in government securities and high-grade prime investment outlets. Your principal and earnings from investment in the Fund can be lost in whole or in part when the NAVpu at the time of redemption is lower than the NAVpu at the time of participation. Gains from investment is realized when the NAVpu at the time of redemption is higher than the NAVpu at the time of participation.

Your investment in any of the (Name of Trust Entity) UITFs exposes you to the various types of risks enumerated and defined hereunder:

Interest Rate Risk. This is the possibility for an investor to experience losses due to changes in interest rates. The purchase and sale of a debt instrument may result in profit or loss because the value of a debt instrument changes inversely with prevailing interest rates.

The UITF portfolio, being market-to-market, is affected by changes in interest rates thereby affecting the value of fixed income investments such as bonds. Interest rate changes may affect the prices of fixed income securities inversely, i.e., as interest rates rise, bond prices fall and when interest rates decline, bond prices rise. As the prices of bonds in a Fund adjust to a rise in interest rates, the Fund's unit price may decline.

Market/Price Risk. This is the possibility for an investor to experience losses due to changes in market prices of securities (e.g., bonds and equities). It is the exposure to the uncertain market value of a portfolio due to price fluctuations.

It is the risk of the UITF to lose value due to a decline in securities prices, which may sometimes happen rapidly or unpredictably. The value of investments fluctuates over a given time period because of general market conditions, economic changes or other events that impact large portions of the market such as political events, natural calamities, etc. As a result, the NAVpu may increase to make profit or decrease to incur loss.

Liquidity Risk. This is the possibility for an investor to experience losses due to the inability to sell or convert assets into cash immediately or in instances where conversion to cash is possible but at a loss. These may be caused by different reasons such as trading in securities with small or few outstanding issues, absence of buyers, limited buy/sell activity or underdeveloped capital market.

Liquidity risk occurs when certain securities in the UITF portfolio may be difficult or impossible to sell at a particular time which may prevent the redemption of investment in UITF until its assets can be converted to cash. Even government securities which are the most liquid of fixed income securities may be subjected to liquidity risk particularly if a sizeable volume is involved.

Credit Risk/Default Risk. This is the possibility for an investor to experience losses due to a borrower's failure to pay principal and/or interest in a timely manner on instruments such as bonds, loans, or other forms of security which the borrower issued. This inability of the borrower to make good on its financial obligations may have resulted from adverse changes in its financial condition thus, lowering credit quality of the security, and consequently lowering the price (market/price risk) which contributes to the difficulty in selling such security. It also includes risk on a counterparty (a party the UITF Manager trades with) defaulting on a contract to deliver its obligation either in cash or securities.

This is the risk of losing value in the UITF portfolio in the event the borrower defaults on his obligation or in the case of a counterparty, when it fails to deliver on the agreed trade. This decline in the value of the UITF happens because the

default/failure would make the price of the security go down and may make the security difficult to sell. As these happen, the UITFs NAVpu will be affected by a decline in value.

Reinvestment Risks. This is the risk associated with the possibility of having lower returns or earnings when maturing funds or the interest earnings of funds are reinvested.

Investors in the UITF who redeem and realize their gains run the risk of reinvesting their funds in an alternative investment outlet with lower yields. Similarly, the UITF manager is faced with the risk of not being able to find good or better alternative investment outlets as some of the securities in the fund matures.

In case of a foreign-currency denominated UITF or a peso denominated UITF allowed to invest in securities denominated in currencies other than its base currency, the UITF is also exposed to the following risks:

Foreign Exchange Risk. This is the possibility for an investor to experience losses due to fluctuations in foreign exchange rates. The exchange rates depend upon a variety of global and local factors, e.g., interest rates, economic performance, and political developments.

It is the risk of the UITF to currency fluctuations when the value of investments in securities denominated in currencies other than the base currency of the UITF depreciates. Conversely, it is the risk of the UITF to lose value when the base currency of the UITF appreciates. The NAVpu of a peso-denominated UITF invested in foreign currency- denominated securities may decrease to incur loss when the peso appreciates.

Country Risk. This is the possibility for an investor to experience losses arising from investments in securities issued by/in foreign countries due to the political, economic and social structures of such countries. There are risks in foreign investments due to the possible internal and external conflicts, currency devaluations, foreign ownership limitations and tax increases of the foreign country involved which are difficult to predict but must be taken into account in making such investments.

Likewise, brokerage commissions and other fees may be higher in foreign securities. Government supervision and regulation of foreign stock exchanges, currency markets, trading systems and brokers may be less than those in the Philippines. The procedures and rules governing foreign transactions and custody of securities may also involve delays in payment, delivery or recovery of investments.

Other Risks. Your participation in the UITFs may be further exposed to the risk of any actual or potential conflicts of interest in the handling of in-house or related party transactions by (Name of Trust Entity). These transactions may include own-bank deposits; purchase of own-institution or affiliate obligations (stock, mortgages); purchase of assets from or sales to own institution, directors, officers, subsidiaries, affiliates or other related interests/parties; or purchases or sales between fiduciary/managed accounts.

I/we have completely read and fully understood this risk disclosure statement and the same was clearly explained to me/us by a (Name of Trust Entity) UIT marketing personnel before I/we affixed my/our signature/s herein. I/we hereby voluntarily and willingly agree to comply with any and all laws, regulations, the plan rules, terms and conditions governing my/our investment in the (Name of Trust Entity) UITFs.

_____ _____

Signature over Printed Name Date

I acknowledge that I have (1) advised the client to read this Risk Disclosure Statement, (2) encouraged the client to ask questions on matters contained in this Risk Disclosure Statement, and (3) fully explained the same to the client.

_____ _____

Signature over Printed Name/
Position of UIT Marketing Personnel

Date

BANGKO SENTRAL RULES OF PROCEDURE ON ADMINISTRATIVE CASES INVOLVING DIRECTORS AND OFFICERS OF QUASI-BANKS AND TRUST ENTITIES
(Appendix to Sec. 137-Q)

RULE I – GENERAL PROVISIONS

Sec. 1. Title. (– These Rules shall be known as the Bangko Sentral Rules of Procedure on Administrative Cases Involving Directors and Officers of Quasi-Banks and Trust Entities.

Sec. 2. Applicability. – These Rules shall apply to administrative cases filed with or referred to the Office of Special Investigation (OSI), Bangko Sentral, involving directors and officers of quasi-banks and trust entities pursuant to Section 37 of R.A. No. 7653 (The New Central Bank Act) and Sections 16 and 66 of R.A. No. 8791 (The General Banking Law of 2000).

The disqualification of directors and officers under Section 16 of R.A. No. 8791 shall continue to be covered by existing Bangko Sentral rules and regulations.

Sec. 3. Nature of Proceedings. – The proceedings under these Rules shall be summary in nature and shall be conducted without necessarily adhering to the technical rules of procedure and evidence applicable to judicial trials. Proceedings under these Rules shall be confidential and shall not be subject to disclosure to third parties, except as may be provided under existing laws.

RULE II – COMPLAINT

Sec. 1. Complaint. - The complaint shall be in writing and subscribed and sworn to by the complainant. However, in cases initiated by the appropriate supervising department of the Bangko Sentral, the complaint need not be under oath. No anonymous complaint shall be entertained.

Sec. 2. Where to file. – The complaint shall be filed with or referred to the OSI.

Sec. 3. Contents of the Complaint - The complaint shall contain the ultimate facts of the case and shall include:

a. full name and address of the complainant;
b. full name and address of the person complained of;
c. specification of the charges;
d. statement of the material facts;
e. statement as to whether or not a similar complaint has been filed with the Bangko Sentral or any other public office.

The complaint shall include copies of documents and affidavits of witnesses, if any, in support of the complaint.

RULE III – DETERMINATION OF PRIMA FACIE CASE AND PROSECUTION OF THE CASE

Sec. 1. Action on Complaint.- Upon determination that the complaint is sufficient in form and substance, the OSI shall furnish the respondent with a copy thereof and require respondent to file within ten (10) days from receipt thereof, a sworn answer, together with copies of documents and affidavits of witnesses, if any, copy furnished the complainant.
Failure of the respondent to file an answer within the prescribed period shall be considered a waiver and the case shall be deemed submitted for resolution.

Sec. 2. Preliminary Investigation. – Upon receipt of the sworn answer of the respondent, the OSI shall determine whether there is a *prima facie* case against the respondent. If a *prima facie* is established during the preliminary investigation, the OSI shall file the formal charge with the Supervised Banks Complaints Evaluation Group (SBCEG), Bangko Sentral. However, in the absence of a *prima facie* case, the OSI shall dismiss the complaint without prejudice or take appropriate action as may be warranted.

Sec. 3. Formal Charge. – The formal charge shall contain the name of the respondent, a brief statement of material or relevant facts, the specific charge, and the pertinent provisions of banking laws, rules or regulations violated.

Sec. 4. Prosecution. – The OSI shall prosecute the case. The complainant may be assisted or represented by counsel, who may be deputized for such purpose, under the direction and control of the OSI.

RULE IV – PROCEEDING BEFORE THE HEARING PANEL OR HEARING OFFICER

Sec. 1. Filing of the Formal Charge.- The OSI shall file the formal charge before the SBCEG. It shall also furnish the SBCEG with supporting documents relevant to the formal charge.

Sec. 2. Hearing Officer and Composition of the Hearing Panel. – The case shall be heard either by a Hearing Officer or a Hearing Panel, which shall be composed of a Chairman and two (2) members, all of whom shall be designated by the SBCEG. The SBCEG shall determine whether the case shall be heard either by a Hearing Panel or a Hearing Officer.

Sec. 3. Answer. – The Hearing Panel or Hearing Officer shall furnish the respondent with a copy of the formal charge, with supporting documents relevant thereto, and shall require him to submit, within ten (10) days from receipt thereof, a sworn answer, copy of which shall be furnished the prosecution.

The respondent, in his answer, shall specifically admit or deny all the charges specified in the formal charge, including the attachments. Failure of the respondent to comment, under oath, on the documents attached thereto shall be deemed an admission of the genuineness and due execution of said documents.

Sec. 4. Waiver. – In the event that the respondent, despite due notice, fails to submit an answer within the prescribed period, he shall be deemed to have waived his right to present evidence. The Hearing Panel or Hearing Officer shall issue an Order to that effect and direct the prosecution to present evidence *ex parte*. Thereafter, the Hearing Panel or Hearing Officer shall submit a report on the basis of available evidence.

Sec. 5. Preliminary Conference.– Upon receipt of the answer of respondent, the Hearing Panel or Hearing Officer shall set the case for preliminary conference for the parties to consider and agree on the admission or stipulation of facts and of documents, simplification of issues, identification and marking of evidence and such other matters as may aid in the prompt and just resolution of the case. Any evidence not presented and identified during the preliminary conference shall not be admitted in subsequent proceedings.

Sec. 6. Submission of Position Papers.– After the preliminary conference, the Hearing Panel or Hearing Officer shall issue an Order stating therein the matters taken up, admissions made by the parties and issues for resolution. The Order shall also direct the parties to simultaneously submit, within ten (10) days from the receipt of said Order, their respective position papers which shall be limited to a discussion of the issues as defined in the Order.

Sec. 7. Hearing. – After the submission by the parties of their position papers, the Hearing Panel or Hearing Officer shall determine whether or not there is a need for a hearing for the purpose of cross-examination of the affiant(s). If the Hearing Panel or Hearing Officer finds no necessity for conducting a hearing, he shall issue an Order to the effect.

In cases where the Hearing Panel or Hearing Officer deems it necessary to allow the parties to conduct cross- examination, the case shall be set for hearing. The affidavits of the parties and their witnesses shall take the place of their direct testimony.

RULE V – PROHIBITED MOTIONS

Sec. 1. Prohibited Motions. – No motion to dismiss or quash, motion for bill of particulars and such other dilatory motions shall be allowed in the cases covered by these Rules.

RULE VI – RESOLUTION OF THE CASE

Sec. 1. Contents and Period for Submission of Report. – Within sixty (60) days after the Hearing Panel or Hearing Officer has issued an Order declaring that the case is submitted for resolution, a report shall be submitted to the Monetary Board. The report of the Hearing Panel or Hearing Officer shall contain clearly and distinctly the findings of facts and conclusions of law on which it is based.

Sec. 2. Rendition and Notice of Resolution. – After consideration of the report, the Monetary Board shall act thereon and cause true copies of its Resolution to be served upon the parties.

Sec. 3. Finality of the Resolution.– The Resolution of the Monetary Board shall become final after the expiration of fifteen (15) days from receipt thereof by the parties, unless a motion for reconsideration shall have been timely filed.

Sec. 4. Motion for Reconsideration.– A motion for reconsideration may only be entertained if filed within fifteen (15) days from receipt of the Resolution by the parties. No second motion for reconsideration shall be allowed.

RULE VII – APPEAL

Sec. 1. Appeal. – An appeal from the Resolution of the Monetary Board may be taken to the Court of Appeals within the period and in the manner provided under Rule 43 of the Revised Rules of Court.

RULE VIII – EXECUTION OF RESOLUTION

Sec. 1. Resolution Becoming Executory. – The Resolution of the Monetary Board shall become executory upon the lapse of fifteen (15) days from receipt thereof by the parties or from the receipt of the denial of the motion for reconsideration.

Sec. 2. Effect of Appeal. – The appeal shall not stay the Resolution sought to be reviewed unless the Court of Appeals shall direct otherwise upon such terms as it may deem just.

Sec. 3. Enforcement of Resolution.– When the Resolution orders the imposition of fines, suspension or removal from office of respondent, the enforcement thereof shall be referred to the appropriate department of the Bangko Sentral.

RULE IX – MISCELLANEOUS PROVISIONS

Section 1. Repeal. – All existing rules, regulations, orders or circulars or any part thereof inconsistent with these Rules are hereby repealed, amended or modified accordingly.

Section 2. Separability Clause. – If any part of these Rules is declared unconstitutional or illegal, the other parts or provisions shall remain valid.

DOCUMENTS REQUIRED UNDER THE REVISED OUTSOURCING FRAMEWORK FOR NON-BANKS

[Appendix to Secs. 111-Q, 701-Q (Outsourcing of internet and mobile electronic services), 113-S, 162-P, and 102-N]

1. A comprehensive policy on outsourcing duly approved by the board of directors of the QB/NBFI.

2. Service level agreement of contract between the bank and the service provider, which shall, at a minimum, include all of the following:

   a. Complete description of the work to be performed or services to be provided;

   b. Fee structure;

   c. Provisions governing amendment and pretermination of contract;

   d. Responsibility, fines, penalties and accountability of the service provider for errors, omissions and frauds;

   e. Confidentiality clause covering all data and information; solidarity liability of service provider and bank for any violation of R.A. No. 1405, (the Bank Deposits Secrecy Law) actions that the QB/NBFI may take against the service provider for breach of confidentiality or any form of disclosure of confidential information; and the applicable penalties;

   f. Segregation of the data of the QB/NBFI from that of the service provider and its other clients;

   g. Disaster recovery/business continuity contingency plans and procedures;

   h. Guarantee that the service provider will provide necessary levels of transition assistance if the QB/NBFI decides to convert to other service providers or other arrangements;

   i. Access to the financial information of the service provider;

   j. Access of internal and external auditors to information regarding the outsourced activities/services which they need to fulfill their respective responsibilities;

   k. Access of Bangko Sentral to the operations of the service provider in order to review the same in relation to the outsourced activities/services;

   l. Provision which requires the service provider to immediately take the necessary corrective measures to satisfy the findings and recommendations of Bangko Sentral examiners and those of the internal and/or external auditors of the QB/NBFI and/or the service provider;

   m. Remedies for the QB/NBFI in the event of change of ownership, assignment, attachment of assets, insolvency, or receivership of the service provider; and

   n. Provision allowing the QB/NBFI to cancel the contract by contractual notice of dismissal or extraordinary notice of cancellation if so required by the Bangko Sentral.

   Additional Requirements for IT outsourcing:

   o. Provisions regarding on-line communication availability, transmission line security, and transaction authentication;

   p. Responsibilities regarding hardware, software and infrastracture upgrades;

   q. Mandatory notification by the service provider of all systems changes that will affect the bank;

   r. Details of all security procedures and standards;

   s. Adequate insurance for fidelity and fire liability; and

   t. Ownership/maintenance of the computer hardware, software (program source code), user and system documentation, master and transaction data files.

3. Secretary's certificate on the minutes of meeting of the board of directors of the QB/NBFI, explicitly approving the activity to be outsourced, the determination of whether an outsourcing arrangement is considered material or non-material and the specific service provider with which the QB/NBFI is entering into an outsourcing contract;

4. Profile of the selected service provider; and

5. A central record of all outsourcing arrangements which shall be periodically updated and shall form part of the corporate governance reviews undertaken by the QB/NBFI.

IMPLEMENTATION OF THE DELIVERY BY THE SELLER OF SECURITIES DIRECTLY TO THE BUYER OR TO HIS DESIGNATED SECURITIES CUSTODIAN/CENTRAL SECURITY DEPOSITORY

[Appendix to Secs. 101-Q (Delivery of securities) 201-Q/N (Delivery of securities, repurchase agreements covering government securities, commercial papers and other negotiable and non-negotiable securities or instruments), 431-Q/1002-N (Securities Custodianship and Securities Registry Operations and Registry of scripless securities of the Bureau of Treasury)

(Deleted by Circular No. 1121 dated 8 June 2021)

FORMAT CERTIFICATION
(Appendix to Sec.210-Q)

_____
Name of Bank

CERTIFICATION

Pursuant to the requirements of Sec. 201-Q, I HEREBY CERTIFY that on all banking days of the semester ended _____ that the _____ (quasi-bank) did not enter into any repurchase agreement covering government securities, commercial papers and other negotiable and non-negotiable securities or instruments that are not documented in accordance with existing BSP regulations and that it has strictly complied with the pertinent rules of the SEC and the BSP on the proper sale of securities to the public and performed the necessary representations and disclosures on the securities particularly the following:

1. Informed and explained to the client all the basic features of the security being sold on a without recourse basis, such as, but not limited to:

    a. Issuer and its financial condition;
    b. Term and maturity date;
    c. Applicable interest rate and its computation;
    d. Tax features (whether taxable, tax paid or tax-exempt);
    e. Risk factors and investment considerations;
    f. Liquidity feature of the instrument:

    f.1. Procedures for selling the security in the secondary market (e.g., OTC or exchange);
    f.2. Authorized selling agents; and
    f.3. Minimum selling lots.

    g. Disposition of the security

    g.1. Registry (address and contact numbers)
    g.2. Functions of the registry
    g.3. Pertinent registry rules and procedures

    h. Collecting and Paying Agent of the principal and interest
    i. Other pertinent terms and conditions of the security and if possible, a copy of the prospectus or information sheet of the security.

2. Informed the client that pursuant to BSP Circular No. 392 dated 23 July 2003 –

    - Securities sold under repurchase agreements shall be physically delivered, if certificated, to a BSP-accredited custodian that is mutually acceptable to the client and the quasi-bank, or by means of book-entry transfer to the appropriate securities account of the BSP-accredited custodian in a registry for said securities, if immobilized or dematerialized, and

    - Securities sold on a without recourse basis are required to be delivered physically to the purchaser, or to his designated custodian duly accredited by the BSP, if certificated, or by means of book-entry transfer to the appropriate securities account of the purchaser or his designated custodian in a registry for said securities if immobilized or dematerialized

3. Clearly stated to the client that:

    a. The quasi-bank does not guarantee the payment of the security sold on a "without recourse basis" and in the event of default by the issuer, the sole credit risk shall be borne by the client; and
    b. The quasi-bank is not performing any advisory or fiduciary function.

_____
Name of Officer
Position

Date _____

SUBSCRIBED AND SWORN to before me, this _____ day of _____ at _____, with affiant exhibiting his Community Tax Certificate as indicated below:

Name	Community Tax Cert. No.	Date/Place Issued

Notary Public

Annex A

FORMAT CRTIFICATION

_____
Name of Bank

CERTIFICATION

Pursuant to the requirements of Sec. 210-Q, I hereby certify that as of 31 January 2005, the _____ (name of quasi-bank) does not have any outstanding repurchase agreements covering government securities, commercial papers and other negotiable and non-negotiable securities or instruments that are not documented in accordance with existing BSP regulations.

_____
Name of Officer
Position

SUBSCRIBED AND SWORN to before me, this _____ day of _____ at _____, with affiant exhibiting his Community Tax Certificate as indicated below:

Name	Community Tax Cert. No.	Date/Place Issued

Notary Public

DELIVERY OF GOVERNMENT SECURITIES TO THE INVESTOR'S PRINCIPAL SECURITIES ACCOUNT WITH THE NATIONAL REGISTRY OF SCRIPLESS SECURITIES

(Appendix to Secs. 101-Q/201-Q/N (Delivery of securities), 631-Q and 1002-N

The following are the guidelines on the delivery of government securities by the selling bank and/or NBFI under the supervision of the Bangko Sentral to an investor's Principal Securities Account with the National Registry of Scripless Securities (NRoSS) through the Client Interface System (CIS) facility as compliance with the requirement of effective delivery under Secs. 101-Q, and 201-Q/201-N *(Delivery of securities*), 201-Q *(Repurchase agreements covering government securities, commercial papers and other negotiable and non-negotiable securities or instruments)*, 631-Q and 1002-N:

(a) Banks/NBFIs, acting either as accredited government securities eligible dealers (GSEDs) or licensed government securities dealers, shall execute the attached Memorandum of Agreement (MOA) with the BTr regarding the creation of the Principal Securities Account with the NRoSS on or before 31 January 2007. The MOA between the BTr and the GSED is attached as Annex A.

(b) The dealing bank shall provide BTr with the following documents:

(1) Agency document issued by investor/client if the dealing bank is designated as the agent; and
(2) Investor's undertaking (attached as Annex B)

(c) No new Investors Principal Securities Account shall be created unless the foregoing documents are submitted to the BTr. Otherwise, the dealing QB/NBFI will be subject to the appropriate penalties prescribed under Secs. 631-Q and 1002-N.

(Circular No. 1121 dated 8 June 2021)

Classification: GENERAL

Annex A

MEMORANDUM OF AGREEMENT

KNOW ALL MEN BY THESE PRESENTS:

This agreement made and entered into this _____ at _____, Philippines by and between:

The **BUREAU OF THE TREASURY**, a duly constituted government bureau under the Department of Finance, Republic of the Philippines, with principal office at Palacio del Gobernador Building, Gen. Luna corner A. Soriano Avenue, Intramuros, Manila, represented herein by the Treasurer of the Philippines, _____, and hereinafter referred to as **"BTr"**;

-and-

_____ , a domestic/ international banking/financial institution organized and existing pursuant to the laws of the Republic of the Philippines/(country of incorporation), duly licensed by the Securities and Exchange Commission (SEC) to deal in securities, represented herein by _____ in her/his capacity as _____ , and hereinafter referred to as the "**Dealer**";

(the "BTr" and the "Dealer" may be referred to as a "Party" in the singular tense, as "Parties" in the plural/collective tense)

WITNESSETH: THAT

WHEREAS, the National Registry of Scripless Securities ("NRoSS") is the official registry of government securities issued by the National Government through the Bureau of the Treasury;

WHEREAS, the NRoSS is an electronic registry of recording ownership of or interest in and transfers of government securities;

WHEREAS, the delivery of government securities sold by the Dealer, on a without recourse basis, to the investor's Principal Securities Account with the NRoSS through the Client Interface System ("CIS") Facility shall be sufficient compliance with the delivery requirement under Sec. 245 *(Delivery of securities)*, of the Bangko Sentral ng Pilipinas ("BSP") Manual of Regulations for Banks (MORB) and Circular No. 524 dated 31 March 2006.

WHEREAS, the Dealer is a government securities eligible dealer, accredited by the BTr to participate in the primary auction of government securities pursuant to Finance Department Order No. 141-95, as amended, and/or a bank/financial institution licensed by the SEC to deal in government securities in the secondary market;

WHEREAS, investors of government securities purchase/trade the same in the secondary market through any of the dealers;

WHEREAS, recording of ownership of, or interest in government securities requires the creation/opening of a Principal Securities Account with the NRoSS through the CIS Facility;

WHEREAS, to promote transparency, investor confidence and deepening of the government bond market, investors must be given adequate assistance in the opening/ creation of his/its Principal Securities Account with the NRoSS ("Name-on- Registry");

NOW, THEREFORE, in view of the foregoing premises and the mutual covenants hereinafter provided, the parties hereby agree as follows:

Section 1. Obligations of Bureau of the Treasury (BTr).

1. Receive instruction from the Dealer as authorized by the investor, through the NRoSS-CIS for the creation/opening of the Principal Securities Account;

2. Create/open in the NRoSS a Principal Securities Account for the requesting investor of scripless government securities through which all transactions affecting said securities will be recorded;

3. Provide and forward to the investor an electronic confirmation of his/its NRoSS Principal Securities Account Number and notices and statements of account under any of the modes indicated in the Investor's Oath of Undertaking submitted to the BTr;

4. On relevant coupon/maturity payment dates and for payments made through the BSP, instruct the BSP to credit the regular demand deposit account (DDA) of the investor's settlement bank: Provided, That if the coupon/maturity payment date falls on a Saturday, Sunday, or Holiday or on a day during which business operations of the BTr is suspended, payment/s shall be made by the BTr on the next business day, without adjustment in the amount of interest to be paid.

5. Ensure that all government securities bought by investors from the Dealer are accurately recorded under the investor's Principal Securities Account or to the Securities Custody Account of the investor's designated custodian, or to the Securities Deposit Account of the investor's designated depository.

6. Furnish the investor with Statement(s) of Securities Account, at least quarterly and whenever there is a movement in the investor's Principal Securities Account, through the investor's preferred mode of receipt of notice and/or statement;

7. Consistent with BTr Memoranda dated 28 December 2005, 12 January 2006 and 31 January 2006 and applicable Bangko Sentral regulations, disallow any increase in the holdings of beneficial owners of securities recorded in the sub-account of the Dealer, if any, existing as of 02 February 2006, for beneficial owners of securities who have either (a) declined in writing the delivery of his/its securities to a direct registry account under his or its name or a custodian or (b) not responded to the Dealer's letter to the investor as regards the disposition of his/its securities. Any withdrawal or sale of the securities, either partial or total, under the sub-account of the Dealer for the beneficial owners may only be allowed if the Dealer is authorized in writing by the client/Investor. Such written authority shall be furnished by the Dealer to the BTr prior to the execution of the transaction.

Sec. 2. Obligations of the Dealer

The Dealer shall:

1. Assist the investor to open his/its individual Principal Securities Account (Name- On-Registry) with the NRoSS through the CIS facility;

2. Conduct the Know your Client ("KYC") screening of its investors/clients referred to the BTr for the creation of the Principal Securities Account (Name-On-Registry) with the NRoSS. In this connection it shall: (a) issue a certification to the BTr that it has conducted the necessary "KYC" screening; (b) maintain client identification records; (c) report any suspicious transaction in accordance with the provisions of R.A. No. 9160, otherwise known as the "Anti-Money Laundering Act of 2001", as amended, and its implementing rules and regulations; and whenever necessary, (d) afford BTr unchallenged access to said KYC records/documents. The same KYC or customer identification documents shall likewise be made available to regulators for verification upon request.

3. Transmit the investor's instructions to the NRoSS for the creation/opening of a Principal Securities Account. For this purpose, the Dealer shall submit and/or inform the investor to submit to the BTr his/her settlement account maintained in a settlement bank of his/her choice, through which all relevant payments on the securities will be made by the BTr;

4. Upon the creation of the investor's Principal Securities Account with the BTr's NRoSS to which the securities subject of a sale will be credited, immediately furnish the investor with the BTr's electronic confirmation of its creation. The Dealer shall also provide to the investor the BTr electronic confirmation that includes a statement on the credited amount of securities;

5. Ensure that all the necessary documents executed by the client investor are complete and submitted to BTr upon request;

6. Ensure that all government securities sold to investors are delivered to their appropriate Principal Securities Account with the NRoSS, or to the account of the investor's designated custodian or securities depository;

7. Undertake not to misuse the investor's NRoSS Account No., which may come into its possession upon the creation of a Principal Securities Account for the investor or on previous transactions with the investor;

8. Acquaint/apprise investors on the rules and procedure prescribed by the BTr in connection with investment and trading of scripless government securities, including but not limited to coupon payment, redemption value/proceeds of the investor's securities, legal encumbrances, and other relevant information relative to investor's security holdings. As a minimum, investors must be apprised of the Revised NRoSS Procedure on Buy and Sell of Securities and recording of transfers through the NRoSS-CIS facility found in the BTr website, with particular emphasis on the feature of non-tagging of securities to GSEDs, or non-exclusivity of the selling GSEDs for subsequent transactions;

9. Whenever designated as authorized agent and/or settlement bank, ensure confidentiality and prompt delivery of all notices and statements of securities account/ s to investors; and

10. Ensure that all instructions transmitted to BTr concerning the securities account of clients-investors are legal, valid and duly authorized pursuant to an agreement, a special power of attorney, or any written authority executed by the client-investor in favor of the dealer.

Annex B

NOTE: TO BE SUBMITTED TO THE BUREAU OF THE TREASURY

INVESTOR'S UNDERTAKING

I/We,

For Individual Investors of legal age	Name: Address: Civil Status:
For Juridical Entity authorized to do business in the Philippines	Name: Principal Office Address: Place of Incorporation: Name of Representative: Capacity/Position of Representative:

A. Hereby agree to execute, the necessary written authority in favor of either the dealing Government Securities Eligible Dealer1 (GSED) or Securities Dealer2 for the creation of a Principal Securities Account with the NRoSS or for the execution of trade transactions (i.e. buying and selling instructions, including relaying of instructions to "the CUSTODIAN" or "Central Securities Depository" to receive or deliver securities in order to consummate the buy/sell transactions) and to be bound by the provisions of a written authority or any relevant agreement I/we have entered into concerning my/ our government security holdings, thereby confirming my/our authority for BTr-NRoSS to carry out and execute the acts or instructions referred to in the aforesaid documents;

B. It is understood that the NRoSS administered by the BTr is the official registry of ownership of or interest in government securities; that all government securities floated/originated by NG under its scripless policy are recorded in the NRoSS as well as subsequent transfer of the same; and that I/we will abide by the rules and regulations of BTr-NRoSS concerning government securities.

And further undertake as follows:

1. To create/open through the Client Interface System a Principal Securities Account with the NRoSS to ensure that title of said scripless securities is officially recorded in my/our name and under my/our control.

2. That as a condition for the creation/opening of my/our Principal Securities Account with the NRoSS, I/we have opened a bank account with (_____ *as Settlement Bank*) to which coupon and maturity proceeds and any other payments to be made on my/our government securities holdings will be credited; undertake to furnish the NRoSS of said bank account number; and give notice at least three (3) business days prior to any coupon and/or maturity payment of any change in the Settlement Bank and/or bank account number.

3. That no transfer of securities shall be made (i) during the period of two (2) business days ending on (and including) the due date of any redemption payment of principal and (ii) during the period of two (2) business days ending on (and including) the due date of any coupon payment date (the "Closed Period"). I/We further acknowledge that the BTr shall prevent any transfer of the securities to be recorded in the NRoSS during any Closed Period.

4. That in the case of outright sale transactions of government securities, including that of RTBs, I/we undertake to sell the same to any of the GSEDs or Securities Dealers, save those provided for under existing rules and regulations on government securities applicable to tax-exempt institutions, government-owned or controlled corporations and local government units. Otherwise, I/we shall have the said securities delivered to my/our agent/custodian for trading or any other transactions pursuant to a relevant written instruction/authority.
5. To receive notices and/or statements of account on a quarterly basis or whenever there is a movement in my Principal Securities Account from the NRoSS through any of the following modes:

   (Please indicate choice)

   [ ] Pick-up at the NRoSS
   [ ] Registered Mail to Home/Office Address _____
   [ ] Deliver electronically to Agent
   [ ] Deliver electronically to Settlement Bank (for pick up)
   [ ] Email - email address _____

In the absence of an indicated choice, I/we understand that the BTr shall electronically deliver all Notices and Statements to my/our designated settlement bank.

Note: In addition to the indicated manner of receiving notice(s) and statement(s), Investor can directly secure from the BTr written copy of any notice, statement of account, or confirmation report, subject to prior notice to and in accordance with the procedures of the BTr.

I/We hereby agree to abide with the Schedule of Fees and the manner of collection, as may be prescribed by the BTr from time to time.

6. That I/we expressly agree and acknowledge that the crediting to the regular DDA of my/our settlement bank of coupons and/or redemption value due my/our scripless securities, shall constitute actual receipt of payment by me/us.

7. To hold the BTr, its officers, employees and agents free and harmless against all suits, actions, damages or claims arising from failure of my/our Settlement Bank to credit my/our bank account for coupons and maturity values on due date.

8. That all instructions affecting my/our scripless securities which are transmitted to or received in good faith the NRoSS from myself/ourselves or my/our designated agent/ custodian are covered by relevant documentation indicating my/our express consent and authority.

9. That I/we expressly warrant and authorize the delivery of copies of all evidence of authority granted to my/our designated agent/custodian to transact on my/our scripless securities upon reasonable demand by BTr.

10. That I/we undertake to immediately notify the NRoSS of any unauthorized [1]trade of my/ our scripless securities, and until receipt of such notice, transactions effected by BTr in good faith are deemed valid.

11. To render free and harmless the BTr, its officers, employees and agents for any claim or damages with respect to trade instructions carried out in good faith.

12. That while it is understood that BTr shall maintain the strict confidentiality of records in the NRoSS, I/we hereby expressly waive and authorize BTr, to the extent allowed by law, to disclose relevant information in compliance with Anti-Money Laundering laws, rules and regulations.

13. To submit to the BTr the relevant authorizations issued to my/our agent, upon demand of BTr.

IN WITNESS WHEREOF, I/We hereunto affix our hands this _____ day of _____ at _____, Philippines.

_____
Name & Signature of Investor

Conforme:

_____
Settlement Bank

[1] Accredited by the Bureau of the Treasury
[2] Licensed by the Securities and Exchange Commission

ACKNOWLEDGEMENT

BEFORE ME, a Notary Public for and in the City of _____, personally appeared:

Name:	**CTC No.**	**Date:**	**Place of Issue:**
_____	_____	_____	_____

(Investor or Representative of Juridical Entity)

known to me to be the same person who executed the foregoing instrument and he/she acknowledged to me that the same is his/her free and voluntary act and deed (and the free act and deed of the entity they represent).

WITNESS MY HAND AND NOTARIAL SEAL THIS _____ at _____, Philippines

NOTARY PUBLIC

Doc. No.: _____
Page No.: _____
Book No.: _____
Series of : _____

(Circular No. 1121 dated 8 June 2021)

THE GUIDELINES FOR THE IMPOSITION OF MONETARY PENALTY FOR VIOLATIONS/OFFENSES WITH SANCTIONS FALLING UNDER SECTION 37 OF R. A. NO. 7653 ON QUASI-BANKS, DIRECTORS AND/OR OFFICERS

(Appendix to Sec. 001-Q, Sec. 002-Q, Sec. 499-Q, Sec. 1003-N (Sanctions), and Circular No. 645 dated 13 February 2009)

(Deleted by Circular No. 988 dated 20 December 2017)

PROMPT CORRECTIVE ACTION FRAMEWORK
(Appendix to Secs. 003-Q/S and 002-N)

In carrying out its primary objective of maintaining price stability conducive to a balanced and sustainable growth of the economy[1], the Bangko Sentral must necessarily maintain stability of the financial system through preservation of confidence therein. While preservation of confidence in the financial system may call for closure of mismanaged banks and/or financial entities under its jurisdiction, such closure is not the only option available to the Bangko Sentral. When a bank's closure, for instance, is adjudged by the Monetary Board to have adverse systemic consequences, the State may act in accordance with law to avert potential financial system instability or economic disruption.[2]

It is recognized that the closure of a bank or its intervention can be a costly and painful exercise. For this reason, the Bangko Sentral, as supervisor, can enforce PCA[3] as soon as a bank's condition indicates higher-than normal risk of failure.

PCA essentially involves the Bangko Sentral directing the board of directors of a bank, prior to an open outbreak of crisis, to institute strong measures to restore the entity to normal operating condition within a reasonable period, ideally within one (1) year. These measures may include any or all of the following components:

(1) Implementation of a capital restoration plan;
(2) Implementation of a business improvement plan; and
(3) Implementation of corporate governance reforms.

Capital restoration plan – this component contains the schedule for building up a bank's capital base (primarily through an increase in Tier 1 capital) to a level commensurate to the underlying risk exposure and in full compliance with minimum capital adequacy requirement. In conjunction with this plan, the Bangko Sentral may also require any one (1), or a combination of the following:

1. Limit or curtail dividend payments to common stockholders;
2. Limit or curtail dividend payments to preferred stockholders; and
3. Limit or curtail fees and/or other payments to related parties.

Business improvement plan – this component contains the set of actions to be taken immediately to bring about an improvement in the entity's operating condition, including but not limited to any one (1), or a combination of the following:

1. Reduce risk exposures to manageable levels;
2. Strengthen risk management;
3. Curtail or limit the bank's scope of operations including those of its subsidiaries or affiliates where it exercises control;
4. Change or replace management officials;
5. Reduce expenses; and
6. Other measures to improve the quality of earnings.

Corporate governance reforms – this component contains the actions to be immediately taken to improve the composition and/or independence of the board of directors and to enhance the quality of its oversight over the management and operation of the entity. This also includes measures to minimize potential shareholder conflicts of interest detrimental to its creditors, particularly, depositors in a bank. This likewise lays down measures to provide an acceptable level of financial transparency to all stakeholders. Such actions could include, but are not limited to, any one (1), or a combination of the following:

1. A change in the composition of the board of directors or any of the mandatory committees (under the MORNBFI);
2. An enhancement to the frequency and/or depth of reporting to the board of directors;
3. A reduction in exposures to and/or a termination or reduction of business relationships with affiliates that pose excessive risk or are inherently disadvantageous to the supervised FI; and
4. A change of external auditor.

A bank may be subject to PCA whenever any or all of the following conditions obtain:

(1) When either of the Total Capital Adequacy Ratio (CAR) or Tier 1 Capital Ratio as defined under Secs. 125 and 127 of the MORB or Leverage Ratio[4] falls below ten percent (10%), seven and a half percent (7.5%)[5] and five percent (5%),

1 Section 3 of Republic Act No. 7653
2 Section 17 and 18 of Republic Act No. 3591, as amended
3 Section 4.6 of Republic Act No. 8791
4 For universal and commercial banks and their subsidiary banks and quasi-banks, this refers to the Basel III Leverage Ratio. For stand-alone TBs, RBs and Coop Banks, this is derived as Total Capital/Total Assets.
5 This shall take effect on 01 January 2023 for stand-alone thrift, rural, and cooperative banks. Pending effectivity of the new risk-based capital adequacy ratio framework for stand-alone thrift banks, rural banks and cooperative banks, the covered banks shall refer to the existing six percent (6%) as the minimum threshold for Tier 1 capital.

respectively, or such other minimum levels that may be prescribed for the said ratios under relevant regulations, and/or the combined capital account falls below the minimum capital requirement prescribed under Sec. 121-Q;

(2) CAMELS composite rating is less than "3" or a Management component rating of less than "3";

(3) A serious supervisory concern has been identified that places a bank at more- than-normal risk of failure in the opinion of the director of the Examination Department concerned, which opinion is confirmed by the Monetary Board. Such concerns could include, but are not limited, to any one (1) or a combination of the following:

a. Finding of unsafe and unsound activities that could adversely affect the interest of depositors and/or creditors;
b. A finding of repeat violations of law or the continuing failure to comply with Monetary Board directives; and
c. Significant reporting errors that materially misrepresent the bank's financial condition.

The initiation of PCA shall be recommended by the Deputy Governor of the supervision sector of the Bangko Sentral to the Monetary Board for approval. Any initiation of PCA shall be reported to the PDIC for notation. Upon PCA initiation, the Bangko Sentral shall require the bank to enter into a MOU committing to the PCA plan. The MOU shall be subject to approval by the Monetary Board.

In order to monitor compliance with the PCA, quarterly progress reports shall be made. The Bangko Sentral reserves the right to conduct periodic on-site visits outside of regular examination to validate compliance with the PCA plan.

Subject to Monetary Board approval, sanctions may be imposed on any bank subject to PCA whenever there is unreasonable delay in entering into a PCA plan or when PCA is not being complied with. These may include any or all of the following:

(1) monetary penalty on or curtailment or suspension of privileges enjoyed by the board of directors or responsible officers;
(2) restriction on existing activities that the supervised FI may undertake;
(3) denial of application for branching and other special authorities;
(4) denial or restriction of access to Bangko Sentral credit facilities; and
(5) restriction on declaration of dividends.

On the other hand, if the bank subject to PCA promptly implements a PCA plan and substantially complies with its conditions, it may continue to have access to Bangko Sentral credit facilities notwithstanding non-compliance with standard conditions of access to such facilities. The Deputy Governor, appropriate supervising department of the Bangko Sentral shall recommend such exemption to the Monetary Board for approval.

In cases where a bank's problems are deemed to be exceptionally serious from the outset, or when a bank is unwilling to submit to the PCA or unable to substantially comply with an agreed PCA plan, the Deputy Governor of the supervising sector of the Bangko Sentral may immediately recommend to the Monetary Board more drastic actions as prescribed under Sec. 29 (conservatorship) and Sec. 30 (receivership) of R.A. No. 7653.

Subject to Monetary Board approval, the PCA status of a bank may be lifted: Provided, That the bank fully complies with the terms and conditions of its MOU and: *Provided, further*, That the Deputy Governor of the supervision sector of the Bangko Sentral has determined that the financial and operating condition of the bank no longer presents a risk to itself or the financial system. Such improved assessment shall be immediately reported to the PDIC.

(Circular Nos. 1084 dated 28 April 2020 and 1079 dated 09 March 2020)

GUIDELINES ON SUPERVISION BY RISK

(Appendix to Secs. 121-N and 141-Q/S)

I. Background

It must be recognized that banking is a business of taking risks in order to earn profits. While banking risks historically have been concentrated in traditional banking activities, the financial services industry has evolved in response to market-driven, technological, and legislative changes. These changes have allowed FIs to expand product offerings, geographic diversity, and delivery systems. They have also increased the complexity of the FI's consolidated risk exposure. Because of this complexity, FIs must evaluate, control, and manage risk according to its significance. The FI's evaluation of risk must take into account how non-bank activities within a banking organization affect the FI. Consolidated risk assessments should be a fundamental part of managing the FI. Large FIs assume varied and complex risks that warrant a risk-oriented supervisory approach.

II. Statement of policy

The existence of risk is not necessarily a reason for concern. Likewise, the existence of high risk in any area is not necessarily a concern, so long as management exhibits the ability to effectively manage that level of risk. Under this approach, the Bangko Sentral will not necessarily attempt to restrict risk-taking but rather ensure that FIs identify, understand, and control the risks they assume. As an organization grows more diverse and complex, the FI's risk management processes must keep pace. When risk is not properly managed, Bangko Sentral will direct FI management to take corrective action such as reducing exposures, increasing capital, strengthening risk management processes or a combination of these actions. In all cases, the primary concern of the Bangko Sentral is that the FI operates in a safe and sound manner and maintains capital commensurate with its risks. Further guidance on risk management issues will be addressed in subsequent issuances that are part of the overall risk assessment program.

III. Guidelines for risk management

For purposes of the discussion of risk, the Bangko Sentral will evaluate banking risk relative to its impact on capital and earnings. From a supervisory perspective, risk is the potential that events, expected or unanticipated, may have an adverse impact on the FI's capital or earnings.

The appropriate supervising department of the Bangko Sentral has defined eight (8) categories of risk for FI supervision purposes. These risks are: credit, market, interest rate, liquidity, operational, compliance, strategic, and reputation. These categories are not mutually exclusive; any product or service may expose the FI to multiple risks. In addition, they can be interdependent. Increased risk in one (1) category can increase risk in other categories.

Types and definition of risk

1. *Credit risk* arises from counterparty's failure to meet the terms of any contract with the FI or otherwise perform as agreed. Credit risk is found in all activities where success depends on counterparty, issuer, or borrower performance. It arises any time FI funds are extended, committed, invested, or otherwise exposed through actual or implied contractual agreements, whether reflected on or off the balance sheet. Credit risk is not limited to the loan portfolio.

2. *Market risk* is the risk to earnings or capital arising from adverse movements in factors that affect the market value of both on and off-balance sheet instruments, products, and transactions in an institution's overall portfolio. Market risk arises from market-making, dealing, or position-taking in instruments, structure or strategies the income from which are sensitive to movements in interest rates, foreign exchange rates, credit spreads and equities and commodities prices.

3. Interest rate risk in the banking book (IRRBB) is the current and prospective risk to earnings and capital arising from adverse movements in interest rates that affect banking book positions. IRRBB has three sub-types that relate to the level and structural characteristics of interest rates: (a) *gap risk* which arises from the term structure of banking book instruments, and describes the risk arising from the differences in timing of instruments' rate changes; (b) *basis risk* that describes the impact of relative changes in interest rates for financial instruments that have similar re-pricing tenors but are priced using different interest rate indices; and (c) *option risk* which arises from option positions or from options embedded in a QB's assets, liabilities and/or off-balance sheet items that alter the level and timing of their cash flows.

4. *Liquidity risk* is generally defined as the current and prospective risk to earnings or capital arising from an FI's inability to meet its obligations when they become due without incurring unacceptable losses or costs. Liquidity risk includes the inability to manage unplanned decreases or changes in funding sources.

5. *Operational risk* is the current and prospective risk to earnings or capital arising from fraud, error, and the inability to deliver products or services, maintain a competitive position, and manage information. Risk is inherent in efforts to gain strategic advantage, and in the failure to keep pace with changes in the financial services marketplace. Operational risk is evident in each product and service offered. Operational risk encompasses: product development and delivery, operational processing, systems development, computing systems, complexity of products and services, and the internal control environment.

6. *Compliance risk* is the current and prospective risk to earnings or capital arising from violations of, or non-conformance with, laws, rules, regulations, prescribed practices, internal policies and procedures, or ethical standards. Compliance risk also arises in situations where the laws or rules governing certain FI products or activities of the FI's clients may be ambiguous or untested. This risk exposes the FI to fines, payment of damages, and the voiding of contracts. Compliance risk can lead to diminished reputation, reduced franchise value, limited business opportunities, reduced expansion potential, and lack of contract enforceability.

7. *Strategic risk* is the current and prospective impact on earnings or capital arising from adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes. This risk is a function of the compatibility of an organization's strategic goals, the business strategies developed to achieve those goals, the resources deployed against these goals, and the quality of implementation. The resources needed to carry out business strategies are both tangible and intangible. They include communication channels, operating systems, delivery networks, and managerial capacities and capabilities. The organization's internal characteristics must be evaluated against the impact of economic, technological, competitive, regulatory, and other environmental changes.

8. *Reputation risk* is the current and prospective impact on earnings or capital arising from negative public opinion. This affects the FI's ability to establish new relationships or services or continue servicing existing relationships. This risk may expose the FI to litigation, financial loss, or a decline in its customer base. In extreme cases, FIs that lose their reputation may suffer a run on deposits. Reputation risk exposure is present throughout the organization and requires the responsibility to exercise an abundance of caution in dealing with customers and the community.

IV. FI management of risk

Because market conditions and company structures vary, there is no single risk management system that works for all FIs. Each FI should tailor its risk management program to its needs and circumstances. Sound risk management systems, however, have several things in common; for example, they are independent of risk-taking activities. Regardless of the risk management program's design, each program should:

1. *Identify risk:* To properly identify risks, an FI must recognize and understand existing risks or risks that may arise from new business initiatives, including risks that originate in non-bank subsidiaries and affiliates. Risk identification should be a continuing process, and should occur at both the transaction and portfolio level.

2. *Measure risk:* Accurate and timely measurement of risk is essential to effective risk management systems. An FI that does not have a risk measurement system has limited ability to control or monitor risk levels. Further, the more complex the risk, the more sophisticated should be the tools that measure it. An FI should periodically conduct tests to make sure that the measurement tools it uses are accurate. Good risk measurement systems assess the risks of both individual transactions and portfolios. During the transition process in FI mergers and consolidations, the effectiveness of risk measurement tools is often impaired because of the technological incompatibility of the merging systems or other problems of integration. Therefore, the resulting FI must make a strong effort to ensure that risks are appropriately measured across the consolidated entity. Larger, more complex FIs must assess the impact of increased transaction volume across all risk categories.

3. *Monitor risk:* FIs should monitor risk levels to ensure timely review of risk positions and exceptions. Monitoring reports should be frequent, timely, accurate, and informative and should be distributed to appropriate individuals to ensure action, when needed. For large, complex FIs, monitoring is essential to ensure that management's decisions are implemented for all geographies, products, and legal entities.

4. *Control risk:* The FI should establish and communicate risk limits through policies, standards, and procedures that define responsibility and authority. These control limits should be valid tools that management should be able to adjust when conditions or risk tolerances change. The FI should have a process to authorize exceptions or changes to risk limits when warranted. In merging or consolidating FIs, the transition should be tightly controlled; business plans, lines of authority, and accountability should be clear. Large, diversified FIs should have strong risk controls covering all geographies, products, and legal entities.

The Board must establish the FI's strategic direction and risk tolerances. In carrying out these responsibilities, the Board should approve policies that set operational standards and risk limits. Well-designed monitoring systems will allow the Board to hold management accountable for operating within established tolerances. Capable management and appropriate staffing are also essential to effective risk management. FI management is responsible for the implementation, integrity, and maintenance of risk management systems. Management also must keep the directors adequately informed. Management must:

a. Implement the FI's strategy;
b. Develop policies that define the FI's risk tolerance and ensure that they are compatible with strategic goals;
c. Ensure that strategic direction and risk tolerances are effectively communicated and adhered to throughout the organization;
d. Oversee the development and maintenance of management information systems to ensure that information is timely, accurate, and pertinent.

V. Assessment of risk management

When assessing risk management systems, the Bangko Sentral will consider the FI's policies, processes, personnel, and control systems. Significant deficiencies in any one of these areas will cause the Bangko Sentral to expect the FI to compensate for these deficiencies in their overall risk management process.

Policies are statements of the FIs' commitment to pursue certain results. Policies often set standards (on risk tolerances, for example) and recommend courses of action. Policies should express an FI's underlying mission, values, and principles. A policy review should always be triggered when an FI's activities or risk tolerances change.

Processes are the procedures, programs, and practices that impose order on the FI's pursuit of its objectives. Processes define how daily activities are carried out. Effective processes are consistent with the underlying policies, are efficient, and are governed by checks and balances.

Personnel are the staff and managers that execute or oversee processes. Good staff and managers perform as expected, are qualified, and competent. They understand the FI's mission, values, policies, and processes. Compensation programs should be designed to attract, develop, and retain qualified personnel. In addition, compensation should be structured to reward contributions to effective risk management.

Control systems include the tools and information systems (e.g, internal/ external audit programs) that FI managers use to measure performance, make decisions about risk, and assess the effectiveness of processes. Feedback should be timely, accurate, and pertinent.

VI. Supervision by Risk

Using the core assessment standards of the Bangko Sentral as guide, an examiner will obtain both a current and prospective view of an FI's risk profile. When appropriate, this profile will incorporate potential material risks to the FI from non-bank affiliates' activities conducted by the FI. Subsidiaries and branches of foreign FIs should maintain sufficient documentation onsite to support the analysis of their risk management. This risk assessment drives supervisory strategies and activities. It also facilitates discussions with FI management and directors and helps to ensure more efficient examinations. The core assessment complements the risk assessment system (RAS). Examiners document their conclusions regarding the quantity of risk, the quality of risk management, the level of supervisory concern (measured as aggregate risk), and the direction of risk using the RAS. Together, the core assessment and RAS give the appropriate supervising department of the Bangko Sentral the means to assess existing and emerging risks in FIs, regardless of size or complexity.

Specifically, supervision by risk allocates greater resources to areas with higher risks. The appropriate supervising department of the Bangko Sentral will accomplish this by:

1. Identifying risks using common definitions. The categories of risk, as they are defined, are the foundation for supervisory activities.
2. Measuring risks using common methods of evaluation. Risk cannot always be quantified in pesos. For example, numerous internal control deficiencies may indicate excessive operational risk.
3. Evaluating risk management to determine whether FI systems and processes permit management to manage and control existing and prospective levels of risk.

The appropriate supervising department of the Bangko Sentral will discuss preliminary conclusions regarding risks with FI management. Following these discussions, it will adjust conclusions when appropriate. Once the risks have been clearly identified and communicated, it can then focus supervisory efforts on the areas of greater risk within the FI, the consolidated banking organization, and the banking system.

To fully implement supervision by risk, the appropriate supervising department of the Bangko Sentral will also assign CAMELS ratings to the lead FI and all affiliated FIs. It may determine that risks in individual FIs are increased, reduced, or mitigated in light of the consolidated risk profile of the FI as a whole. To perform a consolidated analysis, it obtain pertinent information from FIs and affiliates, and verify transactions flowing between FIs and affiliates.

(Circular No. 1044 dated 6 August 2019)

GUIDELINES ON MARKET RISK MANAGEMENT

(Appendix to Secs. 123-N, 143-S/P and 144-Q)

(*Deleted by Circular No. 1044 dated 6 August 2019*)

GUIDELINES ON LIQUIDITY RISK MANAGEMENT
(Appendix to Secs. 124-N, 144-S, and 145-Q)

I. GENERAL PRINCIPLES

Liquidity risk management practices should ensure that a QB is able to maintain a level of liquidity sufficient to readily meet both expected and unexpected cash flows and collateral needs without adversely affecting daily operations and the financial condition of the institution. The management of cash flows should duly consider a QB's funding capacity for both short- and long-term time horizons, including intraday, and the currencies in which it has significant activities or exposures. Systems and controls should be in place to oversee and manage liquidity positions on an intragroup basis, including those arising from cross-border transactions, taking into consideration the differing liquidity risk profiles of each entity and the transferability of funds within the group, among other relevant factors. Funds management practices shall ensure that liquidity is not consistently maintained at a high cost, from concentrated sources, or through undue reliance on funding sources that may not be available in times of financial stress or adverse changes in market conditions. Lastly, a bank should ensure that it is able to withstand a series of stress events with varying severities under different time horizons.

The requirements for sound liquidity risk management that are set forth in these guidelines shall apply to all QBs. In addition, all QB s are expected to comply with the minimum prudential liquidity requirements set out under existing regulations.

II. DEFINITIONS

1. *Liquidity risk* is generally defined as the current and prospective risk to earnings or capital arising from a QB's inability to meet its obligations when they come due without incurring unacceptable losses or costs. Liquidity risk includes the inability to manage unplanned decreases or changes in funding sources.

2. *Funding liquidity risk* is the risk that a QB will not be able to meet efficiently both expected and unexpected current and future cash flow and collateral needs without affecting either daily operations or the financial condition of the bank. It also refers to the inability to meet investment and funding requirements arising from cash flow mismatches without incurring unacceptable losses or costs. This is synonymous to the general definition of liquidity risk.

3. *Market liquidity risk* is the risk that a bank cannot easily offset or eliminate a position at the market price because of inadequate market depth or market disruption. The size of the bid/ask spread of instruments in a market provides a general indication of its depth, hence its liquidity, under normal circumstances. Market liquidity risk is also associated with the probability that large transactions may have a significant effect on market prices in markets that lack sufficient depth.

4. *Intraday liquidity* refers to funds which can be accessed during the business day, usually to enable QBs to make payments in real time.

5. *Intraday liquidity risk* is the risk that a bank fails to manage its intraday liquidity effectively, which could leave it unable to meet a payment obligation at the time expected, thereby affecting its own liquidity position and that of other parties.

Intragroup transactions/activities are transactions between the QB and its parent, subsidiaries, affiliates, and related parties[1] that involve or could cause movement or transfer of funds.

III. LIQUIDITY RISK MANAGEMENT PROCESS

The management of liquidity risk shall form part of the overall risk management framework. At a minimum, the process should:

1. *Identify liquidity risk.* Proper identification of liquidity risk requires that management understands both existing and prospective risks from products and activities. It involves determining the volume and trend of liquidity needs and the sources of liquidity available to meet these needs. Liquidity risk identification should be a continuing process and should occur at the transaction, portfolio, entity and group levels.

2. *Measure liquidity risk.* Adequate measurement systems enable QB s to quantify liquidity risk exposures on a per entity basis and across the consolidated organization. A relatively large organization with an extensive scope of operations would generally require more robust risk measurement tools and management information system to properly measure risk in a timely and comprehensive manner.

[1] Related parties are defined in item *"(n)"* of Sec. 131 of the MORB.

3. *Control liquidity risk.* The control of liquidity risk necessitates the establishment of policies and standards on acceptable product types, activities, and counterparties, and set risk limits on a transactional, portfolio and aggregate/consolidated basis. Lines of authority and accountability should be clearly defined to ensure that liquidity risk exposures remain reasonable and within the risk tolerance expressed by the board.

4. *Monitor liquidity risk.* Monitoring liquidity risk requires timely reviews of liquidity risk positions, including intraday positions. Monitoring reports should be comprehensive, timely, and accurate in order to provide sufficient basis for sound business decisions.

IV. LIQUIDITY RISK MANAGEMENT FRAMEWORK

A sound liquidity risk management system should cover the following basic elements:

- Active board and senior management oversight;
- Adequate risk management policies and procedures;
- Appropriate risk measurement methodologies, limits structure, monitoring, and management information system; and
- Comprehensive internal controls and independent audits.

Following the proportionality principle, QBs with simple operations may generally employ basic practices while larger and/or complex institutions are expected to adopt more sophisticated risk management frameworks. Large organizations shall take a comprehensive perspective to measuring and controlling risk by understanding how subsidiaries and affiliates can magnify or reduce the consolidated liquidity risk profile.

A. Board and Senior Management Oversight[1]

The board and senior management should have an adequate understanding of how the liquidity risk profile is affected by other risks such as credit, market, operational and reputational risks.

Responsibilities of the Board of Directors

The board is ultimately responsible for the liquidity risk assumed by the QB and the processes used to manage it. The board of directors shall:

1. Establish the QB's tolerance for liquidity risk in a way that:

   a. Defines clearly the level of unmitigated liquidity risk that the bank is willing to assume under normal and stressed conditions in varying time periods, including intraday, given its business model, financial condition, and funding capacity. The risk tolerance level should also be appropriate for the bank's role in the financial system. Banks that carry out important market functions or an activity that covers a key segment of the financial system are generally expected to factor in an additional measure of prudence in setting their risk tolerance level;

   b. Can be easily communicated and understood by personnel involved in the liquidity risk management process; and

   c. Reflects the bank's evaluation of the sources of liquidity risks and the trade-off between risks and profits.

   The risk tolerance level should be adequately documented, preferably with a combination of qualitative provisions in the form of a policy statement, and quantitative expressions (e.g., the specification of a minimum survival period under a range of severe but plausible stress scenarios, or the setting of limits on liquidity metrics used by the QB for controlling different aspects of liquidity risk). Lastly, the risk tolerance should be regularly reviewed in light of any significant changes in market conditions or the validity of assumptions used.

2. Approve the QB's funding strategy.

3. Ensure coherence of the measures used to contain liquidity risk within the stated tolerance level. QBs should note that the mere setting of metrics and limits for managing different aspects of liquidity risk alone does not in itself constitute a sufficient articulation of the overall liquidity risk tolerance.

[1] This section refers to a management structure composed of a board of directors and senior management. The Bangko Sentral is aware that there may be differences in some financial institutions as regards the organizational framework and functions of the board of directors and senior management. For instance, branches of foreign QBs have board of directors located outside of the Philippines and are overseeing multiple branches in various countries. In this case, "board-equivalent" committees are appointed. Owing to these differences, the notions of the board of directors and the senior management are used in these guidelines not to identify legal constructs but rather to label two decision-making functions within a financial institution.

4. Maintain an appropriate structure for day-to-day funds management and the management of liquidity risk of the QB and its subsidiaries, whenever applicable. The structure should enable the availability of liquidity and the monitoring of liquidity risks across the banking group and at each entity on an on-going basis.

   The management of liquidity risk generally requires collaboration among the various business areas that impact the QB's liquidity risk profile. These business units are usually represented in a senior management-level committee, commonly known as the Asset and Liability Committee (or ALCO), whose authority over asset and liability management (ALM) emanates from the board. Meanwhile, day-to-day funds management is executed by the ALM desk which is typically under a QB's treasury department.[1]

   A simple QB's[2] organizational structure may differ from that described above. Nonetheless, the board should identify committees/units within the organization that are responsible for effectively performing the ALM and daily funds management functions.

   To ensure the proper management of liquidity risk, the board shall designate an independent unit responsible for measuring, monitoring and controlling liquidity risk. Said unit should directly report to the board of directors or a committee thereof.

5. Ensure that the QB has competent senior personnel and appropriate resources in terms of expertise and systems to enable the identification, measurement, monitoring and control of liquidity risk.

6. Monitor the QB's performance and overall liquidity risk profile in a timely manner by requiring regular reports. These reports should, at a minimum, contain the liquidity position of the QB along with information related to compliance with established risk limits, and on new or emerging liquidity risks.

7. Mandate and track the resolution of breaches in risk limits and actions taken on deviations from policies and procedures.

Responsibilities of Senior Management

Senior management is responsible for effectively executing liquidity strategies and for operating within the liquidity risk tolerance level set by the board. Thus, the senior management shall:

1. Develop and implement a set of liquidity risk policies and procedures that translates the board's goals and objectives into operating standards, and ensure that this is transmitted to and well understood by personnel.

2. Develop a funding strategy that provides for the effective diversification of assets, funding sources and maturities, taking into account market conditions and the bank's ability to access funds from different sources. A bank should diversify available funding sources in the short-, medium- and long-term. Diversification targets should be part of the medium- to long-term funding plans and aligned with the budgeting and business planning process. The funding strategy should be formally documented and regularly reviewed in light of any changes in the market environment or key assumptions. The factors that complex banks may consider in designing the strategy are set out in Annex A (Factors to Consider in Developing a Funding Strategy).

3. Appropriately incorporate liquidity costs, benefits and risks in the internal pricing, performance measurement and new product approval processes for all significant activities (both on- and off-balance sheet), thereby aligning the risk-taking incentives of individual business lines with the liquidity risk tolerance set by the board.

4. Ensure that all business units conducting activities that have an impact on the liquidity profile are fully aware of the QB's funding strategies, and operate in accordance with approved policies, procedures, limits and controls.

5. Adhere to the lines of authority and responsibility that the board has established for managing overall liquidity risk, and ensure that the units responsible for managing liquidity risk have sufficient authority and independence from risk taking units to enable them to discharge their functions effectively.

6. Oversee the implementation and maintenance of management information and other systems that are used to identify, measure, monitor, and control the QB's liquidity risk.

7. Closely monitor current trends and potential market developments that may present significant challenges for managing liquidity risk. These developments and trends shall include emerging issues, such as increasing

[1] With this structure, the ALM desk would be the unit responsible for ensuring the capability of the bank to monetize any high-quality liquidity asset (HQLA) in accordance with Part III
Item *"(9) (b)"* of the Liquidity Coverage Ratio Framework (LCR) in *Appendix 72* of the MORB.

[2] The classification of QBs as simple or complex is set out in item *"(c)"* of Section 133-Q of the MORNBFI.

funding costs or concentrations, the growing size of the funding gap, the drying up of alternative liquidity sources, material and/or persistent breaches of limits, a significant decline in the internal liquidity buffer, or changes in external market conditions that signal difficulties in the future.

8. Inform the board of any new and emerging liquidity concerns in a timely manner.

B. Risk Management Policies and Procedures

A QB's liquidity risk policies and procedures shall be comprehensive, clearly defined, documented and duly approved by the board of directors. Policies and procedures covering the QB's liquidity risk management system shall provide appropriate guidance to relevant personnel. These policies should be applied on a consolidated basis and, as appropriate, at the level of individual financial subsidiaries, recognizing legal distinctions and possible obstacles to cash movements within the banking group.

The details of the policies and procedures shall take into account the QB's liquidity needs under normal and stressed conditions. These should cover, at a minimum, the following key aspects:

1. The liquidity risk tolerance, as determined by the board;

2. The general approach to funds management, and the liquidity risk management policies on particular aspects, such as:

    a. The composition and maturity of assets and liabilities;
    b. The diversity and stability of funding sources;
    c. The approach to managing liquidity in different currencies and across business lines;
    d. The approach to intraday liquidity management; and
    e. The assumptions on the liquidity and marketability of assets.[1]

3. Lines of authority, roles and responsibilities, and the reporting structure for liquidity risk management;

4. Tools for measuring, monitoring, controlling, and reporting liquidity risk, including:

    a. The setting of various liquidity limits and ratios;
    b. The framework for conducting cash-flow analysis under normal and stress scenarios, including the techniques and behavioural assumptions used; and
    c. The management reporting system for liquidity risk.

5. The contingency funding plan, which describes the approach and strategies for dealing with various types of liquidity crises.

    The policies should be periodically reviewed to ensure that these remain consistent with the level and complexity of the QB's operations as well as current circumstances. The policies should be regularly updated to incorporate the effects of new products/activities,[2] or changes in funding strategies or corporate structure.

C. Risk Measurement Methodologies, Limits Structure, Monitoring, and Management Information System (MIS)

Liquidity Metrics or Measurement Tools

Liquidity management entails the on-going measurement of intraday to long-term liquidity positions. QBs shall be guided by the following:

1. QBs shall employ a range of customized metrics or tools, against which internal limits may be set for measuring, monitoring and controlling liquidity risk.

2. Measurement tools should be comprehensive and forward-looking. A comprehensive risk measurement process entails an analysis of cash flows and liquidity implications arising from all material assets, liabilities, off-balance sheet positions and other activities. This also includes the monitoring of liquidity positions in currencies in which QBs have significant activity. A currency is considered significant if the aggregate liabilities denominated in that currency amount to five percent (5%) or more of total liabilities. On the other hand, a forward-looking process requires the identification of potential funding gaps, apart from current liquidity shortfalls.

[1] A related discussion on asset and market liquidity characteristics may be found in Part III Item "5" of the LCR Framework in Appendix 74a of the MORB.
[2] Item "(i)" of Section 611 of the MORB sets out the expectations on the risk management for new products.

3. The QB's set of metrics or tools shall be commensurate with its size, complexity, and liquidity risk profile. This set of tools should be able to measure the day-to-day liquidity position, structural liquidity mismatches, as well as vulnerabilities under stressed conditions. Some of the liquidity metrics that a QB may use are as follows:

    a. Cash flow projections from assets, liabilities and off-balance sheet items over an appropriate set of time horizons. Cash flow projections can be used for monitoring intraday liquidity requirements, day-to-day liquidity needs and funding capacity over short to medium term horizons, longer term liquidity needs, and vulnerabilities to events, activities or strategies that can put a significant strain on the QB's capacity to generate liquidity;

    b. Liquidity/Funding gap or maturity mismatch analyses based on contractual maturities as well as behavioral assumptions of cash inflows and outflows. These can be used to identify potential structural funding gaps that may need to be bridged;

    c. Information on the composition and quality of funding sources (e.g., ratio of core deposits to total deposits, level of concentration of funding sources). Such metrics provide information on the degree of stability of funding sources; and

    d. Other ratios (e.g., loans to deposits, liquid assets to liabilities, assets funded by swaps, etc.) as may be applicable to the QB.

4. A QB can use either a static or a dynamic approach to manage its liquidity position, and identify and address potential funding shortfalls in a timely manner.

5. QBs with large deposit bases should be able to conduct statistical or behavioral analyses of the stickiness or volatility of deposits. The related supervisory expectations are in Annex B (Factors to Consider in Developing Cash Flow Projections).

6. On the use of cash flow projections:

    a. Universal and commercial QBs (UBs/KBs) and other institutions with active treasury operations are expected to adopt more robust approaches (e.g., dynamic cash flow projection). The related guidelines are set out in Annex B (Factors to Consider in Developing Cash Flow Projections).

    b. Simple QBs may generally use a static approach to liquidity risk measurement, which is based on positions at a given point in time. This may consist of a simple cash flow projection in a spreadsheet where the QB's sources and uses of cash in a contractual or maturity liquidity gap over different time horizons may be analyzed.

    c. Developing a realistic cash flow projection is highly dependent upon the underlying assumptions. As such, QBs shall ensure that:

        - Controls are in place such that no major assumptions or parameters are used or changed unless the approval by an appropriate independent board-level committee is sought; and

        - Key assumptions, including those that are used in behavioural analysis, are kept valid considering changes in market conditions, the competitive environment, and business strategies; thus, the assumptions must be evaluated and tested at least annually.

    d. At a minimum, the cash flow projection shall be prepared on a consolidated basis and for each significant currency (refer to Section VI – Foreign Currency Liquidity Management), at the quasi-banking group level and for each material financial subsidiary. In determining whether a financial subsidiary is material, consideration may be given to the subsidiary's balance sheet size, volume of funding requirements, level of activities, and degree of funding reliance on the parent QB.

7. Apart from liquidity metrics, QBs shall design a set of indicators which may be derived from either internal or market data, to help identify at an early stage emerging risks or potential funding needs. These indicators can be qualitative or quantitative in nature and may include, but are not limited to, the following:

    a. Rapid asset growth, especially when funded by volatile liabilities;
    b. Growing concentrations on certain assets and liabilities, or on payment/settlement obligations to a single or group of related counterparties;
    c. Increasing currency mismatches or widening negative liquidity gaps especially in short-term time bands;
    d. Unusual or sudden increase in intraday payment obligations;
    e. Growing size of the projected intraday liquidity shortfall;

f. Increasing level of past due loans or non-performing assets;
g. Increasing overall funding costs;
h. Continuing operating losses;
i. Rapid decline of share prices, for listed QBs;
j. Negative publicity; and
k. Difficulty in accessing short-term or longer term funds, such as from interbank and repo facilities.

Limits Structure

QBs shall establish limits consistent with the liquidity risk tolerance set by the board and the nature and amount of liquidity risk they are willing and capable to assume. A set of quantitative and qualitative factors should be considered in limits setting. These include, at a minimum, the nature of the QB's strategies and activities, market conditions and costs of access to money markets and other alternative sources of funding.

Limits can take various forms. QBs should address limits on types of funding sources and uses of funds, including off-balance sheet positions. These limits, tolerances, and guidelines may include the following:

a. Limits on projected net cash flow positions over specified time horizons;

b. Limits on the maximum amount of projected intraday liquidity shortfall;

c. Limits on periodic and/or cumulative funding mismatches or gaps over specified short- and long-term time horizons;

d. Target amounts of highly liquid assets expressed as aggregate amounts or as ratios calculated in relation to, for example, coverage of net cash outflows, or expected liquidity needs under stress scenarios;

e. Limits or triggers on the structure of short-term and longer-term funding of the asset base, under both normal and stressed conditions;

f. Limits or triggers on funding concentrations or guidelines that promote funding diversification such as limits on large liability and borrowed funds dependency, single funds providers, exposure to market segment funds providers, and other wholesale funding;

g. Limits or triggers on contingent liabilities such as unfunded loan commitments and top-up provisions or margin calls from outstanding contracts; and

h. Guidance on the acceptable tenors of different categories of assets and liabilities (e.g., term of deposits or notes to be issued, or duration of securities holdings).

Before setting limits that allow negative funding gaps, the board and senior management shall consider the QB's ability to fund these negative gaps. Factors include, but are not limited to: the availability of on-balance sheet liquidity, the amount of firm credit lines available from commercial sources that can be drawn to fund the shortfall, and the amount of unencumbered on-balance sheet assets that can be sold without excessive loss and in a reasonable timeframe. Further, liquidity positions and limits should be influenced by the outcome of stress tests.

QBs shall ensure compliance with the established limits, establish policies on accountabilities for non-compliance, and define the procedures for reporting exceptions or breaches. Finally, QBs should regularly review the suitability and effectiveness of their limits structure.

Liquidity Risk Monitoring and Reporting

Banks shall have an adequate and reliable MIS that is able to provide the board, senior management and other concerned personnel with timely information on the QB's liquidity position. The MIS should encompass all significant sources of liquidity risk, including new activities and contingent risks and the related triggers. The MIS should be able to calculate risk measures to monitor liquidity positions:

- In all currencies, both individually and on an aggregate basis;
- In each financial subsidiary and at the consolidated level;
- Under normal business conditions and during stress events, with the ability to deliver more granular, frequent, and time-sensitive information during the latter; and
- For different time horizons (e.g., on an intraday basis, on a day-to-day basis, and over a series of more distant time periods thereafter).

A QB's MIS should likewise be able to capture risks in the following areas:

- The deposit base particularly signs that it is becoming more volatile, as may be indicated by statistical and behavioural analyses;
- Secured borrowing and lending, including information on maturity mismatches and asset liquidity;
- Derivative transactions, including collateral outflows resulting from rating changes and asset price movements; and
- Off-balance sheet funding vehicles and non-contractual obligations, providing greater transparency into contingent funding risks.

To facilitate liquidity risk monitoring, there should be reporting standards that specify the scope and granularity of information that should be provided to specific committees or authorities within the QB, as well as the manner and frequency of reporting.

The contents of the MIS reports should adequately support the functioning of the liquidity risk management tools for measuring liquidity needs and controlling different aspects of liquidity risk. At a minimum, the reporting should compare current liquidity exposures to established limits. Breaches in liquidity risk limits should be reported to the appropriate level of management.

Other than monitoring of compliance with limits, the MIS reports should be capable of supporting the board and senior management in identifying emerging concerns on liquidity, as well as in managing events during liquidity crises.

D. Internal Controls and Audit[1]

A QB shall have adequate internal controls in place to protect the integrity of its liquidity risk management process. An effective internal control system promotes operational efficiency, complete and reliable financial and regulatory reporting, and compliance with applicable policies, laws and regulations.

As with other risks, an effective system of internal controls for liquidity risk includes:

- A strong internal control environment;
- An adequate process for identifying, measuring, monitoring and controlling liquidity risk;
- Adequate information systems; and
- Continuous review of adherence to established policies and procedures.

A key element of the internal control system is the conduct of independent internal audit reviews at reasonable audit cycles. QBs should ensure that the internal audit scope, program and procedures cover all aspects of the liquidity risk management process, including the determination of the appropriateness of the risk management system, particularly its risk measurement tools and stress testing methodology, risk reporting processes, and compliance with policies.

V. INTRADAY LIQUIDITY RISK MANAGEMENT

QBs whose business activities inherently entail a large volume of daily payments and settlements should effectively manage their intraday liquidity positions and risks in order to meet obligations on a timely basis under both normal and stressed conditions, and contribute to the smooth functioning of payment and settlement systems.

A QB may be exposed to intraday liquidity risk through its direct participation in payment and settlement systems, the provision of correspondent and custodian banking services, or reliance on correspondent or custodian QBs for the payment and settlement of its own transactions. In the latter case, operational or financial disruptions at the QB's correspondent or custodian QB will also affect its own liquidity position.

The objective of intraday liquidity risk management is to identify, prioritize, and meet critical obligations when they become due, and to settle other less critical obligations as soon as possible. In accomplishing this objective, QBs may face a number of challenges due to the uncertainty of the level and timing of gross cash inflows and outflows. It is, therefore, essential that all QBs:

1. Understand the rules of all payment and settlement systems in which they participate;
2. Identify key counterparties and their correspondents or custodians that act as the source of incoming or outgoing gross liquidity flows;
3. Identify key times, days, and circumstances where liquidity flows and possible intraday credit needs might be particularly high; and,
4. Understand the business needs underlying the timing of liquidity flows and intraday credit needs of internal business lines and key customers.

[1] Refer to Secs. 162 and 163 of the MORB for the frameworks on Internal Control System and Internal Audit, respectively.

For this purpose, it may be useful for banks to maintain lines of communication with key customers, including customer QBs, to obtain a forecast of their own payment traffic.

QBs should have policies, procedures and systems to support operational objectives in all of the financial markets and currencies in which they have significant payment and settlement activities. These should enable them to:

1. Measure expected daily gross liquidity inflows and outflows, including throughput,[1] anticipate the intraday timing of these flows where possible, and forecast the range of potential net funding shortfalls that might arise at different points during the day;

2. Identify, measure, and monitor payments in large value payment systems (LVPS) that are time-specific in nature. For this purpose, a QB should be able to define the types of transactions that are time-specific relative to its liquidity requirements and participation in an LVPS. Time-specific obligations refer to payments, such as but not limited to: a) with a time-specific intraday deadline; b) required to settle positions in other payment and settlement systems, as well as ancillary systems such as check clearing, PESONet, InstaPay, ATM network; c) related to market activities such as delivery or return of money market transactions or margin payments; and d) critical to the QB's business, reputation, or continued compliance with agreements or regulations, failure of which may lead to penalties or other sanctions. These obligations include amounts drawn from overnight lending facilities or intraday liquidity facilities that must be settled at the end of the day.

3. Identify and properly document accounts that are opened and maintained with correspondent banks to facilitate payment services pertaining to fund transfer, check clearing, cash management services, trade finance, foreign exchange trades, security trades, security custody services, and other short-term payment transactions.

4. Monitor and keep track payments made on behalf of correspondent banking customers as well as manage risks related to the provision of intraday credit line facilities. A QB should maintain appropriate documentation on these intraday credit facilities as well as monitor the extent of drawdown and peak usage[2] of the intraday credit lines so as to ensure adherence to established credit limits and to facilitate liquidity risk management. As intraday credit lines are normally drawn down and repaid within the same day, QBs should keep track of their customers' drawings and repayments on such credit lines on an intraday basis to ensure compliance with approved credit limits and funds flow management. A QB should form its own view, from a risk management perspective, of the extent or frequency of monitoring consistent with its business model and the scale and usage pattern of its customers.

5. Monitor intraday liquidity positions in LVPS and correspondent banks against expected activities and available resources. Such monitoring should be frequent enough to enable a QB to:

   (a) determine when to acquire additional intraday liquidity or restrict liquidity outflows to meet critical payments;
   (b) allocate intraday liquidity efficiently between itself and its customers; and
   (c) react quickly to unexpected payment flows and adjust overnight funding positions easily when needed.

6. Secure sufficient funding and manage the timing of liquidity outflows in accordance with intraday objectives, as well as requirements from the market;

7. Manage and mobilize collaterals as necessary to obtain intraday funds. A QB should have sufficient collaterals available to acquire the level of intraday liquidity needed to meet its intraday objectives. It should have operational arrangements in place to pledge or deliver this collateral either to the central QB, correspondents, custodians or other counterparties when needed. A QB should also understand the timeframes required to mobilize different forms of collaterals, including collaterals held on a cross-border basis;

8. Attribute intraday liquidity costs to the QB's income generating units, as warranted;

9. Set intraday liquidity risk limits that take into account possible obstacles to intraday cash flow movement across various payment systems, and across borders in the case of foreign banks and other global financial market utilities (FMUs)[3] which may be operating in more than one jurisdiction; and

10. Deal with unexpected disruptions to intraday liquidity flows, as supported by stress tests and the contingency funding plan. Scenarios designed based on intraday funding disruptions should be included in the QB's stress testing exercise. Stress scenarios for a QB that uses correspondent banking services may include events where: (i) intraday credit lines are being withdrawn by the correspondent QB; or (ii) a QB is required to either prefund its payments and/or to collateralize its intraday credit lines. Contingency funding plans must also be adopted to

[1] Throughput refers to the percentage of outgoing payments relative to total payments within the day.
[2] Peak usage refers to the maximum aggregate amount of concurrently outstanding intraday credit drawn against intraday credit lines granted.
[3] A Financial Market Utility (FMU) refers to a multilateral system that provides the infrastructure for transferring, clearing, payment settlements and other financial transactions among financial institutions in the system. A bank can be designated as a settlement entity for foreign exchange transactions, securities related transactions, large value payment systems (such as the Philippine Payments and Settlements System or PhilPaSS), a clearing house, transfer systems and any other FMU.

manage liquidity needs under the different scenarios. (Refer to Sections IX and X of this Appendix for the related guidelines on stress testing and contingency funding plans.)

The tools and resources applied by a QB in managing its intraday liquidity risks should be tailored to its business model, role in the financial system, and the manner by which it conducts its activities for a particular market. That is, whether it directly participates in a payment and settlement system, or it provides correspondent or custodian services and intraday credit facilities to other QBs. In particular, a bank classified as a settlement QB for transactions executed through an FMU is expected to have a robust MIS that can tag and segregate, as well as monitor, in real time the inflows/outflows of their own transactions from their payment and settlement obligations.

Stand-alone QBs shall be expected to maintain an adequate and reliable management information system (MIS) that is able to monitor and report (a) gross payments sent and received in the LVPS and/or, where appropriate, across all accounts held with correspondent banks on a daily basis and (b) available intraday liquidity at the start of the banking/business day. For this purpose, available intraday liquidity at the start of the business day shall be defined as follows:

For QBs that are subject to the MLR, it shall include the eligible liquid assets under Section 145 of the MORB, total credit lines available from the central bank, and total credit lines available from correspondent banks.

Stand-alone TBs/QBs and all RBs/Coop Banks shall make the abovementioned information available any time upon request of the Bangko Sentral.[1]

QBs should ensure that there is a clear assignment of tasks and responsibilities to personnel involved in the intraday liquidity management process. There should also be sufficient coordination among the front, middle, and back offices, as intraday liquidity management requires close monitoring of expected payments and direct contacts with customers, where necessary, to quickly verify the reasons for delayed payments.

VI. FOREIGN CURRENCY LIQUIDITY MANAGEMENT

The principles described in these guidelines also apply to the management of any foreign currency in either the Regular Banking Unit (RBU) or Foreign Currency Deposit Unit (FCDU) to which the QB maintains a significant exposure. The systems or processes for measuring, monitoring, and controlling foreign currency liquidity positions shall be integrated into various aspects of a QB's overall liquidity risk management framework, such as managing net funding requirements, stress-testing, and contingency funding planning, as appropriate.

QBs should formulate liquidity strategies and policies for the major currencies in which they have significant activity or exposure.[2] As a general principle, QBs should manage and control their funding needs to avoid over-reliance on foreign exchange or currency swap markets in respect of those currencies in which they have significant exposure, as there is a risk that their ability to swap currencies may erode rapidly under stressed conditions.

QBs should assess their aggregate foreign currency liquidity needs under both normal and stressed conditions, and control currency mismatches within acceptable levels.[3] Management needs to set and regularly review limits on the size of its funding gaps for each significant individual currency and in aggregate over particular time bands (e.g., "next day", "7 days" and "1 month") for each major foreign currency in which they operate.

Currency mismatch may arise where, for example, a QB relies on local currency liabilities and short-term borrowings to fund a portion of its assets denominated in foreign currency, or vice versa via foreign exchange or currency swap markets. In these cases, QBs should demonstrate the capacity to assess and monitor the risk of sudden, adverse exchange rate movements that could sharply widen existing funding gaps and alter the effectiveness of foreign exchange hedges and hedging strategies. QBs should also assess the likely convertibility of foreign currencies and access to foreign exchange markets for switching funding from one currency to another.

The size of the limits should take into account the following factors, among others:

a. The amount of foreign currency liabilities that can be swapped through the foreign exchange market to fund local currency assets, or vice versa;

b. The convertibility and price volatility of individual foreign currencies, the timing of access to funds in those currencies, as well as the potential for impairment or complete closure of foreign exchange swap markets for particular currency pairs in the case of market disruptions;

c. The conditions of foreign exchange markets, including the depth and liquidity of the markets and the level of interest rates;

[1] Stand-alone TBs/QBs and all RBs/Coop Banks shall be given until end-January 2022 to achieve full compliance with the provisions of this section.
[2] The term "significant" as defined in Item *"C.2"* applies.
[3] Banks with FCDU operations are subject to statutory requirements, such as the asset cover.

d. The ability to raise funds in foreign exchange markets and to transfer surplus liquidity from one currency to another, across jurisdictions and legal entities;

e. Differences in the behavior of foreign currency depositors and lenders vis-à-vis those of customers and counterparties in transactions involving the domestic currency, and the stickiness of deposits in foreign currencies under stressed conditions;

f. The availability of foreign currency backup facilities in cases where normal access to funding in individual currencies is disrupted; and

g. The ability of borrowers to repay their foreign currency liabilities under stressed conditions (e.g., interest rate hikes and exchange rate fluctuations).

VII. INTRAGROUP LIQUIDITY RISK MANAGEMENT

QBs belonging to a financial group shall have adequate policies and systems that enable active monitoring and control of liquidity risk exposures and funding needs within and across business lines and legal entities in their groups, including those arising from cross-border transactions. Further, the parent QB of a group should establish processes that facilitate data aggregation across multiple systems to enable group-wide management of liquidity risk. For cross-border intragroup activities and other intragroup transactions involving foreign currencies, QBs shall also apply the provisions of Part VI, Foreign Currency Liquidity Management.

QBs shall clearly document any liquidity support arrangements with group entities. Further, they should specify in their liquidity risk management policies the treatment of intragroup transactions and the assumptions on intragroup dependencies for the purposes of making cash-flow projections for both normal and stressed conditions.

Intragroup transactions may be treated in the same way as other third party transactions for the purpose of cash flow projections under normal business conditions, provided that there is no doubt about the financial position of the group as a whole. Under stressed situations, QBs should analyze how the liquidity positions of group entities may affect their own liquidity. They should be able to account for any funding or liquidity commitment provided to group entities and prepare for any withdrawal of funding provided by these entities. Where there is reliance on funding support from group entities, QBs should take into account any limitation on their access to liquidity from those entities.

QBs should identify and understand the constraints on the movement of liquidity within their groups and specify assumptions regarding the transferability of funds and collateral in liquidity risk management policies. These assumptions should fully consider regulatory, legal, accounting, credit, tax, and internal constraints on the effective movement of liquidity and collateral as well as the time required to complete the transfers. There should also be processes in place for the allocation of liquidity and collateral resources.

A QB should assess the possibility of a reputation contagion that occurs when a liquidity problem in an entity within its group leads to a liquidity strain across the entire group due to the assumption of market counterparties that a problem at one entity is a problem for the group as a whole. The inherent vulnerability of a QB that is part of a group to reputation contagion must be addressed in the QB's intragroup liquidity risk management system.

To mitigate the potential for reputation contagion, QB should consider establishing internal limits on liquidity risk within and across business lines and group entities. It is also vital that QB engage in effective communication with major counterparties and other stakeholders when liquidity problems in their group entities arise. Scenarios based on reputation contagion should be considered in the QB's stress testing exercise and must be complemented with a robust group-wide contingency funding plan. QBs should ensure that they have sufficient liquidity cushions and a well-diversified funding structure to mitigate the effects of reputation contagion.

VIII. COLLATERAL MANAGEMENT

The availability of eligible assets that a QB can use as collateral to obtain funding in the market gives it the ability to raise cash quickly to meet liquidity needs. On the other hand, entering into contracts with margin requirements (such as derivatives) exposes a QB to liquidity risk. Hence, the allocation of sufficient resources to the management of collateral positions is needed in order to achieve the overall liquidity risk management strategy of the QB. In this regard, QBs that regularly and/or have plans to enter into collateralized transactions shall institute policies, procedures, and systems that would enable them to:

1. Assess the eligibility and acceptability of each major asset class for pledging as collateral to major counterparties, the Bangko Sentral, and other fund providers in secured funding markets for intraday, overnight, and term credit. QB should also ensure that there is proper legal documentation for each asset class to be effectively pledged for liquidity;

2. Monitor the level of available collateral by legal entity, jurisdiction, and currency exposure;

3. Track the legal entity and the physical location, i.e., the custodian QB or securities settlement system, with which each of the available collaterals are held;

4. Meet expected, and accommodate unexpected, borrowing needs as well as potential increases in margin requirements. Banks should also be able to monitor the shifts of collateral usage between intraday, overnight, and term borrowing requirements;

5. Optimize the allocation of collateral available for different operational needs, products, business units, locations, and currencies, as applicable;

6. Diversify the sources of collateral to avoid excessive concentration on any particular funding provider or market taking into consideration capacity constraints, sensitivity of prices, haircuts and collateral requirements (e.g., concentration of available collaterals in the form of long-dated ROP bonds that have a higher price sensitivity may pose constraints in generating liquidity especially during stressed conditions);

7. Account for all collateral positions, including both currently pledged and unencumbered eligible assets;

8. Prudently measure the value of available and pledged collaterals, together with estimates of its liquidated value in adverse market conditions;

9. Capture the implications of hedging activities and obligations embedded in the contractual terms of transactions involving derivatives, securitizations, structured products, and other market instruments to their ability to utilize collaterals to obtain liquidity and outstanding collateral positions; and

10. Integrate collateral positions in the liquidity risk measurement tools. QBs should incorporate assumptions for available and pledged collaterals in both business as usual and stressed-based liquidity risk measurement tools.

IX. LIQUIDITY STRESS TESTING

Stress tests should enable a QB to assess its ability to generate sufficient liquidity from the asset side, liability side, and contingent items of the balance sheet to meet funding needs under adverse conditions and to ensure that exposures remain in accordance with the QB's liquidity risk tolerance. In this regard, the following guidelines shall apply:

1. Stress tests shall be conducted on a regular basis for a variety of short-term and protracted stress scenarios to identify sources of potential liquidity strain. This applies to all QB, including those that are covered by the regulations on the LCR, to take into account the varying liquidity risk profiles and vulnerabilities of individual institutions.

2. The design and frequency of stress tests shall be commensurate with the size and complexity of a QB, its liquidity risk exposures, as well as the importance of the QB within the financial system.

3. It is important for QBs to construct plausible stress scenarios under varying levels of severities and examine the resultant cash flow needs. They shall, at a minimum, include the following types of scenarios in their stress testing exercise: (a) an institution-specific crisis scenario; (b) a market-wide crisis scenario; and (c) a combination of both.[1]

4. In designing stress scenarios, QBs shall take into account specific risks associated with their business models and vulnerabilities arising from a concentration of assets or funding sources.

5. Retail banks, including rural and cooperative QBs, may develop scenarios that include: (i) an acute deposit run with significant daily run-off rates for deposits; and (ii) increasing requests from customers to redeem their time deposits prior to maturity.

6. Banks that actively utilize interbank facilities or collateralized borrowings, shall:

    a. Analyze the impact of stressed market conditions on the value of assets used as collaterals; and
    b. Account for systemic as well as second-round effects, i.e., tests should assume that the QB's actions may have an impact on the market and that there are other institutions seeking to undertake similar actions.

7. The ability of a QB to honor its immediate commitments at least for the initial period when the stress is likely to be most acute is crucial for its later survival. As such, the QB is expected to have sufficient funds to cover its liquidity

[1] An institution-specific stress scenario may refer to situations that could arise from a bank experiencing problems which affect public confidence in either the QB or its group-wide operations. On the other hand, a market-wide stress scenario may refer to situations where liquidity at a large number of financial institutions in one or more markets is affected. This may be characterized by a market-wide liquidity squeeze, substantial discounts needed to sell or repo assets, or severe operational or settlement disruptions affecting one of more payment or settlement systems.

needs. It shall ensure that it is able to continue its businesses for a certain minimum stress period under each of the crisis scenarios.

The minimum stress period for an institution-specific crisis scenario shall last for no less than five (5) business days, while a market wide crisis scenario and a combined scenario shall last for no less than one month. QBs may adopt longer minimum stress periods if their liquidity risk profile so warrants.

8. Stress tests shall be performed for all currencies in aggregate and separately for positions in the local currency and individual foreign currencies in which banks have significant positions. Refer to Section VI for the related guidelines on foreign currency liquidity management.

9. A bank that exercises control over subsidiary/ies should be able to analyze the impact of stress scenarios on its consolidated liquidity position as well as that of individual financial subsidiaries within the group in order to understand where risks could arise. Branches of foreign QBs are expected to apply these guidelines to their Philippine operations only. Refer to Section VII for the related guidelines on intragroup stress testing.

10. QBs belonging to a banking group/conglomerate should, in particular, assess the effects of a group-wide crisis scenario on their liquidity positions. This scenario assumes that an institution-specific stress event is affecting the global operations of the banking group (i.e., with problems spilling over the entire banking group).

11. Results of the stress tests should be linked to the overall ALM and liquidity risk management processes of the QB. To this end, the board and senior management should:

    a. Integrate the stress test results into the QB's strategic business planning process, liquidity risk management strategies and practices, setting of internal liquidity risk limits, and the assessment of potential funding shortfalls in the contingency funding plan; and

    b. Thoroughly discuss the stress testing results to consider the need for remedial or mitigating actions, such as, but not limited to, expanding the liquidity buffer, obtaining more long-term funding or adjusting the composition of assets.

12. A QB's stress scenarios and related assumptions must be well documented. The scenario design and underlying scenarios used should be subject to regular review and approval by the board and senior management to ensure that the nature and severity of the tested scenarios remain appropriate and relevant to market conditions, changes in business model and activities, and actual experiences in stressed situations.

X. CONTINGENCY FUNDING PLAN

QBs shall have a formal contingency funding plan (CFP) that clearly sets out strategies for addressing emergency situations. These include, in particular, liquidity shortfalls estimated from stress tests performed by the QB under institution-specific, market-wide and combined stress scenarios mentioned in Sections V and IX. The following shall be observed:

1. The CFP should address liquidity issues over a range of different time horizons, including intraday.

2. The CFP should clearly define a set of triggering events that will activate the plan as well as the mechanisms for identification, monitoring and reporting of such events at an early stage. QBs may adopt internal and market indicators for defining and monitoring triggering events.

3. The CFP should provide a QBs management with a diversified set of viable, readily deployable potential contingency funding measures for preserving liquidity and addressing liquidity shortfalls. All potential sources of funding should be identified, along with the estimated amount of funds that can be derived from these sources, their expected degree of reliability, the conditions under which these sources should be used (such as scenarios when a QB incurs a sudden material intraday liquidity shortfall), and the lead time needed to tap additional funds from each of the sources.

   In this regard, QBs must maintain adequate records in support of their assumed funding sources during stress conditions, such as test results of counterparty lines, analysis of saturation points for certain securities markets, or statements of support from related parties.

4. The CFP should reflect the relevance of the central QB lending facility as a secondary source of liquidity. It should specify the type of facility to be availed, the corresponding collateral requirements, and operational procedures for accessing the same.

5. To enable a QB to make timely and well-informed decisions and execute contingency measures proficiently, the roles and responsibilities and internal procedures for crisis management should be clearly delineated. These should cover the following:

    a. The authority to invoke the CFP, and the establishment of a formal liquidity crisis team to facilitate internal coordination and communication across different business lines and locations and decision-making by senior management during a liquidity crisis;

    b. Clear escalation and prioritization procedures detailing what actions to take, who can take them, and when and how each of the actions can and should be activated;

    c. Names and contact details of members of the team responsible for implementing the CFP and the locations of team members; and

    d. The designation of alternates for key roles.

6. In a time of stress, to support general confidence in the QB, it should develop a communication plan to deliver on a timely basis clear and consistent communication to internal and external parties. Internal communication should cover employees in different business lines and locations. External parties should include the Bangko Sentral, clients, and creditors. The CFP should, in particular, address communication with shareholders, market participants, and major counterparties to whom assurance about the QB is extremely important, as their actions could significantly affect the reputation of the QB and its liquidity position.

    Strategies should also be appropriately formulated for managing media relationships and making public announcements to help reduce uncertainty or speculation about the QB in the market.

7. The CFP should be subject to regular testing to ensure its effectiveness and operational feasibility, particularly in respect of the availability of the contingency sources of funding listed in it. This is highly warranted in respect of intraday liquidity stress events considering the need to address funding shortfalls in a limited period of time. The testing of the CFP should cover the following major aspects:

    a. Verifying key assumptions, such as the ability to sell or repo a certain volume of assets or periodically draw down from credit lines;
    b. Ensuring that roles and responsibilities are appropriate and understood;
    c. Confirming that contact information is up-to-date, with reporting lines clearly stated and synchronized with the latest organization chart; and
    d. Reviewing that the necessary legal and operational documentation is in place to execute the plan at short notice.

8. The CFP should be consistent with a QB's business continuity plans and should be operational under situations where business continuity arrangements have been invoked. As such, the QB should ensure effective coordination between teams managing issues surrounding liquidity crises and business continuity.

9. Banks should review and update their plan at least annually for the board's approval, or more often as changing business or market circumstances require.

(Circular Nos. 1123 dated 13 July 2021 and 1064 dated 03 December 2019)

FACTORS TO CONSIDER IN DEVELOPING A FUNDING STRATEGY

1. Concentration on particular funding markets and sources

QBs should manage any potential concentration in their reliance on particular funding markets and sources. What would constitute a funding concentration cannot be expressed in definite sizes or amounts, as this depends on the nature and complexity of QB's business activities. The following factors should be taken into account in assessing the degree of funding concentration:

- Maturity profile and credit-sensitivity of the liabilities;
- Mix of secured funding and unsecured funding;
- Extent of reliance on the following:
  a. A single fund provider or a group of related fund providers;
  b. Certain instruments or products, e.g., interbank borrowing, retail versus wholesale deposits, and repurchase agreements and swaps;
  c. Particular markets, including a limited number of counterparty lines for financial instruments that are regularly used for funds management; and
  d. Intragroup funding;
- Geographical location, industry, or economic sector of fund providers; and
- Currency of funding sources.

2. Availability of stable funding sources

QBs should build up a sufficient level of stable funding to support their assets and activities. They should analyze their funding structure and identify which funding sources are likely to stay with them, and which may leave, under adverse circumstances. QBs with a large deposit base should, in particular, conduct a granular analysis to evaluate the behavioural characteristics of different types of deposits with a view of determining the attributes of deposits that are more stable in nature. The trends and levels of stable deposits should be regularly monitored.

3. Impact of available funding sources on liquidity position

QBs should recognize that certain funding sources, e.g., interbank borrowing and wholesale funding, are more volatile than traditional retail funding. QBs that are heavily reliant on such funding sources should seek more diversification of these sources and maintain a higher proportion of high-quality liquid assets to withstand the potential impact of liquidity or market disruptions.

In the case of standby credit facilities, QBs should likewise recognize the likelihood that their right to draw on these facilities may be denied in a crisis. QBs should therefore avoid excessive reliance on standby facilities. Where standby facilities constitute a major source of a QB's backup liquidity, it should be able to prove the certainty of these arrangements.

4. Access to alternative sources of funding

QBs should identify alternative sources of funding that may be used to generate liquidity in case of need. These may include intragroup fund transfers, new debt issues, asset sales, and access to Bangko Sentral credit facilities, among others. QBs should review the effectiveness of using such sources in different situations. They should be aware that not all fund-raising options are available in all circumstances and some may be available only with a substantial time delay.

ANNEX B

FACTORS TO CONSIDER IN DEVELOPING CASH FLOW PROJECTIONS

1. While certain cash flows can be based simply on contractual maturities, there are those which can only be estimated based on assumptions. Banks should make realistic assumptions to enable prudent cash-flow projections that reflect the complexity of their underlying businesses, products and markets. These assumptions may include –

    a. Future growth in the balance sheet;
    b. The proportion of maturing assets and liabilities that QBs expect to roll over or renew;
    c. The quality and proportion of liquid assets or other marketable securities that can be used as collateral to obtain secured funding;
    d. The behavior of assets and liabilities with no clearly specified maturity dates, such as repayment of overdrafts and demand deposits;
    e. Potential cash flows arising from off-balance sheet activities, e.g., drawdown under loan commitments and contingent liabilities (including all potential draws from contractual or non-contractual commitments);
    f. Convertibility of foreign currencies;
    g. The lead time required for the liquidation of marketable debt securities, taking into account the settlement time and the impact of time differences if the clearing or custodian agents are located outside the Philippines; and
    h. Access to wholesale markets, standby facilities, and intragroup funding.

2. In projecting cash flows, QBs should also consider general economic and market trends (e.g., an interest rate hike) that could affect their ability to access funds readily and at reasonable terms. QBs should document in their liquidity risk management policy statement the underlying assumptions used for estimating cash flow projections and the rationale behind them. The assumptions and their justifications should be approved, and be subjected to regular review, by senior management to take account of available statistical evidence and the changing business environment.

3. Techniques employed by QBs for designing assumptions should be commensurate with the nature and complexity of their business activities. These may range from historical experience and static simulations based on current holdings to sophisticated modelling (for more complex banks), taking into account ongoing market developments.

4. In deriving behavioural cash flow assumptions, QBs may analyze historical observations on cash flow patterns. While there is no standard methodology for making such assumptions, it is important that the use of consistent and reasonable assumptions should be supported by sufficient historical or empirical evidence.

5. The minimum criteria for using behavioural assumptions are as follows:

    a. The assumptions should be consistent and reasonable for each scenario. For example, the proportion of marketable debt securities which could be liquidated in case of need and their liquidation value should properly reflect the quality and market liquidity of the securities under different scenarios.

    b. The assumptions should be verified and supported by sufficient evidence, experience and performance rather than arbitrarily selected. Typical information sources that could be used to help formulate the assumptions include –

        - Historical observations or statistical analyses of cash-flow patterns/behavioural maturity under different scenarios. For instance, the past behaviour of different types of customer deposits, coupled with an analysis of their characteristics and factors affecting their stability, may provide relevant information for estimating the amount of deposits that will likely be withdrawn under normal or stressed situations;

        - Models developed or used by banks for conducting cash-flow analysis;

        - Input from managerial and business units about business and pricing strategies, as planned changes to business or repricing strategies could affect the behaviour of future cash flows of positions with uncertain maturities; and

        - General economic and market trends as well as other relevant information that could affect QBs' ability to access funds readily and at reasonable terms.

    c. The length of the underlying historical observation period used for the analyses and models should be at least ten years, consistent with international standards.

6. Banks should document the behavioural assumptions in their liquidity management policy statement. The type of analysis performed under each assumption should also be documented to facilitate periodic review. The details of that documentation should be consistent with the significance of the risk and the complexity of the analysis.

AUTHORIZATION FORM FOR QUERYING THE BANGKO SENTRAL RECORDS FOR SCREENING APPLICANTS AND CONFIRMING APPOINTMENTS OF DIRECTORS AND OFFICIALS
(Appendix to Sec. 137-Q on Watchlisting)

A U T H O R I Z A T I O N

I,_____, after being sworn in accordance with law, do hereby authorize the following, pursuant to the provisions of Sec. 137-Q on Confidentiality of the Manual of Regulations for Non-Bank Financial Institution:

a) _____(Name of NBFI)_____to conduct a background investigation on myself relative to my application for or appointment to the position of (position) in (Name of NBFI) _____
which include, among others, inquiring from the Watchlist Files of the Bangko Sentral; and

b) The Bangko Sentral to disclose its findings pertinent to the aforementioned inquiry on its records, including Watchlist Files, to_____(Name of NBFI)_____.

With the above authorization, I hereby waive my right to the confidentiality of the information that will be obtained as a result of the said inquiry, provided that disclosure of said information will be limited for the purpose of ascertaining my qualification or non- qualification for the said position.

IN WITNESS WHEREOF, I have hereunto set my hand this_____

_____
Signature Over Printed Name)

SIGNED IN THE PRESENCE OF:

_____ _____
(Witness) (Witness)

ACKNOWLEDGMENT

REPUBLIC OF THE PHILIPPINES} S.S.
_____CITY }

BEFORE ME, this_____day of _____20___in _____
personally appeared the following person:

Name	Community Tax Certificate	Place	Date

known to me to be the same person who executed the foregoing instrument and he acknowledged to me to be the same person who executed the foregoing instrument and he acknowledged to me that the same is his free act and deed.

This instrument, consisting of two (2) pages, including the page on which this acknowledgment is written, has been signed on the left margin of each and every page thereof by____, and his witnesses, and sealed with my notarial seal.

IN WITNESS WHEREOF, I have hereunto set my hand, the day, year and place above written.

Notary Public

Doc. No.: _____
Page No.: _____
Book No.: _____
Series of 20_____

(Circular Nos. 1076 dated 18 February 2020 and 970 dated 22August 2017)

RISK-BASED CAPITAL ADEQUACY FRAMEWORK FOR THE PHILIPPINE BANKING SYSTEM
(Appendix to Sec. 125-Q)

Introduction

This Appendix outlines the Bangko Sentral implementing guidelines of the revised International Convergence of Capital Measurement and Capital Standards, popularly known as Basel II, and the reforms introduced in Basel III: A global regulatory framework for more resilient banks and banking systems. Basel II and Basel III comprise the international capital standards set by the Basel Committee on Banking Supervision (BCBS)[1].

The guidelines revise the risk-based capital adequacy framework for UBs and KBs, as well as their subsidiary banks and QBs. TBs and RBs as well as QBs that are not subsidiaries of UBs and KBs shall be subject to a different set of guidelines except the criteria for eligibility as qualifying capital.

The guidelines shall take effect on 01 January 2014.

Part I. Risk-based capital adequacy ratio (CAR)

1. UBs and KBs and their subsidiary banks and QBs shall be subject to the following risk-based CARs:

    a. Common Equity Tier (CET1) must be at least six percent (6%) of risk- weighted assets at all times;
    b. Tier 1 capital must be at least seven and a half percent (7.5%) of risk- weighted assets at all times; and
    c. Qualifying capital (Tier 1 plus Tier 2 capital) must be at least ten percent (10%) of risk- weighted assets at all times.

2. CET1 capital, Tier 1 capital and qualifying capital are computed in accordance with the provisions of Part II. Risk-weighted assets is the sum of (1) credit- risk weighted assets (Parts IV, V and VI), (2) market risk-weighted assets (Parts V and VII), and (3) operational risk weighted assets (Part VIII).

3. The CAR requirement will be applied to all UBs and KBs and their subsidiary banks, and QBs on both solo[2] and consolidated[3] bases. The application of the requirement on a consolidated basis is the best means to preserve the integrity of capital in banks with subsidiaries by eliminating double gearing. However, as one of the principal objectives of supervision is the protection of depositors, it is essential to ensure that capital recognized in capital adequacy measures is readily available for those depositors. Accordingly, individual banks should likewise be adequately capitalized on a stand-alone basis.

4. To the greatest extent possible, all banking and other relevant financial activities (both regulated and unregulated) conducted by a bank and its subsidiaries will be captured through consolidation. Thus, majority-owned or -controlled financial allied undertakings should be fully consolidated on a line by line basis. Exemptions from consolidation shall only be made in cases where such holdings are acquired through debt previously contracted and held on a temporary basis, are subject to different regulation[4], or where non- consolidation for regulatory capital purposes is otherwise required by law. All cases of exemption from consolidation must be made with prior clearance from the Bangko Sentral.

5. Banks shall comply with the minimum CARs at all times notwithstanding that supervisory reporting shall only be on quarterly basis. Any breach, even if only temporary, shall be reported to the bank's Board of Directors and to Bangko Sentral, supervision sector within three (3) banking days. For this purpose, banks shall develop an appropriate system to properly monitor their compliance.

6. The Bangko Sentral reserves the right, upon authority of the Deputy Governor of the supervision sector of the Bangko Sentral, to conduct on-site inspection outside of regular or special examination, for the purpose of ascertaining the accuracy of CAR calculations as well as the integrity of CAR monitoring and reporting systems.

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[1] The Basel Committee on Banking Supervision is a committee of banking supervisory authorities that was established by the central bank governors of the Group of Ten countries in 1975. It consists of senior representatives of bank supervisory authorities and central banks from Argentina, Australia, Belgium, Canada, China, France, Germany, Hong Kong SAR, India, Indonesia, Italy, Japan, Korea, Luxembourg, Mexico, the Netherlands, Russia, Saudi Arabia, Singapore, South Africa, Spain, Sweden, Switzerland, Turkey, the United Kingdom, and the United States. It usually meets at the Bank for International Settlements in Basel, Switzerland where its permanent Secretariat is located

[2] Pertains to the reporting entity's head office and branches

[3] Pertains to the reporting entity and its financial allied subsidiaries except insurance companies that are required to be consolidated on a line-by-line basis for the purpose of preparing consolidated financial statements

[4] These currently pertain to insurance companies and securities brokers/dealers.

Part II. Qualifying capital

1. Qualifying capital consists of the sum of the following elements, net of required deductions:

    a. Tier 1 capital (going concern capital) is composed of:

        i. CET1; and
        ii. Additional Tier 1 (AT1) capital; and

    b. Tier 2 (gone-concern) capital.

2. A bank/QB must ensure that any component of capital included in qualifying capital complies with all the eligibility criteria for the particular category of capital in which it is included.

Section A. Domestic banks

CET1 capital

3. CET1 capital consists of:

    a. Paid up common stock issued by the bank that meet the eligibility criteria in "App. Q-45 Annex A";

    b. Common stock dividends distributable;

    c. Additional paid-in capital resulting from the issuance of common stock included in CET1 capital;

    d. Deposit for common stock subscription;

    e. Retained earnings;

    f. Undivided profits;[1]

    g. Other comprehensive income;

        (1) Net unrealized gains or losses on AFS securities[2];
        (2) Cumulative foreign currency translation;
        (3) Remeasurement of Net Defined Benefit Liability/(Asset);
        (4) Gains/(Losses) on Fair Value Adjustments of Hedging Instruments:

            (a) Cash Flow Hedge; and
            (b) Hedge of a Net Investment in Foreign Operations; and

        (5) Others (indicate the nature and amount of the accounts lodged)

    h. Minority interest in subsidiary banks which are less than wholly-owned:[3] Provided, That the minority interest arises from issuances of common stock which, if issued by the bank itself, would meet all of the criteria for classification as CET1 capital: Provided, further, That the amount to be included as minority interest shall be reduced by the surplus CET1 of the subsidiary attributable to minority shareholders: Provided, furthermore, That the surplus CET capital of the subsidiary attributable to minority shareholders is computed as the available CET1 capital minus the lower of: (1) the minimum CET capital requirement of the subsidiary and (2) the portion of the consolidated minimum CET requirement that is attributable to the subsidiary, multiplied by the percentage of CET held by minority shareholders.

        Illustrative computation is in *App. Q-45* Annex D.

(Circular No. 934 dated 23 December 2016)

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[1] For early adopters of PFRS 9, this account should include the net unrealized gains/losses on available-for sale (AFS) debt securities;

[2] For early adopters of PFRS 9, this account shall refer only to "Net Unrealized gains(losses) on AFS equity securities; For AFS debt securities, refer to Footnote No.5. In view of the continuing evaluation by the Basel Committee on the appropriate treatment of unrealized gains/losses with respect to the evolution of the accounting framework, the Bangko Sentral will revise its relevant regulation once the treatment of fair value adjustments in the calculation of CET1 has been determined.

[3] Minority interest in a subsidiary that is a bank is strictly excluded from the parent bank's common equity if the parent bank or affiliate has entered into any arrangements to fund directly or indirectly minority investment in the subsidiary whether through an SPV or through another vehicle or arrangement. The treatment of minority interest set out above is strictly available where all minority investments in the bank subsidiary solely represent genuine third party common equity contributions to the subsidiary.

Regulatory adjustment to CET1 capital

4. The following must be deducted from(added to) CET1 capital:

   a. Common stock treasury shares[1], including shares that the bank could be contractually obliged to purchase;

   b. Gains (Losses) resulting from designating financial liabilities at fair value through profit or loss that are due to changes in its own credit worthiness;[2]

   c. Unbooked valuation reserves and other capital adjustments based on the latest report of examination as approved by the Monetary Board;

   d. Total outstanding unsecured credit accommodations, both direct and indirect, to DOSRI;

   e. Total outstanding unsecured loans, other credit accommodations and guarantees granted to subsidiaries;

   f. Total outstanding loans, other credit accommodations and guarantees granted to related parties that are not at arm's length terms as determined by the appropriate supervising department of the Bangko Sentral;

   g. Deferred tax assets that rely on future profitability of the bank to be realized, net of any (1) allowance for impairment and (2) associated deferred tax liability, if and only if the conditions cited in PAS 12 are met: Provided, That, if the resulting figure is a net deferred tax liability, such excess cannot be added to Tier 1 capital;

   h. Goodwill, net of any allowance for impairment and any associated deferred tax liability which would be extinguished upon impairment or derecognition, including that relating to unconsolidated subsidiary banks, financial allied undertakings (excluding subsidiary securities dealers/brokers and insurance companies) (on solo basis) and unconsolidated subsidiary securities dealersbrokers, insurance companies and non- financial allied undertakings (on solo and consolidated bases);

   i. Other intangible assets, net of any allowance for impairment and any associated deferred tax liability which would be extinguished upon impairment or derecognition;

   j. Gain on sale resulting from a securitization transaction;

   k. Defined benefit pension fund assets (liabilities);[3]

   l. Investments in equity of unconsolidated subsidiary banks and QBs, and other financial allied undertakings (excluding subsidiary securities dealersbrokers and insurance companies), after deducting related goodwill, if any (for solo basis);

   m. Investments in equity of unconsolidated subsidiary securities dealersbrokers and insurance companies after deducting related goodwill, if any (for both solo and consolidated bases);

   n. Significant minority investments (10%- 50% of voting stock) in banks and QBs, and other financial allied undertakings (for both solo and consolidated bases);

   o. Significant minority investments (10%- 50% of voting stock) in securities dealersbrokers and insurance companies, after deducting related goodwill, if any (for both solo and consolidated bases);

   p. Minority investments (below 10% of voting stock) in banks and QBs, and other financial allied undertakings (excluding subsidiary securities dealers/brokers and insurance companies), after deducting related goodwill, if any (for both solo and consolidated bases;

   q. Minority investments (below 10% of voting stock) in securities dealers/brokers and

   r. insurance companies, after deducting related goodwill, if any (for both solo and consolidated bases);

      For equity investments in financial entities (Items *"k"* to *"p"*), total investments include:

      i. common equity exposures in both the banking and trading book; and
      ii. underwriting positions in equity and other capital instruments held for more than five (5) days:

[1] Treasury shares are: (1) shares of the parent bank held by a subsidiary financial allied undertaking in a consolidated statement of condition, or (2) the reacquired shares of a subsidiary bank/quasi-bank that is required to compute its capital adequacy ratio in accordance with this framework.

[2] This adjustment shall only apply to banks/QBs which would not early adopt the provisions of PFRS 9 and recognize the gains/losses (relative to changes in own credit worthiness) in undivided profits.

[3] The adjustment pertains to the defined benefit asset or liabilitiy that is recognized in the balance sheet. Such that CET1 cannot be increased by derecognizing the liabilities, in the same manner, any asset recognized in the balance sheet should be deducted from CET1 capital;

Provided, That should the instrument of the entity in which the bank has invested does not meet the criteria for CET1 capital of the bank, the capital is to be considered common shares and thus deducted from CET1.

s. Other equity investments in non- financial allied undertakings and non-allied undertakings;

t. Capital shortfalls of unconsolidated subsidiary securities dealers/brokers and insurance companies (for both solo and consolidated bases);

u. Reciprocal investments in common stock of other banks/QBs and financial allied undertakings including securities dealers/brokers and insurance companies, after deducting related goodwill, if any (for both solo and consolidated bases);

v. Materiality thresholds in credit derivative contracts purchased;

w. Credit-linked notes and other similar products in the banking book with issue ratings below investment grade;

x. Securitization tranches and structured products which are rated below investment grade or are unrated; and

y. Credit enhancing interest only strips in relation to a securitization structure, net of the amount of "gain-on-sale" that must be deducted from CET1 capital.

(Circular No. 914 dated 23 June 2016)

Additional Tier 1 (AT1) capital

5. AT1 capital consists of the following:

   a. Instruments issued by the bank that are not included in CET1 capital that meet the following:

      i. criteria for inclusion in AT1 capital as set out in "*App. Q-45* Annex B";
      ii. required loss absorbency features for instruments classified as liabilities for accounting purposes. The loss absorbency requirements are provided in "*App. Q-45* Annex E"; and
      iii. required loss absorbency feature at point of non-viability as set out in "*App. Q-45* Annex F".

   b. Additional paid-in capital resulting from the issuance of instruments included in AT1 capital;

   c. Deposit for subscription of AT1 capital instruments;

   d. Minority interest in subsidiary banks which are less than wholly-owned[1]: *Provided*, That the minority interest arises from issuances of Tier 1 instruments, if issued by the bank itself, would meet all of the criteria for classification as Tier 1 capital: Provided, further, That the amount to be included as minority interest shall be reduced by the surplus Tier 1 capital of the subsidiary attributable to minority shareholders: Provided, furthermore, That the surplus Tier 1 capital of the subsidiary attributable to minority shareholders is computed as the available Tier 1 capital minus the lower of: (1) the minimum Tier 1 capital requirement of the subsidiary and (2) the portion of the consolidated minimum Tier 1 requirement that is attributable to the subsidiary, multiplied by the percentage of Tier 1 held by minority shareholders: *Provided, finally,* That the amount of Tier 1 capital to be recognized in AT1 capital will exclude amounts recognized in CET1 capital.

      Illustrative computation is in *App. Q-45 Annex D.*

Regulatory adjustments to AT1 capital

6. The following are the adjustments to AT1 capital:

   a. AT1 instruments treasury shares[2], including shares that the bank could be contractually obliged to purchase;

   b. Investments in equity of unconsolidated subsidiary banks and QBs, and other financial allied undertakings (excluding subsidiary securities dealersbrokers and insurance companies), after deducting related goodwill, if any (for solo basis);

   c. Investments in equity of unconsolidated subsidiary securities dealers/brokers and insurance companies after deducting related goodwill, if any (for both solo and consolidated bases);

[1] Please refer to Footnote in Part II, Item "3a"
[2] Please refer to Footnote in Part II, item "4a"

d. Significant minority investments (10%-50% of voting stock) in banks and QBs, and other financial allied undertakings (for both solo and consolidated bases);

e. Significant minority investments (10%- 50% of voting stock) in securities dealersbrokers and insurance companies, after deducting related goodwill, if any (for both solo and consolidated bases);

f. Minority investments (below 10% of voting stock) in banks and QBs, and other financial allied undertakings (for both solo and consolidated bases);

g. Minority investments (below 10% of voting stock) in securities dealers/brokers and insurance companies, after deducting related goodwill, if any (for both solo and consolidated bases.

For equity investments in financial entities (Items "b" to "g"), total investments include:

i. other capital instruments in both the banking and trading book; and

ii. underwriting positions in equity and other capital instruments held for more than five (5) days: *Provided*, That should the instrument of the entity in which the bank has invested does not meet the criteria for AT1 capital of the bank, the capital is to be considered common shares and thus deducted from CET1 capital.

h. Reciprocal investments in AT1 capital instruments of other banks/QBs and financial allied undertakings including securities dealers/brokers and insurance companies, after deducting related goodwill, if any (for both solo and consolidated bases);

Tier 2 capital

7. Tier 2 capital is composed of the following:

a. Instruments issued by the bank (and are not included in AT1 capital) that meet the following:

i. criteria for inclusion in Tier 2 capital as set out in *"App. Q-45 Annex C"*; and
ii. Required loss absorbency feature at point of non-viability as set out in *"App. Q-45 Annex F".*

b. Deposit for subscription of T2 capital;

c. Appraisal increment reserve – bank premises, as authorized by the Monetary Board;

d. General loan loss provision, limited to a maximum of one percent (1.00%) of credit risk-weighted assets, and any amount in excess thereof shall be deducted from the credit risk-weighted assets in computing the denominator of the risk-based capital ratio;

e. Minority interest in subsidiary banks which are less than wholly-owned:[1] *Provided*, That the minority interest arises from issuances of capital instruments, if issued by the bank itself, would meet all of the criteria for classification as Tier 1 or Tier 2 capital: Provided, further, That the amount to be included as minority interest shall be reduced by the surplus total capital of the subsidiary attributable to minority shareholders: Provided, furthermore, That the surplus total capital of the subsidiary attributable to minority shareholders is computed as the available total capital minus the lower of: (1) the minimum total capital requirement of the subsidiary and (2) the portion of the consolidated minimum total capital requirement that is attributable to the subsidiary, multiplied by the percentage of total capital held by minority shareholders. Provided, finally, That the total capital that will be recognized in Tier 2 will exclude amounts recognized in CET1 and AT1 capital.

Illustrative computation in *App. Q-45 Annex D.*

Regulatory adjustments to Tier 2 capital

8. The following adjustments shall be charged against Tier 2 capital:

a. Tier 2 instruments treasury shares[2], including shares that the bank could be contractually obliged to purchase;

b. Investments in equity of unconsolidated subsidiary banks and QBs, and other financial allied undertakings (excluding subsidiary securities dealersbrokers and insurance companies), after deducting related goodwill, if any (for solo basis);

[1] Please refer to Footnote in Part II, Item "3a"
[2] Please refer to Footnote in Part II, Item "4a"

c. Investments in equity of unconsolidated subsidiary securities dealers/brokers and insurance companies after deducting related goodwill, if any (for both solo and consolidated bases);

d. Significant minority investments (10%-50% of voting stock) in banks and QBs, and other financial allied undertakings (for both solo and consolidated bases);

e. Significant minority investments (10%-50% of voting stock) in securities dealers/brokers and insurance companies, after deducting related goodwill, if any (for both solo and consolidated bases);

f. Minority investments (below 10% of voting stock) in banks and QBs, and other financial allied undertakings (for both solo and consolidated bases);

g. Minority investments (below 10% of voting stock) in securities dealers/brokers and insurance companies, after deducting related goodwill, if any (for both solo and consolidated bases;

For equity investments in financial entities (Items "b" to "g"), total investments include:

i. other capital instruments in both the banking and trading book; and
ii. underwriting positions in equity and other capital instruments held for more than five (5) days:

Provided, That should the instrument of the entity in which the bank has invested does not meet the criteria for T2 capital of the bank, the capital is to be considered common shares and thus deducted from CET1 capital.

h. Sinking fund for the redemption of T2 capital instruments; and

i. Reciprocal investments in T2 capital instruments of other banks/QBs and financial allied undertakings including securities dealers/brokers and insurance companies, after deducting related goodwill, if any (for both solo and consolidated bases).

9. Any asset deducted from qualifying capital in computing the numerator of the risk-based capital ratio shall not be included in the risk-weighted assets in computing the denominator of the ratio.

Section B. Branches of Foreign Banks

CET1 capital

10. CET1 Capital shall be comprised of:

a. Permanently assigned capital[1];
b. Undivided profits;
c. Retained earnings;
d. Accumulated net earnings[2];
e. Other comprehensive income

(1) Net unrealized gains or losses on AFS securities[3];
(2) Cumulative foreign currency translation;
(3) Remeasurement of Net Defined Benefit Liability/(Asset);
(4) Gains/(Losses) on Fair Value Adjustments of Hedging Instruments:

(a) Cash Flow Hedge; and
(b) Hedge of a Net Investment in Foreign Operations; and

(5) Others (indicate the nature and amount of the accounts lodged)

(Circular No. 934 dated 23 December 2016)

[1] Shall include unremitted earnings elected by the branch to be part of assigned capitaL
[2] Pertains to the sum of undivided profits, unremitted profits not yet approved by the Bangko Sentral, net of losses in operation of Philippine branch of foreign banks.
[3] For early adopters of PFRS 9, this account shall refer only to Net Unrealized gains (losses) on AFS equity securities. For AFS debt securities, refer to Footnote in Part II, Item 3f. In view of the continuing evaluation by the Basel Committee on the appropriate treatment of unrealized gains/losses with respect to the evolution of the accounting framework, the Bangko Sentral will revise its relevant regulation once the treatment of fair value adjustments in the calculation of CET1 has been determined.

Regulatory adjustments to CET1 capital

11. The regulatory adjustments to CET1 capital are provided in paragraph 4, as applicable.

    In addition, the *Net due from* head office, branches and subsidiaries outside the Philippines, excluding accumulated net earnings shall be deducted from CET1 capital.

Additional Tier 1 (AT1) capital Tier 2 Capital

12. Tier 2 capital shall consist of general loan loss provision, limited to a maximum of one percent (1%) of credit risk-weighted assets, and any amount in excess thereof shall be deducted from the credit risk-weighted assets in computing the denominator of the risk-based capital ratio.

Regulatory adjustments to Tier 2 capital

13. The regulatory adjustments to T2 capital for branches of foreign banks are provided in paragraph 8, as applicable.

14. Any asset deducted from qualifying capital in computing the numerator of the risk-based capital ratio shall not be included in the risk-weighted assets in computing the denominator of the ratio.

Part III. Capital conservation buffer

1. A capital conservation buffer of two and a half percent (2.5%) of risk-weighted assets, comprised of CET1 capital, shall be required of UKBs (both domestic and branches of foreign banks) and their subsidiary banks and QBs.

2. This buffer is meant to promote the conservation of capital and buildup of adequate cushion that can be drawn down by banks to absorb losses during periods of financial and economic stress.

3. Where a bank does not have positive earnings, has CET1 of not more than eight and a half percent (8.5%) (CET1 ratio of six percent (6%) plus conservation buffer of two and a half percent (2.5%) and has not complied with the ten percent (10%) minimum CAR, it would be restricted from making positive distributions, as illustrated below:

Level of CET1 capital	Restriction on Distributions
<6.0%	No distribution
6.0%-7.25%	No distribution until more than 7.25% CET1 capital is met
>7.25%-8.5%	50% of earnings may be distributed
>8.5%	No restriction on Distribution

4. Elements subject to the restriction on distributions include dividends, profit remittance, in the case of foreign bank branches, share buybacks, discretionary payments on other Tier 1 capital instruments, and discretionary bonus payments to staff.

5. Payments which do not result in the depletion of CET1 are not considered distributions.

6. Earnings refer to distributable profits calculated prior to the deduction of elements subject to the restriction on distributions. The earnings is computed after the tax which would have been reported had none of the distributable items been paid.

7. The framework shall be applied on both solo and consolidated basis. The distribution constraints when applied to solo basis (individual bank level) would allow conservation of resources in specific parts of the group.

8. Drawdowns on the capital conservation buffers are generally allowed, subject to certain restrictions on distributions. However, UBs/KBs and their subsidiary banks and QBs shall be subject to a capital restoration plan within the timeframe determined by the Bangko Sentral. This restoration plan shall likewise be required for banks under the PCA framework.

9. While banks are not prohibited from raising capital from private sector in case they wish to distribute in excess of the constraints, this matter should be discussed with the Bangko Sentral and included in the capital planning process.

Part IV. Countercyclical Capital Buffer

1. A Countercyclical Capital Buffer (CCyB) set as percent of risk-weighted assets shall be required of UBs/KBs and their subsidiary banks and quasi-banks. It shall be comprised of CET1 capital.

2. The buffer is meant to ensure that banking sector capital requirements take account of the macrofinancial environment in which banks operate. The primary aim of the countercyclical capital buffer regime is to use a buffer of capital to achieve the broader macroprudential goal of protecting the banking sector from the build-up of systemic vulnerabilities.

Protecting the banking sector in this context is not simply ensuring that individual banks remain solvent through a period of stress, as the minimum capital requirement and capital conservation buffer are together designed to fulfill this objective. Rather, the aim is to ensure that the banking sector in aggregate has the capital on hand to help maintain the flow of credit in the economy without its solvency being questioned, when the broader financial system experience stress.

3. The countercyclical buffer requirement will extend the size of the capital conservation buffer. The ban shall not be subject to any restriction on distribution if the following conditions are met:

   a. Has positive retained earnings as of the preceding quarter and has complied with the requirements on the declaration of dividends as provided in the MORB.
   b. Has CET1 of more than the total required (minimum CET1 ratio of six percent (6%) plus CCB of two and a half percent (2.5%) plus CCyB at the rate determined by the Monetary Board) before the distribution; and
   c. Has complied with the minimum capital ratios (CET1 ratio to six percent (6%) Tier 1 ratio of seven and a half percent (7.5%) and ten percent (10%) (CAR) after the distribution.

   Otherwise, the policy framework of the capital conservation buffer on the restriction on distributions shall apply, except for drawdowns. Thresholds on the restriction on distribution shall consider the CCyB requirement as an extension of the capital conservation buffer.

4. Drawdowns on the CCyB are not allowed unless the Bangko Sentral announces a decision to lower the buffer rate. The capital surplus created when the CCyB is lowered should be unfettered, i.e., there are no restrictions on distributions when the buffer is released.

5. The uniformly applicable rate of the countercyclical buffer shall initially be set at zero percent (0%), subject to recalibration as determined by the Monetary Board. CCyB decisions shall be based on a set of indicators including, but not limited to, the credit-to-GDP gap as well as the growth and quality of credit, among others.

6. Any increase in the countercyclical buffer shall have a preannouncement period of twelve (12) months in consideration of the capital planning process of banks while reductions in the buffer would take effect immediately to help reduce the risk of the supply of credit being constrained by regulatory capital requirement.

Part V. Credit risk-weighted assets

A. Risk-Weighting

1. Banking book exposures shall be risk- weighted based on third party credit assessment of the individual exposure given by eligible external credit assessment institutions listed in Part IV.C.

   The table below sets out the mapping of external credit assessments with the corresponding risk weights for banking book exposures. Exposures related to credit derivatives and securitizations are dealt with in Parts V and VI, respectively. Exposures should be risk-weighted net of specific provisions.

STANDARDIZED CREDIT RISK WEIGHTS								
Credit Assessment[1]	AAA Below	AA+ to AA-	A+ to A-	BBB+to BBB-	BB+ to BB-	B+ to B-	Below B-	Unrated
Sovereigns	0%	0%	20%	50%	100%	100%	150%	100%
MDBs	0%	20%	50%	50%	100%	100%	150%	100%
Banks	20%	20%	50%	50%	100%	100%	150%	100%[2]
Interbank call loans	20%							
Local government units	20%	20%	50%	50%	100%	100%	150%	100%[2]
Government corporations	20%	20%	50%	100%	100%	150%	150%	100%[2]
Corporates	20%	20%	50%	100%	100%	150%	150%	100%[2]
Housing loans	50%							
MSME qualified portfolio	75%							
Defaulted exposures								
Housing loans	100%							
Others	150%							
ROPA	150%							
All other assets	100%							

[1] The notations follow the rating symbols used by Standard & Poor's. The mapping of ratings of all recognized external rating agencies is in Part III.C
[2] Or risk weight applicable to sovereign of incorporation, whichever is higher

Sovereign Exposures

2. These include all exposures to central governments and central banks. All Philippine peso (Php) denominated exposures to the Philippine National Government (NG) and the Bangko Sentral shall be risk-weighted at zero percent (0%). Foreign currency denominated exposures to the NG and the Bangko Sentral, however, shall be risk-weighted according to the table above: Provided, That only one-third (1/3) of the applicable risk weight shall be applied from 01 July 2007, two-thirds (2/3) from 01 January 2008, and the full risk weight from 01 January 2009[1]. Exposures to the Bank for International Settlements (BIS), the International Monetary Fund (IMF), and the European Central Bank (ECB) and the European Community (EC) shall also receive zero percent (0%) risk weight.

MDB Exposures

3. These include all exposures to multilateral development banks. Exposures to the World Bank Group comprised of the IBRD and the IFC, the ADB, the AfDB, the EBRD, the IADB, the EIB, the European Investment Fund (EIF), the NIB, the CDB, the Islamic Development Bank (IDB), and the CEDB currently receive zero percent (0%) risk weight. However, it is the responsibility of the bank to monitor the external credit assessments of multilateral development banks to which they have an exposure to reflect in the risk weights any change therein.

Bank Exposures

4. These include all exposures to Philippine-incorporated banks/QBs, as well as foreign-incorporated banks.

Interbank Call Loans

5. *Interbank call* loans refer to interbank loans that pass through the Interbank Call Loan Funds Transfer System of the Bangko Sentral, the BAP, and the PCHC.

Exposures to Local Government Units

6. These include all exposures to non- central government public sector entities. Bonds issued by the Philippine local government unis (LGU Bonds), which are Covered by Deed of Assignment of Internal Revenue Allotment of the LGU and guaranteed by the LGU Guarantee Corporation shall be risk-weighted at the lower of fifty percent (50%) or the appropriate risk weight indicated in the table above.

Exposures to Government Corporations

7. These include all exposures to commercial undertakings owned by central or local governments. Exposures to Philippine GOCCs that are not explicitly guaranteed by the Philippine NG are also included in this category.

Corporate Exposures

8. These include all exposures to business entities, which are not considered as micro, small, or medium enterprises (MSME), whether in the form of a corporation, partnership, or sole proprietorship. These also include all exposures to FIs, including securities dealers/brokers and insurance companies, not falling under the definition of Bank in paragraph 4.

Housing Loans

9. These include all current loans to individuals for housing purpose, fully secured by first mortgage on residential property that is or will be occupied by the borrower[2].

Micro, Small, and Medium Enterprises (MSME)

10. An exposure must meet the following criteria to be considered as an MSME exposure:

    a) The exposure must be to an MSME as defined under existing Bangko Sentral regulations; and

    b) The exposure must be in the form of direct loans, or unavailed portion of committed credit lines and other business facilities such as outstanding guarantees issued and unused letters of credit: *Provided*, That the credit equivalent amounts thereof shall be determined in accordance with the methodology for off-balance sheet items.

[1] The capital treatment of banks holdings of ROP Global Bonds paired with Warrants under the Bangko Sentral's revised risk-based capital adequacy framework is contained in *Appendix Q-46.*

[2] Includes housing microfinance loans under Sec.314 *(Housing microfinance loan).*

Qualified portfolio

11. For a bank's portfolio of MSME exposures to be considered as qualified, it must be a highly diversified portfolio, i.e., it has at least 500 borrowers that are distributed over a number of industries. In addition, all MSME exposures in the qualified portfolio must be current exposures. All non-current MSME exposures are excluded from count and are to be treated as ordinary non-performing loans. Current MSME exposures not qualifying under highly diversified MSME portfolio will be risk weighted based on external rating and shall be risk-weighted in the same manner as corporate exposures.

Defaulted Exposures

12. A default is considered to have occurred in the following cases:

    a) If a credit obligation is considered non-performing under existing rules and regulations.

       For non-performing debt securities, they shall be defined as follows:

       i. For zero-coupon debt securities, and debt securities with quarterly, semi-annual, or annual coupon payments, they shall be considered non-performing when principal and/or coupon payment, as may be applicable, is unpaid for thirty (30) days or more after due date; and

       ii. For debt securities with monthly coupon payments, they shall be considered non-performing when three (3) or more coupon payments are in arrears: *Provided, however*, That when the total amount of arrearages reaches twenty percent (20%) of the total outstanding balance of the debt security, the total outstanding balance of the debt security shall be considered as non- performing.

    b) If a borrower/obligor has sought or has been placed in bankruptcy, has been found insolvent, or has ceased operations in the case of businesses;

    c) If the bank sells a credit obligation at a material credit-related loss, i.e., excluding gains and losses due to interest rate movements. Banks' board-approved internal policies must specifically define when a material credit-related loss occurs; and

    d) If a credit obligation of a borrowerobligor is considered to be in default, all credit obligations of the borrower/obligor with the same bank shall also be considered to be in default.

Housing loans

13. These include all loans to individuals for housing purpose, fully secured by first mortgage on residential property that is or will be occupied by the borrower, which are considered to be in default in accordance with paragraph 12.

Others

14. These include the total amounts or portions of all other defaulted exposures, which are not secured by eligible collateral or guarantee as defined in Part IV.B.

ROPA

15. All real and other properties acquired and classified as such under existing regulations.

Other Assets

16. The standard risk weight for all other assets, including bank premises, furniture, fixtures and equipment, will be 100%, except in the following cases:

    a) Cash on hand and gold, which shall be risk-weighted at zero percent (0%); and

    b) Checks and other cash items, which shall be risk-weighted at twenty percent (20%);

    c) Loans to small farmer and fisherfolk to extent guaranteed by the Agricultural Guarantee Fund Pool (AGFP) created under Administrative Order No. 225-A dated 26 May 2008, which shall be risk weighted at zero percent (0%), prior to the transfer of the administration of the AGFP to the Philippine Guarantee Corporation (Philguarantee).

Accruals on a claim shall be classified and risk-weighted in the same way as the claim. Bills purchased shall be classified and risk-weighted as claims on the drawee bank. The treatments of credit derivatives and securitization exposures are presented separately in Parts V and VI, respectively. Investments in equity or other regulatory capital instruments issued by banks or other financial/non-financial allied/non-allied undertakings will be risk-weighted at 100%, unless deductible from the capital base as required in Part II.

Off-balance sheet items

17. For off-balance sheet items, the risk- weighted amount shall be calculated using a two-step process. First, the credit equivalent amount of an off-balance sheet item shall be determined by multiplying its notional principal amount by the appropriate credit conversion factor, as follows:

    a) 100% credit conversion factor - this shall apply to direct credit substitutes, e.g., general guarantees of indebtedness (including standby letters of credit serving as financial guarantees for loans and securities) and acceptances (including endorsements with the character of acceptances), and shall include:

        i. Guarantees issued other than shipside bonds/airway bills;
        ii. Financial standby letters of credit

    b) Fifty percent (50%) credit conversion factor – this shall apply to certain transaction-related contingent items, e.g., performance bonds, bid bonds, warranties and standby letters of credit related to particular transactions, and shall include:

        i. Performance standby letters of credit (net of margin deposit), established as a guarantee that a business transaction will be performed;

        This shall also apply to –

        i. Note issuance facilities and revolving underwriting facilities; and
        ii. Other commitments, e.g., formal standby facilities and credit lines with an original maturity of more than one (1) year, and this shall also include Underwritten Accounts Unsold.

    c) Twenty percent (20%) credit conversion factor – this shall apply to short term, self-liquidating trade-related contingencies arising from movement of goods, e.g., documentary credits collateralized by the underlying shipments, and shall include:

        i. Trade-related guarantees:

            - Shipside bonds/airway bills
            - Letters of credit – confirmed

        ii. Sight letters of credit outstanding (net of margin deposit);
        iii. Usance letters of credit outstanding (net of margin deposit);
        iv. Deferred letters of credit (net of margin deposit); and
        v. Revolving letters of credit (net of margin deposit) arising from movement of goods and/or services;

        This shall also apply to commitments with an original maturity of up to one (1) year, and shall include Committed Credit Line for Commercial Paper Issued.

    d) Zero percent (0%) credit conversion factor – this shall apply to commitments which can be unconditionally cancelled at any time by the bank without prior notice, and shall include Credit Card Lines.

        This shall also apply to those not involving credit risk, and shall include:

        i. Late deposits/payments received;
        ii. Inward bills for collection;
        iii. Outward bills for collection;
        iv. Travelers' checks unsold;
        v. Trust department accounts;
        vi. Items held for safekeepingcustodianship;
        vii. Items held as collaterals; viii.Deficiency claims receivable; and
        viii. Others.

18. For derivative contracts, the credit equivalent amount shall be the sum of the current credit exposure (or replacement cost) and an estimate of the potential future credit exposure (or add-on). However, the following shall not be included in the computation:

a) Instruments which are traded in an exchange where they are subject to daily receipt and payment of cash variation margin; and
b) Exchange rate contract with original maturity of fourteen (14) calendar days or less.

19. The current credit exposure shall be the positive mark-to-market value of the contract (or zero if the mark-to-market value is zero or negative). The potential future credit exposure shall be the product of the notional principal amount of the contract multiplied by the appropriate potential future credit conversion factor, as indicated below:

Interest Exchange			
Residual Maturity	**Rate Contract**	**Rate Contract**	**Equity Contract**
One (1) year or less	0.0%	1.0%	6.0%
Over One (1) year to five (5) years	0.5%	5.0%	8.0%
Over five (5) years	1.5%	7.5%	10%

Provided, That:

a) For contracts with multiple exchanges of principal, the factors are to be multiplied by the number of remaining payments in the contract;

b) For contracts that are structured to settle outstanding exposure following specified payment dates and where the terms are reset such that the market value of the contract is zero on these specified dates, the residual maturity would be set equal to the time until the next reset date, and in the case of interest rate contracts with remaining maturities of more than one (1) year that meet these criteria, the potential future credit conversion factor is subject to a floor of one-half percent (1/2%); and

c) No potential future credit exposure shall be calculated for single currency floating/floating interest rate swaps, i.e., the credit exposure on these contracts would be evaluated solely on the basis of their mark-to-market value.

20. The credit equivalent amount shall be treated like any on-balance sheet asset, and shall be assigned the appropriate risk weight, i.e., according to the third party credit assessment of the counterparty exposure.

B. Credit risk mitigation (CRM)

21. Banks use a number of techniques to mitigate the credit risks to which they are exposed. For example, exposures may be collateralized by first priority claims, in whole or in part with cash or securities, or a loan exposure may be guaranteed by a third party. Physical collateral, such as real estate, buildings, machineries, and inventories are not recognized at this time for credit risk mitigation purposes in line with Basel II recommendations.

22. In order for banks to obtain capital relief for any use of CRM techniques, all documentation used in collateralized transactions and for documenting guarantees must be binding on all parties and legally enforceable in all relevant jurisdictions. Banks must have conducted sufficient legal review to verify this and have a well-founded legal basis to reach this conclusion, and undertake such further review as necessary to ensure continuing enforceability.

23. The effects of CRM will not be double counted. Therefore, no additional supervisory recognition of CRM for regulatory capital purposes will be granted on claims for which an issue-specific rating is used that already reflects that CRM. Principal-only ratings will not be allowed within the framework of CRM.

24. While the use of CRM techniques reduces or transfers credit risk, it simultaneously may increase other risks (residual risks). Residual risks include legal, operational, liquidity and market risks. Therefore, it is imperative that banks employ robust procedures and processes to control these risks, including strategy; consideration of the underlying credit; valuation; policies and procedures; systems; control of roll-off risks; and management of concentration risk arising from the bank's use of CRM techniques and its interaction with the bank's overall credit risk profile.

25. The disclosure requirements under Part IX of this document must also be observed for banks to obtain capital relief (i.e., adjustments in the risk weights of collateralized or guaranteed exposures) in respect of any CRM techniques.

Collateralized transactions

26. A collateralized transaction is one in which:

a) banks have a credit exposure or potential credit exposure; and

b) that credit exposure or potential credit exposure is hedged in whole or in part by collateral posted by a counterparty[1] or by a third party in behalf of the counterparty.

[1] Counterparty refers to a party to whom a bank has an on- or off-balance sheet credit exposure or a potential credit exposure.

27. In addition to the general requirement for legal certainty set out in paragraph 22, the legal mechanism by which collateral is pledged or transferred must ensure that the bank has the right to liquidate or take legal possession of it, in a timely manner, in the event of default, insolvency or bankruptcy (or one or more otherwise defined credit events set out in the transaction documentation) of the counterparty (and, where applicable, of the custodian holding the collateral). Furthermore, banks must take all steps necessary to fulfill those requirements under the law applicable to the bank's interest in the collateral for obtaining and maintaining an enforceable security interest, e.g., by registering it with a registrar, or for exercising a right to net or set off in relation to title transfer collateral.

28. In order for collateral to provide protection, the credit quality of the counterparty and the value of the collateral must not have a material positive correlation. For example, securities issued by the counterparty – or by any related group entity-would provide little protection and so would be ineligible.

29. Banks must have clear and robust procedures for the timely liquidation of collateral to ensure that any legal conditions required for declaring the default of the counterparty and liquidating the collateral are observed, and that collateral can be liquidated promptly.

30. Where the collateral is required to be held by a custodian, the Bangko Sentral will only recognize the collateral for regulatory capital purposes if it is held by Bangko Sentral-authorized custodians.

31. A capital requirement will be applied to a bank on either side of the collateralized transaction: for example, both repos and reverse repos will be subject to capital requirements. Likewise, both sides of a securities lending and borrowing transaction will be subject to explicit capital charges, as will the posting of securities in connection with a derivative exposure or other borrowing.

Banking book

32. Where banks take eligible collateral, as listed in paragraph 34, and satisfies the requirements under paragraphs 27 to 31, they are allowed to apply the risk weight of the collateral to the collateralized portion of the credit exposure (equivalent to the fair market value of recognized collateral), subject to a floor of twenty percent (20%). The twenty percent (20%) floor shall not apply and a zero percent (0%) risk weight can be applied when the exposure and the collateral are denominated in the same currency, and either:

    a) The collateral is cash as defined in paragraph 34.a; or

    b) The collateral is a sovereign debt security eligible for zero percent (0%) risk weight, or a Php-denominated debt obligation issued by the Philippine NG or the Bangko Sentral, which fair market value has been discounted by twenty percent (20%).

33. For collateral to be recognized, however, the collateral must be pledged for at least the life of the exposure and it must be marked to market and revalued with a minimum frequency of every six (6) months.

34. The following are the eligible collateral instruments:

    a) Cash (as well as certificates of deposit or comparable instruments issued by the lending bank) on deposit with the bank which is incurring the counterparty exposure;
    b) Gold;
    c) Debt obligations issued by the Philippine NG or the Bangko Sentral;
    d) Debt securities issued by central governments and central banks (and PSEs treated as sovereigns) of foreign countries as well as MDBs with at least investment grade external credit ratings;
    e) Other debt securities with external credit ratings of at least BBB- or its equivalent;
    f) Unrated senior debt securities issued by banks with an issuer rating of at least BBB- or its equivalent, or with other debt issues of the same seniority with a rating of at least BBB- or its equivalent;
    g) Equities included in the main index of an organized exchange; and
    h) Investments in Unit Investment Trust Funds (UITF) and the Asian Bond Fund 2 (ABF2) duly approved by the Bangko Sentral.

Trading book

35. A credit risk capital requirement should also be applied to banks' counterparty exposures in the trading book (e.g., repo-style transactions, OTC derivatives contracts). Where banks take eligible collateral for these trading book transactions, as listed in paragraph 34, and satisfies the requirements under paragraphs 27 to 31, they are to compute for the credit risk capital requirement according to the following paragraphs: Provided, That, for repo-style transactions in the trading book, all instruments which are included in the trading book may be used as eligible collateral.

36. For collateralized transactions in the trading book, the exposure amount after risk mitigation is calculated as follows:

$E^* = \max \{0, [E \times (1 + He) - C \times (1 - Hc - Hfx)]\}$

Where:

E^* = the exposure value after risk mitigation
E = the current value of the exposure
He = haircut appropriate to the exposure
C = the current value of the collateral received
Hc = haircut appropriate to the collateral
Hfx= haircut appropriate for currency mismatch between the collateral and exposure set at 8% (based on a 10-business day holding period and daily marking to market)

37. The treatment of transactions where there is a maturity mismatch between the maturity of the counterparty exposure and the collateral is given in paragraphs 50 to 54.

38. These are the haircuts to be used (based on a 10-business day holding period, daily marking to market and daily remaining), expressed as percentages:

		Haircut	
Issue rating for debt securities[1]	Residual maturity	Sovereign (and PSEs treated as sovereign) and MDB (with 0% risk weight) issuers	Other Issuers
Php – denominated securities issued by the Philippine NG and Bangko Sentral	<1 year	0.5	
	>1 yr. to < 5 yrs.	2	
	> 5 years	4	
AAA to AA-	<1 year	0.5	1
	>1 yr. to < 5 yrs.	2	4
	> 5 years	4	8
A+ to BBB-Unrated bank debt securities as defined in paragraph 34.f	<1 year	1	2
	>1 yr. to < 5 yrs.	3	6
	> 5 years	6	12
Equities included in the main index and gold		15	
UITF and ABF2		Highest haircut applicable to any security in which the fund can invest	
Cash per paragraph 34.a in the same currency		0	
Other financial instruments in the trading book (applies to repo style transactions in the trading book only)		25	

39. Where the collateral is a basket of assets, the haircut on the basket will be $H = \Sigma ai\ Hi$, where ai i, is the weight of the asset in the basket and Hi is the haircut applicable to that asset.

40. For collateralized OTC derivatives transactions in the trading book, the credit equivalent amount will be computed according to paragraphs 18 to 19, but adjusted by deducting the volatility adjusted collateral amount as computed according to paragraphs 36 to 39.

41. The exposure amount after risk mitigation will be multiplied by the risk weight of the counterparty to obtain the risk weighted asset amount for the collateralized transaction.

Guarantees

42. Where guarantees are direct, explicit, irrevocable and unconditional, banks may be allowed to take account of such credit protection in calculating capital requirements.

43. A guarantee must represent a direct claim on the protection provider and must be explicitly referenced to specific exposures or a pool of exposures, so that the extent of the cover is clearly defined and incontrovertible. Other than non-payment by a protection purchaser of money due in respect of the credit protection contract, the guarantee must be irrevocable; there must be no clause in the contract that would allow the protection provider unilaterally to cancel

[1] The notations follow the rating symbols used by Standard & Poor's. The mapping of ratings of all recognized external rating agencies is in Part III.C

the credit cover or that would increase the effective cost of cover as a result of deteriorating credit quality in the hedged exposure. It must also be unconditional; there should be no clause in the protection contract outside the direct control of the bank that could prevent the protection provider from being obliged to pay out in a timely manner in the event that the original counterparty fails to make the payment(s) due.

44. In addition to the legal certainty requirement in paragraph 22, in order for a guarantee to be recognized, the following conditions must be satisfied:

    a) On the qualifying default/non- payment of the counterparty, the bank may in a timely manner pursue the guarantor for any monies outstanding under the documentation governing the transaction. The guarantor may make one lump sum payment of all monies under such documentation to the bank, or the guarantor may assume the future payment obligations of the counterparty covered by the guarantee. The bank must have the right to receive any such payments from the guarantor without first having to take legal actions in order to pursue the counterparty for payment;

    b) The guarantee is an explicitly documented obligation assumed by the guarantor; and

    c) The guarantee must cover all types of payments the underlying obligor is expected to make under the documentation governing the transaction, for example, notional amount, margin payments, etc. Where a guarantee covers payment of principal only, interests and other uncovered payments should be treated as an unsecured amount.

45. Where the bank's exposure is guaranteed by an eligible guarantor, as listed in paragraph 47, and satisfies the requirements under paragraphs 42 to 44, the bank is allowed to apply the risk weight of the guarantor to the guaranteed portion of the credit exposure.

46. The treatment of transactions where there is a mismatch between the maturity of the counterparty exposure and the guarantee is given in paragraphs 50 to 54.

47. The following are the eligible guarantors:

    a) Philippine NG and the Bangko Sentral;
    b) Central governments and central banks and PSEs of foreign countries as well as MDBs with a lower risk weight than the counterparty;
    c) Banks with a lower risk weight than the counterparty;
    d) Other entities with external credit assessment of at least A- or its equivalent; and
    e) The Agricultural Guarantee Fund Pool (AGFP) created under Administrative Order No. 225-A dated 26 May 2008, prior to the transfer of the administration of the AGFP to the Philguarantee.

48. Where a bank provides a credit protection to another bank in the form of a guarantee that a third party will perform on its obligations, the risk to the guarantor bank is the same as if the bank had entered into the transaction as a principal. In such circumstances, the guarantor bank will be required to calculate capital requirement on the guaranteed amount according to the risk weight corresponding to the third party exposure. In this instance, and provided the credit protection is deemed to be legally effective, the credit risk is considered transferred to the bank providing credit protection. However, the bank receiving credit protection on its exposure to a third party shall recognize a corresponding risk- weighted credit exposure to the bank providing credit protection.

49. An exposure that is covered by a guarantee that is counter-guaranteed by the Philippine NG or Bangko Sentral, may be considered as covered by the guarantee of the Philippine NG of Bangko Sentral: *Provided,* That:

    a) the counter-guarantee covers all credit risk element of the exposure;
    b) both the original guarantee and the counter-guarantee meet all operational requirements for guarantees, except that the counter guarantee need not be direct and explicit to the original exposure; and
    c) the cover is robust and that no historical evidence suggests that the coverage of the counter-guarantee is less than effectively equivalent to that of a direct guarantee of the Philippine NG and Bangko Sentral.

    Php-denominated exposures to the extent guaranteed by Industrial Guaranteed and Loan Fund (IGLF), Home Guaranty Corporation (HGC), Agricultural Credit Policy Council, and Philguarantee receive zero percent (0%) risk weight.

Maturity mismatch

50. For collateralized transactions in the trading book and guaranteed transactions, the credit risk mitigating effects of such transactions will still be recognized even if a maturity mismatch occurs between the hedge and the underlying exposure, subject to appropriate adjustments.

51. For purposes of calculating risk- weighted assets, a maturity mismatch occurs when the residual maturity of a hedge is less than that of the underlying exposure.

52. The maturity of the hedge and the maturity of the underlying exposure should both be defined conservatively. For the hedge, embedded options which may reduce the term of the hedge should be taken into account so that the shortest possible effective maturity is used. Where a call is at the discretion of the guarantor/protection seller, the maturity will always be at the first call date. If the call is at the discretion of the protection buying bank but the terms of the arrangement at origination of the hedge contain a positive incentive for the bank to call the transaction before contractual maturity, the remaining time to the first call date will be deemed to be the effective maturity. For example, where there is a step- up in cost in conjunction with a call feature or where the effective cost of cover increases over time even if credit quality remains the same or increases, the effective maturity will be the remaining time to the first call. The effective maturity of the underlying, on the other hand, should be gauged as the longest remaining time before the counterparty is scheduled to fulfill its obligation, taking into account any applicable grace period.

53. Hedges with maturity mismatches are only recognized when their original maturities are greater than or equal to one year. As a result, the maturity of hedges for exposures with original maturities of less than one (1) year must be matched to be recognized. In all cases, hedges will no longer be recognized when they have a residual maturity of three months or less.

54. When there is a maturity mismatch with recognized credit risk mitigants, the following adjustment will be applied.

    $Pa = P \times (t - 0.25)/(T - 0.25)$

    Where:
    Pa = value of the credit protection adjusted for maturity mismatch
    P = credit protection (e.g., collateral amount, guarantee amount) adjusted for any haircuts
    T = min (T, residual maturity of the credit protection arrangement) expressed in years
    T = min (5, residual maturity of the exposure) expressed in years

C. Use of third party credit assessments

55. The following third party credit assessment agencies are recognized by the Bangko Sentral for regulatory capital purposes:

    International credit assessment agencies:

    a) Standard & Poor's;
    b) Moody's;
    c) Fitch Ratings; and
    d) Such other rating agencies as may be approved by the Monetary Board.

    Domestic credit assessment agencies:

    a) PhilRatings; and
    b) Such other rating agencies as may be approved by the Monetary Board.

56. The tables below set out the mapping of ratings given by the recognized credit assessment agencies for purposes of determining the appropriate risk weights.

Agency	**INTERNATIONAL RATINGS**						
S&P	AAA	AA+	AA	AA-	A+	A	A1
Moody's	Aaa	Aa1	Aa2	Aa3	A1	A2	A3
Fitch	AAA	AA+	AA	AA-	A+	A	A-

Agency	**DOMESTIC RATINGS**						
PhilRatings	AAA	Aa+	Aa	Aa-	A+	A	A-

Agency	**INTERNATIONAL RATINGS**						
S&P	BBB+	BBB	BBB-	BB+	BB	BB-	B+
Moody's	Baa1	Baa2	Baa3	Ba1	Ba2	Ba3	B1
Fitch	BBB+	BBB	BBB-	BB+	BB	BB-	B+

Agency	**DOMESTIC RATINGS**						
PhilRatings	Baa+	Baa	Baa-	Ba+	Ba	Ba-	B+

Agency	INTERNATIONAL RATINGS		
S&P	B	B-	
Moody's	B2	B3	
Fitch	B	B-	

Agency	DOMESTIC RATINGS		
PhilRatings	B	B-	

57. The Bangko Sentral will issue the mapping of ratings of other rating agencies as soon as it is recognized by the Bangko Sentral for regulatory capital purposes.

National rating systems

58. With prior Bangko Sentral approval, international credit rating agencies may have national rating systems developed exclusively for use in the Philippines using the Philippines using the Philippine sovereign as reference highest credit quality anchor.

Multiple assessments

59. If an exposure has only one rating by any of the Bangko Sentral recognized credit assessment agencies, that rating shall be used to determine the risk weight of the exposure; in cases where there are two or more ratings which map into different risk weights, the higher of the two lowest risk weights should be used.

Issuer versus issue assessments

60. Any reference to credit rating shall refer to issue-specific rating; the issuer rating may be used only if the exposure being risk- weighted is:

    a) an unsecured senior obligation of the issuer and is of the same denomination applicable to the issuer rating (e.g., local currency issuer rating may be used for risk weighting local currency denominated senior claims);
    b) short-term; and
    c) in cases of guarantees.

61. For loans, risk weighting shall depend on either the rating of the borrower or the rating of the unsecured senior obligation of the borrower: *Provided*, That in case of the latter, the loan is of the same currency denomination as the unsecured senior obligation.

Domestic versus international debt issuances

62. Domestic debt issuances may be rated by Bangko Sentral-recognized domestic credit assessment agencies or by international credit assessment agencies which have developed a national rating system acceptable to the Bangko Sentral. Internationally-issued debt obligations shall be rated by Bangko Sentral-recognized international credit assessment agencies only.

Level of application of the assessment

63. External credit assessments for one entity within a corporate group cannot be used to proxy for the credit assessment of other entities within the same group. Such other entities should secure their own ratings.

Part VI. Credit Derivatives

1. This Part sets out the capital treatment for credit derivatives. Banks may use credit derivatives to mitigate its credit risks or to acquire credit risks. For credit derivatives that are used as credit risk mitigants (CRM), the general requirements for the use of CRM techniques in paragraphs 21 to 25, Part IV.B, have to be satisfied, in addition to the specific operational requirements for credit derivatives in paragraphs 8 to 14.

2. The contents of this Part are just the general rules to be followed in computing capital requirements for credit derivatives. A bank, therefore, is expected to consult the appropriate supervising department of the Bangko Sentral when there is uncertainty about the computation of capital requirements, or even about whether a given transaction should be treated under the credit derivatives framework.

A. Definitions and general terminology

3. *Credit derivative* – a contract wherein one party called the protection buyer or credit risk seller transfers the credit risk of a reference asset or assets issued by a reference entity or entities, which it may or may not own, to another party called the protection seller or credit risk buyer. In return, the protection buyer pays a premium or interest-related payments to

the protection seller reflecting the underlying credit risk of the reference asset/s. Credit derivatives may refer to credit default swaps (CDS), total return swaps (TRS), and credit-linked notes (CLN) and similar products.

4. *Credit default swap* – a credit derivative wherein the protection buyer may exchange the reference asset or any deliverable obligation of the reference entity for cash equal to a specified amount, or get compensated to the extent of the difference between the par value and market value of the asset upon the occurrence of a defined credit event.

5. *Total return swap* – a credit derivative wherein the protection buyer exchanges the actual collections and variations in the prices of the reference asset with the protection seller in return for a fixed premium.

6. *CLn* – a pre-funded credit derivative wherein the note holder acts as a protection seller while the note issuer is the protection buyer. As such, the repayment of the principal to the note holder is contingent upon the non-occurrence of a defined credit event. All references to CLNs shall be taken to generically include similar instruments, such as credit-linked deposits (CLDs).

7. *Special purpose vehicle* – refers to an entity specifically established to issue CLNs of a single, homogeneous risk class that are fully collateralized as to principal by eligible collateral instruments listed in paragraph 34, Part IV.B, and which are purchased out of the proceeds of the note issuance.

B. Operational requirements for credit derivatives

8. A credit derivative must represent a direct claim on the protection seller and must be explicitly referenced to specific exposures or a pool of exposures, so that the extent of the cover is clearly defined and incontrovertible. Other than non-payment by a protection buyer of money due in respect of the credit derivative contract, it must be irrevocable; there must be no clause in the contract that would allow the protection seller unilaterally to cancel the credit cover or that would increase the effective cost of cover as a result of deteriorating credit quality in the hedged exposure. It must also be unconditional; there should be no clause in the credit derivative contract outside the direct control of the protection buyer that could prevent the protection seller from being obliged to pay out in a timely manner in the event of a defined credit event.

9. The credit events specified by the contracting parties must at a minimum cover:

    a) failure to pay the amounts due under terms of the underlying obligation that are in effect at the time of such failure (with a grace period that is closely in line with the grace period in the underlying obligation);
    b) bankruptcy, insolvency or inability of the obligor to pay its debts, or its failure or admission in writing of its inability generally to pay its debts as they become due, and analogous events; and
    c) restructuring of the underlying obligation involving forgiveness or postponement of principal, interest or fees that results in a credit loss event (i.e., charge- off, specific provision or other similar debit to the profit and loss account).

10. The credit derivative shall not terminate prior to expiration of any grace period required for a default on the underlying obligation to occur as a result of a failure to pay, subject to the provisions of paragraph 52 of Part IV.B.

11. Credit derivatives allowing for cash settlement are recognized for capital purposes insofar as a robust valuation process is in place in order to estimate loss reliably. There must be a clearly specified period for obtaining post-credit event valuations of the underlying obligation.

12. If the protection buyer's right or ability to transfer the underlying obligation to the protection seller is required for settlement, the terms of the underlying obligation must provide that any required consent to such transfer may not be unreasonably withheld.

13. The identity of the parties responsible for determining whether a credit event has occurred must be clearly defined. This determination must not be the sole responsibility of the protection seller. The bank as protection buyer must have the right/ability to inform the protection seller of the occurrence of a credit event.

14. Asset mismatches (underlying obligation is different from the obligation used for purposes of determining cash settlement or the deliverable obligation, or from the obligation used for purposes of determining whether a credit event has occurred) are permissible if:

    a) the obligation used for purposes of determining cash settlement or the deliverable obligation, or the obligation used for purposes of determining whether a credit event has occurred ranks *pari passu* with or is junior to the underlying obligation; and

    b) both obligations share the same obligor (i.e., the same legal entity) and legally enforceable cross-default or cross-acceleration clauses are in place.

C. Capital treatment for protection buyers

15. A bank that enters into a credit derivative transaction as a protection buyer in order to hedge an existing exposure in the banking book may only get capital relief if all the general requirements for the use of CRM techniques in paragraphs 21 to 25, Part IV.B and the conditions in paragraphs 8 to 14 are satisfied. In addition, only the eligible guarantors listed in paragraph 47, Part IV.B are considered as eligible protection sellers.

16. If all of the conditions in paragraph 15 are satisfied, banks that are protection buyers may apply the risk weight of the protection seller to the protected portion of the exposure being hedged. The risk weight of the protection seller should therefore be lower than the risk weight of the exposure being hedged for capital relief to be recognized. Exposures that are protected through the issuance of CLNs will be treated as transactions collateralized by cash and a zero percent (0%) risk weight is applied to the protected portion. The uncovered portion shall retain the risk weight of the bank's underlying counterparty.

17. The protected portion of an exposure is measured as follows:

    a) The fixed amount, if such is to be paid upon the occurrence of a credit event; or
    b) The notional value of the contract if either (1) par is to be paid in exchange for physical delivery of the reference asset, or (2) par less market value of the asset is to be paid upon the occurrence of a credit event.

18. A bank may obtain credit protection for a basket of reference entities where the contract terminates and pays out on the first entity to default. In this case, the bank may substitute the risk weight of the protection seller for the risk weight of the asset within the basket with the lowest risk-weighted amount, but only if the notional amount is less than or equal to the notional amount of the credit derivative.

19. Where the contract terminates and pays out on the n^{th} (other than the first) entity to default, the bank will only be able to recognize any reductions in the risk weight of the underlying asset if (n-1)th default- protection has also been obtained or when $(n-1)^{th}$ of the assets within the basket has already defaulted.

20. Where the contract is referenced to entities in the basket proportionately, reductions in the risk weight will only apply to the extent of the underlying asset's share of protection in the contract.

21. When a bank conducts an internal hedge using a credit derivative (i.e., hedging the credit risk of an exposure in the banking book with a credit derivative booked in the trading book), in order for the bank to receive any reduction in the capital requirement for the exposure in the banking book, the credit risk in the trading book must be transferred to an outside third party (i.e., an eligible protection seller).

22. Where a bank buys credit protection through a TRS and records the net payments received on the swap as net income, but does not record offsetting deterioration in the value of the asset that is protected (either through reductions in fair value or by an addition to reserves), the credit protection will not be recognized.

23. Materiality thresholds on payments below which no payment is made in the event of loss are equivalent to retained first loss positions and must be deducted in full from the capital of the bank buying the credit protection.

24. Where the credit protection is denominated in a currency different from that in which the exposure is denominated – i.e., there is a currency mismatch – the protected portion of the exposure will be reduced by the application of a haircut, as follows:

    $Ga = G \times (1 - Hfx)$

    Where:

    Ga = adjusted protected portion of the exposure
    G = protected portion of the exposure prior to haircut

    Hfx = haircut appropriate for currency mismatch between the credit protection and underlying obligation set at eight percent (8%) (based on a 10-business day holding period and daily marking to market)

25. Where a maturity mismatch occurs between the credit protection and the underlying exposure, the protected portion of the exposure adjusted for maturity mismatch will be computed according to paragraph 50 to 54, Part IV.B.

D. Capital treatment for protection sellers

26. Where a bank is a protection seller in a CDS or TRS transaction, it must calculate a capital requirement on the reference asset as if it were a direct investor in the reference asset. The risk weight of the reference asset is multiplied by the nominal amount of the protection provided by the credit derivative to obtain the risk-weighted exposure.

27. For a bank holding a CLN, credit exposure is acquired on two fronts. As such, the on-balance sheet exposure arising from the note should be weighted by adding the risk weights of the reference entity and the risk weight of the note issuer. The amount of exposure is the carrying amount of the note. If the CLN principal is fully collateralized by an eligible collateral listed in paragraph 34, Part IV.B, and which satisfies the requirements in paragraphs 27 to 31, Part IV.B, the risk weight of the note issuer is substituted with the risk weight associated with the relevant collateral.

28. When the credit derivative is referenced to a basket of reference entities and the contract terminates and pays out on the first entity to default in the basket, capital should be held to consider the cumulative risk of all the reference entities in the basket. This means that the risk weights of all the reference entities are added up and multiplied by the amount of the protection provided by the credit derivative to obtain the risk-weighted exposure to the basket. However, the risk- weighted exposure is capped at ten (10) times the protection provided under the contract. Accordingly, the maximum capital charge is 100% of the protection provided under the contract. The multiplier ten (10) is the reciprocal of the Bangko Sentral-required minimum CAR of ten percent (10%). For CLNs, the risk weight of the issuer is likewise included in the summing of the risk weights.

29. When the contract terminates and pays out on the n^{th} (other than the first) entity to default, the treatment above shall apply except that in aggregating the risk weights of the reference entities, the risk weight/s of the n-1 lowest risk-weighted entity/ies is/are excluded from the computation. For CLNs, the risk weight of the issuer is likewise included in the summing of the risk weights.

30. When a first or an n^{th}-to-default credit derivative has an external credit rating acceptable to the Bangko Sentral, the risk weight in paragraph 21, Part VI.F will be applied.

31. A contract that is referenced to entities in the basket proportionately should be risk-weighted according to each reference entity's share of protection under the contract.

E. Credit derivatives in the trading book

32. The following describes the positions to be reported for credit derivative transactions for purposes of calculating specific risk and general market risk charges under the standardized approach.

33. A CDS creates a notional position in the specific risk of the reference obligation. A TRS creates notional positions on the specific and general market risks of the reference obligation, and an opposite notional position on a zero coupon government security representing the fixed payments or premium under the TRS. A CLN creates a notional position in the specific risk of the reference obligation, a position on the specific risk associated with the issuer, and a position on the general market risk of the note.

Specific risk

34. The specific risk position/s on the reference obligation/s created by credit derivatives are reported as short positions by protection buyers and long positions by protection sellers. In addition, holders of CLNs should report a long position on the specific risk of the note issuer.

35. The protection buyer in a first-to- default transaction should report a short position in the reference obligation with the lowest specific risk charge. A protection buyer in an n^{th} (other than the first)-to- default transaction shall only be allowed to report a short position in a reference obligation only if n-1 obligations in the reference basket has/have already defaulted.

36. When a credit derivative is referenced to multiple entities and the contract terminates and pays out on the first obligation to default in the basket, the transaction should be reported by the protection seller as long positions in each of the reference obligations in the basket. A CLN should likewise be reported as a long position on the note issuer. The total capital charge is capped at the notional amount of the derivative or, in the case of a CLN, the carrying amount of the note.

37. When the contract terminates and pays out on the nth (other than the first) entity to default in the basket, the treatment above shall apply except that the protection seller may exclude the long position/s on n-1 reference obligations with the lowest risk- weighted exposures in its report. A CLN should likewise be reported as a long position on the note issuer. The total capital charge is capped at the notional amount of the derivative or, in the case of a CLN, the carrying amount of the note.

38. When an n^{th}-to-default credit derivative has an external credit rating acceptable to the Bangko Sentral, the specific risk weights in Part VII.B will be applied.

39. When the contract is referenced to multiple obligations under a proportionate structure, positions in the reference obligations should be reported according to their respective proportions in the contract.

General market risk

40. A protection buyer/seller in a TRS should report a short/long notional position on the reference obligation and a long/short notional position on a zero coupon government security representing the fixed payment under the contract.

41. A protection buyer/seller in a CLN should report a short/long position on the note.

Counterparty credit risk

42. CDS and TRS transactions in the trading book attract counterparty credit risk charges. A five percent (5%) add-on factor for the computation of the potential future credit exposure shall be used by both protection buyers and protection sellers if the reference obligation has an external credit rating of at least BBB- or its equivalent. A ten percent (10%) add-on factor applies to all other reference obligations. However, a protection seller in a CDS shall only be subject to the add-on factor if it is subject to closeout upon the insolvency of the protection buyer while the underlying is still solvent. The add-on in this case should be capped to the amount of unpaid premiums.

43. Where the credit derivative is a first to default transaction, the add-on will be determined by the lowest credit quality underlying in the basket, i.e., if there are any non-investment grade or unrated items in the basket, the ten percent (10%) add-on should be used. For second and subsequent to default transactions, underlying assets should continue to be allocated according to the credit quality, i.e., the second lowest credit quality will determine the add-on for a second to default transaction, etc.

44. Where the credit derivative is referenced proportionately to multiple obligations, the add-on factor will follow the add-on factor applicable for the obligation with the biggest share. If the protection is equally proportioned, the highest add-on factor should be used.

Part VII. Securitization

1. Banks must apply the securitization framework for determining regulatory capital requirements on their securitization exposures. Securitization exposures can include but are not restricted to the following: asset-backed securities, mortgage- backed securities, credit enhancements, liquidity facilities, interest rate or currency swaps, and credit derivatives. Underlying instruments in the pool being securitized may include but are not restricted to the following: loans, commitments, asset- backed and mortgage-backed securities, corporate bonds, equity securities, and private equity investments.

2. Since securitizations may be structured in many different ways, the capital treatment of a securitization exposure must be determined on the basis of its economic substance rather than its legal form. The contents of this Part are just the general rules to be followed in computing capital requirements for securitization exposures. A bank should therefore consult the appropriate supervising department of the Bangko Sentral when there is uncertainty about the computation of capital requirements, or even about whether a given transaction should be considered a securitization.

A. Definitions and general terminology

3. *Traditional securitization* – a structure where the cash flow from an underlying pool of exposures is used to service at least two (2) different stratified risk positions or tranches reflecting different degrees of credit risk. Payments to the investors depend upon the performance of the specified underlying exposures, as opposed to being derived from an obligation of the entity originating those exposures. The stratified/tranched structures that characterize securitizations differ from ordinary senior/subordinated debt instruments in that junior securitization tranches can absorb losses without interrupting contractual payments to more senior tranches, whereas subordination in a senior/subordinated debt structure is a matter of priority of rights to the proceeds of liquidation.

4. *Synthetic securitization* – a structure with at least two (2) different stratified risk positions or tranches that reflect different degrees of credit risk where credit risk of an underlying pool of exposures is transferred, in whole or in part, through the use of funded (e.g., credit-linked notes) or unfunded (e.g., credit default swaps) credit derivatives or guarantees that serve to hedge the credit risk of the portfolio. Accordingly, the investors' potential risk is dependent upon the performance of the underlying pool.

5. *Originating bank* – a bank that originates directly or indirectly underlying exposures included in the securitization.

6. *Clean-up call* – an option that permits the securitization exposures to be called before all of the underlying exposures or securitization exposures have been repaid. In the case of traditional securitizations, this is generally accomplished by repurchasing the remaining securitization exposures once the pool balance or outstanding securities have fallen below some specified level. In the case of a synthetic transaction, the cleanup call may take the form of a clause that extinguishes the credit protection.

7. *Credit enhancement* – a contractual arrangement in which the bank retains or assumes a securitization exposure and, in substance, provides some degree of added protection to other parties to the transaction.

8. *Early amortization provisions* – mechanisms that, once triggered, allow investors to be paid out prior to the originally stated maturity of the securities issued. For risk-based capital purposes, an early amortization provision will be considered either controlled or non- controlled.

   A controlled early amortization provision must meet all of the following conditions:

   a) The bank must have an appropriate capital/liquidity plan in place to ensure that it has sufficient capital and liquidity available in the event of an early amortization;

   b) Throughout the duration of the transaction, including the amortization period, there is the same pro rata sharing of interest, principal, expenses, losses and recoveries based on the bank's and investors' relative shares of the receivables outstanding at the beginning of each month;

   c) The bank must set a period for amortization that would be sufficient for at least ninety percent (90%) of the total debt outstanding at the beginning of the early amortization period to have been repaid or recognized as in default; and

   d) The pace of repayment should not be any more rapid than would be allowed by straight-line amortization over the period set out in criterion (c).

      An early amortization provision that does not satisfy the conditions for a controlled early amortization provision will be treated as non-controlled early amortization provision.

9. *Eligible liquidity facilities* – an off- balance sheet securitization exposure shall be treated as an eligible liquidity facility if the following minimum requirements are satisfied:

   a) The facility documentation must clearly identify and limit the circumstances under which it may be drawn. Draws under the facility must be limited to the amount that is likely to be repaid fully from the liquidation of the underlying exposures and any seller-provided credit enhancements. In addition, the facility must not cover any losses incurred in the underlying pool of exposures prior to a draw, or be structured such that draw-down is certain (as indicated by regular or continuous draws);

   b) The facility must be subject to an asset quality test that precludes it from being drawn to cover credit risk exposures that are considered non-performing under existing Bangko Sentral regulations. In addition, liquidity facilities should only fund exposures that are externally rated investment grade at the time of funding;

   c) The facility cannot be drawn after all applicable (e.g., transaction-specific and program-wide) credit enhancements from which the liquidity would benefit have been exhausted; and

   d) Repayment of draws on the facility (i.e., assets acquired under a purchase agreement or loans made under a lending agreement) must not be subordinated to any interests of any note holder in the program or subject to deferral or waiver.

10. *Eligible servicer cash advance facilities* – cash advance that may be provided by servicers to ensure an uninterrupted flow of payments to investors. The servicer should be entitled to full reimbursement and this right is senior to other claims on cash flows from the underlying pool of exposures.

11. *Excess spread* – generally defined as gross finance charge collections and other income received by the trust or special purpose entity (SPE, specified in paragraph 13)minus certificate interest, servicing fees, charge-offs, and other senior trust or SPE expenses.

12. *Implicit support* – arises when a bank provides support to a securitization in excess of its predetermined contractual obligation.

13. *Special purpose entity* – a corporation, trust, or other entity organized for a specific purpose, the activities of which are limited to those appropriate to accomplish the purpose of the SPE, and the structure of which is intended to isolate the SPE from the credit risk of an originator or seller of exposures. SPEs are commonly used as financing vehicles in which exposures are sold to a trust or similar entity in exchange for cash or other assets funded by debt issued by the trust.

B. Operational requirements for the recognition of risk transference in traditional securitizations

14. An originating bank may exclude securitized exposures from the calculation of risk-weighted assets only if all of the following conditions have been met. Banks meeting these conditions, however, must still hold regulatory capital against any securitization exposures they retain.

a) Significant credit risk associated with the securitized exposures has been transferred to third parties.

b) The transferor does not maintain effective or indirect control over the transferred exposures. The assets are legally isolated from the transferor in such a way (e.g., through the sale of assets or through sub-participation) that the exposures are put beyond the reach of the transferor and its creditors, even in bankruptcy or receivership. These conditions must be supported by an opinion provided by a qualified legal counsel.

The transferor is deemed to have maintained effective control over the transferred credit risk exposures if it:

i. is able to repurchase from the transferee the previously transferred exposures in order to realize their benefits; or
ii. is obligated to retain the risk of the transferred exposures.

The transferor's retention of servicing rights to the exposures will not necessarily constitute indirect control of the exposures.

c) The securities issued are not obligations of the transferor. Thus, investors who purchase the securities only have claim to the underlying pool of exposures.

d) The transferee is an SPE and the holders of the beneficial interests in that entity have the right to pledge or exchange them without restriction.

e) Clean-up calls must satisfy the conditions set out in paragraph 17.

f) The securitization does not contain clauses that (i) require the originating bank to alter systematically the underlying exposures such that the pool's weighted average credit quality is improved unless this is achieved by selling assets to independent and unaffiliated third parties at market prices; (ii) allow for increases in a retained first loss position or credit enhancement provided by the originating bank after the transaction's inception; or (iii) increase the yield payable to parties other than the originating bank, such as investors and third-party providers of credit enhancements, in response to a deterioration in the credit quality of the underlying pool.

C. Operational requirements for the recognition of risk transference in synthetic securitizations

15. For synthetic securitizations, the use of CRM techniques (i.e., collateral, guarantees and credit derivatives) for hedging the underlying exposure may be recognized for risk-based capital purposes only if the conditions outlined below are satisfied:

a) Credit risk mitigants must comply with the requirements as set out in Part IV.B and Part V of this Framework.
b) Eligible collateral is limited to that specified in paragraph 34, Part IV.B. Eligible collateral pledged by SPEs may be recognized.
c) Eligible guarantors are defined in paragraph 47, Part IV.B. SPEs are not recognized as eligible guarantors in the securitization framework.
d) Banks must transfer significant credit risk associated with the underlying exposure to third parties.
e) The instruments used to transfer credit risk must not contain terms or conditions that limit the amount of credit risk transferred, such as those provided below:

i. Clauses that materially limit the credit protection or credit risk transference (e.g., significant materiality thresholds below which credit protection is deemed not to be triggered even if a credit event occurs or those that allow for the termination of the protection due to deterioration in the credit quality of the underlying exposures);
ii. Clauses that require the originating bank to alter the underlying exposures to improve the pool's weighted average credit quality;

iii. Clauses that increase the banks' cost of credit protection in response to deterioration in the pool's quality;

iv. Clauses that increase the yield payable to parties other than the originating bank, such as investors and third-party providers of credit enhancements, in response to a deterioration in the credit quality of the reference pool; and

v. Clauses that provide for increases in a retained first loss position or credit enhancement provided by the originating bank after the transaction's inception.

f) An opinion must be obtained from a qualified legal counsel that confirms the enforceability of the contracts in all relevant jurisdictions.

g) Clean-up calls must satisfy the conditions set out in paragraph 17.

16. For synthetic securitizations, the effect of applying CRM techniques for hedging the underlying exposure are treated according to Part IV.B and Part V of this Framework. In case there is a maturity mismatch, the capital requirement will be determined in accordance with paragraphs 50 to 54, Part IV.B. When the exposures in the underlying pool have different maturities, the longest maturity must be taken as the maturity of the pool. Maturity mismatches may arise in the context of synthetic securitizations when, for example, a bank uses credit derivatives to transfer part or all of the credit risk of a specific pool of assets to third parties. When the credit derivatives unwind, the transaction will terminate. This implies that the effective maturity of the tranches of the synthetic securitization may differ from that of the underlying exposures. Originating banks of synthetic securitizations with such maturity mismatches must deduct all retained positions that are unrated or rated below investment grade. Accordingly, when deduction is required, maturity mismatches are not taken into account. For all other securitization exposures, the bank must apply the maturity mismatch treatment set forth in paragraphs 50 to 54, Part IV.B.

D. Operational requirements and treatment of clean-up calls

17. For securitization transactions that include a clean-up call, no capital will be required due to the presence of a clean-up call if the following conditions are met: (i) the exercise of the clean-up call must not be mandatory, in form or in substance, but rather must be at the discretion of the originating bank; (ii) the clean-up call must not be structured to avoid allocating losses to credit enhancements or positions held by investors or otherwise structured to provide credit enhancement; and (iii) the clean-up call must only be exercisable when ten percent (10%) or less of the original underlying portfolio, or securities issued remain, or, for synthetic securitizations, when ten percent (10%) or less of the original reference portfolio value remains.

18. Securitization transactions that include a clean-up call that does not meet all of the criteria stated in paragraph 17 result in a capital requirement for the originating bank. For a traditional securitization, the underlying exposures must be treated as if they were not securitized. Additionally, banks must not recognize in regulatory capital any gain-on-sale, as defined in paragraph 23. For synthetic securitization, the bank purchasing protection must hold capital against the entire amount of the securitized exposures as if they did not benefit from any credit protection. Same treatment applies for synthetic securitization that incorporates a call, other than a cleanup call, that effectively terminates the transaction and the purchased credit protection on a specified date.

19. If a clean-up call, when exercised, is found to serve as a credit enhancement, the exercise of the clean-up call must be considered a form of implicit support provided by the bank and must be treated in accordance with paragraph 26.

E. Operational requirements for use of external credit assessments

20. The following operational criteria concerning the use of external credit assessments apply in the securitization framework:

    a) To be eligible for risk-weighting purposes, the external credit assessment must take into account and reflect the entire amount of credit risk exposure the bank has with regard to all payments owed to it. For example, if a bank is owed both principal and interest, the assessment must fully take into account and reflect the credit risk associated with timely repayment of both principal and interest.

    b) The external credit assessments must be from an eligible External Credit Assessment Institution (ECAI) as recognized by the bank's national supervisor in accordance with Part IV.C. An eligible credit assessment must be publicly available. In other words, a rating must be published in an accessible form and included in the ECAI's transition matrix. Consequently, ratings that are made available only to the parties to a transaction do not satisfy this requirement.

    c) Eligible ECAIs must have a demonstrated expertise in assessing securitizations, which may be evidenced by strong market acceptance.

    d) A bank must apply external credit assessments from eligible ECAIs consistently across a given type of securitization exposure. Furthermore, a bank cannot use the credit assessments issued by one ECAI for one or more tranches and those of another ECAI for other positions (whether retained or purchased) within the same securitization structure that may or may not be rated by the first ECAI. Where two or more eligible ECAIs can be used and these assess the credit risk of the same securitization exposure differently, paragraph 59 of Part IV.C will apply.

    e) Where CRM is provided directly to an SPE by an eligible guarantor defined in paragraph 47 of Part IV.B and is reflected in the external credit assessment assigned to a securitization exposure(s), the risk weight associated with that external credit assessment should be used. In order to avoid any double counting, no additional capital recognition is permitted. If the CRM provider is not an eligible guarantor, the covered securitization exposures should be treated as unrated.

    f) In the situation where a credit risk mitigant is not obtained by the SPE but rather applied to a specific securitization exposure within a given structure (e.g., ABS tranche), the bank must treat the exposure as if it is unrated and then use the CRM treatment outlined in Part IV.B to recognize the hedge.

F. Risk-weighting

21. The risk-weighted asset amount of a securitization exposure is computed by multiplying the amount of the position by the appropriate risk weight determined in accordance with the following table. For off- balance sheet exposures, banks must apply a credit conversion factor (CCF) and then risk weight the resultant credit equivalent amount.

Credit assessment[1]	AAA to AA-	A+ to A-	BBB+to BBB-	Below BBB- and unrated
Risk weight	20%	50%	100%	Deduction from Tier 1 capital

22. The capital treatment of implicit support, liquidity facilities, securitizations of revolving exposures, and credit risk mitigants are identified separately.

23. Banks must deduct from CET1 capital any increase in equity capital resulting from a securitization transaction, such as that associated with expected future margin income resulting in a gain-on-sale that is recognized in regulatory capital. Such an increase in capital is referred to as a "gain-on-sale" for the purposes of the securitization framework.

24. Credit enhancing (interest only), net of the amount that must be deducted from CET1 as in paragraph 23.

25. Deductions from capital may be calculated net of any specific provisions taken against the relevant securitization exposures.

26. When a bank provides implicit support to a securitization, it must, at a minimum, hold capital against all of the exposures associated with the securitization transaction as if they had not been securitized. Additionally, banks would not be permitted to recognize in regulatory capital any gain-on-sale, as defined in paragraph 23. Furthermore, the bank is required to disclose publicly that (a) it has provided non-contractual support and (b) the capital impact of doing so.

27. As a general rule, off-balance sheet securitization exposures will receive a CCF of 100%, except in the cases below.

28. A CCF of twenty percent (20%) and fifty percent (50%) will be applied to eligible liquidity facilities as defined in paragraph 9 above with original maturity of one year or less and more than one year, respectively. However, if an external rating of the facility itself is used for risk weighting the facility, a 100% CCF must be applied. A zero percent (0%) CCF may be applied to eligible liquidity facilities that are only available in the event of a general market disruption (i.e., whereupon more than one SPE across different transactions are unable to roll over maturing commercial paper, and that inability is not the result of an impairment in the SPE's credit quality or in the credit quality of the underlying exposures). To qualify for this treatment, the conditions provided in paragraph 9 must be satisfied. Additionally, the funds advanced by the bank to pay holders of the capital market instruments (e.g., commercial paper) when there is a general market disruption must be secured by the underlying assets, and must rank at least *pari passu* with the claims of holders of the capital market instruments.

29. A CCF of zero percent (0%) will be applied to undrawn amount of eligible servicer cash advance facilities, as defined in paragraph 10 above, that are unconditionally cancellable without prior notice.

30. An originating bank is required to hold capital against the investors' interest (i.e., against both the drawn and undrawn balances related to the securitized exposures) when:

    a) It sells exposures into a structure that contains an early amortization feature; and
    b) The exposures sold are of a revolving nature. These involve exposures where the borrower is permitted to vary the drawn amount and repayments within an agreed limit under a line of credit (e.g., credit card receivables and corporate loan commitments).

31. Originating banks, though, are not required to calculate a capital requirement for early amortizations in the following situations:

    a) Replenishment structures where the underlying exposures do not revolve and the early amortization ends the ability of the bank to add new exposures;
    b) Transactions of revolving assets containing early amortization features that mimic term structures (i.e., where the risk of the underlying facilities does not return to the originating bank);
    c) Structures where a bank securitizes one or more credit line(s) and where investors remain fully exposed to future draws by borrowers even after an early amortization event has occurred; and
    d) The early amortization clause is solely triggered by events not related to the performance of the securitized assets or the selling bank, such as material changes in tax laws or regulations.

[1] The notations follow the rating symbols used by Standard & Poor's. The mapping of ratings of all recognized external rating agencies is in Part III.C

32. As described below, the CCFs depend upon whether the early amortization repays investors through a controlled or non-controlled mechanism. They also differ according to whether the securitized exposures are uncommitted retail credit lines (e.g., credit card receivables) or other credit lines (e.g., revolving corporate facilities). A line is considered uncommitted if it is unconditionally cancellable without prior notice.

33. For uncommitted retail credit lines (e.g., credit card receivables) that have either controlled or non-controlled early amortization features, banks must compare the three-month average excess spread defined in paragraph 11 to the point at which the bank is required to trap excess spread as economically required by the structure (i.e., excess spread trapping point). In cases where such a transaction does not require excess spread to be trapped, the trapping point is deemed to be 4.5 percentage points.

34. The bank must divide the excess spread level by the transaction's excess spread trapping point to determine the appropriate segments and apply the corresponding conversion factors, as outlined in the following tables:

	Controlled		**Non-controlled**	
	3-month average excess spread- credit conversion factor (CCF)	**Credit conversion factor (CCF)**	**3-month average excess spread- credit conversion factor (CCF)**	**Credit conversion factor (CCF)**
	Uncommitted	**Committed**	**Uncommitted**	**Committed**
Retail credit lines	133.33% of trapping point or more – 0% CCF less than 133.33% to 100% of trapping point – 1% CCF less than 100% to 75% of trapping point – 2% CCF less than 75% to 50% of trapping point - 10% CCF less than 50% to 25% of trapping point - 20% CCF less than 25% of trapping point - 40%	90% CCF	133.33% of trapping point or more – 0% CCF less than 133.33% to 100% of trapping point – 5% CCF less than 100% to 75% of trapping point – 15% CCF less than 75% to 50% of trapping point - 50% CCF less than 50% of trapping point - 100% CCF	100% CCF
Non-retail credit lines	90% CCF	90% CCF	100% CCF	100% CCF

35. All other securitized revolving exposures with controlled and non- controlled early amortization features will be subject to CCFs of ninety percent (90%) and 100%, respectively, against the off- balance sheet exposures.

36. The CCF will be applied to the amount of the investors' interest. The resultant credit equivalent amount shall then be applied a risk weight applicable to the underlying exposure type, as if the exposures had not been securitized.

37. For a bank subject to the early amortization treatment, the total capital charge for all of its positions will be subject to a maximum capital requirement (i.e., a 'cap') equal to the greater of (i) that required for retained securitization exposures, or (ii) the capital requirement that would apply had the exposures not been securitized. In addition, banks must deduct the entire amount of any gain-on-sale and credit enhancing IOs arising from the securitization transaction in accordance with paragraphs 23 and 25.

G. Credit risk mitigation

38. The treatment below applies to a bank that has obtained or given a credit risk mitigant on a securitization exposure. Credit risk mitigants include collateral, guarantees, and credit derivatives. Collateral in this context refers to that used to hedge the credit risk of a securitization exposure rather than the underlying exposures of the securitization transaction.

Collateral

39. Eligible collateral is limited to that recognized in paragraph 34, Part IV.B. Collateral pledged by SPEs may be recognized.

Guarantees and credit derivatives

40. Credit protection provided by the entities listed in paragraph 47, Part IV.B may be recognized. SPEs cannot be recognized as eligible guarantors.

41. Where guarantees or credit derivatives fulfill the minimum operational requirements as specified in Part IV.B and Part V, respectively, banks can take account of such credit protection in calculating capital requirements for securitization exposures.

42. Capital requirements for the collateralized or guaranteed/protected portion will be calculated according to Part IV.B and Part V.

43. A bank other than the originator providing credit protection to a securitization exposure must calculate a capital requirement on the covered exposure as if it were an investor in that securitization. A bank providing protection to an unrated credit enhancement must treat the credit protection provided as if it were directly holding the unrated credit enhancement.

Maturity mismatches

44. For the purpose of setting regulatory capital against a maturity mismatch, the capital requirement will be determined in accordance with paragraphs 50 to 54, Part IV.B, except for synthetic securitizations which will be determined in accordance with paragraph 16.

Part VIII. Market Risk-weighted Assets

1. Market risk is defined as the risk of losses in on- and off-balance sheet positions arising from movements in market prices. The risks addressed in these guidelines are:

    a) The risks pertaining to interest rate-related instruments and equities in the trading book; and
    b) Foreign exchange risk throughout the bank.

A. Definition of the trading book

2. A trading book consists of positions in financial instruments held either with trading intent or in order to hedge other elements of the trading book. To be eligible for trading book capital treatment, financial instruments must either be free of any restrictive covenants on their tradability or able to be hedged completely. In addition, positions should be frequently and accurately valued, and the portfolio should be actively managed.

3. A financial instrument is any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instruments include both primary financial instruments (or cash instruments) and derivative financial instruments. A financial asset is any asset that is cash, the right to receive cash or another financial asset; or the contractual right to exchange financial assets on potentially favorable terms, or an equity instrument. A financial liability is the contractual obligation to deliver cash or another financial asset or to exchange financial liabilities under conditions that are potentially unfavorable.

4. Positions held with trading intent are those held intentionally for short-term resale and/or with the intent of benefiting from actual or expected short-term price movements or to lock in arbitrage profits, and may include for example proprietary positions, positions arising from client servicing (e.g. matched principal brokering) and market making.

5. The following will be the basic requirements for positions eligible to receive trading book capital treatment:

    a) Clearly documented trading strategy for the position/instrument or portfolios, approved by senior management (which would include expected holding horizon);

    b) Clearly defined policies and procedures for the active management of the position, which must include:

        i. positions are managed on a trading desk;

        ii. position limits are set and monitored for appropriateness;

        iii. dealers have the autonomy to enter into/manage the position within agreed limits and according to the agreed strategy;

        iv. positions are marked to market at least daily, and when marking to model the parameters must be assessed on a daily basis;

        v. positions are reported to senior management as an integral part of the institution's risk management process; and

        vi. positions are actively monitored with reference to market information sources (assessment should be made of the market liquidity or the ability to hedge positions or the portfolio risk profiles). This would include assessing the quality and availability of market inputs to the valuation process, level of market turnover, sizes of positions traded in the market, etc.

c) Clearly defined policy and procedures to monitor the positions against the bank's trading strategy including the monitoring of turnover and stale positions in the bank's trading book.

6. The documentations of the basic requirements of Part V, Item "5" should be submitted to the Bangko Sentral.

7. In addition to the above documentation requirements, the bank should also submit to the Bangko Sentral a documentation of its systems and controls for the prudent valuation of positions in the trading book including the valuation methodologies.

B. Measurement of capital charge

8. The market risk capital charge shall be computed according to the methodology set under Sec. 125 *(Market risk capital requirement)* of the MORB, subject to certain modifications as outlined in the succeeding paragraphs.

9. The specific risk weights for trading book positions in debt securities and debt derivatives shall depend on the third party credit assessment of the issue or the type of issuer, as may be appropriate, as follows:

Credit ratings of debt securities/derivatives issued by sovereigns[1]	**Credit ratings of debt securities/derivatives issued by MDBs**	**Credit ratings of debt securities/derivatives issued by other entities**	**Unadjusted specific risk weight**
Php-denominated debt securities/derivatives issued by the Philippine NG and Bangko Sentral			0.00%
LGU Bonds covered by Deed of Assignment of Internal Revenue Allotment and guaranteed by LGU Guarantee Corporation			4.00%
AAA to AA-	AAA		0.00%
A+ to BBB-	AA+ to BBB-	AAA to BBB-	
Residual maturity $\leq$ 6 months	Residual maturity $\leq$ 6 months	Residual maturity $\leq$ 6 months	0.25%
Residual maturity > 6 months, $\leq$ 24 months	Residual maturity > 6 months, $\leq$ 24 months	Residual maturity > 6 months, $\leq$ 24 months	1.0%
Residual maturity > 24 months	Residual maturity > 24 months	Residual maturity > 24 months	1.60%
		All other debt securities/derivatives	8.00%

10. Foreign currency denominated debt securities/derivatives issued by the Philippine NG and Bangko Sentral[2] shall be risk-weighted according to the table above: Provided, That only one-third (1/3) of the applicable risk weight shall be applied from 01 July 2007, two-thirds (2/3) from 01 January 2008, and the full risk weight from 01 January 2009.

11. A security, which is the subject of a repo-style transaction, shall be treated as if it were still owned by the seller/lender of the security, i.e., to be reported by the sellerlender.

12. In addition to capital charge for specific and general market risk, a credit risk capital charge should be applied to banks' counterparty exposures in repo-style transactions and OTC derivatives contracts. The computation of the credit risk capital charge for counterparty exposures arising from trading book positions are discussed in paragraphs 35 to 41 of Part IV.B.

C. Measurement of risk-weighted assets

13. Market risk-weighted assets are determined by multiplying the market risk capital charge by ten (10) [i.e., the reciprocal of the minimum capital ratio of ten percent (10%)].

Part IX. Operational Risk-weighted Assets

A. Definition of operational risk

1. Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk.

[1] The notations follow the rating symbols used by Standard & Poor's. The mapping of ratings of all recognized external rating agencies is in Part III.C. For purposes of this framework, debt securities/derivatives issued by sovereigns include foreign currency denominated debt securities/derivatives issued by the Philippine NG.

[2] Warrants paired with ROP Global Bonds shall be exempted from capital charge for market risk only to the extent of bank's holdings of bonds paired with warrants equivalent to not more than fifty percent (50%) of total qualifying capital, as defined under Part II of this Appendix.

2. Banks should be guided by the Basel Committee on Banking Supervision's recommendations on *Sound Practices for the Management and Supervision of Operational Risk* (February 2003). The same may be downloaded from the BIS website (www.bis.org).

B. Measurement of capital charge

3. In computing for the operational risk capital charge, banks may use either the basic indicator approach or the standardized approach.

4. Under the basic indicator approach, banks must hold capital for operational risk equal to fifteen percent (15%) of the average gross income over the previous three (3) years of positive annual gross income. Figures for any year in which annual gross income is negative or zero should be excluded from both the numerator and denominator when calculating the average.

5. Banks that have the capability to map their income accounts into the various business lines given in paragraph 7 may use the standardized approach subject to prior Bangko Sentral approval[1]. In order to qualify for use of the standardized approach, a bank must satisfy Bangko Sentral that, at a minimum:

   a) Its board of directors and senior management are actively involved in the oversight of the operational risk management framework;
   b) It has an operational risk management system that is conceptually sound and is implemented with integrity; and
   c) It has sufficient resources in the use of the approach in the major business lines as well as the control and audit areas.

6. Operational risk capital charge is calculated as the three (3)-year average of the simple summation of the regulatory capital charges across each of the business lines in each year. In any given year, negative capital charges (resulting from negative gross income) in any business line may offset positive capital charges in other business lines without limit. However, where the aggregate capital charge across all business lines within a given year is negative, then figures for that year shall be excluded from both the numerator and denominator.

7. The business lines and their corresponding beta factors are listed below:

Business lines		**Activity Groups**	**Beta Factors**
Level 1	**Level 2**		
Corporate Finance	Corporate finance	Mergers and acquisitions, underwriting, privatization, securitization, research, debt (government, high yield), equity, syndications, IPO, secondary private placements	18%
	Municipal/Government Finance		
	Advisory Services		
Trading and Sales	Sales	Fixed income, equity, foreign exchanges, commodities, credit, funding, own position securities, lending and repos, brokerage, debt, prime brokerage	18%
	Market Making		
	Proprietary Positions		
	Treasury		
Retail Banking	Retail Banking	Retail lending and deposits, banking services, trustand estates	12%
	Private Banking	Private lending and deposits, banking services, trust and estates, investment advice	
	Card Services	Merchant/commercial/corporate cards, private labels and retail	
Commercial Banking	Commercial Banking	Project finance, real estate, export finance, trade finance, factoring, leasing, lending, guarantees, bills of exchange	15%
Payment and Settlement	External Clients	Payments and collections, funds transfer, clearing and settlement	18%
Agency Services	Custody	Escrow, depository receipts, securities lending (customers) corporate actions	15%
	Corporate Agency	Issuer and paying agents	
	Corporate Trust		
Asset Management	Discretionary Fund Management	Discretionary and non-discretionary fund management, whether pooled, segregated, retail, institutional, closed, open, private equity	12%
	Non-Discretionary Fund Management		
Retail Brokerage	Retail brokerage	Execution and full service	12%

[1] Refer to *Appendix Q-47* for the Guidelines on the Use of the Standardized Approach in Computing the Capital Charge for Operational Risk

8. Gross income, for the purpose of computing for operational risk capital charge, is defined as net interest income plus non-interest income. This measure should:

    a) be gross of any provisions for losses on accrued interest income from financial assets;
    b) be gross of operating expenses, including fees paid to outsourcing service providers;
    c) include fees and commissions;
    d) exclude gains/(losses) from the sale/redemption/derecognition of non-trading financial assets and liabilities;
    e) exclude gains/(losses) from salederecognition of non-financial assets; and
    f) include other income (i.e., rental income, miscellaneous income, etc.)

C. Measurement of risk-weighted assets

9. The resultant operational risk capital charge is to be multiplied by 125% before multiplying by ten (10) [i.e., the reciprocal of the minimum capital ratio of ten percent (10%)].

Part X. Disclosures in the Annual Reports and Published Financial Statements

1. The following information with regard to banks' capital structure and capital adequacy shall be disclosed in banks' Annual Reports, except Item "j" below which should also be disclosed in banks' quarterly published Balance Sheet:

2. Full compliance of these disclosure requirements is a prerequisite before banks can obtain any capital relief (i.e., adjustments in the risk weights of collateralized or guaranteed exposures) in respect of any credit risk mitigation techniques.

A. Capital structure and capital adequacy

3. The following information with regard to banks' capital structure and capital adequacy shall be disclosed in banks' Annual Reports, except Item "j" below which should also be disclosed in banks' quarterly published Balance Sheet:

    a) CET1 capital and a breakdown of its components;
    b) Tier 1 capital and a breakdown of its components;
    c) Tier 2 capital and a breakdown of its components;
    d) Total qualifying capital;
    e) Capital conservation buffer;
    f) Countercyclical capital buffer;
    g) Capital requirements for credit risk (including securitization exposures);
    h) Capital requirements for market risk;
    i) Capital requirements for operational risk; and
    j) Total CAR, Tier 1 and CET1 ratios on both solo and consolidated bases.

4. In addition to the above disclosure requirements, the following shall likewise be disclosed to improve transparency of regulatory capital and enhance market discipline:

    a) Full reconciliation of all regulatory capital elements back to the balance sheet in the audited financial statements;
    b) All regulatory adjustmentsdeductions, as applicable;
    c) Description of the main features of capital instruments issued; and
    d) Comprehensive explanations of how ratios involving components of regulatory capital are calculated.

5. On top of the above disclosure requirements, banks/QBs shall be required to make available on their websites the full terms and conditions of all instruments included in regulatory capital.

B. Risk exposures and assessments

6. For each separate risk area (credit, market, operational, interest rate risk in the banking book), banks must describe their risk management objectives and policies, including:

    a) Strategies and processes;
    b) The structure and organization of the relevant risk management function;
    c) The scope and nature of risk reporting and/or measurement systems; and
    d) Policies for hedging and/or mitigating risk, and strategies and processes for monitoring the continuing effectiveness of hedges/mitigants.

Credit risk

7. Aside from the general disclosure requirements stated in paragraph 4, the following information with regard to credit risk have to be disclosed in banks' Annual Reports:

a) Total credit risk exposures (i.e., principal amount for on-balance sheet and credit equivalent amount for off-balance sheet, net of specific provision) broken down by type of exposures as defined in Part IV;

b) Total credit risk exposure after risk mitigation, broken down by:

   i. type of exposures as defined in Part IV; and
   ii. risk buckets, as well as those that are deducted from capital;

c) Total credit risk-weighted assets broken down by type of exposures as defined in Part IV;

d) Names of external credit assessment institutions used, and the types of exposures for which they were used;

e) Types of eligible credit risk mitigants used including credit derivatives;

f) For banks with exposures to securitization structures, aside from the general disclosure requirements stated in paragraph 4, the following minimum information have to be disclosed:

   i. Accounting policies for these activities;
   ii. Total outstanding exposures securitized by the bank; and
   iii. Total amount of securitization exposures retained or purchased broken down by exposure type;

g) For banks that provide credit protection through credit derivatives, aside from the general disclosure requirements stated in paragraph 4, total outstanding amount of credit protection given by the bank broken down by type of reference exposures should also be disclosed; and

h) For banks with investments in other types of structured products, aside from the general disclosure requirements stated in paragraph 4, total outstanding amount of other types of structured products issued or purchased by the bank broken down by type should also be disclosed.

Market risk

8. Aside from the general disclosure requirements stated in paragraph 4, the following information with regard to market risk have to be disclosed in banks' Annual Reports:

   a) Total market risk-weighted assets broken down by type of exposures (interest rate, equity, foreign exchange, and options); and
   b) For banks using the internal models approach, the following information have to be disclosed:

      i. The characteristics of the models used;
      ii. A description of stress testing applied to the portfolio;
      iii. A description of the approach used for backtesting/validating the accuracy and consistency of the internal models and modeling processes;
      iv. The scope of acceptance by the Bangko Sentral; and
      v. A comparison of VaR estimates with actual gains/losses experienced by the bank, with analysis of important outliers in backtest results.

Operational risk

9. Aside from the general disclosure requirements stated in paragraph 4, banks have to disclose their operational risk-weighted assets in their Annual Reports.

Interest rate risk in the banking book

10. Aside from the general disclosure requirements stated in paragraph 4, the following information with regard to interest rate risk in the banking book have to be disclosed in banks' Annual Reports:

    a) Internal measurement of interest rate risk in the banking book, including assumptions regarding loan prepayments and behavior of nonmaturity deposits, and frequency of measurement; and
    b) The increase (decline) in earnings or economic value (or relevant measure used by management) for upward and downward rate shocks according to internal measurement of interest rate risk in the banking book.

Part XI. Enforcement

(Transferred to Sec. 125-Q (Sanctions))

(Circular Nos. 1084 dated 28 April 2020, 1027 dated 28 December 2018, 1024 dated 06 December 2018, 934 dated 23 December 2016, and 914 dated 23 June 2016)

Annex A

COMMON SHARES

Criteria for classification as common shares for regulatory capital purposes

1. It represents the most subordinated claim in liquidation.

2. It is entitled to a claim on the residual assets that is proportional with its share of issued capital, after all senior claims have been repaid in liquidation (i.e., has an unlimited and variable claim, not a fixed or capped claim).

3. Its principal is perpetual and never repaid outside of liquidation (setting aside discretionary repurchases or other means of effectively reducing capital in a discretionary manner that is allowable under relevant law).

4. The bank does nothing to create an expectation at issuance that the instrument will be bought back, redeemed or cancelled nor do the statutory or contractual terms provide any feature which might give rise to such an expectation.

5. The distributions are paid out of distributable items (retained earnings included). The level of distributions is not in any way tied or linked to the amount paid in at issuance and is not subject to a contractual cap (except to the extent that a bank is unable to pay distributions that exceed the level of distributable items).

6. There are no circumstances under which the distributions are obligatory. Non payment is therefore not an event of default.

7. The distributions are paid only after all legal and contractual obligations have been met and payments on more senior capital instruments have been made. This means that there are no preferential distributions, including in respect of other elements classified as the highest quality issued capital.

8. It is the issued capital that takes the first and proportionately greatest share of any losses as they occur[1]. Within the highest quality capital, each instrument absorbs losses on a going concern basis proportionately and pari passu with all the others.

9. The paid in amount is recognized as equity capital (i.e., not recognized as a liability) for determining balance sheet insolvency.

10. The paid in amount is classified as equity under the relevant accounting standards.

11. It is directly issued and paid-in and the bank cannot directly or indirectly have funded the purchase of the instrument.

12. It must be underwritten by a third party not related to the issuer bank/QB nor acting in reciprocity for and in behalf of the issuer bank/QB.

13. The paid in amount is neither secured nor covered by a guarantee of the issuer or related entity[2] or subject to any other arrangement that legally or economically enhances the seniority of the claim.

14. It is only issued with the approval of the owners of the issuing bank, either given directly by the owners or, if permitted by applicable law, given by the board of directors or by other persons duly authorized by the owners.

15. It is clearly and separately disclosed in the bank's balance sheet.

[1] In cases where capital instruments have a permanent write-down feature, this criterion is still deemed to be met by common shares.

[2] A related entity includes a parent company, a sister company, a subsidiary or any affiliate. A holding company is a related entity irrespective of whether it forms part of the consolidated banking group.

ADDITIONAL TIER 1 CAPITAL

Criteria for inclusion in Additional Tier 1 capital

1. It must be issued and paid-in.

2. It must be subordinated to depositors, general creditors and subordinated debt of the bank/QB.

3. It is neither secured nor covered by a guarantee of the issuer or related entity or other arrangement that legally or economically enhances the seniority of the claim vis-à-vis bank/QB creditors.

4. It is perpetual, ie., there is no maturity date and there are no step-ups or other incentives to redeem.

5. It may be callable at the initiative of the issuer only after a minimum of five (5) years, subject to the following conditions:

    a. To exercise a call option a bank/QB must receive prior supervisory approval;
    b. A bank/QB must not do anything which creates an expectation that the call will be exercised; and
    c. Banks/QBs must not exercise a call unless:

        i. They replace the called instrument with capital of the same or better quality and the replacement of this capital is done at conditions which are sustainable for the income capacity of the bank/QB[1]; or
        ii. The bank/QB demonstrates that its capital position is well above the minimum capital requirements after the call option is exercised;

6. Any repayment of principal (e.g. through repurchase or redemption) must be with prior supervisory approval and banks should not assume or create market expectations that supervisory approval will be given.

7. With regard to dividend/coupon discretion:

    a. The bank/QB must have full discretion at all times to cancel distributions/payments[2];
    b. Cancellation of discretionary payments must not be an event of default;
    c. Banks/QB must have full access to cancelled payments to meet obligations as they fall due;
    d. Cancellation of distributionspayments must not impose restrictions on the bank except in relation to distributions to common stockholders.

8. Dividends/coupons must be paid out of distributable items.

9. The instrument cannot have a credit sensitive dividend feature, that is a dividendcoupon that is reset periodically based in whole or in part on the bank's/QB credit standing.

10. The instrument cannot contribute to liabilities exceeding assets if such a balance sheet test forms part of national insolvency law.

11. Instruments classified as liabilities for accounting purposes must have principal loss absorption through either (i) conversion to common shares or (ii) a write-down mechanism which allocates losses to the instrument at a pre-specified trigger point. The trigger point is set at CET1 ratio of 7.25% or below or as determined by the Bangko Sentral. The bank must submit an expert's opinion on the accounting treatment/classification of the instruments.

    The guidelines on loss absorbency features of AT1 capital as provided in *Appendix Q-45 Annex E* shall likewise be observed.

12. It must have a provision that requires the instrument to either be written off or converted into common equity upon the occurrence of a trigger event.

    The trigger event occurs when a bank/QB is considered non-viable as determined by the Bangko Sentral. Non-viability is defined as a deviation from a certain level of CET1 Ratio, inability of the bank/QB to continue business (CLOSURE), or any other event as may be determined by the Bangko Sentral, whichever comes earlier.
    The issuance of any new shares as a result of the trigger event must occur prior to any public sector injection of capital so that the capital provided by the public sector is not diluted.

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[1] Replacement issues can be concurrent with but not after the instrument is called.

[2] A consequence of full discretion at all times to cancel distributions/payments is that "dividend pushers" are prohibited. An instrument with a dividend pusher obliges the issuing bank to make a dividend/coupon payment on the instrument if it has made a payment on another (typically more junior) capital instrument or share. This obligation is inconsistent with the requirement for full discretion at all times. Furthermore, the term "cancel distributions/payments" means extinguish these payments. It does not permit features that require the bank to make distributions/payments in kind.

The guidelines on loss absorbency features of AT1 capital at point of non- viability as provided in *Appendix Q-45 Annex F* shall likewise be observed.

13. The write-down will have the following effects:

    a. Reduce the claim of the instrument in liquidation;
    b. Reduce the amount re-paid when a call is exercised; and
    c. Partially or fully reduce coupondividend payments on the instrument.

14. Neither the bank/QB nor a related party over which the bank exercises control nor significant influence can have purchased the instrument, nor can the bank directly or indirectly have funded the purchase of the instrument.

15. The instrument cannot have any features that hinder recapitalization, such as provisions that require the issuer to compensate investors if a new instrument is issued at a lower price during a specified time frame.

16. It must be underwritten by a third party not related to the issuer bank/QB nor acting in reciprocity for and in behalf of the issuer bank/QB;

17. It must clearly state on its face that it is not a deposit and is not insured by the Philippine Deposit Insurance Corporation (PDIC).

18. The bank/QB must submit a written external legal opinion that the above- mentioned requirements, including the subordination and loss absorption features have been met.

19. If the instrument is not issued out of an operating entity or the holding company in the consolidated group (e.g. a special purpose vehicle – "SPV"), proceeds must be immediately available without limitation to an operating entity or the holding company in the consolidated group in a form which meets or exceeds all of the other criteria for inclusion in Additional Tier 1 capital.[1]

[1] Capital issued to third parties out of an SPV cannot be included in CET1. Instruments meeting the criteria for eligibility as AT1 capital will be treated as if the bank itself has issued the capital directly to 3rd parties. In cases where the capital has been issued to 3rd parties through an SPV via a fully consolidated subsidiary of the bank, such capital subject to the requirements for eligibility as AT1 capital, be treated as if the subsidiary itself had issued it directly to the 3rd parties and may be included in the bank's consolidated AT 1 capital based on the treatment of minority interest.

TIER 2 CAPITAL

Criteria for inclusion in Tier 2 Capital

1. It must be issued and paid-in.

2. It must be subordinated to depositors and general creditors of the bank/QB.

3. It is neither secured nor covered by a guarantee of the issuer or related entity or other arrangement that legally or economically enhances the seniority of the claim vis-à-vis depositors and general creditors of the bank/QB.

4. With regard to maturity:

   a. It must have a minimum original maturity of at least five (5) years;
   b. Its recognition in regulatory capital in the remaining five (5) years before maturity will be amortized on a straight line basis as shown in the table below; and

Remaining maturity	Discount factor
5 years & above	0%
4 years to <5 years	20%
3 years to <4 years	40%
2 years to <3 years	60%
1 year to <2 years	80%
< 1 year	100%

   c. There are no step-ups or other incentives to redeem.

5. It may be callable at the initiative of the issuer only after a minimum of five (5) years:

   a. To exercise a call option, a bank/QB must receive prior supervisory approval; and
   b. A QB must not do anything which creates an expectation that the call will be exercised[1];and
   c. A Bank/QB must not exercise a call unless:

      i. They replace the called instrument with capital of the same or better quality and the replacement of this capital is done at conditions which are sustainable for the income capacity of the bank/QB;[2] or
      ii. The bank/QB demonstrates that its capital position is well above the minimum capital requirements after the call option is exercised.

6. The investor must have no rights to accelerate the repayment of future scheduled payments (coupon or principal), except in bankruptcy and liquidation.

7. The instrument cannot have a credit sensitive dividend feature, that is a dividendcoupon that is reset periodically based in whole or in part on the bank's/QBs credit standing.

8. Neither the bank nor a related party over which the bank/QB exercises control or significant influence can have purchased the instrument, nor can the bank directly or indirectly have funded the purchase of the instrument.

9. It must be underwritten by a third party not related to the issuer bank/QB nor acting in reciprocity for and in behalf of the issuer bank/QB.

10. It must have a provision that requires the instrument to either be written off or converted into common equity upon the occurrence of a trigger event.

    The trigger event occurs when a bank/QB is considered non-viable as determined by the Bangko Sentral. Non-viability is defined as a deviation from a certain level of Common Equity Tier 1 (CET1) Ratio, inability of the bank to continue business (CLOSURE) or any other event as determined by the Bangko Sentral, whichever comes earlier.

    The issuance of any new shares as a result of the trigger event must occur prior to any public sector injection of capital so that the capital provided by the public sector is not diluted.

[1] An option to call the instrument after five (5) years) but prior to the start of the amortization period will not be viewed as an incentive to redeem as long as the bank does not do anything that creates an expectation that the call will be exercised at this point.
[2] Replacement issues can be concurrent with but not after the instrument is called.

The guidelines on loss absorbency features of Tier 2 capital at point of non viability as provided in *Appendix Q-45 Annex F* shall likewise be observed.

11. The write-down will have the following effects:

    a. Reduce the claim of the instrument in liquidation;
    b. Reduce the amount re-paid when a call is exercised; and
    c. Partially or fully reduce coupondividend payments on the instrument

12. The bank/QB must submit a written external legal opinion that the above-mentioned requirements, including the subordination and loss absorption features have been met.

13. It must clearly state on its face that it is not a deposit and is not insured by the Philippine Deposit Insurance Corporation (PDIC).

14. If the instrument is not issued out of an operating entity or the holding company in the consolidated group (e.g .a special purpose vehicle – "SPV"), proceeds must be immediately available without limitation to an operating entity or the holding company in the consolidated group in a form which meets or exceeds all of the other.[1]

[1] Capital issued to third parties out of an SPV cannot be included in CET1. Instruments meeting the criteria for eligibility as Tier 2 capital will be treated as if the bank itself has issued the capital directly to 3rd parties. In cases where the capital has been issued to 3rd parties through an SPV via a fully consolidated subsidiary of the bank, such capital subject to the requirements for eligibility as Tier 2 capital, be treated as if the subsidiary itself had issued it directly to 3rd parties through an SPV via a fully consolidated subsidiary of the bank, such capital subject to the requirements for eligibility as AT1 capital, be treated as if the subsidiary itself had issued it directly to the 3rd parties and may be included in the banks consolidated AT1 capital based on the treatment of minority interest.

Illustrative Sample

Computation of eligible minority interests to be included in parent bank's capital base

The case:

A banking group consists of two (2) legal entities that are both banks – Bank P is the parent and Bank S is the subsidiary. Their individual balance sheets are set out below:

Bank P-Balance Sheet		Bank S-Balance Sheet	
Assets		Assets	
Loans	90	Loans	160
CET1 investment in Bank S	30		
ATI investment in Bank B	9		
Tier 2 investment in Bank S	4		
Liabilities and Equity		Liabilities and Equity	
Deposits	70	Deposits	90
Tier 2 capital instruments	20	Tier 2 capital instruments	16
ATI capital instruments	12	ATI capital instruments	11
CET1 capital instruments	31	CET1 capital instruments	43

The consolidated balance sheet of the banking group is set out below:

Consolidated Balance Sheet	
Assets	
Loans	250
Liabilities and Equity	
Deposits	160
Tier 2 issued by subsidiary to third parties	12
Tier 2 issued by parent	20
AT1 issued by subsidiary to third parties	2
AT1 issued by parent	12
Common Equity issued by subsidiary to third parties (i.e., minority interest)	13
Common Equity issued by parent	31

The balance sheet of Bank P shows that in addition to its loans to customers, it has investments in Bank S as follows:

1. 70% of common shares;
2. 82% of Additional Tier 1 capital; and
3. 25% of Tier 2 capital.

	Amount issued to Bank P		Amount issued to third parties		Total
CET1	30	*70%*	13	*30%*	43
AT1	9	*82%*	2	*18%*	11
Tier 1	39		15		54
Tier 2	4	*25%*	12	*75%*	16
Total Capital	43		27		70

(A) Computation of minority interests arising from ordinary shares issued by a consolidated bank subsidiary

Step 1 –

Calculate the surplus CET1 of Bank S in excess of its 8.5% minimum CET1 plus conservation buffer requirement (i.e., 6.0% + 2.5%). Bank S is assumed to have risk weighted assets of 100.

Minimum Capital Surplus of Bank S		
	Minimum plus capital conservation buffer	Surplus capital
CET1	**8.5 (= 8.5% * 100)**	**34.5 (= 43 - 8.5)**

Step 2 –

Calculate the eligible portion of minority interest (MI) arising from CET1 issued by Bank S that is allowed to be included in the consolidated capital of Bank P [i.e., item (e)].

Bank S : amount of capital issued to third parties included in consolidated capital					
	Total amount issued (a)	Amount issued to third parties (b)	Surplus capital (c)	Surplus attributable to third parties (i.e., amount excluded from consolidated capital) (d) = (c) * (b)/(a)	Amount included in consolidated capital (e) = (b) - (d)
CET1	43	13	34.5	10.4	2.6

Step 3 –

The eligible amount of MI to be included in the consolidated CET1 Capital of Bank P is 2.6.

	Total amount issued by Bank P (all of which is to be included in consolidated capital)	Amount issued by Bank S to third parties to be included in consolidated capital of Bank P	Total amount issued by Bank P and Bank S to be included in consolidated capital of Bank P
CET1	31	2.6	33.6

(B) Minority interests arising from ordinary shares and Additional Tier 1 capital instruments issued by a consolidated bank subsidiary

Step 1 –

Calculate the surplus Tier 1 Capital of Bank S in excess of its 10% minimum Tier 1 capital plus capital conservation buffer requirement (i.e., 7.5% + 2.5%). Bank S is assumed to have risk weighted assets of 100.

Minimum and surplus capital of Bank S		
	Minimum plus capital conservation buffer	Surplus capital
Tier 1	10 (= 10% * 100)	44 (=(43+11) – 10)

Step 2 –

Calculate the eligible portion of MI arising from Tier 1 Capital issued by Bank S that is allowed to be included in the consolidated capital of Bank P [i.e., item (e)]

Bank S : amount of capital issued to third parties included in consolidated capital					
	Total amount issued (a)	Amount issued to third parties (b)	Surplus capital (c)	Surplus attributable to third parties (i.e., amount excluded from consolidated capital) (d) = (c) * (b)/(a)	Amount included in consolidated capital (e) = (b) - (d)
CET1	43	13	34.5	10.4	2.6
Tier 1	**54**	**15**	**44**	**12.2**	**2.8**

Step 3 –

The eligible amount for inclusion in Bank P's consolidated AT1 Capital is 0.2, arrived at by excluding from the eligible amount for inclusion as Tier 1 Capital (i.e., 2.8) the amount that has already been recognized in CET1 (i.e., 2.6).

	Total amount issued by Bank P (all of which is to be included in consolidated capital)	Amount issued by Bank S to third parties to be included in consolidated capital of Bank P	Total amount issued by Bank P and Bank S to be included in consolidated capital of Bank P
CET1	31	2.6	33.6
AT1	**12**	**.2**	**12.2**
Tier 1	**43**	**2.8**	**45.8**

(C) Minority interests arising from Tier 1 capital instruments and Tier 2 capital instruments issued by a consolidated bank subsidiary

Step 1 –

Calculate the surplus total capital of Bank S in excess of 12.5% minimum total capital plus conservation buffer requirement (i.e., 10% + 2.5%). Bank S is assumed to have risk weighted assets of 100.

Minimum and surplus capital of Bank S		
	Minimum plus capital conservation buffer	Surplus capital
Tier 1	**12.5 (= 12.5% * 100)**	**57.5 (= (43+11+16) - 12.5)**

Step 2 –

Calculate the eligible portion of MI arising from total capital by Bank S that is allowed to be included in the consolidated capital of Bank P (i.e., item (e)).

Bank S : amount of capital issued to third parties included in consolidated capital					
	Total amount issued (a)	Amount issued to third parties (b)	Surplus capital (c)	Surplus attributable to third parties (i.e., amount excluded from consolidated capital) (d) = (c) * (b)/(a)	Amount included in consolidated capital (e) = (b) - (d)
CET1	43	13	34.5	10.4	2.6
Tier 1	**54**	**15**	**44**	**12.2**	**2.8**
Total Capital	**70**	**27**	**57.5**	**22.2**	**4.8**

Step 3 –

The eligible amount for inclusion in Bank P's consolidated capital is 2.0, arrived at by excluding from the eligible amount for inclusion as total capital (i.e., 4.8) the amount that has already been recognized in Tier 1 Capital (i.e., 2.8).

	Total amount issued by Bank P (all of which is to be included in consolidated capital)	Amount issued by Bank S to third parties to be included in consolidated capital of Bank P	Total amount issued by Bank P and Bank S to be included in consolidated capital of Bank P
CET1	31	2.6	33.6
AT1	**12**	**.2**	**12.2**
Tier 1	**43**	**2.8**	**45.8**
Tier 2	**20**	**2.0**	**22.0**
Total Capital	**63**	**4.8**	**67.8**

Annex E

LOSS ABSORBENCY REQUIREMENTS FOR ADDITIONAL TIER 1 CAPITAL

1. Capital instruments classified as liabilities for accounting purposes must have principal loss absorption when the pre-specified trigger point is breached, through either:

    a. conversion to common shares; or
    b. write-off mechanism which allocates losses to the instrument.

2. The trigger point for conversion or write-off is set at 7.25% Common Equity Tier 1 (CET1) or below or as determined by the Bangko Sentral.

3. The write-off or conversion to common equity must generate CET1 under the relevant accounting standards. The instrument will only receive recognition in Tier 1 (CET1) up to the amount of CET1 generated by a full write-off of the instrument.

4. The aggregate amount to be written off or converted for all such instruments on breaching the trigger point must be at least the amount needed to immediately return the bank's CET1 ratio at more than 7.25%, or if this is not possible, the full principal value of the instrument.

5. The bank/QB has the option to choose its main loss absorption mechanism for its AT1 instruments which must be explicitly provided in the terms and condition of the issuance of the instruments.

    In case the conversion mechanism was chosen as an option, the terms and condition of the issuance shall likewise provide that in case said conversion cannot be implemented due to certain legal constraints, the write-off mechanism shall take effect.

6. Banks/QBs opting to use the conversion mechanism must address all legal impediments and obtain all prior authorization to ensure immediate recapitalization through conversion when the trigger point is breached. Failure to satisfy these requirements would render the instruments ineligible for inclusion in AT1 capital.

7. Banks/QB must make the necessary adjustments to their Articles of Incorporation to accommodate the conversion of capital instruments to common shares for loss absorbency. Moreover, banks/QBs must ensure that it has an appropriate buffer of authorized capital stock.

8. Where AT1 capital instruments provide for conversion into common shares when the trigger point is breached, the issue documentation must include among others:

    a. the specific number of common shares to be received upon conversion, or specify the conversion formula for determining the number of common shares received; and
    b. number of shares to be received based on the specified formula:

    Provided, That the capital instruments converting into ordinary shares shall have a maximum conversion rate of fifty percent (50%) of the ordinary share price at the time of issue.

9. In issuing AT1 capital, the bank may:

    a. differentiate between/among instruments as to whether the instrument is required to be converted or written off upon breaching the trigger point; and
    b. provide for a hierarchy as to which AT1 instruments will be converted or written off.

10. Where the issue documentation provides for a ranking of the conversion or write-off, the terms attached to such hierarchy must not impede the ability of the capital instrument to be immediately converted or written off, as required.

11. Written commitment to undertake the necessary actions to effect the conversion must be accomplished by the bank. Otherwise, the write-off mechanism will take effect as the main loss absorbency mechanism.

12. Where, following the breach of the trigger point, the conversion cannot be undertaken, the write-off mechanism shall likewise take effect.

13. The write-off mechanism shall have the following effects:

    a. reduce the claim of the instrument in liquidation;
    b. reduce the amount re-paid when a call is exercised; and
    c. partially or fully reduce coupondividend payments on the instruments.

14. The conversion to common shares or write-off of capital instruments prompted by the breach of the trigger point does not preclude the Bangko Sentral from requiring further conversion or write-off upon the occurrence of the trigger event.

Annex E-1

RISK DISCLOSURE REQUIREMENTS ON LOSS ABSORBENCY FEATURES OF CAPITAL INSTRUMENTS

The following are the risk disclosure requirements on the loss absorbency features of Additional Tier 1 (AT1) and Tier 2 (T2) capital instruments eligible under the BASEL III framework which aim to uphold investor protection through enhanced disclosure and transparency.

When marketing, selling and distributing AT1 and T2 instruments eligible as capital under the Basel III framework, banks/QBs must:

a. Subject investors to a client suitability test to determine their understanding of the specific risks related to these investments and their ability to absorb risks arising from these instruments;

b. Provide the appropriate Risk Disclosure Statement for the issuance of AT1 and T2 capital instruments. The said disclosure statement shall explain the loss absorbency feature for AT1 and T2 capital instruments as well as the resulting processes that will be effected when the triggers for loss absorbency are breached;

c. Secure a written certification from each investor stating that;

   (1) The investor has been provided with a Risk Disclosure Statement which, among others, explains the concept of loss absorbency for AT1 and T2 capital instruments as well as the resulting processes should the case triggers are breached;

   (2) The investor has read and understood the terms and conditions of the issuances;

   (3) The investors are aware of the risks associated with the capital instruments; and

   (4) Said risks include permanent write-down or conversion of the debt instrument into common equity at a specific discount;

d. Make available to the Bangko Sentral, as may be required, the:

   (1) Risk Disclosure Statement;
   (2) Certification cited in Item "c(3)" above duly signed by the investor; and
   (3) Client Suitability Test of the investor.

Annex F

LOSS ABSORBENCY REQUIREMENTS FOR ADDITIONAL TIER 1 CAPITAL AND TIER 2 CAPITAL AT THE POINT OF NON-VIABILITY

1. AT1 and AT2 capital instruments are required to have loss absorbency features at the point of non- viability.

2. Upon the occurrence of the trigger event, AT1 and T2 capital instruments should be able to absorb losses either through:

   a. conversion to common shares; or
   b. write-off mechanism which allocates losses to the instrument.

3. AT1 and T2 capital instruments will then be converted to common shares or written off upon the occurrence of the trigger event.

   The trigger event occurs when a bank/QB is considered non-viable as determined by the Bangko Sentral. Non-viability is defined as a deviation from a certain level of CET1 Ratio, inability of the bank/QB to continue business (CLOSURE) or any other event as determined by the Bangko Sentral, which ever comes earlier.

4. The write-off or conversion to common equity must generate CET1 and Total Capital under the relevant accounting standards. The instrument will only receive recognition in T1 and total capital up to the amount of CET1 generated by a full write-off of the instrument.

5. In the absence of any contractual terms to the contrary, AT1 capital instruments shall be utilized first before T2 capital instruments are converted or written off, until viability of the bank is re- established.

6. In the event that the bank/QB does not have any AT1 instruments, then the conversion/write off shall automatically apply to T2 capital.

7. The bank/QB has the option to choose its main loss absorption mechanism at the point of non-viability which must be explicitly provided in the terms and condition of the issuance of the instruments.

   In case the conversion mechanism was chosen as an option, the terms and condition of the issuance shall likewise provide that in case, said conversion cannot be implemented due to certain legal constraints, the write-off mechanism shall take effect.

8. Banks/QBs opting to use the conversion mechanism must address all legal impediments and obtain all prior authorization to ensure immediate recapitalization through conversion when the trigger event occurs. Failure to satisfy these requirements would render the instruments ineligible for inclusion as either AT1 capital or AT2 capital.

9. Banks/QB must make the necessary adjustments to their Articles of Incorporation to accommodate the conversion of capital instruments to common shares for loss absorbency at the point of non-viability. Moreover, banks/QBs must ensure that it has an appropriate buffer of authorized capital stock.

10. Where AT1 or T2 capital instruments provide for conversion into common shares when the trigger event occurs, the issue documentation must include among others:

    a. the specific number of common shares to be received upon conversion, or specify the conversion formula for determining the number of common shares received; and
    b. number of shares to be received based on the specified formula.

    Provided, That the capital instruments converting into ordinary shares shall have a maximum conversion rate of fifty percent (50%) of the ordinary share price at the time of issue.

11. In issuing AT1 or AT2 capital, the bank may:

    a. differentiate between/among instruments as to whether the instrument is required to be converted or written off upon the occurrence of the trigger event; and
    b. provide for a hierarchy as to which instruments will be converted or written off among the AT1 capital instruments as well as among the T2 capital instruments.

12. Where the issue documentation provides for a ranking of the conversion or write-off, the terms attached to such hierarchy must not impede the ability of the capital instrument to be immediately converted or written off, as required.

13. Written commitment to undertake the necessary actions to effect the conversion must be accomplished by the bank/QB. Otherwise, the write-off mechanism will take effect as the main loss absorbency mechanism.

14. Where, upon the occurrence of the trigger event, the conversion cannot be undertaken, the write-off mechanism shall likewise take effect.

15. The write-off mechanism shall have the following effects:

    a. reduce the claim of the instrument in liquidation;
    b. reduce the amount re-paid when a call is exercised; and
    c. partially or fully reduce coupondividend payments on the instruments.

16. In case of bank closure prior to the breach of the trigger event, a provision that provides for automatic write-off of AT1 and T2 instruments must be included in the terms and conditions of the issuance.

GROUP TREATMENT

17. The relevant jurisdiction in determining the trigger event is the jurisdiction in which the capital is being given recognition for regulatory purposes. However, the group treatment will only apply to wholly-owned subsidiary banks/QB.

18. Where an issuing bank/QB is a subsidiary of a wider banking group regulated by the Bangko Sentral or its parent wishes the instrument to be included in the capital of the consolidated group in addition to its solo capital, the terms and conditions of the subsidiary bank/QB AT1 and T2 capital instruments must specify an additional trigger event as follows:

    AT1 and T2 capital instruments will be converted to common shares or written off once the parent bank is considered non-viable.

19. In case of a Bangko Sentral supervised entity that is a subsidiary of another institution that is not regulated by the Bangko Sentral, if the instruments are to be recognized as capital under Bangko Sentral requirements, in addition to the applicability of the trigger event, said instruments must provide that:

    a. any supervisor of the parent entity cannot impede the right of Bangko Sentral to require the write-off or conversion of the instruments in relation to the Bangko Sentral supervised entity; and
    b. any right of write-off or conversion by the parent supervisor must generate CET1 in the Bangko Sentral supervised entity.

20. Further, any common stock paid as compensation to the holders of the instrument must be common stock of either the issuing bank or the parent company of the consolidated group.

Annex G

RISK DISCLOSURE REQUIREMENTS ON LOSS ABSORBENCY FEATURES OF CAPITAL INSTRUMENTS

I. When marketing, selling and/or distributing AT1 and T2 instruments eligible as capital under the Basel III framework, in the Philippines, QBs must:

1. Subject investors to a client suitability test to determine their understanding of the specific risks related to these investments and their ability to absorb risks arising from these instruments;

2. Provide the appropriate Risk Disclosure Statement for the issuance of AT1 and T2 capital instruments. The said disclosure statement shall explain the loss absorbency features for AT1 and T2 capital instruments as well as the resulting processes that will be effected when the triggers for loss absorbency are breached;

3. Secure a written certification from each investor stating that:

   a. The investor has been provided a Risk Disclosure Statement which, among others, explains the concept of loss absorbency for AT1 and T2 capital instruments as well as the resulting processes should the case triggers are breached;

   b. The investor has read and understood the terms and conditions of the issuance;

   c. The investor is aware of the risks associated with the capital instruments; and

   d. Said risks include permanent write- down or conversion of the debt instrument into common equity at a specific discount;

4. Make available to the Bangko Sentral, as may be required, the:

   a. Risk disclosure statement;
   b. Certification cited in Item "3" above duly signed by the investor; and
   c. Client suitability test of the investor.

II. For offshore issuances of AT1 and T2 capital instruments, the risk disclosure requirements shall be governed by the applicable rules and regulations of the country where these instruments are issued.

The subsequent sale and/or distribution of AT1 and Tier 2 capital instruments in the Philippines, originally issued overseas, shall comply with all the risk disclosure requirements for issuance in the Philippines.

(Circular Nos. 1121 dated 8 June 2021 and 1051 dated 27 September 2019)

GUIDELINES ON THE CAPITAL TREATMENT OF BANKS' HOLDINGS OF REPUBLIC OF THE PHILIPPINES GLOBAL BONDS PAIRED WITH WARRANTS
[Appendix to Secs. 124-Q and 125-Q]

A QB's holdings of ROP Global Bonds that are paired with Warrants (paired Bonds), which give the QB the option or right to exchange its holdings of ROP Global Bonds into Peso-denominated government securities upon occurrence of a predetermined credit event, shall be risk weighted at zero percent (0%): Provided, That the zero percent (0%) risk weight shall be applied only to QB's holdings of paired Bonds equivalent to not more than fifty percent (50%) of the total qualifying capital, as defined under *Appendix Q-45*.

GUIDELINES ON THE USE OF THE STANDARDIZED APPROACH IN COMPUTING THE CAPITAL CHARGE FOR OPERATIONAL RISKS
(Appendix to Secs. 124-Q and 125-Q)

QBs applying for the use of the Standardized Approach (TSA) must satisfy the following requirements/criteria:

General Criteria

1. The use of TSA shall be conditional upon the explicit prior approval of the Bangko Sentral.

2. The Bangko Sentral will only give approval to an applicant QB if at a minimum:

   a. Its board of directors and senior management are actively involved in the oversight of the operational risk management framework;
   b. It has an operational risk management system that is conceptually sound and is implemented with integrity; and,
   c. It has sufficient resources in the use of the approach in the major business lines as well as in the control and audit areas.

3. The above criteria should be supported by a written documentation of the board-approved operational risk management framework of the QB which should cover the following:

   a. Overall objectives and policies
   b. Strategies and processes
   c. Operational risk management structure and organization
   d. Scope and nature of risk reporting/ assessment systems
   e. Policies and procedure for mitigating operational risk

4. This operational risk management framework of the QB should be disclosed in its annual report, as provided under *Appendix Q-45*.

Mapping of Gross Income

5. QBs using TSA in computing operational risk capital charge must develop specific written policies and criteria for mapping gross income of their current business lines into the standard business lines prescribed under *Appendix Q-45*. They must also put in place a review process to adjust these policies and criteria for new or changing business activities or products as appropriate.

6. QBs must adopt the following principles for mapping their business activities to the appropriate business lines:

   (a) Activities or products must be mapped into only one (1) of the eight (8) standard business lines, as follows:

      (1) Corporate finance- This includes arrangements and facilities [e.g., mergers and acquisitions, underwriting, privatizations, securitization, research, debt (government, high yield), equity, syndications, Initial Public Offering (IPO), secondary private placements] provided to large commercial enterprises, multinational companies, NBFIs, government departments, etc.

      (2) Trading and sales- This includes treasury operations, buying and selling of securities, currencies and others for proprietary and client account.

      (3) Retail banking - This includes financing arrangements for private individuals, retail clients and small businesses such as personal loans, credit cards, auto loans, etc. as well as other facilities such as trust and estates and investment advice.

      (4) Commercial banking –This includes financing arrangements for commercial enterprises, including project finance, real estate, export finance, trade finance, factoring, leasing, guarantees, bills of exchange, etc.

      (5) Payment and settlement - This includes activities relating to payments and collections, inter-bank funds transfer, clearing and settlement.

      (6) Agency services - This refers to activities of QBs acting as issuing and paying agents for corporate clients, providing custodial services, etc.

(7) Asset management - This includes managing funds of clients on a pooled, segregated, retail, institutional, open or closed basis under a mandate.

(8) Retail brokerage - This includes brokering services provided to customers that are retail investors rather than institutional investors.

(a) Any activity or product which cannot be readily mapped into one (1) of the standardized business lines but which is ancillary[1] to a business line shall be allocated to the business line to which it is ancillary. If the activity is ancillary to two or more business lines, an objective criteria or qualification must be made to allocate the annual gross income derived from that activity to the relevant business lines.

(b) Any activity that cannot be mapped into a particular business line and is no an ancillary activity to a business line shall be mapped into one (1) of the business lines with the highest associated beta factor eighteen percent (18%). Any ancillary activity to that activity will follow the same business line treatment.

(c) QBs may use internal pricing methods to allocate gross income between business lines: *Provided*, That the sum of gross income for the eight business lines must still be equal to the gross income as would be recorded if the QB uses the Basic Indicator Approach (BIA).

(d) The process by which QBs map their business activities into the standardized business lines must be regularly reviewed by party independent from that process.

7. In computing the gross income of the QB, the amounts of the income accounts reported in the operational risk template[2] must be equal to the year-end balance reported in the FRP. Any discrepancy must be properly accounted and supported by a reconciliation statement.

Application Process for the Use of TSA

8. QBs applying for the use of TSA should submit the following documents to their respective Central Points of Contact (CPCs) of the Bangko Sentral:

(a) An application letter signed by the president/CEO of the QB signifying its intention to use TSA in computing the capital charge for operational risk;
(b) Written documentation of the Board-approved operational risk management framework as described in paragraph 3.
(c) Written policies and criteria for mapping business activities and their corresponding gross income into the standard business lines as described in paragraphs 5 to 7.
(d) An overall roll-out plan of the QB including project plans and execution processes, with appropriate time lines.

Initial Monitoring Period

9. The Bangko Sentral may require a six (6)-month period of initial monitoring of a QB's TSA before it is used for supervisory capital purposes.

Reversion from TSA to BIA

10. A QB which has been approved to use TSA in computing its capital charge or operational risk will not be allowed to revert to the simpler approach, i.e., the BIA. However, if the Bangko Sentral determines that the QB no longer meets the qualifying criteria for TSA, it may require the QB to revert to BIA. The QB shall be required to repeat the whole application process should it opt to return to the use of TSA, but only after a year of using the BIA.

These guidelines shall take effect on 21 July 2007.

[1] Ancillary function is an activity/function that is not the main activity of a given business line but only as a support activity
[2] Part V of the revised CAR report template

GUIDELINES ON THE PROHIBITION AGAINST THE USE OF FUNDS FROM NON-RESIDENT SOURCES FOR PLACEMENTS IN THE BANGKO SENTRAL'S TDF, ODF, AND BSP-SF

[Appendix to Sec. 601-Q (Prohibition against funds from non-residents being accepted in the TDF, ODF and BSP-SF)]

The TDF, ODF and BSP-SF are monetary instruments deployed by the Bangko Sentral for the purpose of managing domestic liquidity in the financial system. These facilities should not be made available for opportunistic investment activities funded from non-resident sources. Furthermore, placements in the TDF, the ODF and the BSP-SF are contractual in nature and thus, shall be governed by the intent of the contracting parties. In keeping with the nature of this facility, all eligible QBs and trust entities shall not place in the TDF, the ODF, and the BSP-SF (primary and secondary markets) funds obtained, directly or indirectly, from non-residents:

An eligible QB or trust entity is required to submit to the Bangko Sentral's Financial Markets (FM) a notarized Letter of Undertaking (LOU) (Annex "*A*" or Annex "B", as applicable) committing it is qualified as a counterparty of the Bangko Sentral TDF, the ODF, and the BSP-SF.

It is the responsibility of an eligible QB or trust entity to have in place the appropriate internal policies and monitoring and assurance mechanisms consistent with its LOU.

The Bangko Sentral reserves the right to verify compliance with the above conditions. Whenever the Bangko Sentral has reason to believe that an eligible QB or trust entity is unable or unwilling to comply with the terms and conditions for the access to the TDF, the ODF, or the BSP-SF, the Bangko Sentral may limit, suspend, or deny access by the subject QB or trust entity to the TDF, the ODF and/or the BSP-SF.

The eligible QB or trust entity shall report to the appropriate supervising department of the Bangko Sentral all existing TDF, ODF, and BSP-SF placements not consistent with these guidelines. Such placements shall not be renewed and shall be terminated upon maturity.

(Circular Nos. 1130 dated 23 November 2021, 1095 dated 08 September 2020, 995 dated 05 February 2018, 961 dated 02 June 2017, M-2016-016 dated 18 November 2016, and Circular No. 913 dated 02 June 2016)

Annex A

(Institution's Letterhead)

Date: _____

The Financial Markets (FM)

Bangko Sentral ng Pilipinas

A. Mabini St., Malate, Manila

Letter of Undertaking

Pursuant to Sec. 601-Q, which prohibits the use of funds sourced from non-residents from being placed in the Term Deposit Facility (TDF), the Overnight Deposit Facility (ODF), and the Bangko Sentral Securities Facility (BSP-SF) of the Bangko Sentral, the _____(Name of Institution)_____ hereby undertakes not to place in the TDF, the ODF and the BSP-SF, as applicable, funds obtained from non-residents.

The _____(Name of Institution)_____ shall put in place appropriate internal policies and monitoring and assurance mechanisms consistent with the above conditions. Furthermore, it shall make available pertinent information and documents requested by the Bangko Sentral to verify compliance with the terms and conditions on its access to the Bangko Sentral's TDF, ODF and BSP-SF.

_____
(Treasurer)
Signature Over Printed Name

_____
(President or Equivalent Position)
Signature Over Printed Name

SUBSCRIBED AND SWORN TO before me this day of _____ at _____, affiant/s exhibiting their _____, to wit:

NOTARY PUBLIC

Doc. No. _____;
Page No. _____;
Book No. _____;
Series of 20_____.

Annex B

(Institution's Letterhead)

Date: _____

The Financial Markets (FM)

Bangko Sentral ng Pilipinas

A. Mabini St., Malate, Manila

Letter of Undertaking

Pursuant to Sec. 601- Q, which prohibits the use of funds sourced from non-residents from being placed in the Term Deposit Facility (TDF), the Overnight Deposit Facility (ODF), and the Bangko Sentral Securities Facility (BSP-SF) of the Bangko Sentral, the _____(Name of Trust Department/Trust Entity)_____ hereby undertakes not to place in the TDF, the ODF and the BSP-SF, as applicable, funds obtained from non-residents.

The _____(Name of Trust Department/Trust Entity)_____ shall put in place appropriate internal policies and monitoring and assurance mechanisms consistent with the above conditions. Furthermore, it shall make available pertinent information and documents requested by the Bangko Sentral to verify compliance with the terms and conditions on its access to the Bangko Sentral's TDF, ODF and BSP-SF.

_____ (Treasurer)
Signature Over Printed Name

_____ (President or Equivalent Position)
Signature Over Printed Name

SUBSCRIBED AND SWORN TO before me this day of _____ at _____, affiant/s exhibiting their _____, to wit:

NOTARY PUBLIC

Doc. No. _____;
Page No. _____;
Book No. _____;
Series of 20_____.

BASIC STANDARDS IN THE ADMINISTRATION OF TRUST, OTHER FIDUCIARY AND INVESTMENT MANAGEMENT ACCOUNTS
(Appendix to Sec. 401-Q)

I. Introduction

Trust and other fiduciary business and investment management activities have evolved with the changes in the financial market and advancement in technology. These innovations have allowed trust entities to expand the scope of trust products and services offered to customers, thus increasing their exposure to various risks. As trust entities grow more diverse, necessarily policies and procedures as well as risk management practices must keep pace. The basic standards would provide common processes for an efficient operation and administration of trust, other fiduciary and investment management activities across the trust industry.

II. Statement of Policy

It is the policy of the Bangko Sentral to provide adequate level of protection to investors who, under a fiduciary arrangement, engage the services or avail of products of trust entities which are required to observe prudence in the exercise of their fiduciary responsibility. Along this line, the Bangko Sentral prescribes basic standards for the efficient administration and operation of trust and other fiduciary business and investment management activities.

III. Standards

The basic standards in the administration of trust, other fiduciary and investment management accounts are meant to address the significant areas of operations and provide minimum set of requirements and procedures:

A. *Account acceptance and review processes*

1. Pre-acceptance account review

This review must document that the trust entity can effectively administer the account. It shall be covered by a written policy which shall contain, among other things, the types of trust, other fiduciary and investment management accounts that are desirable and consistent with the trust entity's risk strategies and the specific conditions for accepting new accounts, and approved by the Trust Committee, or the Trust Officer, or subordinate officer of the trust department, authorized by the board of directors or its functional oversight equivalent, in the case of foreign banks and institutions.

The review process entails the thorough and complete review of the client's/account's characteristics and investment profile, including the assets/ properties to be contributed/delivered. Non-financial/non-traditional assets (i.e., real estate and the like) which are more likely to be iliquid shall be carefully reviewed prior to acceptance to ensure that the trust entity only accepts accounts which hold assets it may be able to properly manage.

Prior to the acceptance of a fiduciary account, the trust entity shall review the underlying instrument (trust agreement or contract) for potential conflicts of interest. If such conflict exists, the trust entity shall take appropriate action to address such condition before the account is accepted.

In cases where the trust entity is chosen as a successor trustee or investment manager, the trust entity shall perform a review and evaluation of all assets to be delivered to the trust entity to determine how these would serve the client's objectives, whether the trust entity can properly handle such assets and to assess any possible issue/problem which may arise with respect to such assets before acceptance of such assets and/or assumption of the trust, fiduciary or investment management relationship.

1. Establishment and Post Acceptance Review

Acceptance policies for new accounts shall, at a minimum, include the following processes and/or requirements:

a. Account opening process[1]. This process defines the trust entity's policies and procedures for client/account identification, consistent with the trust entity's KYC policy for compliance with anti-money laundering regulations; identification of the needs of the client; the objective(s) of the engagement; the vehicle to be used; and the account's investment parameters. The trust officer or other authorized personnel of the trust department shall conduct the account opening process for trust, fiduciary and investment management accounts. In the case of UIT Funds, only authorized branch managers/officers as well as UIT marketing personnel, who have all successfully undergone the required certification/accreditation/licensing process, may perform said process for UIT Fund clients. The account opening process shall at least involve the following:

(a) As a general rule, client profiling shall be performed for all UIT Fund and regular trust, other fiduciary and investment management accounts via a duly acknowledged Client Suitability Assessment (CSA), which aims to provide the trust entity with information leading to the prudent design of investment packages, suited to a particular client or investment account. The CSA, however, shall not be required for the following trust and other fiduciary accounts:

(i) court trust;
(ii) legislated and quasi-judicial trust;
(iii) trust under indenture;
(iv) facility/loan agency;
(v) transfer agency;
(vi) depository and reorganization;
(vii) escrow;
(viii) custodianship;
(ix) safekeeping; and
(x) Institutional trust – pre-need plans.

The profiling process, to be documented through a CSA Form signed by the concerned parties, shall be undertaken on a per client basis, which shall emphasize the level of risk tolerance of the client.

- CSA

  The trust entity shall obtain adequate information from the client to determine the appropriateness of the fiduciary product/ service to be provided and ensure the suitability of the investment product/ portfolio/strategy to be recommended to each client. It shall provide prospective clients with client suitability questionnaire and require them to accomplish the same prior to the acceptance of the account and execution of a transaction.

  For this purpose, the trust entity shall make an assessment of the client's level of financial sophistication and consider factors relevant to the creation and management of, or participation in, an investment portfolio, such as but not limited to, the specific needs and unique circumstances of the client and/or beneficiary/(ies), basic characteristics of the clients' investment and experience, financial constraints, risk tolerance, tax considerations and regulatory requirements.

  The same CSA process shall be applied by the trust entity for directional accounts.

- Minimum information required for CSA:

  i. Personal/Institutional data. Minimum personal/institutional information that are unique to a natural or juridical client, which shall also cover demographics and KYC information; the identity of beneficiaries, where applicable, and approximate portion of total assets administered/managed.

  ii. Investment objective. A clear statement or definition of the client's investment goals/purposes to be achieved through a particular trust, fiduciary or investment product

[1] Trust entities shall be given six (6) months from 01 August 2017 to make appropriate changes in their policies, processess, and procedures in order to comply with the above requirements.

or service. The client may opt to open several accounts, each one (1) with specific investment objectives separate and distinct from the other accounts.

iii. Investment experience. A list of various types of investment the prospective client is familiar with, acquired from actual/ personal investment experience, or of similar investment circumstances.

iv. Knowledge and financial situation. For complex transactions where the level of risk involved is greater, the trust entity must take into account the knowledge, experience and financial situation of the client or potential client to assess the level of investment sophistication. This may include the careful assessment whether the specific type of financial instrument/service/ portfolio/strategy is in line with the client's disclosed financial capacity.

Such assessment is necessary as there are significant risks involved on financial investments (e.g., derivatives), the type of transaction (e.g., sale of options), the characteristics of the order (e.g., size or price specifications) or the frequency of the trading.

v. Investment time frame and liquidity requirement. The trust entity is able to organize the portfolio in a manner that will provide for anticipated liquidity requirement through redemption of principal contribution or earnings.

vi. Risk tolerance. Allow the trust entity to classify clients in accordance with its own pre-set internal risk classification.

Based on the results of the CSA, classification of clients by the trust entity may include, but need not be limited to the following:

i. *Conservative.* Client wants an investment strategy where the primary goal is to prevent the loss of principal, and where the client prefers investment grade and highly liquid assets, government securities, Republic of the Philippines' bonds (ROPs), deposits with local banks/branches of foreign banks operating in the Philippines, and/or deposits with financial institutions in any foreign country: *Provided*, That said financial institution has at least an investment grade credit rating from a reputable international credit rating agency. For purposes of investing in a unit investment trust funds (UITFs), a client wants an investment strategy where the primary objective is to prevent the loss of principal and where the fund is invested in securities issued by the National Government and/or deposits with local banks/branches of foreign banks operating in the Philippines and/or with financial institutions in any foreign country: *Provided*, That said financial institution has at least an investment grade credit rating from a reputable international credit rating agency.

ii. *Moderate.* Client wants a portfolio which may provide potential returns on investment that are higher than the regular traditional deposit products and client is aware that a higher return is accompanied by a higher level of risk. Client is willing to expose the funds to a certain level of risks in consideration for higher returns.

iii. *Aggressive.* Client wants a portfolio which may provide appreciation of capital over time and client is willing to accept higher risks involving volatility of returns and even possible loss of investment in return for potential higher long-term results.

- Investment policy statement

Trust entity managing discretionary accounts shall have in place a method by which suitability of investment is determined based on the results of the CSA and formulated via an Investment Policy Statement (IPS). It shall communicate to prospective clients the results of the assessment, recommend the investment product/portfolio/strategy, and explain the

reasons why, on the basis of the given information, its recommendation is to the best interest of the client as of a defined timeframe. The trust entity shall make a recommendation only after having reasonably determined that the proposed investment is suitable to the client's and/or beneficiary's risk profile/tolerance, financial situation, investment experience, and investment objectives.

The IPS is a clear reference frame for investment decisions and must be based on the investment objectives and risk tolerance of the client. It must include, at a minimum, a description of the following:

i. Client's risk tolerance;

ii. Investment and/or return objectives;

iii. Liquidity requirements;

iv. Investment horizon;

v. Investment strategy and rebalancing;

vi. Portfolio construction process, including asset allocation and security selection criteria;

vii. Investment restrictions - identifying any limitation which the client may have for the portfolio such as, but not limited to, single/group exposure limits, investment restrictions (e.g., prohibited investments), and client's consent for taking losses; and

viii. Investment performance review - indicating proposed market benchmarks and the desired frequency of the performance review reporting.

A trust entity shall review the IPS of each client, offer suggestions on clarifying any necessary changes in the IPS, and discuss with the client various techniques and strategies to be used to meet the client's investment goals. A trust entity shall have a mechanism in place to ensure that this review is done periodically and that only appropriate investments and investment strategies are included in a client's portfolio and are aligned with the IPS.

For UITF, the IPS is equivalent to the investment objective of the fund specifically stated in the Declaration of Trust.

- Option to client to re-classification

Generally, the trust entity shall recommend the investment product/portfolio/strategy suitable to the client based on the results of the CSA. The trust entity may, however, provide a process for allowing clients to invest in investment products/ portfolio/strategy with a higher risk than those corresponding to the CSA profile results. A client who exercises the option to be re-classified outside the CSA process thereby waives some of the protection afforded by these guidelines. Such re-classification may be allowed subject to the observance of the following:

i. The client shall state in writing to the TE that –

   - He does not agree with or accept the recommendation of the trust entity on the investment product/portfolio/strategy appropriate to the client's profile based on the results of the CSA;

   - He would like to avail of the investment product/portfolio/strategy other than that which is consistent with the results of the CSA;

- He requests/intends to be re-classified, either generally or in respect to a particular investment/service/ transaction/product; and

- He fully understands and is willing to take the risks incidental to the investment product/portfolio/strategy to be availed of.

ii. The trust entity shall issue a clear written warning to the client of the protections he may lose and conversely, of the risks that he is exposed to.

iii. The trust entity shall have taken all reasonable steps to ensure that the client meets all relevant requirements as provided for in the trust entity's written policies.

For non-discretionary accounts, the trust entity shall observe the above requirements for every transaction allowing clients to invest in products/portfolio/strategy with a higher risk than those corresponding to their CSA profile results.

- Frequency of CSA and IPS

i. The CSA shall be performed and the IPS shall be formulated and executed prior to the opening of the account;

ii. The trust entity shall update the CSA and the IPS at least every three (3) years except in the following instances;

- Whenever updates are necessitated by the client, upon notice/advise to the trust entity, on account of a change in personal/ financial circumstances or preferences, the trust entity shall adjust/modify its investment strategy/portfolio and recommendation, subject to the conformity of the client;

- Whenever managed trust, other fiduciary, and investment management accounts express intention to invest in complex investment products such as financial derivatives, the trust entity shall ensure that the CSA and the IPS are updated at least annually. Otherwise, the trust entity shall not make new/additional investments in complex investment products.

iii. The trust entity shall ensure that periodic written notices given to clients reminding them of such updates are received/acknowledged by clients or their authorized representatives;

iv. Updated CSA and IPS shall be acknowledged by the client;

v. The frequency of review shall be included as a provision in the written agreement; and

vi. The latest CSA and IPS will continue to be applied for any subsequent principal contributions to the account, until these are amended or updated by the client.

(a) Identification of degree of discretion granted by client to the trust entity. This process involves the determination of the extent of discretion granted to the trust entity to manage the client's portfolio.

(1) Discretionary. The trust entity has authority or discretion to invest the funds/ property of the client in accordance with the parameters set forth by the client; and

(2) Non-discretionary. Investment activity of the trust entity is directed by the client or limited only to specific securities or properties and expressly stipulated in the agreement or upon written instruction of the client.

(b) Documentation. The trust, fiduciary or investment management relationship shall be formally established through a written legal document such as the trust or investment management agreement. The engagement documents shall clearly specify the extent of fiduciary assignments/ responsibilities of the trust entity and articulate the nature and limits of each party's status as trustor/principal or trustee/ agent. Policies and procedures shall provide that trust or investment management agreements are signed by the trust officer, or subordinate officer of the trust department, or in the case of UIT Funds, branch managers/officers duly thorized by the board of directors.

The documentation process must also consider the following:

(1) The Agreement must conform to the requirements provided under Sec. 413-Q *(Minimum documentary requirements)* for trust and other fiduciary accounts and Sec. 415-Q *(Minimum documentary requirements)* for investment management accounts. In addition, the Agreement shall contain the following provisions:

(i) A description of the services to be provided;

(ii) All charges relating to the services or instruments envisaged and how the charges are calculated;

(iii) The obligations of the client with respect to the transactions envisaged, in particular his financial commitments towards the trust entity; and

(iv) For engagements involving management of assets or properties, the degree of discretion granted to the trustee or agent must be clearly defined and stated in the agreement;

(2) The Agreement shall be in plain language understandable by the client and/or personnel of the trust entity responsible for explaining the contents of the agreement to the client.

(3) For complex investment products, such as financial derivatives instruments or those that use synthetic investment vehicles, the trust entity shall disclose to the client and require client's prior written conformity to the following:

Key features of investment services and financial instruments envisaged, according to the nature of such instruments and services;

(i) The type(s) of instruments and transactions envisaged;
(ii) The obligations of the trust entity with respect to the transactions envisaged, in particular, its reporting and notice obligations to the clients; and
(iii) An appropriate disclosure bringing to the client's attention the risks involved in the transactions envisaged.

(4) In order to give a fair and adequate description of the investment service or financial instrument, the trust entity shall provide a clearly stated and easily understood Risk Disclosure Statement to its clients, which forms part of or attached to the trust, fiduciary or investment management agreement. The Risk Disclosure Statement shall contain, among other things, the following provisions:

(i) Cautionary statement on the general risks of investing or associated with financial intruments, i.e., if the market is not good, an investor may not be able to get back his principal or original investment. Such statement must be given due prominence, and not to be concealed or masked in any way by the wording, design or format of the information provided;

(ii) If the investment outlet is exposed to any major or specific risks, a description and explanation of such risks shall be clearly stated; and

(iii) Advisory statement that for complex investment products, said instruments can be subject to sudden and sharp falls in value such that the client may lose its/his entire investment, and, whenever applicable, be obligated to provide extra funding in case it/he is required to pay more later.

Additional risk disclosures may be provided as appropriate.

The trust entity must ensure that the trust, fiduciary and investment management agreements and documents have been reviewed and found to be legally in order.

B. *Account Administration*

It is the fundamental duty of a fiduciary to administer an account solely in the interest of clients. The duty of loyalty is a paramount importance and underlies the entire administration of trust, other fiduciary and investment management accounts. A successful administration will meet the needs of both clients and beneficiaries in a safe and productive manner.

Account administration basically involves three (3) processes, namely; (1) periodic review of existing accounts, (2) credit process and (3) investment process.

(1) *Periodic review of existing accounts*

The board of directors and Trust Committee shall formulate and implement a policy to ensure that a comprehensive review of trust, fiduciary and investment management accounts (including collective investment schemes such as UIT Funds) shall be conducted. The periodic review of managed accounts shall be aligned with the provisions on the review and updating of the CSA and IPS. The board of directors may delegate the conduct of account review to the Trust Officer or Trust Department Committee created for that purpose. The policy shall likewise indicate the scope of the account review depending upon the nature and types of trust, fiduciary and investment management accounts managed.

A comprehensive accounts review, which shall entail an administrative as well as investments review, shall be performed on a periodic basis to ascertain that the account is being managed in accordance with the instrument creating the trust and other fiduciary relationship. The administrative review of an account is taken to determine whether the portfolio/assets are appropriate, individually and collectively, for the account, while an investment review is used to analyze the investment performance of an account and reaffirm or modify the pertinent investment policy statement, including asset allocation guidelines. Whether the administrative and investment review are performed separately or simultaneously, the reviewing authority shall be able to determine if certain portfolio/assets are no longer appropriate for the account, (i.e., not consistent with the requirements of the client) and to take proper action through prudent investment practices to change the structure or composition of the assets.

The periodic review process also involves disclosure of information on the investment portfolio and the relevant investing activities. Regardless of the degree of discretion granted by the client to the trust entity, the former assumes full risk on the investment and related activities, and counterparties. Relevant changes in the trust entity's organization or investment policies that may affect the client's decision to continue the services of the trust entity shall be disclosed to the client.

In the case of non-discretionary public interest accounts such as employee benefit/ retirement or pension funds, due diligence review of the investment portfolio by the trust entity shall include providing investors with appropriate information needed to make an informed investment decision and avoid possible conflict of interest and self-dealing situations.

The trust entity should be able to show (in addition to the specific written directive from the client) what it has done in the exercise of due diligence and prudence on its part to protect the interest of the client and/or beneficiaries, especially for accounts of public interest like retirement/pension fund accounts.

The trust entity shall keep its clients informed of the investment and related activities by rendering periodic reports and financial statements prescribed under Sec. 435 *(To trustor, beneficiary, principal)* and as necessary. The types of reports and statements and the frequency of their submission must be clearly specified in the trust entity's written policies and procedures.

The trust entity shall also establish a system that enables a trust account representative or officer to periodically contact clients and/or beneficiaries to determine whether their financial objectives and circumstances have changed.

(1) Credit process

Each trust entity shall define its credit process in relation to the discharge of the trust entity's investment function. The process ensures credit worthiness of investment undertakings including dealings and relationship with counterparties. It also serves to institutionalize the independence of the credit process of the trust entity. The credit process must at least cover the following:

a. *Credit policies.* Trust entities must clearly define its credit policies and processes, including the use of internal and external credit rating and approval process relative to the delivery of its instrument function. The trust entity can share credit information with the bank proper subject to proper delineation and documentation. The credit process shall show the following at the minimum:

i. Clear credit process flow, from initiation of the lending activities envisioned by the trust entity up to the execution of actual investment;

ii. Credit criteria and rating used;

iii. Manner by which the trust entity handles the information, including confidential and material data, which is shared between and among the departments, subsidiaries or affiliates of the trust entity; and

iv. Clear delineation of duties and responsibilities of each of the departments, subsidiaries and affiliates of the trust entity, where such groups or entities share the credit process.

b. *Counterparty accreditation process.* The trust entity must clearly define the policies and the processes it will undertake to accredit counterparties, including the bank proper, and its subsidiaries and affiliates, for their investment trading functions. It may use or avail itself of the accreditation process of its bank proper provided there is proper delineation of functions. The counterparty accreditation process shall show the following at the minimum:

(i) Clear accreditation process flow from the initiation of credit activities up to the actual usage of lines;
(ii) Credit criteria and rating used;
(iii) Manner by which the trust entity handles the information, including confidential and material data, which are shared between and among the departments, subsidiaries or affiliates of the trust entity;
(iv) Usage, duties and responsibilities of each of the department, subsidiaries and affiliates of the trust entity, where there is sharing of credit lines between and among these concerned groups/entities; and
(v) Clear delineation of duties and responsibilities of each of the departments, subsidiaries and affiliates of the trust entity, where such groups or entities share the accreditation credit process.

(2) Investment process

This process defines the investment policies and procedures, including decision- making processes, undertaken by the trust entity in the execution of its fund/asset management function. The primary objective of such process is to create a structure that will assure trust entities observe prudence in investment activities at all levels, preservation of capital, diversification, a reasonable level of risk as well as undivided loyalty to each client and adherence to established structure for the trust entity's investment undertakings. The

investment process covers a broad range of activities; thus, the investment policies shall clearly outline the parameters that, at a minimum, include the following:

a. *Overall investment philosophy, standards and practices.* A general statement of principles that guides the portfolio manager in the management of investments outlined in the board-approved policy, along with a discussion on the practices and standards to be implemented to achieve the desired result.

b. *Investment Policies and Processes.* Defines the policies and the processes undertaken to create the portfolio to ensure the proper understanding of the client's preferences.

    i. Profiling of client. Aims to understand the level of maturity of the client relevant to the creation of an appropriate portfolio.

    ii. Portfolio construction for custom-made portfolios. Includes the process of researching and selecting recommended portfolio and setting objectives or strategies for diversification by types and classes of securities into general and specialized portfolios.

        - Asset allocation. Outlines the process and criteria for selecting and evaluating different asset classes identified to be appropriate for the client's profile and investment objective. It includes the allocation of desired tenors in conjunction with the client or portfolio profile based on the CSA or IPS. The asset allocation may be based on percentage to total funds managed by the trust entity or stated in absolute amount whichever is preferred by the client.

        - Security selection. Policies and procedures on the selection of investment outlets, including investment advisory, must be in place. This involves the selection of issuers for each of the identified asset classes. The process provides for the review of investment performance using risk parameters and comparison to appropriate benchmarks. It shall also identify the documentation required for all investment decisions.

        - If the trust entity uses approved lists of investments, there shall be an outline of the criteria for the selection and monitoring of such investments, as well as a description of the overall process for addition to and deletion from the lists.

        - Benchmark selection/creation. Selects or crafts the benchmarks to reflect the desired return of the portfolio and to measure the performance of the portfolio manager. The trust entity shall be required to measure performance based on benchmarks to gauge or measure the performance of the account. The trust entity must have clear definition of its benchmarking policy.

        - Limits. Identifies any limitations on portfolio management which the client may impose on the trust entity. These limitations have to be specific as to the nature of the portfolio, such as but not limited to, core holdings, investment in competitor companies, and companies engaged in vices.

        - Risk disclosure statement. A clear and appropriately worded statement/s to disclose different risks to clients of the various investment undertakings of the investment manager done in behalf of the client.

    iii. Internal policies on trade allocation. Defines the institution's policies in ensuring timely, fair and equitable allocation of investments across investing portfolios.

    iv. Diversification of discretionary investments. The trust entity shall have a policy on the general diversification requirements for asset administration, as well as the process implemented to monitor and control deviations from policy guidelines.

    v. A trust entity shall have access to timely and competent economic analyses and forecasts for the capital markets and other products in which its clients will be investing. Trust entities engaged in more complex transactions may consider providing an economic and securities research unit that continually monitors global trends and capital markets.

This unit provides necessary forecasts of capital market expectations, currency relationships, interest rate movements, commodity prices, and expected returns of asset classes and individual investment instruments, which help the trust entity establish appropriate investment policies and strategies, select appropriate investments, and manage risks effectively.

vi. The trust entity shall have a process that will confirm trust personnel with investment functions know and follow the board-approved investment policies and processes.

c. Selection and use of brokers/ dealers. The quality of execution is an important determinant in broker selection. In selecting brokers/dealers, a trust entity must consider the following minimum standards and criteria:

i. Execution capability and ability to handle specialized transactions;
ii. Commission rates and other compensation;
iii. Financial strength, including operating results and adequacy of capital and liquidity;
iv. Past record of good and timely delivery and payment on trades;
v. Value of services provided, including research; and
vi. Available information about the broker from other broker customers, regulators, and self-regulated organizations authorized by the SEC.

The trust entity with large portfolio may opt to evaluate broker performance using a formalized point scoring system. A list of approved brokers shall be made available by the trust entity, reviewed periodically and updated at least annually.

d. Best practices. The trust entity shall document best practices policies and processes to institutionalize proper safeguards for the protection of its clients and itself. At a minimum, the policies must include the following standards:

i. Best execution. The trust entity shall use reasonable diligence to ensure that investment trades are executed in a timely manner and on the best available terms that are favorable to the client under prevailing market conditions as can be reasonably obtained elsewhere with an acceptable counterparty. For related counterparties, no purchase/sale must be made for discretionary accounts without considering at least two (2) competitive quotes from other sources. The policy on best execution must document processes to warrant such execution is readily and operationally verifiable.

ii. Chinese wall. A clear policy on Chinese wall aims to protect the institution from conflict of interest arising from varying functions carried by the trust entity in relation to credit (debt), shareholder, and investment position taking. The policy shall state the duties and responsibilities of the trust entity and each department including that of the bank proper and subsidiaries and affiliates should transactions involve the concerned departments and entities.

iii. Personnel investment policies. These policies aim to ensure honest and fair discharge of investment trading functions of all qualified personnel. Qualified personnel are those that may have access to information on clients and investment position-taking of clients, investment manager or portfolios. The use of such information may be abused and detrimental to the clients. The policy shall state the duties and responsibilities of each qualified personnel in relation to trading and portfolio management activities including allowed and not allowed transactions as well as sanctions in case of violations.

iv. Confidentiality and materiality of Information. The trust entity must keep information about past, current and prospective clients confidential, unless disclosure is authorized in writing by the client or required by law and the information involve illegal activities perpetrated by the client. It must ensure safekeeping of confidential and material information and prevent the abuse of such information to the detriment of the institution or its clients.

v. Fair dealing. The trust entity shall document dealing practices to ensure fair, honest and professional practices in accordance with the best interest of the client and counterparties at all times and for the integrity of the market. It must ensure that any representations or other

communications made and information provided to the client are accurate and not misleading. The trust entity must also take care not to discriminate against any client but treat all clients in a fair and impartial manner.

vi. Diligence and reasonable basis. In conducting its investment services, the trust entity shall act with skill, and care and diligence, and in the best interests of its clients and the integrity of the market. The duty of due diligence is intertwined with the duty to maintain independence and objectivity in providing investment recommendations or taking investment actions. When providing advice to a client, the trust entity shall act diligently and make certain that its advice and recommendations to clients are based on thorough analysis and take into account available alternatives.

- The trust entity shall take all reasonable steps to execute promptly client orders in accordance with the instruction of clients.

- The trust entity, when acting for or with clients, shall always execute client orders on the best available terms.

- The trust entity shall ensure that transactions executed on behalf of clients are promptly and fairly allocated to the accounts of the clients on whose behalf the transactions were executed. Where a client opts not to accept the recommendation of the trust entity and chooses to purchase another investment product which is not recommended, the trust entity may proceed with the client's request/instruction, provided it shall document the decision of the client and highlight to him/her that it is his/her responsibility to ensure the suitability of the product selected.

vii. In-House or related party transactions handling. The trust entity shall define the policies in handling related- interest transaction to ensure that the best interest of clients prevails at all times and all dealings are above board. It must conform to the requirements of Secs. 413 and 415 *(Transactions requiring prior authority)* of the MORB.

viii. Valuation. The trust entity shall document the institution's valuation process to show the sources of prices, either market or historical value, and the formula used to derive the NAV of investment portfolios. Valuation shall be understood, compliant with written policies and operating procedures, and used consistently within the trust entity. The trust entity must ensure that the valuation processes of service providers, custodians, and other subcontractors are compatible with those of the trust entity and in compliance with relevant statutory or regulatory valuation standards.

Risk officers shall document the accuracy and reliability of all valuation processes and data sources and ensure that valuations are completed as required by internal policies and procedures and regulatory reporting standards.

e. Conflicts of interests. These may arise when the trust entity exercises any discretion where mutually opposing interests are involved. The most serious conflict of interest is self-dealing, which could include transactions such as an investment in related interests of the trust entity or purchase of securities from or through an affiliate. Such transactions must be fully disclosed and authorized in writing by clients. Because of the complexity and sensitivity of the issue, a trust entity must develop policies and procedures to identify and deal with conflicts of interest situations.

1. Account termination

Accounts may be terminated for a variety of reasons, including the occurrence of a specified event or upon written notice of either the client or the trust entity. The trust or investment management agreement shall provide for the terms and manner of liquidation, return and delivery of assets/ portfolio to the client. Generally, the trust entity's responsibilities include distribution to the client, the successor trustee and/or beneficiaries of the remaining assets held under trusteeship/agency arrangement, preparation and filing of required reports. The trust entity must ensure the risk control processes are observed when terminating accounts just as when accepting them.

The trust entity must have a general policy with respect to the termination of trust accounts, which policy shall take into consideration the general processes to be observed in the return or delivery of different types of assets, the possible modes of distribution, fees to be paid, taxes to be imposed, the documentation required to effect the transfer of assets, the provision of terminal reports, and whenever applicable, the timing of distribution, needs and circumstances of the beneficiaries. Should the trust entity anticipate possible issues or problems with respect to the termination of the account, such as the liquidation of certain assets or the partition or division of assets, these issues shall be disclosed to the client for proper disposition. The policy on the termination of trust, fiduciary and investment management accounts shall likewise include the approval process to be observed for the termination of these accounts as well as the reporting requirements for accounts terminated and closed.

(Circular Nos. 966 dated 11 July 2017)

RISK MANAGEMENT GUIDELINES FOR TRUST AND OTHER FIDUCIARY BUSINESS AND INVESTMENT MANAGEMENT ACTIVITIES

(Appendix to Sec. 401-Q)

I. Introduction

Recent changes in the nature and complexity of fiduciary activities have underscored the need for an effective and sound risk management process. With the deepening of the capital market and the increasing complexity of the financial environment, the risk management practices and techniques employed by financial institutions should continuously improve and adapt to this evolving financial landscape.

These guidelines aim to provide principles-based guidance in the implementation of sound risk management practices for trust, other fiduciary business, and investment management activities. As such, the applicability of these guidelines shall depend on the size, complexity, and risk profile of the institution's fiduciary activities.

II. Statement of Policy

It is the policy of the Bangko Sentral ng Pilipinas to support the development of the Philippine financial market and promote adequate level of protection to investors through, full and fair disclosure on financial instruments covering banking and fiduciary activities. With the continuous emergence of complex financial products, investor protection is a significant concern in building investors' confidence in the Philippine financial market. It is in furtherance of this policy that Bangko Sentral prescribes risk management guidelines for fiduciary activities aligned with the basic standards in the administration of fiduciary products and services by trust entities.

III. Risk Management Principles for Fiduciary Activities

Risk management practices must be designed to ensure that exposures are well within trust entities capacity to manage and risks taken by the trust entity and its clients are consistent with their respective risk tolerance. Risk management practices shall also promote efficiency in the administration and operation of the fiduciary business; ensure adherence and conformity with the terms of the instrument or contract; and maintain absolute separation of property free from any intrusion of conflict of interest.

As fiduciary activities become more diverse and complex, an institutions' ability to effectively identify, measure, monitor and control risks should keep pace and continue to evolve. There is no single risk management framework that would effectively work for all trust entities due to differing size, business model, complexity of activities, and risk profile. Nevertheless, regardless of the structure in place, the framework shall cover the following key elements of sound risk management system:

a. Active and appropriate oversight by the Board of Directors (BOD)/Trust Committee;
b. Adequate risk management processes, policies and procedures;
c. Appropriate risk measurement system, prudent risk limits, monitoring and management information system; and
d. Comprehensive and effective internal control system, audit, and compliance program.

IV. Risk Associated with Fiduciary Activities

For purposes of these Guidelines, the following definitions of risks are adopted:

1. Credit/counterparty risk is the current and prospective risk to client's earnings or principal contribution arising from an obligor's failure to meet the terms of any contract with the trust entity or otherwise perform as agreed. Credit risk is found in all activities where success depends on counterparty, issuer or borrower performance.

   It arises anytime fiduciary funds are extended, committed, invested, or otherwise exposed through actual or implied contractual agreements, and reflected in the client's financial statements. Credit/counterparty risk exists in the loan portfolio and other forms of credit accommodations.

2. Market risk is the current and prospective risk to client's earnings or principal contribution arising from changes in the value of the trust entity's holdings of investment portfolios. Market risk arises from dealing and position-taking activities in interest rate, foreign exchange and equity markets.

3. Liquidity risk is the current and prospective risk to client's earnings or principal contribution arising from a trust entity's inability to recognize or address unplanned changes in client's and/or beneficiary's needs thereby affecting the ability to liquidate assets quickly with minimal loss in value. The trust entity shall determine and maintain adequate level of liquidity in each accounts based on client-defined constraints/circumstances or product specifications.

4. Operational risk is the current and prospective risk to the non-bank financial institution's earnings or capital arising from fraud or error, and the inability of the trust entity to deliver products or services, maintain a competitive position and manage information. Operational risk is evident in each fiduciary product and service offered. As the fiduciary products and services become sophisticated or volume of activities expands, so does the level of operational risk. This risk encompasses product development and delivery, operational processing, systems development, and the internal control environment. Operational risk is present in the day-to-day operations of trust entities and in all aspects of fiduciary activities.

   A part of operational risk is legal risk which arises from non-adherence with the terms of the fiduciary agreement and the potential that unenforceable contracts, lawsuits, or adverse judgments can disrupt or otherwise negatively affect the operations of a trust entity.

5. Compliance risk is the current and prospective risk to the NBFI's earnings or capital arising from violation of laws, rules and regulations of regulatory authorities, prescribed practices or sound fiduciary principles, internal policies and procedures, and prudent ethical standards. Compliance risk also arises in situations where the laws or rules governing certain fiduciary products or activities of the trust entity may be ambiguous or untested. This risk exposes the trust entity to fines, payment of damages, and the voiding of contracts. Compliance risk can lead to limited business opportunities, reduced expansionary potential, unenforceability of contract or even adversely affect trust entity's reputation.

6. Strategic risk is the current and prospective risk to the non-bank financial institution's earnings and capital arising from adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes. Strategic risk is a function of the compatibility of a financial institution's strategic goals, the business strategies developed to achieve those goals, the resources deployed in support of these goals, and the quality of implementation. The trust entity's internal characteristics must be evaluated against the impact of economic, technological, competitive, regulatory, and other environmental changes. Financial success requires a sound strategic planning process embraced by the board and senior management.

7. Reputation risk is the current and prospective risk to the non-bank financial institution's earnings and capital arising from negative publicity regarding the financial institution's fiduciary business practices. The negative public opinion can cause (a) clients to question or doubt the trust entity's integrity to engage in fiduciary activities which can result in the termination of fiduciary relationships, (b) litigation costs to increase, or (c) revenues to decline. Reputation risk affects the trust entity's ability to establish new fiduciary relationships or services, or continue servicing existing relationships. Since public's perception is critical in the fiduciary business, trust entities should exercise an abundance of caution in dealing with clients and the public in general.

V. Risk Management Process

A trust entity shall develop and implement a formal, comprehensive, and effective risk management program that outlines, among other things, the risk management processes that effectively identify, measure, monitor and control risks affecting the clients and the trust entity. These processes shall also recognize and address the differences in the needs, objectives and risk tolerance of the clients and the trust entity. An effective risk management program can serve as an early warning system that enables the trust entity to anticipate and/or pro-actively identify potential problems from arising which may result in unanticipated loss to the clients and the trust entity. A risk management program should:

1. *Identify risk.* Trust entities shall recognize and understand existing exposures or those that may arise from new products/services, acceptance of new clients, and changes in operating environment. They shall establish procedures that identify and address such risks prior to initiation of the activities. Risk identification is a continuing process that should be embedded in all phases of trust entity's activities and shall cover both the individual investment transactions and portfolio activities. Identifying risk also involves the determination of the desired level of exposures both for the trust entity and client after taking into account the willingness and the ability to absorb risks.

2. *Measure risk.* Trust entities shall have appropriate systems or tools in place that could adequately quantify or measure both their client and their own risk exposure/s. It shall be the trust entity's responsibility to ensure that the risk measurement tools can adequately and reliably capture and quantify exposures. Risk measurement tools shall be subjected to independent and periodic validation and review to ensure that they remain reliable and appropriate. Effective risk measurement systems assess the risks of both individual transactions and portfolios and ensure that the sophistication of the risk measurement tools remains proportionate to the complexity of exposures.

3. *Monitor risk*. Trust entities shall monitor risk levels to ensure timely review of risk positions and exceptions. Monitoring reports should be frequent, timely, accurate, and informative and should be distributed to clients/individuals and appropriate level of management to ensure corrective action, when necessary.

4. *Control risk.* Trust entities shall establish and communicate risk limits through policies, standards, and procedures that define responsibility and authority. The types and sophistication of control processes shall be consistent with the risk tolerance standards defined by the board of directors/Trust Committee and the client. Trust entities shall

implement a process for tracking and reporting exposures to monitor the trust entity's compliance with risk tolerance standards.

The risk management process for fiduciary activities should be structured and incorporated in the required basic standards in the administration of fiduciary products and services.

VI. Sounds Risk Management System

Consistent with the guidelines on supervision by risk set forth under *Appendix Q-41*, the Bangko Sentral shall assess the suitability and adequacy of a trust entity's risk management system in accordance with the following elements:

A. Active Board and Senior Management Oversight

1. The board of directors and the Trust Committee shall perform their responsibilities in accordance with the applicable provisions of this Manual.

2. Independent Risk Management Function. To uphold the principles of undivided loyalty and impartiality, and discourage possible conflicts of interest, the process of measuring, monitoring, and controlling risks shall be managed as independently as practicable by a body or personnel apart from those individuals who have the authority to initiate transactions. The board-designated body or personnel performing independent risk management on fiduciary activities shall either be part of or directly report to the risk management unit/institution proper to ensure holistic implementation of enterprise-wide risk management framework. Nevertheless, the Board-designated body or personnel tasked to perform risk management function for fiduciary activities is not precluded to freely communicate with the trust officer or relevant trust committee any information relative to the discharge of its function.

B. Adequate Risk Management Processes, Policies and Procedures

The trust entity shall have board-approved written risk management policies and documentation standards which provide detailed guidance for the day-to-day implementation of the trust entity's strategies and generally include risk limits, operating procedures and control processes designed to safeguard the trust entity and its clients from excessive and imprudent risks. Terminologies relevant to trust, other fiduciary and investment management activities shall be specifically defined and clearly described through appropriate sample documents/exhibits to avoid the likelihood of incomplete communication, ambiguities and misinterpretations.

Policies shall provide an outline on the formal process for the board of directors/Management's review (at least annually), amendment and approval. In the case of personnel management, the policies and procedures shall provide for personnel recruitment, training, performance evaluation, and salary administration that must address staffing needs, and compensation programs. Effective risk management requires experienced and competent officers and supporting staff.

Policies and procedures shall delineate lines of responsibility and accountability. Copies of policies and procedures, including updates and changes, shall be promptly transmitted to all concerned personnel who are directly or indirectly involved in fiduciary activities. Policies and procedures shall, at the minimum, include:

1. Scope of fiduciary products and types of services offered to clients with clear description of each product and service;
2. Organizational structure;
3. Authorities and responsibilities of the:

    a. Board of directors,
    b. Trust committee,
    c. Trust investment committee and other related committees,
    d. Trust officer[1],
    e. Trust Department/Branch/Unit Heads[1],
    f. Account officers/marketing personnel, including those assigned in branches[1],
    g. Trading or dealing officers and staff[1],
    h. Backroom officers and staff[1],

4. Basic standards in the administration of trust, other fiduciary business and investment management activities;
5. Accounting and records maintenance;
6. Policy review;
7. System of financial and regulatory reporting; and
8. Client-oriented safety nets.

[1] including minimum qualification standards.

C. Appropriate Risk Measurement System, Prudent Risk Limits, Monitoring and Management Information System

The process of measuring, controlling and monitoring fiduciary risks shall be carried out independently by personnel not directly involved in fiduciary activities. Results of this process shall be reported to the board of directors, or to the appropriate Board-level committee, thru the risk management unit/institution proper in a timely and comprehensive manner. In the same manner, the trust officer or relevant trust committee should be apprised of the results of these processes and relevant risk management issues.

Risk Measurement System

In formulating the risk measurement models and methodologies for its fiduciary risk-taking activities, the trust entities shall be guided by the minimum requirements prescribed in *Appendices Q-42* and *Q-43*, and the guidelines provided under *Appendix Q-19*, as applicable.

Trust entities are expected to adopt models/methodologies commensurate to the size, complexity and nature of the fiduciary activities undertaken. In addition, the trust entity's risk measurement system shall provide detailed guidelines on the:

a. Frequency of risk measurement;
b. Sources of data, i.e., market prices;
c. Appropriateness of risk measurement tools given the complexity and level of risk assumed (including the reasonableness and validity of assumptions);
d. Frequency of validation of risk measurement tools;
e. Ability to measure risk at both transactional and portfolio levels; and
f. Frequency of review of the risk measurement system by the board of directors and the trust committee.

Trust entities shall develop a liquidity contingency plan for its investment portfolios especially for the UITFs to demonstrate how liquidity funding needs will be handled in times of crises, as well as supplement their market and liquidity risk measurement models with periodic stress testing.

Prudent Risk Limits

Risk limits shall be established, approved and periodically reviewed by the board of directors or trust committee. In setting limits, the risk management policy shall include the determination of the experience, background and authority of individuals involved in setting portfolio limits, and the processes for setting and changing individual and portfolio limits; and shall recognize the restrictions/constraints that the client may impose on the trust entity. The risk management policy should also indicate when excess over approved limits may be allowed and the appropriate approving authority for such excess.

Limits must be documented and promptly communicated to all concerned personnel. Portfolio limits must be reviewed at least annually, but client-set limits must be reviewed at least quarterly to ensure consistency with the investment objectives set by the client and conformity to the terms of the contract.

Risk Monitoring and Management Information System (MIS)

Effective risk monitoring and control is dependent on accurate, timely, reliable, and relevant information processing and reporting systems. Rapid technology advancements create new risk monitoring and control issues, thus, the board of directors should ensure that the impact of emerging technologies on fiduciary activities is properly considered. The board of directors and Trust Committee shall be afforded with adequate information on the trust and investment management activities to properly fulfill their responsibilities. Accordingly, the trust entities shall have policies and procedures in reporting information on fiduciary activities to the board of directors and trust committee specifying, among other things, the type, amount and timing of information reported; methodology to ensure all identified risks are monitored; frequency, timeliness, accuracy and clarity of monitoring reports; report distribution to management and staff; and comparability of output against predetermined limits.

The sophistication of MIS shall be commensurate with the complexity and diversity of the trust entity's operations such that a complex trust entity shall have a more comprehensive MIS.

Because of the cost involved in developing technology, a trust entity may opt to purchase information technology rather than develop its own internal system. Nonetheless, regardless of the source of information system, the board of directors and Trust Committee shall exercise the proper level of control and oversight to appropriately fulfill their fiduciary duties. Service agreements or vendor contracts shall be thoroughly reviewed by legal counsel to ensure that they include appropriate indemnification and recourse language. In addition, contracts shall contain specific language recognizing the authority of the trust entity's regulators to conduct reviews of third-party vendors as part of their overall supervisory activities.

D. Comprehensive and effective internal controls, audit, and compliance program

Internal Control Systems

A comprehensive internal control is the foundation for the safe and sound functioning of a trust entity and its fiduciary risk management system. It shall form an integral part of the trust entity's overall system of controls and shall promote effective fiduciary operations and reliable financial and regulatory reporting, safeguard assets and help ensure compliance with relevant laws, regulations, and institutional policies.

Effectiveness of the internal control system shall be periodically tested by an independent party (preferably the auditor, or at least an individual not involved in the process being reviewed) who shall submit a formal report on the results of such testing/review directly to the board of directors or the audit committee. The review shall cover all material controls and shall consider:

- The change in the nature and extent of significant risks, and the trust entity's ability to respond to such changes;
- The scope and quality of management's ongoing monitoring of risks and of the system of internal control, and the work of its internal audit function;
- The extent and frequency of the communication of results of the monitoring to the board of directors or appropriate committee;
- The incidence of significant control failings or weaknesses that have been identified, and the extent to which they have resulted in losses or potential losses; and
- The effectiveness of the trust entity's reporting processes.

Given the importance of appropriate internal controls to an organization, management's response to results of the test/review should be documented.

The system of internal control shall set forth clear lines of authority and appropriate segregation of operational duties and functions to ensure independence of the control areas from the business lines. An organizational chart shall specify the reporting lines for risk management, compliance, and internal audit groups.

Audit Program

A well-designed and executed internal audit program is essential to effective risk management and provides an independent assessment of the efficiency and effectiveness of the internal control system.

An effective audit program shall be based on an appropriate risk assessment methodology that documents the trust entity's significant fiduciary activities and their associated risks, and internal control systems. Such documentation shall be available for review by the Bangko Sentral. It shall describe the objectives of specific audit activities and list the procedures to be performed during the process.

While the frequency and extent of the internal audit review and testing shall be consistent with the nature, complexity and risk of the trust entity's fiduciary activities, existing Bangko Sentral regulations require the conduct of periodic internal audits of the trust entity at least once every twelve (12) months. The board of directors may also require the adoption of a suitable continuous audit system to supplement or replace the periodic audit. In any case, the audit shall ascertain whether the trust entity's fiduciary activities have been administered in accordance with laws, Bangko Sentral rules and regulations, and sound fiduciary principles.

There shall also be a system that allows sensitive findings (e.g., defined non-observance of the basic principles on fiduciary relationships, unsafe and unsound practices, operational lapses/deficiencies resulting to recognition of material losses) to be reported directly to the board of directors. Moreover, the audit committee and/or board of directors shall review the effectiveness of the internal audit and other control review activities on a regular basis.

Bangko Sentral regulations also require annual external audit of the fiduciary activities of trust entities and of each unit investment trust fund by an independent auditor acceptable to the Bangko Sentral.

Compliance Program

The trust entity shall develop and implement a compliance system for its trust, other fiduciary business and investment management activities, and appoint/designate a compliance officer to oversee its implementation in accordance with Sec. 161-Q *(Compliance program)* and their corresponding subtopics respectively. The Board-designated body or personnel performing independent compliance function on fiduciary activities shall either be part of or directly report to the compliance unit/institution proper to ensure holistic implementation of enterprise-wide compliance program. Nevertheless, the Board-designated body or personnel tasked to implement the compliance program for fiduciary activities is not precluded to freely communicate with the trust officer or relevant trust committee any information relative to the discharge of its function.

The compliance system must provide a written and comprehensive compliance program designed to monitor observance with relevant laws, rules and regulations, internal policies including risk limits, internal control systems, fiduciary principles, and agreements with clients. The compliance system shall be periodically reviewed for relevance, effectiveness and appropriate follow-up.

The board of directors must recognize the scope and implications of applicable laws; approve a compliance program that protects the trust entity from adverse litigation, increased regulatory oversight, and damage to reputation; and ensure that the compliance officer primarily undertakes to oversee and coordinate the implementation of the compliance system.

The extent of formality of the compliance program may vary from one trust entity to another. Nevertheless, an effective compliance programs have common elements that include:

1. A strong commitment from the board of directors and Trust Committee;
2. A formalized program coordinated by a designated compliance officer that includes periodic testing and validation process;
3. Responsibility and accountability from line management;
4. Comprehensive training programs; and
5. Timely reporting and follow-up process.

(Circular No. 972 dated 22 August 2017)

STANDARD OPERATING PROCEDURES FOR PHILIPPINE HOLIDAYS
(Appendix to Secs. 426-Q and 601-Q

Type of Holiday	Bangko Sentral ng Pilipinas					BTr / BAP / MART / PDS	PDTC EQ Depository PDTC FI Depository DVP PSSC PVP	PCHC
	Financial Market Operations Sub-Sector	*Payment ad Settlement Office (PSO)*	Cash Dept Withdrawal	Reserve Position	Regional Offices and Branches (ROBs)			
	Trading and Settlement of ODF, OLF, TDF, Overnight RRP Facility, Bs Securities and USD/PHP	PhilPaSS						
1. Malacañang declared regular and special (non-working) holidays, including: *Regular Holidays* - New Year's Day (January 1) - Araw ng Kagitingan (April 9) - Maundy Thursday (March or April) - Good Friday (March or April) - Labor Day (May 1) - Independence Day (June 12) - National Heroes' Day (Last Monday of August) - Bonifacio Day (November 30) - Christmas Day (December 25) - Rizal Day (December 30) - Ei'dl Fitr (no definite day or month) - Ei'dl Adha (no definite day or month) *Special Non-working holidays* - Chinese New Year (around February) - EDSA Revolution Anniversary (February 25) - Black Saturday (March or April) - Ninoy Aquino Day (August 21) - All Saint's Day (November 1) - All Soul's Day (November 2) - Feast of the Immaculate Concepcion (December 8) - Christmas Eve (December 24) - Last day of the Year (December 31)	Closed	Closed	Closed	Non-reserve	Closed	Closed	Closed	Office is closed but PCHC system remains open only to accept clearing transactions
2. Malacañang declared non-working days for both public and private sectors (covering more than one day and previously announced/issued holidays not included in item 1)	Closed	*PhilPaSS* will be closed on the first day. Opening on the second and succeeding days will be decided by the Governor before 6:00 a.m. Announcement of PhilPaSS opening/closing will be done by BSP-PSO. If *PhilPaSS* opens on the second and succeding days, it will be for InstaPay and PESONet only. Settlement for all other *PhilPaSS* transactions (including GS trading, FX trading) will not be available. Settlement of all other *PhilPaSS* transactions will be available when FMOSS and Cash open.	Closed	Non-reserve	Closed	Closed	FI Depository DVP PSSC PVP Closed	Office is closed but PCHC system remains open only to accept clearing transactions

STANDARD OPERATING PROCEDURES FOR PHILIPPINE HOLIDAYS
(Appendix to Secs. 426-Q and 601-Q

Type of Holiday		Bangko Sentral ng Pilipinas					BTr / BAP / MART / PDS	PDTC EQ Depository PDTC FI Depository DVP PSSC PVP	PCHC
		Financial Market Operations Sub-Sector	*Payment ad Settlement Office (PSO)*	Cash Dept Withdrawal	Reserve Position	Regional Offices and Branches (ROBs)			
		Trading and Settlement of ODF, OLF, TDF, Overnight RRP Facility, Bs Securities and USD/PHP	PhilPaSS						
3. Malacanan declared non-working days for public sector alone									
a. announced holidays on an ordinary business day		Open	Open	Open	Reserve	Open	Open	Open	Normal
b. announced before 9:00 a.m. due to emergency situations such as: - Typhoon signal no. 2/3 - Heavy rains (Red) - Localized flooding - Conflagration - Massive transporation strike - Armed or civil conflict - Strong earthquakes and tsunamis - Force majeure events - Infectious diseases outbreak	Day 1	Closed	Closed	Closed	Non-reserve	Affected ROBs will be closed. Unaffected ROBs will be open.	Closed	Closed	No clearing; no settlement. PCHC will issue an advisory to its members that its System remains open only to accept clearing transactions
	Day 2	Opening on the second and succeeding days will be decided by the Governor before 6:00 a.m. upon the BSP-Incident Management Team's (IMT) recommendation. If the BSP opens, only the Mission-Critical Departments (MCDs) shall go to work. MCD employees affected by the emergency, however, are exempted from going to work. The MCDs (FMOSS, PSO, and CD) and the affected ROBs will make the appropriate announcement to their counterparties.			Reserve day if the Governor decides BSP to open	Affected ROBs will open after favorable assessment of conditions and recommendation of head of ROB.	Open if FMOSS is open Announcement of USD/PHP spot trading will be done by BAP. Announcement of fixed income trading will be done by PDEx / PDS Group. NRoSS will open if there is fixed income trading.	Open if FMOSS is open Announcement of FI Settlement will be done by PDEx / PDS Group.	Open if BSP *PhilPASS* will open to settle Checks and PESONet Transactions

STANDARD OPERATING PROCEDURES FOR PHILIPPINE HOLIDAYS
(Appendix to Secs. 426-Q and 601-Q

Type of Holiday		Bangko Sentral ng Pilipinas					BTr / BAP / MART / PDS	PDTC EQ Depository PDTC FI Depository DVP PSSC PVP	PCHC
		Financial Market Operations Sub-Sector	*Payment ad Settlement Office (PSO)*	Cash Dept Withdrawal	Reserve Position	Regional Offices and Branches (ROBs)			
		Trading and Settlement of ODF, OLF, TDF, Overnight RRP Facility, Bs Securities and USD/PHP	PhilPaSS						
	Under favorable conditions	Open	Open	Open	Reserve	Affected ROBs will close for localized holidays, other ROBs will be open.	Open	Open	Normal
c. announced on a Saturday or Sunday to take effect the following Monday or on a non-working holiday to take effect the next business day/suspension is localized (e.g. Araw ng Maynila, SONA, Quezon City Day, APEC, Papal Visit, etc.) The BSP will make the declaration of favorable or unfavorable condition before 6:00 a.m.	Under unfavorable conditions	BSP will be closed on the first day. Opening on the second and succeeding days will be decided by the Governor before 6:00 a.m. upon the BSP-IMT's recommendaton If the BSP opens, only the Mission-Critical Departments (MCDs)shall go to work. MCD employees affected by the emergency, however, are exempted from going to work. The MCDs (FMOSS, PSO, and CD) and the affected ROBs will make appropriate announcement to their counterparties.			Reserve day if the Governor decides BSP to open	ROBs will be open if holiday is for Metro Manila only. If holiday is localized, only affected ROBs will be closed. ROB will open after assessment of conditions and recommendation of head of ROB.	Open if FMOSS is open Announcement of USD/PHP spot trading will be done by BAP. Announcement of fixed income trading will be done by PDEx / PDS Group. NRoSS will open if there is fixed income trading.	Open if FMOSS is open Announcement of FI Settlement will be done by PDEx / PDS Group.	Open if BSP *PhilPASS* will open to settle Checks and PESONet Transactions
d. announced after 9:00 a.m. on the date of effectivity and BSP operations have already started	Cause of holiday will NOT require evacuation	Open	Open	Open	Reserve	Open	Open	Open	Normal
	Cause of holiday will require evacuation (e.g. earthquake, fire)	Assess situation and if possible, retain a skeleton force and implement extended end of day protocol. Announcement of FMOSS operations will be done by BSP-FMOSS. Announcement of *PhilPaSS* opening/closing will be done by BSP-PSO.			Reserve day if the Governor decides BSP to open	Affected ROBs will close for localized holidays, other ROBs will be open.	Open if FMOSS is open Announcement of USD/PHP spot trading will be done by BAP. Announcement of fixed income trading will be done by PDEx / PDS Group. NRoSS will open if there is fixed income trading.	Open if FMOSS is open Announcement of FI Settlement will be done by PDEx / PDS Group.	Open if BSP *PhilPASS* will open to settle Checks and PESONet Transactions

STANDARD OPERATING PROCEDURES FOR PHILIPPINE HOLIDAYS
(Appendix to Secs. 426-Q and 601-Q

Type of Holiday		Bangko Sentral ng Pilipinas					BTr / BAP / MART / PDS	PDTC EQ Depository PDTC FI Depository DVP PSSC PVP	PCHC
		Financial Market Operations Sub-Sector	*Payment ad Settlement Office (PSO)*	Cash Dept Withdrawal	Reserve Position	Regional Offices and Branches (ROBs)			
		Trading and Settlement of ODF, OLF, TDF, Overnight RRP Facility, Bs Securities and USD/PHP	PhilPaSS						
4. Trading holiday declared by the BSP Governor due to emergency situations such as infectious diseases outbreak, lockdown, and other similar situations. Triggers for the BSP Governor to consider such a declaration includes, but is not limited to, a declaration by the President, the Secretary of Health, or any competent government official duly authorized by law of a Code Red Sublevel Two (2), or of the imposition of community quarantine in the entirety of Metro Manila.									
a. announced before 9:00 a.m.	Day 1	Closed Settlements and maturities will be moved to the next banking day when FMOSS opens	Closed	Closed	Non-reserve	Affected ROBs will be closed. Unaffected ROBs will be open.	Closed	Closed	No clearing; no settlement. PCHC will issue an advisory to its members that its System remains open only to accept clearing transactions
	Day 2	Opening on the second and succeeding days will be decided by the Governor before 6:00 a.m. upon the BSP-IMT's recommendation. If the BSP opens, only the Mission-Critical Departments (MCDs) shall go to work. MCD employees affected by the emergncy, however, are exempt from going to work. The MCDs (FMOSS, PSO and CD) and the affected ROBs will make the appropriate announcement to their counterpartie.			Reserve day if the Governor decides BSP to open	Affected ROBs will open after favorable assessment of conditions and recommendation of head of ROB.	Open if FMOSS is open Announcement of USD/PHP spot trading will be done by BAP. Announcement of fixed income trading will be done by PDEx / PDS Group. NRoSS will open if there is fixed income trading.	Open if FMOSS is open Announcement of FI Settlement will be done by PDEx/PDS Group	Open if BSP PhilPASS will open to settle Checks and PESONet Transactions
b. announced after 9:00 a.m. on the date of effectivity and BSP operations have already started		Assess situation and if possible, retain a skeleton force and implement extended end of day protocol. Announcement of FMOSS operations will be done by BSP-FMOSS. Announcement of *PhilPaSS* opening/closing will be done by BSP-PSO.			Non-reserve day when FMOSS is closed.	Affected ROBs will close for localized holidays, other ROBs will be open.	Open if FMOSS is open Announcement of USD/PHP spot trading will be done by BAP. Announcement of fixed income trading will be done by PDEx / PDS Group. NRoSS will open if there is fixed income trading.	Open if FMOSS is open Announcement of FI Settlement will be done by PDEx / PDS Group.	Open if BSP *PhilPASS* will open to settle Checks and PESONet Transactions

(M-2021-001 dated 4 January 2021 , Circular No. 1095 dated 08 September 2020, M-2020-013 dated 20 March 2020, Circular Nos. 1043 dated 02 August 2019, 921 dated 22 August 2016 and 913 dated 02 June 2016)

GUIDELINES ON THE SUBMISSION OF APPLICATION FOR MERGER AND CONSOLIDATION
(Appendix to Sec. 103-Q)

The following guidelines and procedures shall be observed by non-bank financial institutions with quasi-banking functions (NBQBs) in their application for merger/consolidation:

1. The merging/consolidating entities shall comply with the safety and soundness test requirements as follows:

    a. Compliance, especially by the acquiring NBQB, with major banking laws and regulations; and
    b. Submission to the Bangko Sentral of a satisfactory action plan, if applicable, to address serious supervisory concerns.

2. Submission of the following documentary requirements simultaneously to the Bangko Sentral and the PDIC for merger/ consolidation application involving only NBQBs;

    a. Articles of Merger or Consolidation duly signed by the President or Vice- President and certified by the secretary or assistant secretary of each of the constituent institutions setting forth the following as required in Section 78 of the Corporation Code:

        - The Plan of Merger or Consolidation;
        - The number of shares outstanding; and
        - The number of shares voting for and against the Plan, respectively.

    b. Plan of Merger or Consolidation setting forth the following:

        - The names of the constituent institutions;
        - The terms of the merger or consolidation and the mode of carrying the same into effect;
        - A statement of the changes, if any, in the Articles of Incorporation of the surviving institution in the case of merger; and in the case
        - Of consolidation, all the statements required to be set forth in the Articles of Incorporation;
        - Such other provisions with respect to the proposed merger or consolidation as are deemed necessary or desirable.

    c. Resolution of the Board of Directors of the respective institutions approving the Plan of Merger or Consolidation. The resolution shall be certified under oath by the respective corporate secretaries of the constituent institutions;

    d. Resolution of the meeting of the stockholders in which at least two-thirds (2/3) of the outstanding capital stock of each corporation have approved the plan of merger or consolidation. The resolution shall be certified under oath by the respective corporate secretaries of the constituent institutions;

    e. Financial Statements:

        - Latest financial statements and three (3) - year audited financial statements of the merging institutions
        - Three (3) - year financial projections with valid assumptions of the merged or consolidated institutions' balance sheet and income statement.

    f. List of merger incentives the bank will avail of;

    g. List of stockholdings of each of the constituent institutions before and after the merger;

    h. List of directors and officers of each of the merging/consolidating institutions;

    i. List of proposed officers and directors of the merged or consolidated institution and the summary of their qualifications;

    j. Organizational chart of the merged or consolidated institution including the number of offices and locations thereof;

k. Inter-company transactions relative to the submitted Financial Statements;

l. Computation of Capital Adequacy Ratio on the submitted financial Statements;

m. Viable Operational Plan with the following components:

- Marketing Strategies
- Proposed Loan Portfolio Diversification
- Deposit Generation
- Proposed Improvements in Accounting System
- Operational Control
- Computerization Plan
- Communication System

n. The appraiser's report of reappraisal of NBQB premises, if any, done by an independent and licensed appraiser;

o. Proposed increase of capital stock of surviving NBQB;

p. Proposed amendments in the Articles of Incorporation of surviving NBQB;

q. Director's Certificate (surviving NBQB) on the proposed amendment of the Articles of Incorporation increasing the authorized capital stock; and

r. Any other reasonable requirement deemed material in the proper evaluation of the merger or consolidation as may subsequently be requested by the Bangko Sentral and/ or PDIC.

3. For merger/consolidation involving a NBQB, the Bangko Sentral shall wait for PDIC consent before elevating the proposed merger/consolidation to the Monetary Board for approval; and

4. The authority given to merge/ consolidate the constituent entities shall be valid within six (6) months reckoned after Bangko Sentral approval.

GUIDELINES ON THE COLLECTION OF THE ANNUAL SUPERVISORY FEES
(Appendix to Sec. 1101-Q)

The following guidelines shall govern the collection by the Bangko Sentral and the payment by QBs of the Annual Supervisory Fees (ASF).

1. *Notification of amount due for ASF and mode of payment.* The appropriate supervising department of the Bangko Sentral shall send a billing notice to the QB for its ASF payment indicating, among others, the computation of the ASF due, including the two percent (2%) creditable withholding tax (CWT) thereon, if applicable, the period covered by the ASF and the specific date when the ASF will be debited from the QB's demand deposit account (DDA) with the Bangko Sentral.

   The Bangko Sentral will not accept checks as mode of ASF payment. QBs, upon receipt of the ASF billing notice from the Bangko Sentral, should maintain adequate balance in their DDA to cover the ASF and other daily obligations and, when necessary, make corresponding deposits to fully cover said obligations. In case of deficiency, the provisions on DDA deficiency in Sec. 1101-Q shall apply.

2. *Exceptions noted on billing notice of ASF*. Upon receipt of the Bangko Sentral Notice of ASF billing, a QB is encouraged to check the accuracy of the billing and to submit any of the noted exceptions therein not later than ten (10) days before the specified date of collection/debit to DDA as indicated in the billing notice. The said exceptions, together with supporting documents, shall be submitted to:

   The Director
   Department of Supervisory Analytics (DSA)
   Bangko Sentral Ng Pilipinas
   11th Floor, Multi-Storey Building
   BSP Complex, A. Mabini Street
   Malate, Manila 1004

   Any exceptions received after the cut-off date or any exception not duly substantiated with documents before the cut-off date will be evaluated and considered in the computation of the ASF for the immediate succeeding year.

3. *Withholding tax supervisory fees*. The following shall apply to QBs covered by Sections M and N of BIR Revenue Regulations (R.R.) No. 2-98, as amended by R.R. No. 17-2003 and R.R. No. 2-2006:

   a. Within seven (7) days from specified date, the QB shall submit a written representation to the Bangko Sentral (at the address indicated in Item "2" hereof), on whether or not it is included among the institutions covered under Sections M or N of R.R. No. 2-98, as amended. If available, a certified true copy of the BIR Notice classifying it under Section M of R.R. No. 2-98, as amended, shall be attached to the written representation. The submission of the written representation or BIR Notice shall no longer be necessary if previously transmitted and received by the Bangko Sentral in connection with previous ASF assessments.

   b. The ASF, net of the two percent (2%) CWT, shall be debited from their respective DDAs on the specified date referred to in the notice of ASF billing under Item *"1"*.

   c. Three (3) original signed copies of the BIR Form No. 2307 Certificate of Creditable Tax Withheld at Source, which exclusively pertain to the withholding on ASF shall be submitted to the DSA at the address provided in Item "2" above on specified date. The BIR Form No. 2307 shall accurately indicate, among others, the following details:

      (1) Payee: Bangko Sentral ng Pilipinas
      (2) Tax Identification Number: 000-354-790-000
      (3) Address: A. Mabini St. corner P. Ocampo Sr. St., Malate, Manila
      (4) Zip Code: 1004
      (5) The BIR-registered name of the payor- QB, as exactly indicated in the BIR Certificate of Registration (BIR Form No. 2303) of the QB.
      (6) the amount of income payment pertaining to the gross ASF
      (7) the tax withheld
      (8) the period of tax return.

      Furthermore, the BIR Form No. 2307 – Certificate of Creditable Tax Withheld at Source covering the withholding on ASF should not include other transactions with Bangko Sentral and should pertain exclusively to the ASF. If the concerned QB has other transactions with Bangko Sentral, a separate BIR Form 2307 for the transaction/s shall be provided to Bangko Sentral.

d. In case of failure of concerned QB to submit the duly accomplished forms within the deadline stated above or if such forms contain errors and discrepancies that would render the BIR Form No. 2307 invalid for claiming tax credits, the Bangko Sentral shall be constrained to immediately debit an amount equivalent to the two percent (2%) CWT from the DDA of QBs concerned, with no obligation on the part of the Bangko Sentral to reimburse said amount in case of late submission. In case of DDA deficiency, the provisions in Sec. 1101-Q shall apply.

(M-2019-009 dated 8 April 2019, Circular No. 903 dated 29 February 2016, M-2016-001 dated 24 February 2016, Circular No. 890 dated 02 November 2015, M-2015-022 dated 06 May 2015, and M-2014-014 dated 20 March 2014)

GUIDELINES ON BANKS' INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS
(Appendix to Sec. 130-Q)

A. Introduction

1. This document sets out the broad guidelines that UBs and KBs (hereinafter referred to as 'banks') should follow in the design and use of their Internal Capital Adequacy Assessment Process (ICAAP). A bank's ICAAP supplements the Bangko Sentral's Risk-Based Capital Adequacy Framework (the Framework) as contained in existing regulations and, thus, must be applied on a group-wide basis, i.e., it should cover all of a bank's subsidiaries and affiliates.

2. Although the Framework prescribes the guidelines for determining banks' minimum regulatory capital requirements in relation to their exposure to credit risk, market risk and operational risk, a bank's Board of Directors and senior management are still ultimately responsible in ensuring that the bank maintains an appropriate level and quality of capital commensurate not just with the risks covered by the Framework, but also with all other material risks to which it is exposed. Hence, a bank must have in place an ICAAP that takes into account all of these risks.

B. Guiding Principles

1. Banks must have a process for assessing their capital adequacy relative to their risk profile (an ICAAP).

2. The ICAAP is the responsibility of banks. Banks are responsible for setting internal capital targets that are consistent with their risk profile, operating environment, and strategic/business plans. The ICAAP should be tailored to a bank's circumstances and needs, and it should use the inputs and definitions that a bank normally uses for internal purposes.

3. Banks' ICAAP (i.e., the methodologies, assumptions and procedures) and other policies supporting it (e.g., capital policy, risk management policy, etc.) should be formally documented, and they should be reviewed and approved by the board. The results of the ICAAP should also be regularly reported to the board.

   In addition, the board and senior management are responsible for integrating capital planning and capital management into banks' overall management culture and approach. They should ensure that formal capital planning and management policies and procedures are communicated and implemented group-wide and supported by sufficient authority and resources.

   Banks' ICAAP document should be submitted to the appropriate Central Point of Contact Department (CPCD) of the Bangko Sentral every 31 January of each year. A suggested format of the ICAAP submission to the Bangko Sentral is provided in *Annex A* of *Appendix Q-54*.

4. The ICAAP should form an integral part of banks' risk management processes so as to enable the board and senior management to assess, on an on-going basis, the risks that are inherent in their activities and material to their bank. This could range from using the ICAAP in more general business decisions (e.g. expansion plans) and budgets, to the more specific decisions such as allocating capital to business units, or to having it play a role in the individual credit decision process.

5. The ICAAP should be reviewed by the board and senior management at least annually, or as often as is deemed necessary to ensure that risks are covered adequately and that capital coverage reflects the actual risk profile of their bank. Moreover, any changes in a bank's strategic focus, business plan, operating environment or other factors that materially affect assumptions or methodologies used in the ICAAP should initiate appropriate adjustments to the ICAAP. New risks that occur in the business of a bank should be identified and incorporated into the ICAAP. The ICAAP and its review process should be subject to independent internal or external review. Results thereof should be communicated to the board and senior management.

6. Banks should set capital targets which are consistent with their risk profile, operating environment, and business plans. Banks, however, may take other considerations into account in deciding how much capital to hold, such as external rating goals, market reputation and strategic goals. If these other considerations are included in the process, banks must be able to show to the Bangko Sentral how they influenced their decisions concerning the amount of capital to hold.

7. The ICAAP should capture the risks covered under the Framework – credit risk, market risk, and operational risk. If applicable, banks should disclose major differences between the treatments of these risks in the calculation of minimum regulatory capital requirement under the Framework and under the ICAAP. In addition, the ICAAP should also consider other material risks that banks are exposed to, albeit that there is no standard definition of

materiality. Banks are free to use their own definition, albeit that they should be able to explain this in detail to the Bangko Sentral, including the methods used, and the coverage of all material risks. These other material risks may include any of the following:

a. Risks not fully captured under the Framework, for example, credit concentration risk, risk posed by non-performing assets, risk posed by contingent exposures, etc.;

b. Risks not covered under the Framework. As a starting point, banks may choose to use the other risks identified under Circular No. 510 dated 03 February 2006. Some of these risks are less likely to lend themselves to quantitative approaches, in which cases banks are expected to employ more qualitative methods of assessment and mitigation. Banks should clearly establish for which risks a quantitative measure is warranted, and for which risks a qualitative measure is the correct risk assessment and mitigation tool; and

c. Risk factors external to banks. These include risks which may arise from the regulatory, economic or business environment.

8. Banks should have a documented process for assessing risks. This process may operate either at the level of the individual banks within the banking group, or at the banking group level. Banks are likely to find that some risks are easier to measure than others, depending on the availability of information. This implies that their ICAAP could be a mixture of detailed calculations and estimates. It is also important that banks not rely on quantitative methods alone to assess their capital adequacy, but include an element of qualitative assessment and management judgment of inputs and outputs. Non-quantifiable risks should be included if they are material, even if they can only be estimated. This requirement might be eased if banks can demonstrate that they have an appropriate policy for mitigating/managing these risks.

9. The ICAAP should take into account banks' strategic plans and how they relate to macro-economic factors. Banks should develop an internal strategy for maintaining capital levels which can incorporate factors such as loan growth expectations, future sources and uses of funds and dividend policy, and any procyclical variation of minimum regulatory capital requirements.

   Banks should also have an explicit, board-approved capital plan which states their objectives and the time horizon for achieving those objectives, and in broad terms the capital planning process and the responsibilities for that process. The plan should also lay out how banks will comply with capital requirements in the future, any relevant limits related to capital, and a general contingency plan for dealing with divergences and unexpected events (for example, raising additional capital, restricting business, or using risk mitigation techniques).

   In addition, banks should conduct appropriate scenario/stress tests which take into account, for example, the risks specific to the particular stage of the business cycle. Banks should analyze the impact that new legislation/regulation, actions of competitors or other factors may have on their performance, in order to determine what changes in the environment they could sustain.

10. The results and findings of the ICAAP should feed into banks' evaluation of their strategy and risk appetite. For less sophisticated banks in particular, for which genuine strategic capital planning is likely to be more difficult, the results of the process should mainly influence the bank's management of its risk profile (for example, via changes to its lending behavior or through the use of risk mitigants). The ICAAP should produce a reasonable overall capital number and assessment. Banks should be able to explain to the Bangko Sentral's satisfaction the similarities and differences between its ICAAP and its minimum regulatory capital requirements under the Framework.

C. ICAAP Methodologies

1. While banks may use simple or model-based ICAAP methodologies depending on what they think is appropriate for them (please see Annex B of *Appendix Q-54* for description of the different broad classification of methodologies), at the minimum, the Bangko Sentral expects banks to adopt an ICAAP based on the minimum regulatory capital requirement under the Framework and, where applicable, assess extra capital proportionate to the other risks that are not covered under said Framework. This requires an assessment first of whether the risks covered under the Framework - credit risk, market risk and operational risk - are fully captured, and second, how much capital to allocate against other risks and external factors.

2. Regardless of which methodology a bank decides to adopt, it should compare its actual and future projected capital with the actual and future internal capital need arising from the assessment. The actual calculation and allocation of capital always needs to be supplemented by sufficiently robust qualitative procedures, measures and provisions to identify, manage, control and monitor all risks.

3. The ICAAP will always consist of two parts. One part covers all steps necessary for assessing the risks. The other part covers all steps necessary to assess the actual capital (risk-taking capacity). As these two parts will always meet at the end of the ICAAP and have to be in balance, there is no procedure which says which part has to be assessed first.

4. After choosing its ICAAP methodology, a bank could take its thinking through the following steps in developing the ICAAP:

   a. Risk identification

      A bank could prepare a list of all material risks to which it is exposed; for that purpose it may find it useful to identify and consider its largest past losses and whether those losses are likely to recur. The identification of all material risk to which a bank is exposed should be conducted in a forward looking manner.

   b. Capital assessment

      For all the risks identified through the process above, a bank could then consider how it would act, and the amount of capital that would be absorbed, in the event that one or more of the risks identified was to materialize.

   c. Forward capital planning

      A bank could then consider how its capital need as calculated above might change in line with its business plans over its strategic time horizon, and how it might respond to these changes. In doing so, a bank may want to perform a sensitivity analysis to understand how sensitive its capital is to changes in internal and external factors such as business risks, and changes in economic/business cycles.

   d. ICAAP outcome

      Finally, a bank should document the ranges of capital required as identified above and form an overall view on the amount of internal capital which it should hold.

Annex A

INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS
(Suggested Format)

The Bangko Sentral expects that there will be a fair degree of variation in the length and format of submissions since banks' business and risk profiles differ. As such the ICAAP document should be proportional to the size, nature and complexity of a bank's business.

This format has been provided as a starting point. Banks are not required to adopt this format. However, adopting this format may be convenient for banks as it covers the minimum issues which typically would be the subject of review by the Bangko Sentral and may therefore make the review process more efficient for both the bank and the Bangko Sentral.

Equally, use of this template is not a substitute for being aware of the relevant rules.

What is an ICAAP document?

An ICAAP document is a bank's explanation to the Bangko Sentral of its internal capital adequacy assessment process. While this may be based on existing internal documentation from numerous sources, the Bangko Sentral will clearly find it helpful to have a summary prepared to communicate the key results and issues to it at a senior level. Since the Bangko Sentral will be basing many of its views on the information contained in the ICAAP document, the bank's board of directors and senior management should have formally approved its contents. As such, the Bangko Sentral would expect the ICAAP document to be in a format that can be easily understood at a high level and to contain all the relevant information that is necessary for the bank and Bangko Sentral to make an informed judgment and decision as to the appropriate capital level and risk management approach.

Where appropriate, technical information on risk measurement and capital methodologies, and all other works carried out to validate the approach (e.g. board papers and minutes, internal or external reviews) could be contained in appendices.

1. EXECUTIVE SUMMARY

The purpose of the Executive Summary is to present an overview of the ICAAP methodology and results. This overview would typically include:

i. The purpose of the report and which group entities are covered by the ICAAP;
ii. The main findings of the ICAAP analysis:

- How much and what composition of internal capital the bank considers it should hold as compared with the capital adequacy requirement under the existing Bangko Sentral Risk-Based Capital Adequacy Framework (the Framework), and

- The adequacy of the bank's risk management processes given the risks assumed;

iii. A summary of the financial position of the business, including the strategic position of the bank, its balance sheet strength, and future profitability;
iv. Brief descriptions of the capital and dividend plan; how the bank intends to manage capital going forward and for what purposes;
v. Commentary on the most material risks, why the level of risk is acceptable or, if it is not, what mitigating actions are planned;
vi. Commentary on major issues where further analysis and decisions are required; and
vii. Who has carried out the assessment, how it has been challenged, and who has approved it.

2. BACKGROUND

This section would cover the relevant organizational structure and business lines, and historical financial data for the bank (e.g., group structure (legal and operational), operating profit, profit before tax, profit after tax, dividends, equity, capital resources held and as compared with regulatory requirements, total loans, total deposits, total assets, etc., and any conclusions that can be drawn from trends in the data which may have implications for the bank's future).

3. CAPITAL ADEQUACY

This section could start with a description of the risk appetite used in the ICAAP. It is vital for the Bangko Sentral to understand whether the bank is presenting its view regarding: (1) the amount of capital required to meet minimum regulatory needs, or (2) the amount of capital that a bank believes it needs to meet its business objectives (e.g., whether the capital required is based on a particular desired credit rating, or includes buffers for strategic purposes, or minimizes the chances of breaching regulatory requirements). A description of the methodology used to assess the bank's capital adequacy should also be included.

The section would then include a detailed review of the capital adequacy of the bank.

The information provided would include:

a. ***Timing***

i. The effective date of the ICAAP calculations together with consideration of any events between this date and the date of submission which would materially impact the ICAAP calculation together with their effects; and

ii. Details of, and rationale for, the time period over which capital has been assessed.

b. ***Risks analyzed***

i. An identification of the major risks faced in each of the following categories:

- credit risk;
- market risk;
- interest rate risk in the banking book;
- liquidity risk;
- operational risk;
- compliance risk;
- strategic/business risk; and
- reputation risk;

ii. And for each, an explanation of how the risk has been assessed and, where appropriate, the quantitative results of that assessment;
iii. Where relevant, a comparison of that assessment with the results of the assessment under the Framework (specifically for credit risk, market risk, and operational risk);
iv. A clear articulation of the bank's risk appetite by risk category if this varies from the assessment; and
v. Where relevant, an explanation of any other methods apart from capital used to mitigate the risks.

The discussion here would make clear which additional risks the bank considers material to its operation and, thus, would warrant additional capital on top of that required for credit risk, market risk, and operational risk under the Framework.

c. ***Methodology and assumptions***

A description of how assessments for each of the major risks have been approached and the main assumptions made**.**

At a minimum, the Bangko Sentral expects banks to base their ICAAP on the results of the capital adequacy requirement under the Framework and additional risks, where applicable, should be assessed separately.

d. ***Capital transferability***

Details of any restrictions that may curtail the management's ability to transfer capital into or out of the business(es) covered, for example, contractual, commercial, regulatory or statutory restrictions that apply.

4. CURRENTAND PROJECTED FINANCIAL AND CAPITAL POSITIONS

This section would explain the current and expected changes to the business profile of the bank, the environment in which it expects to operate, its projected business plans (by appropriate lines of business), and projected financial position for, say three to five years.

The starting balance sheet and date as of which the assessment is carried out would be set out.

The projected financial position might consider both the projected capital available and projected capital resource requirements to support strategic/business initiatives. These might then provide a baseline against which adverse scenarios (please see Capital Planning below) might be compared.

Given these business plans, this section would also discuss the bank's assessment on whether additional capital is necessary on top of that assessed to cover their existing risk exposures, as well as future planned sources of capital.

5. CAPITAL PLANNING

This section would explain how a bank would be affected by an economic recession or downswings in the business or market relevant to its activities. The Bangko Sentral is interested in how a bank would manage its business and capital so as to survive a recession/ market disruption while meeting minimum regulatory standards. The analysis would include financial projections forward for, say, three to five years based on business plans and solvency calculations. Likewise, a bank should disclose here the key assumptions and other factors that would have significant impact on its financial condition, in conducting scenario analyses/ stress testing.

Typical scenarios would include how an economic downturn/market disruption would affect:

i. the bank's capital resources and future earnings; and
ii. the bank's capital adequacy requirement under the Framework taking into account future changes in its projected balance sheet.

It would also be helpful if these projections showed separately the effects of management potential actions to change the bank's business strategy and the implementation of contingency plans.

In addition, banks are encouraged to include an assessment of any other capital planning actions that would be necessary to enable it to continue to meet its regulatory capital requirements throughout a recession/market disruption such as new capital injections from related companies or new share issues.

Given the projected capital needs arising from an economic recession or business/market downswings, this section would also discuss the bank's assessment on whether additional capital is necessary on top of that assessed to cover their existing risk exposures and business plans.

6. CHALLENGE AND ADOPTION OF THE ICAAP

This section would describe the extent of challenge and testing of the ICAAP. Banks should describe the review and sign- off procedures used by senior management and the board. It might also be helpful if a copy of any relevant report to senior management or the board and their response were attached.

Details of the reliance placed on any external suppliers would also be detailed here, e.g. for generating economic scenarios.

In addition, a copy of any report obtained from an external reviewer or internal audit would also be included.

7. USE OF THE ICAAP WITHIN THE BANK

This section would describe the extent to which capital management is embedded within the bank including the extent and use of scenario analysis and/or stress testing within the bank's capital management policy, e.g. in business decisions (e.g. expansion plans) and budgets, or in allocating capital to business units, or in individual credit decision process.

Banks should include a statement of the actual operating philosophy on capital management and how this links to the ICAAP. For instance, differences in risk appetite used in the ICAAP as compared to that used for business decisions might be discussed.

Lastly, it would be helpful if details on any anticipated future refinements within the bank's ICAAP (highlighting those aspects which are work-in-progress), as well as any other information that would help the Bangko Sentral review the bank's ICAAP could be provided.

Annex B

ALTERNATIVE INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS METHODOLOGIES

This appendix outlines ICAAP methodologies which banks may adopt in lieu of that based on the minimum regulatory capital requirement under the Bangko Sentral Risk-Based Capital Adequacy Framework (the Framework). However, the choice of methodology should clearly be commensurate with banks' ability to collect the necessary information and to calculate the necessary inputs in a reliable manner.

Structured approach - In this case, banks will need to set the internal capital requirement at a starting point of zero capital and then build on capital due to all risks (both those captured under the Framework and those that are not) and external factors. This methodology could be seen as a simple model for calculating economic capital and is not based on the minimum regulatory capital requirement. A sensitivity analysis could form the starting point. The sensitivity analysis should be based on an exceptional but plausible scenario. Risks which are not included in the sensitivity analysis should also be considered in terms of the structured approach.

Allocation-of-risk-taking approach – In this approach, banks might start with its actual capital and break it down to all its material risks. This step in the process requires quantification or at least an estimation method for various risks. The amount of capital provided for each risk category is determined by the current and envisaged amount of risk in each category, a risk buffer and their risk appetite. Banks will decide which type of risk quantification/ estimation method is suitable and sufficient for its particular use. If the allocated capital seems insufficient, either the risk has to be reduced or capital has to be raised. The allocated amounts of the capital will therefore work as a limit system, which assists and facilitates banks in balancing their risk-taking capacity and their risks.

Formal economic capital models – These are expected to be used eventually by banks that use advanced approaches in determining the minimum regulatory capital requirement, or those that have substantial derivatives and structured products transactions (i.e., those that have expanded dealer and/or user capabilities).

GUIDELINES ON THE BANGKO SENTRAL'S SUPERVISORY REVIEW PROCESS
(Appendix to Sec. 130-Q)

A. Introduction

1. The Bangko Sentral's supervisory review process (SRP) in the context of this document involves (1) an evaluation of banks' internal capital adequacy assessment processes (ICAAP) and their output, (2) a dialogue with banks with regard to their ICAAP, and (3) the prudential measures that may be taken to address issues identified. These guidelines should be observed mainly by the appropriate supervising department of the Bangko Sentral and, where appropriate for on-site validation during regulation examination, by the examination personnel. This therefore supplements the existing guidelines set out in the Manual of Examinations, the CAMELS rating, and the Risk Assessment System (RAS). The appropriate supervising department of the Bangko Sentral may draft, for its own use, detailed guidelines on the conduct of the assessment of banks' ICAAP and of the Bangko Sentral- bank dialogue.

2. Although these guidelines are directed mainly at Bangko Sentral supervision and examination personnel, banks will have a clear interest in knowing the approach the Bangko Sentral intends to take in assessing their capital adequacy.

B. Guiding Principles in assessing banks' ICAAP

1. As a first step, the Bangko Sentral should evaluate banks' compliance with the minimum regulatory capital requirements as prescribed under the Framework. This would involve the verification of banks' calculation of their risk weighted assets (RWA) and capital adequacy ratio (CAR). The minimum regulatory capital requirements should always be the starting point in the assessment of banks' capital adequacy. The validated CAR should then be compared with the required capital resulting from the ICAAP.

2. Next, the assessment of banks' ICAAP should include an evaluation of their assumptions, components, methodologies, coverage and outcome. This review should cover both banks' risk management processes and their assessment of adequate capital. The Bangko Sentral should review how banks assess the other risks they are exposed to, especially Elements 2 to 4 listed in Item *"C.4"* hereof, the controls they have in place to mitigate these risks, as well as the adequacy and composition of capital held against those risks.

3. The Bangko Sentral should then identify existing or potential problems and key risks faced by banks, the deficiencies in their control and risk management frameworks, and the degree of reliance that can be placed on the outputs of their ICAAP. This process will enable the Bangko Sentral to tailor its approach for each individual bank and will provide the foundation for the Bangko Sentral's general approach for each bank and its actions.

4. The Bangko Sentral's evaluation of the adequacy of banks' capital in relation to their risk profile would serve as the basis for assigning a rating for the Capital component of the bank's CAMELS rating. It would also serve as the basis for identifying any prudential measures or other supervisory actions required. For example, where there is an imbalance between business and risk controls, the Bangko Sentral should consider the range of remedial supervisory actions that may be needed to rectify a deficiency in controls and/or perceived shortfalls in capital, either as a long-term requirement(s) or as a short- term action(s).

5. The results of the SRP will be communicated to the board and senior management of banks together with any action that is required of them and any significant action planned by the Bangko Sentral. This may be done as part of the dialogue between the Bangko Sentral and each bank on the ICAAP.

6. In evaluating the ICAAP of branches of foreign banks in the Philippines, the Bangko Sentral will refer to the home supervisor's consolidated assessment of the ICAAP of the head office/parent bank. The Bangko Sentral will also take into account the strength and availability of parental support.

C. Guiding principles on Bangko Sentral-bank dialogue

1. A key element of the SRP is the dialogue between the Bangko Sentral and each bank. The dialogue will inform the Bangko Sentral about the way each bank's ICAAP is structured, and the assumptions and methodologies which are used to assess its risk exposures.

2. The ICAAP document, which banks are required to submit to the Bangko Sentral every January of each year (suggested format is in *Annex A* of *Appendix Q-54*), will be the basis for the appropriate supervising department of the Bangko Sentral-bank dialogue. This dialogue may feed into the regular examination, and the findings of the regular examination may in turn feed into the dialogue. The Bangko Sentral will determine the nature and depth of the dialogue, based on the type and complexity of the bank.

3. Banks should be able to justify their processes for identifying and measuring their risks as well as how much capital, if any, they allocate against them, taking into account other qualitative mitigants of risk. Banks should be able to explain any differences between their own assessment of capital needs and targets under the ICAAP and the minimum regulatory capital requirements prescribed under the Framework.

4. The dialogue should embrace the following four main elements:

    a. Element 1: Risks covered under the Framework (i.e., credit risk, market risk, and operational risk);
    b. Element 2: Risks not fully covered under the Framework (for example, credit concentration risk, risk posed by non- performing assets, risk posed by contingent exposures, etc.);
    c. Element 3: Risks not covered under the Framework (other risks identified under Circular No. 510 dated 3 February 2006); and
    d. Element 4: External factors, which include risks which may arise from the regulatory, economic or business environment.

5. Aside from these four main elements, the dialogue should also cover the quality of internal governance of banks, including risk controls, compliance and internal audit, as well as operational and organizational structure.

6. For the SRP to be effective, the Bangko Sentral will need to develop a sufficiently thorough understanding of how the ICAAP is determined and the differences between it and the minimum regulatory capital requirement under the Framework. This would help in evaluating the ICAAP outcome. The SRP emphasizes the importance of analyzing the main elements, and understanding the differences between ICAAP assumptions and minimum regulatory capital requirement assumptions.

7. Once the process has begun, the dialogue will provide the opportunity for iteration between the ICAAP and SRP, with each informing the other, i.e., banks may make changes to the ICAAP in the course of the dialogue, in response to challenge and feedback from the Bangko Sentral, and vice versa. Following the dialogue, the Bangko Sentral will reach an assessment.

D. Guidelines on prudential measures

1. If the Bangko Sentral considers that a bank's ICAAP does not adequately reflect its overall risk profile, or does not result in the bank having adequate capital, then consideration should be given to applying prudential measures.

2. The measures available to the Bangko Sentral include:

    a. Requiring the bank to improve its internal control and risk management frameworks;
    b. Requiring the bank to reduce the risk inherent in its activities, products and systems;
    c. Restricting or limiting the business, operations or network of the bank;
    d. Limiting or prohibiting the distribution of net profits and requiring that part or all of the net profits be used to increase the capital accounts of the bank; and
    e. Requiring the bank to increase its capital.

3. The choice of prudential measures should be determined according to the severity and underlying causes of the situation and the range of measures and sanctions available to the Bangko Sentral. Measures can be used individually or in combination. The requirement to increase capital should, however, be imposed on any bank which exhibits an imbalance between its business risks and its internal control and risk frameworks, if that imbalance cannot be remedied by other prudential measures or supervisory actions within an appropriate timeframe.

4. The requirement to increase capital may also be set where the Bangko Sentral judges the existing capital held by a bank to be inherently inadequate for its overall risk profile. It must be acknowledged that there is no 'scientific' method for determining the amount, and that capital is not a long-run substitute for remedying deficiencies in systems and controls. In practice, the process relies heavily on subjective judgment and peer-group consistency to ensure a level playing field and a defense to possible challenge that may be posed by banks.

5. Prudential measures should be communicated promptly and in sufficient detail. In communicating its decision on prudential measures, the Bangko Sentral should:

    a. Explain in sufficient detail the factors which have led to the risk assessment conclusions;
    b. Indicate areas of weakness and the timeframe for remedial action;
    c. Explain the reasons for any additional capital requirement; and
    d. Indicate what improvements could be made to systems and controls to make them adequate for the risks and activities of the bank, and for this improvement to be reflected in the bank's capital requirements.

GUIDELINES ON OUTSOURCING OF SERVICES BY ELECTRONIC MONEY ISSUERS (EMIs) TO ELECTRONIC MONEY NETWORK SERVICE PROVIDERS (EMNSP)

[Appendix to Sec. 702-Q (Outsourcing of services by Electronic Money Issuers (EMIs) to Electronic Money Network Service Providers (EMNSP)]

I. *Statement of policy.* It is the goal of the Bangko Sentral to achieve a truly inclusive financial system. In line with achieving this goal, the Bangko Sentral recognizes the potential of electronic money (e-money) as an instrument to facilitate delivery of financial services affordably to the low-income, unbanked or undeserved segments of the population, particularly in non-urbanized areas. The Bangko Sentral likewise recognizes that efficient and effective delivery of financial services may necessitate Electronic Money Issuers (EMI) to develop business models that utilize outsourcing arrangements, considering the specialized operational and technological requirements in an e-money business. Outsourcing, however may introduce an EMI to certain operational and reputational risks that need to be properly managed. The Bangko Sentral hereby issues the following guidelines to govern the outsourcing of E-Money related services.

II. *Definition.* An Electronic Money Network Service Provider (EMNSP) shall refer to a non-financial institution that provides automated systems, network infrastructure, including a network of accredited agents utilizing the systems, to enable clients of an EMI to perform any or all of the following:

a. Convert cash to e-money and monetize e-money;
b. Transfer funds from one electronic wallet to another;
c. Use e-money as a means of payment for goods and services; and
d. Conduct other similar and/or related e-money activities/transactions.

III. *Application to outsource*. An EMI intending to outsource the services contemplated under Item "2" shall limit itself to an EMNSP as an outsource entity, and shall follow the procedures for outsourcing information technology systems/processes as provided under *Appendix Q-36*. In addition to the documentary requirements under said subtopic., an EMI should also submit a certification signed by its President or any officer of equivalent rank and function certifying that a due diligence review had been conducted and that the selected EMNSP has met the minimum requirements provided under Item *"V"*.

IV. *Responsibilities of an EMI.* Relative to the outsourcing of services to an EMNSP, it shall be the responsibility of an EMI to:

a. Conduct due diligence review on an EMNSP in accordance with Item "V";

b. Ensure that the relationship/arrangement with an EMNSP is supported by a written contract that should contain, at a minimum, the requirements prescribed under *Appendix Q-36*. The contract should also stipulate that:

(1) the EMNSP shall allow the Bangko Sentral to have access and to examine the e-money system, network infrastructure, operation of the network of accredited agents and all operations related to e-money services being outsourced by the EMI for the purpose of assessing the confidentiality, integrity, and reliability of the e-money system and determining compliance with Bangko Sentral rules and regulations;

(2) that the EMNSP shall not further outsource or subcontract the activity being outsourced to the EMNSP; and

(3) that interconnection by the EMNSP with other networks shall be limited to networks of other EMNSPs and the Bangko Sentral-recognized ATM consortia.

c. Ensure that the EMNSP employs a high degree of professional care in performing the outsourced activities as if these were conducted by the EMI itself. This would include, among others, making use of monitoring and control procedures to ensure compliance at all times with applicable Bangko Sentral rules and regulations;

d. Ensure that the EMNSP has an accreditation process in the selection of agents participating in the retail network for the conversion of cash to e-money and its monetization and that the EMNSP has instituted mechanism to manage sufficient liquidity in the system/network.

e. Ensure that the EMNSP enforces a program that requires all cash-in and cash out agents under its network to undergo AML trainings and re-trainings every two (2) years; and

f. Comply with all laws and Bangko Sentral rules and regulations covering the activities outsourced to the EMNSP, especially on compliance with anti-money laundering (AML) requirements.

V. *Due diligence and continuing operational review.* Prior to entering into an outsourcing arrangement with an EMNSP, an EMI should conduct appropriate due diligence review to assess the capability of an EMNSP in performing the service to be outsourced. The due diligence should take into consideration both qualitative and quantitative factors affecting the

performance of the outsourced service, such as the financial condition and results of operation for the previous year/s, risk management practices, technical expertise which involve monitoring the velocity of e-money transactions and aggregation of monthly limits, among others, market share, reputation (both the company and its stockholders) and compliance with anti-money laundering requirements and Bangko Sentral rules and regulations.

An EMI should make sure that the EMNSP adheres to international standards on IT governance, information security, and business continuity in the performance of its outsourced activities. An EMI should endeavor to obtain independent reviews and market feedback on the EMNSP to supplement its own findings.

Operational review by an EMI of the EMNSP should be undertaken at least on an annual basis as part of risk management. This review should be documented as part of an EMI's monitoring and control process.

VI. *Delineation of responsibilities.* The EMI and EMNSP shall identify, delineate and document the responsibilities and accountabilities of each party as regards the outsourcing arrangement, including planning for contingencies. Notwithstanding any contractual agreement between an EMI and an EMNSP on the sharing of responsibility, the EMI shall be responsible to its customers, without prejudice to further recourse, if any, by the EMI to the EMNSP.

VII. *Confidentiality and security.* An EMI should review and monitor the security practices and control processes of the EMNSP on a regular basis, including commissioning or obtaining periodic expert reports on adequacy of security to maintain the confidentiality and integrity of data, and compliance with internationally-recognized standards in respect to the operations of the EMNSP. Considering that the EMNSP may service more than one EMI, the EMI should ensure that records pertaining to its transactions are segregated from those of other EMIs.

The EMI and EMNSP shall identify circumstances under which each party has the right to change security requirements. An EMNSP should be required to report immediately any security breaches to the EMI.

In addition, the EMI should make sure the EMNSP have documented business continuity plans in place and that said plan is periodically reviewed and tested with no significant test findings. An EMNSP shall provide the EMI with timely and adequate notification on any adverse development that may impact the former's performance and delivery of service to the EMI.

VIII. *EMI-Others intending to be an EMNSP.* An EMI-Others that intend to be an EMNSP because of its specialized technical expertise shall comply with the requirements for an EMNSP. In addition, an EMI-Others shall undertake risk-mitigating measures to ensure that liquid assets, corresponding to the outstanding balance of e-money issued by the EMI-Others and maintained pursuant to Sec. 702-Q, be insulated from risks arising from its liabilities as EMNSP. These measures may include ring fencing the liquid assets through an escrow or trust account in a financial institution acceptable to Bangko Sentral.

IX. *Sanctions.* Violations committed by EMIs pertaining to outsourcing of activities to EMNSP shall be subject to appropriate penalties under Sec. 1102-Q (*Other Payments of NBFIs*) and *Appendix* Q-26, and/or other non-monetary sanctions under Section 37 of RA No. 7653.

X. *Transitory provisions.* EMIs that were granted an authority to outsource their e-money activities to an EMNSP may continue to exercise such authority provided that they have to conform to this guidelines within a six (6)-month period from 04 November 2010.

(As amended by Circular no. 1125 dated 20 August 2021)

Guidelines on the Adoption of Philippine Financial Reporting Standards 9 (PFRS 9) Financial Instruments – Impairment
(Appendix to Sec. 171-Q (Philippine Financial Reporting Standards/Philippine Accounting Standards)

Section 1. Expected Credit Loss Model

BSFIs shall adopt the expected credit loss (ECL) model in measuring credit impairment, in accordance with the provisions of PFRS 9. In this respect, BSFIs shall recognize credit impairment/allowance for credit losses even before an objective evidence of impairment becomes apparent. BSFIs shall consider past events, current conditions, and forecasts of future economic conditions in assessing impairment.

a) BSFIs shall apply the ECL model on credit exposures covered by PFRS 9, which include the following:
   - Loans and receivables that are measured at amortized cost;
   - Investments in debt instruments that are measured at amortized cost or at fair value through other comprehensive income (FVOCI); and
   - Credit commitments and financial guarantee contracts that are not measured at fair value through profit or loss (FVTPL)

b) Credit exposures shall classify into three (3) stages using the following time horizons in measuring ECL:

Stage of credit impairment	Characteristics	Time horizon in measuring ECL
Stage 1	− Credit exposures that are considered "performing" and with no significant increase in credit risk since initial recognition or with low credit risk	Twelve (12) months
Stage 2	− Credit exposures that are considered "under-performing" or not yet non-performing but with significant increase in credit risk since initial recognition	Lifetime
Stage 3	− Credit exposures with objective evidence of impairment, thus, considered as "non-performing"	Lifetime

c) BSFIs shall promptly recognize and maintain adequate allowance for credit losses at all times. It shall adopt the principles provided under the Enhanced Standards on Credit Risk Management[1] in implementing sound and robust credit risk measurement methodologies that adequately considers ECL. In this respect, the ECL methodology shall not be considered as a separate and distinct process but as an important element of the entire credit risk management process.

Section 2. Twelve (12)-Month ECL

a) BSFIs shall consider reasonable and supportable information, including forward-looking information that affect credit risk in estimating the twelve (12)-month ECL. BSFIs shall exercise experienced credit judgment and consider both qualitative and quantitative information that may affect the assessment.

b) Zero allowance for exposures under Stage 1 shall be rare. It shall be expected only for exposures with zero percent (0%) credit risk-weight under the Risk-Based Capital Adequacy Framework, such as Philippine peso-denominated exposures to the Philippine National Government and the Bangko Sentral.

[1] Section 143-Q

Section 3. Lifetime ECL

a) BSFIs shall evaluate the change in the risk of default occurring over the expected life of the exposures in assessing whether these shall be moved to a lifetime ECL measure.[2] Although collateral will be used to measure the loss given a default, this should not be primarily used in measuring risk of a default or in transferring to different stages.

b) BSFIs shall measure lifetime ECL of the following:

- exposures that have significantly increased their credit risk from origination (Stage 2); and
- non-performing exposures (Stage 3).

Section 4. Assessment of forward-looking information

BSFIs shall clearly demonstrate how forward-looking information, including macroeconomic factors, have been reflected in the ECL assessment and how these are linked to the credit risk drivers of the exposures. Experienced credit judgment is essential in assessing the soundness of forward-looking information and in ensuring that these are adequately supported.

Section 5. Transfer from Stage 1 to Stage 2 – Assessment of significant increase in credit risk

BSFIs shall transfer credit exposures from Stage 1 to Stage 2 if there is significant increase in credit risk from initial recognition.

a) BSFIs shall establish well-defined criteria on what constitutes significant increase in credit risk. BSFIs shall consider a wide range of information, which includes among others, information on macroeconomic conditions, economic sector and the geographical region relevant to the borrower, and other factors that are borrower-specific. The criteria on what constitutes significant increase in credit risk shall consider, at a minimum, the list provided in PFRS 9.

b) BSFIs shall classify exposures to Stage 2 if the exposures have potential weaknesses, based on current and/or forward-looking information, that warrant management's close attention. Said weaknesses, if left uncorrected, may affect the repayment of these exposures. BSFIs shall also classify exposures Stage 2 if there are adverse or foreseen adverse economic or market conditions that may affect the counterparty's ability to meet the scheduled repayments in the future.

c) The Bangko Sentral shall apply the following indicators of significant increase in credit risk in BSFIs noted to have weak credit loss methodologies:

- exposures considered especially mentioned under Sec. 143-Q (*Credit Classification and Provisioning*);
- exposures with missed payment for more than thirty (30) days; and
- exposures with risk ratings downgraded by at least two (2) grades (e.g., exposure with risk rating of "3" on the origination date was downgraded to risk rating of "5" on the reporting date) for BSFIs with below fifteen (15)-risk rating grades, and three (3) grades for BSFIs with fifteen (15) or above risk rating grades.

Section 6. Transfer from Lifetime ECL to Twelve (12)-month ECL

BSFIs shall transfer the exposures from Stage 3 (non-performing) to Stage 1 (performing) when there is sufficient evidence to support their full collection. Exposures should exhibit both the quantitative and qualitative indicators of probable collection prior their transfer. The quantitative indicator is characterized by payments made within an observation period (e.g., regularly pays during the minimum observation period). The qualitative indicator pertains to the results of assessment of the borrower's financial capacity (e.g., improvement in counterparty's situation).

As a general rule, full collection is probable when payments of interest and/or principal are received for at least six (6) months.

[2] PFRS 9 paragraph 5.5.9 provides that the assessment should be made in terms of the risk of a default and not on the expected credit loss (i.e., before consideration of the effects of credit risk mitigants such as collaterals or guarantees).

BSFIs shall observe the following guidelines for exposures that were restructured:

a) Non-performing restructured exposures that have exhibited improvement in creditworthiness of the counterparty may only be transferred from stage 3 to Stage 1 after a total of one (1) year probation period [i.e., six (6) months in Stage 3 before transferring to Stage 2, and another six (6) months in Stage 2 before transferring to Stage 1; or directly from Stage 3 to Stage 1, without passing through Stage 2, after twelve (12) months]; and

b) Restructured accounts classified as "performing" prior to restructuring shall be initially classified under Stage 2. The transfer from Stage 2 to Stage 1 will follow the six (6)-month rule mentioned in Item *"a"* of this Section.

Section 7. Multiple exposures to specific counterparties

In measuring the ECL to multiple exposures to a single counterparty or multiple exposures to counterparties belonging to a group of related entities, the following shall apply:

a) *Exposures to non-retail counterparties.* BSFIs with multiple exposures to a non-retail counterparty shall measure ECL at the counterparty level. In particular, the BSFI shall consider all exposures to a counterparty as subject to lifetime ECL when any of its material exposure is subjected to lifetime ECL;

b) *Exposures to a retail counterparty.* BSFIs with multiple exposures to a retail counterparty shall measure ECL at the transaction level. In particular, the BSFI may classify one transaction under Stage 1 and another transaction under Stage 3. However, BSFIs are not precluded from taking into account the potential of cross default, such that if one exposure is classified under Stage 3 all the other exposures may be classified under Stage 3; and

c) Exposures to counterparties belonging to a group of related entities. BSFIs with multiple exposures to counterparties that belong to the same group of related entities shall measure ECL at the counterparty level (per entity). BSFIs shall likewise consider the status of the other counterparties belonging to the same group in determining the stage under which the exposures shall be classified.

Section 8. Recognition of Income

For purposes of preparing the prudential reports (e.g., Financial Reporting Package and Capital Adequacy Ratio report), BSFIs shall not recognize interest income on non-performing exposures, except when payment is received.

On the other hand, interest income recognized on non-performing exposures (Stage 3 accounts) for purposes of preparing the audited financial statements (AFS) shall be disclosed in the AFS. This shall likewise be included in the list of reconciling items between the prudential reports and the AFS that is being submitted to the Bangko Sentral.

Section 9. Off-balance sheet financial items

As a general rule, BSFIs shall recognize the ECLs on off-balance sheet exposures as a liability and booked as "Provisions-Others".

On credit facilities with partial drawdown (e.g., with loan balance and an undrawn commitment), BSFIs shall observe the following rules in accordance with PFRS 7 (*Financial Instruments: Disclosures*):

a) If the BSFI cannot separately identify the ECL attributable to the drawn and undrawn commitment, the provision for ECL on the off-balance sheet accounts shall be presented together with the allowance for the financial asset (contra-asset); and

b) If the combined ECL exceeds the gross carrying amount of the financial asset, the ECL should be recognized as "Provisions-Others" (liability).

BSFIs shall look beyond the contractual date when estimating the expected losses of facilities with both loan and undrawn commitment components such as the credit card portfolio.

Section 10. Application to simple BSFIs

BSFIs with simple operations shall adopt simple loan loss methodologies fundamentally anchored on the principle of recognizing ECL. In this respect, BSFIs shall look beyond the past due/missed amortizations in classifying exposures and in providing allowance for credit losses. On the other hand, BSFIs with credit operations that may not economically justify adoption of said simple loan loss estimation methodology that is compliant with PFRS 9 shall, at a minimum, be subject to the regulatory guidelines in setting up allowance for credit losses prescribed under the *Appendix Q-14*.

Section 11. General and Specific Provisions for Loan Accounts

a) BSFIs shall treat Stage 1 provisions for loan accounts as General Provision (GP), while Stages 2 and 3 provisions shall be treated as Specific Provisions (SP).

b) BSFIs shall set up general loan loss provision (GLLP) equivalent to one percent (1%) of all outstanding Stage 1 on-balance sheet loans, except for accounts considered as credit risk-free under existing regulations. BSFIs are not required to provide a one percent (1%) GP on other credit exposures covered by PFRS 9 such as off-balance sheet accounts and investments.

c) Allowance for credit losses for Stages 1, 2 and 3 accounts shall be recognized in the profit or loss statement. In cases when the computed allowance for credit losses on Stage 1 accounts is less than the 1 percent GP required, the deficiency shall be recognized by appropriating the Retained Earnings (RE)[3] account. GP recognized in profit or loss as allowance for credit losses for Stage 1 accounts and the amount appropriated in RE shall be considered as Tier 2 capital subject to the limit provided under the Capital Adequacy Ratio (CAR) framework[4].

d) BSFIs that use the guidelines provided under *Appendix Q-14* in determining allowance for credit losses shall book the entire amount of GP in profit or loss.

e) BSFIs shall charge against RE the increase in ECL – SP as of 01 January 2018 as a result of the change in accounting policy.

Section 12. Expectations from Trust Entities

Consistent with the expectations from BSFIs on the adoption of PFRS 9, as provided under Item *"d"* of the Sec. 171-Q (*Philippine Financial Reporting Standards/ Philippine Accounting Standards*), the board of directors of a trust entity (TE) shall ensure that the TE appropriately and consistently adopts PFRS 9 as part of its reporting governance process.

In this respect, the board of directors shall approve policies and guidelines relative to the impairment of financial assets under management of the TE.

The TE shall adhere to the requirements of PFRS 9 on impairment and the guidelines provided herein, to the extent applicable to the trust operations. Pursuant to Item *"c"* of Section 1 of these guidelines *(Expected Credit Loss Model)*, a TE shall promptly recognize and maintain adequate allowance for credit losses at all times.

Consistent with the provisions under Section 10 of these guidelines *(Application to simple BSFIs)*, the following provisions shall apply to TEs:

a) A TE with simple operations shall adopt simple loan loss methodologies fundamentally anchored on the principle of recognizing ECL. In this respect, the TE shall look beyond the past due/missed amortizations in classifying exposures and in providing allowance for credit losses.

b) A TE with credit operations that may not economically justify adoption of said simple loan loss estimation methodology that is compliant with PFRS 9 shall, at a minimum, be subject to the regulatory guidelines in setting up allowance for credit losses prescribed under *Appendix Q-14*.

(Circular Nos. 1023 dated 04 December 2018 and 1011 dated 14 August 2018)

[3] BSFIs shall use Retained Earnings Reserve – Others as temporary account of Retained Earnings – General Provisions (RE-GP)
[4] As temporary presentation in CAR reports, the RE included in Common Equity Tier (CET/Core Tier 1 shall be net of RE-GP. In computing Tier 2 Capital, the General Loan Loss Provision (GLLP) shall include the RE-GP. However, the GLLP added back to on-balance sheet assets subject to risk-weight shall not include the RE-GP since when appropriating the RE, total assets is not affected.

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 Secs. 136-Q (Confirmation of election/appointment of directors/officers), 161-Q (Chief Compliance Officer) and 412-Q (Confirmation of the appointment/designation of trust officer and independent professional))

Requiring Bangko Sentral Confirmation[2]		**Not Requiring Bangko Sentral Confirmation**
Directors	**Chief Executive Officer and Other Officers enumerated in Sec. 136-Q (*Confirmation of election/appointment of directors/officers)*[3]**	**Officers below the rank of Senior Vice President requiring a different set of minimum qualifications[4]**
• Letter-request for Bangko Sentral confirmation signed by authorized officer[5] with an affirmative statement that the institution has conducted a fit and proper test on the director/s concerned	• 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 stockholders or board of directors approving the election	• 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	• Bio-data with a photograph (2" x 2") taken within the last six (6) months	• 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 to become a director	• Certification under oath of the officer concerned that he/she possesses all the qualifications and none of the disqualifications to become an officer	
• For directors who are holding interlocking positions in government/government owned and/or -controlled corporations (GOCC), written permission from the head of the Department/GOCC, allowing him/her to become a director of the BSFI		

[1] To be submitted within twenty (20) business days from date of election/re-election/appointment/promotion to the appropriate supervising department of the Bangko Sentral.

[2] Including those exempted from the required Bangko Sentral confirmation as provided in Secs. 136-Q (*Confirmation of election/appointment of directors/officers*) and 412-Q *(Confirmation of the appointment/designation of trust officer and independent professional).*

[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/FCDU Operations, and Head/In-Charge of Import and Export Financing Operations (for TBs)

[5] Authorized signatory is the 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 Sec. 136-Q (*Confirmation of election/appointment of directors/officers*), submit statement that the institution has conducted a fit and proper test on the director/officer concerned.

Requiring Bangko Sentral Confirmation[1]		Not Requiring Bangko Sentral Confirmation
Directors	**Chief Executive Officer and Other Officers enumerated in Sec. 136-Q (*Confirmation of election/appointment of directors/officers)*[2]**	**Officers below the rank of Senior Vice requiring a different set of minimum qualifications[3]**
• For first-time directors in a particular bank/banking group as defined in Sec. 136-Q *(Confirmation of election/appointment of directors/officers)*	• For the first-time officers to be subject to Bangko Sentral confirmation in a particular QB/NBFI/with trust authority/trust corporation/ banking group as defined in Sec. 136-Q (*Confirmation of election/appointment of directors/officers)*	
a. Certification under oath of compliance with the Bangko Sentral-prescribed syllabus on corporate governance seminar	a. Duly accomplished and notarized authorization form for querying the records of the Bangko Sentral, including the Watchlist Files of the Bangko Sentral, from the officer concerned	
b. Certification under oath that the director has received copies of the 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 records of the Bangko Sentral, including Watchlist Files of the Bangko Sentral, from the director concerned		
• For independent directors, certification under oath that he/she is an independent director as defined in Bangko Sentral regulations	• Brief description of his/her duties and responsibilities	• Brief description of his/her duties and responsibilities
• 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	• Alien Employment Permit issued by the Department of Labor and Employment for foreigners appointed as officers	

(Circular Nos. 1129 dated 12 November 2021, 972 dated 22 August 2017, and 970 dated 22 August 2017)

[1] Including those exempted from the required Bangko Sentral confirmation as provided in Secs. 136-Q (*Confirmation of election/appointment of directors/officers*) and 412-Q *(Confirmation of the appointment/designation of trust officer and independent professional).*

[2] 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

[3] E.g., Security Officer, Head/In-Charge of E/FCDU Operations, and Head/In-Charge of Import and Export Financing Operations (for TBs)

List of Members of Directors and Officers

[Appendix to Sec. 136-Q (Bio-data of directors and officers)]

DEADLINE : 20 banking/business days from the annual election of the board of directors/trustees

SUBMISSION: Original copy to the appropriate supervising department of the Bangko Sentral

_____(Name of Bank/QB/NBFI/with Trust Authority/Trust Corporation/NBFI/NSSLA)_____

List of Members of Directors and Officers

As of _____

Name	Position	Department (if applicable)
Directors:		
Officers with rank of senior vice president and above (or equivalent rank):		
Officers below the rank of senior vice president:		

REPUBLIC OF THE PHILIPPINES)
_____) S.S.

I solemnly swear that all matters set forth in this report are true and correct, to the best of my knowledge and belief.

_____

(Signature of Authorized Signatory)

SUBSCRIBED AND SWORN TO BEFORE ME this _____ day of _____ 20____, affiant exhibiting to me his/her (valid identification document) No. _____ issued at _____ on _____ 20____.

_____
Notary Public

Until December 31, 20_____
PTR No. _____
Place _____

Doc No. _____
Page No. _____
Book No. _____
Series of _____

(Circular Nos. 970 dated 22 August 2017 and 887 dated 07 October 2015)

GUIDELINES ON RECEIVERSHIP AND LIQUIDATION PROCEEDINGS OF NON-BANKS WITH QUASI-BANKING FUNCTIONS AND TRUST ENTITIES

(Appendix to Sec. 439-Q)

PART I. GUIDELINES ON RECEIVERSHIP OF NBQBs/TRUST ENTITIES

Introduction. Receivership is defined as the condition when the Monetary Board designates a person, known as a "*Receiver*", to take over an institution enumerated under Item "*I*" of these guidelines and administer and hold the assets of the institution in trust for its creditors and stockholders.

I. Coverage. These Guidelines shall cover institutions which shall refer to any of the following:

a. Non-banks with quasi-banking license (i.e. Investment houses and Financing companies); and
b. Trust entities.

II. Legal Bases for Placement under Receivership

a. Section 30, R.A. No. 7653.
b. Section 53, R.A. No. 8791.
c. Section 56, R.A. No. 8791, 2nd par.
d. Section 91, R.A. No. 8791 in relation to Section 66 of R.A. No. 8791 and Section 36 of R.A. No. 7653

III. Minimum Qualifications of the Receiver. The receiver shall possess at all times the following minimum qualifications:

a. Must belong to the private sector;

b. Must have appropriate knowledge, training and competence in the field of banking and finance, receivership, liquidation, rehabilitation/corporate recovery, insolvency, or supervision and regulation of financial institutions;

c. Must have a minimum of five (5) years' work experience in any of the following:

(i) rehabilitation/corporate recovery, receivership, liquidation, or insolvency involving a business similar in size and complexity as that of the institution under receivership; or
(ii) banking and finance or supervision and regulation of financial institutions.

d. Must pass the "*fit and proper*" rule of the Bangko Sentral on bank directors/officers;

e. Must be of good moral character, sound judgment and tact in dealing with the transactions of the institution under receivership;

f. Must not have conflict of interest as defined in these guidelines;

g. Must not be included in the Bangko Sentral Watchlist Disqualification Files "*A*" and "*B*";

h. Must be eligible for coverage by a fidelity bond;

i. Must not have been convicted by, or have no pending criminal or administrative case before a court or administrative body for any offense involving dishonesty or breach of trust such as, but not limited to, estafa, embezzlement, extortion, forgery, malversation, swindling, theft, robbery, falsification, bribery, violation of B.P. Blg. 22, violation of anti-graft and corrupt practices act and prohibited acts and transactions under Section 7 of R.A. No. 6713 (Code of Conduct and Ethical Standards for Public Officials and Employees), violation of banking laws, rules and regulations; and

j. Must not have been sentenced by a court to serve a maximum term of imprisonment of more than six years, which conviction has become final and executory.

A juridical person may serve as a receiver: *Provided*, that it must designate as its representative/s natural person/s who possess/ess all of the above qualifications. Such juridical entity and the representative/s are solidarily accountable for all the liabilities of the receiver.

The Receiver shall be appointed by the MB and may be replaced at anytime upon written notice by the MB.

The Bangko Sentral may maintain a pool of qualified receivers who shall be subjected to the following selection process:

(i) The supervising sector shall send invitations citing the minimum requirements for the position, together with a copy of the terms of reference (TOR), to specific persons with reputable track record in handling corporate recoveries, rehabilitation, receivership, liquidation, banking and finance or supervision and regulation of financial institutions.

(ii) Interested parties shall submit an application for appointment as receiver of an entity, together with the statement that the applicant is agreeable to the TOR prescribed by the Bangko Sentral. The applicant shall also submit his/her/its proposed compensation and other fees.

(iii) The supervising sector shall evaluate the qualifications submitted by the applicants and shall prepare a short list of those qualified. To be included in the short list, candidates must comply strictly with the minimum qualifications.

The Bangko Sentral-accreditation of the receivers may be renewed every three (3) years. Any person pre-qualified to be included in the pool, may be appointed as Receiver of one (1) or more NBQBs/Trust Entities subject to such conditions as may be imposed by the MB.

The supervising sector, when recommending to the MB the person who shall be appointed as receiver, shall consider, among others, the following:

(i) Area of expertise of the candidates vis-à-vis the nature of the business of the entity under receivership;
(ii) Amount of assets of the entity under receivership;
(iii) Proposed compensation and other fees; and
(iv) Any information available in the business community and/or in legal/professional organizations regarding the candidate.

IV. Conflict of Interest. Conflict of interest is a situation wherein a person in a fiduciary position has competing professional or personal interests that can make it difficult to fulfill his/her duties impartially, which may include the following:

a. The person is, or was within two years prior to the date the MB placed the institution under receivership a director, officer, employee, consultant/adviser, external counsel/auditor, creditor, debtor, or stockholder of the institution under receivership;

b. The person is presently engaged in a competing line of business as the institution under receivership;

c. The person is related by consanguinity or affinity within the fourth civil degree to such creditor, debtor, stockholder, director, officer of the institution under receivership;

d. The person has a direct or indirect interest in the institution under receivership or any of its creditors; or

e. Other cases analogous to the foregoing or where there is a clear showing of a conflict of interest, as may be determined by the MB.

The applicant-receiver shall disclose whether he/she/it possesses any of the foregoing conflict of interest.

V. Powers, Duties and Responsibilities of the Receiver. The receiver has the following principal responsibilities:

a. Take charge of the institution's assets and liabilities as provided in the Receivership Procedures under *Annex A* of this *Appendix*;

b. As expeditiously as possible, collect and gather all the assets and administer the same for the benefit of its creditors and exercise the general powers of a receiver under the Revised Rules of Court but shall not, with the exception of administrative expenditures, pay or commit any act that will involve the transfer or disposition of any asset of the institution;

c. Determine as soon as possible, but not later than ninety (90) days from takeover, whether the institution may be rehabilitated or otherwise placed in such a condition so that it may be permitted to resume business with safety to its clients, creditors and the general public; and

d. Evaluate and propose rehabilitation plan that may be submitted and make a recommendation to the MB whether the institution should be rehabilitated or liquidated.

e. Upon approval by the MB of the receiver's recommendation for liquidation, the receiver shall proceed with the liquidation without prejudice to the prerogative of the MB to select a liquidator.

VI. **Designation of Deputy Receiver/s.** The receiver may appoint as many deputies as may be necessary to accomplish the objectives of receivership. The appointed deputies should possess the same qualifications required of a receiver.

VII. **Terms of Receivership.** Unless otherwise provided by competent court, the receiver shall determine within ninety (90) days from takeover, whether the institution may be rehabilitated or liquidated. The said determination to rehabilitate or liquidate the institution shall be subject to prior approval of the MB. The receivership may be terminated either upon receipt of the order of the MB authorizing the institution to resume its operation or order placing it under liquidation.

VIII. **Remuneration of the Receiver.** The receiver, in the performance of his/her/its duties, shall observe due diligence as required under the circumstances, reasonable skills, sound discretion and good faith.

PART II. GUIDELINES ON LIQUIDATION PROCEEDINGS OF NBQBS/TRUST ENTITIES

1. **Introduction.** Liquidation is the process by which all the assets of an NBQB/Trust Entity are converted into liquid assets (cash) in order to pay for all the claims of creditors of the NBQBs, and the remaining balance, if any, is to be distributed to the stockholders of the corporation. A liquidation proceeding is a proceeding *in rem* so that all other interested persons whether known to the parties or not may be bound by such proceeding.[1]

2. **Legal Bases for Liquidation Proceedings**

   a. Section 30 of Republic Act No. 7653, otherwise known as the New Central Bank Act
   b. Section 56, R.A. No. 8791
   c. Section 91, R.A. No. 8791 in relation to Section 66 of R.A. No. 8791 and Section 36 of R.A. No. 7653
   d. Section 36, R.A. No. 7653

3. **Selection of Liquidator**

   3.1. Minimum Qualifications of the Liquidator.

   The liquidator shall possess at all times the following minimum qualifications:

   a. Must belong to the private sector;

   b. Must have appropriate knowledge, training and competence in the field of banking and finance, receivership, liquidation, rehabilitation/corporate recovery, insolvency, or supervision and regulation of financial institutions;

   c. Must have a minimum of five (5) years' work experience in any of the following:

      (i) rehabilitation/corporate recovery, receivership, liquidation, or insolvency involving a business similar in size and complexity as that of the institution under liquidation; or
      (ii) banking and finance or supervision and regulation of financial institutions.

   d. Must pass the "*fit and proper*" rule of the Bangko Sentral on bank directors/officers;

   e. Must be of good moral character, sound judgment and tact in dealing with the transactions of the institution under liquidation;

   f. Must not have conflict of interest as defined in these guidelines;

   g. Must not be included in the Bagko Sentral Watchlist Disqualification Files "*A*" and *"B";*

   h. Must be eligible for coverage by a fidelity bond;

   i. Must not have been convicted by, or have no pending criminal or administrative case before a court or administrative body for any offense involving dishonesty or breach of trust such as, but not limited to, estafa, embezzlement, extortion, forgery, malversation, swindling, theft, robbery, falsification, bribery, violation of B.P. Blg. 22, violation of anti-graft and corrupt practices act and prohibited acts and transactions under Section 7 of R.A. No. 6713 (Code of Conduct and Ethical Standards for Public Officials and Employees), violation of banking laws, rules and regulations; and

   j. Must not have been sentenced by a court to serve a maximum term of imprisonment of more than six (6) years, which conviction has become final and executory.

[1] Chua v. NLRC, 1990

A juridical person may serve as a liquidator: *Provided*, That it must designate as its representative/s natural person/s who possess/ess all of the above qualifications. Such juridical entity and the representatives are solidarily accountable for all the liabilities of the liquidator.

The Bangko Sentral may create a pool of pre-qualified liquidators, whose inclusion in the pool is subject to renewal every three (3) years. Any person pre-qualified to be included in the pool, may be appointed as Liquidator of one (1) or more NBQBs/Trust Entities subject to such conditions as may be imposed by the MB.

The Liquidator shall be appointed by the MB and may be replaced at any time upon written notice by the MB.

3.2. Conflict of Interest.

Conflict of interest is a situation wherein a person in a fiduciary position has competing professional or personal interests that can make it difficult to fulfill his/her duties impartially, which may include the following:

a. The person is, or was within two (2) years prior to the date the Monetary Board placed the NBQB/Trust Entity under liquidation, director, officer, employee, consultant/adviser, external counsel/auditor, creditor, debtor, or stockholder of the said NBQB, or any of its subsidiaries, affiliates or related interests;

b. The person is presently engaged in a competing line of business as the NBQB/ Trust Entity under liquidation;

c. The person is related by consanguinity or affinity within the fourth civil degree to such creditor, debtor, stockholder, director, officer, consultant/adviser, or external counsel/auditor of the NBQB/Trust Entity under liquidation;

d. The person has a direct or indirect interest in the NBQB/Trust Entity under liquidation; or any of its creditors; or

e. Other cases analogous to the foregoing or where there is a clear showing of conflict of interest, as may be determined by the Monetary Board.

3.3. Selection Process

a. The supervising sector shall send invitations, together with a copy of the terms of reference (TOR), to specific persons with reputable track record in handling corporate recoveries, rehabilitation, receivership and liquidation citing the minimum requirements for the position.

b. Interested parties shall submit an application for appointment as liquidator of an entity, together with the statement that the applicant is agreeable to the TOR prescribed by the Bangko Sentral. The applicant shall also submit his/its proposed compensation and other fees.

c. The supervising sector shall evaluate the qualifications submitted by the applicants and shall prepare a short list of those qualified. To be included in the short list, candidates must comply strictly with the minimum qualifications.

The supervising sector, when recommending to the MB the person who shall be appointed as liquidator, shall consider, among others, the following:

(i) Area of expertise of the candidates vis-à-vis the nature of the business of the NBQB/Trust Entity under liquidation;
(ii) Amount of assets of the NBQB under liquidation;
(iii) Proposed compensation and other fees; and
(iv) Any information available in the business community and/or in legal/professional organizations regarding the candidate.

The supervising sector shall then recommend to the Monetary Board the person/partnership/firm who/which shall be appointed as liquidator.

4. Terms of Reference of the Bangko Sentral – Appointed Liquidator

4.1. Functions, Responsibilities and Authorities of the Liquidator.

a. Master Liquidation Plan Implement the Master Liquidation Plan for NBQBs/Trust Entities, as provided under Annex B of this *Appendix*.

b. Liquidation Process

The Bangko Sentral-designated liquidator of the NBQB/Trust Entity shall:

1. Within sixty (60) days upon receipt of the Monetary Board placing the NBQB/Trust Entity under liquidation, file ex parte a Petition for Assistance in the Liquidation of the NBQB/Trust Entity with the proper Regional Trial Court pursuant to the Master Liquidation Plan;

2. Represent and act for and in behalf of the closed NBQB/Trust Entity;

3. Gather and take charge of all the assets which shall include the NBQB/Trust Entity license, records, documents and affairs of the NBQB/Trust Entity, and administer the same for the benefit of its creditors;

4. Collect loans and other claims of the NBQB/Trust Entity, and for this purpose, modify, compromise or restructure the terms and conditions of such loans or claims as may be deemed advantageous to the interest of the creditors and claimants of the closed NBQB/Trust Entity;

5. Convert the assets to money or dispose of the same to creditors and other parties for the purpose of paying debts of the NBQB/Trust Entity in accordance with the preference of credits provided under the Civil Code;

6. Settle the affairs of the NBQB/Trust Entity within a reasonable time preferably within three (3) to five (5) years;

7. Provide for his own organizational support and for other resource back-up facilities to accomplish the liquidation plan, including hiring of counsel;

8. Bring suits to enforce liabilities of the directors, officers, employees, agents of the closed NBQB/Trust Entity and other entities related or connected to the closed NBQB/Trust Entity or to collect, recover and preserve all assets, including assets over which the NBQB/Trust Entity has equitable interest;

9. Incur, disburse, charge and be paid from the funds of the NBQB/Trust Entity, liquidator's fees, salaries/compensation of support personnel and such other necessary expenses incurred in the discharge of the liquidation functions subject to approval by the Liquidation Court; and

10. Perform such other functions necessary in the liquidation of the NBQB/Trust Entity.

c. Safeguards for Preserving the Assets of an Entity during the Liquidation Process.

The liquidator, in the performance of his/her/its duties, shall observe due diligence as required under the circumstances, reasonable skill, sound discretion and good faith. Immediately, administer and preserve the assets of the NBQB/Trust Entity in order to conserve and/or maximize the value of the assets, including assets in the possession or administration of third persons or those previously given as collaterals by the NBQB/ Trust Entity to its creditors. Accordingly, the liquidator shall undertake the following steps:

1. All properties included in the inventory of assets and/or under the custody of the liquidator that are reasonably deemed to have inherent risk, shall be adequately insured;

2. The liquidator shall use all legal means to control the assets, collect all receivables, bring suit to collect claims and resist all unlawful claims against the assets of the entity;

3. Investible funds shall be limited to readily marketable government securities;

4. The liquidator shall convert the assets into money with convenient speed as may be practicable and at maximum recovery obtainable under the circumstances;

5. The liquidator and his staff shall be prohibited from purchasing properties of the NBQB/Trust Entity subject of liquidation;

6. The liquidator shall limit administrative expenses to what is necessary and reasonable;

7. Third parties hired to perform certain activities shall possess the education, experience, training and competence necessary for the job;

8. The liquidator shall maintain appropriate records which may be made available to parties as provided in Section 4.6 below; and

9. The liquidator shall be required to post a surety bond in an amount not less than 10% of the book value of the total assets of the institution as of takeover. Said surety bond shall be renewable every year and the amount of which shall be at least ten percent (10%) of the realizable assets of the preceding quarter.

d. Submission of Status Report.

The liquidator shall submit a semestral status report to the MB, or as often as may be required by the MB. The liquidator shall also submit a status report to the Liquidation Court if so required by the Liquidation Court.

4.2. Compensation and/or Fees of Liquidator

The Liquidator and the Deputy Liquidators shall receive compensations not more than the amount to be fixed by the MB.

All expenses attendant to the liquidation, including the above, shall be borne by or chargeable to the institution concerned.

4.3. Termination of Liquidation Proceedings

The liquidation proceeding shall be deemed closed and terminated upon finality of the order of the Liquidation Court approving the termination of the liquidation proceeding and discharging the Liquidator from any and all liabilities arising from or in connection with the Liquidation of the closed NBQB/Trust Entity.

4.3.1. Disposition of Remaining Non-Cash Assets

In case the NBQB/Trust Entity has remaining non-cash assets, the Liquidator shall recommend to the Court the final disposition of such assets.

4.4. Final Liquidation Report

At the end of the liquidation proceedings, the Liquidator shall submit a final report to the Monetary Board and the Liquidation Court. The Liquidator shall recommend to the Court the issuance of an order terminating the liquidation proceedings.

4.5. Extension or Replacement of Liquidator.

In case the Liquidator fails to terminate the Liquidation proceedings within his term, the Liquidator shall submit a status report and may request for extension of his term or replacement, subject to Bangko Sentral approval. The Liquidator shall manifest to the court such approval for the information of creditors and other stakeholders.

Upon the termination of the liquidation proceedings, the Liquidator shall pursue action in accordance with the preceding Sub-topic.

4.6. Records of the Liquidation Proceedings.

The liquidator shall maintain records of the liquidation proceedings which may be made available to parties duly authorized by him or the Liquidation Court.

After the termination of the liquidation proceedings, the liquidator shall turn over all records to a custodian duly appointed by the Court.

5. Term of Liquidator. The Liquidator shall serve for a term of five (5) years unless sooner terminated, revoked or extended by the Monetary Board.

6. Proceedings in Case of Voluntary Liquidation

6.1. Grounds. An NBQB/Trust Entity may elect voluntary dissolution under the Corporation Code by any of the following methods:

a. by two-thirds (2/3) vote of the stockholders and majority vote of the board of directors, where no creditors are prejudiced;

b. judgment of the Securities and Exchange Commission after hearing the petition for voluntary dissolution, where creditors are prejudiced; or
c. amending the articles of incorporation to shorten the corporate term, provided all creditors are assured of payment of their claims.

The liquidation of an NBQB/Trust Entity which is voluntarily dissolved may be undertaken by the NBQB/Trust Entity itself through its Board of Directors, or by a Trustee appointed by the NBQB/Trust Entity. If the liquidation cannot be carried out by the Board of Directors or by a Trustee, a Liquidator may be appointed by the Monetary Board. However, in both of the foregoing cases, the following conditions shall apply:

(i) No voluntary dissolution shall be undertaken by an NBQB/Trust Entity without written notice to the Monetary Board;

(ii) The notice shall be accompanied by a surrender of license and request for approval of a liquidation plan which lays down the procedures to be adopted in the liquidation of the NBQB/Trust Entity;

(iii) The liquidation plan shall be implemented by the Board of Directors/ Trustee/Liquidator only upon its approval by the Monetary Board;

(iv) Within five (5) days from receipt of notice of approval by the Monetary Board of the NBQB/Trust Entity's Liquidation Plan, the Board of Directors shall cause the posting in three (3) public places and publication of the NBQB/Trust Entity's voluntary dissolution once in a newspaper of general circulation; and

(v) The liquidation shall be terminated within a reasonable time, preferably within five (5) years or sooner.

6.2. Liquidation Process.

The liquidation plan shall, at a minimum, include the following:

a. Inventory/Appraisal of Assets and Liabilities. A schedule/inventory and status/ appraisal reports of assets and liabilities of the NBQB/Trust Entity.

b. Notice to Creditors. Notice of the voluntary dissolution to be sent by the Board of Directors/Trustee/ Liquidator by registered mail to all creditors of the NBQB/Trust Entity advising them to file their claims within a set deadline.

Publication of the same notice shall be made in a newspaper of general circulation at least once a week for two (2) consecutive weeks, within thirty (30) days from approval by the Monetary Board of the voluntary dissolution.

c. Conversion of Assets into Money. Projected timetable to convert assets and manner of conversion, e.g., thru public auction or negotiated sale.

d. Project of Distribution of Assets and Liquidating Dividends.

e. Final Notice to Claimants/Creditors. Undertaking of the Board of Directors/ Trustee/Liquidator to advise, within thirty (30) days from conversion into money of all or substantially all of the assets of the NBQB/Trust Entity, by registered mail and by publication in a newspaper of general circulation at least once a month for three consecutive months, that claimants/ creditors have thirty (30) days from last publication within which to claim check payments.

f. Final Liquidation Report. Submission by the Board of Directors/ Trustee/Liquidator, within thirty (30) days from the deadline given in the final notice to claimants/creditors, of a final liquidation report to the Stockholders, copy furnished the Securities and Exchange Commission and the Monetary Board. The final report shall include, among others, a list of the remaining non-cash assets of and claims against, the NBQB/Trust Entity, if any.

Annex A

RECEIVERSHIP PROCEDURES FOR NON-BANKS WITH QUASI-BANKING FUNCTIONS (NBQBs) AND TRUST ENTITIES

A. Pre-Takeover Preparations

In preparation for actual takeover, the receiver designated by the Monetary Board ("MB") shall, as much as practicable, see to it that the following procedures are accomplished:

1. Designation of deputy receiver(s) and the formation of a complete receivership team which preferably includes an auditor and a lawyer. The composition of the team shall depend on the size, type of institution and the number of branches;
2. Planning, organization, and coordination of the duties and functions of all members of the team and complete briefing of the mechanics and the strategy of the takeover in a conference called for the purpose;
3. Drawing-up/formulation of policies, guidelines and strategies to ensure the effective implementation of Monetary Board ("MB") resolutions, Bangko Sentral Circulars and other applicable laws in relation to the receivership of the institution;
4. Arrange security measures for the takeover; and
5. Review of the examination papers/ files and other documents pertaining to the institution to be taken over.

B. Actual Takeover

During the actual takeover, the following procedures shall be observed:

1. Serve the letter of authority from the Deputy Governor of the Supervision and Examination Sector on the takeover addressed to the President/Board of Directors of the institution. The receiver/ deputy receiver shall see to it that the official receiving the said letter of authority indicates his designation, date and time of receipt on the duplicate copies of the letter.

   In case the management of the institution refuses to allow the takeover, the receiver/deputy receiver shall immediately report the matter to the nearest office of the Philippine National Police and to the MB for further instructions;

2. As soon as the official of the institution receives the letter of authority on takeover, all operations shall be under the direction of the receiver or deputy receiver. The receiver shall suspend all operations except collections of loans and receivables;

3. Post a notice in the most conspicuous place in the institution's premises (usually the main door) informing the public of the placement of the institution under receivership;

4. Adopt appropriate security measures, such as hiring of private security guards, to prevent removal of records and other properties from the premises of the institution;

5. Notify in writing all of the institution's depository banks of the receiver's takeover with instruction not to honor any withdrawal from the institution's deposit accounts without the written approval of the receiver/deputy receiver;

6. Request or secure copies of trial balance, statement of condition and statement of earnings and expenses as of the last working day preceding the actual takeover;

7. Open a new deposit account (preferably a current account-savings account combo) with a reputable bank within the vicinity, in the name of the closed institution, with the Receiver as the authorized signatory and custodian. The Receiver may also maintain the existing account of the institution provided that the Receiver shall be the authorized signatory.

8. Conduct physical inventory and institute appropriate control and custody of all assets, liabilities, records, books of accounts and accountable forms of the institution;

9. Notify in writing the employees of the institution concerning the suspension of their employment contracts. Determine the number of employees to be retained in the receivership operation of the institution, and issue a notice of indefinite leave of absence for those who may not be retained and a confirmation of employment for those to be retained;

10. Deposit all checks and other cash items that were inventoried and subsequent collections to the savings account/current account mentioned in Item No. "7" above; and

11. Reconcile the inventoried properties/assets with the books/records and account for missing items. Demand from the responsible/ accountable officials the turnover of unaccounted items or written explanation under oath for each of the missing items.

The tasks and the procedures listed above need not be followed in the order they were listed. The entire receivership team is expected to exercise sound discretion in giving priorities to more urgent matters. Moreover, the receiver/deputy receiver may adopt other measures/appropriate steps he may deem necessary under given circumstances. Finally, he shall endeavor to effect an orderly and seamless takeover and minimize inconvenience to the institution's management and personnel.

Item Nos. *"(1)"* to *"(9)"* above should be, as much as practicable, undertaken on the first day of takeover.

C. Post Takeover

Within fifteen (15) days after the completion of the takeover, the receiver shall submit to the MB, through the Deputy Governor of the appropriate supervising sector of the Bangko Sentral, a report containing the following information:

1. Brief history of the institution;
2. Basis of its placement under receivership;
3. Comparative balances of its account as reflected in the books as of takeover date against the balances obtained per inventory and turnover from the institution's management to the receiver;
4. Inventories mentioned in Item B. 8 above; and
5. Such other information that should be brought to the attention of the MB.

D. Accounting and Reportorial Requirements Accounting

Once takeover is in place, the receivership team shall immediately undertake to:

1. Adopt an effective accounting system.

    a) Carry in the receiver's books a chart of accounts of the institution, with additional accounts such as Receivership Costs and Fees (for recording of the salaries of the receivership team and those of the institution's employees to be retained, and other authorized expenses incurred by the receiver) and the Receivership Income (which may include rental income, and interest income);

    b) Supervise the closing of the books as of takeover date and transfer the balances of all real accounts from the institution's books to the new set of books opened by the receiver's team; and

    c) Record receiver's transactions involving receipt and disbursement of cash in accordance with generally accepted accounting principles.

2. Attend to all requirements of various agencies of the government, such as filing of tax returns and notices or other reportorial requirements of the DOLE, SEC and SSS/GSIS.

    Reports

    The receiver shall submit a monthly report of the receivership to the MB containing, among others, the following:

    a) Statement of Condition;
    b) Statement of Earnings and Expenses;
    c) Cash receipts and disbursements;
    d) Bank Reconciliation Statements;
    e) Summary of loan collections;
    f) Summary of Assets Acquired; and
    g) Status of Legal Cases

E. Administration of the Assets of the Institution

The receivership team or any member thereof, to be assigned by the receiver relative to the administration of the institution's assets, shall perform the following tasks/duties:

Cash and Deposit in Banks

1. Reconcile the deposit accounts of the institution and prepare/book the necessary adjusting entries.
2. Pay the following receivership expenses:

a. Salaries and other allowances of officers and employees, including those of the receivership team;
b. Security and janitorial services;
c. Rental on institution's premises;
d. Telephone, light, water and other utility expenses; and
e. Insurance

Other than the foregoing expenses, no payment shall be made unless it is necessary for the preservation of the institution's assets and the operation of the receiver.

Loans/Receivables and Trading Account Securities

1. Evaluate documents of each loan folder and segregate vital documents from the file;
2. Prepare inventory of missing documents and demand explanations under oath from accountable/responsible officers of the institution;
3. Send demand letters, when due, or notice to borrowers and co-makers of various loan accounts;
4. Ensure that the real estate taxes on properties mortgaged in favor of the institution are updated by the borrowers;
5. Hire legal counsels to enforce collection;
6. Initiate collection proceedings; and
7. Follow-up on execution of judgments when warranted.

Real and Other Properties Acquired

1. Update payment of taxes;
2. Collect the fruits and rentals; and
3. Perform other acts which are necessary in preserving the properties and making them productive;

F. Rehabilitation Proposal

In case a rehabilitation proposal is submitted, the receiver shall undertake to:

1. Evaluate the rehabilitation proposal which shall contain, among others, the following:

   a) a capital restoration plan that shall include an initial fresh capital infusion of an amount (to be determined by the Receiver) that will render the institution operational;
   b) a business improvement plan that shall contain set of actions to be taken immediately to bring about an improvement in the entity's operating condition; and
   c) a corporate governance reforms that shall contain actions to be immediately taken to improve composition of the Board of Directors and to enhance the quality of its oversight over the management and operation of the entity.

2. Submit report on the rehabilitation proposal, together with his evaluations and recommendation(s), to the MB within ninety days (90) from takeover.

G. Termination of Receivership

Unless otherwise provided by competent court, the receiver shall determine within ninety (90) days from takeover, whether the institution may be rehabilitated or liquidated. The said determination to rehabilitate or liquidate the institution shall be subject to prior approval of the MB. The receivership may be terminated either upon receipt of the order of the MB authorizing the institution to resume its operation or order placing it under liquidation.

Upon termination of the receivership, the receiver shall –

1. Submit a report to the MB containing the following:

   a) MB resolution placing the institution under receivership;
   b) Summary of total cash realized and disbursed by the receiver;
   c) Comparative balance sheet statements as of takeover date and as of termination date of the receivership;
   d) Other information which should be brought to the attention of the MB;
   e) Recommendation for the discharge of the receivership team from the receivership duties.

2. Prepare an inventory of assets, liabilities and records to be turned over to the new management (if the entity is to be rehabilitated) or to the liquidator (if the entity is to be liquidated).

Annex B

MASTER LIQUIDATION PLAN FOR NBQBs/TRUST ENTITIES

1. Preparation of Schedules of Assets and Liabilities.

   After the turn-over of the affairs of the insolvent NBQB/Trust Entity is completed, the Liquidator shall prepare the schedules of all the assets and liabilities of the entity accompanied by the following basic information:

   a. Statement of condition as of date of order of liquidation
   b. Exceptions/variances noted in the takeover
   c. Work program pursuant to the master liquidation plan

2. Inventory of Asset

   The following procedures/guidelines shall be observed by the Liquidator in preparing the inventory of assets:

   2.1. The inventory shall contain all known assets of the NBQB together with their book value and market value based on the latest available appraisal report.
   2.2. Supplemental reports shall be submitted for additional assets discovered, if any, and the Liquidator shall take possession thereof.
   2.3. The schedules/reports shall be the basis for the conversion/disposition of the assets.

3. Conversion of Receivables/Loans, Securities, and Other Receivables into Money

   3.1. In case the Liquidator engages the services of private collection agencies to collect all or particular receivables of the entity, such shall be covered by an agreement in writing.

   3.2. In case the Liquidator shall undertake the collection of the loan receivables:

      3.2.1. At least three (3) demand letters shall be sent to borrowers whose accounts are not subject to pending cases in courts, furnishing a copy of said letters to respective co-makers or guarantors, by registered mail with return card or by courier;

      3.2.2. The Liquidator shall cause the appraisal of collaterals to determine their existence and valuation, where necessary.

      3.2.3. Settlement proposals which require at least 20% payment of the total obligation and the balance (with interest) payable in equal amortizations within a one-year period may be allowed, provided, any deviation from the aforementioned arrangement shall require approval of the Liquidation Court.

      3.2.4. For borrowers who ignore demand letters or who fail to settle their accounts in accordance with the agreed payment arrangement, or whose demand letters are returned by the Post Office or by courier, the following courses of action shall be taken:

         3.2.4.1. Secured loans – Immediate foreclosure of the mortgaged property shall be instituted.
         3.2.4.2. Unsecured loans – The Liquidator shall pursue appropriate legal action.

      3.2.5. Foreclosure of mortgages may be done either extra-judicially or judicially. The amount of bid shall be the current appraisal value of the property or the total obligation consisting of principal, interest, penalties and other charges, including attorney's fees, other foreclosure and collection expenses incurred, whichever is lower. In case the bid price in foreclosure sale is not sufficient to cover the total loan obligation, the necessary legal remedies shall be instituted against the borrower- mortgagor, with the assistance of the counsel engaged by the Liquidator, to recover the deficiency.

      3.2.6. The Liquidator is authorized to disburse funds for foreclosure expenses, including legal fees, to be charged against the NBQB/Trust Entity.

      3.2.7. Booked receivables found to be non-existent and/or uncollectible shall be written-off subject to prior approval of the Liquidation Court.

4. Conversion of Personal and Real Estate Properties

The conversion into money of the personal properties and real estate properties and their improvements shall be made as follows:

4.1. These items shall be sold by means of public sealed bidding or on negotiated basis; provided that negotiated sale shall only be resorted to in the event of failure of public sealed bidding.

Negotiated sale shall be governed by Annex B-1.1. Sample form for negotiated offer to purchase is attached as Annex B-1.

4.2. Publication of the sale by means of sealed bidding shall be made by the Liquidator once in a national newspaper of general circulation in the Philippines.

4.3. In case of properties situated outside National Capital Region, the invitation to bid shall also be published once in a local newspaper of general circulation in the province or city where the property is situated at least fifteen (15) days before the scheduled sale. If there is no newspaper of general circulation in the locality where the property is situated, the invitation to bid shall be posted conspicuously in the city or municipal hall and in other public places, like public market, at least fifteen (15) days before the scheduled sale.

4.4. In the case of personal property, the publication of sale in a newspaper may be dispensed with if the value of the property to be sold is insignificant relative to the cost of publication. Instead, notices of sale of these properties shall be posted in government offices and other public places at least fifteen (15) days before the scheduled sale.

4.5. In case of sale through sealed bidding, sample invitation to bid is attached as Annex B-2.

4.6. The minimum selling price of real and personal properties of the NBQB shall be determined taking into consideration the appraised value based on the appraisal report made not more than two (2) years prior to date of disposition.

4.7. The Liquidator may reduce the minimum bid/selling price by not more than 10%, in case of properties that cannot be sold at the stipulated minimum bid/selling price.

4.8. The Liquidator shall recommend to the Court the write-off of assets which are ascertained to be worthless.

4.9. In case of sale thru sealed bidding of personal and/or real properties, the Liquidator may use the sample bid forms and conditions of bid as shown in Annexes B-3 and B-4, respectively. In the case of partnerships/corporations, the bid form shall be accompanied by an authority/resolution that shall indicate the designated person who shall make a bid and bind the partnership/corporation.

In any case, the higher price obtainable should govern the sale of the assets of the NBQB/Trust Entity.

4.10. Prospective bidders are allowed to examine the documents covering the real estate properties and their improvements and to inspect the property and improvements at their site, if desired.

4.11. The condition of the bid with respect to the real estate properties and improvements shall form part of the conditions for the sale of such assets.

4.12. All bids shall be in Philippine currency and shall be written in words and in figures. In case of conflict between words and figures, the words shall prevail.

4.13. Bid proposals together with the minimum 20% of the bid tender in cash or manager's check shall be submitted to the Liquidator in sealed envelopes. Sample Invitation to Bid is shown in Annex B-2. Bidders of real property shall be those qualified to own real property under existing laws.

4.14. The Deed of Sale shall be made and executed after the winning bidder pays the entire bid price of the property.

4.15. The winning bidder of the real estate property shall be responsible for instituting eviction proceedings against any former owner or present occupant or possessor, if any.

4.16. Real and personal properties that cannot be sold shall be subject to such disposition as may be determined by the Liquidator and with the approval of the Liquidation Court.

5. Processing of Claims against the Insolvent NBQB/Trust Entity.

5.1. Posting in the premises of closed NBQB and publication of a "Notice to Creditors" in a newspaper of general circulation once a week for two (2) consecutive weeks advising all creditors to file their claims against the entity. (See Annex B-5 for sample of Notice to Creditors.)

5.2. Distribution of claim forms for creditors to accomplish. (See Sample Claim Form in Annex B-6)

The claimant shall accomplish Claim Form as shown in Annex B-6. In the case of partnerships/corporations, the claim form shall be accompanied by an authority/ resolution that shall indicate the designated person who shall make a claim and bind the partnership/corporation. Claims received shall be stamped "Received", dated and numbered consecutively and recorded in the registry of claims. A copy of the claim received shall be given to the claimant.

5.3. Verification of claims received against the records and books of accounts of the NBQB to ascertain authenticity, determine whether claimants have outstanding liabilities to the NBQB/Trust Entity and whether settlement of the claims shall be in full or pro-rata depending on whether the claim is preferred or ordinary.

5.4. Preparation of an adjustment and verification sheet for each claim. (See Annex B-7)

5.5. Preparation of a Liquidation Certificate (sample is shown in Annex B-8) embodying the conclusive findings arrived at on the adjustment/verification sheet. The order shall be served on the claimant by registered mail with return card/personal service.

6. Payment of Claims

6.1. The net proceeds of the sale may be paid to creditors of the NBQB, taking into consideration the rules on preference of credits. A proposal to this effect shall be submitted to the Liquidation Court, copy furnished the Monetary Board.

6.2. Prepare and submit to the Court for approval a Project of Distribution, in case of 6.1, or Final Distribution (Sample in Annex B-9) as the case may be, which must show, among others, the following:

- Cash
- Assets to be realized
- Cost of liquidation/recoveries, including reasonable expenses and fees of the Liquidator
- List of credits/claims to be paid in accordance with the provisions on preference of credits under Articles 2241 to 2246 of the Civil Code

A copy of the Project of Distribution submitted to the Liquidation Court shall be provided to the Monetary Board for information with the following recommendations:

1. That an authority be secured from the liquidation court, through engaged counsel of the Liquidator, on the disposition of the remaining cash/unclaimed checks;

2. That the report be approved and the court issue an order terminating liquidation proceedings and discharging the Liquidator from his duties; and

3. That in case the NBQB/Trust Entity has remaining non-cash assets, the Liquidator shall seek the Court's approval to turn over said assets to a trustee appointed by the court for proper disposition in accordance with law.

6.3. Individual notices to the claimants as well as Claim for Payment forms shall be sent by way of registered mail. (Samples are shown in Annexes B-10 and B-11).

6.4. Distribute the check payments to claimants in accordance with the Project of Distribution approved by the Court.

a. Claims shall be paid in check. Claimants shall execute an affidavit proving their right to be paid and an indemnity undertaking (Sample is shown in Annex B-12) to save the Liquidator from any claim or loss that might be caused by reason of such payment.

b. Remaining assets shall be distributed in accordance with law.

6.5. A final report on liquidation shall be submitted by the Liquidator to the Liquidation Court for approval, showing among others, the following:

a. Summary of the total cash realized and paid out by the Liquidator to approved claimants;
b. Statement of remaining cash/ unclaimed checks; and

The Liquidator shall also submit a copy of the final report to the Monetary Board for information. Likewise, the Liquidator shall inform the MB of the action taken by the Court on the final report.

Annex B-1

NEGOTIATED OFFER TO PURCHASE FORM

_____

Date

_____
The Liquidator

Dear Sir/Madam:

This is to submit my/our offer to purchase the following property/ies of _____Name of Entity____ on an "**AS-IS, WHERE-IS"** basis:

TCT No.	**Location/Description**
_____	_____
_____	_____

Under the following terms:

Offer Price	P _____
Deposit/Downpayment %	P _____
Terms of Payment: Balance payable in_months	
To be filled up after payment of Deposit:	OR No. _____
Amount P_____	Date _____

With this offer, I/we bind myself/ourselves to comply with the attached Negotiated Sale Rules and Procedures, which I/we have read, fully comprehended, and signed on each and every page.

Upon approval of my/our offer to purchase, the deposit/downpayment shall form part of the purchase price and the balance shall be paid in accordance with the terms and conditions specified in the Notice of Approval.

My/Our failure to pursue the approved offer to purchase or comply with the conditions thereof would mean forfeiture in favor of the____Name of Entity____of 50 % of my/our deposit/downpayment.

Should my/our offer be disapproved, I/we am/are entitled to the return of the deposit/downpayment, without interest.

Very truly yours,

_____
Name/Company Name, if corporate account Broker authorized to negotiate with the Liquidator:

_____
Signature over Printed Name of Authorized Signatory

Signature: _____

Name: _____

License No. _____

_____
Address/Tel. No./Fax No./E-Mail

_____
Community Tax Certificate No./TIN No.

Annex B-1.1

NEGOTIATED SALE RULES AND PROCEDURES
(Attachment to Negotiated Offer to Purchase Form)

I. GENERAL PROVISIONS

In the event of a failure of bidding which shall be announced on the scheduled auction date, the Liquidator may accept within ten (10) calendar days from the date of announcement of failure of bidding, negotiated offers to purchase in the prescribed form with the required downpayment. Thereafter, the Liquidator shall evaluate the offers and conclude the negotiated sale with the complying offeror.

a. The property shall be sold on "As-Is, Where-Is" basis. The offeror shall acknowledge that he has been given the opportunity to investigate, inspect, and verify the property for sale to ascertain its actual condition and the status of the title to the property before making an offer. The offeror shall also accept the (Name of Entity/Liquidator)'s disclaimer of any warranty, implied or otherwise, that the assets conform precisely to the description indicated in the list of properties for sale.

b. The buyer shall be responsible, at his own expense, for the eviction of squatters and/or occupants, if any, on the property subject of sale.

c. Any and all claims, liens, assessments, liabilities and/or damages whatsoever arising from any suit or litigation involving the property shall solely be assumed and borne by the buyer, accruing from the date of signing of the sale documents.

d. The Liquidator of (Name of Entity) does not warrant (implied or express) that the property conforms precisely to the description indicated in the published list of Properties Available for Sale.

e. Offers to purchase (Name of Entity) properties are subject to the approval of the Liquidator.

II. PUBLISHED SELLING PRICE

	Cash	Installment
Minimum Deposit/Down Payment	10 % of the offer Price	10% of the offer price upon submission of the offer to purchase.
Payment Terms	Full payment shall be made within 30 calendar days from date of receipt of the Notice of Approval (NOA)	The balance shall be paid in six (6) equal monthly installments without need of demand. The first installment shall commence not later than fifteen (15) days from receipt of the NOA while succeeding installments shall be paid every month thereafter. In case of failure to pay two (2) monthly installments, the remaining balance of the contract price becomes due and demandable within ten (10) days from receipt of notice. In case of failure to pay the same after said period, the Liquidator shall have the right to rescind the contract. Fifty percent (50%) of all payments made shall be forfeited in favor of the entity.

The published Selling Price of the (Name of Entity) property is subject to change without prior notice to conform with the prevailing fair market value of the property. The Liquidator has the discretion to accept or reject an offer already received that was based on an earlier published Selling Price.

III. TERMS OF SALE

a. The basic terms and conditions of the sale are as follows:
b. The acceptance of the initial deposit shall not bind the (Name of Entity) to the offer until after receipt by the offeror of the Notice of Approval of the sale from the Liquidator.
c. The deposit shall be in the form of cash or manager's/cashier's check payable to the (Name of Entity).

IV. SUBMISSION OF OFFER

a. The offeror shall submit in duplicate the following forms:

    1. Negotiated Offer to Purchase Form; and
    2. Negotiated Sale Rules and Procedures, ***signed on all pages***.

b. The original copy of the forms shall be submitted to the (Name and Address of Entity). The duplicate copy shall be given back to the offeror properly stamped "RECEIVED" by the Office of the Liquidator.

c. If the offeror is a representative of an individual, corporation, partnership or any form of entity, the representative must submit together with the required forms, a written authority to represent the individual or Secretary's Certificate for juridical entities.

V. OFFERS COURSED THROUGH BROKERS

a. Offers coursed through licensed brokers shall be accepted, provided the broker named and so designated in the Negotiated Offer to Purchase Form submitted, has a valid authority issued by the Liquidator. No broker shall be recognized, even if with a valid authority to sell issued by the Liquidator, if the initial negotiation for the purchase of the property was made by the offeror with the Liquidator or any of his deputies without the assistance of a broker.

b. Real estate brokers are not authorized to collect or receive any payment in behalf of the Liquidator. Any payment made to a broker shall be under the sole and exclusive responsibility and risk of the offeror.

VI. EVALUATION OF OFFERS

a. The Liquidator shall evaluate the acceptability of offers received.

b. Acceptance of negotiation offer shall always be for the best interest of the (Name of Entity)/creditors.

c. Where there are two or more offers for the same property, which shall be opened at the same time after ten (10) days from the date of announcement of failure of bidding, the best offer shall be determined in accordance with the following order of priority:

1. The first priority shall be the highest offered price;

2. In case the same offered price is received, the next consideration shall be the highest down payment;

3. In case the offers received have the same offer price and the same down payment, the shortest payment period shall be accepted;

4. In case offers received have the same offer price, same down payment and same payment period, the offerors concerned shall be asked to resubmit on a designated date and time improved sealed offers to the Liquidator or his representative.

   The best offer in accordance with the foregoing shall be announced right after the opening of the offers. Each offeror shall be required to complete the minimum deposit requirement based on the new offer price either in cash or manager's/cashier's check drawn payable to the (Name of Entity), which shall serve as earnest money in case he submits the best offer. The Liquidator shall receive the deposit or earnest money of the best offeror.

VII. NOTICE

a. A Notice of Approval shall be sent to the buyer whose offer is deemed acceptable to the Liquidator.

b. The deposit shall form part of the purchase price and the balance shall be paid in accordance with the terms and conditions indicated in the Notice of Approval.

c. Notice of Disapproval shall be given to those whose offers were rejected and their deposits shall be returned without interest.

   The Notice of Approval/Disapproval shall be distributed within seven (7) days from the date the Liquidator has decided on the offers.

VIII. DOCUMENTATION AND RELEASE OF TITLE

a. If the buyer opts to pay the purchase price in full, a Deed of Absolute Sale shall be executed in favor of the buyer.

   The owner's duplicate copy of the Transfer Certificate of Title (CCT or TD) shall thereafter be released to the buyer upon receipt of payment from the buyer of the capital gains tax due and reimbursement of taxes and insurance premium, mentioned in paragraph "c", if applicable.

b. If the buyer opts to pay in installment, a Contract to Sell shall be executed to document the approved offer to purchase.

Upon full payment of the purchase price, a Deed of Absolute Sale shall be executed in favor of the buyer. The owner's duplicate copy of the Transfer Certificate of Title (CCT or TD) shall thereafter be released to the buyer upon receipt of payment from the buyer of the capital gains tax due and reimbursement of taxes and insurance premium, mentioned in paragraph c, if applicable.

However, in case of failure to pay two (2) monthly installments, the remaining balance of the contract price becomes due and demandable within ten (10) days from receipt of notice. In case of failure to pay the same after said period, the Liquidator shall have the right to rescind the Contract to Sell.

c. The real estate taxes and insurance premiums paid by the (Name of Entity) shall be assumed by the buyer on a pro rata basis, thus, entitling the (name of entity) to reimbursement of the real estate taxes and insurance premium paid for the remaining days of the year.

Payment of foregoing reimbursement shall be made upon the execution of deed of absolute sale or contract to sell.

IX. OTHER CONDITIONS

a. Withdrawal of Accepted Offer –

Withdrawal of an offer already accepted by the Liquidator shall mean forfeiture in favor of the (Name of Entity) of 50% of the deposit as penalty.

b. Possession and Improvements –

The buyer may be allowed to take physical possession of the property upon downpayment and execution of Contract to Sell. The buyer may be allowed to make or introduce any improvement on the property prior to the full payment with the written consent and subject to the requirements of the Liquidator. Any improvement made contrary to this provision or upon rescission of the contract shall be forfeited in favor of the (Name of Entity) or may be removed without substantial damage to the property, at the expense of the defaulting buyer.

c. Transfer of Rights –

The buyer shall not sell, assign, encumber or in any way dispose of his rights and obligations under the Contract to Sell without prior written consent of the Liquidator.

X. PAYMENT OF TAXES AND FEES

a. The payment of capital gains tax (CGT) shall be subject to agreement by the parties.

In case the (Name of Entity) shoulders the CGT, the buyer shall, in addition to the purchase price, assume payment of CGT due on the difference between the zonal value and the selling price, in case the zonal value is higher than the selling price.

The amount of CGT which the buyer shall pay or assume shall be delivered to the (Name of Entity) through the Office of the Liquidator.

b. All other taxes and fees incidental and necessary to the sale and transfer of title shall be assumed by the buyer.

CONFORME:

_____
Name of Offeror
(Signature over Printed Name)

( ) Individual ( ) Partnership* ( ) Corporation*
*Authorization on the designation of representative attached. Date:

Annex B-2

NAME OF ENTITY OFFICE OF LIQUIDATOR
INVITATION TO BID

Sealed bids will be accepted by the Liquidator for the sale of properties of (Name of Entity) on "As-is, Where-is" basis. Prospective buyers are enjoined to inspect the following listed properties before participating in the public bidding.

CODE/ PROPERTY NO.	DESCRIPTION	LOCATION	TITLE/TD/Cert. of Reg. for motor vehicles, where applicable	MIN. BID PRICE

Sealed bids shall be received by the Liquidator or his authorized representative not later than____(am/pm) on _____. The opening of the bids to determine the winning bidder shall take place at _____(am/pm) on the same day.

Interested parties may obtain List of Personal Properties not itemized above, Bid Form/s and Conditions of the Bid from the Liquidator at_____.

_____
Liquidator

_____
(Name of Entity)

BID FORM

No._____ _____
Date

THE LIQUIDATOR
(Name of NBQB)
(Address)

I am/we are pleased to submit my/our bid for the property */ described below:

Code/ Property No.	*Description*	*Location*	*Title/TD/Certificate of Registration for motor vehicles, where applicable*	*Amount of Bid*	*Bid Deposit (At least 20% of amt. of bid)*

*/ In case of personal properties (except motor vehicles), bids for several items shall be contained in one bid form.

I/we have carefully read the Conditions of the Bid and I/we submit this bid with the full understanding that I am/we are in conformity with the terms and conditions stipulated therein.

_____
*Signature Over Printed **FULL** Name of Bidder or Bidder's Representative*

_____ Individual
_____ Partnership
_____ Corporation
_____ Others *(pls. specify)*

COMPLETE Address _____

_____ _____

Telephone Number _____ Civil Status _____

Attachments: ____ Duly signed Conditions of the Bid
____ Written authority to bid *(In case of authorized representatives for individual bidders)*
____ Secretary's Certificate of Authority to Bid or equivalent *(In case of partnerships, corporations, etc.)*
____ Bid Deposit *(please give details below)*
____ Cash
____ Manager's Check/Demand Draft/Cashier's Check
Drawee Bank _____ Check No. _____

Tax Identification Number

For Liquidator Use Only	
OR No.	Amount Paid

CONDITIONS OF THE BID

I. GENERAL PROVISIONS

a. The property shall be sold on "As-is, Where-is" basis. The (Name of Entity) sells only whatever rights, interests and participation it has in the properties and the bidder is charged with full knowledge of the nature and extent of these rights, interests and participation.

b. The offeror acknowledges that he was given the opportunity to investigate, inspect, and verify the property for sale to ascertain its actual condition and the status of the title to the property before making an offer. The offeror also accepts the (Name of Entity)'s disclaimer of any warranty, implied or otherwise, that the assets conform precisely to the description indicated in the list of properties for sale.

c. The sealed envelope system shall be adopted in the bidding.

d. No bid documents will be accepted after the deadline set for the acceptance of bids.

e. All quotations shall be in Philippine pesos.

f. A bidder may be allowed to withdraw a bid tender before the time of opening of bids, which shall be returned, unopened.

g. The (Name of Entity) reserves the right to withdraw before the date and time of bidding any or all of the properties offered or to postpone or reset the date of opening of bids without prior notice.

h. Non-compliance with any of the requirements prescribed hereunder will constitute a ground for disqualification.

II. SUBMISSION OF BIDS

a. Bid Form –

1. A bidder shall accomplish a Bid Form for every item or lot as shown in the published "Invitation to Bid", clearly indicating the following, among others:

   - The bid price for the item/lot in figures and in words;
   - In case of discrepancy between the amount in figures and in words, the amount in words shall prevail;
   - Name and signature of bidder;
   - Business or residence address of the bidder; and
   - Business license number, CTC number, or TIN of the bidder

   In case of personal properties except motor vehicles, bids for several items shall be contained in one bid form.

2. The bidder shall accomplish the Bid Form, in duplicate, preferably typewritten. In case of partnerships, corporations, etc., a Secretary's Certificate of Authority to bid or equivalent is also be duly initialed by the bidder.

3. The Bid Form shall be sealed in an envelope with the Code/Property No. as shown in the required. All forms should be properly signed. Erasures or corrections should be avoided and if unavoidable should published "Invitation to Bid" written on the face of the envelope.

4. The envelope shall contain only one bid form. At the discretion of the Liquidator, he may accept a bid form containing multiple items/lots with their corresponding bid offer prices published in the "invitation to Bid". It shall also contain all bid documents issued by the (Name of Entity) (i.e., Bid Form and Conditions of the Bid), the Bid Deposit, and other attachments, as may be required.

5. All documents shall bear the bidder's signature on each and every page. The signature of the bidder on the original bid form and other bid documents shall constitute acceptance of all conditions embodied therein.

6. The envelope shall be deposited in the designated box on or before the opening of bids.

b. Bid Deposit

1. A Bid Deposit of at least 20% of the bid tender shall be required for every bid.

2. The Bid Deposit shall be in the form of cash, manager's check or cashier's check payable to the (Name of Entity), and should be placed in a sealed envelope separate from all the other required bid documents. Such envelope shall be opened ahead of the bid form.

   The submission of the Bid Deposit is a sign of the acceptance of the terms and conditions of the purchase and as a guarantee that the offeror shall, within fifteen (15) calendar days after receipt of the Notice of Award, pay the balance of the bid price.

3. Failure to submit the Bid Deposit in the sealed envelope shall automatically disqualify the bid concerned.

III. OPENING OF BIDS

a. All bids shall be opened at the time, date and place set in the published "Invitation to Bid" (ITB) under the direction of the Liquidator or his authorized representative. No bid shall be accepted after the set deadline. Every bidder, or his authorized representatives, shall have the right to witness the opening of the bids.

b. When two or more complying bidders make identical offers constituting the highest bids, public auction viva voce between those who submitted identical bids shall be resorted to at a price not lower than the offered bids.

c. The Bid Deposit of the highest bidder shall be paid to, and receipted by the Liquidator/Representative.

d. Bids that are not in the prescribed form, unsigned, or those not accompanied or guaranteed by Bid Deposits at the time of opening of bids are considered defective bids and shall be automatically disqualified. In case there is only one bidder, the Liquidator may accept the lone bid even if defective, subject to correction of the defects.

e. A bidding may be declared a failure in any of the following cases:

   1. There is no bidding participant; or
   2. All bidders fail to comply with the terms and conditions prescribed in the ITB.

f. Announcement of bidding results shall be done immediately after the opening of bids.

g. In the event of a failure of bidding on the scheduled auction date, the Liquidator may accept within 10 calendar days from the date of announcement of failure of bidding, negotiated offers to purchase in the prescribed form with the required down payment. Thereafter, the Liquidator shall evaluate the offers and conclude the negotiated sale with the highest complying offeror.

IV. RIGHT TO REJECT

a. The Liquidator reserves the right to reject any or all bids, as well as to waive any defect or infirmity in the bids, and to accept such offers as may be considered most advantageous to the (Name of Entity). Failure to comply with any of the terms and conditions mentioned above may cause the rejection of the bid.

b. The Liquidator also assumes no obligation whatsoever to compensate or indemnify the bidders for any expense, loss or damage that they may incur in the preparation of the bids nor does it guarantee that any award will be made.

V. PAYMENT AND CLAIM OF AWARD

a. The award to the highest complying bidder shall be subject to the approval of the Liquidator.

b. The Notice of Award shall be issued to the winning bidders immediately after approval.

c. The balance of the bid price shall be paid in the form of cash or manager's check payable to the (Name of Entity , within fifteen (15) days from the date of receipt of Notice of Award.

d. In case of the awardee's failure to pay the full amount within the prescribed period or accept the award or comply with the terms and conditions listed in the Notice of Award, the award shall be cancelled and the Bid Deposit forfeited in favor of the (Name of Entity).

VI. TAXES AND OTHER EXPENSES

a. The winning bidder shall, in addition to the purchase price, assume payment of the capital gains tax due on the difference between the zonal value and the selling price (in case the zonal value is higher than the selling price), transfer taxes to the City/Municipal Treasurer, and registration fees to the Register of Deeds as well as

documentary stamp taxes and all other assessments or charges that the Republic of the Philippines may impose on the properties from the execution of Deed of Absolute Sale.

b. The capital gains tax due from the awardee shall be paid to the Liquidator who in turn shall pay the capital gains tax directly to the Bureau of Internal Revenue.

c. The awardee shall likewise defray all expenses to be incurred in connection with the execution of the sale documents, including notarial fees, and such other expenses that may be necessary for the validity of the instrument and/or other documents that may be executed to implement the sale.

d. The ___(Name of Entity)_____ shall also be refunded for unexpired portion of real estate taxes and insurance premiums paid for the transaction year computed from the date of execution of the Deed of Absolute Sale.

VII. DOCUMENTATION AND RELEASE OF TITLE

The_____(Name of Entity)_____shall execute a Deed of Absolute Sale upon full payment to the Liquidator of the purchase price and the capital gains tax, if applicable, and shall release the transfer certificate of title of the property to the winning bidder.

VIII. OTHER CONDITIONS

a. The buyer shall be responsible, at his own expense, for the eviction of squatters and/or occupants, if any, on the property subject of sale.
b. Any and all claims, liens, assessments, liabilities and/or damages whatsoever arising from any suit or litigation involving the property shall be assumed and borne by the buyer.
c. The_____(Name of Entity/Liquidator) does not warrant (implied, express or otherwise), that the property conforms precisely to the description indicated in the published list of Properties Available for Sale.

CONFORME:

_____

Name of Bidder
(Signature over Printed Name)

( ) Individual ( ) Partnership* ( ) Corporation*

*Authorization on the designation of representative attached. Date: _____

Annex B - 5

NOTICE TO ALL CREDITORS OF NAME OF NBQB/TRUST ENTITY

Notice is hereby given that in an Order dated_____, the Regional Trial Court, Branch_____,_____(City/Town) _____gave due course to the Petition for Assistance in the Liquidation of ***(Name of closed Entity)*** (Spec. Proc. No. _____) filed by the Liquidator.

All creditors, investors and other parties with claims against ***(Name of closed Entity)*** may file their claims on or before_____with the Liquidation Court or its Liquidator at___.

Liquidator

(Name of Entity)

Annex B – 6

In re: Liquidation of **NAME OF NBQB/TRUST ENTITY**

CLAIM

Pursuant to Order dated_____of the Regional Trial Court, Branch _____,_____City/Town _____I/we, the undersigned claimant/s do hereby certify that the NBQB/Trust Entity is justly indebted to me/us in the sum of **PESOS:**

_____(**P**_____) for the following:

which is/are due and payable to me/us, since I/we have not assigned the same or any part thereof. I/we further declare that I/we have no knowledge of any set-off or other legal or equitable defense to my/our claim/s or any part thereof.

My/our claim/s is/are evidenced by the following documents, copies of which are hereto attached, the original of which will be produced upon demand:

Community Tax Certificate No. _____
Issued at _____
On _____

_____
Claimant's Name

_____
Claimant's Address

---------- (to be filled up by the Liquidator) ----------

Received by: _____

Date: _____ Claim No: _____

(to be accomplished in duplicate)

_____
(Name of NBQB/Trust Entity under Liquidation)

ADJUSTMENT AND VERIFICATION SHEET

1. Name of Claimant: _____
2. Claim No.: _____
3. Date of Claim: _____
4. Nature of Claim: _____
   a. Investment/Placement P_____
   b. Interest on Investment/Placement _____
   c. Others: - _____ _____
      - _____ _____
      - _____ _____
      Total Claims P_____
5. Adjustments:
   a. Additions
      1. Interest up to NBQB/Trust Entity closure P_____
      2. Others: - _____ _____
         - _____ _____
         - _____ _____
         Total Additions P_____
   b. Deductions
      (1) Withholding tax on Interest on Investment/placements (per item no. 4.b) P_____
      (2) Withholding tax on interest up to closure (per item no. 5.a.1)
      (3) Interest paid in advance
      (4) Others: -
         -
         - _____
         Total Deductions P_____
      ADJUSTED VERIFIED CLAIMS
      P_____
6. Proofs (per NBQB/Trust Entity records):
   - GL

Evidence submitted by Claimant:

- Assessment Notice dated _____
- Warrant of Distraint of Personal Property
- Warrant of Levy on Real Property
- Others

_____

Adjusted and verified by:

_____ _____

(Deputy Liquidator) Date

Approved by:

_____ _____

(Liquidator) Date

Annex B – 8

(Name of Entity)

OFFICE OF THE LIQUIDATOR

In re: Petition for Assistance in the Liquidation of the _____ - Liquidator Civil Case No. _____. RTC Branch _____, _____City/Town_____.

LIQUIDATION CERTIFICATE

Name of Claimant: _____ Claim No. _____

Address

_____

This refers to your claim against the _____(NBQB/Trust Entity_____which you filed pursuant to the Order of the Court dated _____ in the above-entitled case, in the amount of P_____ , computed as follows:

Date	Particulars	Amount
Claim:		P

Total Claim – P _____

Liability of Claimant to NBQB/Trust Entity:

		P

Total Liability of Claimant to NBQB/Trust Entity - P _____

NET CLAIM ---------- P _____

Please be advised that the foregoing claim shall be used as basis, along with other similar claims and in determining whether settlement of your claim will be in full or pro-rata, depending on whether it is preferred or an ordinary claim, subject to the availability of funds/assets.

Very truly yours,

_____
Liquidator

(NBQB/Trust Entity)

PARTIAL/FINAL PROJECT OF DISTRIBUTION

As of _____

I. Asset to be realized:

A. Cash in Bank P

_____

B. Government securities/treasury bills

C. Remaining assets to be realized (at realized value)

Total Assets P

_____

II. Liability to be settled

A. Cost, expenses & fees of Liquidation Team under Section 30,

R.A. No. 7653, as amended P

_____

B. Provision for future/winding-up expenses

C. Claim/creditors with priority – see attached list

D. Ordinary claims – see attached list

Total Liabilities to be settled P

_____

III. Remaining assets realizable P

_____

Less: Cost and expenses of Bangko Sentral

_____

Assets available to creditors P

_____

Less: Claims

_____

Assets available to ordinary creditors P

_____

Ordinary Claims

_____

Deficiency to ordinary claims/creditors P

_____

IV. Distribution

Proposed partial/final liquidating dividend:

1. _____ to creditors/claim with priority
2. _____ to ordinary claims

Amount	1st Liquidating Dividend Rate	Balance

Claims with priority – P _____ - P _____/P1.00 – P_____ Ordinary claims – P _____ - P _____/P1.00 – P _____ P _____

(Name of Entity)
OFFICE OF THE LIQUIDATOR

_____

_____

_____

Sir/Madam:

_____

(Court and Case Number)

This is to inform you that your claim has been approved pursuant to the Court Order dated_____.

Accordingly the check in the amount of P_____representing your share in the liquidation of (Name of Entity) will be available for release on_____at (Liquidator's address)

We enjoin you or your authorized representative to claim your check within six (6) months from date of this letter by presenting the following documents:

1. Any valid ID with picture (GSIS ID/SSS ID/Driver's License/Passport/ Voter's ID/Postal ID/Company ID/Senior Citizen ID)
2. Copy of Adjudication Order (if available)
3. Duly Accomplished Indemnity Undertaking (form attached)
4. Duly Accomplished Claim for Payment (form attached)

_____
Liquidator

_____(Name of Entity)_____

OFFICE OF THE LIQUIDATOR

CLAIM FOR PAYMENT

(In Triplicate)

I. DATA ON CLAIM:

1. Name of Claimant _____
   (Please Print) (Surname) (First Name) (Middle Initial)
2. Age _____ Civil Status _____
3. Residence _____
4. Office/Business Address _____
5. Filed –
   a) In person _____
   (Authorized Signature)
   b) By mail _____
   (Attach letter and state date)
   c) Thru representative/heirs _____
   (Letter of Authority/Supporting Documents)
6. Date Filed _____
7. Type of Claim: Amount:

_____	P
_____	
_____	
_____	
Others (Specify)	
_____	
_____	_____
Total	P_____

DO NOT FILL – FOR USE OF LIQUIDATOR

II. Computation of Liquidating Dividend Due Claimant:

Amount Claimed	P
Percentage	_____%_____
Liquidating Dividend	P _____

Approved:

_____

Liquidator

INDEMNITY UNDERTAKING

KNOW ALL MEN BY THESE PRESENTS:

This Indemnity Undertaking made this_____day of_____, 20___ by the _____, represented by _____, Filipino, of legal age and with business/residential address at _____, hereinafter referred to as **CLAIMANT/s,** in favor of_____, hereinafter referred to as the **LIQUIDATOR:**

WITNESSETH THAT:

WHEREAS, the Regional Trial Court of_____, Branch_____, (City/Town), per its Order dated _____in SP. PROC. No._____ (In re: Petition for Assistance in Liquidation of _____Name of Entity_____, _____, Petitioner), authorized the payment of the approved claim against the Name of Entity ;

WHEREAS, CLAIMANT/s appears in the list of claims approved pursuant to the said Order of the Court and that the particulars of this claim are as follows:

Claim No.	Claimants	Amount of Claim	Payment and/or set off	Balance

WHEREAS, the Liquidator is now paying the CLAIMANT/s the amount of its claim in full, and thus LIQUIDATOR shall be free from any claim(s) and/or loss(es) that might be caused by reason of such payment.

NOW, THEREFORE, the CLAIMANT/s, hereby agree/s to hold the LIQUIDATOR free and harmless from any claim(s) and/or loss(es) that might be caused by reason of such payment, by obligating himself/themselves to refund to the LIQUIDATOR upon demand the amount paid to the CLAIMANT/s and/or indemnify the LIQUIDATOR for whatever losses or damages caused to the latter by reason of such payment to the CLAIMANT/s.

IN WITNESS WHEREOF, CLAIMANT/s_____has executed and signed this Indemnity Undertaking this_____day of_____20_____ at_____, Philippines. By:

_____
Claimant/s

SIGNED IN THE PRESENCE OF:

_____ _____

ACKNOWLEDGEMENT

REPUBLIC OF THE PHILIPPINES) S.S.

City of _____)

BEFORE ME, a Notary Public for and in _____, on this _____ day of _____, 20_____, appeared the following:

NAME	Community Tax Certificate No.	Date/Place of Issue

known to me to be the same person who executed the foregoing instrument and acknowledged to me that the same is his/her free act and voluntary deed as well as_____is duly authorized for the purpose.

WITNESS MY HAND AND SEAL on the date and place first above written.

NOTARY PUBLIC

Doc. No. _____
Page No. _____
Book No. _____
Series of 20 _____

IT RISK MANAGEMENT STANDARDS AND GUIDELINES
Area: IT Audit
(Appendix to Sec. 147-Q/145-S/142-P/126-N (Purpose and Scope and IT Risk Management System)

1. Introduction

1.1. BSFIs must plan, manage and monitor rapidly changing technologies to enable them to deliver and support new products, services, and delivery channels. The rate of these changes and the increasing reliance on IT make the inclusion of IT audit coverage essential to an effective overall audit program. The audit program should address IT risk exposures throughout the organization, including the areas of IT management and strategic planning, IT operations, client/server architecture, local and wide-area networks, telecommunications, physical and information security, electronic products and services, systems development and acquisition, and business continuity planning. IT audit should also focus on how management determines the risk exposure from its operations and controls or mitigates identified risks.

1.2. A well-planned, properly structured audit program[1] is essential to evaluate risk management practices, internal control systems and compliance with policies concerning IT-related risks at BSFIs of every size and complexity. Effective audit programs are risk-focused, promote sound IT controls, ensure the timely resolution of audit deficiencies and inform the board of directors of the effectiveness of risk management practices. An effective IT audit function may also allow regulators to place substantial reliance on and reduce the time spent reviewing areas of the BSFIs during examinations. Ideally, the audit program should consist of a full-time, continuous program of internal audit which may be further supported by a well-planned external audit program.

2. ROLES AND RESPONSIBILITIES

2.1 Board of Directors (Board) and Senior Management. The BSFI's Board or its Audit Committee has the overall responsibility for establishing and maintaining an independent, competent and effective IT audit function commensurate with the complexity of its IT risk profile. In order to properly oversee the IT audit function, the Board or its Audit Committee should:

a. Assign responsibility for IT audit function to an internal audit department or individual with sufficient audit expertise, knowledge base and skill level;

b. Ensure that IT audit maintains its professional and organizational independence[2]; and

c. Approve and review an audit program that would guide IT audit engagements.

d. Senior management is responsible for supporting IT audit by providing sufficient resources, establishing programs defining and requiring compliance with IT planning practices, operating policies and internal controls. Likewise, senior management should not, in any manner, diminish or interfere with the candor of the audit findings and recommendations.

2.2. **Audit Management and Audit Staff.** The internal audit manager is responsible for implementing the Board-approved audit directives. The manager oversees the audit function and provides leadership and direction in communicating and monitoring audit policies, practices, programs, and processes. He should establish clear lines of authority and reporting responsibility for all levels of audit personnel and activities. The internal audit manager should also ensure that members of the audit staff possess the necessary independence, experience, education, training, and skills to properly conduct assigned activities. This can be undertaken by providing auditors with an effective program of continuing education and development. As the information systems of a BSFI become more sophisticated or as more complex technologies evolve, the auditor may need additional training.

The primary role of the internal IT audit staff, on the other hand, is to assess independently and objectively the controls, reliability, and integrity of the BSFI's IT environment. Internal auditors should evaluate IT plans, strategies, policies, and procedures to ensure adequate management oversight. They should assess the day-to-day IT controls to ensure that transactions are recorded and processed in compliance with acceptable accounting methods and standards and are in compliance with policies set forth by the Board and senior management. Auditors also perform operational audits, including system development audits, to ensure that internal controls are in place, policies and procedures are effective, and employees operate in compliance with approved policies. Auditors should identify weaknesses, provide meaningful recommendations and review management's plans for addressing those weaknesses, monitor their resolution, and report to the Board material weaknesses, as necessary.

[1] Audit program encompasses audit policies, procedures, and strategies that govern the audit function, including IT audit

[2] Independence means self-governance, freedom from conflict of interest and undue influence. The IT auditor should be free to make his or her own decisions, not influenced by the organization being audited, or by its managers and employees

2.3 **Operating Management.** Operating management should formally and effectively respond to IT audit or examination findings and recommendations. The audit procedures should clearly identify the methods for following up on noted audit or control exceptions or weaknesses. Operating management is responsible for correcting the root causes of the audit or control exceptions, not just treating the exceptions themselves. Response times for correcting noted deficiencies should be reasonable and may vary depending on the complexity of the corrective action and the risk of inaction.

3. INDEPENDENCE OF THE IT AUDIT FUNCTION

3.1 The ability of the internal audit function to achieve desired objectives depends largely on the independence of audit personnel. Hence, the placement of the internal audit function in relation to the BSFI's management structure should be carefully assessed. The degree of auditors' independence, objectivity and impartiality entails the following key elements:

a. Direct reporting of audit results to the Board or its Audit Committee;

b. Full authority vested by the Board to the IT Audit Department/IT auditor to access all records and staff necessary to conduct the audit and require management to address significant findings in a timely manner. Said authority must be clearly specified in an Internal Audit Charter or Audit Program duly approved by the Board or Audit Committee;

c. Non-involvement of IT audit personnel in management/operational activities that may compromise or appear to compromise their independence; and

d. The Board or Audit Committee should decide on audit personnel performance evaluation and compensation matters.

4. INTERNAL IT AUDIT PROGRAM

4.1 A formal audit program or manual consisting of policies and procedures governing the IT audit function should be adopted commensurate with the BSFI's size, complexity, scope of activities and risk profile. The audit program should, at a minimum, encompass the following components:

a. A mission statement or audit charter[1] outlining the purpose, objectives, organization, authorities, and responsibilities of the internal auditor, audit staff, audit management, and the audit committee;

b. A risk assessment process to describe and analyze the risks inherent in a given line of business and drive the scope and frequency of audits. Auditors should update the risk assessment at least annually, or more frequently if necessary, to reflect changes to internal control or work processes;

c. An annual audit plan detailing IT audit's budgeting and planning processes to include audit goals, schedules, staffing needs and reporting;

d. An audit cycle that identifies the frequency of audits which should be based on a sound risk assessment process;

e. Well-planned and properly structured audit work programs[2] that set out the required scope and resources, including the selection of audit procedures, extent of testing and the basis for conclusions for each audit area;

f. Audit report preparation standards that require the use of an approved audit rating system;

g. Requirements for audit work paper documentation to ensure clear support for all audit findings and work performed, including work paper retention policies;

h. Follow-up processes that require internal auditors to determine the disposition of management actions to correct significant deficiencies;

i. Policies on outsourcing of some or all of IT audit function, including technical/highly specialized reviews, to external third parties; and

j. Professional development programs for audit staff/personnel to maintain the necessary technical expertise.

[1] Audit charter is a document approved by the Board of Directors that defines the IT audit function's responsibility, authority and accountability
[2] Work program is a series of specific, detailed steps to achieve an audit objective.

Additionally, the BSFI should consider conducting its internal audit activities in accordance with professional standards, such as the Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors (IIA), and those issued by the Standards Board of the Information Systems Audit and Control Association (ISACA), whenever possible.

5. IT AUDIT PHASES

5.1 **Audit Planning.** The BSFI should develop an overall audit plan[1] for all the audit assignments/engagements covering at least twelve (12) months to ensure adequate coverage of IT risks. The plan should be defined by combining the results of the risk assessments and the resources required to yield the timing and frequency of planned internal audits. The audit plan must be realistic and should cover a time budget for other assignments and activities such as specific examination, consulting/advisory services, training and provision for audit personnel leave of absences.

The audit plan must be formally approved and regularly reviewed by the Board or Audit Committee. The internal auditors should report the status of the planned versus actual audits and any revisions to the annual audit plan on a periodic basis.

For each audit assignment, an audit work program detailing the objectives, scope, nature and extent of audit procedures and outline of audit work should be prepared. This is to ensure that appropriate attention is devoted to important areas of the audit, potential problems are identified and resolved on a timely basis, and the audit engagement is properly organized and managed to be performed in an effective and efficient manner.

5.2. **Risk Assessment.** The use of an appropriate risk assessment technique or approach is critical in developing the overall IT audit plan and in planning specific audits. An effective risk assessment methodology should be defined to provide the Board or its Audit Committee with objective information in determining audit priorities for the effective allocation of IT audit resources. The risk assessment for IT audit planning should:

a. Identify the BSFI's data, application[2] and operating systems[3], technology, facilities, and personnel;

b. Identify the business activities and processes within each of those categories;

c. Include profiles of significant business units, departments, and product lines, or systems, and their associated business risks and control features, resulting in a document describing the structure of risk and controls throughout the BSFI; and

d. Use a measurement or scoring system that ranks and evaluates business and control risks for significant business units, departments, and products.

The results of the risk assessments, in support of the audit plan, must be presented to the Board or Audit Committee for review and approval. A process must be in place to ensure regular monitoring of the results of the risk assessment and updating it at least annually for all significant business units, departments, and products or systems.

A risk scoring model or system may be adopted to provide a sound basis for the risk assessment. Among the major risk factors that may be used in scoring systems include the following: a) Adequacy of internal controls; b) Nature of transactions and operating environment; c) Age of the system or application; d) Physical and logical security of information, equipment, and premises; e) Adequacy of operating management oversight and monitoring; f) Previous regulatory examination and audit results and management's responsiveness in addressing issues; g) Human resources, including the experience of management and staff, turnover, technical competence, management's succession plan, and the degree of delegation; and h) Senior management oversight.

Written guidelines on the use of risk assessment tools and risk factors should be approved and reviewed by the Board or its Audit Committee. IT auditors should use the guidelines to grade or assess major risk areas and to define the range of scores or assessments (e.g., groupings such as high, medium or low risk or numeric risk ratings). At a minimum, the written assessment guidelines should specify the following elements: a) Maximum length for audit cycles based on the risk scores; b) Timing of risk assessments for each department or activity; c) Documentation requirements to support scoring decisions; and d) Guidelines for overriding risk assessments in special cases and the circumstances under which they can be overridden.

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[1] Audit plan is a description and schedule of audits to be performed in a certain period of time (ordinarily a year). It includes the areas to be audited, the type of work planned, the high-level objectives and scope of the work and includes other items such as budget, resource allocation, schedule dates, and type of report issued.

[2] Application system is an integrated set of computer programs designed to serve a well-defined function and having specific input, processing, and output activities (e.g., CASA, general ledger, loans and treasury systems).

[3] Operating system is the program that manages all the basic functions and programs in a computer.

5.3 **Performance of Audit Work.** Depending on the complexity of IT risk profile, IT auditors may perform all or a combination of any of the following IT audit procedures:

a. **IT General Controls Review** – This entails the review of the adequacy of general controls[1] in place to ensure proper management and monitoring of IT risks/environment and the effective functioning of the BSFI's IT systems and infrastructure. The following areas should be covered, among others: a) IT management and strategic planning; b) IT operations; c) Client/server architecture; d) Local and wide-area networks; e) Telecommunications; and f) Physical and information security.

IT general controls review may be carried out through the audit of each IT unit or department in the institution (e.g., IT Operations, Network and Communications, etc.).

b. **Application Systems Review** -The purpose of this review is to identify, document, test and evaluate the application controls[2] that are implemented to ensure the confidentiality, integrity and accuracy of the system processing and the related data. The application-level risks to the system and data addressed by this review are the following, among others: a) System availability risks relating to the lack of system operational capability; b) System security risks relating to unauthorized access to systems and/or data; c) System integrity risks relating to incomplete, inaccurate, untimely or unauthorized processing of data; d) System maintainability risks relating to inability to update the system when required in a manner that continues to provide for system availability, security and integrity; and e) Data risks relating to its completeness, integrity, confidentiality, privacy and accuracy.

c. **Technical Reviews** -BSFIs with complex IT risk profile such as those providing electronic products and services and web-enabled facilities, also require IT auditors to perform highly technical/specialized reviews such as the conduct of periodic internal vulnerability assessment and penetration testing, computer forensics and review of emerging technologies, e.g., cloud computing, virtualization, mobile computing.

IT auditors frequently use computer-assisted audit techniques (CAATs) to improve audit coverage by reducing the cost of testing and sampling procedures that otherwise would be performed manually. CAATs include many types of tools and techniques, such as generalized audit software, utility software, test data, application software tracing and mapping, and audit expert systems. These tools and techniques can also be used effectively to check data integrity by testing the logical processing of data "through" the system, rather than by relying only on validations of input and output controls.

Audit software programs should remain under the strict control of the audit department. For this reason, all documentation, test material, source listings, source and object program modules, and all changes to such programs, should be strictly controlled. Computer programs intended for audit use should be carefully documented to define their purpose and to ensure their continued usefulness and reliability.

All audit procedures forming part of the assignment should be documented in working papers. These must reflect the examinations that have been made and emphasize the evaluations formulated in the report. The working papers must be drawn up according to a well-determined method. Such method must provide sufficient information to verify whether the assignment was duly performed and to enable others to check the manner in which it was performed.

5.4 **Reporting.** A written audit report of each assignment is to be issued to the auditee and Audit Committee within a reasonable timeline. The audit report should state the scope, objectives, period of coverage and the nature, timing and extent of the audit work performed. It should state the findings, conclusions and recommendations and any reservations, qualifications or limitations in scope that the IT auditor has with respect to the audit. The IT audit should discuss the draft report contents with management in the subject area prior to finalization and release of the final report. This should be signed, dated and distributed according to the terms of the audit charter/audit program or engagement letter.

5.5 **Post-closing/Monitoring Activities**

Senior management should ensure that the internal audit department's concerns are appropriately addressed. Therefore, they should approve a procedure established by the internal audit department to ensure the consideration and, if appropriate, timely implementation of audit recommendations.

[1] General controls are controls, other than application controls, that relate to the environment within which application systems are developed, maintained, and operated, and that are therefore applicable to all the applications at an institution. Like application controls, general controls may be either manual or automated. Examples of general controls include the development and implementation of an IT strategy and an IT security policy, the organization of IT staff to separate conflicting duties and planning for disaster prevention and recovery.

[2] Application controls are controls related to transactions and data within application systems. Application controls ensure the completeness and accuracy of the records and the validity of the entries made resulting from both programmed processing and manual data entry. Examples of application controls include data input validation, agreement of batch totals and encryption of data transmitted.

The IT audit department should monitor the implementation of management's corrective actions for proper disposition of its findings/recommendation. The status of the recommendations is communicated at least on a quarterly basis to the Board or Audit Committee.

6. OTHER IT AUDIT ACTIVITIES/PARTICIPATION

6.1 **Development, Acquisition, Conversions and Testing.** The BSFI's Board-approved audit policy should include guidelines detailing what involvement internal audit will have in the development, acquisition, conversion, and testing of major applications. This includes describing the monitoring, reporting, and escalation processes (when internal controls are found to be insufficient or when testing is found to be inadequate). For acquisitions with significant IT impacts, participation of IT audit may be necessary early in the due diligence stage.

It is necessary that audit's participation in the development process be independent and objective. Auditors can determine and should recommend appropriate controls to project management. However, such recommendations do not necessarily "pre-approve" the controls, but instead guide the developers in considering appropriate control standards and structures throughout their project.

6.2 **Review of Technology Service Providers (TSP).** The BSFI should effectively manage its relationships with key TSPs through review and assessment of adequacy of IT controls employed by such TSPs. When circumstances warrant, the BSFI's internal audit function may be utilized to directly audit TSP's operations and controls. In some instances, the services of external auditors may be employed. A BSFI using external audit to complement its own coverage should ensure that the independent auditor is qualified to perform the review, that the scope satisfies its own audit objectives and that any significant reported deficiencies are corrected.

7. OUTSOURCING OF IT AUDIT FUNCTIONS

7.1 The Board and senior management of a BSFI that outsources its internal IT audit function should ensure that the structure, scope and management of the outsourcing arrangement provides for an adequate evaluation of the system of internal controls. Management should ensure that there are no conflicts of interest and that the use of these services does not compromise independence.

7.2. When negotiating the outsourcing arrangement with a service provider, the BSFI should carefully consider its current and anticipated business risks in setting each party's internal audit responsibilities. To clearly define the BSFI's duties and those of the audit provider, it should have a written contract, often referred to as an engagement letter[1].

(Circular Nos. 970 dated 22 August 2017 and 958 dated 25 April 2017)

[1] In general, the contract between the institution and the audit provider may or may not be the same as the engagement letter.

IT RISK MANAGEMENT STANDARDS AND GUIDELINES
Area: Information Security
*(Appendix to **Sec. 147-Q/145-S/142-P/126-N (Purpose and Scope and IT Risk Management System)***

1. INTRODUCTION

1.1. Information is one of the most important assets of all BSFIs. Timely and reliable information is necessary to process their transactions and support critical decisions. Protection of information assets is also necessary to establish and maintain trust between the BSFIs and their customers, maintain compliance with laws and regulations and protect reputation. Likewise, effective management of information risks and exposures—as well as opportunities—can directly affect the BSFIs' profitability and overall value.

1.2. Information security (IS) has become a critical business function and an essential component of governance and management affecting all aspects of the business environment. Effective IS controls are necessary to ensure the confidentiality, integrity and availability of IT resources and their associated data. These assets should be adequately protected from unauthorized access, deliberate misuse or fraudulent modification, insertion, deletion, substitution, suppression or disclosure. To achieve these objectives, BSFIs should establish an IS program to manage the risks identified through their assessment, commensurate with the sensitivity of the information and the complexity of their IT risk profile. Management may consider a variety of policies, procedures, and technical controls and adopt measures that appropriately address identified risks.

2. ROLES AND RESPONSIBILITIES

2.1. **Board of Directors (Board) and Senior Management.** The Board, or an appropriate Board committee, is responsible for overseeing the development, implementation, and maintenance of the BSFI's IS program, and making senior management accountable for its actions. The Board should approve written IS policies and receive periodic report on the effectiveness of the IS program. The IS policy should be communicated to all employees and relevant external parties and be reviewed at planned intervals to ensure its continuing suitability, adequacy and effectiveness. The policy should include a formal disciplinary process and the corresponding actions for those who have committed security violations.

Senior management should appoint an information security officer (ISO) who will be responsible and accountable for the organization-wide IS program. The duly appointed ISO should have sufficient knowledge, background, and training, as well as organizational position, to enable him to perform assigned tasks. To ensure appropriate segregation of duties, the ISO should report directly to the Board or to senior management and have sufficient independence to perform his mandate. The ISO should perform the tasks of a risk manager and not a production resource assigned to the IT department. In the case of BSFIs with simple IT risk profile, The ISO function may be assigned to an existing independent officer who meets the above qualifications.

3. INFORMATION SECURITY STANDARDS

3.1. **IS Risk Assessment.** The BSFI should conduct periodic security risk assessment to identify and understand risks on confidentiality, integrity and availability of information and IT systems based on a current and detailed knowledge of the BSFI's operating and business environments. The risk assessment should include an identification of information and IT resources to be protected and their potential threats and vulnerabilities. An effective risk assessment process involves three phases, namely: information gathering, analysis, and prioritizing responses. Vendor concerns add additional elements to the process.

Once the risks associated with threats and vulnerabilities have been assessed, probabilities assigned, and risks rated, the BSFI should segregate the risks into those the BSFI is willing to accept and those that should be mitigated. Once the BSFI identifies the risks to mitigate, it can begin to develop its risk mitigation strategy which should be an integral component of the IS program.

3.2. Security Controls Implementation

3.2.1. Asset Classification and Control. The BSFI should maintain an inventory of all information assets and identify the information owner who shall be responsible in ensuring confidentiality, integrity and protection of these assets. Management should implement an information classification strategy in accordance with the degree of sensitivity and criticality of information assets to the BSFI. To ensure consistent protection of information and other critical data throughout the system, the BSFI should develop guidelines and definitions for each classification and define an appropriate set of controls and procedures for information protection in accordance with the classification scheme.

Protection of information confidentiality should be in place regardless of the media[1] (including paper and electronic media) in which the information is maintained. The BSFI should ensure that all media are adequately protected, and establish secure processes for disposal and destruction of sensitive information in both paper and electronic media.

3.2.2. Physical and Environmental Protection. Physical security measures should be in place to protect computer facilities and equipment from damage or unauthorized access. Critical information processing facilities should be housed in secure areas such as data centers and network equipment rooms with appropriate security barriers and entry controls. Access to these areas should be restricted to authorized personnel only and the access rights should be reviewed and updated regularly. Buildings should give minimum indication of their purpose, with no obvious signs identifying the presence of information processing facilities.

The BSFI should fully consider the environmental threats (e.g., proximity to dangerous factories) when selecting the locations of its data centers.

Moreover, physical and environmental controls should be implemented to monitor environmental conditions which could adversely affect the operation of information processing facilities (e.g., fire, explosives, smoke, temperature, water and dust). Equipment and facilities should be protected from power failures and electrical supply interference by, for example, installing uninterruptible power supply (UPS) and a backup generator.

3.2.3. Security Administration and Monitoring. A security administration function and a set of formal procedures should be established for administering the allocation of access rights to system resources[2] and application systems, and monitoring the use of system resources to detect any unusual or unauthorized activities.

Proper segregation of duties within the security administration function or other compensating controls (e.g., peer reviews) should be in place to mitigate the risk of unauthorized activities being performed by the security administration function. In those cases where complete segregation of duties is impractical, management should use mitigating controls, such as ensuring a knowledgeable third-party conducts appropriate independent reviews of security administration activities. In smaller institutions, a manager or senior officer who is not involved in the security administration function may conduct this independent review.

Management should employ the "least privilege" principle throughout IT operations. The principle provides that individuals should only have privileges on systems and access to functions that are required to perform their job function and assigned tasks. Individuals with systems and security administrator roles and privileges should have minimal transactional authority. Independent employees should monitor the system and security administrator activity logs for unauthorized activity. Management at smaller institutions should establish compensating controls in these circumstances.

3.2.4. Authentication[3] and Access Control. Access rights and system privileges must be based on job responsibility and the necessity to have them to fulfill one's duties. No person by virtue of rank or position should have any intrinsic right to access confidential data, applications, system resources or facilities. Only employees with proper authorization[4] should be allowed to access confidential information and use system resources solely for legitimate purposes.

The BSFI should have an effective process to manage user authentication and access control. Appropriate user authentication mechanism commensurate with the classification of information to be accessed should be selected. The grant, modification and removal of user access rights should be approved by the information owner prior to implementation. A user access re-certification process should be conducted periodically to ensure that user access rights remain appropriate and obsolete user accounts have been removed from the systems.

Users who can access internal systems should be required to sign an acceptable-use policy (AUP) before using a system. An AUP is a key control for user awareness and administrative policing of system activities which details the permitted system uses and user activities and the consequences of non-compliance.

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[1] Media are physical objects that store data, such as paper, hard disk drives and compact disks.

[2] System resources are capabilities that can be accessed by a user or program either on the user's machine or across the network. Capabilities can be services, such as file or print services, or devices, such as routers.

[3] Authentication involves verification of identity by a system based on the presentation of unique credentials to that system

[4] Authorization is the process of giving access to parts of a system, typically based on the business needs and the role of the individual within the system

The BSFI should implement effective password rules to ensure that easy-to-guess passwords are avoided and passwords are changed on a periodic basis. Stronger authentication methods should be adopted for transactions/activities of higher risk (e.g., payment transactions, financial messages and mobile computing).

Default user accounts to new software and hardware should either be disabled, or the authentication to the account should be changed. Additionally, access to these default accounts should be monitored more closely than other accounts. In the same manner, authorization for privileged access should be tightly controlled as it gives the user the ability to override system or application controls. Extra care should be exercised when controlling the use of and access to privileged and emergency IDs. The necessary control procedures include:

a. Granting of authorities that are strictly necessary to privileged and emergency IDs;
b. Formal approval by appropriate personnel prior to being released for usage;
c. Monitoring of activities performed by privileged and emergency IDs (e.g., peer reviews of activity logs);
d. Proper safeguard of privileged and emergency IDs and passwords (e.g., kept in a sealed envelope and locked up inside the data center); and
e. Change of privileged and emergency IDs' passwords immediately upon return by the requesters

3.2.5. System Security. The following control procedures and baseline security requirements should be developed to safeguard operating systems, system software and databases[1], among others:

a. Clear definition of a set of access privilege for different groups of users and access to data and programs is controlled by appropriate methods of identification and authentication of users together with proper authorization;

b. Secure configuration of operating systems, system software, databases and servers to meet the intended uses with all unnecessary services and programs disabled or removed. Use of security tools should be considered to strengthen the security of critical systems and servers;

c. Periodic checking of the integrity of static data (e.g., system parameters) to detect unauthorized changes;

d. Clear establishment of responsibilities to ensure that the necessary patches and security updates developed from time to time by relevant vendors are identified, assessed, tested and applied to the systems in a timely manner;

e. Adequate documentation of all configurations and settings of operating systems, system software, databases and servers; and

f. Adequate logging and monitoring of system and user activities to detect irregularities and logs are securely protected from manipulation.

3.2.6. Network Security. Networks provide system access and connectivity between business units, affiliates, service providers, business partners, customers, and the public. This increased connectivity requires additional controls to segregate and restrict access between various groups and information users. The BSFI must evaluate and implement appropriate controls relative to the complexity of its network. An effective approach to adequately secure system and data within the network involves the following, among others:

a. Grouping of network servers, applications, data, and users into security domains (e.g., untrusted external networks, external service providers, or various internal user systems);
b. Establishment of appropriate access requirements within and between each security domain;
c. Implementation of appropriate technological controls to meet access requirements consistently; and
d. Monitoring of cross-domain access for security policy violations and anomalous activity.

The BSFI should consider the following factors in determining the network security controls appropriate to the institution and each of the security domain, among others:

a. Criticality of the application and the user group within the domain;
b. Access points to the domain through various communication channels;
c. Network protocols and ports used by the applications and network equipment deployed within the domain;
d. Performance requirement or benchmark;
e. Nature of domain (i.e., production or testing, internal or external);

[1] Database is an organized collection of information stored on one or more electronic files.

f. Connectivity between/among various domains; and
g. Trustworthiness of the domain.

3.2.7. Remote Access. Controls over remote access are required to manage risk brought about by external connections to the BSFI's network and computing resources. In protecting information, the BSFI should establish control procedures covering:

a. Approval process on user requests;
b. Authentication controls for remote access to networks, host data and/or systems;
c. Protection (e.g., against theft and malicious software) of equipment and devices;
d. Logging and monitoring all remote access communications; and
e. Provision of more stringent security controls (i.e., data encryption, two-factor authentication process).

3.2.8. Encryption. The BSFI should adopt industry-accepted cryptographic solutions and implement sound key management practices to safeguard the associated cryptographic keys. Sound practices of key management generally include the following, among others:

a. Provision of a secure control environment for generation, distribution, storage, entry, use and archiving of cryptographic keys to safeguard against modification and unauthorized disclosure. In particular, the use of tamper-resistant storage is recommended to prevent the disclosure of the cryptographic keys; and

b. Adequate off-site back-up and contingency arrangements for cryptographic keys which are subject to the same security controls as the production cryptographic keys.

3.2.9. Malicious Code[1] Prevention. The BSFI should provide protection against the risk of malicious code by implementing appropriate controls at the host and network level to prevent and detect malicious code, as well as engage in appropriate user education. Procedures and responsibilities should be established to detect, prevent, and recover from attacks. The BSFI should put in place adequate controls, such as:

a. Prohibiting the download and use of unauthorized files and software, and access to doubtful web sites;

b. Installation and timely update of anti-virus software[2] provided by reputable vendors;

c. Disallowing the download of executable files and mobile codes, especially those with known vulnerabilities (e.g., through the use of corporate firewalls[3] and proper configuration of the browser software); and

d. Prompt and regular virus scanning of all computing devices and mobile users' computers, and procedures for recovering from virus infections.

3.2.10. Personnel Security. The BSFI should have a process to verify job application information on all new employees. Screening procedures, including verification and background checks, should be developed for recruitment of permanent and temporary IT staff, and contractors, particularly for sensitive IT-related jobs or access level.

Management should obtain signed confidentiality, non-disclosure and authorized use agreements before granting new employees and contractors' access to IT systems. Such agreements put all parties on notice that the BSFI owns its information, expects strict confidentiality, and prohibits information sharing outside legitimate business needs.

All employees of the organization and, where relevant, contractors and third-party users, shall receive appropriate IS awareness training and regular updates in organizational policies and procedures relevant to their job function. Security training and awareness promotes a security conscious environment and strengthens compliance with BSFI's security policies, standards, and procedures.

[1] Malicious code refers to any code in any part of a software or script that is intended to cause undesired effects, security breaches or damage to a system. It describes a broad category of system security terms that includes attack scripts, viruses, worms, Trojan horses, backdoors and malicious active content.
[2] Antivirus software is a computer program that offers protection from viruses by making additional checks of the integrity of the operating system and electronic files. Also known as virus protection software.
[3] Firewall is a hardware and/or software that prevents unauthorized data from entering or leaving a secure network. Firewalls can also be used to isolate or protect a particular segment of a network.

3.2.11. Systems Development, Acquisition and Maintenance. A framework should be in place describing the tasks and processes for development or acquisition of new systems, assignment and delineation of responsibilities and accountabilities for system deliverables and project milestones. User functional requirements, systems design and technical specifications and service performance expectations should be adequately documented and approved at appropriate management levels.

The BSFI's development, acquisition, and audit policies should include guidelines describing the involvement of internal audit and information security personnel in the development or acquisition activities as a means of independently verifying the adequacy of the control and security requirements as they are developed and implemented.

Besides business functionalities, security requirements relating to system access control, authentication, transaction authorization, data integrity, system activity logging, audit trail, security event tracking and exception handling should be clearly specified. The information and/or process owners should conform to the security requirements for each new system or system acquisition, accept tests against the requirements, and approve implementation of systems in the production environment.

The BSFI should have an effective process to introduce application and system changes into its respective environments. The process should encompass development, implementation, and testing of changes to both internally developed software and acquired software. Weak procedures can corrupt applications and introduce new security vulnerabilities.

3.2.12. Insurance. While insurance coverage is an effective method to transfer risks from the BSFI to insurance carriers, the same is not a substitute for an effective IS program. When considering supplemental insurance coverage for security incidents, the BSFI should assess the specific threats in light of the impact these incidents will have on its financial, operational, and reputation risk profiles. The BSFI should carefully evaluate the extent and availability of coverage in relation to the specific risks they are seeking to mitigate. In case the BSFI contracts for additional coverage, it should ensure that it is aware of and prepared to comply with any required security controls both at inception of the coverage and over the term of the policy.

3.3. Security Process Monitoring and Updating

3.3.1. Activity Monitoring. The BSFI should gain assurance of the adequacy of its risk mitigation strategy and implementation by monitoring network and host activity to identify policy violations and anomalous behavior. The BSFI's security monitoring should, commensurate with the risk, be able to identify control failures before a security incident occurs, detect an intrusion or other security incident in sufficient time to enable an effective and timely response, and support post-event forensics activities.

The analysis and response to activity and condition monitoring is performed differently at BSFIs of different IT risk profile. A simple BSFI may assign operational personnel to the analysis and response function while a complex BSFI may maintain a security response center that receives and analyzes the data flows as activity occurs. Additionally, BSFIs, regardless of IT risk profile, may outsource various aspects of the analysis and response function, such as activity monitoring. Outsourcing does not relieve the BSFI of the responsibility for ensuring that control failures are identified before a security incident occurs, an intrusion or other security incident is detected in sufficient time to enable an effective and timely response, and post event forensics activities are supported.

3.3.2. IS Incident Management. The BSFI should establish incident response and reporting procedures to handle IS-related incidents. All employees, contractors and third party users shall be required to note and report any observed or suspected security weaknesses in systems. An effective incident response program includes the following components, among others:

a. A mechanism to log, monitor and quantify the nature, criticality and estimated cost of IS incidents.
b. Assessment of the nature and scope of the incident and identification of what information has been accessed or misused;
c. Measures to contain and control the incident to prevent further unauthorized access to or misuse of information, while preserving records and other evidence;
d. Prompt notification to Bangko Sentral of any confirmed IT-related fraud cases or major security breaches, consistent with existing regulations;
e. Notification to appropriate law enforcement authorities in situations involving criminal violations requiring immediate attention; and
f. Notification to customers when warranted.

Log files are critical to the successful investigation and prosecution of security incidents and can potentially contain sensitive information. Therefore, the BSFI should strictly control and monitor access to log files whether on the host or in a centralized logging facility.

Where a follow-up action against a person or organization after an IS incident involves legal action, evidence shall be collected, retained, and presented to conform to the rules for evidence laid down in the relevant jurisdiction.

3.3.3. Ongoing risk assessment. The BSFI should continuously gather and analyze information regarding new threats and vulnerabilities, actual attacks on the institution or others, and the effectiveness of the existing security controls. It should evaluate the information gathered to determine the extent of any required adjustments to the various components of the IS program. Depending on the nature of changing environment, the BSFI needs to reassess the risk and make changes to its security process (e.g., security strategy, controls implementation or security monitoring requirements).

The BSFI should adjust it IS program to reflect the results of ongoing risk assessment and the key controls necessary to safeguard customer information and ensure the proper disposal of customer information. It should adjust the program to take into account changes in IT, sensitivity of its customer information, internal or external threats, and the BSFI's own changing business arrangements such as mergers, acquisitions, alliances and joint ventures, outsourcing arrangements, and changes in customer information systems.

4. ROLES OF IT AUDIT AND SECURITY SPECIALISTS

4.1. **Audit and Compliance Reviews.** IT auditors are usually charged to assess, on a regular basis, the effectiveness of a BSFI's IS security program. To fulfill this task, they must have an understanding of the protection schemes, the security framework and the related issues, including compliance with applicable laws and regulations.

The BSFI should engage independent security specialists to assess the strengths and weaknesses of critical applications, systems and networks prior to initial implementation.

For BSFIs providing electronic and similar services, annual vulnerability assessment[1] and penetration testing[2] should be performed by an external party to provide early identification of threats and vulnerabilities so that appropriate security measures can immediately be implemented.

(Circular No. 958 dated 25 April 2017)

[1] *Vulnerability assessment* (also known as vulnerability analysis) is a process that defines, identifies, and classifies the security flaws (vulnerabilities) in a computer, network, or communications infrastructure. In addition, vulnerability assessment can forecast the effectiveness of proposed countermeasures and evaluate their actual effectiveness after they are put into use.

[2] *Penetration test* is the process of using approved, qualified personnel to conduct real-world attacks against a system so as to identify and correct security weaknesses before they are discovered and exploited by others.

IT RISK MANAGEMENT STANDARDS AND GUIDELINES
Area: Project Management/Development, Acquisition and Change Management
(Appendix to Sec. 147-Q/145-S/142-P/126-N (Purpose and Scope and IT Risk Management System)

1. INTRODUCTION

1.1. Because technology is constantly evolving, Management of BSFIs should periodically assess their uses of IT as part of overall business planning. Such an enterprise-wide and ongoing approach should be formalized in the IT strategic plan to help ensure that all major IT projects are consistent with its overall strategic goals.

1.2. As part of their strategic goals, BSFIs may need to constantly introduce new or enhanced products and services, improve systems and processes and implement updates and innovations in IT to secure and manage voluminous information and maintain their competitive position. This necessity may oftentimes result to initiating IT projects[1]; which may be in the form of internal or external development of software applications or systems, acquisition and/or implementation of new or enhanced hardware, software, infrastructure or services with or without the help of third party providers

1.3. IT projects, when managed improperly, often result in late deliveries, cost overruns, or poor quality applications. Inferior applications can result in underused, unsecure, or unreliable systems. Retrofitting functional, security, or automated-control[2] features into applications is expensive, time consuming, and often results in less effective features. Therefore, BSFIs should carefully manage IT-related projects to ensure they meet organizational needs on time and within budget.

2. ROLES AND RESPONSIBILITIES

2.1. The size and complexity of a project dictates the required number and qualifications of project personnel. Duties may overlap in smaller organizations or lower-risk projects; however, all projects should include appropriate segregation of duties or compensating controls.

2.2. **Board of Directors (Board) and Senior Management.** The BSFI's Board and senior management should review, approve, and monitor IT projects that may have significant impact on its operations, earnings or capital. They are responsible to ensure that IT projects support business objectives and adequate resources are available to complete these projects. Consequently, they should establish adequate policies and strategies to achieve these and ensure that risks related to IT projects are managed appropriately.

Senior management is expected to have more knowledge and involvement in the day-to-day operations of these IT projects to critically evaluate the design and oversee the related operation and activities. They should ensure that IT projects are coordinated and undertaken in adherence to appropriate policies, standards, and risk management controls. They should periodically inform the Board and/or IT Steering Committee of the IT initiatives and the related risks that these may pose to the BSFI. They should also review, approve, document and report deviations from established policies and standards.

2.3. **Quality Assurance.** An independent party (e.g., the quality assurance function, the TRM function or the technology audit team), who is not involved in the project development, should conduct a quality assurance review of major IT-related projects, with the assistance of the legal and compliance functions, if necessary. This review is to ensure compliance with the project life cycle[3] methodology, other internal policies, control requirements, regulations and applicable laws.

3. PROJECT MANAGEMENT STANDARDS AND METHODOLOGY

3.1. **Project Management.** The BSFI should establish a general framework for management of major technology-related projects. This framework should, among other things, specify the project management methodology to be adopted and applied to these projects. The methodology should cover, at a minimum, allocation of responsibilities, activity breakdown, budgeting of time and resources, milestones, check points, key dependencies, quality assurance, risk assessment and approvals.

A BSFI that needs to coordinate multiple IT projects should establish standards for coordinating and managing the projects from an enterprise-wide perspective. The standards should, at a minimum, include guidelines for project prioritization, resource coordination and progress reporting.

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[1] An IT project is a task involving the acquisition, development or maintenance of a technology product.
[2] Automated controls are software routines designed into programs to ensure the validity, accuracy, completeness and availability of input, processed and stored data.
[3] Project life cycle refers to a logical sequence of activities to accomplish a project's goals or objectives.

3.2. **Project Methodology.** The BSFI should adopt and implement a full project life cycle methodology governing the process of developing, implementing and maintaining major computer systems. In general, this should involve phases of project initiation, feasibility study, requirement definition, system design, program development, system and acceptance testing, training, implementation, operation and maintenance.

The project life cycle methodology should define clearly the roles and responsibilities for the project team and the deliverables[1] from each phase. It also needs to contain a process to ensure that appropriate security requirements are identified when formulating business requirements, built during program development, tested and implemented.

4. PROJECT PLANNING AND INITIATION

4.1. A formal project committee, to ensure the development of well-structured applications, should be established with clear details of its terms and reference. The committee should at least consist of the following representatives:

a. Senior management, to provide strategic direction and ensure full commitment;
b. User departments, to ensure that the application design meets their requirements;
c. Internal audit department, to act as in independent party to ensure adequate controls are diligently applied at all times. However, internal audit participation should only be on an advisory capacity; and
d. IT department, to provide technical knowledge and skills.

4.2. A feasibility study should be performed to identify the expected costs and benefits of developing a system, and also to decide either to utilize internal resources or to outsource to a vendor. In case of outsourcing, the responsibility of senior management does not diminish in ensuring that a well-designed application is developed. Senior management maintains the responsibility for ensuring that minimum controls are in place and are in accordance with the BSFI's standards.

4.3. When management proposes a new hardware, software or IT solution and/or changes to existing ones, it should ensure that functional, operational and regulatory requirements are accurately identified and clearly detailed in request for proposals (RFP[2]) or invitations-to-tender (ITT) that it distributes to vendors or third-party service providers (TSP) in the bid solicitation process. Moreover, relevant security requirements should be clearly specified before a new system is developed or acquired. A review should also be conducted to ensure an appropriate balance between security and other objectives (ease-of-use, operational simplicity, ability to upgrade, acceptable cost, etc.) is achieved.

4.4. During the development and acquisition of new systems or other major IT projects, project plans should address issues such as – a) business requirements for resumption and recovery alternatives; b) information on back-up and storage; c) hardware and software requirements at recovery locations; d) BCP and documentation maintenance; e) disaster recovery testing; and f) staffing and facilities. Likewise, during maintenance, where there are changes to the operating environment, business continuity considerations should be included in the change control process and implementation phase.

4.5. Proper planning should be employed to ensure IT projects meet their objectives. Project control systems should be employed to monitor specific target completion dates for each task of systems development against original targets. Periodic reports to senior management such as, project priorities and status, resource allocations, target deviations and budgets, should be in place to measure project effectiveness.

5. SYSTEMS DEVELOPMENT

5.1 Development projects involve the creation of applications, integrated application systems and other critical softwares. Software development projects are completed in-house, through outsourcing, or by a combined approach.

To manage this type of projects, the BSFI should establish development standards that, at a minimum, address project management, system control, and quality assurance issues. Project management standards should address issues such as project management methodologies, risk management procedures, and project approval authorities.

System control standards should address items such as an application's functional, security, and automated control features. Quality assurance standards should address issues such as the validation of project assumptions, adherence to project standards, and testing of a product's performance.

[1] Deliverables are project goals and expectations. They include broadly-defined, project or phase requirements and specifically-defined tasks within project phases.
[2] RFP is a document that a BSFI sends to a vendor inviting the vendor to submit a bid for hardware, software, services, or any combination of the three. An institution typically issues the RFP in order to assess competing bids.

5.2 Development standards should also include procedures for managing internally developed spreadsheets and database reports. BSFIs often rely on the spreadsheets and reports to make important budgeting and asset/liability decisions, but fail to implement adequate testing, documentation, and change-control procedures. Management's reliance on the spreadsheets and reports should dictate the formality of their development procedures, change controls, and backup techniques.

5.3 Programming standards should be designed to address issues such as the selection of programming languages and tools, the layout or format of scripted code, interoperability between systems, and the naming conventions of code routines and program libraries. These will enhance the BSFI's ability to decrease coding defects and increase the security, reliability, and maintainability of application programs.

6. SYSTEM ACQUISITION

6.1. Software package acquisition is an alternative to in-house systems development and should be subject to broadly similar controls as the project life cycle. A proper software selection analysis should be conducted to ensure that user and business requirements are met. In particular, the process should involve detailed evaluation of the software package and its supplier (e.g., its financial condition, reputation and technical capabilities). If financial stability is in doubt, alternatives should be developed to reduce the adverse impact from loss of a vendor's service.

6.2. The contract agreement between the BSFI and vendor should be legally binding. The BSFI should ensure all contract agreements outline all expected service levels and are properly executed to protect its interest. It is also important to ensure that vendor technicians and third-party consultants are subjected to at least, or preferably more stringent policies and controls compared to the in-house staff. In the case where contract personnel are employed, written contracts should also be in effect.

7. CHANGE MANAGEMENT

7.1. Change management is the process of planning, scheduling, applying, distributing and tracking changes to application systems, system software (e.g., operating systems and utilities), hardware, network systems, and other IT facilities and equipment. The change management procedures should be formalized, enforced and adequately documented. Authorization and approval are required for all changes and the personnel responsible for program migration should be identified. For the purpose of accountability, proper sign-off should be adequately implemented where formal acknowledgement is obtained from all related parties.

7.2. An effective change management process helps to ensure the integrity and reliability of the production environment. To ensure IT-related modifications are appropriately authorized, tested, documented, implemented and disseminated, the change manage process should include the following:

a. Classification and prioritization of changes and determination of the impact of changes;

b. Roles and responsibilities of each relevant party, including IT functions and end-user departments, with adequate segregation of duties. This is to ensure that no single person can effect changes to the production environment without the review and approval of other authorized personnel;

c. Program version controls and audit trails;

d. Scheduling, tracking, monitoring and implementation of changes to minimize business disruption;

e. Process for rolling-back changes to re-instate the original programs, system configuration or data in the event of production release problems; and

f. Post implementation verification of the changes made (e.g., by checking the versions of major amendments).

7.3. Requested changes should be screened before acceptance to determine alternate methods of making the changes, the cost of changes and time requirements for programming activity. System analysts should assess the impact and validity of the proposed changes and all critical change requests should be set as priority.

7.4. The actual cause that led to the request for change should be identified and adequately documented. Formal reports on analysis for problems raised and status of change requests (including closed and outstanding) should be reported to senior management on a periodic basis.

7.5. Audit trail of all change requests should be maintained. Programmers' activities should be controlled and monitored, and all jobs assigned should also be closely monitored against target completion dates.

7.6. To enable unforeseen problems to be addressed in a timely and controlled manner, the BSFI should establish formal procedures to manage emergency changes. Emergency changes should be approved by the information owner (for application system or production data-related changes) and other relevant parties at the time of change. If the change needs to be introduced as a matter of urgency and it is impracticable to seek the approval of the information owner, endorsement should be sought from the information owner after the implementation as soon as practicable (e.g., on the following business day).

7.7. Emergency changes should be logged and backed up (including the previous and changed program versions and data) so that recovery of previous program versions and data files is possible, if necessary. Emergency changes need to be reviewed by independent personnel to ensure that the changes are proper and do not have an undesirable impact on the production environment. They should be subsequently replaced by proper fixes through the normal acceptance testing and change management procedures.

7.8. Management should ensure that vendors permitted remote access to network resources are properly authorized. System logs showing activity on the system should be reviewed to ensure that unauthorized remote access has not taken place. Management may institute time of day restrictions for remote access, to limit the duration of time a user can access the network remotely (e.g., only during business hours). Vendors utilizing dial in access should be verified through call back procedures and/or through the use of a modem that can be turned on when authorization has been granted by the system administrator.

7.9. Data patching could severely compromise the integrity of the database in production systems and should strictly be avoided. The BSFI should adequately ensure the accuracy and reliability of its database and the integrity of its data. Good project management discipline requires validation of data input, data integrity testing, user sign-off, impact analysis and escalation of decision to senior management should be adopted to ensure accuracy and validity of data before live implementation.

8. SYSTEMS TESTING

8.1. A formal acceptance process should be established to ensure that only properly tested and approved systems are promoted to the production environment. System and user acceptance testing should be carried out in an environment separate from the production environment. Production data should not be used in development or acceptance testing unless the data has been desensitized (i.e., not disclosing personal or sensitive information) and prior approval from the information owner has been obtained. Performance testing should also be performed before newly developed systems are migrated to the production environment.

8.2. Sufficient testing is important to ensure that design and overall reliability of the application systems are in accordance with original specifications. Tests should be conducted using documented test plans that should encompass all predetermined data or processing problems and business scenarios.

8.3. User acceptance testing should be performed in a separate environment. All related users are responsible to ensure that adequate test scenarios are formulated and sufficiently tested. Successful test activities should be formally confirmed and accepted by users, before the modified programs can be transferred to the production environment.

9. SYSTEMS MIGRATION

9.1. A secured library for program pending migration to the production environment should be established. The secured library or quarantine area for all amended programs should only be accessible by the personnel who performed the migration process and restricted from the application programmers. This is to mitigate the risk of programmers changing the modified programs after user acceptance testing, but prior to the program migration.

9.2. Source compare procedure should be in place to verify changes and to ensure no unauthorized changes have been made. Modified programs should be compared to the authorized change documents to determine that only approved specification changes were implemented.

9.3. Updates or a version control for all applications should be maintained. Old versions of source codes[1] should be archived as contingency measure, with a clear indication of the precise date, time and all necessary information while the latest version of the source codes and databases should be strictly protected. Version controls may also be implemented to ensure only authorized programs are migrated to quarantine and production environments.

[1] Source codes are software program instructions written in format (language) readable by humans.

10. SOURCE CODE CONVERSION AND MAINTENANCE

10.1. Conversion of source codes into object codes[1] should be adequately controlled in order to mitigate the risks of unauthorized changes and to ensure accurate and complete results. The conversion process should only be performed by designated personnel. In the case where the compiler programs or other systems development tools are used, it should be placed under restricted control and the access and execution rights are strictly monitored.

10.2. In cases where core applications are developed by vendors but the source codes were not released to the BSFI, the institution's interest should be protected in the form of a written agreement. The agreement, generally known as escrow agreement, should allow the BSFI to access the source programs under conditions, such as, but not limited to, discontinued product support or financial insolvency by the vendor. A third-party entity should be appointed to retain these programs and documents in escrow. However, it is important for the BSFI to periodically determine that the source code maintained in escrow is up-to-date. If the BSFI decides not to go into a source code escrow agreement, appropriate controls or contingency plans should be established as necessary, to continue adequate operation of the business or process the acquired program is supporting in case it becomes problematic, obsolete, or ceases to function.

11. SYSTEMS DOCUMENTATION

11.1. All standards and procedures on systems development and documentation on user manuals should be formally established and properly maintained to ensure consistency of approach. Accessibility to these documents should be strictly confined only to those who are authorized to receive such information in order for them to effectively discharge their duties.

11.2. Management should identify the type and level of documentation personnel must produce during each project phase. Project documentation of major IT projects, especially development and acquisition, should include project requests, feasibility studies, project plans, testing plans, etc. System documentation, which focuses on

11.3. Documentation standards should identify primary documentation custodians and detail document authoring, approving, and formatting requirements. Personnel should document all changes to system, application, and configuration documentation according to prescribed standards. Additionally, management should control access to documentation libraries with appropriate library and version controls.

11.4. All standards and documentation should be kept secured to prevent unauthorized access. The BSFI should maintain a central storage (of either hardcopy or softcopy) of all standards and documentation onsite as well as in an offsite premise for contingency purposes. In the case where the application is developed by a vendor, management should ensure that adequate training and manuals are provided as part of the package, stated in writing and clearly understood by all parties. The BSFI should also ensure complete and updated system documentation is provided.

12. POST-IMPLEMENTATION REVIEW

12.1. A post implementation review should be conducted at the end of a project to validate the application's operational performance, after it has begun to operate. The relative success of the project should be gauged by comparing planned and actual cost, benefits and completion time. If the planned objectives do not materialize, reasons should be reviewed and documented in a post implementation evaluation report that should be presented to senior management highlighting any operational or project management deficiencies noted.

12.2. The responsibilities for conducting post-implementation review can be assigned to the BSFI's IT audit function. In larger IT organizations, formal quality assurance or change management groups may have primary responsibility for post-implementation reviews. In such cases, the IT auditor may choose not to perform a separate review but instead to participate in establishing the test criteria and evaluating results of any other independent reviews.

13. DISPOSAL

13.1. The BSFI may sometimes need to remove surplus or obsolete hardware, software, or data. Primary tasks include the transfer, archiving, or destruction of data records. Management should transfer data from production systems in a planned and controlled manner that includes appropriate backup and testing procedures. The BSFI should maintain archived repository of data in accordance with applicable record retention requirements and system documentation to facilitate reinstallation of a system into production, when necessary. Management should destroy data by overwriting old information or degaussing (demagnetizing) disks and tapes.

[1] Object codes are software program instructions compiled (translated) from source code into machine-readable formats.

14. ROLE OF AUDIT, INFORMATION SECURITY AND QUALITY ASSURANCE OFFICERS

14.1. **Audit.** The BSFI's auditors assist user departments, project managers, and system designers in identifying system control requirements and testing the controls during development and after implementation. Please refer to Item "*6.1*" of *Appendix Q-61* for the detailed guidelines on audit's participation in the development, acquisition, and maintenance of major systems.

14.2. **Information Security.** The BSFI should ensure that systems are developed, acquired and maintained with appropriate security controls. To do this, management should ensure that – a) systems are developed and implemented with necessary security features enabled and based on established security control requirements; b) software is trustworthy by implementing appropriate controls in the different project phases; and c) appropriate configuration management and change control processes exist, including an effective patch management process. Management should establish security control requirements based on their risk assessment process evaluating the value of the information at risk and the potential impact of unauthorized access, damage or other threats.

14.3. **Quality Assurance.** Independent quality assurance function is a critical part of well-managed IT projects. Comprehensive quality assurance, risk management, and testing standards provide the best means to manage project risks and ensure IT projects, especially software, include expected functionality, security, and operability, as applicable.

(Circular No. 958 dated 25 April 2017)

IT RISK MANAGEMENT STANDARDS AND GUIDELINES
Area: IT Operations
(Appendix to Sec. 147-Q/145-S/142-P/126-N (Purpose and Scope and IT Risk Management System)

1. **INTRODUCTION**

1.1. The evolving role IT plays in supporting the business function has become increasingly complex. IT operations – traditionally housed in a computer data center with user connections through terminals – have become more dynamic and include distributed environments, integrated applications, telecommunication options, internet connectivity, and an array of IT operating platforms[1]. With the advent of technology, even small BSFIs have now become increasingly reliant on IT to achieve operational efficiency and deliver innovative products and services. Although some of these BSFIs have developed their products and services in-house, many have relied on vendors and service providers to develop and operate these products and services.

1.2. The increasing dependency to IT of BSFIs has consequently resulted to heightened risk exposures arising from their reliance on a variety of IT solutions and services and third-party relationships as well. It is also emphasized that risks involve more than IT and that controls include sound processes and well-trained people. To many BSFIs, effective support and delivery from IT operations has become vital to the performance of most of their critical business lines. This necessitates the adoption of risk management processes that promote sound and controlled operation of IT environments to ensure that IT operations process and store information in a timely, reliable, secure, and resilient manner.

2. **ROLES AND RESPONSIBILITIES**

2.1. **Board of Directors (Board) and Senior Management.** The BSFI's Board and senior management are responsible for overseeing a safe, sound, controlled and efficient IT operating environment that supports the institution's goals and objective. Although they can delegate implementation and oversight of daily operations to IT management, final responsibility for these activities remains with the Board and senior management. Consequently, the Board and senior management are responsible for understanding the risks associated with existing and planned IT operations, determining the risk tolerance of the BSFI, and establishing and monitoring policies for risk management.

On the other hand, IT operations management is primarily responsible in ensuring the BSFI's current and planned infrastructure is sufficient to accomplish the strategic plans of senior management and the Board. To accomplish this objective, operations management should ensure the BSFI has sufficient personnel (in knowledge, experience, and number), system capacity and availability, and storage capacity to achieve strategic objectives. Operations management should select or recommend IT solutions that can meet strategic requirements with reduced resources to control capital expenditures and operating costs.

3. **IT OPERATIONS STANDARDS**

3.1. **Technology Inventory.** To effectively identify, assess, monitor, and manage the risks associated with IT operations, management should have a comprehensive understanding of the BSFI's operations universe. Regardless of size, BSFI management should perform and maintain an inventory of all its IT resources, recognize interdependencies of these systems and understand how these systems support the associated business lines. Management should ensure the inventory is updated on an on-going basis to reflect the BSFI's IT environment at any point in time.

Appropriate documentation of infrastructure and data flow should be in place to facilitate risk identification, application of controls, and ongoing maintenance of information systems. At a minimum, said documentation should include among others, the following components:

a. Hardware - Inventory should be comprehensive to include BSFI's owned assets and equipment owned by other parties but located within the environment. To the extent possible, hardware items should be marked with a unique identifier, such as a bar code, tamper-proof tag, or other label.

[1] IT operating platform includes the underlying computer system on which application programs run. A platform consists of an operating system, the computer system's coordinating program, which in turn is built on the instruction set for a processor or microprocessor, and the hardware that performs logic operations and manages data movement in the computer.

b. Software - There are at least three (3) major categories of software the BSFI should include in the software inventory: operating systems, application software, and back- office and environmental applications.

c. Network Components and Topology[1]- Network management should develop and maintain high-level topologies that depict local area networks (LANs[2]), metropolitan area networks (MANs[3]) and wide area networks (WANs[4]). The topologies should have sufficient detail to facilitate network maintenance and troubleshooting, facilitate recovery in the event of a disruption and plan for expansion, reconfiguration, or addition of new technology.

d. Data Flow Diagram - Management should also develop data flow diagrams to supplement its understanding of information flow within and between network segments as well as across the BSFI's perimeter to external parties. Data flow diagrams are also useful for identifying the volume and type of data stored on various media. In addition, the diagrams should identify and differentiate between data in electronic format, and in other media, such as hard copy or optical images.

e. Media - Descriptive information should identify the type, capacity, and location of the media. It should also identify the location, type, and classification (public, private, confidential, or other) of data stored on the media. Additionally, management should document source systems, data ownership, back up frequency and methodology (tape, remote disk, compact disc (CD), or other), and the location of back-up media if other than at the primary off-site storage facility.

3.2. **Risk Assessment.** Once inventory is complete, management should employ a variety of risk assessment techniques to identify threats and vulnerabilities to its IT operations, covering among others, the following:

a. Internal and external risks;

b. Risks associated with individual platforms, systems, or processes as well as those of a systemic nature; and

c. The quality and quantity of controls. The risk assessment process should be appropriate to the BSFI's IT risk profile. To the extent possible, the assessment process should quantify the probability of a threat or vulnerability and the financial consequences of such an event.

After the BSFI identifies and analyzes the universe of risks, management should prioritize risk mitigation actions based on the probability of occurrence and the financial, reputational or legal impact to the institution. Management should prioritize the risk assessment results based on the business importance of the associated systems. The probability of occurrence and magnitude of impact provide the foundation for establishing or expanding controls for safe, sound, and efficient operations appropriate to the risk tolerance of the BSFI.

3.3. **Risk Mitigation & Control Implementation**

3.3.1 Policies, Standards and Procedures. Board and management should enact policies, standards and procedures sufficient to address and mitigate the risk exposure of the BSFI. The BSFI should adopt minimum IT standards to establish measurable controls and requirements to achieve policy objectives. Procedures describe the processes used to meet the requirements of the BSFI's IT policies and standards. Management should develop written procedures for critical operations which procedures should be updated and reviewed regularly. The scope of required procedures depends on the size, complexity and the variety of functions performed by the BSFI's IT operations.

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[1] A network is a group of two or more computers that are linked together. For example, networks allow users at different branches or different workstations to access the Internet, send and receive email, and share printers, applications, and data. A network topology pictorially describes the arrangement or architecture of a network, including its workstations and connecting communication lines.

[2] A LAN is a network that connects workstations in a relatively small geographic area, such as a building. Computers connected in a LAN are usually connected by cables, but they can also be connected wirelessly.

[3] A MAN is a network that usually spans a city or a large campus. A MAN usually interconnects a number of LANs using a high-capacity backbone technology, such as fiber-optical links, and provides up-link services to WAN and the internet.

[4] A WAN is a network that connects other networks together. WANs are typically complicated networks covering broad areas (i.e., any network that links across metropolitan, regional, or national boundaries) and allowing many computers and other devices to communicate and share data.

3.3.2 **Controls Implementation**

3.3.2.1 **Environmental Controls.** IT equipment should have a continuous uninterruptible power supply (UPS[1]). Management should configure the UPS to provide sufficient electricity within milliseconds to power equipment until there is an orderly shutdown or transition to the back-up generator. The back-up generator should generate sufficient power to meet the requirements of mission critical IT and environmental support systems. Similarly, IT operations centers should have independent telecommunication feeds from different vendors. Wiring configurations should support rapid switching from one provider to another without burdensome rerouting or rewiring.

Even small IT operations centers with modest IT equipment can contain a significant amount of computer cabling. Management should physically secure these cables to avoid accidental or malicious disconnection or severing. In addition, management should document wiring strategies and organize cables with labels or color codes to facilitate easy troubleshooting, repair, and upgrade.

Every operations center should have adequate heating, ventilation, and air conditioning (HVAC) systems in order for personnel and equipment to function properly. Organizations should plan their HVAC systems with the requirements of their IT systems in mind. Also, operations personnel should be familiar with written emergency procedures in the event of HVAC system disruption.

Water leaks can cause serious damage to computer equipment and cabling under raised floors. For this reason, operations centers should be equipped with water detectors under raised flooring to alert management of leaks that may not be readily visible. Management should also consider installing floor drains to prevent water from collecting beneath raised floors or under valuable computer equipment.

A variety of strategies are available for fire suppression. Ideally, the fire suppression system should allow operators time to shut down computer equipment and cover it with waterproof covers before releasing the suppressant.

Lastly, Management should consider using video surveillance and recording equipment in all or parts of the facility to monitor activity and deter theft. Management should also use inventory labels, bar codes, and logging procedures to control the inventory of critical and valuable equipment.

3.3.2.2 **Preventive Maintenance.** All maintenance activities should follow a predetermined schedule. A record of all maintenance activities should be maintained to aid management in reviewing and monitoring employee and vendor performance. Management should schedule time and resources for preventive maintenance and coordinate such schedule with production. During scheduled maintenance, the computer operators should dismount all program and data files and work packs, leaving only the minimum software required for the specific maintenance task on the system. If this is impractical, management should review system activity logs to monitor access to programs or data during maintenance. Also, at least one computer operator should be present at all times when the service representative is in the computer room.

In case a vendor performs computer maintenance online, operators should be aware of the online maintenance schedule so that it does not interfere with normal operations and processing. Operators and information security personnel should adhere to established security procedures to ensure they grant remote access only to authorized maintenance personnel at predetermined times to perform specific tasks.

Operators should maintain a written log of all hardware problems and downtime encountered between maintenance sessions. A periodic report on the nature and frequency of those problems is a necessary

[1] UPS is a device that allows computer to keep running for at least a short time when the primary power source is lost. A UPS may also provide protection from power surges. A UPS contains a battery that "kicks in" when the device senses a loss of power from the primary source allowing the user time to save any data they are working on and to exit before the secondary power source (the battery) runs out. When power surges occur, a UPS intercepts the surge so that it doesn't damage the computer.

management tool, and can be valuable for vendor selection, equipment benchmarking, replacement decisions, or planning increased equipment capacity.

3.3.2.3 **Change Management[1] & Control.** Complex BSFIs should have a change management policy that defines what constitutes a "change" and establishes minimum standards governing the change process. Simple BSFIs may successfully operate with less formality, but should still have written change management policies and procedures.

All changes should flow through the oversight function, which may include appropriate representation from business lines, support areas, IT management, information security, and internal audit. In establishing a framework for managing change, a policy should be present describing minimum standards and including such factors as notification, oversight, and control. Control standards should address risk, testing, authorization and approval, timing of implementation, post installation validation, and back-out or recovery.

3.3.2.4 **Patch Management[2].** Management should establish procedures to stay abreast of patches, to test them in a segregated environment, and to install them when appropriate. Change management procedures should require documentation of any patch installations. Management should develop a process for managing version control of operating and application software to ensure implementation of the latest releases. Management should also maintain a record of the versions in place and should regularly monitor the Internet and other resources for bulletins about product enhancements, security issues, patches or upgrades, or other problems with the current versions of the software.

3.3.2.5 **Conversions.** Conversions involve major changes to existing systems or applications, or the introduction of systems or data sets which may span multiple platforms. Consequently, they have a higher level of risk requiring additional, specialized controls. Conversions, if improperly handled, may result to corrupt data; hence, strong conversion policies, procedures, and controls are critical. Likewise, since the ramifications of conversion span IT operations, it is important for management to periodically re-evaluate all operations processes and consider the appropriateness of process re-engineering.

3.3.2.6 **Network Management Controls.** Network standards, design, diagrams and operating procedures should be formally documented, kept updated, communicated to all relevant network staff and reviewed periodically. Communications facilities that are critical to continuity of network services should be identified. Single points of failure should be minimized by automatic re-routing of communications through alternate routes should critical nodes or links fail.

The network should be monitored on a continuous basis to reduce the likelihood of network traffic overload and detect network intrusions. Powerful network analysis and monitoring tools, such as protocol analyzers, network scanning and sniffer tools, are normally used for monitoring network performance and detecting potential or actual intrusions. These powerful network tools should be protected from unauthorized usage (e.g., viewing of unencrypted sensitive information). The use of network tools should also be tightly restricted to authorized staff only and be subject to stringent approval and review procedures.

3.3.2.7 **Disposal of Media.** Management should have procedures for the destruction and disposal of media containing sensitive information. These procedures should be risk-based relative to the sensitivity of the information and the type of media used to store the information. Furthermore, disposal procedures should recognize that records stored on electronic media, including tapes, and disk drives present unique

[1] Change management refers to the broad processes for managing organizational change. Change management encompasses planning, oversight or governance, project management, testing and implementation.

[2] A patch is a piece of software designed to fix problems with, or update a computer program or its supporting data. This includes fixing security vulnerabilities and other bugs, and improving the usability or performance. Though meant to fix problems, poorly designed patches can sometimes introduce new problems. In some special cases, updates may knowingly break the functionality, for instance, by removing components for that the update provider is no longer licensed. Patch Management is the process of using a strategy and plan of what patches should be applied to which systems at a specified time.

disposal problems in that residual data can remain on the media after erasure. Since data can be recovered, additional disposal techniques should be applied to remove sensitive information.

3.3.2.8 **Imaging.** Management should ensure there are adequate controls to protect imaging processes, as many of the traditional audit and controls for paper-based systems may be reduced. Management should also consider issues such as converting existing paper storage files, integration of the imaging system into the organization workflow, and business continuity planning needs to achieve and maintain business objectives.

3.3.2.9 **Event/Problem Management.** Management should ensure appropriate controls are in place to identify, log, track, analyze, and resolve problems that occur during day-to-day IT operations. The event/ problem management process should be communicated and readily available to all IT operations personnel. Management should ensure it trains all operations personnel to act appropriately during significant events. Employees should also receive training to understand event response escalation procedures.

Operations personnel should be properly trained to recognize events that could trigger implementation of the business continuity plan. Although an event may not initially invoke the plan, it may become necessary as conditions and circumstances change. Management should train and test BSFI personnel to implement and perform appropriate business continuity procedures within the timeframes of the BCP. Operations personnel should properly log and record any events that trigger BCP response and document their ultimate resolutions.

3.3.2.10 **User Support/Help Desk.** User support processes and activities should ensure end users continuously have the resources and services needed to perform their job functions in an efficient and effective manner. In complex BSFIs, the help desk function provides user support, which typically consists of dedicated staff trained in problem resolution, equipped with issue tracking software, and supported with knowledge-based systems that serve as a reference resource to common problems. In simple BSFIs, user support may consist of a single person, a very small group, or a contract with a support vendor.

The help desk should record and track incoming problem reports, whether handled by live operators or automated systems.

Documentation in the tracking system should include such data as user, problem description, affected system (platform, application, or other), prioritization code, current status toward resolution, partly responsible for resolution, root cause (when identified), target resolution time, and a comment field for recording user contacts and other pertinent information.

The help desk should evaluate and prioritize issues to ensure the most critical problems receive prompt attention.

Help desk functions may also be supported by knowledge based-systems that provide support staff with action responses to common problems. Strong support functions continually update the knowledge based-systems with information obtained from vendors and from the experiences of help desk staff. Because attrition rates in the help desk function can be high, a knowledge based-system can ensure the BSFI retains knowledge and facilitates the training and development of new employees.

Proper authentication of users is critical to risk management within the user support function. If the help desk uses a single authentication standard for all requests, it should be sufficiently rigorous to cover the highest risk scenarios. However, the BSFI may choose to use different levels of authentication depending upon the problem reported, the type of action requested, or the platform, system, or data involved. If the help desk function is outsourced, management should determine the service provider's information access level, assign the functions it will perform, and ensure that security and confidentiality remain in place.

3.3.2.11 **Scheduling.** The BSFI should implement policies and procedures for creating and changing job schedules and should supplement them with automated tools when cost effective. Sound scheduling practices and controls prevent degraded processing performance that can affect response time, cause delays in completing tasks, and skew capacity planning. Automated scheduling tools are necessary for large, complex systems to support effective job processing. Smaller and less complex IT systems generally have a standard job stream with little need for change.

3.3.2.12 **Systems and Data Back-up.** The BSFI should ensure that sufficient number of backup copies of essential business information, software and related hardcopy documentations are available for restoration or critical operations. A copy of these information, documentation and software should also be stored in an off-site premise or backup site and any changes should be done periodically and reflected in all copies.

The BSFI should back-up and store its data and program files in a secure off-site location to allow restoration of systems, applications, and associated data in the event normal processing is disrupted by a disaster or other significant event. A full system backup should be periodically conducted and should at least consist of the updated version of the operating software, production programs, system utilities and all master and transaction files. The frequency of backup should depend on its criticality, but should be performed after critical modification or updates. Management should implement a storage solution that is manageable from an administrative perspective and usable and accessible from the customer and end-user perspectives to enable them to receive current, complete and accurate data. Storage solutions should be appropriately scalable to allow for future growth.

Written standards should document back-up methodologies, delineate responsibilities of appropriate personnel, and ensure uniform performance throughout the institution. Management should maintain inventories of back-up media stored off-site and periodically perform physical inventories to ensure all required back-up materials are available. Procedures should include verifying adherence to the back-up schedule and reviewing actual back-up copies for readability. Similarly, management should periodically test back- up copies by actually using them to restore programs and data.

All backup media should be properly labeled using standard naming conventions. Management should develop a rotation scheme that addresses varying storage durations as well as transportation and storage of multiple formats of media at the off-site storage location. Transportation to the backup site should be done in controlled and secured manner with proper authorization and record. Procedures for disposal of backup media should also be in place.

3.3.2.13 **Systems Reliability, Availability and Recoverability**

a. **System Availability**

BSFIs should achieve high systems availability (or near zero system downtime) for critical systems which is associated with maintaining adequate capacity, reliable performance, fast response time, scalability and swift recovery capability. Built-in redundancies for single points of failure should be developed and contingency plans should be tested so that business and operating disruptions can be minimized.

b. **Technology Recovery Plan**

Business resumption very often relies on the recovery of IT resources that include applications, hardware equipment and network infrastructure as well as electronic records. The technology requirements that are needed during recovery for individual business and support functions should be specified when the recovery strategies for the functions are determined.

Appropriate personnel should be assigned with the responsibility for technology recovery. Alternate personnel needs to be identified for key technology recovery personnel in case of their unavailability to perform the recovery process.

As unavailability of systems may result to disruptive impact on its operations, the BSFI should develop an IT disaster recovery plan to ensure that critical application systems and technology services can be resumed in accordance with the business recovery requirements. In formulating an effective recovery plan, scenario analysis should be included to identify and address various types of contingency scenarios. Scenarios such as major system outages which may be caused by system faults, hardware malfunction, operating errors or security incidents as well as a total inaccessibility of the primary data center should be considered. To strengthen recovery measures relating to large scale disruptions and to achieve risk diversification, rapid operational and backup capabilities at the individual system or application cluster level should be implemented. Recovery and business resumption priorities must be defined accordingly. Specific recovery objectives including recovery time objective[1] (RTO) and recovery point objective[2] (RPO) should be established for systems and applications.

c. **Alternate sites for technology recovery**

The BSFI should make arrangements for alternate and recovery sites[3] for their business functions and technology in the event the business premises, key infrastructure and systems supporting critical business functions become unavailable. A recovery site geographically separate from the primary site must be established to enable the restoration of critical systems and resumption of business operations should a disruption occur at the primary site. The required speed of recovery will depend on the criticality of resuming business operations, the type of services and whether there are alternative ways and processing means to maintain adequate continuing service levels to satisfy customers. Recovery strategies and technologies such as on-site redundancy and real-time data replication could be explored to enhance the BSFI's recovery capability.

The recovery site could either be an in-house backup premise that has a redundant hardware system located away from the computer center, or a third-party recovery facility provider that requires formal subscription to its service, or a combination of both solutions. The recovery facility should be at a distance that would protect it from damage from any incident occurring at the primary site. Ideally, it should be on different electrical power and telecommunication switches, and free from the same disaster. The BSFI should ensure that the IT systems at the recovery sites are:

a. Compatible with the BSFI's primary systems (in terms of capacity and capability) to adequately support the critical business functions; and

b. Continuously updated with current version of systems and application software to reflect any changes to the BSFI's system configurations (e.g., hardware or software upgrades or modifications).

In case where a third-party recovery facility is used, there should be a written contract agreement that is legally binding. The agreement should specifically identify the conditions under which the recovery facility may be used and specify how customers would be accommodated if simultaneous disaster conditions occur to several customers of the recovery facility provider. The recovery facility should allow the BSFI to use its services until it achieves a full recovery from the disaster and resumption of activity at the BSFI's own facility.

The BSFI which outsources critical systems to offshore service providers is heavily dependent on the stability and availability of cross-border network links. To minimize impact to business operations in the event of a disruption (e.g., due to earthquake), cross-border network redundancy with strategies such as engagement of different network service providers and alternate network paths may be instituted.

[1] RTO refers to the required time taken to recover an IT system from the point of disruption.
[2] RPO refers to the acceptable amount of data loss for an IT system should a disaster occur.
[3] Recovery site is an alternate location for processing information (and possibly conducting business) in an emergency.

d. **Disaster Recovery Testing**

The BSFI should always adopt pre-determined recovery actions that have been tested and endorsed by management. The effectiveness of recovery requirements and the ability of BSFI's personnel in executing or following the necessary emergency and recovery procedures should be tested and validated at least annually.

Various scenarios which include total shutdown or inaccessibility of the primary data center, as well as component failure at the individual system or application cluster level should be included in disaster recovery tests. Inter-dependencies between and among critical systems should be included in the tests. BSFIs whose networks and systems are linked to specific service providers and vendors, should consider conducting bilateral or multilateral recovery testing.

Business users should be involved in the design and execution of comprehensive test cases so as to obtain assurance that recovered systems function accordingly. The BSFI should also participate in disaster recovery tests of systems hosted overseas. Periodic testing and validation of the recovery capability of backup media should be carried out and assessed for adequacy and effectiveness. Backup tapes and disks containing sensitive data should be encrypted before they are transported offsite for storage.

3.4. **Risk Monitoring**

3.4.1 **Service Level Agreement (SLA).** BSFI Management of IT functions should formulate an SLA with business units which will measure the effectiveness and efficiency of delivering IT services. Measurable performance factors include system availability and performance requirements, capacity for growth, and the level of support provided to users, resource usage, operations problems, capacity, response time, personnel activity, as well as business unit and external customer satisfaction. Adequate procedures should be in place to manage and monitor delivery of services.

3.4.2 **Control Self-Assessments[1] (CSAs).** The BSFI may consider the conduct of periodic CSAs to validate the adequacy and effectiveness of the IT control environment. They also facilitate early identification to allow management to gauge performance, as well as the criticality of systems and emerging risks. Depending on the complexity of the BSFI's IT risk profile, the content and format of the CSAs may be standardized and comprehensive or highly customized, focusing on a specific process, system, or functional area. IT operations management may collaborate with the internal audit function in creating the templates used. Typically, the CSA form combines narrative responses with a checklist. The self-assessment form should identify the system, process, or functional area reviewed, and the person(s) completing.

[1] CSA is a technique used to assess risk and control strength and weaknesses against a control framework.

IT RISK MANAGEMENT STANDARDS AND GUIDELINES
Area: IT Outsourcing / Vendor Management
(Appendix to Sec. 147-Q/145-S/142-P/126-N (Purpose and Scope and IT Risk Management System)

1. **INTRODUCTION**

1.1. With globalization and advancement in IT, BSFIs increasingly rely on services provided by other entities to support an array of IT-related functions. The ability to outsource IT systems and process enables a BSFI to manage costs, obtain necessary expertise, expand customer product offerings, and improve services. While outsourcing offers a cost-effective alternative to in-house capabilities, it does not reduce the fundamental risks associated with IT or the business lines that use it. Risks such as loss of funds, loss of competitive advantage, damaged reputation, improper disclosure of information and regulatory action remain. Because the functions are performed by an organization outside the BSFI, the risks may be realized in a different manner than if the functions were inside resulting in the need for well-structured process to properly manage risks and ensure that the interest of customers will not be compromised.

2. **ROLES AND RESPONSIBILITIES**

2.1. Board of Directors (Board) and Senior Management. The responsibility for the oversight and management of outsourcing activities and accountability for all outsourcing decisions continue to rest with the BSFI's Board and senior management. They should establish and approve enterprise-wide policies, appropriate to the IT risk profile of the institution. This framework should govern the end-to-end perspective of outsourcing process and shall provide the basis for management to identify, measure, monitor, and control the risks associated with IT- related outsourcing arrangements.

3. **IT OUTSOURCING / VENDOR RISK MANAGEMENT PROGRAM**

3.1. **Risk Assessment.** Prior to entering into an outsourcing plan, the BSFI should clearly define the business requirements for the functions or activities to be outsourced, assess the risk of outsourcing those functions or activities and establish appropriate measures to manage and control the identified risks. Risk assessment should take into consideration the criticality of the services to be outsourced, the capability of the technology service provider (TSP)[1] and the technology it will use in delivering the outsourced service. Such assessment should be made periodically on existing arrangements as part of the outsourcing program and review process of the BSFI.

3.2. **Service Provider Selection.** Before selecting a service provider, the BSFI should perform appropriate due diligence of the provider's financial soundness, reputation, managerial skills, technical capabilities, operational capability and capacity in relation to the services to be outsourced. The depth and formality of the due diligence performed may vary depending on the nature of the outsourcing arrangement and the BSFI's familiarity with the prospective service providers. Contract negotiation should be initiated with the service provider determined to best meet the business requirements of the BSFI.

Due diligence undertaken during the selection process should be documented and reviewed periodically, using the most recent information, as part of the monitoring and control processes of outsourcing.

3.3. **Outsourcing Contracts.** The contract is the legally binding document that defines all aspects of the servicing relationship and one of the most important controls in outsourcing process. It should be clearly written and sufficiently detailed to provide assurances for performance, reliability, security, confidentiality and reporting. Before signing a contract, management should:

a. Ensure the contract clearly defines the rights and responsibilities of both parties and contains or supported by adequate and measurable service level agreements;

b. Ensure contracts with related entities clearly reflect an arms-length relationship and costs and services are on terms that are substantially the same, or at least as favorable to the BSFI, as those prevailing at the time for comparable transactions with non-related third parties;

[1] TSPs include a wide range of entities including but not limited to affiliated entities, non-affiliated entities, and alliances of companies providing technology products and services. These services may include but not limited to the following: a) information and transaction processing and settlement activities that support banking functions; b) electronic banking-related services; c) Internet-related services; d) security monitoring; e) systems development and maintenance; f) aggregation services; and g) digital certification services. Other terms used to describe TSPs include vendors and external/outsourced service providers

c. Choose the most appropriate pricing method for the BSFI's needs;

d. Ensure service provider's physical and data security standards meet or exceed the BSFI's standards. Any breach in security should be reported by the service provider to the BSFI;

e. Engage legal counsel to review the contract; and

f. Ensure the contract contains the minimum provisions required under existing Bangko Sentral rules and regulations, like access by Bangko Sentral to systems and databases outsourced, and the same does not include any provisions or inducements that may adversely affect the BSFI (i.e. extended terms, significant increases after the first few years, substantial cancellation penalties).

Each agreement should allow for renegotiation and renewal to enable the BSFI to retain an appropriate level of control over the outsourcing and the right to intervene with appropriate measures to meet its legal and regulatory obligations. The agreement should also acknowledge Bangko Sentral's supervisory authority over the BSFI and the right of access to information on the BSFI and the service provider.

Some service providers may contract with third-parties in providing IT services to the BSFI. The extent to which subcontractors perform additional services should be limited to peripheral or support functions while the core services should rest with the main service provider. The BSFI should retain the ability to maintain similar control over its outsourcing risks when a service provider uses subcontractors in the course of rendering the IT-related services. Agreements should have clauses setting out the rules and limitations on subcontracting. To provide accountability, it may be beneficial for the BSFI to include a provision specifying that the contracting service provider shall remain fully responsible with respect to parts of the services which were further outsourced to subcontractors. It should also consider including notification and approval requirements regarding changes to the service provider's significant subcontractors.

An annual review of the outsourcing agreements should be performed to assess whether the agreements should be renegotiated and renewed to bring them in line with current market standards and to cope with changes in their business strategies. When renegotiating contracts, the BSFI should ensure that the provider delivers a level of service that meets the needs of the institution over the life of the contract.

3.4. **Service Level Agreement (SLA).** SLAs formalize the performance standards against which the quantity and quality of service should be measured. Management should include SLAs in its outsourcing contracts to specify and clarify performance expectations, as well as establish accountability for the outsourced activity.

The BSFI should link SLA to the provisions in the contract regarding incentives, penalties and contract cancellation in order to protect themselves in the event the service provider failed to meet the required level of performance.

Management should closely monitor the service provider's compliance with key SLA provision on the following aspects, among others:

a. Availability and timeliness of services;
b. Confidentiality and integrity of data;
c. Change control;
d. Security standards compliance, including vulnerability and penetration management;
e. Business continuity compliance; and
f. Help desk support.

SLAs addressing business continuity should measure the service provider's contractual responsibility for backup, record retention, data protection, and maintenance and testing of disaster recovery and contingency plans. Neither contracts nor SLAs should contain any extraordinary provisions that would exempt the service provider from implementing its contingency plans (outsourcing contracts should include clauses that discuss unforeseen events for which the BSFI would not be able to adequately prepare).

3.5. **Ongoing Monitoring**

3.5.1 **Monitoring Program.** As outsourcing relationships and interdependencies increase in materiality and complexity, the BSFI needs to be more proactive in managing its outsourcing relationships. It should establish a monitoring program to ensure service providers deliver the quantity and quality of services required by the contract. The resources to support this program will vary depending on the criticality and complexity of the system, process, or service being outsourced.

The program should employ effective mechanisms to monitor key aspects of the outsourcing relationship and the risk associated with the outsourced activity, particularly the following:

a. contract/SLA performance;
b. material problems encountered by the service provider which may impact the BSFI;
c. financial condition and risk profile; and
d. business continuity plan, the results of testing thereof and the scope for improving it.

To increase the effectiveness of monitoring mechanisms, management should periodically classify service provider relationships to determine which service providers require closer monitoring. Relationships with higher risk classification should receive more frequent and stringent monitoring for due diligence, performance (financial and/or operational), and independent control validation reviews.

Personnel responsible for monitoring activities should have the necessary expertise to assess the risks and should maintain adequate documentation of the process and results thereof. Management should use such documentation when renegotiating contracts as well as developing business continuity planning requirements.

Reports on the monitoring and control activities of the BSFI should be prepared or reviewed by its senior management and provided to its Board. The BSFI should also ensure that any adverse development arising from any outsourced activity is brought to the attention of the senior management, or the Board, when warranted, on a timely basis. Actions should be taken to review the outsourcing relationship for modification or termination of the agreement.

3.5.2 **Financial Condition of Service Providers.** The BSFI should have an on-going monitoring of the financial condition of its service providers as financial problems may jeopardize the quality of its service and possibly the integrity of the data in its possession. In the event management recognizes that the financial condition of the provider is declining or unstable, more frequent financial reviews of said provider are warranted.

3.5.3 **General Control Environment of the Service Provider.** The BSFI should also implement adequate measures to ensure service providers are only given access to the information and systems that they need in order to perform their function. Management should restrict their access to BSFI's systems, and appropriate access controls and monitoring should be in place between the service provider's systems and the BSFI.

3.6. **Business Continuity Planning Consideration.** The BSFI should integrate the provider's BCP into its own plan, communicate functions to the appropriate personnel, and maintain and periodically review the combined plan. It should ensure that service provider tests its plan annually and notify the institution of any resulting modifications.

3.7. **Compliance with Bangko Sentral Regulations.** The BSFI should ensure that appropriate up-to-date records relevant to its outsourcing arrangements are maintained in its premises and kept available for inspection by the Bangko Sentral Examiners. The outsourcing agreement should explicitly provide a clause allowing Bangko Sentral and BSFIs' internal and external auditors to review the operations and controls of the service provider as they relate to the outsourced activity.

In addition to the general guidelines on outsourcing contracts stated in Item No. *"3.3"* of this Appendix, the BSFIs intending to outsource must comply with existing Bangko Sentral rules and regulations on outsourcing.

IT RISK MANAGEMENT STANDARDS AND GUIDELINES
Area: Electronic Banking, Electronic Payment, Electronic Money and Other Electronic Products and Services
(Appendix to Sec. 147-Q/145-S/142-P/126-N (Purpose and Scope and IT Risk Management System)

1. INTRODUCTION

1.1. Continuing technological innovation and competition among existing FIs and new entrants have contributed to a wide array of electronic products and services (e-services) available to customers. These products and services have been widely adopted by BSFIs in recent years and are now a component of most institutions' business strategy. Electronic delivery of services can have many benefits for BSFIs and their customers and can also have implications on financial condition, risk profile, and operating performance. The emergence of e- services may contribute to improving the efficiency of the banking and payment system, reducing the cost of retail transactions nationally and internationally and expanding the target customers beyond those in traditional markets. Consequently, BSFIs are therefore becoming more aggressive in adopting electronic capabilities that include sophisticated marketing systems, remote-banking capabilities, and stored value programs.

1.2. Notwithstanding the significant benefits of technological innovation, the rapid development of electronic capabilities carries risks as well as benefits and it is important that these risks are recognized and managed by BSFIs in a prudent manner to promote safe and secure e-services and operations. The basic types of risks generated by e-services are not new, the specific ways in which some of the risks arise, as well as the magnitude of their impact may be new for BSFIs and supervisors. While existing risk management guidelines remain applicable to e-services, such guidelines must be tailored, adapted and, in some cases, expanded to address the specific risk management challenges created by the characteristics of such activities. As the industry continues to address technical issues associated with e-services, including security challenges, a variety of innovative and cost efficient risk management solutions are likely to emerge. These solutions are also likely to address issues related to the fact that BSFIs differ in size, complexity and risk management culture and that jurisdictions differ in their legal and regulatory frameworks.

2. ROLES AND RESPONSIBILITIES

2.1. **Board of Directors (Board) and Senior Management.** The Board is expected to take an explicit, informed and documented strategic decision as to whether and how the BSFI is to provide e-services to their customers. The Board and senior management should establish effective management oversight of the risks associated with these activities, including the establishment of specific accountability, policies and controls to manage these risks. Senior management oversight processes should operate on a dynamic basis in order to effectively intervene and correct any material systems problems or security breaches that may occur.

The Board should ensure that plans to offer e-services are consistent and clearly integrated within corporate strategic goals. The BSFI should also ensure that it does not offer new e-services or adopt new technologies unless it has the necessary expertise to provide competent risk management oversight. Management and staff expertise should be commensurate with the technical nature and complexity of the BSFI's applications and underlying technologies.

The Board and senior management should ensure that the operational and security risk dimensions of the BSFI's business strategies on e-services are appropriately considered and addressed. The provision of e-services may significantly modify and/or even increase traditional business risks. As such management should take appropriate actions to ensure that the BSFI's existing risk management, security control, due diligence and oversight processes for outsourcing relationships are appropriately evaluated and modified to accommodate e-services.

BSFI management should assess the impact of the implementation and ongoing maintenance of e-services. These areas should be monitored and analyzed on an ongoing basis to ensure that any impact on the BSFI's financial condition and risk profile resulting from e-services is appropriately managed and controlled. Management should evaluate e-services acceptance vis-à-vis the performance to its goals and expectations through periodic review of reports tracking customer usage, problems such as complaints and downtime, unreconciled accounts or transactions initiated through the system, and system usage relative to capacity. Insurance policies may also need to be updated or expanded to cover losses due to system security breaches, system downtime, or other risks from e-services.

2.2. Compliance Officer. The compliance officer or its equivalent should be aware and informed of all relevant laws and regulatory requirements relative to the offering of e-services, including those of other countries where they also intend to deliver cross-border e-services. BSFI management should ensure that these requirements are complied with to minimize legal and compliance risks and other negative implications.

3. RISK MANAGEMENT SYSTEM

3.1. The BSFI should carefully evaluate the offering of a new e-service to customers to ensure that Management fully understands the risk characteristics and that there are adequate staffing, expertise, technology and financial resources to launch and maintain the service. A formal business strategy for introducing new service should be in place and form part of the BSFI's overall strategy. The BSFI should also perform regular assessments to ensure that its controls for managing identified risks remain proper and adequate.

3.2. The underlying risk management processes for e-services should be integrated into the BSFI's overall risk management framework and the existing risk management policies and processes should be evaluated to ensure that they are robust enough to cover the new risks posed by current or planned activities. Relevant internal controls and audit as required in BSFI's risk management system should also be enforced and carried out as appropriate for its e-services. Regular review of the relevant policies and controls should be performed to ascertain that these remain appropriate to the risks associated with such activities.

3.3. The BSFI should adjust or update, as appropriate, its information security program in the light of any relevant changes in technology, the sensitivity of its customer information and internal or external threats to information. The BSFI should ensure that the related information security measures and internal control are installed, regularly updated, monitored and are appropriate with the risks associated with their products and services.

4. RISK MANAGEMENT CONTROLS

4.1. **Security Controls.** The BSFI should recognize that e-services should be secured to achieve a high level of confidence with both customers and business. It is the responsibility of BSFI management to provide adequate assurances that transactions performed and information flowed through the electronic delivery channels are properly protected. For this reason, the BSFI should maintain a strong and comprehensive security control system. As such, in addition to the information security standards in *Appendix Q-62,* the BSFI should also provide the following controls specific for e-services:

4.1.1. **Account Origination and Customer Verification**. The BSFI should use reliable methods for originating new customer accounts. Potentially significant risks may arise when it accepts new customers through the internet or other electronic channels. Thus, the BSFI should ensure that in originating new accounts using electronic channels, the KYC requirement which involves a face-to-face process is strictly adhered to.

4.1.2. **Authentication[1].** The BSFI should use reliable and appropriate authentication methods to validate and verify the identity and authorization of customers. Authentication is facilitated by the use of factors, which are generally classified into three (3) basic groups:

a. Knowledge – Something the user knows (e.g., username, password, mobile PIN, card number account number);
b. Possession – Something the user has (e.g., payment card, token, one-time password); and
c. Inherence – Something the user is (e.g., biometrics).

As the number of factors increases, the window of compromise becomes more difficult. The use of single factor authentication alone is considered inadequate to address the risks inherent in sensitive communications and/or high-risk transactions. Thus, BSFIs should adopt multi-factor authentication (MFA) or use a minimum of two (2) factors in such instances. This requirement shall apply to online transactions where the risk of compromise is heightened. Sensitive communications and/or high-risk transactions requiring MFA include, among others, the following:

a. Enrollment in transactional e-services;
b. Payments and transfers to third parties;
c. Online remittance, including those for pick-up at the BSFI branches via door-to-door delivery;
d. Account maintenance, including change in account information and contact details; and
e. Use of payment cards (e.g., ATM, credit and debit cards) in e-commerce websites.

For transactions that do not require real-time or near real-time authentication/ authorization, BSFIs may also opt to use positive confirmation in lieu of MFA. Positive confirmation refers to any form of communication that will enable the BSFI to timely and accurately verify the identity of the requesting

[1] BSFIs shall comply with the foregoing requirements on customer authentication by 30 September 2017. In this regard, a BSFI should be able to show its plan of actions with specific timelines, as well as the status of initiatives being undertaken to fully comply with the provisions of Item "4.1.2" of this Appendix, upon request of the Bangko Sentral starting May 2017. This transitory period, however, should not excuse BSFIs from immediately complying with the MFA requirements imposed by affiliated payment networks.

customer. The BSFI should use a different communication channel other than the one where the request originated from when confirming sensitive communications and/or high-risk transactions.

The adoption of MFA techniques or positive confirmations for sensitive communications and/or high-risk transactions can increase customer confidence in e-services. In addition, it provides an opportunity for the customers to assist the BSFI in preventing and detecting fraudulent activity. Nevertheless, alternative and less stringent authentication procedures may be considered for the following:

a. Small-value payment or other low-risk transactions, provided the same are justified by a *transaction risk analysis*[1] and bounded by prudent thresholds established by the BSFI. The BSFI's methodology for setting the threshold should be adequately documented and independently validated at least annually;

b. Payments and transfers made to pre-enrolled merchants in the bills payment facility and those pre-registered recipients by the customer: *Provided,* That the BSFI employs a robust and reliable enrollment process for third party merchants and recipients; and

c. Transaction between two (2) accounts of the same customer at the same BSFI.

As authentication methods continue to evolve, the BSFI should monitor, evaluate, and adopt sound industry practices to address current and changing risk factors. The authentication process should be consistent with and support the BSFI's overall security and risk management programs. An effective authentication process should have customer acceptance, reliable performance, scalability to accommodate growth and interoperability with existing systems and future plans as well as appropriate policies, procedures and controls.

(As amended by Circular No. 958 dated 25 April 2017)

4.1.3. **Non-Repudiation[2].** As customers and merchants originate an increasing number of transactions, authentication and encryption become increasingly important to ensure non-repudiation of transactions. In such cases, the BSFI should consider implementing non-repudiation controls in the form of digital signatures, collision-free hash value of the entire transaction or unique authorization code that will provide conclusive proof of participation of both the sender and receiver in an online transaction environment. Public key infrastructure[3], digital signature[4], digital certificate[5] and certification authority[6] arrangements can be used to impart an enhanced level of security authentication and authorization which can uniquely identify the person initiating transaction, detect unauthorized modifications and prevent subsequent disavowal.

4.1.4. Authorization Controls and Access Privileges. Specific authorization and access privileges should be assigned to all individuals, agents or systems, which conduct activities on e-services. No individual agent or system should have the authority to change his or her own authority or access privileges in the e-services authorization database. Any addition of an individual, agent or system or changes to access privileges should be duly authorized by an authenticated source empowered with adequate authority and subject to suitable and timely oversight and audit trails.

All systems that support e-services should be designed to ensure that they interact with a valid authorization database. Appropriate measures should be in place in order to make authorization databases reasonably resistant to tampering. Authenticated e-services sessions should remain secure throughout the full duration of the session. In the event of a security lapse, the session should require re-authentication. Controls should also be in place to prevent changes to authorization levels during e-services sessions and any attempts to alter authorization should be logged and brought to the attention of management.

No person by virtue of rank or position should have any intrinsic right to access confidential data, applications, system resources or facilities. Only employees with proper authorization and whose official duties necessitate access to such data, applications, system resources or facilities should be allowed to access confidential information and use system resources solely for legitimate purposes.

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1 Transaction risk analysis refers to the evaluation of risk related to a specific transaction taking into account various criteria including, but not limited to, customer behavioral transaction pattern, payee profile, nature of product/service to be acquired and transition value.

2 Non-repudiation is a means of ensuring that a transferred message has been sent and received by the parties claiming to have sent and received the message. Non-repudiation is a way to guarantee that the sender of a message cannot later deny having sent the message and that the recipient cannot deny having received the message.

3 Public Key Infrastructure (PKI) refers to the use of public key cryptography in which each customer has a key pair (i.e., unique electronic value called a public key and a mathematically-related private key). The private key is used to encrypt (sign) a message that can only be decrypted by the corresponding public key or to decrypt message previously encrypted with the public key. The public key is used to decrypt message previously encrypted (signed) using an individual's private key or to encrypt a message so that it can only be decrypted (read) using the intended recipient's private key.

4 Digital certificate is a digital code that can be attached to an electronically transmitted message that uniquely identifies the sender. Like a written signature, the purpose of a digital signature is to guarantee that the individual sending the message really is who he or she claims to be.

5 Digital Certificate is the electronic equivalent of an ID card that authenticates the originator of digital signature.

6 Certification Authority (CA) is the organization that attests using a digital certificate that a particular electronic message comes from a specific individual or system.

4.1.5. **Confidentiality and Integrity of Information, Transactions and Records.** The BSFI should ensure that appropriate measures are in place to ascertain the accuracy, completeness and reliability of e-services transactions, records and information that are either transmitted over the internal and external networks or stored in BSFI's internal systems. Common practices used to maintain data integrity include the following:

a. E-services transactions should be conducted in a manner that make them highly resistant to tampering throughout the entire process;
b. E-services records should be stored, accessed and modified in a manner that make them highly resistant to tampering;
c. E-services transaction and record-keeping processes should be designed in a manner as to make it virtually impossible to circumvent detection of unauthorized changes;
d. Adequate change control policies,
e. including monitoring and testing procedures, should be in place to protect against any system changes that may erroneously or unintentionally compromise controls or data reliability; and
f. Any tampering with e-services transactions or records should be detected by transaction processing, monitoring and record keeping functions.

The BSFI should implement appropriate technologies to maintain confidentiality and integrity of sensitive information, in particular customer information. Cryptographic technologies can be used to protect the confidentiality and integrity of should choose cryptographic technologies that are appropriate to the sensitivity and importance of information and the extent of protection needed and, only those that are making use of internationally recognized cryptographic algorithms where the strengths of the algorithms have been subjected to extensive tests. In cases when the information is transmitted over public network, the BSFI should consider the need to apply strong end-to-end encryption to the transmission of sensitive information.

To ensure adequate protection and secrecy of cryptographic keys whether they are master keys, key encrypting keys or data encrypting keys, no single individual should know entirely what the keys are or have access to all the constituents making up these keys. All keys should be created, stored, distributed or changed under the most stringent conditions. Likewise, use of these keys should be logged and provided with timely oversight.

4.1.6. Application Security. The BSFI should ensure an appropriate level of application security in its electronic delivery systems. In selecting system development tools or programming languages for developing e-services application systems, it should evaluate the security features that can be provided by different tools or languages to ensure that effective application security can be implemented. In selecting an e-services system developed by a third party, the BSFI should take into account the appropriateness of the application security of the system. It should test new or enhanced applications thoroughly using a general accepted test methodology in a test environment prior to implementation.

Comprehensive and effective validation of input parameters (including user-supplied data and database queries that may be submitted by the users' computers) should be performed on server side. This prevents intentional invalid input parameters from being processed by the e-services system that may result in unauthorized access to data, execution of commands embedded in the parameters or a buffer overflow attack[1]. Moreover, e-services systems should operate with the least possible system privileges.

Error messages generated by the application system for e-services customers should not reveal details of the system which are sensitive. Errors should be appropriately logged. Similarly, the HTML[2] source code on the production web server should not contain sensitive information such as any references or comments that relate to the design features of the web application code.

The mechanism for managing an active e-services session should be secure. Web pages containing sensitive information should not be cached in the temporary files of browsers. The application should ideally prohibit the customers' browsers from memorizing or displaying the user IDs and passwords previously entered by customers and the web pages previously accessed by customers.

When a known vulnerability related to the e-services application system is identified or reported, a review of the relevant program source code should be conducted as appropriate to ensure that the vulnerability is appropriately addressed. A security standard may be defined for the purpose of system development and code review. For third-party developed systems, the patches provided by vendors from time to time should be appropriately applied to these systems.

[1] Buffer overflow attack is a method of overloading a predefined amount of space in a buffer, which can potentially overwrite and corrupt memory in data.
[2] Hypertext Markup Language (HTML) is a set of codes that can be inserted into text files to indicate special interfaces, inserted images, and links to the hypertext documents.

Hidden directories that contain administrative pages or sensitive information of the web site should either be removed from the production web server or protected by effective authentication and access control mechanisms. Back-up files and common files should be removed from the production servers or the structure of file directories to prevent access by unauthorized users. A periodic security review of the structure of file directories and access controls of the files is necessary to ensure that all sensitive files are appropriately protected and not exposed through the web applications.

4.1.7. **Infrastructure and Security Monitoring.** The BSFI should establish an appropriate operating environment that supports and protects systems on e-services. It should proactively monitor systems and infrastructure on an ongoing basis to detect and record any security breaches, suspected intrusions, or weaknesses. The BSFI should ensure that adequate controls are in place to detect and protect against unauthorized access to all critical e-services systems, servers, databases, and applications. The attached *Annex "A"* provides for the minimum security measures for e-services facilities.

The BSFI should put in place effective monitoring mechanisms to detect in a timely manner suspicious online transactions and unusual activities. A sound monitoring system should include audit features that can assist in the detection of fraud, money laundering, compromised passwords or other unauthorized activities. In particular, the monitoring mechanism for personal e-services should be able to detect cases similar to the following:

a. False or erroneous application information, large check deposits on new e-services accounts, unusual volume or size of funds transfers, multiple new accounts with similar account information or originating from the same internet address, and unusual account activity initiated from a foreign internet address;

b. Multiple online transfers are made to the same unregistered third-party account within a short period of time especially if the amount transferred is close to the maximum amount allowed or the value exceeds a certain amount; and

c. Change of a customer's correspondence address shortly followed by transactions which may indicate potential fraudulent activities such as opening of an e-service account online, a request for important documents (e.g., cheque book, new e-banking password, credit card/ATM PIN) to be mailed to that address, increase of fund transfer limits, or a sudden increase of fund transfers made to unregistered third parties.

The BSI's monitoring staff should be promptly alerted by its monitoring mechanism if suspicious online transfers and unusual activities are initiated. In these cases, the BSI should, as soon as practicable, check with the account holders of these transactions or activities. Consideration should also be given to notifying personal customers immediately through an alternative automated channel (such as messages sent to mobile phones or e-mail accounts of customers) of online transfers made to unregistered third parties, online transfers exceeding certain amount limits, or detected unusual activities related to their accounts.

4.1.8. **Audit Trail.** The BSFI should ensure that comprehensive logs are maintained to record all critical e-services transactions to help establish a clear audit trail and promote employee and user accountability. Audit logs should be protected against unauthorized manipulation and retained for a reasonable period [e.g., three (3) months] to facilitate any fraud investigation and any dispute resolution if necessary. In instances where processing systems and related audit trails are the responsibility of a third-party service provider, the BSFI should ensure that it has access to relevant audit trails maintained by the service provider in accordance with existing standards. In particular, clear audit trails should exist under the following types of e-services transactions:

a. the opening, modification or closing of a customer's account;
b. any transaction with financial consequences;
c. any authorization granted to a customer to exceed a limit; and
d. any granting, modification or revocation of systems access right or privileges.

4.1.9. **Segregation of Duties**. As in any traditional process, segregation of duties is a basic internal control measure designed to reduce the risk of fraud in operational processes and systems. The BSFI management should ensure that duties are adequately separated and transaction processes are designed in a manner that no single person could initiate, approve, execute and enter transactions into a system that would enable fraudulent actions to be perpetrated and concealed. Segregation should also be maintained between (a) those developing and those administering the systems; and (b) those initiating static data (including web

page content) and those responsible for verifying its integrity. E-services systems should be tested to ensure that segregation of duties cannot be bypassed.

4.1.10. **Website Information and Maintenance.** Because the BSFI's website is available on an ongoing basis to the general public, appropriate procedures should be established to ensure accuracy and appropriateness of its information. Key information changes and updates (such as deposit, loan and foreign exchange rates), are normally subject to documented authorization and dual verification. Procedures and controls to monitor and verify website information frequently may help prevent any inadvertent or unauthorized modifications or content that could lead to reputational damage or violations of advertising, disclosure, or other compliance requirements.

In addition, some BSFIs provide various tools and other interactive programs to enable customers to submit online application or provide resources for them to research available options associated with BSFI's products and services on-line. To protect the BSFI from potential liability or reputational harm, it should test or otherwise verify the accuracy and appropriateness of these tools and programs.

The BSFI should carefully consider how links to third-party Internet Web sites are presented. "Hyperlinks[1]" may imply an endorsement of third-party products, services, or information that could lead to implicit liability for the BSFI. The BSFI should provide disclaimers when such links take the customer to a third-party web site to ensure that they clearly understand any potential liabilities arising out of any such cross-marketing arrangements or other agreements with third parties. Any links to sites offering non-deposit, investment or insurance products must comply with existing regulations. Links to other sites should be verified regularly for accuracy, functionality, and appropriateness.

The BSFI should manage the risk associated with fraudulent emails or websites which are designed to trick its customers into revealing private details such as account numbers or e-services passwords. To this end, the BSFI should consider educating customers the ways to ensure that they are communicating with the official website and that they will not be required to access the BFSI's transactional e-services portal through hyperlinks embedded in e-mails unless the website is validated by legitimate digital certificate.

Additionally, the BSFI should exercise care in selecting its website name(s) in order to reduce possible confusion with those of other Internet sites. It should periodically scan the Internet to identify sites with similar names and investigate any that appear to be posing as the institution. Suspicious sites should be reported to appropriate law enforcement agencies and regulatory authorities.

4.2. **Administrative and Management Controls**

4.2.1. **Service Availability and Business Continuity.** The BSFI should have the ability to deliver e-services to all end-users and be able to maintain such availability in all circumstances within a reasonable system response time in accordance with its terms and conditions and anticipated customer expectations. Performance criteria for each critical e-service should be established and service levels should be monitored against these criteria. Appropriate measures should be taken to ensure that e-services systems and the interfaces with the internal systems can handle the projected transaction volume and future growth in transactions.

Appropriate business continuity and contingency plans for critical e-services processing and delivery systems should be in place and regularly tested. Contingency plans should set out a process for restoring or replacing e-services processing capabilities, reconstructing supporting transaction information, and include measures to be taken to resume availability of critical e-services systems and applications in the event of a business disruption.

4.2.2. **Incident Response and Management.** The BSFI should put in place formal incident response and management procedures for timely reporting and handling of suspected or actual security breaches, fraud, or service interruptions of their e-services during or outside office hours. A communication strategy should be developed to adequately address the reported concerns and an incident response team should be established to manage and respond to the incident in accordance with existing standards enumerated in *Appendix Q-62*.

4.2.3. **Outsourcing Management.** Increased reliance upon partners and third party service providers to perform critical e-services functions lessens BSFI management's direct control. Accordingly, a comprehensive process for managing the risks associated with outsourcing and other third-party dependencies is necessary to ensure that:

[1] Hyperlink is an item on a webpage, that, when selected, transfers the user directly to another location in a hypertext document or to another webpage, perhaps on a different machine

a. The BSFI fully understands the risks associated with entering into an outsourcing or partnership arrangement for its e-services systems or applications;

b. An appropriate due diligence review of the competency and financial viability of any third-party service provider or partner is conducted prior to entering into any contract for e-services;

c. The contractual accountability of all parties to the outsourcing or partnership relationship is clearly defined. For instance, responsibilities for providing information to and receiving information from the service provider should be clearly defined;

d. All outsourced e-services systems and operations are subject to risk management, security and privacy policies that meet the BSFI's own standards;

e. Periodic independent internal and/or external audits are conducted of outsourced operations to at least the same scope required if such operations were conducted in-house; and

f. Appropriate contingency plans for outsourced e-services activities exist.

g. Complete guidelines for managing outsourcing relationships and third party dependencies are enumerated in *Appendix Q-65*.

4.3. **Consumer Protection**

4.3.1. Customer Privacy and Confidentiality. The BSFI should take appropriate measures to ensure adherence to customer privacy requirements applicable to the jurisdictions to which the institution is providing electronic products and services. Misuse or unauthorized disclosure of confidential customer data exposes the entity to both legal and reputation risk. To meet these challenges concerning the preservation of privacy of customer information, the BSFI should make reasonable endeavors to ensure that:

a. The BSFI's customer privacy policies and standards take account of and comply with all privacy regulations and laws applicable to the jurisdictions to which it is providing e-services;

b. Customers are made aware of the BSI's privacy policies and relevant privacy issues concerning use of e-services;

c. Customers may decline ("opt out") from permitting the BSFI to share with a third party for cross-marketing purposes any information about the customer's personal needs, interests, financial position or banking activity; and

d. Customer data are not used for purposes beyond which they are specifically allowed or for purposes beyond which customers have authorized. The BSFI's standards for customer data use must be met when third parties have access to customer data through outsourcing relationships.

4.3.2. Information Disclosure for E-Services. The BSFI should comply with all legal requirements relating to e-services, including the responsibility to provide its customers with appropriate disclosures and to protect customer data. Failure to comply with these responsibilities could result in significant compliance, legal, or reputation risk for the BSFI.

The BSFI should set out clearly in its terms and conditions the respective rights and obligations between the BSFI and its customers. These terms and conditions should be fair and balanced to both parties. In addition, it is required to provide its customers with a level of comfort regarding information disclosures or transparencies, protection of customer data and business availability that they can expect when using traditional banking services. To minimize operational, legal and reputational risks associated with e-services activities, the BSFI should make adequate disclosures of information and take appropriate measures to ensure adherence to customer privacy and protection requirements. Annex "B" provides for the minimum disclosure requirements of BSFIs.

4.3.3. Consumer Awareness. Customer education is a key defense against fraud, identity theft and security breach. Therefore, the BSFI should pay special attention to the provision of easy to understand and prominent advice to its customers on security precautions for e-services. To be effective, the BSFI should maintain and continuously evaluate its consumer awareness program. Methods to evaluate a program's effectiveness include tracking the number of customers who report fraudulent attempts to obtain their authentication credentials,

the number of clicks on information security links on websites, the number of inquiries, etc. *Annex "C"* provides for the minimum Consumer Awareness Program that the BSFI should convey to its customers.

4.3.4. Complaints Resolution. The BSFI may receive customer complaint either through an electronic medium or otherwise, concerning unauthorized transactions, loss or theft in the e-services account. Therefore, it should ensure that controls are in place to review these notifications and that an investigation is initiated as required. The BSFI should also establish procedures to resolve disputes arising from the use of the e-services.

4.4. **Cross-Border E-Banking Activities.**

4.4.1. Before a BSFI initiates cross-border e-services, its management should conduct appropriate risk assessment and due diligence to ensure that it can adequately manage the attendant risks. It must also comply with any applicable laws and regulations, both the home country as well as those of any foreign country that may assert jurisdiction over e-services that are directed at its residents. Further, the BSFI should ensure that it has an effective and ongoing risk management program for its cross-border e-services activities;

4.4.2. Before engaging in transactions involving cross-border e-services with foreign customers, the BSFI should ensure that adequate information is disclosed on its Web site to allow potential customers to make a determination of the BSFI's identity, home country, and whether it has the relevant regulatory license(s) before it establishes the relationship. This information will help improve transparency and minimize legal and reputational risk associated with the offering of cross border e-services.

5. INDEPENDENT ASSESSMENT

5.1. An appropriate independent audit function is also an important component of a BSFI's monitoring mechanisms. The audit coverage should be expanded commensurate with the increased complexity and risks inherent in e-services and should include the entire process as applicable (i.e., network configuration and security, interfaces to legacy systems, regulatory compliance, internal controls, support activities performed by third-party providers etc.).

5.2. The BSFI should also make arrangements for independent assessments to be conducted on its systems before the launch of the relevant services or major enhancements to existing services. The person(s) (i.e., the assessor) contracted by the BSFI to perform independent assessment should have, and be able to demonstrate, the necessary expertise in the relevant fields. He/she should be independent from the parties that develop or administer the system and should not be involved in the operations to be reviewed or in selecting or implementing the relevant control measures to be reviewed. He/she should be able to report findings freely and directly to the authorized BSFI senior management.

5.3. Subsequent to an initial independent assessment, the BSFI should conduct risk assessment at least every two (2) years or when there are substantial changes to determine if further independent assessment should be required and the frequency and scope of such independent assessment. Any substantial changes to the risk profile of the services being provided, significant modifications of the network infrastructure and applications, material system vulnerabilities or major security breaches are to be taken into consideration in the risk assessment.

6. APPLICABILITY

6.1. These guidelines are intended for all electronic products and services offered by BSFIs to their customers. These are focused on the risks and risk management techniques associated with electronic delivery channels to protect customers and general public. It should be understood, however, that not all the customer protection issues that have arisen in connection with new technologies are specifically addressed in subject guidelines. Additional issuances may be issued in the future to address other aspects of consumer protection as the financial service environment through e-services evolves.

Annex "A"

SECURITY CONTROLS ON SPECIFIC ELECTRONIC SERVICES AND CHANNELS

In providing banking/financial services via electronic channels, such as ATM, internet and mobile devices, the BSFI must consider customer's convenience in using the facilities, including the effectiveness of the display on electronic menu, particularly on customer's instructions selection menu in order to avoid any error and loss in transactions. In electronic services which involve physical equipment like ATMs, the BSFI must implement physical security control on equipments and rooms from the danger of theft, sabotage and other criminal actions by unauthorized parties. It must perform routine monitoring to ensure security and comfort of customers using electronic service.

Automated Teller Machine (ATM)

1. To minimize/prevent ATM frauds and crimes, the BSFI, at a minimum, implement the following security measures with respect to its ATM facilities:

    a. Locate ATM's in highly visible areas;

    b. Provide sufficient lighting at and around the ATMs;

    c. Where ATM crimes (e.g., robbery, vandalism, skimming) are high in a specific area or location, the BSFI should install surveillance camera or cameras which shall view and record all persons entering the facility. Such recordings shall be preserved by the BSFI for at least thirty (30) days;

    d. Implement ATM programming enhancements like masking/non-printing of card numbers;

    e. Educate customers by advising them regularly of risks associated with using the ATM and how to avoid these risks;

    f. Conduct and document periodic security inspection at the ATM location;

    g. Educate BSFI personnel to be responsive and sensitive to customer concerns; and

    h. Post a clearly visible sign near the ATM facility which, at a minimum, provides the telephone numbers of the BSFI as well as other BSFIs' hotline numbers for other cardholders who are allowed to transact business in the ATM, and police hotlines for emergency cases.

2. The BSFI must study and assess ATM crimes to determine the primary problem areas. Procedures for reporting ATM crimes should also be established. Knowing what crimes have occurred will aid the BSFI in recognizing the particular problem and to what degree it exists so that it can implement the necessary preventive measures. In this connection, all BSFIs are encouraged to share information involving ATM fraud cases to deter and prevent proliferation of the crime.

Online Internet Financial Services

1. Assurance should be provided that online login access and transactions performed over the internet are adequately protected and authenticated. In addition, customers should be adequately educated on security measures that must be put in place to uphold their interests in the online environment.

2. With internet connection to internal networks, financial systems and devices may now be potentially accessed by anyone from anywhere at any time. The BSFI should implement physical and logical access security to allow only authorized personnel to access its systems. Appropriate processing and transmission controls should also be implemented to protect the integrity of systems and data.

3. There should be a mechanism to authenticate official website to protect customers from spoofed or faked websites. The BSFI should determine what authentication technique to adopt to provide protection against these attacks. For wireless applications, it should adopt authentication protocols that are separate and distinct from those provided by the wireless network operator.

4. Monitoring or surveillance systems should be implemented to alert BSFI of any erratic system activities, transmission errors or unusual online transactions. A follow-up process should be established to verify that these issues or errors are adequately addressed subsequently. High resiliency and availability of online systems and supporting systems (such as interface systems, backend host systems and network equipment) should be maintained to meet customers' expectations. Measures to plan and track capacity utilization as well as guard against online attacks should be established.

5. As more customers log into BSFI's website to access their accounts and conduct a wide range of financial transactions for personal and business purposes, a suite of measures must be established to protect customers' interests in using online systems. Furthermore, customers should be educated on the risks of using online financial services before they subscribe to such services. Ongoing education must be available to raise the security awareness of customers to protect their systems and online transactions.

Mobile and Phone Financial Services

1. For electronic services using mobile phone, the BSFIs must ensure the security of transactions by implementing the following, among others:

    a. Employment of a SIM Toolkit with end-to-end encryption feature from hand phones to m-banking servers, to protect data transmission in m-banking; and
    b. Adoption of dual authentication process (i.e., MPIN) to ensure that the party initiating the transaction is the owner of the device and is authorized to perform such transaction.

2. For phone banking and other financial services, the BSFI must ensure the security of transactions, by implementing the following, among others:

    a. The service shall not be used for transactions with high value or risk;
    b. All IVR conversations shall be recorded, including customer's phone number, transaction detail, etc;
    c. The service shall use reliable and secure authentication methods; and
    d. The use of customer authentication method such as PIN and password for financial transactions.

Other Mobile Online and Payment Services

1. Mobile online and payment services are extensions of the online financial services which are offered by the BSFI and accessible from the internet via computers, laptops and similar devices. Security measures which are similar to those of online financial and payment systems should also be implemented on the mobile online services and payment systems. A risk assessment should be conducted to identify possible fraud scenarios and appropriate measures should be established to counteract payment card fraud via mobile devices.

2. The BSFI may require customers to download its mobile online services and payment applications directly from third party repositories (e.g., Apple store, Google Play and Windows Market Place) on to mobile devices. Customers must be able to verify the integrity and authenticity of the application prior to its download. The BSFI should also be able to check the authenticity and integrity of the software being used by the customers.

3. As mobile devices are susceptible to theft and loss, there must be adequate protection of sensitive data used for mobile online services and payments. Sensitive data confidentiality and integrity of these data in storage, transmission and during processing.

4. Customers should be educated on security measures to protect their own mobile devices from theft and loss as well as viruses and other errant software which cause malicious damage and harmful consequences.

Point of Sale Devices

1. Point of Sale (POS)/Electronic Data Capture (EDC) enable electronic fund transfer from customer's account to acquirer's or merchant's account for payment of a transaction. The party providing POS terminal must always increase the physical security around the vicinity of such POS terminal and on the POS terminal itself, among others, by using POS terminal that minimizes the possibility of interception on such terminal or in its communication network.

2. The BSFI deploying POS devices at merchant locations must familiarize the merchant with the safe operation of the device. The acquiring institution must ensure that the POS devices as well as other devices that capture information do not expose/store information such as the PIN number or other information classified as confidential. It must also ensure that a customer's PIN number cannot be printed at the point of sale for any reason whatsoever.

3. Operators of point of sale devices are encouraged to work towards interoperability of cards from other schemes.

Electronic Payment Cards (ATM, Credit and Debit Cards)

1. Payment cards allow cardholders the flexibility to make purchases wherever they are. Payment cards exist in many forms; with magnetic stripe cards posing the highest security risks. Sensitive payment card data stored on magnetic stripe cards is

vulnerable to card skimming attacks. Card skimming attacks can happen at various points of the payment card processing, including payment kiosks and POS terminals. In addition to counterfeit/skimmed cards, fraudulent activities associated with payment cards include lost/stolen cards, card-not-received and card-not-present transactions.

2. The BSFI providing payment card services should implement adequate safeguards to protect sensitive payment card data. Sensitive payment card data should be encrypted to ensure the confidentiality and integrity of these data in storage, transmission and during processing. Pending the required adoption of EMV chip-cards by 01 January 2017, all BSFIs engaged in the payment card business should consider implementing the following measures to mitigate exposure from skimming attacks:

    a. Installation of anti-skimming solutions on ATM and POS machines to detect the presence of foreign devices placed over or near a card entry slot;
    b. Establishment of detection and alert mechanisms to appropriate personnel for follow-up response and action;
    c. Implementation of tamper-resistant keypads to ensure that no one can identify which buttons are being pressed by customers;
    d. Implementation of appropriate measures to prevent shoulder surfing of customers' PINs; and
    e. Conduct video surveillance of activities at these machines and maintain the quality of CCTV footage.

3. New payment cards sent to customers via courier should only be activated upon obtaining the customer's instruction. Online transactions should only be allowed if authorized by the customers. Authentication of customers' sensitive static information, such as personal identification number (PIN) or passwords, should be performed by the card issuer and not by third party payment processing service providers. Appropriate security mechanisms should also be implemented for card-not-present transactions via internet to reduce fraud risk associated with this type of transaction.

4. To enhance payment card security, cardholders should be notified promptly via transaction alerts on withdrawals/ charges exceeding customer-defined thresholds made on their payment cards. The transaction alert should include information such as source and amount of the transaction to assist customers in identifying a genuine transaction.

5. Fraud detection systems with behavioral scoring and correlation capabilities should be implemented to identify and curb fraudulent activities. Risk management parameters should be calibrated according to risks posed by cardholders, nature of transactions or other risk factors to enhance fraud detection capabilities. Follow-up actions for transactions exhibiting behavior which deviates significantly from a cardholder's usual card usage patterns should be instituted. These transactions should be investigated into and the cardholder's authorization obtained prior to completing the transaction.

Annex "B"

DISCLOSURE REQUIREMENTS

1. General Requirement

BSFIs offering electronic products and services (e-services) should adopt responsible privacy policies and information practices. They should provide disclosures that are clear and readily understandable, in writing, or in a form the consumers may print and keep.

BSFIs should also ensure that consumers who sign-up for a new e-service are provided with disclosures (e.g., pamphlet) informing him of his rights as a consumer.

At a minimum, the following disclosures should be provided to protect consumers and inform them of their rights and responsibilities:

a. Information on the duties of the BSFI and customers;

b. Information on who will be liable for unauthorized or fraudulent transactions;

c. Mode by which customers will be notified of changes in terms and conditions;

d. Information relating to how customers can lodge a complaint, and how a complaint may be investigated and resolved;

e. Disclosures that will help consumers in their decision-making (e.g., PDIC insured, etc.); and

f. For internet environment, information that prompt in the BSFI's website to notify customers that they are leaving the BSFI's website and hence they are not protected by the privacy policies and security measures of the BSFI when they hyperlink to third party's website.

2. Disclosure Responsibility

a. Compliance officers should review BSFI's disclosure statements to determine whether they have been designed to meet the general and specific requirements set in the regulation;

b. For BSFIs that advertise deposit products and services on-line, they must verify that proper advertising disclosures are made (e.g., whether the product is insured or not by the PDIC; fees and charges associated with the product or services, etc.). Advertisements should be monitored to determine whether they are current, accurate, and compliant;

c. For BSFIs that issue various products like stored value cards, e-wallets, debit cards and credit cards, they must provide information to consumers regarding the features of each of these products to enable consumers to meaningfully distinguish them. Additionally, consumers would find it beneficial to receive information about the terms and conditions associated with their usage. Example of these disclosures include:

- PDIC insured or non-insured status of the product;
- Fees and charges associated with the
- purchase, use or redemption of the product;
- Liability for loss;
- Expiration dates, or limits on redemption; and
- Toll-free telephone number for customer service, malfunction and error resolution

d. Whenever e-services are outsourced to third parties or service providers, the BSFI should ensure that the vendors comply with the disclosure requirements of the Bangko Sentral.

Annex "C"

ELECTRONIC SERVICES CONSUMER AWARENESS PROGRAM

To ensure security of transactions and personal information in electronic delivery channels, consumers should be oriented of their roles and responsibilities which, at a minimum, include the following:

1. Internet Products and Services

   a) Secure Login ID and Password or PIN

      i. Do not disclose Login ID and Password or PIN

      ii. Do not store Login ID and Password or PIN on the computer.

      iii. Regularly change password or PIN and avoid using easy-to-guess passwords such as names or birthdays. Password should be a combination of characters (uppercase and lowercase) and numbers and should be at least six (6) digits in length

   b) Keep personal information private.

      i. Do not disclose personal information such as address, mother's maiden name, telephone number, social security number, bank account number or e-mail address — unless the one collecting the information is reliable and trustworthy.

   c) Keep records of online transactions.

REPORT ON BREACH IN INFORMATION SECURITY

(Appendix to Sec. 147-Q/145-S/142-P/126-N (Reporting and notification standards)

QBs/NBFIs shall report breach in information security, especially incidents involving the use of electronic channels, to the appropriate supervising department of the Bangko Sentral pursuant to the following provisions:

a. Crimes whether consummated, frustrated or attempted against property/facilities (such as robbery, theft, swindling or estafa, forgery and other deceits) and other crimes involving loss/destruction of QBs/NBFIs property when the amount involved in each crime is P20, 000 or more.

   Crimes involving QB/NBFI personnel, regardless of whether or not such crimes involve the loss/destruction of QB/NBFI property, even if the amount involved is less than P20, 000, shall likewise be reported to the Bangko Sentral.

b. Incidents involving material loss, destruction or damage to the QB/NBFI's property/facilities, other than arising from a crime, when the amount involved per incident is P100, 000.00 or more.

c. *Definition of terms.* For the purpose of this regulation, the following definitions shall apply:

   (1) Estafa – a crime committed by a person who defrauds another causing the latter to suffer damage by means of any of the following:

      (a) Unfaithfulness or abuse of confidence;
      (b) false pretense; or
      (c) fraudulent acts/means under Articles 315 to 317 of the Revised Penal Code, as amended.

   (2) Theft – a crime committed by a person who, with intent to gain but without violence against or intimidation of persons nor force upon things, shall take personal property of another without the latter's consent pursuant to Article 308 and other pertinent provisions of Chapter III, Title X of the Revised Penal Code, as amended.

   (3) Robbery – a crime committed by a person who, with intent to gain, shall take any personal property belonging to another, by means of violence against or intimidation of any person, or using force upon anything pursuant to Article 295 and other pertinent provisions of Chapter 1, Title X of the Revised Penal Code, as amended.

   (4) Falsification – a crime committed by a person who falsifies a document by:

      a. Counterfeiting or imitating any handwriting, signature or rubric;

      b. Causing it to appear that persons have participated in any act or proceeding when they did not in fact so participate;

      c. Attributing to persons who have participated in an act or proceeding statements other than those in fact made by them;

      d. Making untruthful statements in a narration of facts;

      e. Altering true dates;

      f. Making any alteration or intercalation in a genuine document which changes its meaning;

      g. Issuing in an authenticated form a document purporting to be a copy of an original document when no such original exists, or including in such a copy a statement contrary to, or different from, that of the genuine original; or

      h. Intercalating any instrument or note relative to the issuance thereof in a protocol, registry, or official book and other acts falling under Articles 169, 171 and 172 of the Revised Penal Code, as amended.

   (5) Credit-card related crimes – crimes arising through the use of credit cards.

   (6) Other crimes that may cause loss to the bank – crimes committed that cannot be appropriately classified under any of the above classifications.

   (7) Negligence – the failure to exercise the care which an ordinarily prudent person would use under the circumstances in the discharge of the duty then resting upon him (People v. Aguilar, 2899-R, 18 October 1949).

(8) Non-crime related loss – Incidents that may cause the QB/NBFI to suffer a loss arising from fortuitous events.

(9) Insider – persons involved include stockholders, directors, officers and employees of the QB/NBFI.

(10) Outsider – persons involved other than insiders.

(11) Perpetrator – a person, whether an insider or outsider, who is responsible for the commission of crime either by direct participation, inducement or cooperation, including accomplices and accessories as defined under Articles 18 and 19 of the Revised Penal Code, as amended.

(12) Victim – an insider or outsider other than the perpetrator, who is the aggrieved party to the crime and may as a result of the incident, suffered the loss.

(13) Attempted crime – a crime is attempted when the perpetrator commences the commission of the crime directly by overt acts but does not perform all of the acts of execution which constitute the crime by reason of some causes or acts other than his own voluntary desistance under Article 6 of the Revised Penal Code, as amended.

(14) Frustrated crime – a crime is classified as frustrated, when the perpetrator performs all the acts of execution which should produce the crime as a consequence but which, nevertheless, do not produce it by reason of causes independent of the will of the perpetrator under Article 6 of the Revised Penal Code, as amended.

(15) Consummated crime – a crime is consummated when all the acts of execution which constitute the crime were performed. As a result, the QB/NBFI may have suffered a loss, the recoverable portion of which should be deducted to arrive at the probable loss incurred by the QB/NBFI.

(16) Termination of the investigation – an investigation is said to be terminated when all the material facts/information which are sufficient to support a conclusion relative to the matters involved have already been gathered and a finding/conclusion may be made based on the gathered information.

d. The following guidelines shall be observed in the preparation and submission of the report:

(1) The Branch or Head Office unit's Report on Crimes and Losses shall be submitted to the Bangko Sentral through the QB/NBFI head office unit and shall be certified correct by the compliance officer. The report shall be assigned a prescribed reference number by the QB/NBFI using the format mm-yyyy-xxx with mm and yyyy as numeric code for the month and year of reporting, respectively, and xxx as sequence no. (e.g. 01-2007-001) which shall be a continuing series until the end of the year.

The report shall be prepared using the new format SES Form 6G attached as Annex A of Circular No. 587 dated 26 October 2007 in two (2) copies and shall be submitted to the appropriate supervising department of the Bangko Sentral and to the Bangko Sentral Security Coordinator, thru the Director, Security, Investigation and Transport Department (SITD) within ten (10) calendar days from knowledge of the crime/incident;

(2) Where a thorough investigation and evaluation of facts is necessary to complete the report, an initial report submitted within deadline may be accepted: *Provided*, That a complete report is submitted not later than twenty (20) calendar days from termination of investigation. Moreover, final reports on crimes and losses with incomplete information as required under SES Form 6G shall be considered erroneous reports and the concerned QB/NBFI shall be required to submit amended reports subject to penalties on late reporting for Category B reports under Sec. 172-Q *(Sanctions in case of willful delay in the submission of reports/refusal to permit examination)*; and

(3) Proof of submission of the report shall be determined by the date of postmark, if the report was sent by mail or by the date received, if handcarried to the appropriate supervising department of the Bangko Sentral and SITD.

FRAMEWORK FOR DEALING WITH DOMESTIC SYSTEMICALLY IMPORTANT BANKS

(Appendix to Sec. 126-Q – (Domestic systemically important banks)

Part I. Introduction

This document outlines the Bangko Sentral's implementing guidelines on the framework for dealing with domestic systemically important banks (D-SIBs) in accordance with the reform packages proposed by the Basel Committee on Banking Supervision (BCBS)[1] and introduced in Basel III: A global regulatory framework for more resilient banks and banking systems.

It is the thrust of the Bangko Sentral to ensure that its capital adequacy framework is consistent with the Basel principles. Hence, the Bangko Sentral is adopting policy measures for D-SIBs, which are essentially aligned with the documents issued by BCBS on global systemically important banks (G-SIBs) and D-SIBs. The broad aim of the policies is to reduce the probability of failure of D-SIBs by increasing their going-concern loss absorbency and to reduce the extent or impact of failure of D-SIBs on the domestic/real economy.

The guidelines shall apply on a consolidated basis[2] to all UBs and KBs including branches of foreign banks established under R.A. No. 7721 (An Act Liberalizing the Entry and Scope of Operations of Foreign Banks in the Philippines and for Other Purposes), as amended by R.A. 10641.

Submission of data requirements for the identification of D-SIBs shall take effect starting with 2014 data while compliance with the additional higher loss absorbency requirement shall be phased-in from 1 January 2017 with full implementation by 1 January 2019.

Part II. Assessment Methodology

A. Indicator-Based Measurement Approach

1. The systemic importance of a bank is assessed in relation to the impact of its failure on the domestic economy using an indicator-based measurement approach.

2. The impact of a D-SIB's failure to the domestic economy shall be assessed based on bank-specific factors, to wit: (a) size; (b) interconnectedness; (c) substitutability/ financial institution infrastructure; and (d) complexity. Nine (9) indicators related to these categories shall be used to identify D-SIBs. These indicators reflect the factors or criteria which make a bank significant for the stability of the financial system and the economy.

3. The UBs and KBs operating in the Philippines shall be assessed based on the four (4) categories and on data that relate to the consolidated group (i.e., unit of analysis is the consolidated group). For foreign banks, the computation of systemic importance shall be done on the basis of data that relates to their local consolidated balance sheet. Each individual component (category/indicator) is given differential weights (Table 1). In particular, "size" and "interconnectedness" are given forty percent (40%) and thirty percent (30%) weight allocation, respectively, as these categories remain a key measure in determining a bank's systemic importance in the Philippines. Meanwhile, the remaining categories namely, "substitutability/financial institution infrastructure" and "complexity", each received an equal fifteen percent (15%) weight due to the relatively simple and less complex financial markets in the Philippines.

Table 1. Indicator-Based Measurement Approach

Category (and weighting)	Individual Indicator	Indicator Weighting
Size (40%)	Total Exposures as Defined for use in the Basel III Leverage Ratio	40%
Interconnectedness (30%)	Intra-Financial System Assets	11.36%
	Intra-Financial System Liabilities	6.60%
	Securities Outstanding	12.04%
Substitutability/Financial Institution Infrastructure (15%)	Assets Under Custody	7.80%
	Payments Activity	2.38%
	Underwritten Transactions in Debt and Equity Markets	4.82%

[1] The Basel Committee on Banking Supervision consists of senior representatives of bank supervisory authorities and central banks from Argentina, Australia, Belgium, Brazil, Canada, China, France, Germany, Hong Kong SAR, India, Indonesia, Italy, Japan, Korea, Luxembourg, Mexico, the Netherlands, Russia, Saudi Arabia, Singapore, South Africa, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States. It usually meets at the Bank for International Settlements (BIS) in Basel, Switzerland, where its permanent Secretariat is located.

[2] Consolidated basis shall refer to the combined financial statements of parent bank and subsidiaries consolidated on a line by line basis. Only banks with financial allied subsidiaries, excluding insurance subsidiaries, shall submit the report on consolidated basis.

Complexity (15%)	Notional Amount of Over-the-Counter (OTC) Derivatives	6.19%
	Financial Assets Measured at Fair Value Through Profit or Loss (FVPL) and Financial Assets Measured at Fair Value Through Other Comprehensive Income (FVOCI)	8.81%

4. For each bank, the score for a particular indicator is calculated by dividing the individual bank's outstanding amount for that indicator by the aggregate outstanding amount for the indicator summed across all banks in the sample. The resulting percentage is then multiplied by 10,000 to express the indicator score in terms of basis points. The individual bank score is then multiplied by the indicator weighting. The category score for each bank is determined by adding the weighted scores of each indicator within that category. The resulting category score is then multiplied by the category weighting. The overall systemic importance score[1] for each bank is generated by adding the weighted score of each category.

5. The succeeding paragraphs briefly describe each of the four (4) categories used in the assessment methodology. The specific definition of the indicators can be found in Annex A which sets out the data requirements for the identification of D-SIBs. The specific definition of the indicators can be found in Annex A which sets out the data requirements for the identification of D-SIBs. The guidelines and the line item instructions for the reporting template are set out in Annex B.

   a. Size

      A bank's distress or failure is more likely to damage the local economy or financial markets if its activities comprise a large share of the domestic activity. The larger the bank, the more difficult it is for its activities to be quickly replaced by other banks and for it to be resolved, therefore, the greater the chance that its distress or failure will cause disruption to the financial markets. The distress or failure of a large bank is also more likely to damage confidence in the financial system as a whole. Size is therefore a key measure of systemic importance. One (1) indicator is used to measure size: the measure of total exposures used in the Basel III leverage ratio[2].

   b. Interconnectedness

      Financial distress at one institution can materially increase the likelihood of distress at other institutions given the network of contractual obligations in which they operate. A bank's systemic impact is considered to be positively related to its interconnectedness vis-à-vis other financial institutions. Three (3) indicators are used to measure interconnectedness: (i) intra- financial system assets; (ii) intra-financial system liabilities; and (iii) securities outstanding.

   c. Substitutability/Financial Institution Infrastructure

      The systemic impact of a bank's distress or failure is expected to be negatively related to its degree of substitutability as both a market participant and client service provider, i.e., it is expected to be positively related to the extent to which the bank provides financial institution infrastructure. At the same time, the cost to the failed bank's customers in having to seek the same service from another institution is likely to be higher for a failed bank with relatively greater market share in providing that service. Three (3) indicators are used to measure substitutability/financial institution infrastructure: (i) assets under custody; (ii) payments activity; and (iii) underwritten transactions in debt and equity markets.

   d. Complexity

      The systemic impact of a bank's distress or failure is expected to be positively related to its overall complexity – that is, its business, structural and operational complexity. The more complex a bank is, the greater are the costs and time needed to resolve the bank. Two (2) indicators are used to measure complexity:
      (i) notional amount of OTC derivatives; and
      (ii) Financial assets measured at FVPL and financial assets measured at FVOCI.

B. Bucketing Approach

6. Banks with overall systemic importance score (produced by the indicator-based measurement approach) that equals or exceeds a threshold (cut-off level) set by the Bangko Sentral shall be classified as D-SIBs. Supervisory judgment may also be applied when warranted under certain circumstances to add and/or

[1] The maximum overall systemic importance score that a bank would have if it were the only bank in the sample is 10,000 basis points i.e., 100%
[2] To be computed based on Bangko Sentral guidelines on leverage ratio.

remove banks to/from the list of D-SIBs. This judgment shall be exercised in coordination with the supervising departments of the Financial Supervision Sector (FSS) and in accordance with the principles set out in Item "II.C".

7. Banks designated as D-SIBs shall be grouped into different categories of systemic importance using cluster analysis based on the overall scores produced by the indicator-based measurement approach. The allocation of D-SIBs to different buckets of HLA requirement is based on the relative distribution of their systemic scores.

8. The thresholds for the buckets shall correspond to the gaps identified by a cluster analysis of the scores. The use of cluster analysis in grouping the D-SIBs will ensure a meaningful and objective measurement and classification of the systemic importance of domestic banks.

9. Each year, Bangko Sentral shall run the assessment, and reallocate D-SIBs into the categories of systemic importance based on their overall systemic importance scores. It should be noted that the number of D-SIBs, and their bucket allocations, will evolve over time as banks change their behavior in response to the incentives of the D-SIBs framework as well as other aspects of Basel III and Bangko Sentral regulations.

10. An empty bucket shall be added on top of the highest-numbered populated bucket to provide incentives for banks to avoid becoming more systemically important. If the empty bucket becomes populated in the future, a new empty bucket shall be added with a required higher additional loss absorbency level. The size of the empty bucket shall be determined by the average size of the preceding buckets.

C. Supervisory Judgments

11. As stated earlier, supervisory judgment may be applied to add and/or remove banks to/from the list of D-SIBs. To ensure a high level of transparency and comparability, result of the annual D-SIB assessment shall be in coordination with the supervising departments. It shall be used on exceptional cases and presumed to be rare. The judgment overlay shall comprise well-documented and verifiable quantitative and qualitative information.

12. Qualitative information is intended to capture information that cannot be easily translated or quantified in the form of an indicator. This may include but not limited to the following: major expansion/contraction of a bank's operation; merger and acquisition; major change in the ownership/structure; and niche market or other aspects which are unique to the concerned bank. Qualitative judgments shall also be thoroughly explained and supported by verifiable arguments.

D. Periodic Review and Refinement

13. The assessment methodology provides a framework for periodically reviewing the D-SIBs status of a given bank. Thus, banks have incentives to change their risk profile and business models in ways that reduce their systemic spillover effect. The Bangko Sentral does not intend to develop a fixed list of D-SIBs. Through the criteria discussed above, banks can migrate in and out of D-SIB status, and between categories of systemic importance, over time.

14. The list of D-SIBs shall be assessed/determined annually based on year-end data submitted by each bank and shall be subject to approval of the Monetary Board. The results shall be released every June. Banks identified as D-SIBs shall be informed individually, including the bucket they belong to and the individual score for each indicator.

15. The assessment methodology shall be reviewed every three (3) years in order to capture developments in the banking sector and any progress in methods and approaches for measuring systemic importance.

Part III. Higher Loss Absorbency (HLA) and Interaction with Other Elements of Basel III Framework

16. Banks that will be identified as D-SIBs shall be required to have higher loss absorbency. The HLA requirement is aimed at ensuring that D-SIBs have a higher share of their balance sheets funded by instruments which increase their resilience as a going concern, considering that the failure of a D-SIB is expected to have a greater impact on the domestic financial system and economy.

17. The imposition of HLA shall be based on the degree of domestic systemic importance. This is to provide the appropriate incentives to banks which are subject to the HLA requirements to reduce (or at least not increase) their systemic importance over time.

18. The HLA requirement is to be met with Common Equity Tier 1 (CET1) capital as defined by the Basel III framework and implemented under *Appendix Q-45*. This is to ensure a maximum degree of consistency in terms of effective loss absorbing capacity.

19. Table 2 sets out the buckets to which identified D-SIBs shall be allocated together with the corresponding HLA requirement. The minimum HLA requirement for the lower bucket (bucket 1) shall be one and a half percent (1.5%) of risk-weighted assets at all times. For the higher populated bucket (bucket 2), the HLA requirement shall range from above one and a half percent to two percent (above 1.5% to 2%) of risk-weighted assets. An empty top bucket with HLA requirement of two and a half percent (2.5%) of risk-weighted assets shall also be maintained.

Table 2. Bucketing Approach

Bucket	Minimum additional HLA requirement (CET1 capital as a percentage of risk-weighted assets)
3 (Empty)	2.5%
2	>1.5% to 2.0%
1	1.5%

The differentiated HLA requirement for D-SIBs slotted under bucket 2 shall be based on the ranking of a bank's overall systemic importance score produced by the indicator-based measurement approach. The additional loss absorbency requirement on D-SIBs slotted under bucket 2 shall be calculated as follows:

$$HLA\ requirement = 2.0\ percent - \frac{0.5\ percent}{n}\ (x - 1)$$

where:
2.0 percent = maximum HLA requirement under bucket 2
0.5 percent = difference in HLA requirement under bucket 2 and bucket 1
n = number of D-SIBs under bucket 2
x = ranking of a D-SIB under bucket 2

The ranking shall be assigned in descending order such that a D-SIB with the highest overall systemic importance score shall be assigned a ranking of "1" while a D-SIB with the lowest overall systemic importance score shall be assigned a ranking of "n".

20. If the empty top bucket should become populated in the future, a new bucket shall be added to maintain incentives for banks to avoid becoming more systemically important. Minimum HLA requirement for the new buckets shall increase in increments of a half percent (0.5%) of risk-weighted assets.

21. The HLA requirement shall be on top of the combined requirement for capital conservation buffer (CCB) and Countercyclical Capital Buffer (CCyB) under *Appendix Q-45*. Table 3 shows a sample total CET1 capital requirement for banks identified as D-SIBs per bucket.

Table 3. Total CET1 Capital Requirement

A. CCyB rate is at 0%

	Bucket		
	3 (Empty)	2*	1
Minimum CET1 Capital Requirement (a)	6%	6%	6%
CCB (b)	2.5%	2.5%	2.5%
CCyB (c)	0%	0%	0%
D-SIB HLA Requirement (d)	2.5%	2%	1.5%
Total Additional CET1 Capital Requirement (b+c+d)	5%	4.5%	4%
Total Required CET1 Capital (a+b+c+d)	11%	10.5%	10%

* Assuming an HLA requirement of two percent (2.0%)

B. CCyB rate is at 2.5%

	Bucket		
	3 (Empty)	2*	1
Minimum CET1 Capital Requirement (a)	6%	6%	6%
CCB (b)	2.5%	2.5%	2.5%
CCyB (c)	2.5%	2.5%	2.5%
D-SIB HLA Requirement (d)	2.5%	2%	1.5%
Total Additional CET1 Capital Requirement (b+c+d)	7.5%	7%	6.5%
Total Required CET1 Capital (a+b+c+d)	13.5%	13%	12.5%

* Assuming an HLA requirement of two percent (2.0%)

To help ensure that the banking sector can meet the higher capital requirements through reasonable earnings retention and capital raising activities, while still supporting lending to the economy, transitional arrangements for the HLA requirement shall be implemented. Thus, in the case of banks included in the first list of D-SIBs (to be released in June 2015 based on December 2014 data), compliance with the HLA requirement shall be phased-in starting 01 January 2017, with full compliance on 01 January 2019 (See Table 4 for the timeline to comply with the HLA requirement). After the phased-in period, banks identified as D-SIBs shall be allowed a period of eighteen (18) months to comply with the required HLA.

Table 4. Timeline of Release of List of D-SIBs and Compliance with the HLA Requirement

Date Cut-Off	Release of D-SIBs List	Compliance Period
Dec-14	Jun-15	Phased-in implementation starting 01 January 2017 until 01 January 2019
Dec-15	Jun-16	Phased-in implementation starting 01 January 2018 until 01 January 2019
Dec-16	Jun-17	01 January 2019 to 31 December 2019
Dec-17	Jun-18	01 January 2020 to 31 December 2020
Dec-18	Jun-19	01 January 2020 to 31 December 2021

22. To determine banks' compliance with the additional CET1 capital requirement for D-SIBs, the minimum ratio shall be complied with by the parent bank and its subsidiary banks and quasi-banks on both solo and consolidated bases.

23. Foreign bank branches operating in the Philippines with head office/consolidated group declared as global systemically important bank (G-SIB) but not declared as D-SIB will not be required to put up in the Philippine branch the required HLA for G-SIB. However, if identified as D-SIB in the Philippines, the required HLA for D-SIBs shall be complied with locally by the Philippine branch.

24. Capital distribution constraints shall be imposed when capital levels fall within certain range as illustrated in Table 5 below. Conversely, a D-SIB shall not be subject to any restriction on distribution if the following conditions are met:

    a. Has positive retained earnings as of the preceding quarter and has complied with the requirements on declaration of dividends under Section 123-Q;

    b. Has CET1 capital of more than the total required (minimum CET1 ratio of six percent (6.0%) plus the combined requirement for CCB of two and a half percent (2.5%) and the CCyB at the rate determined by the Monetary Board – zero percent (0%) to two and a half percent (2.5%), and D-SIBs HLA requirement) before the distribution; and

    c. Has complied with the minimum capital ratios (CET1 ratio of six percent (6%), Tier 1 ratio of seven and a half percent (7.5%) and ten percent (10%) CAR) after the distribution.

Table 5. Restriction on Distributions

A. CCyB rate is 0%

Restriction on Distributions	Level of CET1 Capital	
	Bucket 1	Bucket 2*
No distribution (until the minimum CET1, the combined requirement for CCB and CCyB and more than 50% of D-SIB HLA requirements are met; and conditions "a" and "c" above are complied with)	<=9.25%	<=9.50%
50% of earnings may be distributed (if the minimum CET1, the combined requirement for CCB and CCyB and more than 50% of the D-SIB HLA requirements are met; and conditions "a" and "c" above are complied with)	>=9.25%-10.%	<=9.50%-10.50%

* Assuming an HLA requirement of two percent (2.0)

B. CCyB rate is at 2.5%

Restriction on Distributions	Level of CET1 Capital	
	Bucket 1	Bucket 2*
No distribution (until the minimum CET1, the combined requirement for CCB and CCyB and more than 50% of D-SIB HLA requirements are met; and conditions "a" and "c" above are complied with)	<=11.75%	<=12.00%
50% of earnings may be distributed (if the minimum CET1, the combined requirement for CCB and CCyB and more than 50% of the D-SIB HLA requirement are met; and conditions "a" and "c" above are complied with)	>11.75% - 12.50%	>12.25% - 13%

* Assuming an HLA requirement of two percent (2%).

During the phased-in implementation period from 2017 to 2019, the general principle above on restriction on distribution shall likewise be applied. Annex C shows the restriction on distributions by year for each bucket during the phased-in implementation from 2017 to 2019 assuming there is no change in the HLA requirement. In case of change in the HLA requirement during the phased-in period, the required HLA shall be distributed equally over the remaining period until the full implementation in 2019.

25. Elements subject to the restriction on distributions include dividends, share buybacks, discretionary payments on other Tier 1 capital instruments and discretionary bonus payments to directors, officers and staff. Payments which do not result in the depletion of CET1 capital are not considered capital distributions.

26. Earnings refer to distributable profits calculated prior to the deduction of elements subject to the restriction on distributions. The earnings is computed after the tax which would have been reported had none of the distributable items been paid.

Part IV. Intensive Supervisory Approach

27. Banks identified as D-SIBs shall include in their ICAAP document concrete and reasonable recovery plans which shall be implemented in case the bank breaches the HLA capital requirement. The recovery plans shall include guidelines and action plans to be taken to restore the D-SIB's financial condition to viable level in cases of significant deterioration in certain scenarios. This shall include specific initiatives appropriate to the Bank's risk profile such as capital raising activities, streamlining of businesses, restructuring and disposal of assets, to improve capital position.

28. Moreover, the banks designated as D-SIBs shall be subject to more intensive supervision, which may include but not limited to, greater intensity of offsite supervision and monitoring, more structured interaction with board and senior management, and higher supervisory expectation on controls for significant businesses/operations, data aggregation capabilities and corporate governance.

(Circular Nos. 1051 dated 27 September 2019 and 1024 dated 06 December 2018)

Annex A

DATA REQUIREMENTS FOR THE IDENTIFICATION OF DOMESTIC SYSTEMICALLY IMPORTANT BANKS (D-SIBs)

(Appendix to Sec. 126-Q on D-SIBs)

I. Introduction

Under the indicator-based measurement approach, the nine (9) indicators that relate to the four (4) categories set out under Principle 5 of the Domestic Systemically Important Banks (D-SIBs) Framework shall be used to measure a bank's systemic importance. These quantitative indicators are discussed in detail in the succeeding sections; particularly the data gathering process and the specific definition of factors.

II. Data Sources

The data of all UBs and KBs (universal and commercial banks), including branches of foreign banks established under R.A. No. 7721[1], as amended by R.A. 10641 (collectively referred to as the "covered banks") shall be gathered from different sources, as follows:

1. Financial Reporting Package (FRP)

   For covered banks with financial allied subsidiaries, excluding insurance subsidiaries, the data shall be obtained from the FRP prepared on a consolidated basis. Otherwise, the data shall be sourced from the FRP prepared on a solo basis.

2. Report on Selected Accounts and Activities for the Identification of D-SIBs Report.

   This report shall be submitted electronically by the covered banks on a consolidated basis[2] to the Bangko Sentral's Department of Supervisory Analytics on a semi-annual basis, within thirty (30) banking days after end of the reference period. It shall be submitted starting with the reporting period ending 31 December 2014.

   Accuracy of the report shall be subject to verification during on-site examination. Erroneous/Delayed/ Erroneous and Delayed/Unsubmitted reports shall be subject to penalties prescribed under Sec. 171 (*Sanctions on Reports for Non-compliance with the Reporting Standards*) for *Category A-1* reports, without prejudice to sanctions provided under Sections 36 and 37 of R.A. No. 7653 or The New Central Bank Act.

   The guidelines and the line item instructions for the reporting template are set out in Annex II.

3. Other Reports and Disclosures

   Data on other transactions such as payment activities and market capitalization shall be obtained from entities other than the covered banks, such as but not limited to the Philippine Stock Exchange, the Philippine Clearing House Corporation, and other department/s of the Bangko Sentral.

III. Reporting Period/Date

The following reporting cut-off/coverage shall be used for the D-SIBs Report.

Reporting Cut-off/Coverage	
As of/at the reporting date	As of 30 June 20XX As of 31 December 20XX
During the reporting period	For the six (6) month ended 30 June 20XX For the year ended 31 December 20XX

[1] An Act Liberalizing the Entry and Scope of Operations of Foreign Banks in the Philippines and for Other Purposes.

[2] Consolidated basis shall refer to the combined data of parent bank and subsidiaries consolidated on a line by line basis. Only banks with financial allied subsidiaries, excluding insurance subsidiaries, shall submit the report on consolidated basis.

IV. Summary of Data Requirements for the Identification of D-SIBs

Category	Individual Indicator	Data Source
Size	Total Exposures as Defined for Use in the Basel III Leverage Ratio[1]	Report on Leverage Ratio
Interconnectedness	Intra-Financial System Assets	FRP
		Schedule 1- Outstanding Credit Facilities (D-SIBs Report)
	Intra-Financial System Liabilities	FRP
		Schedule 1 - Outstanding Credit Facilities (D-SIBs Report)
	Securities Outstanding	FRP
		Philippine Stock Exchange Website
Substitutability/Financial Institution Infrastructure	Assets Under Custody	FRP
	Payments Activity	Report from Bangko Sentral's Payments and Settlements Office
		Report from Philippine Clearing House Corp. (PCHC)
		Schedule 2 – Payments Coursed through Foreign Currency Settlement Banks (D-SIBs Report)
	Underwritten Transactions in Debt and Equity Markets	Schedule - 3 Underwritten Transactions in Debt and Equity Market (D-SIBs Report)
Complexity	Notional Amount of Over-the-Counter Derivatives	FRP
	Financial Assets Measured at Fair Value Through Profit or Loss (FVPL) and Financial Assets Measured at Fair Value Through Other Comprehensive Income (FVOCI)	FRP

V. The Indicators

1. *Size Indicator*

The size indicator pertains to the total exposures as defined for use in the Basel III leverage ratio as provided under Sec. 129.

2. Interconnectedness Indicators

2.1 *Intra-Financial System Assets*

This includes funds deposited with or lent to, outstanding credit facilities extended to, holdings of securities issued by, securities lending transactions with, and over-the-counter (OTC) derivatives (positive fair value) with, resident banks and other financial institutions as of the reporting date. This indicator is computed as the sum of the following accounts with resident banks and other financial institutions[2].

Data Source		Account
Report	Schedule	
FRP*	1	Checks and Other Cash Items
	2	Due from Other Banks
	3	Financial Assets HFT
	4a	Derivatives HFT (Positive Fair Value)
	5	Financial Assets DFVPL
	6	Financial Assets Measured at FVOCI
	7	Financial Assets Measured at Amortized Cost
	8	Unquoted Debt Securities Classified as Loans
	9	Investment in Non-Marketable Equity Securities
	10	Interbank Loans Receivables
	11	Loans and Receivables-Others

[1] Based on guidelines to be issued by the Bangko Sentral on leverage ratio.
[2] For the purpose of this guidelines, FI shall include those as defined in the Bangko Sentral's Manual of Account.

	12	Loans and Receivables Arising from Repurchase Agreements, Certificates of Assignment/Participation with Recourse and Securities Lending and Borrowing Transactions
	14	Accrued Interest-Due from other banks
	15	Equity Investment in Subsidiaries, Associates and Joint Ventures
D-SIBs Report	1	Outstanding Credit Facilities Extended to Banks and Other Financial Institutions

** For updating relative to Philippine Financial Reporting Standards (PFRS) 9 on financial instruments.*

2.2 *Intra-Financial System Liabilities*

This includes deposits by, outstanding credit facilities obtained from, securities issued to, securities borrowing transactions with and OTC derivatives (negative fair value) with, resident banks and other financial institutions as of the reporting date. This indicator is computed as the sum of the following accounts with resident banks and other financial institutions:

Data Source		Account
Report	Schedule	
FRP*	4a	Derivatives HFT (Negative Fair Value)
	22	Deposit Liabilities
	23	Due to Other Banks
	24	Interbank Loans Payable
	24	Other Deposit Substitutes
	25	Bonds Payable
	25	Unsecured Subordinated Debt
	25	Redeemable Preferred Shares
D-SIBs Report	1	Outstanding Credit Facilities Obtained from Banks and Other Financial Institutions

** For updating relative to PFRS 9 on financial instruments.*

2.3 *Securities Outstanding*

This pertains to the outstanding securities issued by the covered bank as of the reporting date. This indicator is computed as the sum of the following accounts:

Data Source	Account
FRP*-Balance Sheet	Long-Term Negotiable Certificate of Deposit (LTNCD)
	Unsecured Subordinated Debt (net)
	Bills Payable (Other Deposit Substitutes and Others)
	Bonds Payable (net)
	Redeemable Preferred Shares
Philippine Stock Exchange/FRP*-Balance Sheet	Equity Market Capitalization/Total Equity (if equity market capitalization is not available)

** For updating relative to PFRS 9 on financial instruments.*

3. Substitutability/Financial Institution Infrastructure Indicators.

3.1 *Assets under Custody*

This pertains to the value of assets held by the covered bank as custodian on behalf of resident customers, including banks and other financial institutions, as of the reporting date. It includes assets held under custodianship agreement by the bank proper and its trust department or subsidiary trust corporation. This indicator is computed as the sum of the following accounts with resident counterparties:

Data Source		Account
Report	Schedule	
FRP	38	Securities Held under Custodianship by Bank Proper or Trust Department/Subsidiary-Trust Corporation

3.2 *Payments Activity*

This pertains to the total gross value of all cash payments made by the covered bank via large value funds transfer systems during the reporting period. It is composed of peso- and foreign currency-denominated outgoing payments sent (excluding payments received) by the covered bank as a participant in the payment systems. This indicator is computed as the sum of the following payments activities:

Data Source	Peso-Denominated Payment Activity
Bangko Sentral's Payments and Settlements Office (PSO)	Philippine Payments and Settlements System (PhilPaSS) Transactions
PCHC	Outgoing Checks

Data Source		Foreign Currency-Denominated Payments Activity
BSP's PSO		Payment vs. Payment transactions (Peso vs. USD)
PCHC		USD transactions subjected to end-of-day net clearing
Report	Schedule	Payments Coursed through Foreign Currency Settlement Banks
D-SIBs Report	2	

3.3 *Underwritten Transactions in Debt and Equity Markets*

This pertains to all underwritten transactions during the reporting period, whether or not the covered bank was obligated to purchase unsold securities. This indicator includes all types of underwritten/distributed equity and debt instruments/securities.

Data Source		Activity
Report	Schedule	
D-SIBs Report	3	Underwritten Transactions Report in Debt and Equity Markets

4. Complexity Indicators

4.1 *Notional Amount of OTC Derivatives*

Nominal or notional amount outstanding pertain to the gross nominal or notional value of all deals concluded and not yet settled at the reporting date. This indicator is designed to measure the scope of the covered bank's engagement in OTC derivatives transactions. The total notional value of the following derivatives transactions will be used for the purpose of computing this indicator:

Data Source		Activity
Report	Schedule	
FRP*	4	Derivatives HFT
	13a	Derivatives Held for Fair Value Hedge
	13b	Derivatives Held for Cash Flow Hedge
	13c	Derivatives Held for Hedges of Net Investment in Foreign Operations
	13d	Derivatives Held for Portfolio Hedge of Interest Rate Risk (Marked to Market Amount) (i) Fair Value Hedge (ii) Cash Flow Hedge

** For updating relative to PFRS 9 on financial instruments.*

4.2 *Financial Assets Measured at Fair Value Through Profit or Loss (FVPL) and Financial Assets Measured at Fair Value Through Other Comprehensive Income (FVOCI).*

This pertains to the market value of all debt and equity securities (excluding any stand-alone or embedded derivatives) measured at FVPL and FVOCI, respectively, less the securities eligible for classification as high quality liquid (HQLA) as of the reporting date. This indicator is computed as the sum of the following accounts less the securities eligible for classification as HQLA as provided under Sec. 145-A:

Data Source	Account
FRP*-Balance Sheet	Financial Assets Measured at FVPL
	Financial Assets Measured at FVOCI
Less:	
Liquidity Coverage Ratio Report	Securities eligible for classification as HQLA

** For updating relative to PFRS 9 on financial instruments.*

(Circular Nos. 1051 dated 27 September 2019)

REPORT ON SELECTED ACCOUNTS AND ACTIVITIES FOR THE IDENTIFICATION OF DOMESTIC SYSTEMICALLY IMPORTANT BANKS (D-SIBs Report)

(Appendix to Sec. 126-Q on D-SIBs)

I. Introduction

The Report on Selected Accounts and Activities for the Identification of Domestic Systemically Important Banks (D-SIBs Report) is one of the sources of data for the quantitative indicators that shall be used to measure a bank's systemic importance.

Structure of the D-SIBs Report

The D-SIBs Report is composed of the following schedules, which shall be accomplished independently of each other:

a. Schedule 1 – Outstanding credit facilities;
b. Schedule 2 – Payments coursed through foreign currency settlement banks; and
c. Schedule 3 – Underwritten transactions in debt and equity markets.

The succeeding sections provide the guidelines and the line item instructions to accomplish the schedules of the D-SIBs Report.

II. Guidelines on the Preparation of the D-SIBs Report

1. Who must report

All covered banks, with or without subsidiary banks or other financial allied subsidiaries, excluding insurance subsidiaries, are required to submit the D-SIBs Report.

a. On what form

Covered banks with subsidiary banks and other financial allied subsidiaries, excluding insurance subsidiaries, shall prepare D-SIBs Report on a consolidated basis, while covered banks that have no subsidiary bank or other financial allied subsidiary shall prepare the report on a solo basis.

2. Amounts reported

All amounts reported shall be in Philippine Peso, unless otherwise specified, and in absolute figures, including two (2) decimal places.

III. Line Item Instructions

Schedule 1 – Outstanding credit facilities

Heading/Line Item	Instruction
Unused credit facilities extended to	Report all unused credit facilities extended to resident banks and other financial institutions, regardless of contractual arrangements, as of the reporting date

The data on unused credit facilities obtained from banks shall be derived from the counterparty data reported by each covered bank in Schedule 1.

For the purpose of this schedule:

1. Credit facilities shall refer to credit lines extended by the different business lines of a bank such as lending and treasury units.

2. Banks shall refer to UBs, KBs, TBs, RBs and Coop banks, whether privately- or government-owned, including branches of foreign banks licensed as UBs or KBs operating in the Philippines.

3. Other financial institutions shall refer to financial institutions other than banks. This shall include government owned and controlled corporations (GOCCs) and private corporations engaged in financial intermediation or in auxiliary financial activities that are closely related to financial intermediation; and GOCCs engaged in social security activities.

4. In case of foreign currency-denominated credit facilities extended or obtained, convert the outstanding balance into Philippine Peso using the closing exchange rate at the reporting date.

Schedule 2 – Payments coursed through foreign currency settlement banks

Report in this schedule the gross amount of outgoing foreign currency payments/transfers sent by the covered participant bank/s (consolidated basis[1]) through foreign currency settlement banks (such as Citibank N.A. (Phils.) for US dollar [USD] transactions via the Philippine Domestic Dollar Transfer System (PDDTS); and Bank of China for Renminbi [RMB] transactions via the RMB Transfer Service during the reporting period.

For PDDTS participant banks, the transactions to be reported are the gross amount of USD transfers to another domestic bank and/or to a correspondent bank abroad coursed through the settlement bank. The following USD transactions settled via the PDDTS shall be gathered from other sources, hence, should not be included in the report:

a. Payment vs. Payment (Peso vs. USD) transactions, where the dollar leg is settled at the PDDTS and the peso leg is settled via the Bangko Sentral's own payment system, PhilPaSS; and

b. USD transactions subjected to end-of-day net clearing by PCHC and transmitted to the PDDTS system for posting into the bank's PDDTS account.

Heading/Line Item	Instruction
Gross value of payments - in USD - in RMB	Report the gross amount of outgoing payments in USD and in RMB, respectively, sent by the covered/participant bank/s during the reporting period

Schedule 3 – Underwritten transactions in debt and equity markets

Table I – Underwriting of securities on a firm basis	
Report all securities, excluding government securities, distributed and sold on a firm basis during the reporting period, consistent with the definition of "underwriting of securities" under the Securities and Exchange Commission's Omnibus Rules and Regulations for Investment House and Universal Banks Registered as Underwriters of Securities	
Heading/Line Item	Instruction
Issuer	Report the complete names of the issuer of equity and debt securities
Equity securities	Report under the appropriate column the required amount of equity securities underwritten on a firm basis, as defined below
Debt securities	Report under the appropriate column the required amount of debt securities underwritten on a firm basis, as defined below
Total securities	Report under the appropriate column the required amount of the total securities (sum of equity and debt securities) underwritten on a firm basis, as defined below
Amount of commitment	Report the amount of guaranteed selling value of equity and debt securities under the appropriate heading. For the 'total securities', add the amounts reported under the 'equity securities', and the 'debt securities' headings
Actual securities sold	Report the amount of equity and debt securities actually sold under the appropriate heading. This amount may be higher or lower than the amount of commitment. For the 'total securities', add the amounts reported under the 'equity securities' and the 'debt securities' headings.
Amount of underwritten transaction	Report the higher between the amount of commitment and the actual securities sold. For the 'total securities', add the amounts reported under the 'equity securities' and the 'debt securities' headings.
Total	Report the sum of the 'amount of underwritten transaction' column for 'equity securities', 'debt securities', and 'total securities'.

[1] Including the payments/transfers of the subsidiary and affiliate participant banks.

Table II – Distribution/sale of securities on a best-effort basis	
Report all securities, excluding government securities, distributed and sold on a best-effort basis during the reporting period. This includes securities transactions wherein the reporting bank is not obligated to purchase the remaining unsold securities, regardless of the role or designation of the reporting bank in the issuance or offering (e.g., arranger, issue manager, and other similar arrangements).	
Heading/Line Item	Instruction
Issuer	Report the complete names of the issuer of equity and debt securities
Amount of underwritten transaction	For lead arranger or lead issue manager, report the entire amount of equity and debt securities arranged/managed/issued (best effort) under the appropriate column. Otherwise, report only the amount of securities actually sold. For the total, add the amounts reported under the 'equity securities' and the 'debt securities' columns.
Total	Report the sum of the columns under the 'amount of underwritten transaction' heading.

Table III- Participation in the origination/sale of government securities in the primary market	
Report all government securities (GS) sold in the primary market during the reporting period, where the reporting bank participated in the public offering as underwriter, arranger, issue manager, selling agent and other similar role. Report both participations under a firm commitment and a best-effort basis. Exclude GS sold/traded after the public offering period (secondary sale). Exclude treasury bonds, treasury bills, and other GS offering where no underwriting or issue management is involved.	
Heading/Line Item	Instruction
Name of issue	Indicate the complete name of the issue. Avoid acronyms.
ISIN/Series code public offering period issue date	Indicate the details of the issue.
Amount of public offering	Report the result of the public offering, i.e., the total amount raised by the government from the sale of the securities during the public offering period.
Amount of participation	Report the amount of securities allocated or awarded to the reporting bank.

For the purpose of this schedule:

1. Total underwritten transactions in equity and debt markets is referred to in the schedule as the 'total underwriting activity', which is computed as the sum of the equity underwriting activity and the debt underwriting activity, where:

    a. Equity underwriting activity is the sum of amounts reported under the following headings:

    - Amount of underwritten transaction (A) under Table I; and
    - Amount of underwritten transaction (C) under Table II.

    b. Debt underwriting activity is the sum of the amounts reported under the following headings;

    - Amount of underwritten transaction (B) under Table I;
    - Amount of underwritten transaction (D) under Table II; and
    - Amount of participation (E) under Table III.

2. Convert foreign currency-denominated securities into Philippine Peso using the average exchange rate for the reporting period.

Schedule of Restriction on Distribution During the Phased-In Implementation Period of the Higher Loss Absorbency Requirement*

(Appendix to Sec. 126-Q on D-SIBs)

Restriction on Distribution	Level of CET1 Capital					
	Bucket 1			Bucket 2		
	01-Jan-2017 to 31-Dec-2017	01-Jan-2018 to 31-Dec-2018	01-Jan-2019 to 31-Dec-2019	01-Jan-2017 to 31-Dec-2017	01-Jan-2018 to 31-Dec-2018	01-Jan-2019 to 31-Dec-2019
No distribution (until the minimum CET1, the combined requirement for CCB and CCyb and more than fifty percent (50%) of D-SIB HLA are met; and conditions "a" and "c" of paragraph 24 of Appendix 110 are complied with)	<= 8.75%	<= 9%	<= 9.25%	<= 8.8333%	<= 9.1667%	<= 9.5%
Fifty percent (50%) of earnings may be distributed (if the minimum CET1, the combined requirement for CCB and CCyB and more than 50% of the D-SIB HLA are met; and conditions "a" and "c" of Paragraph 24 of Appendix 110 are complied with)	> 8.75% - 9%	> 9% - 9.5%	> 9.25% - 10%	> 8.8333% - 9.1667%	> 9.1667% - 9.8333%	> 9.5% - 10.50%

* Assuming there is no change in the bucket/required HLA during the phased-in implementation period, CCyB is at zero percent (0%) and an HLA requirement of two percent (2%) for D-SIBs slotted under bucket 2. In case of change in the HLA requirement during the phased-in period, the required HLA shall be distributed equally over the remaining period until the full implementation in 2019.

(*Circular No. 1051 dated 27 September 2019*)

GUIDELINES ON RECOVERY PLAN OF A DOMESTIC SYSTEMICALLY IMPORTANT BANK (D-SIB)

(Appendix to Sec. 126-Q on D-SIBs)

1. Introduction

1.1 Given the severity of the impact of a D-SIB's distress or disorderly failure on the domestic financial system and economy, the supervisory policies and process for D-SIBs seek to reduce the probability of a D-SIB's failure, not only to minimize the impact thereof.

1.2 Among the supervisory measures aiming to reduce the probability of a D-SIB's failure is the requirement for a D-SIB to come up with a concrete and reasonable recovery plan that sets out the actions that it will take to restore its viability in cases of significant deterioration of its financial condition in different scenarios.

1.3 This document sets out the guidelines that D-SIBs should follow in drawing up and maintaining a recovery plan that prepares them for future destabilizing events and/or crises.

1.4 The recovery plan shall be applied on a group-wide basis[1], covering all institutions in the banking group, as well as affiliates assessed by the D-SIB as essential to restore, or will have an impact on, the banking group's viability and financial position. If covered institutions have their respective recovery plan, the D-SIB shall ensure that each of the covered institutions' recovery plans is consistent with the group recovery plan.

2. Definition of Terms

For the purposes of these guidelines, the following definitions shall apply:

2.1 *Institutions in the banking group* means the D-SIB and the entities that directly or indirectly control or are directly or indirectly controlled by such D-SIB.

2.2 *Control* of an enterprise exists when there is:

a. Power over more than one-half of the voting rights by virtue of an agreement with other stockholders; or
b. Power to govern the financial and operating policies of the enterprise under a statute or an agreement; or
c. Power to appoint or remove the majority of the members of the board of directors or equivalent governing body; or
d. Power to cast the majority votes at meetings of the board of directors or equivalent governing body; or
e. 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. The D-SIB, for itself or on behalf of any entity within the banking group, may disclaim or rebut the presumption of control by providing sufficient information or documents to show that:

a. The shares are owned or held exclusively for investment purposes;
b. It will not serve on the board of directors and will not nominate any candidate to serve on the board or otherwise seek board representation;
c. It will have only limited contacts with the entity's management that are customary for interested shareholders; and
d. It will engage only in normal and customary transactions with the entity.

2.3 *Point of non-viability* is as defined under Item *"3, Annex F"* of Appendix 59 and other relevant regulations.

2.4 *Financial market infrastructure* is a multilateral system among participating financial institutions, including the operator of the system, used for the purposes of recording, clearing, or settling payments, securities, derivatives, or other financial transactions. It includes payment systems, central securities depositories, securities settlement systems and central counterparties.

3. Guiding Principles

3.1 The recovery plan shall serve as a guide to the recovery of a D-SIB in distress. It should be capable of being carried out during the recovery stage when the D-SIB has not yet reached the point of non-viability and the prospect of recovery is reasonable if appropriate recovery measures are taken.

3.2 The recovery plan shall, at the latest, be activated when the D-SIB breaches the total required Common Equity Tier 1 (CET1)[1] capital and/or the minimum liquidity ratios as may be prescribed by the Bangko Sentral. To ensure timely implementation of appropriate recovery measures and continuous operation of essential and systemically important functions and services, the recovery plan should utilize early warning indicators with specific levels (i.e., quantitative indicators which may be supplemented with qualitative indicators) that will trigger activation of the recovery plan even before the above-said breaches happen. Breach of an internally-set trigger level need not automatically initiate a particular recovery action. Instead, it shall prompt senior management to evaluate the situation and decide whether to take action under the recovery plan or refrain from taking such action. This preparatory mechanism, including the operational procedures, monitoring, escalation and approval process, should be clearly defined in the recovery plan.

However, launch of the recovery plan earlier than planned may be required by the Bangko Sentral when warranted, as approved by the Deputy Governor of the Supervision and Examination Sector, depending on the circumstances at the time.

3.3 *Governance and Oversight of the Recovery Plan.* The Board of Directors shall put in place a robust governance structure and sufficient resources to support the recovery planning process, which include the following:

a. Clearly defining the responsibilities, both in normal times and during a crisis, of the business units, the senior management and the Board of Directors, as well as identifying a senior level executive primarily responsible for ensuring continuous compliance with the Bangko Sentral guidelines and internal policies on recovery plan.

b. Integrating the recovery planning process into the D-SIB's business-as-usual risk management framework to ensure that the recovery plan shall:

- Be designed as an extension of existing capital, liquidity and contingency funding plans, but shall have an end view of D-SIB recovering from more severe stress situations; and

- Cover the contingency arrangements[2] established to allow the D-SIB to continue to operate and maintain essential and systemically important functions and services as it implements the recovery measures; and

c. Maintaining adequate Management Information Systems (MIS) which can generate necessary information on a timely basis to enable the Board of Directors and the senior management to effectively discharge their respective responsibilities.

3.4 The recovery plan is a detailed list of options or courses of action that will be taken by the D-SIB to address a range of severe stress scenarios to restore its financial strength and viability. It shall reflect the D-SIB's nature, size, interconnectedness, level of substitutability/financial institution, and complexity. It shall have the following components to ensure effective and rapid execution:

a. *Strategic analysis.* In devising the recovery plan, the D-SIB is expected to conduct and document strategic analysis, which identifies the D-SIB's essential and systemically important functions and services (i.e., mapped to the companies/legal entities that perform such functions or provide such services) and sets out the actions necessary to operate and maintain them in a recovery scenario. The strategic analysis shall also include the following:

- information on linkages[3] between and/or among the parent bank and covered institutions, and operational data such as the extent of asset encumbrance, amount of liquid assets, off-balance sheet activities, etc.;

- underlying assumptions (exogenous and D-SIB-specific) for each recovery option, stress scenario, and other aspect of the recovery plan;

- assessment of the viability of any business lines and covered institutions, which may be subject to separation in a recovery scenario, as well as the impact of such separation on the remaining group structure and its viability;

- processes for determining the value and marketability of the material business lines, operations, and assets; and

[1] 6% CET1 Capital + 2.5% CCB + 0% to 2.5% CCyB + 1.5% to 2.5% HLA

[2] For continuous functioning of internal processes, IT systems, clearing and settlement facilities, supplier and employee contracts, etc.

[3] Core business operations and interconnectedness by reference to business lines, legal entities and jurisdictions, intra-group exposures through intra-group guarantees and loans, and trades booked on a back-to-back basis; dependencies for liquidity, capital or operational support, etc.

- any additional requirements that the D-SIB may potentially be subjected to during crisis situations in order to maintain its membership in financial market infrastructures, for example, as regards pre-funding or collateralizing of positions, and identify options for addressing the additional requirements.

b. *Stress scenarios.* The D-SIB is required to identify scenarios that are severe enough to activate the recovery plan. It could make use of its existing stress testing program as foundation for building scenarios.

The recovery plan shall include D-SIB-specific (idiosyncratic), market-wide, and combined (both D-SIB-specific and market-wide) stress scenarios. Each stress scenario shall be comprehensively described and assessed as to its impact on capital and/or liquidity.

c. *Recovery options.* Along with more evident and straightforward recovery options that reduce the risk profile, raise or conserve capital and address liquidity pressures, the D-SIB is expected to seriously consider including specific drastic measures that could modify its structure and/or business model. Range of possible recovery measures may include the following:

- recapitalizations, capital conservation measures such as suspension of dividends and discretionary payments of remunerations;
- sale of subsidiaries and spin-off of business units;
- voluntary restructuring of liabilities through debt-to-equity conversion; and
- measures to secure adequate funding while ensuring sufficient diversification of funding sources and adequate availability of collateral.

Each recovery option should be comprehensively described, including the time needed to implement such option, and assessed as to probability of success or effectiveness to address the stress scenario. For each recovery option, the following should be laid down and discussed:

- estimated benefits[1] or outcome that would be derived from the recovery option, any assumptions made to quantify the benefits, and the time frame within which the benefits would be achieved;

- negative effect, if any, on the financial condition, franchise, credit ratings, as well as relevant stakeholders;

- preparatory actions to ensure that recovery option shall be effectively and timely implemented;

- process to implement or carry out the recovery option, including the escalation and decision-making process, indicating the owner/s of the process to instill responsibility and establish accountability, which is crucial in times of stress; and

- circumstances or factors that could render the recovery option unavailable/infeasible or could hinder the effectiveness of the recovery option, as well the remedial measures to be undertaken to overcome these impediments including the time frame to accomplish the remedial measures. These remedial measures when timely and effectively implemented improve the credibility and the probability of success of the recovery option.

Considering that several key steps may be involved to execute a recovery option and a combination of a number of recovery options may be required to address a stress scenario, the recovery plan should include estimates of the sequencing of actions and time needed to implement each.

d. *Communication strategy.* The recovery plan shall contain communication strategy with supervisory authorities/regulators, public, financial markets, employees and other stakeholders.

3.5 The recovery plan shall not include assumption for any access to or receipt of government/public financial support/aid provided by the Philippine National Government and its offices, agencies and instrumentalities to preserve or restore viability, solvency or liquidity of banks (or any of the covered financial institutions), which may include, among others, financial assistance in the form of loans and advances extended by the Bangko Sentral , pursuant to Sections 83 and 84 of Republic Act No. 7653 (The New Central Bank Act).

3.6 The recovery plan and updates thereon shall be approved by the Board of Directors, and in the case of branches of foreign banks, it shall be approved by the Head office or the designated Regional office. On the other hand, the senior management shall be responsible for developing, maintaining and updating, and where necessary, executing the recovery plan.

[1] Impact or effect on D-SIB's financial condition if the recovery option becomes successful, which may be on capital, risk-weighted assets/risk profile, liquidity, leverage and other measures of financial strength, as well as impact on customers, counterparties and market confidence.

The recovery plan shall be updated at least annually, and upon occurrence of events that materially alter the D-SIB's structure, business model or operations, strategy or risk exposure. Updating of the recovery plan shall involve:

- review of the exogenous and D-SIB-specific assumptions the recovery plan is based upon; and
- assessment of the relevance and applicability of the recovery plan.

4. Reporting Requirement and Review by the Bangko Sentral

4.1 The recovery plan shall form an integral part of the Internal Capital Adequacy Assessment Process (ICAAP) document to be submitted every 31 March of each year. Thus, the ICAAP document shall also contain discussions on the governance and oversight of the recovery plan as discussed in paragraph 3.3, as well as a summary of any material changes on the recovery plan as provided for under paragraph 3.6, including the reason/s therefor. The first recovery plan shall be submitted on 30 June 2016 as supplement to the 2016 ICAAP document, which is required to be submitted on or before 31 March 2016.

The Bangko Sentral shall review the recovery plan as part of the overall supervisory process for D-SIB, focusing on assessing the recovery plan's robustness, credibility and ability to be effectively implemented.

4.2 Relative to paragraph 3.2 on breach of an internally-set trigger level, the senior management shall submit, within three (3) banking days, to the appropriate supervising department of the Bangko Sentral sufficient information about the D-SIB's decision whether or not to implement recovery measures under its recovery plan. The three (3) banking days shall be reckoned from the date of decision by the designated authority, as defined in the recovery plan.

(Circular Nos. 1051 dated 27 September 2019)

OPERATIONAL GUIDELINES ON THE ADMINISTRATION OF THE PERSONAL EQUITY AND REQUIREMENT ACCOUNT (PERA)

(Appendix to Sec. 1121-Q)

Pursuant to R.A. No. 9505 also known as the Personal Equity and Retirement Account (PERA) Act of 2008 (PERA Act) and its Revised Implementing Rules and Regulations (Revised PERA Rules), the following operational guidelines on the administration of PERA are hereby issued. Certain capitalized terms herein used shall have the definitions ascribed to them in the Revised PERA Rules unless the context otherwise requires.

I. ACCOUNT OPENING

A. Eligibility Review and Pre-acceptance Disclosure

1) Only a natural person who has the capacity to contract and has a Tax Identification Number (TIN) can be a contributor.

2) The administrator shall –

(a) Determine the exclusivity of PERA administration through an on-line validation in the PERA contributors' database (PERA System).

(b) Observe the following rules prior to any account opening:

i. A contributor shall designate and maintain only one (1) administrator for all his PERA;
ii. A contributor may create and maintain a maximum of five (5) PERA at any one time; and
iii. Each PERA shall be confined to only one category of investment products. For this purpose, the categories of PERA investment products are as follows:

a. unit investment trust fund;

b. mutual fund;

c. annuity contract;

d. insurance pension product;

e. pre-need pension plan;

f. government securities;

g. stock or other security listed and traded in a local exchange;

h. exchange-traded bond; or

i. any other category of investment product or outlet which the concerned Regulatory Authority may allow for PERA purposes: *Provided*, That the product must be non-speculative, readily marketable, and with a track record of regular income payments to investors.

(c) Ensure that the minimum documentary requirements (Annex A) for the proper identification of the Contributor are properly complied with and in adherence with the Anti-Money Laundering (AML) regulations and the PERA Act; and

(d) Fully disclose to the potential contributor the following, using the Pre-Acceptance and General Risk Disclosure Statement (PGRDS):

i. Nature of a PERA, privileges and conditions of its establishment; emphasis must be placed on the long-term nature of PERA, the conditions for tax exemption and penalties for early withdrawal unless the early withdrawal is allowed under the PERA Act;

ii. Category and investor-risk profile classification of PERA investment products available to a Contributor;

iii. Risks associated with each category of PERA investment products which shall form part of the General Risk Disclosure Statement;

iv. Specific obligations and responsibilities of an administrator, investment manager (Advisor) and custodian;

v. Option to either appoint a third-party cash custodian or to be the custodian of his own PERA funds; and

vi. Option to elect an investment manager (Advisor).

B. Account Opening Process

1) The administrator shall –

(a) Require the contributor to accomplish a PERA Client Suitability Assessment (PCSA) (Annex C) prior to account opening;

(b) Inform the contributor to Formulate an Investment Policy Statement (IPS) which shall serve as a frame of reference for investment decisions of the contributor. The administrator shall inform the contributor of the full range of PERA investment products with emphasis on the specific category of products corresponding to the contributor's risk profile classification as borne by the results of PCSA. The administrator, however, shall provide a process for allowing contributor to invest in PERA investment products not falling within his risk profile classification: *Provided*, That any such investment may be allowed only upon the prior written instruction of the contributor;

(c) Execute the PERA Administration Agreement (PAA) (Annex E) and furnish the contributor copies of the PAA along with the PGRDS and PCSA;

(d) Ensure that the contributor's account opening details are lodged in the PERA System; and

(e) Facilitate the contributor's appointment of a cash custodian, or a designated depository bank that meets the prudential criteria provided in Section 111 of the MORB (in case of PERA self-custody arrangement); and as necessary, a securities custodian.

Where the contributor elects to be the custodian of his own PERA funds, the administrator shall require the contributor to open a self-custody deposit account with the designated depository bank of the administrator. This account shall be used to custodize all PERA funds except for PERA deposit products.

2) The designated depository bank shall ensure that:

(a) The PERA self-custody deposit account shall be used exclusively for purposes contemplated under the PERA Rules;
(b) All funds under the account are non-transferrable except for instances set forth in the PERA Rules; and
(c) Withdrawal or transfer of any amount therefrom that is not consistent with the PERA Rules shall result in the termination of the self-custody account, including all PERA investments.

Moreover, the designated depository bank shall adopt appropriate risk management systems and controls to ensure protection of PERA funds from misuse or misappropriation.

3) In the case of a contributor who opts to engage the services of or has engage an investment manager (Advisor), he shall provide the administrator with a copy of the PERA investment management (Advisory) agreement (Annex F). The said agreement shall set forth at a minimum, the overall investment philosophy, standards, and practices of the investment manager (Advisor) and the validation by the investment manager (Advisor) of the contributor's PCSA. The investment decisions made by the investment manager (Advisor) for and on behalf of the contributor shall be in accordance with the authority granted by the contributor in their agreement.

4) An entity who is offering a PERA investment product hereinafter referred to as the PERA product provider shall furnish the administrator and/or contributor all relevant documents necessary to facilitate the investment of a contributor in the PERA investment product. Appropriateness of the PERA investment product based on PCSA of the contributor shall be validated by administrator.

II. ACCOUNT ADMINISTRATION

A. Contributions

1) The administrator shall –

(a) Secure proof of income when a contribution is made and ensure that the maximum aggregate contribution per calendar year as follows has not been exceeded. If in case proof of income is already

obtained for a contribution made during the calendar year, the same shall no longer be required for subsequent contributions made during the year:

i. P100 thousand or its equivalent in any convertible foreign currency at the prevailing rate for non-overseas Filipino (non-OF); or
ii. P200 thousand or its equivalent in any convertible foreign currency at the prevailing rate for OF;

For this purpose, prior to contribution, the status of an OF shall be validated by securing from the OF a sworn certification on his continuing status as an OF for the calendar year;

(b) Receive and acknowledge all contributions, initial and subsequent, through the PERA contribution and investment instruction form (PCIIF) (Annex G) which shall also contain the investment directives of the contributor or his designated investment manager (Advisor):

i. The administrator shall facilitate and assist the contributor in completing the necessary documents for the chosen PERA investment product/s; and
ii. The contributor shall be provided with the copies of the PERA investment product documents such as, but not limited to, specific risk disclosure statement if not yet provided by the product provider to the contributor;

(c) Ensure that all contributions are directly remitted to the cash custodian or in the case of PERA self-custody arrangement, facilitate remittance of contribution to the depository bank;

(d) Ensure that the funds credited to the PERA self-custody account are promptly invested in a PERA product after receipt of instruction from the contributor, except for the following instances:

(i) when the balance of such account is insufficient for reinvestment; or
(ii) in special circumstances, such as due to transfer/change of administrator or investment product. However, in no case shall the investment be made later than fifteen (15) calendar days from receipt of the contributor's instruction; otherwise, the administrator shall be personally liable for the early withdrawal penalties that may be imposed by the BIR

(e) Maintain a record of all contributions made to the PERA on per account and aggregate basis;

(f) Ensure that the PCSA is periodically updated or as often as may be necessary apply for certificate of entitlements or tax credit certificate on behalf of the contributor and likewise receive the same from the BIR.

(g) Apply for certificate of entitlements or tax credit certificate on behalf of the contributor and likewise receive the same from the BIR.

(h) Accept the contributions of an employer only if:

i. Its employees have already opened a PERA;
ii. Each employee has accomplished a PCIIF; and
iii. The maximum aggregate yearly contribution of the contributor has not been exceeded.

(i) Issue to the employer a certificate of the actual amount of qualified employer's contributions which shall serve as its basis for deduction on its gross income; and

(j) Secure from the employer a certification on the amount of tax not withheld on compensation/fringe benefits as a result of contributing to the PERA of its employees.

2) The cash custodian shall –

(a) Open a PERA cash account for the contributor which shall be governed by a PERA cash custody agreement (Annex H);
(b) Receive and acknowledge all contributions directly remitted by the administrator; and
(c) Custodize all funds of the PERA.

3) In the case of a contributor who has an investment manager (Advisor), the investment manager (Advisor) shall accomplish the investment instructions portion of the PCIIF for and on behalf of the contributor.

4) The designated depository bank shall ensure that the PERA self-custody account is kept separate from other deposit accounts of the contributor.

B. Choice of PERA Investment Product

1) The administrator shall –

   (a) Execute the contributor's or his investment manager (Advisor)'s instruction as indicated in the PCIIF;
   (b) Based on the PCIIF, facilitate remittance of funds to the chosen PERA product provider;
   (c) Instruct the PERA product provider to transfer the securities or evidence of investments to the securities custodian and provide details of the PERA cash account of the contributor for the credit of investment proceeds;
   (d) Maintain a record of all investments including earnings and expenses relative to the PERA.

2) The cash custodian shall execute the administrator's instruction as to disposition of the funds.

   In case of self-custody of PERA funds, the administrator shall facilitate the execution of the contributor's instruction as to the disposition of funds.

3) The PERA product provider shall –

   (a) Transfer the securities, evidence of deposits or other evidence of investments to the securities custodian chosen by the contributor. In case of self-custody arrangement for securities that are non-transferable, non-negotiable and non-withdrawable, the evidence of investments shall be given to and kept by the contributor;

   (b) Credit to the contributor's PERA cash account all cash due to the contributor relative to his PERA investment product.

4) The securities custodian shall –

   (a) Open a PERA securities account for the contributor which shall be governed by a PERA securities custody agreement (Annex I);
   (b) Receive and acknowledge all evidence of investments; and
   (c) Custodize all non-cash assets of the PERA except those under self-custody arrangement.

C. Change of PERA Investment Product

1) PERA investment product/s may be changed: *Provided*, That the entire PERA assets arising from the sale shall be transferred to another PERA Investment Product/s within fifteen (15) calendar days from withdrawal thereof.

2) The contributor or his investment manager (Advisor) shall accomplish the PCIIF and submit the same to the administrator.

3) The administrator shall –

   (a) Execute the investment instructions of the contributor or his investment manager (Advisor) as indicated in the PCIIF; and
   (b) Coordinate with PERA Product provider, cash custodian/designated depository bank and securities custodian as to disposition of the PERA assets.

D. Suspension or Revocation of Qualification/Accreditation

In the event of suspension or revocation of their qualification/accreditation:

1) The former administrator shall –

   (a) Effect the transfer of PERA assets to the new administrator chosen by the contributor within fifteen (15) calendar days from receipt of contributor's advice; otherwise, the former administrator shall be personally liable for the early withdrawal penalties which may be imposed by the BIR; and

   (b) Institute a mechanism to monitor and ensure that all contributors have received the notice of suspension or revocation.

2) The contributor shall advise the administrator, investment manager (Advisor), or custodian of his choice of a new administrator, investment manager (Advisor), or custodian, as the case may be, within three (3) working days from receipt of the notice of suspension or revocation.

Failure of the contributor within the prescribed period to designate a new administrator or custodian shall authorize his current administrator or custodian to appoint its successor that shall assume all its duties and responsibilities to the contributor.

In the event of suspension or revocation of their qualification/accreditation:

1) The former administrator shall –

   (a) Effect the transfer of PERA assets to the new administrator chosen by the contributor within fifteen (15) calendar days from receipt of contributor's advice; otherwise, the former administrator shall be personally liable for the early withdrawal penalties which may be imposed by the BIR; and

   (b) Turn-over to the new administrator the complete and updated files and records (in soft and hard copies) of the contributor's PERA.

   While the new administrator shall –

   (i) Ensure the completeness of PERA files and records turned-over by the former administrator that will enable proper performance of its functions; and
   (ii) Follow all the procedures enumerated in Item *"II"* (Account Administration) that are necessary to ensure continuity of the PERA.

2) The former investment manager (Advisor) shall advise the contributor and his administrator within the above prescribed period; however, in the absence of any advice from the contributor on his choice for a new investment manager (Advisor), the former investment manager (Advisor) shall turn over to the administrator all the contributor's PERA records and documents.

3) The former custodian shall advise the contributor and his administrator within the above prescribed period and shall–

   (a) Turn over to the new custodian all PERA assets in its custody within two (2) working days from receipt of contributor's advice; and
   (b) Submit to the administrator a report on all financial transactions and documents in its custody relative to the transferred PERA assets within the same period.

   While the new custodian shall –

   (a) Receive and acknowledge the PERA assets turned over by the former custodian; and
   (b) Follow all the procedures enumerated in Item *"II"* (account administration) that are necessary to ensure continuity of the PERA.

E. PERA Records and Reports

1) The administrator shall –

   (a) Possess adequate systems and technological capabilities to ensure proper recording and tracking of contributor's PERA;
   (b) Maintain separate set of books of accounts for all contributions, investments, earnings, expenses, withdrawals and terminations of the PERA;
   (c) Retain documentary proof of contribution/income/withdrawal/ termination subject to validation of the BIR whenever requested;
   (d) Monitor and keep track of the contributor's tax credits, privileges and other entitlements; and
   (e) Consolidate and reconcile all transactions/documents with the cash and securities custodians.

2) In addition, the administrator shall submit the following reports:

Recipient	Frequency	Particulars
Contributor	As applicable	Sale and purchase of PERA assets
	Quarterly	Summary of the following information: i. Total contributions and withdrawals for each PERA, indicating therein the total amount of contributions entitled to tax incentives; ii. Total income earned on the

		contributions, indicating those entitled to income tax exemption; iii. Total fees and charges assessed and paid by the contributor to administrator, investment manager (Advisor), if any, cash and/or securities custodians; iv. Purchase and sale transactions PERA assets implemented and those pending execution; and v. Valuation of the PERA assets and investments.
Employer of a contributor	Annually	Certification on the actual amount of the qualified employer's contribution in case when the employer made contributions to the PERA of its employees.
Bangko Sentral	Quarterly	Reports on all PERA assets under its administration which shall form part of the financial reporting package (FRP) of banks and trust entities
Bureau of Internal Revenue (BIR)	As provided	PERA reports as may be acquired by the BIR

Furthermore, the administrator shall perform periodic uploading of transactions details to the PERA System.

3) The cash and securities custodians shall submit the following reports to –

(a) The contributor and the administrator – a quarterly securities and cash activity report of all financial transactions and documents under their custody within ten (10) days after the end of each quarter; and
(b) The Bangko Sentral – quarterly reports on all PERA assets and documents under their custody which shall form part of the financial reporting package of banks and trust entities.

The quarterly reporting requirements as provided under Items *"3(a)"* and *"3(b)"* shall not apply in case of self-custody of PERA funds.

4) All funds received from contributors under a PERA self-custody arrangement shall be recorded as part of deposit liabilities under the "PERA Self-Custody Deposit Account" in the books of the designated depository bank. This account shall be governed by the following guidelines:

(a) The account shall have the following features:

(i) No dormancy charges;
(ii) No minimum maintaining balance;
(iii) Non-interest bearing; and
(iv) Reserve requirement against deposit liabilities of zero percent (0%)

(b) The account shall be used exclusively for facilitating the PERA related transactions of the contributor.

(c) All funds debited therefrom shall be in accordance with the written instruction of the contributor and accepted by the administrator.

5) The investment manager (Advisor) shall provide periodic reports to the contributor as stipulated in the PERA investment management (Advisory) agreement.

F. Valuation of PERA Investment Product

Each PERA investment product shall be valued in accordance with the valuation methodology, standards and reporting requirements as prescribed by the concerned regulatory authority of that PERA investment product; *Provided, That* such valuation methods and standards are in accordance with internationally accepted accounting and valuation standards.

G. Accounts Review

1) The administrator shall conduct a periodic administrative review of all PERA under its administration to ensure that –

   (a) Transactions involving PERA comply with the contributor's or his investment manager (Advisor)'s instructions, contracts, and applicable laws, rules and regulations;
   (b) Investments of the contributor are aligned with his risk profile and/or IPS, and are authorized by the contributor or his investment manager (Advisor);
   (c) Books of accounts are correct and updated, and appropriate taxes/penalties are properly accounted and/or paid to the government, when applicable; and
   (d) PERA assets are kept separate from other assets of the administrator for the purposes of insolvency.

2) The administrator or the contributor's investment manager (Advisor), if any, shall conduct at least quarterly an investment performance review of all PERA investment products and/or all PERA assets of the contributor. The results of such review shall be reported to the contributor through his quarterly financial statements, or as frequent as necessary.

H. Collection of Fees

1) The administrator, investment manager (Advisor) and cash/securities custodian may charge against the PERA appropriate fees that are commensurate to the services rendered in relation to the contributor's PERA.
2) The investment manager (Advisor) and cash/securities custodian shall provide the contributor's administrator with their respective bills for their investment management services and custodial services.
3) The administrator may –

   (a) Correspondingly charge against the PERA of a contributor the appropriate fees such as administration, investment management and custodial fees and report the same to the contributor; and
   (b) Instruct the cash custodian to pay the administrator, cash/securities custodian and investment manager (Advisor), if any.

III. ACCOUNT WITHDRAWALS, DISTRIBUTIONS AND TERMINATION

A. Early Withdrawal

1) The following shall not be subject to early withdrawal penalties:

   (a) When the contributor had an accident or illness-related hospitalization in excess of thirty (30) days: *Provided,* That there is a notarized doctor's certificate attesting to said event;

   (b) When the contributor becomes permanently totally disabled as defined under the Employees Compensation Law, Social Security Law or Government Service Insurance System Law: *Provided*, That he has a certification from the pertinent government agency; or

   (c) Immediate transfer of assets to another eligible PERA investment product and/or another administrator, who have been disaccredited either by the BIR or the Bangko Sentral, within fifteen (15) calendar days from withdrawal thereof.

   Similarly, the transfer of PERA assets to another administrator for reasons other than the suspension or revocation of qualification/accreditation of the previous administrator shall not be subject to early withdrawal penalties: *Provided*, That such transfer shall be made within fifteen (15) calendar days from withdrawal thereof.

2) All other early withdrawals not mentioned above shall be imposed early withdrawal penalties.
3) The early withdrawal penalties to be imposed shall be those set forth in BIR Revenue Regulations No. 17-2011 and subsequent BIR issuances.

B. Qualified PERA Distributions

The following are considered qualified PERA distributions and shall be exempt from the payment of income taxes or estate tax, if applicable:

1) When the contributor reaches the age of fifty-five (55) years and has made contributions for at least five (5) years:

   (a) The contributor has the option to receive his PERA assets in lump-sum, pension for a definite period or lifetime pension;

(b) Notwithstanding this condition, the contributor may opt to continue his PERA and its tax-privileges; or

2) Upon the death of the contributor: *Provided*, That a death certificate was presented:

(a) The administrator shall terminate the PERA and release the assets to the contributor's designated beneficiary/ies;
(b) In case when there is/are no designated beneficiary/ies, the administrator shall release the PERA assets to the contributor's estate in accordance with the laws on succession and rules of court.

C. Release of PERA Assets

1) The administrator shall –

(a) Secure from the contributor or his designated beneficiary/ies, when applicable, the duly accomplished PERA Notice of Withdrawal/ Termination Form (PNWTF) and other necessary documents;

(b) Execute the divestment instructions of the contributor or his designated beneficiary/ies;

(c) Instruct the securities custodian to release the evidence of investments to the appropriate parties and remit the divestment proceeds to the cash custodian;

(d) Compute the early withdrawal penalties, if any in accordance with the rules set forth by the BIR which shall be deducted from the divestment proceeds and instruct the cash custodian to remit the early withdrawal penalties to the BIR;

In case of PERA self-custody arrangement, the administrator shall ensure remittance of early withdrawal penalties to the BIR.

(e) Report the withdrawal/termination transactions and submit the necessary documents to the BIR; and

(f) Account for the unwithdrawn portion of the PERA, if any.

2) The cash custodian shall –

(a) Release the divestment proceeds, net of early withdrawal penalties if any, to the contributor or his designated beneficiary/ies; and
(b) Remit the early withdrawal penalties to the BIR as instructed by the administrator.

(Circular NO. 890 dated 02 November 2015, as amended by Circular No. 1081 dated 04 March 2020)

ANNEX A

PERSONAL EQUITY AND RETIREMENT ACCOUNT (PERA)
Minimum Documentary Requirements for Account Opening

1) Customer information sheet and identification cards as provided under the rules and regulations on anti-money laundering
2) Signature cards
3) Proof of income earnings for the calendar year or to be earned during the calendar year

    (a) For Overseas Filipino (OF) who is working or deriving income from abroad:

        i. Overseas Employment Certificate or its equivalent document issued by the Philippine Overseas Employment Authority; and
        ii. Any official document showing that he will earn or has earned income in a foreign country in the year of PERA contribution

    (b) For an individual who has retained or re-acquired his Philippine citizenship under R.A. 9225 otherwise known as the "Citizenship Retention and Reacquisition Retention Act of 2003":

        i. Identification certificate issued by the Bureau of Immigration, to prove his reacquisition of Philippine citizenship; and
        ii. Any official document showing that he will earn or has earned income in a foreign country in the year of PERA contribution

4) If the PERA will be opened by spouse or child of the Overseas Filipino (OF) in the name of the OF:

    (a) Authorization to open a PERA account issued by the OF;

    (b) For the spouse of an OF, Marriage Contract (MC) in security paper issued by the National Statistics Office (NSO) or Certified True Copy of MC issued by the Local Civil Registrar (LCR) and duly authenticated by NSO or Report of Marriage duly authenticated by NSO if married abroad;

    (c) For the child of an OF, Birth Certificate (BC) in security paper issued by the NSO or Certified True Copy of BC issued by the LCR and duly authenticated by NSO or Report of Birth duly authenticated by NSO if born abroad showing that he/she is a child of and is at least eighteen (18) years old; and

    (d) Sworn certificate that he is opening account on behalf of his spouse or his parent who has not availed of PERA

5) In case when the contributor appoints an investment manager (Advisor):

    (a) PERA investment management (Advisory) agreement;
    (b) Details/contact information of investment manager (Advisor);
    (c) Board resolution appointing authorized signatories of investment manager (Advisor) (if institutional investment manager (Advisor); and
    (d) Signature cards of authorized signatories.

(Circular Nos. 1081 dated 04 March 2020 and 890 dated 02 November 2015)

GUIDELINES AND PROCEDURES GOVERNING THE CONSUMER ASSISTANCE MANAGEMENT SYSTEM (CAMS) OF BSP-SUPERVISED FINANCIAL INSTITUTIONS

[Appendix to Sec. 1002-Q]

(As deleted by Circular No. 1048 dated 06 September 2019 and as amended by Circular No. 890 dated 02 November 2015 and 857 dated 21 November 2014)

GUIDELINES ON THE IMPLEMENTATION OF THE BASEL III LEVERAGE RATIO FRAMEWORK

([Appendix to Sec. 127-Q (Basel III Leverage ratio framework)]

The Bangko Sentral will adopt a leverage ratio framework that is designed to act as a credible supplementary measure to the risk- based capital requirements. The leverage ratio intends to:

- Restrict the build-up of leverage in the banking sector to avoid destabilizing deleveraging processes which can damage the broader financial system and the economy; and
- Reinforce the risk-based requirements with a simple, non-risk based "backstop" measure.

This framework is largely based on the document issued by the Basel Committee on Banking Supervision ("Basel Committee" or "BCBS") released in January 2014 entitled "Basel lll Leverage Ratio Framework and Disclosure Requirements".

A. Definition, Minimum Requirement and Scope of Application

Leverage ratio is defined as the capital measure (the numerator) divided by the exposure measure (the denominator), expressed as a percentage:

$$Basel\ III\ Leverage\ Ratio\ (\%) = \frac{Tier\ I\ Capital}{Exposure\ Measure}$$

The leverage ratio shall not be less than 5.0 percent and will be applied to all universal and commercial banks (U/KBs) and their subsidiary banks/quasi-banks (QBs) computed on both solo[1] and consolidated[2] bases, similar with the capital adequacy framework, i.e., computed on a daily basis and reported on a quarterly basis.

1. Capital Measure

The capital measure for the leverage ratio is Tier 1 capital calculated in accordance with *Appendix Q-46.*

Tier 1 capital should be net of regulatory deductions[3] applicable to Tier 1 capital. Items that are deducted completely from capital do not contribute to leverage, hence, should also be deducted from the exposure measure.

2. Exposure Measure

a. General Measurement Principles in respect of the Exposure Measure

U/KBs and their subsidiary banks/QBs should generally follow the accounting value of exposure for the purpose of calculating the Exposure Measure for the leverage ratio, except that:

- On-balance sheet, non-derivative exposures are to be included in the Exposure Measure net of specific provisions; and
- Netting of loans and deposits is not allowed.

U/KBs and their subsidiary banks/QBs must not take account of physical or financial collateral, guarantees or other credit mitigation techniques to reduce the Exposure Measure.

b. Total Exposure Measure

The total Exposure Measure is computed as follows:

Exposure Measure = On-balance sheet exposures + Derivative exposures + Securities Financing Transactions (SFT) exposures + Off-balance sheet (OBS) items

[1] Pertains to the reporting entity's head office and branches

[2] Pertains to the reporting entity and its financial allied subsidiaries except insurance companies that are required to be consolidated on a line-by-line basis for the purpose of preparing consolidated financial statements

[3] Refers to Regulatory Adjustments to CET1 Capital (Items A.2.1 to A.2.24) and Regulatory Adjustments to Additional Tier 1 (AT1) Capital (Items A.5.1 to A.5.8) of Part II (Qualifying Capital) of the BASEL III CAR Template (Version 3)

The methods for calculating the Exposure Measure in respect of the above four main exposure categories are described in greater detail below.

1. On-balance sheet

For the purpose of calculating the Exposure Measure, the on-balance sheet exposure must include all on-balance sheet assets, gross of General Loan Loss Provisions (GLLP).

On-balance sheet derivatives and SFT assets are not to be included under On- Balance sheet exposures as they are subject to different treatment.

2. Derivatives

The Exposure Measure for derivative contracts[1] consists of an exposure arising from the underlying of the derivative contract and a counterparty credit risk (CCR) exposure. In general, the Exposure Measure for derivatives is calculated as follows:

$$\text{Exposure Measure for Derivatives} = \begin{array}{c}\text{Replacement Cost (RC)} \\ + \\ \text{Potential Future Exposure (PFE)} \\ \pm \\ \text{Adjustments for Written Credit Derivatives}\end{array}$$

Where:

RC = Positive mark-to-market value of the contract (or zero if the mark-to-market value is zero or negative);

PFE[2] = This represents an add-on arising from the potential exposure over the remaining life of the contract calculated by multiplying the notional principal amount of the contract to the appropriate potential future credit conversion factor; and

Adjustments for Written Credit Derivatives = effective notional amount[3] referenced by the written credit derivative

In the computation of the PFE, the following add-on factors shall apply to financial derivatives, based on residual maturity:

Residual Maturity	Interest Rate Contract	Exchange Rate Contract	Equity Contract
One (1) year or less	0.0 percent	1.0 percent	6.0 percent
Over 1 year to five (5) years	0.5 percent	5.0 percent	8.0 percent
Over 5 years	1.5 percent	7.5 percent	10.0 percent

For contracts with multiple exchanges of principal, the factors are to be multiplied by the number of remaining payments in the contract. For contracts that are structured to settle outstanding exposure following specified payment dates and where the terms are reset such that the market value of the contract is zero on these specified dates, the residual maturity would be set equal to the time until the next reset date, and in the case of interest rate contracts with remaining maturities of more than one (1) year that meet these criteria, the potential future CCF is subject to a floor of 0.5 percent.

For credit derivatives, which refer to credit default swaps (CDS), total return swaps (TRS) and credit-linked notes (CLN), two approaches shall be applied, as follows:

a) For single-name credit derivatives, a 5.0 percent add-on factor for the computation of the potential future credit exposure shall be used by both protection buyers and protection sellers if the reference obligation is rated as investment grade by at least two credit rating agencies i.e. rated Baa or higher

[1] This approach makes reference to the Current Exposure Method (CEM) which is used under the Basel II framework to calculate the CCR exposure amounts associated with derivative exposures. The Basel Committee is considering alternatives to the CEM. If an alternative approach is adopted as a replacement for the CEM, Basel Committee will consider whether that alternative approach is appropriate in the context of the need to capture both types of exposures created by derivatives.

[2] No potential future credit exposure shall be calculated for single currency floating/floating interest rate swaps, the credit exposure on these contracts would be evaluated solely on the basis of their mark-to-market valuation.

[3] For credit derivative contracts where the states notional amount differs from the effective notional amount, banks/non-banks must use the greater of the effective notional amount and the notional amount. The effective notional amount is obtained by adjusting the notional amount to reflect the true exposure of contract that are leveraged or otherwise enhanced by the structure of the transaction.

by Moody's and BBB or higher by Standard & Poor's. A 10.0 percent add- on factor applies to all other reference obligations. However, a protection seller in a CDS shall only be subject to the add-on factor if it is subject to closeout upon the insolvency of the protection buyer while the underlying is still solvent. The add-on in this case should be capped to the amount of unpaid premiums.

b) With regard to multiple name derivatives, where the credit derivative is a first to default transaction, the add-on will be determined by the lowest credit quality underlying in the basket (i.e., if there are any non-investment grade or unrated items in the basket), the 10.0 percent add-on should be used. For second and subsequent nth-to-default transactions, underlying assets should continue to be allocated according to the credit quality (i.e., the second lowest credit quality will determine the add-on for a second or nth-to-default transaction respectively). On the other hand, where the credit derivative is referenced proportionately to multiple obligations, the add-on factor will follow the add-on factor applicable to the obligation with the biggest share. If the protection is equally proportioned, the highest add-on factor should be used.

Written Credit Derivatives

In addition to the CCR exposure arising from the fair value of the contracts, written credit derivatives[1] create a notional credit exposure arising from the creditworthiness of the reference entity. As such, written credit derivatives shall be treated consistently with cash instruments (i.e., loans, bonds) for the purpose of the exposure measure.

In order to capture the credit exposure to the underlying reference entity, the effective notional amount referenced by a written credit derivative is incorporated into the Exposure Measure. However, the effective notional amount[2] of a written credit derivative may be reduced by any negative change in fair value amount that has been incorporated into the calculation of Tier 1 capital with respect to the written credit derivative. The resulting amount may be further reduced by the effective notional amount of a purchased credit derivative on the same reference name[3], *Provided*; That:

- The credit protection purchased on a reference obligation which ranks pari passu with or is junior to the underlying reference obligation of the written credit derivative in the case of single name credit derivatives; and

- The remaining maturity of the credit protection purchased is equal to or greater than the remaining maturity of the written credit derivative.

The Exposure Measure of a written credit derivative may be overstated by the inclusion in the Exposure Measure of both (1) PFE representing counterparty credit exposure and (2) effective notional amount representing reference entity exposure. To avoid double counting, a PFE of zero is assigned to a written credit derivative whose effective notional amount is already included in the Exposure Measure. Hence, the total exposure measure for written credit derivatives equals RC and its corresponding effective notional amount.

3. Securities Financing Transactions (SFTs)

SFTs are transactions such as repurchase agreements, reverse repurchase agreements, security lending and borrowing and margin lending transactions, where the value of the transactions depends on market valuation and the transactions are often subject to margin agreements.

a. For bank/non-bank acting as principal, the Exposure Measure calculations for SFTs shall be computed as follows:

$$Exposure\ Measure\ for\ SFTs = Adjusted\ SFT\ Assets + Counterpart/Credit\ Risk\ Exposure\ (E)$$

Where:

Adjusted SFT Assets = the gross SFT assets[4] recognized for accounting purposes (i.e., with no recognition of accounting netting) will be adjusted to exclude the value of any securities received under an SFT, where the bank has recognized the securities as an asset on its balance sheet[5].

[1] *Written credit derivative* refers to credit default swap, total return swaps and credit-link notes where banks act as guarantor.

[2] For credit derivative contracts where the stated notional amount differs from the effective notional amount, banks/non-banks must use the greater of the effective notional amount from the notional amount. The effective notional amount is obtained by adjusting the notional amount to reflect the true exposure of contracts that are leveraged or otherwise enhanced by the structure of the transaction.

[3] Two reference names are considered identical only if they refer to the same legal entity.

[4] For SFT assets subject to novation, "gross SFT assets recognized for accounting purposes" are replaced by the final contractual exposures, given that pre-existing contracts have been replaced by new legal obligations through the novation process.

[5] Gross SFT assets recognized for accounting purposes must not recognized any accounting netting of cash payables against cash receivables (e.g., under the Philippine Accounting Standards).

Counterparty Credit Risk Exposure (E) = the measure of CCR is calculated as the current exposure (i.e., without PFE) with respect of the SFT.

The current exposure for transactions with a counterparty must be calculated on a transaction by transaction basis: that is, each individual SFT is treated as its own netting set, computed as the difference between the fair value of securities and cash lent to a counterparty for a transaction and the fair value of securities and cash received to a counterparty for a transaction. In other words, it shall follow the formula:

$$E = max, \{0, [Ei - Ci]\}$$

Where:

Ei = cash and the fair value of securities lent to a counterparty for a transaction, and

Ci = cash and the fair value of securities received from a counterparty for a transaction.

b. If a bank/non-bank acting as an agent in an SFT provides an indemnity or guarantee to a customer or counterparty for any difference between the value of the security or cash the customer has lent and the value of the collateral the borrower has provided, the bank/non-bank should include in its Exposure Measure only the measure for Counterparty Credit Risk Exposure (E). Otherwise, the treatment when the bank is acting as a principal shall be applied.

4. Off-balance sheet (OBS) Items

The leverage ratio exposure measure for Off-balance sheet (OBS) items is generally calculated by multiplying the notional amount of the OBS item by a credit conversion factor (CCF), as follows:

a. 100 percent CCF - this shall apply to OBS securitization exposures except an eligible liquidity facility or an eligible servicer cash advance facility, direct credit substitutes, e.g., general guarantees of indebtedness (including standby letters of credit serving as financial guarantees for loans and securities) and acceptances (including endorsements with the character of acceptances) as follows:

- Guarantees issued other than shipside bonds/airway bills; and
- Financial standby letters of credit

b. Fifty (50) percent CCF - this shall apply to OBS securitization exposures that qualify as eligible liquidity facilities[1] and certain transaction-related contingent items, performance bonds, bid bonds, warranties and standby letters of credit related to particular transactions) as follows:

- Performance standby letters of credit (net of margin deposits), established as a guarantee that a business transaction will be performed;
- Note issuance facilities (NIFs) and revolving underwriting facilities (RUFs); and
- Other commitments, e.g., formal standby facilities, commitments with an original maturity over one (1) year and Underwritten Accounts Unsold.

c. Twenty (20) percent CCF - this shall apply to short-term self-liquidating trade letters of credit arising from the movement of goods[2], e.g., documentary credits collateralized by the underlying shipments, such as:

- Trade-related guarantees:
  - Shipside bonds/airway bills
  - Letters of credit – confirmed
- Sight letters of credit outstanding (net of margin deposit);
- Usance letters of credit outstanding (net of margin deposit);
- Deferred letters of credit (net of margin deposit);
- Revolving letters of credit (net of margin deposit) arising from movements of goods and/or services; and
- Commitments with an original maturity up to one (1) year.

d. Ten (10) percent CCF - this shall apply to commitments that are unconditionally cancellable at any time by the bank without prior notice (i.e., Credit Card Lines), undrawn servicer cash advances or facility[3] or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness.

[1] These OBS securitization exposures must meet the definition and minimum requirements under Sec. 125-Q.
[2] Applied to both issuing and confirming banks
[3] Issued under Memorandum M-2014-044 dated 24 November 2014

This shall also apply to those not involving credit risk, as follows:

- Spot foreign exchange contracts (bought and sold);
- Late deposits / payments received;
- Inward bills for collection;
- Outward bills for collection;
- Travelers' checks unsold;
- Deficiency claims receivable; and
- Others.

B. Reporting and disclosure requirements

Starting 31 December 2014 and every quarter thereafter until 30 June 2018, banks/QBs concerned shall submit the Basel III Leverage Ratio reporting template on both solo and consolidated bases for monitoring purposes. The report shall use the prescribed forms and shall be submitted to the appropriate supervising department of the Bangko Sentral. The report submission is summarized below:

Report Date	Reference Date	Deadline of Submission
30 September 2017 31 December 2017	31 December 2017	Fifteen (15) banking/business days from end of reference date on solo basis and thirty (30) banking/business days from end of reference date on consolidated basis
31 March 2018	31 March 2018	
30 June 2018	30 June 2018	

Upon migration to a Pillar 1 minimum requirement effective on 01 July 2018, the Basel III Leverage Ratio report shall be submitted along with the Basel III CAR report[1].

The Basel III Leverage Ratio reporting template shall be composed of four (4) parts:

- Part I - Calculation of Basel III Leverage Ratio
- Part II - Derivative Exposures
- Part III - Securities and Financing Transactions
- Part IV - Off-Balance Sheet Items

In addition to the reporting template to be submitted to the Bangko Sentral, banks will be required to publicly disclose their Basel III leverage ratio on both solo and consolidated bases. The public disclosure requirements include:

- a summary comparison table that provides a banks' total accounting assets amounts and leverage ratio exposures;
- a common disclosure template that provides a breakdown of the main leverage ratio regulatory elements;
- a reconciliation requirement that details the source(s) of material differences between banks' total balance sheet assets in their financial statements and on-balance sheet exposures in the common disclosure template; and
- other disclosures (i.e., material period changes in the leverage ratio from the end of the previous reporting period to the end of the current reporting period).

The public disclosure requirements shall be made either through inclusion of the requirements in the bank's/QB's annual reports or published financial statements that are posted in the banks'/QBs' websites. An ongoing archive of all the reconciliation templates, disclosure templates and explanatory tables relating to prior periods must be made available by banks in their website. All disclosures must be made according to the defined templates.

At a minimum, three (3) items must be publicly disclosed in the quarterly published balance sheet: (i) the numerator (Tier 1 capital); (ii) the denominator (exposure measure); and (iii) the Basel III Leverage Ratio.

(As amended by Circular Nos. 1051 dated 27 September 2019, 943 dated 26 January 2017 and 881 dated 09 June 2015)

[1] Issued under Memorandum M-2014-044 dated 24 November 2014

EXAMPLES OF MINIMUM INTERNAL CONTROL MEASURES

[Appendix to Sec. 162-Q (Control activities), Sec. 152-S (Control activities), and Sec. 131-N (Control activities)]

1. Independent balancing

a. Monthly reconciliation of general ledger balances against respective subsidiary and supporting records and documentation by someone other than the bookkeeper or the person handling the records, or the person directly connected with processing the transactions;

b. Irregular and unannounced count of teller's/cashier's cash and checks and other cash items and vault cash including Automated Tellering Machine's (ATM) cash dispensers by the auditor/control officer or by an officer not connected with cash department or its equivalent;

c. Monthly reconciliation of due from banks, cash in bank accounts (domestic and foreign) and due from/to head office/ branches by someone other than the person handling the records or posting the general ledger entries;

d. Periodic verification of securities and collaterals by someone other than their custodian; and

e. Periodic verification of the accuracy of the interest credits to deposit liabilities accounts.

2. Physical handling of transactions

a. A person handling cash shall not be permitted to post the ledger records nor should posting the general ledger be performed by an employee who posts the depositor's/investor's/creditor's subsidiary ledgers;

b. A lending officer shall never be allowed to disburse proceeds of loans, accept payment on loans nor post loan ledgers;

c. The functions of issuing, recording and signing of drafts/checks shall be separated;

d. Checks and other cash items shall be maintained either by an employee not handling cash or by the Rack/Distributing Department provided that adequate control as to custody and disposition of funds are properly maintained;

e. The receipt of statements from depository bank shall be assigned to an employee other than the one connected with the preparation, recording and signing of bank drafts or checks;

f. Custodians of securities shall not be allowed to handle security transactions;

g. Collateral appraisal shall be done by an employee/officer who does not approve loans;

h. Incoming checks and other cash items shall be recorded chronologically in a register by an employee other than the bookkeeper before they are forwarded for posting purposes;

i. Credit reports shall be obtained by someone other than lending officers;

j. Mailing of customers' statements and delinquent notices shall be done by an employee other than the one who granted the loan or the one handling the records; and

k. Dispatching and delivery of current account statements shall be done by someone who is not involved in current account operations.

l. For QBs, paid checks/drafts should be controlled and maintained by an officer/ employee other than the authorized signatory or the cashier.

3. Joint custody

The following shall be under joint custody:

a. Cash on hand or in vault and in ATM cash dispensers;
b. All accountable forms;
c. Collaterals;
d. Securities;
e. Documents of title and/or ownership of properties or fixed assets;
f. Dormant or inactive deposit ledgers/ EDP print-outs and corresponding signature cards including on-line posting of dormant/ inactive accounts;
g. Import documents;

h. Trust receipts;
i. Collection items;
j. Duplicate keys, safe deposit spare locks and keys, and keys to unrented safe deposit boxes;
k. Safekeeping items;
l. Vault door and safe combinations;
m. Unissued specimen signature books;
n. Correspondent's and bank's own telegraphic and/or electronic fund transfer system or cable test keys currently in use;
o. Test key fixed numbers unissued;
p. Unissued and captured ATM cards and similar devices;
q. Access locks and keys to on-line EDP terminals and similar devices; and
r. Access locks and keys to EDP mainframes and peripherals.

4. Dual Control

The following accounts/transactions shall be under dual control:

a. Checks, cashier's/ manager's checks, telegraphic transfers (TTs) and electronic fund transfer system (EFTS) – The signature of at least two (2) officers should be required in the issuance of cashier's/ manager's checks and payment orders (incoming and outgoing) of TTs and EFTS. The board of directors may, however, prescribe a predetermined amount by which one (1) senior officer can sign checks or payment orders, subject to appropriate control measures.

b. Certificates of Time Deposit – The board of directors of a bank is given the discretion to determine the number of signatories for the issuance of certificates of time deposit (CTDs). The internal control measures for the issuance of CTDs include, at a minimum, the following activities:

   (1) Joint custody of unissued CTD forms;
   (2) Accounting for all issued/ cancelled CTDs;
   (3) Signature requirement for the issuance of CTDs;
   (4) Counterchecking of issued CTDs against the tellers' proof sheets/validated slips; and
   (5) Recording of CTDs transactions.

c. Bank Drafts – The signature of two (2) authorized officers should be required in the issuance of bank draft.

d. Borrowings – The signature of the least two (2) authorized officers should be required.

e. All transactions giving rise to Due to or Due from accounts and all instruments of remittances evidencing these transactions particularly those involving substantial amounts should be approved by two (2) authorized officers.

5. Number Control

The following are the forms, instruments and accounts that shall be number-controlled:

a. Bank drafts;
b. Checks, manager's and cashier's checks;
c. Promissory notes and other commercial papers;
d. Savings deposit accounts;
e. Demand deposit accounts;
f. CTDs;
g. Letters of credit;
h. Collection items;
i. Official and provisional receipts;
j. Certificates of stocks;
k. Loan accounts;
l. Expense vouchers;
m. Payment orders (incoming and outgoing) of TTs and EFTS;
n. Transfer requests through EFT involving bank's accounts abroad;
o. EDP batch transmittal slips of documents; and
p. Due to/from head office/branches tickets.

6. Confirmation of accounts

At least once a year, the internal auditing staff shall confirm by direct verification with BSFI clients, the following:

a. Balances of loans and credit accommodations of borrowers;
b. Deposit account balances particularly new deposit accounts, inactive or dormant accounts and closed accounts;
c. Outstanding balances of borrowings and other liabilities; and

d. Outstanding balances of receivables/ payables.
e. For QB, collaterals securing said accounts.

Processing of requests from clients regarding confirmation of accounts/deposit balances maintained in the BSFI, shall be centralized in the BSFI's Head Office. Certification issued for this purpose shall be number-controlled and signed/digitally signed by officers duly authorized by the board depending on the type of accounts and level of amounts involved. Designation of position of the signing officers shall be publicly disclosed thru any available means. The board shall hold accountable the officers concerned when actions are not aligned with the authority granted to them. Management shall develop an efficient process in accepting this type of requests and ensure that the information is delivered securely to its clients and/or intended users.

7. Internal control procedures for dormant/inactive accounts

a. Definition of dormant or inactive accounts

(1) Current or checking accounts showing no activity (deposit or withdrawals) for a period of one (1) year.
(2) Savings account showing no activity (deposit or withdrawals) for a period of two (2) years.

b. Procedures for classification. Banks shall review and segregate dormant accounts as herein defined at least once in every semester.
c. Internal control measures

(1) As a matter of policy, banks shall exert all efforts to prevent checking and savings accounts from becoming dormant. When it becomes apparent that an account is inactive, a short letter should be sent to the depositor encouraging him to use his account. In case of checking accounts, the banks shall ensure that the monthly statement of accounts reach the depositors. If the depositors cannot be located, the following steps should be undertaken:

(a) Check any significant changes or fluctuations in the depositors' account balances over a period of time with emphasis on accounts with decreasing balances;
(b) Verify apparent reactivation entries, represented either by deposit or withdrawal, that appears to have prevented the account from being classified as dormant; and
(c) Investigate any obvious alteration of the ledger records.

(2) Entries to dormant account ledgers shall be verified and approved by a designated officer. His initials shall be placed next to the entry on the ledger sheet.

(3) Dormant accounts shall be segregated from active account ledgers with a separate subsidiary ledger. Segregated dormant accounts shall be placed under joint custody of two (2) responsible officers/ employees.

(4) Signature cards for dormant accounts shall be removed from active files and held under joint custody.

(5) All inquiries on dormant accounts shall be coursed to one officer who should obtain sufficient identification from the inquirer to assure that he is entitled to the information.

(6) A trial balance of dormant account ledgers shall be taken periodically and balances with the general control account by an employee other than the bookkeeper.

(7) Dormant or inactive accounts shall be verified directly with depositors.

(8) All transactions affecting dormant accounts shall be subject to audit by the internal auditor.

(9) A semestral report on deposit accounts transferred to dormant shall be rendered to bank management.

8. Other Internal Control Measures

a. Deposit accounts

(1) All new current accounts shall be approved by a designated officer.

(2) Signature cards and deposit ledger sheets shall be authenticated by some form of validation. Subsequent changes shall also be validated.

(3) Signature cards and deposit ledger sheets shall be accessible only to authorized persons.

(4) Deposit tickets shall be occasionally examined at irregular intervals to determine that postings are made on the actual date deposits are received.

(5) Checks shall be cancelled as soon as they have been paid and posted.

(6) Reports on closed accounts and returned checks shall be prepared daily.

(7) All current account statements shall be mailed or sent electronically via electronic mail (e-mail), or such other electronic means direct to depositors: Provided, That banks using the electronic means of sending the current account statements shall have prior Bangko Sentral- approved internet banking service and shall strictly observe the required retention of electronic data messages or electronic documents under Section 13 of R.A. No. 8792, otherwise known as the "Electronic Commerce Act". Undelivered statements shall be retained by an organizational unit not responsible for demand deposit account processing.

(8) An officer shall be designated to attend to customers who report differences on their statements.

(9) Checkbooks shall be issued only against requisition forms signed by an authorized signatory to the account.

(10) Banks shall adopt a system to establish the identity of their depositors.

b. For QBs: Investments

(1) Investment limits and a list of accredited companies as approved by the Board of Directors or by its Credit Committee should be established as a guide for investing in any FI engaged in money market trading.
(2) Investments should be secured by assets approved by the Board of Directors or by its Credit Committee.
(3) Checks representing placements of investments should be released only upon receipt of either the deposit substitute instrument or the underlying securities or documents of title.

c. Miscellaneous

(1) Loan applications and related documents shall be verified to ensure their authenticity particularly the name, residence, employment and current reputation of the borrowers.
(2) Tellers/cashiers paying checks to strangers shall obtain positive identification of the person and the account on which the checks are drawn should be verified.
(3) No employee shall be permitted to process transaction affecting his own account.
(4) Tellers/cashiers and other employees having contact with customers shall be prohibited from preparing deposit ticket, withdrawal slip or other forms for the customer.
(5) All banks shall have a sound recruitment policy.
(6) In the case of TBs, all accountable officers and employees shall be bonded.
(7) All QBs shall secure adequate insurance coverages, fidelity and other indemnity protection.

(Circular Nos. 1112 dated 8 April 2021 and 903 dated 29 February 2016)

REGULATORY RELIEF FOR NBQBs AFFECTED BY CALAMITIES

[Footnote to Sec. 172-Q (Sanctions in case of willful delay in the submission of reports/refusal to permit examination), Sec. 303-Q (Past Due Accounts and Non-Performing Loans), and Sec. 215-Q (4257Q)]

The Monetary Board approved the grant of temporary regulatory relief to banks with head offices and/or branches located in the areas listed in Item "I" of Annex A hereof which were devastated by calamities.

The temporary relief shall be in the form of the following whenever applicable:

For TBs/ RBs/Coop Banks/NBQBs

a. During a temporary grace period for payment or upon their restructuring and subject to reporting to Bangko Sentral, exclusion of the loans of borrowers in affected areas, which should have been reclassified as past due under Sec. 303-Q (*Past Due Accounts and Non-Performing Loans*) on the dates specified in Item "II" of Annex A and those maturing up to the dates indicated in Item "II" of Annex A, from computation of past due loan ratio: *Provided*, That Bangko Sentral documentary requirements for restructuring of loans for this purpose are waived and: *Provided, further*, That bank will adopt appropriate and prudent operational controls;

b. Reduction of the five percent (5%) general loan loss provision to one percent (1%) for restructured loans of borrowers in affected areas within the inclusive dates specified in Item "II" of Annex A,;

c. Non-imposition of penalties on legal reserve deficiencies of RBs/TBs/Coop Banks/NBQBs with head offices and/or branches in the affected areas incurred within the inclusive dates specified in Item "II" of Annex A: *Provided*, That these reserve deficiencies can be shown to be calamity related as certified by the bank, rather than due to pre-existing condition;

d. For all types of credits extended to individuals and businesses directly affected by the calamity, allowing, subject to Bangko Sentral prior approval, the booking of allowances for probable losses on a staggered basis over a maximum period of five (5) years on loans outstanding as of dates specified in Item "II" of Annex A;

e. Non-imposition of monetary penalties for delays in the submission of all supervisory reports due to be submitted within the inclusive dates specified in Item "II" of Annex A;[1]

f. Allowing banks to provide financial assistance to their officers and employees who were affected by the calamity even if not within the scope of the existing Bangko Sentral- approved Fringe Benefit Program (FBP) subject to subsequent submission of request for approval of the amendment to FBP to the appropriate supervision and examination department for regularization[2];

g. In the case of El Niño (2016), Moratorium without penalty on monthly payments due to the Bangko Sentral, for a period of one (1) year from declaration date of a state of calamity, for banks with ongoing rehabilitation; and

For All Rediscounting Banks

a. Upon application, granting of a 60-day grace period to settle the outstanding rediscounting obligations as of the dates specified in Item "II" of Annex A, with the Bangko Sentral of all rediscounting banks with head office, or with branches or with end-user borrowers in the affected areas except those with serious violations or findings with the appropriate supervising department of the Bangko Sentral; [3] and

b. In addition to above, allow the rediscounting banks to restructure with the Bangko Sentral, on a case-to-case basis the outstanding rediscounted loans of their end-user borrowers affected by the calamity, subject to the terms and conditions stated in the implementing guidelines provided in Item "III" of Annex A.

(M-2014-039 dated 01 October 2014, as amended by Circular Nos. 974 dated 29 September 2017, 945 dated 06 February 2017, M-2017-002 dated 18 January 2017, Circular No. 917 dated 08 July 2016, M-2016-006 dated 17 May 2016, M-2015-039 dated 04 November 2015, M- 2015-009 dated 28 January 2015 and M- 2015-005 dated 20 January 2015)

[1] Not applicable to El Niño (2016)
[2] Item "f" also covers UBs/KBs affected by Luis, Mario, Ruby, Seniang and Lando.
[3] Not applicable to El Niño (2016)

LIST OF AREAS COVERED BY THE REGULATORY RELIEF; INCLUSIVE DATES OF COVERAGE; AND IMPLEMENTING GUIDELINES ON THE RESTRUCTURING SCHEME

[Footnote to Sec. 172-Q (Sanctions in case of willful delay in the submission of reports/refusal to permit examination), and Sec. 303-Q (Past Due Accounts and Non-Performing Loans), and Sec. 215-Q (Reserve deficiencies; sanctions)]

I. Areas that were Declared under State of Calamity:

LUIS AND MARIO

a. National Capital Region (NCR): Caloocan City, Las Pinas City, Malabon City, Mandaluyong City, Manila, Marikina City, Pasay City, Pasig City, Quezon City, San Juan City, Valenzuela City, Makati City, Muntinlupa City, Navotas City and Taguig City
b. Region I: Ilocos Norte, Ilocos Sur, La Union and Pangasinan
c. Region II: Cagayan, Isabela and Nueva Vizcaya
d. Region III: Aurora, Bulacan, Nueva Ecija, Pampanga, Tarlac, Zambales and Bataan
e. Region IV-A: Batangas, Cavite, Laguna and Rizal
f. Region IV-B: Occidental Mindoro
g. Region V: Camarines Norte and Camarines Sur
h. Region VI: Negros Occidental
i. Region VII: Cebu
j. Cordillera Administrative Region (CAR): Abra, Benguet, Apayao, Kalinga, Mt. Province and Ifugao

RUBY

a. NCR: Caloocan City, Las Pinas City, Malabon City, Mandaluyong City, City of Manila, Marikina City, Muntinlupa City, Navotas City, Paranaque City, Pasay City, Pasig City, Quezon City, Taguig City and Valenzuela City
b. Region III: Bataan
c. Region IV-A: Batangas, Cavite, Laguna, Quezon and Rizal
d. Region IV-B: Marinduque, Occidental Mindoro, Oriental Mindoro, Palawan and Romblon
e. Region V: Albay, Camarines Norte, Camarines Sur, Catanduanes, Masbate and Sorsogon
f. Region VI: Aklan, Antique, Capiz, Guimaras, Iloilo and Negros Occidental
g. Region VII: Bohol, Cebu, Negros Oriental and Siquijor
h. Region VIII: Biliran, Eastern Samar, Leyte, Northern Samar, Samar (Western Samar) and Southern Leyte
i. Region XIII: Agusan del Norte, Agusan del Sur, Dinagat Islands, Surigao del Norte and Surigao del Sur

SENIANG

a. Region IV-B: Occidental Mindoro and Palawan
b. Region VI: Antique, Capiz, Iloilo and Negros Occidental
c. Region VII: Bohol, Cebu and Siquijor
d. Region VIII: Eastern Samar, Leyte and Northern Samar (Western Samar)
e. Region IX: Zamboanga Del Sur
f. Region X: Bukidnon, Camiguin, Lanao Del Norte and Misamis Oriental
g. Region XI: Compostela Valley, Davao Del Norte and Davao Oriental
h. Region XIII: Agusan Del Norte, Agusan Del Sur, Dinagat Islands, Surigao Del Norte and Surigao Del Sur

LANDO

a. Region I: Ilocos Norte, Ilocos Sur, La Union and Pangasinan
b. Region II: Cagayan, Isabela, Nueva Vizcaya and Quirino
c. Region III: Aurora, Bataan, Bulacan, Nueva Ecija, Pampanga, Tarlac and Zambales
d. Region IV-A: Cavite, Batangas, Laguna, Quezon and Rizal
e. Region V: Camarines Norte and Catanduanes
f. CAR: Abra, Apayao, Benguet, Ifugao, Kalinga and Mt. Province

EL NIÑO (2016)

NBQBs with head offices and/or branches located in areas which were affected by the El Niño phenomenon: *Provided*, That a declaration of a state of calamity is issued by the National Disaster Risk Reduction Management Council or the local sanggunian, upon the recommendation of the Regional or Local Disaster Risk Reduction and Management Council.

NINA

a. Region IV-A: Batangas, Cavite, Laguna, Quezon and Rizal
b. Region IV-B: Marinduque, Occidental Mindoro, Oriental Mindoro and Romblon
c. Region V: Albay, Camarines Norte, Camarines Sur, Catanduanes, Masbate and Sorsogon
d. Region VIII: Northern Samar

II. Inclusive Dates of the Application of Temporary Relief for Banks Affected by Calamities

	For RBs/TBs/Coop Banks/NBQBs						For All rediscounting Banks
	Exclusion from computation of past due loans ratio	GLL of only 1% For restructured loans	Non-imposition of penalties for late submission of supervisory reports	Non-imposition of penalties on legal reserve deficiencies from reserve week ended/to	Moratorium on monthly payments due to BSP until	Staggered booking of allowance for loan losses for loans outstanding as of	60-day grace period to pay rediscounting obligations outstanding as of
Luis and Mario	09/14/14 to 09/30/15	09/14/14 to 09/30/15	09/14/14 to 03/31/15	09/19/14 to 03/13/15		09/14/14	09/14/14
Ruby	12/06/14 to 12/31/15	12/06/14 to 12/31/15	12/06/14 to 06/30/15	12/11/14 to 06/11/15		12/06/14	12/06/14
Seniang	12/29/14 to 12/31/15	12/29/14 to 12/31/15	12/29/14 to 06/30/15	01/01/15 to 07/02/15		10/18/15	10/18/15
Lando	10/18/15 to 10/31/16	10/18/15 to 10/31/16	10/18/15 to 04/30/16	10/22/16 to 04/21/16			
El Niño (2016)	for a period of one (1) year from declaration date of a state of calamity including those loans becoming past due six (6) months after date of declaration	for a period of one (1) year from declaration date of a state of calamity	NA	for a period of one (1) year starting from reserve week following declaration of a state of calamity	for a period of one (1) year from declaration of a state of calamity	declaration date of a state of calamity	declaration date of a state of calamity
Nina	12/25/16 to 12/31/17		12/25/16 to 06/30/17	12/29/16 to 06/29/17	6/30/17	12/25/16	12/25/16

III. Implementing Guidelines on the Restructuring Scheme Covering the Rediscounting Obligations with the Bangko Sentral of Rediscounting Banks in the Areas Affected by Natural Calamities

1. Objectives

The objectives of the loan settlement scheme are, as follows:

1.1. To support the recovery efforts of rediscounting banks in the areas affected by the calamity;

1.2. To enable the rediscounting banks to liquidate their loan obligations with the Bangko Sentral by way of restructuring; and

1.3. To ensure the collection of the rediscounted loans which may become past due in view of the damage caused by the calamity, and maintain if not improve the quality of the loan portfolio of the Bangko Sentral.

2. Qualified Banks

2.1. All rediscounting banks with end- user borrowers located in affected areas which have been declared as "under state of calamity" by the proper authorities, i.e., the President of the Philippines or the local sanggunian, upon the recommendation of the National Risk Reduction and Management Council or Region/Local Disaster Risk Reduction and Management Council.

2.2. Rediscounting banks with serious violations or findings with the appropriate supervising department of the Bangko Sentral, and/or which are currently under investigation or subject to legal action by the Office of Special Investigation shall not be qualified to avail of the restructuring scheme.

2.3. In addition to Item No. "2.2", the Department of Loans and Credit (DLC) shall evaluate each bank to determine if each would qualify for the restructuring.

3. Terms and Conditions

3.1. Maturity

The restructured loan shall have a maximum term of five (5) years;

3.2. Amount to be restructured

The amount to be restructured shall be equivalent to the following:

- *Principal*. Unpaid outstanding balance of the principal obligation in the books of account of the Bangko Sentral.

- *Accrued interest.* Unpaid interest due on the outstanding principal obligation as of the end of the applicable repayment or amortization date, preceding the approval of the loan restructuring.

3.3. Interest rate

The interest rate to be charged against the outstanding principal balance of the restructured loan shall be based on prevailing rediscount rate. The interest shall be re-priced annually.

3.4. Maximum bank lending rate

The restructured interest rate of the bank to its end-user borrowers shall not exceed six percent (6.0%) over and above the applicable interest rate of the Bangko Sentral. Moreover, the bank shall not charge interest on accrued interest.

3.5. Terms of repayment

3..5.1. ***Settlement Value.*** The settlement value shall be paid by the bank in equal monthly amortizations: *Provided*, That the amortization period shall not exceed five (5) years, to wit:

- *Principal.* The principal obligation shall be paid in equal monthly amortization plus the applicable re discount rate; and

- *Accrued interest*. The accrued interest on the principal obligation as of the end of the month immediately preceding the approval of the loan settlement scheme shall likewise be paid in equal monthly amortizations. No interest shall be charged on the accrued interest.

3..5.2. ***Grace Period****.* The bank may be given a grace period of six (6) months within which to pay the first amortization if request for such is specified by the bank in the application for restricting.

3.6. Collaterals.

The following shall be acceptable collaterals

- Deed of Assignment on restructured promissory notes of end-user borrowers;
- Deed of Real Estate Mortgage on bank premises;
- Deed of pledge on government securities; and
- Other collaterals acceptable to the Bangko Sentral

3.7. **Required documents**.

Qualified banks shall submit the following documents:

1.1. Letter of Understanding (LOU), agreeing to the terms and conditions of the restructuring. The LOU shall be executed by the senior officers of the bank, duly designated by its Board of Directors

1.2. Surety Agreement executed by the controlling interest (single stockholder, natural or juridical owing more than fifty percent (50.0%) of the voting stocks) obligating himself/herself jointly and severally with the bank to pay monthly amortization, if there is collateral deficiency.

3.8. Default cause

- Failure to pay two (2) or more amortizations shall be considered an event of default and shall render the unpaid balance of the loan, plus accrued interest and penalty charges due thereon, immediately due and demandable;

- A penalty charge of twelve percent (12.0%) per annum shall be assessed on the defaulted amortization payment, reckoned from the amortization due date to date of payment.

The DLC may exercise the option to refer to the Office of Special Investigation or to an external lawyer for appropriate legal action, without further need for demand or notice to the defaulting bank.

4. <u>Application procedures</u>

4.1. **Filing of application**

The bank shall file with the DLC an application for restructuring of its outstanding rediscounting loans, supported by the following documents:

- Resolution of the Board of Directors a) authorizing the bank to enter into a loan settlement arrangement with the Bangko Sentral, and b) designating authorized senior officers thereof.

- The restructured Promissory Notes of the end-user borrowers and other supporting documents.

- Promissory Note with Trust Receipt Agreement and Deed of Assignment executed by the authorized senior officers of the bank, duly notarized.

- Collaterals under Item 3.6 of the Implementing Guidelines.

4.2. Notice of Approval of Application

The DLC shall notify the bank/QB of the approval of its application to avail of the loan settlement scheme. Upon receipt of said advice, the bank shall:

- Execute the applicable document under Item No. "4.1" of the implementing Guidelines
- Pay the required amortization immediately on the month following the date of approval of the loan restructuring scheme or after the grace period, as applicable, and monthly thereafter until fully paid.

5. Authorized Signatories of the Bangko Sentral

Transaction	Authorized Bangko Sentral Officer
Approval of the application to avail of the loan restructuring scheme	Director, DLC, or in his/ her absence, any of the DLC Deputy Directors
Approval to release the collateral documents	Director, DLC, or in his/ her absence, any of the DLC Deputy Directors
Execution of Cancellation of Deeds of Real Estate Mortgage Assignment or Pledge	Deputy Governor, Monetary and Economics Sector

6. Other Provisions

6.1. **Value-Date of the Settlement Scheme**

The value–date of the settlement value shall be the end of the month immediately preceding the date of approval of the loan restructuring.

6.2. **Effectivity date**

The loan restricting scheme shall be made available for a period of six (6) months reckoned from date of receipt of the appropriate supervising department of the Bangko Sentral of the letter-notification from the bank stating the letter's intention to avail of the relief package.

(Cir. 1017 dated 10 October 2018, M-2014-039 dated 01 October 2014, as amended by Circular Nos. 974 dated 29 September 2017, 945 dated 06 February 2017, M-2017-002 dated 20 January 2017, Circular No. 917 dated 08 July 2016, M-2016-006 dated 17 May 2016, M-2015-039 dated 04 November 2015, M-2015-009 dated 28 January 2015 and M-2015-005 dated 20 January 2015)

FORMAT CERTIFICATION ON COMPLIANCE WITH REQUIREMENTS ON DIVIDEND DECLARATION

[(Appendix to Sec. 123-Q (Reporting and verification)]

_____

Name of QB
CERTIFICATION

We, *(Name of Officer),* President *(or Officer of Equivalent Rank)* and *(Name of Officer)*, Chief Compliance Officer, in behalf of *(Name of QB),* with office address at *(Head/Principal Office)*, after having been duly sworn to in accordance with law, hereby certify that the QB's dividend declaration as of *(date of dividend declaration)*, as approved by the board of directors *(state resolution number and date)*, to the bank's stockholders of record as of *(record date)* amounting to *(amount of cash/stock/property dividend declaration)* complies with the provisions of Sec. 123-Q.

We further certify that at the time of dividend declaration, the quasi-bank has complied with the following:

a. Clearing account with the Bangko Sentral is not overdrawn;

b. Liquidity floor requirement for government funds; *(for banks)*

c. Minimum capitalization requirement and risk-based capital ratios as provided under applicable and existing capital adequacy framework;[1]

d. The combined requirement for capital conservation buffer and the countercyclical capital buffer, as defined in *Appendix Q-45*; (*for UBs/KBs grid their subsidiary banks and QBs*) Higher loss absorbency requirement as provided under Sec. 126-Q; (*for identified Domestic Systematically Important Banks and their subsidiary banks and QBs);*

e. Has not committed any unsafe or unsound banking practice and/or major acts or omissions as may be determined by the Bangko Sentral;

f. Has accumulated reserves of P_____for the retirement of the government preferred stock which is at least equal to the amount prescribed in Subsec. 3136.2 *(for rural and cooperative banks);*

g. Has complied with the provisions of Article 86 of R.A. No. 9520, its By-Laws and other applicable laws, rules and regulations on the allocation and distribution of net surplus *(for cooperative banks);*

h. Has complied with the provisions of Section 43 (Power to declare dividends) of The Corporation Code of the Philippines (Batas Pambansa Blg. 68), as may be applicable; and

i. Has complied with the provisions of revised implementing rules and regulations to R.A. No. 7656, 'An Act Requiring Government-Owned and/or Controlled Corporations to Declare Dividends Under Certain Conditions to the National Government, and for Other Purposes" *(for Government-Owned QBs).*

To the best of our knowledge, the foregoing statements are true and correct.

_____	_____
President	Chief Compliance Officer
TIN:	TIN:
Com. Tax Cert. No.:	Com. Tax Cert. No.:
Issued on:	Issued on:
Issued at:	Issued at:

Subscribed and sworn to before me, this___day of_____20____, at exhibiting his/her respective Community Tax Certificate as indicated above.

NOTARY PUBLIC

Doc. No. _____
Page No. _____
Book No. _____
Series of: _____

(Circular Nos. 1024 dated 06 December 2018, 888 dated 09 October 2015, and 930 dated 18 November 2016)

[1] We also certify that the bank/quasi-bank also apply with this requirement even after dividend distribution.

AGRICULTURE VALUE CHAIN - BUSINESS MODELS
(Appendix to Sec. 311-Q)

The agriculture value chain business models are characterized by the main driver of the value chain, and its rationale or objectives. The following are the typical organizational models for smallholder production:

Model	Driver of organization	Rationale
Producer-driven (Association)	- small-scale producers, especially when formed into groups such as associations or cooperatives; - large scale farmers	- access to new markets; - obtain higher market price; - stabilize and secure market position
Buyer-driven	- processors; - exporters; - retailers; - traders, wholesalers and other traditional market actors	- assure supply; - increase supply volumes; - supply more discerning customers - meeting market niches and interests
Facilitator-driven	- NGOs and other support agencies; - National and local governments	- 'make markets work for the poor'; - Regional and local development
Integrated	- lead firms; - supermarkets; - multi-nationals	- new and higher value markets; - low prices for good quality; - market monopolies;

Reference:
Miller, C. and Jones, L. 'Agricultural Value Chain Finance, Tools and Lessons'. Published by FAO and Practical Action Publishing, 2010.

(Circular Nos. 930 dated 18 November 2016 and 908 dated 14 March 2016)

REPORTING GUIDELINES AND INSTRUCTIONS ON REPORTORIAL TEMPLATE ON REPURCHASE AGREEMENTS (REPOS)

[Appendix to Sec. 172-Q (Report on Repurchase Agreements)]

I. Rationale

The creation and design of this Prudential Reporting Template on Repurchase agreements (Repos) aims to strengthen financial surveillance, particularly in monitoring market trends and vulnerabilities in repo markets, to enable supervisory authorities to formulate effective policy responses to ensure continued functioning and efficiency of the financial system. This prudential reporting template only covers borrowings in the form of repo transactions and excludes Reverse Repurchase Agreements.

II. Definition of Repurchase Agreements for Banks

A repurchase agreement is a contract wherein a QB, in exchange for cash (repo seller/cash borrower), sells the security to another party (repo buyer/cash lender) under a true sale agreement with a simultaneous commitment to repurchase the security at a fixed price at a date certain or on-demand.

Repo sellers/cash borrowers record repos as *"Bills Payable-Repo",* while repo buyers/cash lenders record repos as *"Loans and Receivables Arising from Repurchase, Certificates of Assignment/Participation with Recourse and Securities Lending and Borrowing Transactions – Matrix of Counterparty and Issuer of Collateral Securities".*

III. Description, Structure and Purpose of Data Elements

A. *Data elements, vulnerability points, and risk detection*

The reportorial template is designed to capture timely and comprehensive transactional-level data on repos of QBs in order to gauge systemic and firm-level risk.

The template consists of three (3) schedules, namely:

1. End of Day Balance

   The 'End of Day Balance' schedule provides a snapshot of daily repo transactions. It shows the daily movement of repos as well as the fair value of the securities used in the repo transactions. This schedule aims to obtain an aggregated view of repo turnover as well as gearing/leverage on a daily basis.

2. Month-End Balance

   The 'Month-End Balance' schedule shows details of outstanding repos as of the end of the month. The information required for outstanding repos include details on the economic terms of the repo transaction, counterparties, and underlying securities.

Transactional details

Transactional details of repos, such as the *outstanding balance*, *repo rate* and *remaining maturity,* are essential to ascertaining the funding/maturity profile of repos of the industry and its exposure to rollover/liquidity and interest rate risk from such funding source. Currency composition of both cash and security components, meanwhile, indicate industry-wide exposure to FX risk related to repos.

Counterparty details

These consist of information on a QB's counterparty (repo buyer/cash lender) and its sectoral profile. These aid in determining credit, cross-border and concentration risk of the financial system when aggregated.

Counterparty information enables the assessment of interconnectedness and the manner by which vulnerabilities in a QB can be transmitted to other QBs or firms.

Security details

The report requires QBs to disclose the *type, quality and fair value of a repo's underlying security*. Said information are indicators of the potential variation in the value of the "repoed" security and concentration in holding of the underlying repo security which may impact on market liquidity of the security. For purposes of determining fair value of securities, banks shall be guided by the Bangko Sentral prescribed marking-to-market guidelines for securities under *Appendix Q-23*.

3. Repo Transactions for the Month

The *'Repo transactions for the Month'* schedule provides information on repo deals that are availed and which subsequently mature or are pre-terminated within the reporting month. The information required to be disclosed on these repo deals include details on the economic terms of the repo transaction, counterparties and underlying securities.

QBs that have no repo deals with their entire repo term (availment up to maturity/pre-termination) falling within the reporting month need not accomplish this schedule.

B. *Data components*

1. Components of End of Day Balance Schedule

The following data fields are provided with the following descriptions:

Category	**Standardized Data Fields**	
	Date Fields	**Description**
Transaction Details	**Date**	**Refers to a calendar day (yyyy-mm-dd)**
	No. of Repo Deals for the Day	
Economic terms of the repo transaction	Availments	Refers to the number of repo deals availed during the day. Repo availments shall include renewals and rollovers.
	Matured/Pre-terminated	Refer to the number of repo deals matured/pre-terminated during the day.
	Amount	
	Bills Payable Repo	
	Beginning Balance	Refers to the ending balance of Bills Payable-Repo of the previous day.
	Availment for the Day	Refers to the total amount of repo transactions availed during the day.
	Matured/Pre-terminated for the Day	Refers to the total amount of repo transactions which matured or were pre-terminated during the day.
	Other Adjustments/Transactions	Refers to adjustments/transactions affecting repos, other than those pertaining to availments, maturing and pre-terminations. Examples of other adjustments/transactions affecting repos include, but need not be limited to corrections on balances/amortization.
	End of Day Balance	Refers to the ending balance of the Bills Payable -Repo account for the day.
	Fair Value of Security Subject of the Repo	
	Debt Securities	Refers to the mark-to-market (MTM) value of the security, if these are in the form of debt securities, as of the end of the day.

	Equity Securities	Refers to the MTM value of the security, if these are in the form of equity securities, as of the end of the day.
	Total	Refers to the total MTM of securities subject of the repo.

2. Components of Month-End Balance Schedule

Category	**Standardized Data Fields**	
	Date Fields	**Description**
Transaction Details	Entry Number	Refers to the unique number that identifies an entry.
Economic terms of the repo transaction	Deal Date	Refers to the date (yyyy-mm-dd) when a repo transaction is availed.
	Maturity Date	Refers to the date (yyyy-mm-dd) when a repo transaction matures. For repos that are on demand, QBs shall indicate "on-demand".
	Market Segment	Refers to the market segment of the repo which can either be: bilateral, tri-party or Central Clearing Counterparty (CCP). CCP refers to repos that are transacted through an entity that interposes itself between counterparties to contracts traded in one(1) or more financial markets, becoming the buyer to every seller and the seller to every buyer and thereby ensuring the performance of open contracts. Bilateral refers to repurchase agreements between two (2) institutions. Tri-party refers to the repurchase agreements between two institutions where securities serving as collateral are held by a third party that provides collateral management and settlement services.[1]
	Financial Market Infrastructures[2] such as 1. Tri-party 2. CCP 3. Trade Exchange	Refers to the name of the institution that provides tri-party, CCP or trade exchange services, if applicable.
	Purpose	Refers to the purpose/reason of the financial institution for entering into a repo transaction. This can be, but need not be, limited to any of the following: cash funding requirement securities requirement for market-making hedging collateral transformation business contingency testing others.
	Term	Refers to the length of the contract. (auto-generated by the reporting system)

[1] Source: Committee on Payment and Settlement Systems (CPSS), Principles for Financial Market Infrastructures, April 2012; and Federal Reserve Bank of New York, Paper on Repo and Securities lending, February 2013

[2] A multilateral system among participating institutions, including the operator of the system, used for the purposes of clearing, settling, or recording payments, securities, derivatives, or other financial transactions. (Source: Ibid.)

	Repo Rate	Refers to the cost incurred by the QB (expressed as a % per annum rate) for borrowing cash, classified either as (1) fixed or (2) floating rate. Note: If the repo rate is floating, report the applicable floating rate as of reporting date.
	Margin	Refers to the amount of margin set aside by the repo seller/cash borrower in accordance with margin parameters agreed by both parties in the repo agreement (expressed in PhP) classified either as (1) cash or (2) security (fair value of the security) as of reporting date.
	Contractual Currency	Refers to the original currency of the repos.
	Booking Details	Refers to RBU, E/FCDU or Foreign Office.
	Bills Payable under Repurchase Agreement	Refers to the amortized cost of repo borrowings in both original currency and peso equivalent, in the case of foreign currency denominated repos[1], as of reporting date.
Counterparty Details Data on the individuals or institutional unit to which the entity is exposed.	Resident/Non-resident/Multilateral	A *resident* refers to an individual or institutional unit that has a center of economic interest in the economic territory of the Philippines. A *non-resident* refers to an individual or institutional unit that has a center of economic interest outside the economic territory of the Philippines. A *multilateral agency* refers to an international organization defined in the FRP for banks.
	Geographic Region	Refers to the geographic region of the counterparty. This shall consist of: 1. Northern America 2. Latin America 3. Europe 4. Asia 5. Others
	Country	Refers to the country of the counterparty.
	Sector (General)	Refers to the general sector of the following counterparties: 1. *Resident counterparty* such as government, Bangko Sentral, banks, private corporations and individuals; 2. *Non-resident counterparty* such as central government, public sector, banks, private corporations and individuals; or 3. *Multilateral agency* refers to the World Bank Group comprised of the International Bank for Reconstruction and Development (IBRD) and the International Finance Corporation (IFC),

[1] Circular No. 494 Series of 2005. Peso equivalent shall be derived from the Philippine Dealing System (PDS) Peso/US Dollar closing rate or for third currencies the New York US Dollar/Third Currencies closing rates.

		Asian Development Bank (ADB), African Development Bank (AfDB), the European Bank for Reconstruction and Development (EBRD), the Inter-American Development Bank (IADB), the European Investment Bank (EIB), the Nordic Investment Bank (NIB), the Caribbean Development Bank (CDB), the Council of Europe Development Bank (CEDB) and other entities that may be recognized by the Bangko Sentral as multilateral agencies.
	Sector (Specific)	This refers to the sub-classification of the following sectors of the counterparty: *For residents Government sector* i. National government ii. LGUs iii. GOCCs a. Social Security Institutions b. Other financial institutions c. Non-financial institutions *Banks* i. UBs/KBs ii. Other banks *Private corporations* i. Financial corporations ii. Non-financial corporations *For Non-residents Banks* i. OBUs ii. Other banks
	Counterparty Name	Refers to the name of the QB's counterparty as stated in its Articles of Incorporation/Registration, in the case of juridical entities/sole proprietorship, as applicable.
Security Details Information about the security that is the subject of the repo transaction	**Security Details**	
	ISIN	Refers to the International Securities Identification Number (ISIN) of the security.
	Security Type	Refers to the type of security subject of the repo transaction (i.e., debt securities or equity securities).
	Listing Details	Refers to whether the security is listed on a registered exchange or not. Note: Answerable by YES or NO
	Maturity date	Refers to the maturity date of the security, in the case of debt securities. (yyyy-mm-dd)
	Accounting classification of the securities	Refers to the accounting classification of the underlying securities as booked by the QB. Financial assets are classified according to the following categories: 1. HFT, 2. HTM, 3. AFS, 4. INMES, and 5. UDSCL.
	Currency denomination	Refers to the original currency of the security.

	Face Value (Debt security)	Refers to the face value of the security, in the case of debt securities.
	Number of Shares (Equity security)	Refers to the number of shares, in the case of equity securities.
	Total Fair Value	Refers to the MTM value of the security in both original currency and peso equivalent, in the case of foreign Currency denominated repos, as of reporting date.
	Net Carrying Amount	Refers to the net carrying amount of the security recorded as HTM, UDSCL and INMES, which corresponds to the amortized cost of securities less any allowance for specific credit losses, in both original currency and peso equivalent, as of reporting date.
	Security Issuer Details	
	Resident/Non-resident Multilateral	A *resident* refers to an individual or institutional l unit that has a center of economic interest in the economic territory of the Philippines; A *non-resident* refers to an individual or institutional unit that has a center of economic interest outside the economic territory of the Philippines; and A *multilateral agency* refers to an international organization as defined in the FRP for banks.
	Geographic Region	Refers to the geographic region of the issuer. This shall consist of: 1. Northern America 2. Latin America 3. Europe 4. Asia 5. Others
	Country	Refers to the country of the issuer.
	Sector (General)	Refers to the general sector of the following issuers: 1. *Resident counterparty* such as government, Bangko Sentral, banks, and private corporations. 2. *Non-resident counterparty* such as central government, public sector, banks, and private corporations. 3. *Multilateral agency* refers to the World Bank Group comprised of the IBRD and IFC, ADB, AfDB, EBRD, IADB, EIB, NIB; CDB, CEDB and other entities that may be recognized by the Bangko Sentral as multilateral agencies.
	Sector (Specific)	This refers to the sub-classification of the following sectors of the issuer: *For Residents Government sector* i. National government ii. LGUs iii. GOCCs a. Social security Institutions

		b. Other financial institutions c. Non-financial institutions *Banks* i. UBs/KBs ii. Other banks *Private corporations* i. Financial corporations ii. Non-financial corporations *For Non-residents Banks* i. OBUs ii. Other banks
Issuer Details	Issuer Name	Refers to the name of the issuer of the security as stated in its Articles of Incorporation/Registration

4. Components of the Repo Transactions for the Month Schedule

Category	**Standardized Data Fields**	
	Data Fields	**Description**
Transaction Details	Entry number	Refers to the unique number that identifies an entry.
	Deal Date	Refers to the date (yyyy-mm-dd) when a repo transaction is availed.
	Maturity Date	Refers to the date (yyyy-mm-dd) when a repo transaction matures. For repos that are on demand, QBs shall indicate "on-demand"
	Market Segment	Refers to the market segment of the repo which can either be: bilateral, tri-party or CCP. CCP refers to repos that are transacted through an entity that interposes itself between counterparties to contracts traded in one (1) or more financial markets, becoming the buyer to every seller and the seller to every buyer and thereby ensuring the performance of open contracts. Bilateral refers to repurchase agreements between two (2) institutions. Tri-party refers to repurchase agreements between two (2) institutions where securities serving as collateral are held by a third party that provides collateral management and settlement services[1]
	Financial Market Infrastructure[2] such as 1. Tri-Party 2. CCP 3. Trade Exchange	Refers to the name of the institution that provides tri-party, CCP or trade exchange services, if applicable

[1] Source: Committee on Payment and Settlement Systems (CPSS), Principles for Financial Market Infrastructures, April 2012; and Federal Reserve Bank of New York, Paper on Repo and Securities Lending, February 2013

[2] A multilateral system among participating institutions, including the operator of the system, used for the purposes of clearing, settling, or recording payments, securities, derivatives, or other financial transactions. (Source: Ibid.)

	Purpose	Refers to the purpose/reason of the financial institution for entering into a repo transaction. This can be but need not be limited to any of the following: 1. cash funding requirement 2. securities requirement for market-making 3. hedging 4. collateral transformation 5. business contingency testing 6. others
	Term	Refers to the length of the contract. (auto-generated by the reporting system)
	Repo Rate	Refers to the cost incurred by the QB (expressed as a % per annum rate) for borrowing cash, classified as (1) fixed or (2) floating rate Note: If the repo rate is floating, report the applicable floating rate as of availment date.
	Margin	Refers to the amount of margin set aside by the repo seller/cash borrower in accordance with margin parameters agreed by both parties in the repo agreement (expressed in PhP) classified either as (1) cash or (2) security (fair value of the security) as of availment date.
	Contractual Currency	Refers to the original currency of the repo
	Booking Details	Refers to RBU, E/FCDU or Foreign Office
	Bills Payable under Repurchase Agreement	Refers to the amortized cost of repo borrowings in both original currency and peso equivalent, in the case of foreign currency denominated repos[1] as of *availment date.*
Counterparty Details	Resident/Non-Resident/Multilateral	A *resident* refers to an individual or institutional unit that has a center of economic interest in the economic territory of the Philippines. A *non-resident* refers to an individual or institutional unit that has a center of economic interest outside the economic territory of the Philippines. A *Multilateral agency* refers to an international organization defined in the FRP for banks.
	Geographic Region	Refers to the geographic region of the counterparty. This shall consist of: 1. Northern America 2. Latin America 3. Europe 4. Asia

[1] Circular No. 494 Series of 2005. Peso equivalent shall be derived from the Philippine Dealing System (PDS) Peso/US Dollar closing rate or for third currencies the New York US Dollar/Third Currencies closing rates.

		5. Others
	Country	Refers to the country of the counterparty.
	Sector (General)	Refers to the general sector of the following counterparties: 1. *Resident counterparty* such as government, Bangko Sentral, banks, private corporations and individuals; 2. *Non-resident counterparty* such as central government, public sector, banks, private corporations and Individuals; or 3. *Multilateral agency* refers to the World Bank Group comprised of the IBRD and the IFC, ADB, AfDB, EBRD, IADB, EIB, NIB, CDB, CEDB and other entities that may be recognized by the Bangko Sentral as multilateral agencies.
	Sector (Specific)	This refers to the sub-classification of the following sectors of the counterparty: *For Residents Government Sector* i. National government ii. LGUs iii. GOCCs a. Social Security Institutions b. Other financial institutions c. Non-financial institutions *Banks* i. UBs/KBs ii. Other banks *Private Corporations* i. Financial corporations ii. Non-financial corporations *For Non-Residents Banks* i. OBUs ii. Other banks
	Counterparty Name	Refers to the name of the QB's counterparty as stated in its Articles of Incorporation/Registration, in the case of juridical entities/sole proprietorship, as applicable.
Security Details Information about the security that is the subject of the repo transaction	**Security Details**	
	ISIN	Refers to the ISIN of the security.
	Security Type	Refers to the type of security subject of the repo transaction (i.e., debt securities or equity securities).

	Listing Details	Refers to whether the security is listed on a registered exchange or not. Note: Answerable by YES or NO
	Maturity Date	Refers to the maturity date of the security, in the case of debt securities (yyyy-mm-dd).
	Accounting Classification of the Securities	Refers to the accounting classification of the underlying securities as booked by the QB. Financial assets are classified according to the following categories: 1. HFT 2. HTM 3. AFS 4. INMES 5. UDSCL
	Currency denomination	Refers to the original currency of the security.
	Face Value (Debt Security)	Refers to the face value of the security, in the case of equity securities.
	Number of Shares (Equity security)	Refers to the number of shares, in the case of equity securities.
	Total Fair Value	Refers to the MTM value of the security in both original currency and peso equivalent, in the case of foreign currency denominated repos, as of availment date.
	Net Carrying Amount	Refers to the net carrying amount of the security recorded as HTM, UDSCL and INMES, which corresponds to the amortized cost of securities less any allowance for specific credit losses, in both original currency and peso equivalent, as of availment date.
	Security Issuer Details	
	Resident/Non-resident/ Multilateral	A *resident* refers to an individual or institutional unit that has a center of economic interest in the economic territory of the Philippines; A *non-resident* refers to an individual or institutional unit that has a center of economic interest outside the economic territory of the Philippines; and A *multilateral agency* refers to an international organization as defined in the FRP for banks.
	Geographic Region	Refers to the geographic region of the issuer. This shall consist of: 1. Northern America 2. Latin America 3. Europe 4. Asia

		5. Others
	Country	Refers to the country of the issuer
	Sector (General)	Refers to the general sector of the following issuers: 1. Resident counterparty such as government, Bangko Sentral, banks, and private corporations. 2. Non-resident counterparty such as central government, public sector, banks and private corporations. 3. Multilateral Agency refers to the World Bank Group comprised of the IBRD and IFC, ADB, AfDB, EBRD, IADB, EIB, NIB, CDB, CEDB and other entities that may be recognized by the Bangko Sentral as multilateral agencies.
	Sector (Specific)	This refers to the sub-classification of the following sectors of the issuer: *For Residents Government sector* i. National government ii. LGUs iii. GOCCs a. Social security Institutions b. Other financial institutions c. Non-financial institutions *Banks* i. UBs/KBs ii. Other banks *Private corporations* i. Financial corporations ii. Non-financial corporations *For Non-residents Banks* i. OBUs ii. Other banks
Issuer Details	Issuer Name	Refers to the name of the issuer of the security as stated in its Articles of Incorporation/Registration.
Pre-termination or Maturity Details Information for matured and pre-terminated transactions	Status	Refers to either a pre-terminated or matured repo transaction.
	Pre-termination Date/Maturity Date	Refers to the date of pre-termination or maturity of the repo transaction.

	Amount Pre-terminated/Matured (Original Currency)	Refers to the outstanding balance of the repo when the transaction was pre-terminated or matured. This is in original currency of the transaction.
	Amount Pre-terminated/Matured (PhP Equivalent)	Refers to the outstanding balance of the repo when the transaction was pre-terminated or matured. This is in PhP equivalent in the case of foreign currency denominated repos.
	Reason for Pre-termination	Refers to the reason why the transaction was pre-terminated.

Foreign currency-denominated accounts shall be reported, in their peso equivalent using the Philippine Dealing System (PDS) peso/US Dollar closing rate, or, for third currencies, the New York US Dollar/Third Currencies closing rate.

QBs without repo transactions shall submit the Reportorial Template on Repurchase Agreements (Repos) and the Control Prooflist certifying that there is nothing to report for the month.

IV. Effectivity

The Repo reporting template shall take effect as of the reporting period ending 30 June 2017.

(M-2017-020 dated 28 June 2017 and Circular No. 923 dated 31 August 2016)

GUIDELINES ON GRANTING OF LICENSE/AUTHORITY
(Appendix to Sec. 111-Q)

I. Guiding Principle

The Bangko Sentral, the licensing authority, has the power to set criteria and reject applications that do not comply with the criteria/standards set. In this light, the Bangko Sentral is providing the following guidelines on its licensing process to establish accountability and promote transparency to banks and BSFIs wishing to apply for any licenses/authorities within the jurisdiction of the Bangko Sentral. These guidelines also aim to provide more consistency in how risk-focused supervision is applied to licensing process.

The Bangko Sentral will not restrict the scope of risk-taking activities of BSFIs consequent of the licenses and/or authorities granted: *Provided,* That these licenses and/or authorities are in line with their business model and strategic direction: *Provided, further,* That BSFIs demonstrate the capacity and ability to implement these strategies.

As indicated in the new licensing policy, applications for licenses and/or authorities are categorized as follows:

a. *Type "A"* – applications for licenses and/or authorities where compliance with the defined prudential requirements/criteria described in Sec. 111-Q *(Prudential Criteria)* is a pre-condition for applicants to be considered eligible;

b. *Type "B"* – applications for licenses and/or authorities processed regardless of risk profile); and

c. *Type "C"* -activities which no longer require submission of applications and processing but shall be subject to submission of reports/certification/notification within stated deadlines. However, compliance with pre-qualification requirements is subject to post verification and any false information and/or mispresentation may be a basis for the imposition of approriate enforcement actions described in Sec. 111-Q *(Enforcement Actions).*

II. Guidelines and procedures

1. *Process flow.* The licensing application process involves four (4) stages, to wit:

   a. *Stage 1. Eligibility test and assessment.* The Bangko Sentral shall consider an applicant's eligibility for licenses/authorities categorized as *Type "A"* in accordance with the standards and/or prudential criteria described in Sec. 111-Q *(Prudential Criteria)* ; and whether approval thereof is consistent with applicable laws, rules, regulations, policies and safety and soundness considerations.

      In this regard, BSFIs shall signify to the appropriate supervising department of the Bangko Sentral its interest to apply for a license(s) or authority/ies. However, the Bangko Sentral expects each BSFI to have conducted self-assessment vis-à-vis prudential criteria and/or requirements to determine whether it is eligible and/or qualified to apply for any specific license/authority, prior to signifying its interest.

      BSFIs with CAMELS composite rating of below *"3"*, or under PCA or rehabilitation may still be considered eligible, on a case by case basis, upon showing valid justifications and/or verifiable evidence of significant compliance with the comprehensive PCA plan (PCAP)/rehabilitation plan approved by the Bangko Sentral and/or if licenses and/or authorities applied for are vital to the implementation of the PCAP/rehabilitation plan.

   b. *Stage 2. Application.* The BSFI upon receipt of notice and/or confirmation from the Bangko Sentral of its eligibility can now formally submit its application letter together with the documentary requirements, as applicable to the license/authority applied for. Applications with incomplete documentation will be returned without prejudice to re-submission of a complete application and collection of applicable fees.

   c. *Stage 3. Processing.* Upon receipt of a complete application, the appropriate supervising department of Bangko Sentral shall proceed in preparing the memorandum elevating to the appropriate approving authority of the Bangko Sentral its recommended action/s.

   d. *Stage 4. Decision.* Within five (5) working days upon approval and/or confirmation from the appropriate authority of the Bangko Sentral, BSFIs shall expect to be notified of the decision on their request /application.

      The Bangko Sentral may request information and/or documents aside from the minimum documentary requirements for each type of license/authority to arrive at an informed decision. It may also conduct limited inspection or validation, when warranted.

The Bangko Sentral may approve any application of an eligible applicant after evaluating the application and considering relevant factors. Likewise, the Bangko Sentral may deny applications if (a) significant supervisory or compliance concerns exist or (b) the applicants fail to provide material information necessary to make an informed decision.

2. *Responsibility*

The Bangko Sentral expects each applicant to prepare accurately and completely each application/certification/reports submitted to the appropriate supervising department of the Bangko Sentral.

By virtue of the application, the applicant authorizes the Bangko Sentral to conduct an on-site evaluation or inspection for the purpose of ascertaining compliance with relevant laws, rules, regulations and/or directives, and/or applicant's risk management capabilities, when warranted.

For this purpose, the applicant shall include in its application letter the authorization in favor of the Bangko Sentral giving its consent to the conduct of on-site verification of the documents and/or representations stated in the application filed in connection with the license or authority applied for.

3. *Fees*

An applicant, depending on its classification and type of license/authority applied for, shall be assessed the following fees per application:

i. *Processing fee* -shall be charged upon filing of an application and is non-refundable. In case of re submission of application that is returned for incomplete documentation, another processing fee shall be charged anew; and
ii. *Licensing fee* -shall be charged to certain application upon approval. The licensing fee shall be net of the processing fee.

For banks, assessed fees shall be debited from the applicants' demand deposit account with the Bangko Sentral upon the lapse of fifteen (15) calendar days reckoned from receipt of Bangko Sentral's decision on its request/application. For this purpose, banks shall, upon filing of an application, state in its application letter the authority to debit their demand deposit account with the Bangko Sentral for the applicable fees to the license or authority applied for. Otherwise, assessed fees shall be paid to the Bangko Sentral.

4. *Post decision*

Unless otherwise prescribed by the Bangko Sentral, an applicant may file a new application for a denied and/or withdrawn application after the lapse of six (6) months reckoned from the date of denial/withdrawal: *Provided,* That any weaknesses, deficiencies and/or non-compliance with any laws, rules, regulations and/or directives that made the applicants ineligible have already been satisfactorily addressed.

(Circular No. 947 dated 15 February 2017)

DISCLOSURE REQUIREMENTS IN THE ANNUAL REPORT

(Appendix to Sec 174-Q (Disclosure requirements in the annual report)

Introduction

This Appendix outlines the guidelines on the minimum disclosure requirements of the Bangko Sentral for the Annual Report of QBs. The guidelines shall take effect for financial year 2017.

Basic Disclosure Requirements

All QBs shall prepare an Annual Report which shall include a discussion and/or analysis of the following minimum information:

1. Corporate Policy

   A brief discussion of the following information covering the first page of the Annual Report:

   a. Brief discussion of QB's vision and mission statements
   b. Introduction of the QB's brand that differentiates it from other QBs
   c. Business model of the QB

2. Financial Summary/Financial Highlights

   A two (2)-year comparative presentation of selected profitability, capital, performance, and balance sheet data/ratios which will serve as a snapshot of the QB's financial condition to be presented after Item "1" above on Corporate Policy. The QB may use the template below:

	Consolidated[1]		Parent Entity (Solo)	
Minimum Required Data	**Current Year**	**Previous Year**	**Current Year**	**Previous Year**
Profitability				
Total Net Interest Income				
Total Non-Interest Income				
Total Non-Interest Expenses				
Pre-provision profit				
Allowance for credit losses				
Net Income				
Selected Balance Sheet Data				
Liquid Assets				
Gross Loans				
Total Assets				
Deposits				
Total Equity				
Selected Ratios				
Return on equity				
Return on assets				
CET1 capital ratio (for UBs/KBs)				
Tier 1 capital ratio (for UBs/KBs)				
Capital Adequacy Ratio				
Per common share data (For UBs, KBs and publicly listed Banks)				
Net Income per share:				
Basic				
Diluted				
Book Value				
Others				
Cash dividends declared				
Headcount				
Officers				
Staff				

[1] Consolidated amounts of Parent and Subsidiaries

For QBs with subsidiaries, the Financial Summary/Financial Highlights should be presented side by side on a solo basis (parent) and on a consolidated basis (parent and subsidiaries) as provided under Sec. 173-Q Financial Condition and Results of Operations.

3. Financial Condition and Results of Operation

A report from either the chairman or president/chief executive officer or officer of equivalent rank addressed to the stockholders and other stakeholders of the QB covering the following information:

a. Review of QB's operations and result of operations for the financial year including details and explanations for any significant change during the year
b. Highlight of major activities during the year that impact operations, if any
c. Major strategic initiatives of the QB and its subsidiaries, as applicable
d. Challenges, opportunities, and responses during the year, if any

4. Financial Results of Major Business Segments, as may be applicable

A summary report from each business segment highlighting the following minimum information:

a. Summary of financial performance of the business segment for the year
b. Contribution of business segment to the total revenue of the QB during the year
c. Significant developments during the year including major activities
d. Future plans/targets/objectives

5. Risk management framework adopted This section highlight the QB 's board-approved risk management framework and should include at a minimum the following information:

a. Overall risk management culture and philosophy (discuss the general mission and goal of the QB's risk management practices and the corresponding risk management policy/principles adopted by the QB's board for the attainment of the said mission and goal)

b. Risk appetite and strategy (describe the risk appetite of the QB and the factors considered in defining the said risk appetite; and discuss the significant risk areas/ exposures of the QB)

c. Entity-wide risk governance structure and risk management process (define the roles and responsibilities and the reporting lines for the different business units that composed the risk management group/unit. For better appreciation, illustrate in a chart/ table form the risk management structure and organization of the relevant risk management function. Discuss also the scope and nature of risk reporting and/or measurement systems)

d. AML governance and culture, and description of the overall Money Laundering (ML)/Terrorist Financing (TF) risk management framework to prevent the use of the QB for ML/TF activities

6. Corporate Governance

This section comprehensively discusses the entity's corporate governance framework and corporate culture adopted by the QB and its subsidiaries, as applicable. The following minimum information should be disclosed in this section:

a. Overall corporate governance structure and practices (describe the overall governance framework adopted by the QB)

b. Selection process for the board and senior management (describe the QB's process/procedure for identifying, assessing and selecting board and senior management candidates to ensure application of fit and proper standards)

c. Board's overall responsibility (describe the general responsibility of the board in the approval and oversight of management's implementation of QBs strategic objectives, risk strategy, corporate governance and corporate values, among others)

d. Description of the major role and contribution of the chairman of the board

e. Board composition (include the names of the members of the board). For each member, include the following:

i. Type of directorship (executive, non-executive, or independent director);
ii. The principal stockholder represented if nominee;
iii. The number of years served as director;
iv. Number of direct and indirect shares held; and
v. Percentage of shares held to total outstanding shares of the QB.

f. Board qualification (provide details of the relevant qualifications and experiences of each member of the board of directors, including current directorship and officership in other companies, their age and nationality).

g. List of board-level committees including membership and function.

h. Directors' attendance at board and committee meetings (include the total number of board and committee meetings for the election year and the number of board and committee meetings attended by each director[2]). A sample template is provided below.

Name of Directors	**Board** Number of Meetings		(**Name of Board Committee)** Number of Meetings		**Name of Board Committee)** Number of Meetings		**Name of Board Committee)** Number of Meetings		**Name of Board Committee)** Number of Meetings	
	Attended	%	Attended	%	Attended	%	Attended	%	Attended	%
1										
2										
3										
4										
5										
Total Number of Meetings Held During the Year										

i. Changes in the board of directors (indicate the changes in the composition of the board of directors that happened during the period including the reason for said change, i.e., resignation, death, removal).

j. List of executive officers/senior management (disclose the name, position, relevant qualifications/experience, age and nationality of the officer. Senior management refers to the president/CEO or officer of equivalent rank and other persons having authority and responsibility for planning, directing and controlling the activities of the QB).

k. Performance Assessment Program (describe the process adopted by the QB in assessing the performance of the board and senior management based on established performance standards that are consistent with the QB's strategic objectives).

l. Orientation and Education Program (disclose the in-house and external training program of the QB for its directors and senior management to ensure that they continuously possess the qualifications for the position).

m. Retirement and Succession Policy (describe the retirement and succession policy of the QB including the retirement age for the board and senior management; and the term limit for the members of the board).

n. Remuneration policy

i. Remuneration Policy and Structure for executive and non-executive directors (disclose the QB's remuneration policy and the structure of its remuneration package for the board).

ii. Remuneration Policy for senior management [disclose the process used for determining the remuneration of the president/CEO or officer of equivalent rank, and the four (4) most highly compensated management officers of the QB].

o. Policies and procedures on related party transactions (for QBs that are subsidiary of banks only)

[2] Past and present during the year

i. Describe the QB's overarching policies and procedures for managing related party transactions (RPT) as defined under Sec. 135 *(Profit sharing program)* of the MORB, including managing of conflicts of interest or potential conflicts of interest.

ii. Provide the details of material RPTs as defined under Sec. 135 *(Compensation and other benefits od directors and officers)* of the MORB, including the nature, terms and conditions, as well as original and outstanding individual and aggregate balances, including off-balance sheet commitments.

p. Self-Assessment Function

i. Describe the structure of the internal audit and compliance functions including its role, mandate/authority, and reporting process.
ii. Describe the review process adopted by the board to ensure effectiveness and adequacy of the internal control system.

q. Dividend policy (discuss the QB's policies and procedures for declaring dividends and the amount of total dividends declared during the year, if any)

r. Corporate Social Responsibility Initiatives (discuss any initiative undertaken or proposed to be undertaken by the QB during the year)

s. Consumer Protection Practices[3]

i. Describe the role and responsibility of the board and senior management for the development of consumer protection strategy and establishment of an effective oversight over the QB's consumer protection programs;

ii. Describe the consumer protection risk management system of the QB, i.e., means by which a QB identify, measure, monitor, and control consumer protection risks inherent in its operations; and

iii. Describe the consumer assistance management system of the QB which shall include the consumer assistance policies and procedures as well as the corporate structure for handling complaints.

7. Corporate Information

a. Present the organizational structure, including the name and position of key officers
b. List of major stockholders[4] of the QB, including nationality, percentage of stockholdings and voting status
c. List and description of products and services offered
d. QB website (as applicable)
e. List of QB units (such as branches, and other offices) domestic and abroad including address and contact details (as applicable)

8. Audited Financial Statements (AFS) with Auditor's Opinion The AFS for the calendar or fiscal year including the opinion of the external auditor of the QB should be presented in full in the Annual Report. For QB with subsidiaries, the AFS should be presented side by side on a solo basis (parent) and on a consolidated basis (parent and subsidiaries) as provided under Sec. 173-Q.

(As amended by Circular Noa. 1051 dated 27 September 2019, 956 dated 17 April 2017)

[3] As required under Sec. 41001Q on Consumer Protection Oversight Function
[4] Stockholders owning more than twenty percent (20%) of voting shares of stock of a QB or which enables such stockholder to elect, or be elected as, a director of such QB

NATIONAL RETAIL PAYMENT SYSTEM (NRPS) FRAMEWORK

A. NRPS Framework

The NRPS is a policy and regulatory framework that aims to establish a safe, efficient, and reliable electronic retail payment system in the Philippines. Given that retail payment systems contribute to the stability and efficiency of the financial system as a whole, the attainment of the NRPS vision will help achieve higher economic growth and enhance overall competitiveness of our economy.

With the rapid evolution of retail payments due to advancements in technology, retail payments related activities of BSFIs introduced a complex interplay of different types of risks. Thus, while the Bangko Sentral promotes the modernization of the country's retail payment system in accordance with the NRPS Framework, it is critical to ensure that enabling policies and a multifaceted approach to strengthening risk management are timely adopted, and greater attention is devoted to retail payments activities of BSFIs such as clearing and settlement.

In carrying out these activities, BSFIs are expected to adhere to the NRPS Framework and measures aimed at strengthening risk management as set forth in Sec. 803 and this Appendix. Hence, the retail payment system and activities that BSFIs participate in should establish the following:

1. Strengthened risk management through a better, holistic and multi-stakeholder approach to governance, and an enhanced transparency of clearing and settlement transactions classified according to risk profile.
2. Augmented efficiencies and effectiveness in the retail payment system by minimizing duplicative efforts, promoting interoperability among retail payment system participants, standardizing clearing and settlement rules, and harmonizing various initiatives towards the achievement of the shared goals of safe, reliable and efficient retail payment system.
3. Continued compliance with Bangko Sentral rules and regulations particularly on information technology, consumer protection, and AML/CFT.

Retail payments under the NRPS Framework are payments that meet at least one of the following characteristics: (i) the payment is not directly related to a financial market transaction; (ii) the settlement is not time-critical; (iii) the payer, the payee, or both are individuals or non-financial organizations; and (iv) either the payer, the payee, or both are not direct participants in the payment system that is processing the payment. This definition of retail payment includes person-to-person, person-to-business, business-to-person, business-to-business, person/business-to-government, and government-to-person/business payments.[1] On the other hand, large-value payments refer to payments, generally of very large amounts, which are mainly exchanged between banks or between participants of financial markets and that usually require urgent and timely settlement.

The Bangko Sentral, as a central bank, generally plays a variety of essential roles in the payment system by being an operator of the real-time gross settlement system (RTGS), an overseer in core payment arrangements, a user and participant of payment services, and, most critically, a catalyst for payment system reform. It is through the performance of these roles that the Bangko Sentral seeks to acquire a broader and holistic perspective on the role and the status of the payment system in the financial system and the economy in accordance with one of the pillars of central banking of promoting safe and efficient payment systems in the country.

1. Key Principles
    a. Governance of the payment system shall be separate and distinct from the actual clearing operations to enable the retail payment system participants to effectively and efficiently deploy resources to focused and specialized activities. The governance of the payment system includes the establishment and implementation of standards and rules among payment system participants.
    b. Sound governance shall be performed by an industry-led self-governing body that is duly recognized and overseen by the Bangko Sentral.
    c. All qualified BSFIs may apply to be direct clearing participants and, as such, participate in the governance structure.

[1] Developing a comprehensive National Retail Payments Strategy, Financial Infrastructure Systems Policy and Research, World Bank, October 2012, available at http://siteresources.worldbank.org/FINANCIALSECTOR/Resources/Developing_a_ comprehensive_national_retail_payments_strategy_for_G PW _IO _20%2BvL%29.pdf.

d. All clearing participants shall subscribe to and comply with the PSMB-formulated principles, policies, and business rules that will govern the payments system.

e. All clearing shall be done within the NRPS governance structure. Bilateral clearing arrangements outside of the NRPS governance structure are considered as undertakings that carry risks that cannot be identified, measured, monitored and/or controlled, nor can said undertakings be properly considered in attaining a holistic perspective and improving governance of the retail payment system. Hence, bilateral arrangements outside of the NRPS governance structure shall not be allowed and failure to comply therewith shall result in deployment of appropriate supervisory actions from the Bangko Sentral.

f. All significant retail payment streams shall be covered by an ACH.

g. Non-discriminatory participation shall be espoused in the retail payment system by allowing all qualified direct clearing participants to participate in the formulation of standards and rules, as well as participate in business arrangements.

h. A reasonable market-based and transparent pricing mechanism shall be adopted by all BSFIs which are clearing participants. Reasonable service fees shall be allowed only for actual services rendered directly related to the delivery of electronic financial and payment services to clients of a BSFI.

i. Bangko Sentral policies and supervisory actions, not directly involving payments governance within the scope of the PSMB, shall be addressed directly to the individual payment system participants as BSFIs.

2. Objectives:

a. To enable effective and efficient interface and interoperability using shared and resilient infrastructure;
b. To foster innovation and new business models;
c. To promote fair access and competition amongst NRPS participants;
d. To facilitate the provision of a wide range of payment products and services with needed certainty, affordability (based on a reasonable market-based pricing methodology) and trust; and
e. To make relevant information on retail payment system available to concerned stakeholders.

The NRPS Framework espouses the cooperation of different competitors, or what is known as *"coopetition"*, in the domestic retail payments by delineating areas to be covered between the cooperative and the competitive spheres.

It is recognized that certain areas are dedicated for cooperation and collaboration among BSFIs participating in the retail payment system towards the common goals of safety, efficiency, reliability and resiliency. This cooperative sphere centers on the clearing and settlement activities of BSFIs which shall collaborate through the formulation and implementation of clearing and settlement standards, rules, and agreements under a formal governance structure that conforms to the NRPS principles.

To complement the cooperative sphere is the competitive sphere where the NRPS principles promote competition through innovation in the delivery of quality and cost-effective financial products and services, the creation of new business models customized to the needs of target consrrmers, and the development of services with a higher level of security, among others. The competitive sphere shall be governed by reasonable, transparent and effective consumer pricing mechanisms to allow BSFIs cost-recovery and fair financial returns. Each BSFI shall be responsible for prescribing its pricing mechanisms for its financial products and services taking into consideration, among others, the nature of the product or service, the market segment to be served and the costs incurred to provide such product or service.

B. Governance - Payment System Management Body (PSMB)

The PSMB is an industry-led self-governing body that is duly recognized and overseen by the Bangko Sentral.

To attain a holistic perspective and multi-stakeholder organized structure that would bring about good governance in the retail payment system, BSFIs shall adhere to the following key principles when engaging in clearing activities and must do so only within the NRPS governance structure.

1. Key Principles

a. The retail payment transactions covered under the NRPS governance structure shall be as follows:

i. For card-based instruments, the card shall be both issued and acquired locally; and
ii. For online, mobile, or other electronic payment instructions/instruments, the account of payer (sender) and account of payee (recipient) shall be both maintained with BSFIs that are licensed to offer EFPS.

b. The PSMB shall be a not-for-profit juridical entity.
c. The PSMB shall adopt a Charter in consultation with the Bangko Sentral.
d. The PSMB membership criteria shall, at all times, be consistent with the NRPS Framework and Bangko Sentral regulations, in addition to the following principles:

    i. All qualified direct clearing participants should be members of the PSMB.
    ii. To be a PSMB member, a BSFI shall be a participant in at least one (1) ACH and actively participate in an ACH within one (1) month of joining the PSMB.
    iii. Each PSMB member shall be entitled to only one (1) vote.

e. The PSMB shall be funded by the members on an agreed basis.
f. The PSMB shall be governed by a PSMB board which shall observe the following principles:

    i. The PSMB board shall have multi-stakeholder representation in accordance with the volume of the risk-taking activities, such as clearing volume, within a specified time frame [e.g., immediately preceding twenty four (24) months]. The basis for computing the clearing volume across all ACHs or payment streams shall include all payment streams with clearing activities as of the date when the election of the PSMB board is called, except if a valid reason is shown to limit the parameters.

    ii. The PSMB board shall also abide by sound corporate governance practices which may include, but is not limited to, allocating seat/s for independent board member/s or board member/s that represent/s the broader public interest and has/have competence and experience in the payments field.

    iii. The PSMB board members shall appoint as official representative their chief executive officer (CEO) and designate a formal alternate who can act with full authority (e.g., voting, approval, decision-making, and others).

    iv. Each PSMB board member shall have one (1) vote.

    v. No two (2) PSMB board members shall come from the same group of companies where one is majority-owned or controlled by the other company.

    vi. The Chairperson shall be elected among PSMB board members and shall not serve for two (2) successive terms.

g. The PSMB shall be independent from the clearing switch operator/s with respect to business operations.

h. All BSFIs that are part of the NRPS governance structure shall subscribe to and comply with the PSMB-formulated principles, policies, and business rules that will govern the payments system provided such PSMB-formulated principles, policies and business rules are in conformity with the NRPS Framework and principles as well as applicable laws and regulations.

2. Objectives

a. The PSMB will provide sound governance to the retail payment system and serve as a forum of collaboration for ensuring appropriate conditions for retail payments in the country. Towards this end, the PSMB will perform these functions with respect to its members:

    i. Ensure compliance by PSMB members with criteria, standards and rules promulgated and adopted by the PSMB's membership and PSMB board, as applicable.

    ii. Set policies and standards on clearing activities of PSMB members.

    iii. Standardize retail clearing agreements across payment streams, which may include minimum guideline on the content of service level agreements with CSOs.

    iv. Manage members' conformance to multilateral retail clearing agreements.

    v. Review applications for establishment of ACHs and to accordingly approve the formation thereof to ensure, among others, that the NRPS principle of a payment stream falling only under one (1) ACH is observed by PSMB members.

    vi. Prescribe policies and rules to promote visibility of retail clearing and resulting settlement positions to manage risks resulting from or associated with clearing and settlement activities.

vii. Set forth policies, rules and/or standards to ensure that no anti-competitive activities occur in clearing operations of PSMB members.

viii. Promote fair access to the payment system amongst PSMB members.

ix. Enable effective and efficient interface and interoperability using shared and resilient infrastructure.

x. Establish a dispute resolution mechanism for PSMB members on matters not covered or cannot be resolved under the ACH dispute resolution framework.

xi. Provide a clearing environment that will support payments innovation and the adoption of new business models by the payment system participants.

C. Automated Clearing House (ACH)

The ACH is a multilateral legally binding agreement amongst clearing participants. The ACH shall govern clearing and settlement determination.

To promote interoperability and standardize clearing and settlement rules and procedures, BSFIs are expected to observe the following key principles in forming and participating in ACHs under the NRPS governance structure.

1. Key Principles

   a. ACHs shall be created and differentiated based on payment streams, which comprise of payment instruments or instructions, business rules, clearing activities and risk considerations which are of similar nature or which create similar risk profiles.

   b. A payment stream can fall under only one (1) ACH.

   c. The formation of and participation in an ACH shall be open to all qualified clearing participants.

   d. The formation of an ACH shall be considered a business arrangement to be agreed upon between participants of an ACH.

   e. An ACH shall engage the services of only one (1) clearing switch operator.

   f. PSMB members may be part of more than one (1) ACH Participant Group and/or participate in more than one (1) AcH, provided the PSMB member meets the requirements for participating in such ACH.

   g. At least two (2) direct clearing participants can initiate the creation of an ACH subject to the recognition of the PSMB Board, or in the absence of a PSMB, the Bangko Sentral.

2. Salient Features

   a. ACH participants shall elect representatives to an ACH Participant Group, which once recognized by the PSMB, shall draw up and implement ACH rules and agreements and contract a qualified clearing switch operator. To assist in drafting the ACH agreements, the Participant Group may nominate a Working Group to formulate draft agreements subject to the former's approval.

   b. The assignment of a new ACH to an existing or new ACH Participant Group shall be approved by the PSMB Board.

   c. Where a new ACH Participant Group has to be formed, it shall be recognized by the PSMB Board once its charter has been accepted by the ACH participants and meets the PSMB criteria for an ACH Participant Group.

D. Clearing Switch Operator (CSO)

The CSO provides clearing switch services.

To augment efficiencies in the retail payment system while ensuring a robust and resilient infrastructure underlying retail payment transactions of BSFIs, BSFIs should observe the following key principles in engaging the services of CSOs relative to the delivery of a retail payment product or service within the NRPS governance structure.

1. Key Principles

   a. The operations of the CSO that services an ACH shall be limited to the provision of clearing and other services that do not compete with services offered by BSFIs participating in the ACH.

b. Clearing switch operations shall be conducted effectively and efficiently consistent with international standards as this is a critical prerequisite for the functioning of all the various systems supporting and underlying retail payment services.

c. The CSO shall have a reliable, resilient, robust, and secure infrastructure to ensure consistency and continuity of services under different operating conditions.

d. The CSO shall be a duly licensed entity in the Philippines. Entities organized under the laws of countries other than the Philippines shall secure a license to do business in the Philippines and comply with the Foreign Investments Act of 1991 as well as other applicable laws and regulations.

e. A CSO can extend service to multiple ACHs.

f. Each ACH, through their designated CSO, shall individually settle their clearing results through the RTGS system operated by the Bangko Sentral.

(Circular No. 980 dated 06 November 2017)

GUIDELINES ON EUROPAY, MASTERCARD AND VISA (EMV) IMPLEMENTATION
(Appendix to Section 147-Q)

A. Background

In response to the increasing sophistication of frauds perpetrated through magnetic stripe (magstripe), international payment networks have orchestrated the shift towards EMV chip-enabled card. The EMV is an interoperability standard for chip-bearing smart card technology defined by EMVCo in 1994, adoption of which has resulted to significant reduction in card frauds due to skimming[1] and counterfeiting.

To outpace and manage fraudsters' shift towards jurisdictions that are still using magstripe, Bangko Sentral supervised financial institutions (BSFIs) via Circular No. 808 dated 22 August 2013 were required to migrate their entire payment network to the more secure EMV chip-enabled cards.

B. Policy statement

It is the policy of the Bangko Sentral to foster the development of safe, secure, efficient, and reliable retail payment systems, protect the integrity and confidentiality of customer accounts and information and uphold consumer protection.

C. Scope

These guidelines shall govern the migration to and implementation of EMV of all BSFIs with debit card issuing and acquiring functions. For credit card, only cash advance transaction at Automated Teller Machines (ATMs) shall be covered since other credit card transactions are governed by the rules of the international payment networks.

It is incumbent upon all affected BSFIs to ensure that other key players in the domestic payment network comply with these guidelines.

For purposes of the subject guidelines, payment transactions covered are limited to card present and contact transactions in ATMs, POS terminals and other similar devices. Guidelines governing card-not-present as well as contactless transactions shall be issued separately.

D. Definition of Terms

1. *EMV,* which stands for Europay, MasterCard and Visa, is a global standard for credit, debit and prepaid payment cards based on chip card technology. EMV chip-based payment cards, also known as smart cards, contain an embedded microprocessor, a type of small computer. The microprocessor chip contains the information needed to use the card for payment, and is protected by various security features. Chip cards are a more secure alternative to traditional magstripe payment cards.

   Implementing EMV shall address the deficiencies inherent in magstripe by reducing fraud arising from counterfeit, lost and stolen card information through the following features:

   a. Authentication of the chip card to ensure that the card is genuine so as to protect against counterfeit fraud for on line-authorized transactions;
   b. Digitally signing payment data for transaction integrity;
   c. More robust cardholder verification to protect against lost and stolen card fraud for EMV transactions in all acceptance environments.

2. *Acquiring institution (acquirer)* is a bank or financial institution that processes credit or debit card transactions via ATM or POS terminals.

3. *Bangko Sentral Supervised Financial Institutions (BSFIs)* include banks, non-banks with quasi-banking function (NBQB), non-bank electronic money issuers and other non-bank institutions which under existing Bangko Sentral rules and regulations and special laws are subject to the Bangko Sentral supervision and/or regulation.

[1] Skimming is the illegal copying of information from the magnetic stripe of a payment card to gain access to accounts.

4. *Co-branded cards* are Philippine-issued cards affiliated with international payment networks.

5. *Debit cards* are payment cards linked to bank deposit or prepaid/electronic money (e-money) accounts.

6. *Domestic payment* network includes BSFIs as well as other key players such as merchants, providers of ATMs, point-of-sale (POS) terminals and similar devices, card vendors, card personalization bureaus and domestic switches responsible for processing and handling domestic transactions.

7. *Domestic switches* refer to BancNet and Megalink.

8. *EMV chip* liability shift means that the liability and responsibility for counterfeit or fraudulent transaction shall shift to the BSFI who is not EMV-compliant.

9. *EMVCo* is the governing body that manages the EMV specification.

10. *Hybrid cards* are payment cards that have both EMV chip and magstripe.

11. *International payment* networks refer to the payment networks that have global establishment. For purposes of subject guidelines, recognized international networks shall refer to Visa, Mastercard, UnionPay, Diners/Discover, American Express, and Japan Credit Bureau (JCB).

12. *Interoperability* refers to the ability of Philippine cardholders to transact at Philippine ATM and POS terminals, regardless of network affiliation or branding of the card.

13. *Issuing institution (issuer)* is a bank or non-bank financial institution that issues payment cards, whether proprietary or co-branded, to consumers.

14. *Payment cards* are cards that can be used by cardholders and accepted by terminals to withdraw cash and/or make payment for purchase of goods or services, fund transfer and other financial transactions. Typically, payment cards are electronically linked deposit, prepaid or loan/credit accounts.

15. *Philippine domestic EMV specification* refers to the specification or standards based on EMV that shall be adopted in the Philippine financial market for the proprietary or non-co-branded cards.

16. *Proprietary cords* are Philippine-issued cards without international payment network affiliation.

17. *Technical fallback* is a state in which a chip cannot be used and another type of entry, such as magstripe, is used to complete a transaction.

E. General Rule

In line with the declaration of policy, BSFIs, in migrating to EMV, shall consider the following:

1. BSFIs shall maintain interoperability of the domestic payment network;
2. The Philippine EMV implementation shall use established EMV specification as follows:

    a. Issuers of proprietary cards shall use the Philippine domestic EMV specification; and
    b. Issuers of co-branded cards shall use the EMV specification of their affiliated international payment network.

3. At a minimum, all debit accepting devices shall acquire/accept Philippine issued proprietary cards using the Philippine domestic EMV specification of members/participants of the domestic switches;
4. The domestic payment network shall ensure continued interoperability and acceptance of Philippine EMV issued cards using the Philippine domestic EMV specification on Philippine EMV deployed acceptance devices;[2] and
5. BSFIs shall strengthen consumer protection by adequately handling and containing consumer concerns and complaints arising from fraudulent schemes done electronically.

[2] Include EMV-compliant ATMs, POS terminals and other similar devices.

F. The Philippine Domestic EMV Specification

With the main objectives of maintaining interoperability and reducing card fraud, BSFIs shall adopt a Philippine domestic EMV specification for proprietary cards. The domestic EMV specification should:

- Adopt the EMV specification according to EMVCo;
- Apply to ATM and domestic debit POS transactions;
- Support contact transactions;
- Support online card authentication to ensure that transactions are made using a valid card;
- Support online authorization to enable issuer to manage fraud and credit risk at the transaction level;
- Support online PIN cardholder verification method;
- Support technical fallback to magstripe in the interim, as provided in Section I of these guidelines, without prejudice to the issuer's decision to process/approve fallback transactions.

G. Minimum Operational Requirements

1. Issuing institutions shall:

    a. Ensure that they have the technical systems and network necessary to process and handle EMV transactions;
    b. Support EMV data elements in authorization messages;
    c. Define chip cards feature, functionality and interface capability;
    d. Enhance risk management systems to leverage chip;
    e. Determine the card migration strategy;
    f. Update customer support and operational systems to support chip cards;
    g. Be certified for network interfaces and card personalization by a certification body organized by BSFIs pursuant to these guidelines;
    h. Replace card base; and
    i. Educate the consumers.

2. Acquiring institutions shall:

    a. Ensure that card-accepting devices are EMV-certified to support the acquiring and routing of Philippine-issued debit cards using the Philippine domestic EMV specification;
    b. Ensure that PIN-entry devices are Payment Card Industry PIN Transaction Security (PCI-PTS)[3] compliant; and
    c. Enable a debit POS environment that supports online PIN for Philippine-issued debit cards.

3. Domestic switches shall:

    a. Establish infrastructure and systems that are EMV-compliant and able to support switched EMV transactions from domestic interconnected networks;
    b. Ensure continued support to existing transaction sets and functions provided to consumers;
    c. Enhance efforts to educate their members on EMV collaboration and seek effective alignment of strategy and design principles; and
    d. Ensure continued ability to support, in the interim, transactions in magstripe format subject to liability shift policies acceptable to the Bangko Sentral, the standards of which shall be covered in subsequent guidelines.

H. Detailed Guidelines, Policies and Processes

BSFIs shall agree on and implement detailed technical and operational requirements, policies and procedures that are acceptable to the Bangko Sentral, the standards of which shall be covered in subsequent guidelines, and aligned with subject EMV Implementation Guidelines, covering but not limited to the following:

1. Philippine Application Identifier (AID);
2. Single Common AID, Single Common Card Personalization Profile and Single Common Terminal Configuration for domestic transactions;
3. Transaction routing;
4. Testing and certification;

[3] A security requirement of the Payment Card Industry (PCI) regarding testing of PIN-entry devices using predefined standards to get certification.

5. Dispute and fraud risk management; and
6. Other processes affected by the EMV migration.

I. Hybrid Card, Fallback Function and EMV Liability Shift

While the EMV infrastructure and environment are in the process of achieving full stability, hybrid cards may still be acceptable as a fallback option in cases when the EMV chip or terminal is unable to process domestic chip transactions. In this regard, BSFIs shall formulate a liability shift framework that is acceptable to the Bangko Sentral.

J. Updated EMV Migration Plan

Any changes arising from the aforementioned guidelines shall be incorporated in the EMV Migration Plan and all affected BSFIs shall resubmit their updated plan to the appropriate supervising department of the Bangko Sentral within sixty (60) calendar days from the date of the Circular.

All BSFIs shall support migration to EMV standards. Consequently, all cards issued and card-accepting devices should be EMV-compliant.

EMV CARD FRAUD LIABILITY SHIFT FRAMEWORK (ECFLSF)

I. Introduction

This document outlines the Bangko Sentral's guidelines implementing the EMV Card Fraud Liability Shift Framework (ECFLSF). Pursuant to Sec. 148 *(IT Risk management systems)* and *Appendix 108* of the Manual of Regulations for Banks (MORB), Bangko Sentral Supervised Financial Institutions (BSFIs) should shift from the magnetic stripe (magstripe) technology to EMV-compliant cards, POS terminals and ATMs. The immediate impact and benefit on the adoption of EMV technology is the reduction in card fraud resulting from counterfeit or skimming attacks.

While migration efforts to shift to EMV technology are ongoing, the use of magstripe in payment cards and/or card-accepting devices shall be allowed subject to card fraud liability shift. This means that the BSFIs which have not yet or have partially adopted the EMV technology shall be held responsible for losses associated with the use of a counterfeit card in a card-present environment.

II. Policy statement

It is the policy of the Bangko Sentral to foster the development of safe, secure, efficient and reliable retail payment systems, protect the integrity and confidentiality of customer accounts and information and uphold consumer protection.

Towards this end, the Bangko Sentral requires all concerned BSFIs to migrate to a more secure payment technology and sets forth subject principles for allocation of card fraud liability with the aim of ensuring compliance of the different retail payment system participants with the Bangko Sentral's EMV migration requirement. Pending full migration to the EMV technology, the ECFLSF shall likewise accelerate the dispute resolution and restitution process for customers who have valid claims arising from counterfeit fraud or skimming attacks.

III. Applicability and Scope

These guidelines shall apply to all BSFIs with debit and credit card issuing and acquiring functions and shall govern the allocation of liability associated with fraudulent transactions arising from counterfeit cards beginning 1 January 2017, subject to the conduct of proper investigation by the concerned participant/s of the payment card network. The coverage shall be limited to card-present and contact transactions of Philippine-issued payment cards used domestically in automated teller machines (ATMs), point-of-sale (POS) terminals, and other similar devices routed to either domestic or international payment networks.

Consequently, the ECFLSF shall not apply to card-not-present and contactless transactions. Furthermore, foreign-issued payment cards used domestically and Philippine-issued payment cards used abroad shall not be covered as these are already subject to the existing liability shift and chargeback rules of the international payment networks.

IV. Definition of Terms

For purpose of these guidelines, the following definitions shall apply:

1) *Acquiring institution (Acquirer),* is a bank or non-financial institution that processes credit or debit card transactions via ATMs, POS terminals, and other similar devices.

2) *EMV compliant device or terminal* is a device or terminal that has, or is connected to, a contact chip card reader, has an EMV application, certified, and is able to process EMV transactions.

3) *Co-branded cards* are Philippine-issued cards affiliated with international payment networks.

4) *Counterfeit card* is an imitation or falsification of a genuine magstripe card or EMV chip card with track data copied from a hybrid EMV card.

5) *Debit cards* are payment cards linked to bank deposit or prepaid/electronic money (e-money) accounts.

6) *Fallback to magstripe transaction occurs* when the chip on the card is not being read by a terminal. Thls is similar to technical fallback, which is defined in Appendix 108 of the MORB as a state in which the chip cannot be used and another type of entry, such as magstripe, is used to complete a transaction.

7) *Hybrid cards* are payment cards that have both EMV chip and magstripe.

8) *International payment networks* refer to the payment networks that have global establishment. For purposes of subject guidelines, recognized international networks shall refer to Visa, Mastercard, UnionPay, Diners/Discover, American Express, and Japan Credit Bureau (JCB).

9) *Issuing institution (Issuer)* is a bank or non-bank financial institution that issues payment cards, whether proprietary or co-branded, to consumers.

10) *Payment cards* are cards that can be used by cardholders and accepted by terminals to withdraw cash and/or make payment for purchase of goods or services, fund transfer and other financial transactions. Typically, payment cards are electronically-linked to deposit, prepaid or loan/credit accounts.

V. Guiding Principles

1) The adoption of EMV technology is designed to reduce and mitigate risks arising from counterfeit card fraud. While it remains virtually impossible to create a counterfeit EMV card that can be used to conduct an EMV payment transaction successfully, the presence of magstripe in a hybrid EMV card makes it still vulnerable to counterfeit attacks.

2) A BSFI that has enabled the most secure EMV options shall be protected from financial liability arising from losses on counterfeit card fraud. The liability for this type of fraud shall shift to the BSFI which is not or is partially compliant with the EMV migration requirement.

3) To resolve the issue on the allocation of card fraud liability using the guidelines described herein, the involved parties (such as issuer, acquirer, and payment network) should, first, characterize the fraud committed, and then, assess the technology being employed, in light of the applicable payment network rules. The party supporting EMV technology will prevail and in case of a technology-tie (neither or both parties are EMV compliant), the liability for fraudulent transactions generally remains with the Issuer.

VI. Allocation of Card Fraud Liability

Allocation of liability for counterfeit card fraud is summarized in the following table:

	Card Capabilities	Acceptance Device Support	Scenario	Liability
1	Magnetic stripe only	Magnetic stripe only	Magnetic card transaction was completed	Issuer
2	Magnetic stripe only	EMV compliant	Magnetic card transaction was completed	Issuer
3	EMV compliant hybrid card	Magnetic stripe only	Magnetic card transaction was completed	Acquirer[1]
4	EMV compliant hybrid card	EMV compliant	Fallback transaction; Magnetic card transaction was completed	Issuer

The information provided above shall be considered as a general guide as each fraudulent transaction shall be separately investigated on. Likewise, the domestic and international payment networks may come up with other scenarios and probable conditions that illustrate how liability is assigned on counterfeit card fraud using different combinations of card and acceptance device capabilities. However, the resolution of such scenarios/conditions should follow the principles espoused in these guidelines.

VII. Consumer Protection and Complaints Handling and Resolution

1) The participants in the domestic payment network (such as issuer, acquirer, and payment network) should collaborate and devise detailed rules and procedures including arbitration mechanisms to operationalize the ECFLSF. Accordingly, a body responsible for strictly implementing the above-mentioned detailed rules and procedures on ECFLSF should be constituted.

2) Cardholders' complaints and/or requests for chargeback as a result of counterfeit card shall be considered as complex complaint/request defined in *Appendix 110* of the MORB and hence, shall follow the standards provided in such regulations, except for the processing and resolution timeline which should be within 10 days instead of 45 days.

3) Issuers and Acquirers should ensure that affiliated international payment networks align their existing liability and chargeback rules with the ECFLSF insofar as Philippine-issued payment cards used in the domestic payment environment are concerned.

[1] When an Acquirer accepts a magstripe card that was counterfeited with track data copied from an EMV compliant hybrid card and the counterfeit card is used at a device/terminal that is not EMV-csompliant, resulting in a transaction to be successfully processed, the Acquirer is liable for any chargeback resulting from such fraud.

BASEL III FRAMEWORK ON LIQUIDITY STANDARDS- LIQUIDITY COVERAGE RATIO

(Appendix to Sec. 145-Q on Liquidity Coverage Ratio [LCR], LCR Disclosure Requirements, and Sanctions)

Introduction

This Appendix outlines the Bangko Sentral guidelines implementing a quantitative liquidity regulatory framework consistent with the liquidity coverage ratio (LCR) standard introduced under the Basel III: The Liquidity Coverage Ratio and Liquidity Risk Monitoring Tools, January 2013 by the Basel Committee on Banking Supervision (BCBS)[1].

With this new liquidity standard, the Bangko Sentral aims to further strengthen the risk management of covered banks by enhancing their ability to draw information from their various operations, and assess the impact of external events on the liquidity of financial instruments and on the availability of funding under both normal and stressed conditions. With liquidity risk measurement standards in place, covered banks are expected to manage their liquidity positions more prudently by better aligning their funding models with their risk preferences and incorporating liquidity risk into product pricing. Overall, the new liquidity regime shall give market participants greater confidence in the ability of the banking sector to absorb shocks arising from financial and economic stress, and hence, lowering the probability of acute shortfalls in liquidity.

The liquidity framework is part of the comprehensive set of complementary and mutually reinforcing measures for regulatory reform that are consistent with global standards that have been introduced by the Bangko Sentral to strengthen the risk management of covered banks and the supervision of the banking system. The liquidity standard shall complement existing supervisory guidance on liquidity risk management.

Part I. Liquidity Coverage Ratio (LCR) Framework

I. Definition of terms

For the purpose of the LCR standard, the following terms and phrases shall be understood as follows:

1. *Beneficiary* – refers to a legal entity that receives, or may become eligible to receive, benefits under will, insurance policy, retirement plan, annuity, trust, or other contract.

2. *Cash management operation* – refers to the provision of products and services intended to manage customers' cash flows, assets and liabilities, and for the conduct of financial transactions necessary to the customer's ongoing operations.

3. *Clearing operation* – refers to a service arrangement that enables customers to transfer funds (or securities) indirectly through direct participants in domestic settlement systems to final recipients.

4. *Committed business facilities* – are off- balance sheet facilities or funding commitments issued by covered banks to clients under explicit contractual agreements or obligations to extend funds at a future date that are contractually irrevocable (i.e., "committed") or conditionally revocable. The terms governing the facility prohibit the covered bank from refusing to extend credit or funding to the counterparty, except where certain conditions specified by the terms of the facility- other than customary notice, administrative conditions, or changes in financial condition of the client-have been met.

5. *Correspondent banking* – refers to arrangements under which one (1) covered bank (correspondent) holds deposits owned by other covered banks (respondents) and provides payment and other services in order to settle foreign currency transactions (e.g., so-called nostro and vostro accounts used to settle transactions in a currency other than the domestic currency of the respondent covered bank for the provision of clearing and settlement of payments).

6. *Current market value* – refers to the value of liquid assets included in the stock of HQLA, measured in accordance with the existing guidelines on mark-to-market valuation under *Appendix 28*.

7. *Custody operation* – refers to the provision of safekeeping, reporting, processing of assets or the facilitation of the operational and administrative elements of related activities on behalf of customers in the process of their transacting and retaining financial assets.

8. *Downgrade triggers* – pertain to clauses or provisions in contracts governing derivatives and other transactions that require the posting of additional collateral, drawdown of contingent facilities, or early repayment of existing liabilities upon the covered bank's downgrade by a recognized credit rating organization.

[1] The Basel Committee on Banking Supervision is a committee of banking supervisory authorities that was established by the central bank governors of the Group Ten countries in 1975. It consists of senior representatives of covered bank supervisory authorities and central banks from Argentina, Australia, Belgium, Canada, China, France, Germany, Hong Kong SAR, India, Indonesia, Italy, Japan, Korea, Luxemborg, Mexico, the Netherlands, Russia, Saudi Arabia, Spain, Singapore, South Africa, Sweden, Switzerland, Turkey, the United Kingdom, and the United States. It usually meets at the Bank for International Settlements in Basel, Switzerland where its permanent Secretariat is located.

9. *Financial corporates* – refer to corporations, whether resident or non- resident, that are primarily engaged in financial intermediation or in auxiliary financial activities that are closely related to financial intermediation. These include non-bank financial institutions with quasi- banking functions, securities firms, and insurance companies, among others.

10. *Financial stress* – pertains to a condition where a covered bank cannot meet or has difficulty paying off its financial obligations as brought about by firm-specific and/or market-wide stress events. In such financial circumstance, the covered bank may be having difficulty accessing credit and financing facilities, and has no reasonable alternative other than to monetize its HQLA to the extent necessary to meet obligations such as but not limited to:

    - Servicing of deposit withdrawals;
    - Posting of additional collateral requirements;
    - Servicing of unscheduled drawdowns on committed but unused credit lines and business facilities that are extended to clients;
    - In the interest of mitigating reputational risk, buying back of debt, extending of funds to honor non-contractual obligations, or accommodation of any unexpected liquidity demand from counterparty.

11. *Haircut* – refers to a percentage by which the market value of an asset is reduced. A haircut is applied by a collateral taker as a risk control measure to protect itself from losses resulting from decline in the market value of an asset in the event that it needs to liquidate said collateral.

12. *High-quality liquid asset (HQLA)* – refers to an asset that can be converted easily and immediately into cash at little or no loss of value in private markets to meet the covered banks's liquidity needs during times of stress. To qualify as HQLA, the liquid asset should possess the asset and market liquidity characteristics, and should satisfy the operational requirements for monetization prescribed under the LCR standard. HQLAs shall be categorized as either Level 1 or Level 2 assets. The stock of HQLA makes up the numerator of the LCR.

13. *Inflow/Outflow rates* – pertain to the various percentages that are designed to reflect the observed behavior and characteristics of different assets, funding sources, obligations, and commitments during periods of liquidity stress. Inflow rates provide the assumption at which assets or contractual receivables are expected to flow in during times of stress. Outflow rates assume the level at which funding sources, obligations, and commitments are expected to run off or be drawn down during stress periods.

14. *LCR measurement date* – refers to end-of-moth/quarter date which serves as the reference date for the calculation of the LCR.

15. *LCR period* – refers to the thirty (30)- calendar day period following the LCR measurement date, which serves as the standard horizon for HQLA availability and for total net cash outflows calculation.

16. *Liquidity metrics* – refer to a set of market-based indicators which enable assessment of the fundamental attributes of an asset that are generally found to be determinants of liquidity (i.e., measure of asset characteristics), and the essential aspects of the broader market structure within which the asset is traded (i.e., measure of market liquidity). These criteria provide guidance on which specific asset to qualify as liquid and readily marketable within an asset class.

17. *Multilateral organizations* – pertain to the Bank of International Settlements, the International Monetary Fund, the European Central Bank and European Community and the multilateral development banks (MDBs).

18. *Non-financial corporates* – refer to corporations, whether resident or non- resident, whose principal activity is the production of goods or non-financial services.

19. *Non-HQLAs* – pertain to debt securities and equity shares that are neither qualified as Level 1 nor Level 2 assets.

20. *Operational deposit* – refers to a deposit account maintained by a wholesale client for the primary purpose of obtaining a specific operational service from the covered bank as an independent third party intermediary, agent or administrator.

21. *Operational service* – refers to any of the following contractual services performed by the covered bank related to clearing, cash management operations, and custody (but excluding correspondent banking or brokering activities), which effectively facilitate the clients' access and ability to use payment and settlement systems and otherwise make payments:

    <u>Clearing</u>
    a. Overnight financing and maintenance of post-settlement balances;
    b. Transmission, reconciliation, and confirmation of payment orders;
    c. Intraday overdraft;
    d. Determination of intraday and final settlement positions;

Cash Management

e. Payment remittance;
f. Collection and aggregation of funds;
g. Payroll administration and control over disbursement of funds;
h. Administration of payments and cash flows related to the safekeeping of investment assets, not including the purchase or sale of assets;

Custody

i. Settlement of securities transactions;
j. Client subscriptions and redemptions;
k. Processing of collateral;
l. Transfer of contractual payments, including collection and payment of dividends and other income from financial assets under custodianship; and
m. Escrow, funds transfer, stock transfer, and agency services, including payment and settlement services (excluding correspondent banking), payment of fees, taxes, and other expenses

22. *Other contingent funding obligations* – refer to either contractual or non-contractual contingent funding obligations (excluding lending commitments) that are contingent upon a credit or other event that is not always related to the liquidity events simulated in the LCR stress scenario, but may nevertheless have the potential, especially out of reputation risk considerations, to cause significant liquidity drains to the covered bank in times of stress. Non-contractual contingent funding obligations are funding liabilities that are:

    - associated with the issuance or sponsorship of products (including structured financial instruments) or provision of services that may require the funding support or extension of funds by the covered bank in times of stress; or

    - embedded in financial products and instruments sold, sponsored, marketed or originated by the covered bank that might prompt the covered bank to repurchase said products and instruments from a customer in order to satisfy or manage the customer's reasonable expectations about the liquidity and marketability of the product or instrument. Failure to do so would likely cause material reputational damage to the covered bank or otherwise impair its ongoing viability.

23. *Philippine National Government (NG)* – refers to the Philippine NG and its agencies such as departments, bureaus, offices, and instrumentalities, but excluding local government units (LGUs) and government-owned and controlled corporations (GOCCs).

24. *Public Sector entities (PSE)* – refer to entities which are regarded as such by a recognized banking supervisory authority in the country in which they are incorporated.

25. *Rehypothecation and/or re-use of collateral* – Rehypothecation refers to the right of financial intermediaries to sell, pledge, invest, or perform transactions with the client assets they hold, thereby allowing them to obtain funding using said client collateral. Re-use of collateral, on the other hand, usually covers a broader context where securities delivered in one transaction are used to collateralize another transaction, including own trades, borrowings or short sellings. The terms rehypothecation and re-use of securities are used interchangeably in this standard.

26. *Retail deposits* – refer to deposit liabilities raised by the covered bank from individual clients including sole proprietorships and partnerships, and those classified as micro and small enterprises (hereinafter called retail clients).

27. *Securities financing transactions (SFTs)* – these involve repurchase (repos), and reverse repurchase (reverse repos) agreements, securities lending and borrowing, or margin lending transactions, where the value of the transactions depends on market valuations and the transactions are often subject to margin agreements.

28. *Secured funding* – refers to any liability and general obligation of the covered bank arising from securities transaction that is covered by collateral in the form of duly constituted mortgage, pledge, or lien on specifically designated asset owned by the covered bank or by its related party that gives the counterparty priority over said asset in case of bankruptcy, insolvency, liquidation, or resolution. This consists of repos, collateral swaps, collateral lending to customers to cover short positions and other similar secured funding arrangements. Forward repos and forward collateral swaps that start previous to and mature within the LCR horizon are included in this category.

29. *Secured lending* – refers to any securities transaction that is subject to a legally binding agreement that gives rise to a cash obligation of a counterparty to a covered bank that is secured under applicable law by a lien on specifically designated asset owned by the counterparty or by its related party, which gives the covered bank, as holder of the lien, priority over said asset in the event the counterparty enters into bankruptcy, insolvency, liquidation, receivership, resolution, or similar proceeding. This will include reverse repos, margin loans, and securities borrowing transactions. Forward reverse repos and forward collateral swaps that start previous to and mature within the LCR horizon are included in this category.

30. *Special purpose entity (SPE)* – as defined in the Basel II Framework, SPE is a corporation, trust, or other entity organized for a specific purpose, the activities of which are limited to those appropriate to accomplish the purpose of the SPE, and the structure of which is intended to isolate the SPE from the credit risk of an originator or seller of exposures. SPEs are commonly used as financing vehicles in which exposures are sold to a trust or similar entity in exchange for cash or other assets funded by debt issued by the trust.

31. *Total expected cash inflows* – pertain to the various types of contractual receivables which outstanding balances as of the LCR measurement date are multiplied by relevant inflow rates. The total inflow amounts are capped at seventy-five percent (75%) of aggregated total expected cash outflows.

32. *Total expected cash outflows* – pertain to the various on- and off-balance sheet funding sources and commitments which outstanding balances as of the LCR measurement date are multiplied by relevant outflow rates. The outflow amounts are aggregated to determine the total expected cash outflows.

33. *Total net cash outflows* – pertains to the sum of the total expected outflow amounts less the sum of the total expected inflow amounts, with the inflow amounts limited to seventy-five percent (75%) of outflow amounts. The calculated amount makes up the denominator of the LCR, thereby establishing the amount of HQLA that a covered bank would be required to hold.

34. *Trust and other fiduciary* – refers to a legal entity or to a specifically designated business unit that is authorized to administer, hold or manage assets for the use or in behalf of a third party. These shall include trust entities as defined under Sec. 403-Q, mutual funds, exchange-traded funds and other collective investment vehicles.

35. *Unencumbered* – means free of legal, regulatory, tax, accounting, contractual or other impediments or practical restrictions on the ability of the covered bank to liquidate, sell, transfer, or assign the asset. Liquid assets may also be considered unencumbered if the potential credit or funding for which the assets are pre-positioned, deposited with or pledged to the Bangko Sentral, to a clearing and settlement system, or to another financial entity is not currently extended to the covered bank or to any of its related parties[1].

36. *Unsecured wholesale funding* – refers to liabilities and general obligations of the covered bank, other than deposits, to wholesale clients that are not collateralized by legal rights to specifically designated assets owned by the covered bank or by its related party. This includes deposit substitutes, unsecured loans and advances, unsecured notes, bonds and other debt securities, and other unsecured funding obligations.

37. *Wholesale deposits* – refer to deposit liabilities raised by the covered bank from legal entities (excluding sole proprietorships and partnerships and those entities classified as micro and small enterprises) (hereinafter called wholesale clients).

II. LCR Calculation

A. General Requirements

1. The LCR is designed to promote the short-term resilience of the liquidity risk profile of a covered bank. To meet funding obligations and draws on contingent liabilities over the next thirty (30) calendar days, the LCR requires the covered bank to hold a stock of unencumbered HQLA equal to or greater than total net cash outflows. Hence, the LCR is calculated as the:

$$\text{LCR} = \frac{\text{Stock of HQLA}}{\text{Total net cash outflows over the next 30 calendar days}}$$

2. The standard requires that, under normal situation, the value of the liquidity ratio be no lower than 100%[2] on a daily basis because the stock of the unencumbered HQLA is intended to serve as a defense against potential onset of liquidity stress.

3. When calculating the LCR, the covered bank should maintain a consistent categorization of a given entity/counterparty across all HQLA, outflow and inflow categories.

4. To facilitate LCR monitoring and ongoing compliance, the covered bank must maintain a reliable system that has the ability to calculate liquidity positions on a day-to-day basis, regardless of the frequency of mandatory reporting to the Bangko Sentral.

[1] As defined under Sec. 131-Q on Policy Statement and Definition of Terms.
[2] The 100% threshold is the minimum requirement absent a period of financial stress, and after the phase-in arrangement are complete.

It should capture, at a minimum, specific information related to the covered bank's available unencumbered assets and collaterals, cash flows, and certain market and liquidity indicators prescribed in the standard. It must have the ability to deliver granular and time- sensitive information particularly during periods of stress.

B. Stock of HQLA

(1) HQLA eligibility criteria

5. *Asset and market liquidity characteristics.* To qualify as HQLA, assets should have a high potential to generate funds easily and immediately through outright sale or secured borrowing, during a stress scenario without incurring large discounts due to fire-sales. These assets must be liquid and readily-marketable.

6. The liquidity and ready-marketability of an asset is influenced both by its own specific features and by the characteristics of the broader market structure within which it is traded.

7. To assess the relative liquidity and ready-marketability of assets, particularly those that are classified as Level 2 under this Framework, liquidity metrics such as those set out in *Annex A* may be used. The metrics, including the analytical tools, guidelines and methodologies, data used, and the threshold levels shall be developed in coordination with the banking industry. These shall be subject to review and updating at least annually to reflect prevailing market liquidity conditions.

8. Operational requirements for monetization. Not all assets considered to be liquid and readily-marketable are immediately eligible for the stock as there are other operational restrictions on the availability of HQLA that can prevent timely monetization during a stress period. The immediate availability of the liquid assets for monetization in times of stress as well as the unrestricted use of the funds generated from outright sale or secured borrowing of said assets must also be established in order for the liquid assets to be appropriately considered as HQLA.

9. The following operational requirements are designed to ensure that the stock of HQLA is managed in such a way that the covered bank can, and is able to demonstrate that it can, immediately use the stock of assets as a source of contingent funds that is available for the covered bank to convert into cash through outright sale or repo, to fill funding gaps between cash inflows and outflows at any time during the thirty (30)-day stress period, with no restriction on the use of the liquidity generated:

    a. *Encumbrance and transferability of the liquid assets*

        i. The liquid asset must be unencumbered. It should neither be pledged, explicitly or implicitly, to secure, collateralize, or credit-enhance any transaction[1].

        ii. No operational constraint that may impede the monetization of the liquid asset must be attached to it, such as, but not limited to:

            (1) Whether the monetization of the asset would directly conflict with another business or risk management strategy of the covered bank. For example, an asset should not be included in the stock if the sale of that asset, without replacement throughout the thirty (30)-day period, would remove a hedge that would create an open risk position to the covered bank in excess of internal limits;

            (2) Potential differences in financial market conventions in other jurisdictions, where applicable (e.g., settlement period, processing time, etc.) that affect timely monetization of the asset; and

            (3) Whether the asset is internally designated to cover operational costs (e.g., rents, salaries, facility maintenance, etc.).

        iii. The liquid asset received, such as those in SFTs or as collateral for derivatives transaction that is not segregated, must not have been rehypothecated and is legally and contractually available for the covered bank's use.

        iv. Assets or liquidity generated from said assets, which have been received under right of rehypothecation or under brokering agreements, shall be excluded from the covered bank's stock of HQLA if the beneficial owner has the contractual right to withdraw those assets during the LCR period.

[1] If a covered bank has deposited, pre-positioned or pledged Level 1, Level 2 and other assets in a collateral pool and no specific securities are assigned as collateral for any transactions, it may assume that assets are encumbered in order of increasing liquidity value in the LCR, i.e., assets ineligible for the stock of HQLA are assigned first, followed by Level 2 assets, and finally Level 1.

b. *Capability to monetize the HQLA*

v. The covered bank must implement policies, procedures and appropriate systems that establish the proper authority and operational capacity of a liquidity management function (e.g., the treasurer) to monetize any HQLA at any point in the thirty (30)-day stress period. To ensure effective monetization from an operational perspective, said function must have:

(1) Continuous authority to invoke the contingency funding plan of the covered bank when deemed necessary;

(2) Access to all necessary information to execute monetization of any HQLA;

(3) Control to any HQLA at any time. Control must be evidenced either by maintaining the assets in a separate pool managed by the function with the sole intent for use as a source of contingent funds, or by demonstrating that the function can monetize the asset at any point in the thirty (30)-day stress period; and

(4) Access and control over the monetization proceeds such that the funds will be available to the function throughout the thirty (30)-day stress period without directly conflicting with another business or risk management strategy of the covered bank.

vi. The covered bank, as led by the liquidity management function, must demonstrate its operational capability to monetize the HQLA, through repo or outright sale to the market, by:

(1) Implementing policies that set out the approach to periodic monetization of its HQLA, which are consistent with existing regulatory standards and accounting principles;

(2) Establishing and maintaining appropriate procedures and systems to monetize any of the covered bank's HQLA at any time in accordance with the relevant standard settlement periods and procedures for the asset class; and

(3) Periodically monetizing a sample of HQLA in order for the covered bank to test its access to the market, the effectiveness of its processes for monetization, the availability of the assets, and to minimize the risk of negative signaling during a period of actual stress.

Such periodic monetization may be carried out through the ordinary business activities of the covered bank or be done without reference to its day-to-day liquidity needs depending on the liquidity profile exhibited by the HQLA.

The asset must be monetized in varying amounts, at varying durations in case of repos, and in various related trading or financing markets in which the covered bank has access to. The cumulative effect of said periodic monetization over any twelve (12) month period must reasonably reflect a representative proportion of the minimum required HQLA, including with respect to asset type, maturity, and counterparty characteristics.

vii. The covered bank must implement policies and procedures and maintain systems that monitor the current market value, as well as the composition of the stock of HQLA as to:

(1) Identification by legal entity, location, currency, custodial account, or other relevant identifying factors;

(2) Appropriate diversification within asset classes (except for cash, government securities, and accounts with the Bangko Sentral) by asset type, counterparty, issuer, currency, borrowing capacity, or other factors associated with the liquidity risk of the assets; and

(3) Continuous qualification as eligible HQLA.

(2) Calculation and composition of HQLA

10. Two (2) categories of eligible assets[1], which must be held by the covered bank on the first day of the thirty (30)-day stress test period irrespective of residual maturity, shall be included in the stock of HQLA. The highest quality liquid assets, the Level 1 assets, shall be included without limit, while other HQLA, the Level 2 assets, can only comprise up to forty percent (40%) of the stock.

[1] To qualify as HQLA, the assets must satisfy the asset and market liquidity characteristics, and the operational requirements for monetization eligibility criteria.

11. The calculation of the stock of HQLA, specifically the forty percent (40%) cap on Level 2 assets, must take into account the required haircuts, as applicable, and the assumed unwinding of all short-term SFTs and collateral swap transactions maturing within thirty (30) calendar days that involve the exchange of HQLA. The details of the adjustment on calculation of the stock of HQLA are provided in *Annex B*.

12. The specific individual assets within an asset class that would be considered as liquid and readily-marketable shall be determined in accordance with the liquidity metrics. However, the designation of these specific individual assets as HQLA is not fixed and absolute as the liquidity characteristics and/or the liquidity derived from these assets that qualify them under this criterion may change over time.

13. If a liquid asset will no longer qualify as HQLA during the immediate LCR period, the covered bank shall be allowed to keep such liquid asset as HQLA during the said LCR period. This would give the covered bank additional time to adjust its stock of HQLA as needed or to replace the liquid asset.

14. For purpose of LCR, assets included in the stock of HQLA should be measured at its current market value[1]. However, in case the covered bank hedges the market risk associated with the eligible HQLA, the current market value of the HQLA must be reduced by the outflow amount that would arise if the hedge were to be closed out early (in the event of the asset being sold).

15. For purpose of computing the consolidated LCR, the qualifying HQLA that are held at the branch/es abroad of domestic covered banks or subsidiary level (where applicable) shall be counted towards the stock of HQLA in an amount up to the total net cash outflows of said branch or subsidiary that are included in the consolidated LCR: *Provided*, That the HQLA are freely available and transferrable (i.e., without any regulatory, legal, tax, accounting or other impediment) to the parent covered bank for monetization.

(a) Level 1 Assets

16. Level 1 assets shall not be subject to any haircut under the LCR. These are not limited to the following asset classes:

    a. Cash on hand;
    b. Covered bank reserves in the Bangko Sentral;
    c. Overnight and term deposits[2] with the Bangko Sentral, including reserve repos where the Bangko Sentral is the counterparty; and
    d. Eligible securities representing claims on or guaranteed[3] by -

        i. The Philippine National Government (NG) and the Bangko Sentral[4]; or

        ii. sovereigns, central banks, or PSEs of foreign countries, or by multilateral organizations, that are assigned a 0% risk weight under the Basel II Standardized Approach for credit risk, and are not an obligation by a covered bank or any of a covered bank's financial allied undertakings[5].

(b) Level 2 Assets

17. Specific haircuts shall be applied to each Level 2 asset held in the stock. Level 2 assets are limited to the following asset classes:

Level 2 Asset	Haircut
a. Eligible securities representing claims on or guaranteed by LGUs, GOCCs, by sovereigns, central banks, or PSEs of foreign countries, or by MDBs, that are assigned with the following risk weight under the Basel II Standardized Approach for credit risk, and are not an obligation by a covered bank or any of a covered bank's financial allied undertakings[6]:	
i. Twenty percent (20%)	15%
ii. Fifty percent (50%)	50%

[1] Eligible HQLAs that are recognized at book value or at amortized cost such as securities designated as "held- to-maturity" must be included in the HQLA amount calculation at current market value.
[2] To the extent allowed to be drawn down in times of stress.
[3] Securities which are guaranteed by the Philippine NG but were issued and remain as liabilities of a covered bank will not qualify for the stock of HQLA. The only exception is when the covered bank also qualifies as a GOCC with the highest credit quality, in which case, the securities issued by said covered bank could qualify for Level 2 assets if all necessary conditions are satisfied.
[4] Issuances in foreign currencies shall be included in the stock to the extent of the covered bank's net cash outflows in that specific foreign currency.
[5] For LCR purpose, a holding company shall only be deemed a financial corporate and/or a financial allied undertaking if the holding company is primarily engaged in financial intermediation or in auxiliary financial activities that are closely related to financial intermediation.
[6] For LCR purpose, a holding company shall only be deemed a financial corporate and/or a financial allied undertaking if the holding company is primarily engaged in financial intermediation or in auxiliary financial activities that are closely related to financial intermediation.

b.	Eligible corporate debt securities (including commercial papers)[1] that are assigned with the following long-term credit rating[2] by a third party credit assessment agency recognized by the Bangko Sentral[3], and are not issued by a covered bank or any of a covered bank's financial allied undertakings[4]:	
	i. At least AA- or its equivalent	15%
	ii. Between A+ and BBB- or their equivalent	50%
c.	Eligible common equity shares that are included in the main index of an organized exchange, and are not issued by a covered bank or any of a covered bank's financial allied undertakings[5].	50%

Further, the Level 2 assets shall meet the metrics set out in Annex A-1, except for securities representing claims on or guaranteed by sovereigns, central covered banks and MDBs.

C. Total Net Cash Outflows

18. The total net cash outflows, which should include interests and installments that are expected to be received and paid during the LCR period, are calculated as follows:

Total net cash outflows over the next thirty (30) calendar days = Total expected cash outflows – Min {total expected cash inflows; seventy-five percent (75%) of the total expected cash outflows}

19. a. The bank is not allowed to double count items in the calculation of the LCR. If a liquid asset is included as part of the stock of high-quality liquid assets (HQLA) (which is the numerator), the cash inflows associated with that liquid asset should no longer count as part of the total expected cash inflows (which is part of the denominator).

b. Cash flows arising from Foreign Exchange (FX) spot transactions that involve the full exchange of principal amounts need not be reported as a cash flow in determining compliance with the LCR in single currency. However, cash flows for FX spot transactions shall be reported in their original currency at gross amounts in determining compliance with the LCR in significant currency.

20. Where there is potential that a liability or obligation could be counted in multiple outflow categories (e.g., committed business facilities granted to cover debt maturing within the thirty (30)-calendar day period), only such liability or obligation that will yield the maximum amount of expected cash outflow must be included in the calculation of total expected cash outflows, except when a specific outflow treatment is clearly prescribed herein.

21. Cash flows arising from purchase/ sale of non-HQLA that are executed but not yet settled at the LCR measurement date shall count towards other cash outflows/ inflows. Outflows and inflows of HQLA- type assets that are or will be excluded from the covered bank's stock of HQLA due to operational requirements are treated like outflows or inflows of non-HQLA.

22. In calculating cash outflows and inflows, if considered to mature within the LCR period, the covered bank shall make the most conservative assumptions for determining the maturity or transaction date for an instrument or transaction:

a. In general, the maturity of an instrument or obligation that would result in an outflow amount must be assumed to occur on the earliest possible contractual maturity date or the earliest possible date the obligation could be fulfilled; while the maturity of an instrument or transaction that would result in an inflow amount must be assumed to occur on the latest possible contractual maturity date or the latest possible date the transaction could occur;

b. With respect to any option that would modify the maturity date, either explicit or embedded in the instrument or transaction, the covered bank shall assume that the option would be exercised at the earliest possible date in case of an outflow, and at the latest possible date in case of an inflow. In the event of an actual financial stress, however, the covered bank shall be allowed not to exercise the option

[1] Corporate debt securities (including commercial paper) in this respect include only plain-vanilla assets which valuation is readily available based on standard methods and does not depend on private knowledge, i.e., these do not include complex structured products or subordinated debt.

[2] In the absence of a long-term rating, a short-term rating equivalent in quality to the long-term rating shall be used. In case the security does not have a credit assessment by a recognized third party credit assessment agency, an internal rating equivalent to the probability of default corresponding to the required long-term credit rating shall be applied. In cases where there are two or more ratings which map into different risk weights, the higher of the two lowest risk weights should be used. External credit assessments for one entity within a corporate group cannot be used to proxy for the credit assessment of other entities within the same group. Such other entities should secure their own ratings.

[3] The list of third party credit assessment agencies and the mapping of ratings given by these rating agencies are in Part IV.C of Appendix *59*.

[4] For LCR purpose, a holding company shall only be deemed a financial corporate and/or a financial allied undertaking if the holding company is primarily engaged in financial intermediation or in auxiliary financial activities that are closely related to financial intermediation

[5] For LCR purpose, a holding company shall only be deemed a financial corporate and/or a financial allied undertaking if the holding company is primarily engaged in financial intermediation or in auxiliary financial activities that are closely related to financial intermediation

and to treat the original maturity date of the instrument or transaction as the maturity for purpose of computing the LCR: *Provided*, That the decision not to exercise the option would not subject the covered bank to any legal or reputational risk;

c. If an option to adjust the maturity date is subject to a notice period, the covered bank must determine, for cash outflows, the earliest possible contractual maturity date regardless of the notice period; and for cash inflows, the latest possible contractual maturity date based on the borrower using the entire notice period;

d. In the absence of a specific maturity date, i.e., there is no defined maturity or is an open maturity, the covered bank must consider the instrument or transaction to mature within the LCR period for cash outflows calculation; and after the LCR period for cash inflows calculation.

(3) Cash Outflows

23. When the covered bank, at LCR measurement date and in accordance with trade rules or market conventions, has specifically pre-positioned or deposited cash or any asset with a clearing and settlement system or with another financial institution to cover an obligation or settle a transaction that is set to mature within the LCR period, the cash outflow related to the obligation or transaction shall be excluded from cash outflow calculation: *Provided*, however, That the cash or any asset pre- positioned or deposited is neither treated as cash inflow nor counted in the stock of HQLA.

24. Funds subject to special arrangements whereby cash balances are cleared and transferred into a main account, other than those maintained within the covered bank, at the end of each day or within the LCR period (e.g., the Treasury Single Account System) shall automatically receive a 100% outflow rate.

(a) Deposits

25. Regardless of maturity, all deposits, unless otherwise excluded under the cases specified in the succeeding paragraph, shall be included in the calculation of total expected cash outflows. These accounts are categorized either as retail or wholesale, with wholesale accounts classified as either operational or non-operational, with different outflow rates assigned accordingly. To capture the relative volatility of a deposit account during a period of stress, the outflow rates for retail deposits are calibrated on a per account basis. Wholesale operational and non-operational deposits, on the other hand, receive outflow rates that are based on the established operational relationship of the depositor with the covered bank.

26. A deposit account with residual maturity or withdrawal notice period of greater than thirty (30) calendar days may be excluded from the calculation of the total expected cash outflows under the following circumstances:

a. The deposit is contractually pledged to the covered bank as collateral to secure a credit facility or loan, where:

i. the loan will not mature or be settled during the LCR period; and
ii. the pledge or hold-out arrangement is subject to a legally enforceable contract disallowing withdrawal of the deposit before the loan is fully settled or repaid.

Said exclusion, however, does not apply to a deposit which is pledged against an undrawn facility, in which case the higher expected cash outflow between the undrawn facility or the pledged deposit shall be used; or

b. The depositor has no contractual or legal discretion to withdraw said deposit or pre- terminate the account within the thirty (30)-day horizon of the LCR (e.g., negotiable certificates of time deposits).

(i) *Retail deposits: 5%, 10% or 15% run-off rate*

27. Retail deposits shall be assigned with specific run-off rates depending on the outstanding balance per account:

Outstanding Balance Per Account	Run-off Rate
P500,000 and below	5%
P500,000.01 to P4,000,000	10%
Over P4,000,000	15%

(ii) *Wholesale deposits: Operational deposits: 30% run-off rate*

28. Operational deposits, which are maintained by wholesale clients to avail the operational services offered by the covered bank, shall receive a thirty percent (30%) outflow rate.

29. For LCR calculation, all current and savings (CASA) accounts, including negotiable order of withdrawal (NOW) accounts, shall automatically be categorized as operational deposits considering that said accounts are generally characterized by the following:

    a. The client is reliant on the covered bank as an independent third party that provides the operational service that will fulfill the client's normal business operation, rendering it unlikely for the client to transfer its banking activity to another covered bank within thirty (30) days;

    b. The funds held in this account are utilized for the operational needs of the client and no excess balance is assumed to be retained for the purpose of earning interest, or any economic incentive (i.e., rewards, rebates, reduction of fees or charges for other covered bank services, etc.) from the covered bank; and

    c. The operational service is usually governed by a legally binding written agreement, which can only be terminated by the client either by giving prior notice of at least thirty (30) days or by paying significant switching costs (such as those related to transaction, information technology, early termination or legal costs) if the operational deposit is withdrawn before thirty (30) days.

30. In the case of the Philippine branch of a foreign covered bank, the amount of "Net Due To Head Office/Branches/Agencies Abroad" account shall be treated as operational deposit for LCR purpose. The "Due From" and "Due To" accounts are essentially clearing accounts through which the head office and branch transactions of the foreign bank are cleared, hence, for LCR purpose, the "Net Due To" balance shall be assumed as operational in nature. However, accumulated "Unremitted Profits" and "Losses in Operation" shall not be included in the LCR calculation considering that these balances are part of regulatory capital for purposes of computing risk-based capital adequacy ratio and adjusted net worth.

31. Deposits received specifically for clearing and settlement of foreign exchange transactions (e.g., amount of funding provided by the Philippine Domestic Dollar Transfer System [PDDTS] participants) shall be classified as operational accounts. These accounts are deemed maintained with the settlement/depository covered bank solely for effecting credits and debits arising from foreign exchange transactions, without having to go through a correspondent covered bank in the country where the foreign currency to be settled originated.

(iii) *Wholesale deposits: Non-Operational deposits: 20%, 40% or 100% run-off rate*

32. The covered bank shall apply a run-off rate of twenty percent (20%) on term and other deposits of wholesale clients not classified as operational, provided the outstanding balance is fully insured by the PDIC. Otherwise, said accounts shall be assigned with the following run-off rates:

Outstanding Balance Per Account	Run-off Rate
Philippine NG; LGUs; GOCCs; Bangko Sentral; sovereigns, central banks, PSEs of foreign countries; MDBs	40%
Non-financial corporates	40%
Other entities not included in the prior categories	100%

33. Irrespective of outstanding balance, the term and other non-operational deposits provided by covered banks, financial corporates, trust and other fiduciaries, beneficiaries, conduits and special purpose vehicles (SPVs), and by affiliated entities of the covered bank shall receive a 100% run-off rate at all times.

(iv) *Deposits received under correspondent banking and brokering services agreements*

34. The criterion for an operational deposit where the client has a substantive dependency on the continued operation of the deposit account, which serves as a practical impediment to closing or moving such account to another covered bank, is not consistently the case with correspondent banking and brokering services activities. Thus, deposits arising from correspondent banking and brokering services will be treated as wholesale non-operational deposit accounts.

35. Customer cash balances arising from the provision of brokering services should be considered separate from any required segregated accounts related to client protection regimes, and should not be netted against other customer exposures included in this LCR standard.

(b) Unsecured wholesale funding

36. The expected cash outflow that will be calculated for other unsecured wholesale funding shall generally comprise of:

    a. Any obligation or instrument issued by the covered bank that is not eligible as capital, and hence, treated as borrowings which the covered bank expects to fulfill within the LCR period;
    b. All unsecured wholesale funding that is callable, or has an earliest contractual maturity date within the next thirty (30) calendar days; and
    c. Unsecured wholesale funding with undetermined maturity.

37. A range of outflow rates is assigned to this wholesale fund depending on the assumed stability of the funding in times of stress, i.e., in consideration of the sensitivity of the fund providers to the rate offered and to the credit quality and solvency of the borrowing bank, the type of wholesale client and their level of sophistication. However, this category excludes:

    a. Debt instruments issued by the covered bank exclusively in the retail market, such that those instruments cannot be bought and held by parties other than retail clients, which shall be treated appropriately under the retail funding category; and

    b. Liabilities and obligations related to derivative contracts, which outflow calculation shall be taken up under the derivatives contracts category.

(i) *Unsecured wholesale funding provided by the Philippine NG, LGUs, GOCCs, Bangko Sentral; by sovereigns, central banks, PSEs of foreign countries; by MDBs and by non-financial corporates: 40% outflow rate*

38. The covered bank shall apply a cash outflow rate of forty percent (40%) on all unsecured funds received from the abovementioned entities.

(ii) *Unsecured wholesale funding from covered banks, financial corporates and from other wholesale clients: 100% outflow rate*

39. Unsecured funding provided by covered banks, financial corporates, trust and other fiduciaries, beneficiaries, conduits and SPVs, by affiliated entities of the covered bank, and by other entities not included in the prior category shall receive a 100% outflow factor.

(c) Secured funding

40. The cash outflow on secured funding shall be calculated based on the amount of funds raised through the transaction and not on the value of the underlying collateral. In case of collateral swaps or collateral lending transactions, the outflow amount shall be based on the current market value of the asset received.

41. The outflow rates to be applied to outstanding secured funding transactions maturing within the thirty (30)-calendar day period shall depend on the quality of the underlying collateral and/or the counterparty, as follows:

Underlying Collateral and/or Counterparty	Outflow Rate
Level 1 assets *OR* funding provided by the Bangko Sentral	0%
Level 2 assets with 15% haircut	15%
Non-HQLA *AND* funding provided by the Philippine NG or by LGUs that are assigned with 20% credit risk weight or lower, or by MDBs	25%
Level 2 assets without 50% haircut	50%
All other maturing secured funding transactions not specified in the prior categories	100%

(d) Derivatives contracts

42. The bank shall calculate expected contractual derivative cash inflows and outflows in accordance with existing valuation methodologies. A 100% outflow factor shall be assigned to net cash outflows within the LCR period from each derivative contract maturing or expected to be pre-terminated within the LCR period.

43. Where derivative payments are collateralized by HQLA, the cash outflows shall be calculated net of any corresponding cash or collateral inflows that would result, all other things being equal, from contractual obligations for cash or collateral to be posted to the bank; Provided, the bank is legally entitled and operationally capable to re-use the collateral in new cash raising transactions once the collateral is received. This is in line with the principle that banks should not double count liquidity inflows and outflows.

44. Options shall be assumed to be exercised when they are "in the money" to the option buyer.

45. Additional cash outflow[14] for liquidity requirements resulting from contingent obligations embedded in derivative contracts, if any, shall be included in the calculation of total expected cash outflows, with outflow rates assigned as follows:

(i) *Potential valuation changes on posted collateral securing derivative and other transactions: 20% outflow rate*

46. When a mark-to-market exposure from a derivative position is secured by securities other than those that qualify as Level 1 assets, an additional stock of HQLA shall be maintained by the bank posting such collateral to cover the potential loss of market value for these securities. Twenty percent (20%) of the value of such posted collateral, net of collateral received on a counterparty basis, shall be included in the calculation of total expected cash outflows, *Provided*, That the collateral received is not subject to restrictions on re-use or rehypothecation. This 20% shall be calculated based on the amount required to be posted as collateral after applying the relevant haircut prescribed for these assets. Any collateral that is in a segregated margin account can only be used to offset outflows that are associated with payments that are eligible to be offset from that same account.

(ii) *Market valuation changes on derivative or other transactions: 100% outflow rate*

47. Potential valuation changes of derivative or other transactions, which are subject to collateral requirements, require additional outflows. Using the historical look-back approach, the outflows shall be based on the fluctuations in the total current market value amount of collaterals posted for all derivatives for each day within consecutive periods of thirty (30) days. The amount of additional expected cash outflows shall be equal to the largest difference between the highest and the lowest amount of accumulated collateral posted during any thirty (30)- day period in the last 24 months[15] preceding the date of the LCR calculation. The collateral amounts pledged towards the bank shall not be taken into account.

(iii) *Downgrade triggers embedded in financing transactions, derivatives and other contracts[1]: 100% outflow rate*

48. As covered bank faces potentially substantial liquidity risk exposures to the valuation changes of collaterals posted by the covered bank on its derivatives and other transactions, the increased liquidity needed to cover these market valuation changes should be included in the LCR. Using the historical look-back approach, the collateral outflows shall be based on the fluctuations in the total current market value amount of collaterals posted for all derivatives for each day within consecutive periods of thirty (30) days. The amount of additional expected cash outflows shall be equal to the largest difference between the highest and the lowest amount of accumulated collateral posted during any thirty (30)-day period in the last twenty four (24) months[2] preceding the date of the LCR calculation. The collateral amounts pledged towards the covered bank shall not be taken into account.

(iv) *Excess non-segregated collateral held by the covered bank: 100% outflow rate*

49. An additional 100% cash outflow based on the market value of the collateral held must be calculated as part of the total expected cash outflows in cases where the bank holds a collateral that:

    a. Can be contractually called at any time by the counterparty because the collateral posted exceeds the counterparty's current collateral requirement under the contract; and

    b. Is not segregated from the bank's other assets (such that the bank holding the collateral may have already rehypothecated the asset or counted the same as HQLA).

(v) *Contractually required collateral which are not yet posted: 100% outflow rate*

50. For a collateral that is contractually due but the posting of which is not yet demanded by the counterparty, the bank shall increase the total expected cash outflows by an amount equivalent to 100% of the market value of the collateral.

(vi) *Collateral substitution to non-HQLA or lower-quality HQLA[3]: 100% outflow rate*

51. When a contract for a transaction allows the HQLA collateral received that has not been segregated to be substituted by other collateral without the consent of the bank, an additional outflow shall be included in the calculation of the total expected cash outflows. The basis for calculating the amount of the outflow depends on

[1] This applies to contracts governing derivatives and other transactions that have clauses that require the posting of additional collateral, drawdown of contingent facilities, or early repayment of existing liabilities upon the covered bank's downgrade by a recognized credit rating organization. Contracts that include early termination agreements if a triggering event occurs (e.g., credit rating downgrade) shall not be covered by this requirement.

[2] The two (2)-year observation period consists of approximately 730 periods of thirty (30)-day, partly overlapping, rolling window.

[3] This provision for additional liquidity requirement shall be applicable only when the received HQLA collateral actually counts toward the covered bank's stock of HQLA, and its maturity value after applying the respective haircut is lower than the liquidity value of the potential collateral substitution.

the type of asset that may serve as a potential substitute under the contract. Where the potential substitute collateral is a non-HQLA, the amount of outflow shall be equivalent to 100% of the market value of the HQLA collateral held by the bank. Where the potential substitute is another HQLA but of a lower quality (e.g., a Level 1 asset is potentially substituted by a Level 2 asset), the amount of the outflow shall be equivalent to the market value of the collateral received multiplied by the difference between the haircuts of the collateral received and the potential substitute collateral.

(e) Loss of funding from structured financing instruments (SFIs)

(i) *Asset-backed securities and other SFIs allowed under existing regulations: 100% outflow rate*

52. Under the assumption that the funding required to refinance the bank- issued SFIs will not be available, the covered bank shall assign a 100% outflow rate to the total outstanding amount of these instruments maturing within the thirty (30)-day period.

(ii) *Asset-backed commercial paper, conduits, securities investment vehicles (SIVs) and other such financing facilities allowed under existing regulations: 100% outflow rates*

53. To take account of the potential liquidity risks pertaining to the covered bank's own structured financing facilities that include the issuance of short-term asset-backed commercial paper, the covered bank shall assume that its ability to refinance the outstanding maturing instrument will be uncertain and shall include in the calculation of expected cash outflows 100% of the amount of the maturing debt.

54. In cases where the documentation associated with the financing arrangement contractually includes derivatives or derivative-like components that allow the "return" of assets, or that require the covered bank (as original asset transferor) to provide liquidity, effectively ending the financing arrangement (liquidity puts) within the thirty (30)-day period, the covered bank shall increase its expected cash outflows by another 100% based on the amount of assets that could potentially be returned, or on the liquidity required.

55. Where the structured financing activities of the covered bank are conducted through a special purpose entity (such as a special purpose vehicle, conduit or structured investment vehicle), the covered bank should look through to the maturity of the debt instruments issued by the entity and to any embedded options in financing arrangements that may potentially trigger the "return" of assets or the need for liquidity, irrespective of whether or not the SPV is consolidated.

(f) Drawdowns on committed business facilities

56. For LCR purpose, committed business facilities shall include: (a) lending commitments (e.g., Committed Credit Line for Commercial Paper Issued); (b) direct credit substitutes and transaction- related contingencies that are assigned 100% and fifty percent (50%) credit conversion factors under the Basel II Standardized Approach for credit risk, respectively; and (c) all other committed funding facilities extended by the covered bank excluding credit card lines and trade-related guarantees.

57. For purpose of expected cash outflows calculation, all committed obligations that are assumed to be drawn will remain outstanding at the amounts assigned throughout the duration of the stress test, regardless of maturity. The currently undrawn portion of each committed obligation shall be calculated net of HQLA collateral, if any[1]: *Provided*:

    a. The covered bank is legally entitled and operationally capable to re-use the collateral in new cash raising transactions once the facility is drawn; and
    b. There is no undue correlation between the probability of drawing the facility and the market value of the collateral.

    The collateral can be netted against the outstanding amount of the committed obligation to the extent that this collateral is not already counted in the stock of HQLA.

58. To calculate the expected cash outflows, the covered bank shall assume the amount of contractual loan drawdowns from irrevocable committed obligations and the estimated drawdowns from conditionally revocable obligations within the thirty (30)-day period using the following drawdown rates against the undrawn portion of these committed obligations:

[1] The HQLA in this case could have already been posted as collateral by the counterparty to secure the facility or is contractually obliged to be posted when the counterparty will draw down the facility.

Counterparties	Drawdown Rate
Retail clients	5%
Philippine NG; LGUs; GOCCs; sovereigns, central banks, PSEs of foreign countries; MDBs	10 %
Non-financial corporates	10%
Covered banks subject to prudential supervision	40%
Financial corporates, trust and other fiduciaries, beneficiaries, SPEs conduits and SPVs (excluding covered bank's own structured financing facilities)	100 %
Other entities not included in the prior categories	100 %

(g) Other contractual obligations within a thirty (30)-day period

59. The covered bank shall calculate additional 100% cash outflows on each of the following contractual obligation to extend funds within the next thirty (30) calendar days:

    a. Any contractual lending obligations to financial institutions not captured elsewhere in this standard;

    b. If the total of all contractual obligations to extend funds to retail and non-financial corporates within the next thirty (30) calendar days (not captured in the prior categories) exceeds fifty percent (50%) of the total contractual inflows due in the next thirty (30) calendar days from these clients, the difference should be reported as a 100% outflow;

    c. Forward reverse repos (with a binding obligation to accept) that start within and mature beyond the LCR period, where the cash outflow should be netted against the market value of the collateral received after deducting the applicable haircuts;

    d. In case of forward collateral swaps, the net amount between the market values of the assets extended and received after deducting the haircuts applied to the respective assets in the LCR counts towards "other contractual outflows" or "other contractual inflows" depending on which amount is higher;

    e. Any other contractual cash outflows such as outflows to cover unsecured collateral borrowings, uncovered short positions[1], dividends or contractual interest payments, with explanation given as to what comprises this bucket. In case, however, the covered bank's short position is being covered by a collateralized securities financing transaction, the covered bank should assume the short position will be maintained throughout the thirty (30)-day period and thus, will receive a 0% outflow rate.

60. Contractual obligations by the covered bank related to operating costs (such as rents, salaries, utilities, and other similar payments) are not included in the calculation of LCR.

(h) Other contingent funding obligations

61. These include products and instruments for which the client or holder has specific expectations regarding the liquidity and marketability of the product or instrument and for which failure to satisfy client expectations in a commercially reasonable manner would likely cause material reputational damage to the covered bank or otherwise impair ongoing viability.

62. Other contingent funding obligations referred to in this category shall consist, among others, of the following:

    a. Unused portions of commitments to extend credit through credit cards;

    b. Guarantees issued related to trade finance obligations directly underpinned by the movement of goods and/or the provision of services;

    c. Unconditionally revocable "uncommitted" credit lines and business facilities;

    d. Joint ventures or minority investments in entities which are not consolidated for financial reporting purposes but there is expectation that the covered bank will be the main liquidity provider when the entity is in need of funding; and

    e. Non-contractual contingent funding obligations related to:

[1] In the case of a covered bank's short positions, if the short position is being covered by an unsecured security borrowing, the covered bank should assume the unsecured security borrowing of collateral from financial market participants would run-off in full, leading to a 100% outflow of either cash or HQLA to secure the borrowing, or cash to close out the short position by buying back the security.

i. debt repurchases of the covered bank's own debt or that of related conduits, SIVs and other such financing facilities;

ii. structured products where customers anticipate ready marketability;

iii. managed funds such as money market funds and other types of collective investment funds that are marketed by the covered bank with the objective of maintaining stable value[1]; and

iv. outstanding debt securities (unsecured and secured, term as well as short-term) having maturities greater than thirty (30) calendar days, where the covered bank (or its affiliated entity) is the issuer, the market maker or the dealer, or has acted as an originator, sponsor, marketing or selling agent, to cover the potential repurchase of such outstanding securities.

63. To account for the potential liquidity exposure to these contingent liabilities, a minimum of three percent (3%) drawdown based on the contracted amount, on the undrawn portion of the facility, or on the value of the fund or debt instruments, whichever is applicable, shall be calculated as additional expected cash outflows. However, when there is reasonable expectation based on the covered bank's assessment that the contingent outflow will materialize within the LCR period, thereby rendering it necessary for the covered bank to provide funding support or to extend funds; or the Bangko Sentral has determined the covered bank's systems and processes for identifying, measuring and monitoring contingent funding risks to be inadequate and ineffective in assessing the related risks that could potentially materialize, the full amount of the contingent funding obligation will receive a 100% outflow rate.

64. For non-contractual obligations where customer short positions are covered by other customers' collateral that are not qualified as HQLA, a fifty percent (50%) run- off factor of the contingent obligations shall be calculated in the total cash outflows under the assumption that the covered bank may be obligated to find additional sources of funding for these positions in the event of client withdrawals.

65. To estimate the potential liquidity demand associated with these contingent funding obligations, the covered bank must have a robust framework (i.e., procedures, systems and tools) that at a minimum, allows assessment of contingent funding risks, as follows:

a. Identify the nature of the contingent obligation and credit worthiness of the counterparty, as well as the exposures to business and geographical sectors, as counterparties in the same sectors may be affected by stress at the same time;

b. Measure the normal level of cash outflows arising from the relevant off-balance sheet instruments under routine conditions and then estimate the scope of increase in these outflows during periods of stress;

c. Analyze the liquidity trigger events and the changes to underlying risk factors (e.g., changes in economic variables or conditions, credit rating downgrades, country risk issues, specific market disruptions and the alteration of contracts by governing legal, accounting, or tax systems and other similar changes) that would result to liquidity draws on these off- balance sheet positions. This analysis should include appropriate assumptions on the behavior of both the covered bank and its counterparties; and

d. Determine which among these contingent obligations and counterparties are of particular importance due to their prevalent use of liquidity, both under normal and adverse market conditions.

(4) Cash inflows

66. *Cap on total inflows.* In order to prevent covered banks from relying solely on anticipated inflows to meet their liquidity requirement when there is a possibility that a portion of expected cash inflows may become unavailable in a short-term stressed environment, the amount of inflows that can offset outflows is capped at seventy-five (75%) of total expected cash outflows. This requires that at a minimum, at least one- quarter of the total expected cash outflow amount should be covered by HQLA.

67. When considering available cash inflows, the covered bank should only include inflows (including interest payments and installments) from outstanding exposures that are contractually due within the LCR period, and are fully performing and for which the covered bank has no reason to expect a default within the LCR period.

68. For LCR purpose, the following shall not be counted as cash inflows:

a. Market value of assets that already qualify in the stock of HQLA;

[1] This excludes funds managed by the covered bank's trust department.

b. Deposits held at other financial institutions for operational purposes, such as for clearing, custody, and cash management purposes, including funds provided for clearing and settlement of foreign exchange transactions (e.g., deposits placed to facilitate PDDTS transactions). These deposits are necessary for operational reasons, and are therefore not available to the depositing bank to repay other outflows.

c. Amount of "Net Due From Head Office/Branches/Agencies Abroad" account in case of the Philippine branch of a foreign bank;

d. Payments from loans, receivables and other assets that are considered past due, or that the covered bank has reason to expect will become non-performing exposure within the LCR period;

e. Potential or contingent inflows from committed credit lines, business or other funding facilities that the covered bank holds at other institutions for its own purposes;

f. Amounts related to non-financial revenues; and

g. Amounts payable to the covered bank with respect to any transaction that has no specific contractual maturity date, i.e., no defined maturity or is open maturity, or that matures after the LCR period.

(a) Secured lending, including reserve repos[1] and securities borrowings

69. For secured lending maturing within the LCR period, the covered bank shall calculate the expected cash inflow using the following inflow rates applied to the outstanding amount of the secured lending transaction:

Maturing Secured Lending Transactions Backed by the Following Asset Category	Inflow Rate
Level 1 assets	0 %
Level 2 assets with 15% Haircut	15%
Level 2 assets with 50% Haircut	50%
Margin lending backed by all other collateral	50%
All other collaterals	100%

70. If the collateral obtained through reverse repo, securities borrowing, or collateral swap, which matures within the LCR period, is re-used (i.e., rehypothecated) and is used to cover short positions that could be extended beyond thirty (30) days, the covered bank should assume that such reverse repo or securities borrowing arrangements will be rolled-over. To reflect the need to continue to cover the short position or to re-purchase the relevant securities, no cash inflow will be expected, hence a 0% inflow rate.

(b) Loans, receivables and other credit facilities

71. The covered bank shall be assumed to continue to extend and roll-over loans and other credits to clients, either secured or unsecured, at a certain level even during times of stress. In this view, all payments (including interest payments and installments) shall be assumed to be received by the covered bank at a net inflow rate, as follows:

Counterparties	Inflow Rate
Retail clients	50%
Philippine NG; LGUs; GOCCs; sovereigns, PSEs of foreign countries; MDBs	50%
Non-financial corporate	50%
Covered banks; financial corporates; trust and other fiduciaries; beneficiaries; Bangko Sentral; and central banks of foreign countries	100%
Other entities not included in the prior categories	100%

72. For revolving credit facilities, the covered bank shall assume that the existing loan or financing is rolled over and that no principal or interest payment shall be received from the counterparty. However, in similar arrangements where the covered bank is not under obligation to extend credit and/or the covered bank reserves the right to revoke or withdraw the agreement and the facility in its sole and absolute discretion at any time, the principal and interest payments for the loan shall be assumed to be received by the covered bank at the foregoing net inflow rates.

73. In case of loans with no specific maturity, the covered bank shall include as cash inflows, at the rates prescribed above, the minimum payments of principal, fee or interest associated with the open maturity loan, *Provided*, That such payments are contractually due within the LCR period.

[1] This excludes reverse repo transactions where the Bangko Sentral is the counterparty, as such is already treated as HQLA.

(c) Other cash inflows

74. The following instruments or transactions maturing within the LCR period shall receive a 100% inflow percentage:

    a. Deposits held at other financial institutions for non-operational purposes;
    b. Deposits pledged against an undrawn credit line or business facility;
    c. Cash balances arising from the provision of brokering services and similar arrangements;
    d. Cash balances released from segregated accounts held for the protection of customer trading assets, *Provided*, That these segregated balances are maintained in HQLA;
    e. Cash inflows associated with non- HQLA, as well with HQLA-type assets that are or will be excluded from the covered bank's stock of HQLA due to operational requirement;
    f. Forward repos that start within and mature beyond the LCR period, where the cash inflow should be netted against the market value of the collateral extended after deducting the applicable haircuts; and
    g. The sum of all cash inflows from derivatives transactions calculated in accordance with *paragraphs 42 to 44* under *Section II.C – Total Net Cash Outflows*.

Part II. LCR Disclosure Requirements

1. In the quarterly published balance sheet, the covered bank, at a minimum, must publicly disclosed the: (i) total HQLA; (ii) total net cash outflows; and (iii) LCR ratio, based on the LCR position for the quarter.

2. On the covered bank's website or in its other published reports, the disclosure must be presented in a format following a common template (Annex C), and must contain the following minimum requirements:

    a. Data must be reported as simple averages of quarterly observations over the last twelve (12) months. The number of data points used in calculating the average figures in the template must also be disclosed.
    b. Sufficient qualitative discussion around the LCR to facilitate understanding of the results and data must be provided. Where significant to the LCR, the covered bank should discuss:

        i. the main drivers of the LCR results and the evolution of the contribution of inputs to the LCR's calculation over time;
        ii. intra-period changes as well as changes over time;
        iii. the composition of HQLA;
        iv. concentration of funding sources;
        v. derivative exposures and potential collateral calls;
        vi. currency mismatch in the LCR;
        vii. a description of the degree of centralization of liquidity management and interaction between the covered bank's units; and
        viii. other inflows and outflows in the LCR calculation that are not captured in the LCR common template but which the covered bank considers to be relevant for its liquidity profile.

3. The covered bank may also present additional information relevant to its business model that may not be adequately captured by the LCR standard. Additional quantitative information shall allow market participants to better understand and analyze any LCR figures disclosed while additional qualitative discussion of LCR results and its related components shall enable them to gain a more thorough understanding of the covered bank's internal liquidity risk management and positions. At the option of the covered bank, the following additional information may be provided:

    a. Quantitative disclosures:

        a. concentration limits on collateral pools and sources of funding (both products and counterparties);
        b. liquidity exposures and funding needs at the level of individual legal entities, foreign branches and subsidiaries, taking into account legal, regulatory and operational limitations on the transferability of liquidity; and
        c. balance sheet and off-balance sheet items broken down into maturity buckets and the resultant liquidity gaps.

    b. Qualitative disclosures:

        a. governance of liquidity risk management, including: risk tolerance; structure and responsibilities for liquidity risk management; internal liquidity reporting; and communication of liquidity risk strategy, policies and practices across business lines and with the board of directors;

        b. funding strategy, including policies on diversification in the sources and tenor of funding, and whether the funding strategy is centralized or decentralized;

        c. liquidity risk mitigation techniques;

d. an explanation of how stress testing is used; and

e. an outline of contingency funding plans.

4. The covered bank must also make available on its website, or through publicly available regulatory reports, an archive of all disclosure templates relating to prior reporting periods. Irrespective of the location of the disclosure, the minimum disclosure requirements must be presented in accordance with the format and template defined by this standard.

(Circular Nos. 1035 dated 15 March 2019, 996 dated 08 February 2018, 969 dated 22 August 2017, 930 dated 18 November 2016, and 905 dated 10 March 2016)

LIQUIDITY CHARACTERISTICS, CRITERIA AND METRICS

Characteristics		Criteria	Examples of metrics/measures
Asset characteristics	Asset quality	Probability of default	Ratings
			Spreads
			Price drops during stress
		Flight to quality (performance during distress)	Performance relative to risk-free asset
			Correlation with financial stress
		Volatility	Implied and actual volatility
			Duration/time to maturity
	Transparency and standardization	Collateral eligibility	Eligible/haircuts at financial market infrastructures
			Across private counterparties
		Standardization	Small number of standardized product types
			Standardized risk modeling
			Well-understood risk properties
		Price transparency	Pre-trade pricing broadly available
			Post-trade pricing broadly available
Market structure characteristics		Trading venues	Electronic (including hybrids)
			Exchange-traded
	Active and sizeable market	Size	Volumes (number of trades and peso value)
			Outstandings
		Related financing markets	Repo financing available
			Other secured/forward financing
			Related hedging markets
		Market participation	Breadth of investors (low concentration)
			Large number of active market maker
Market liquidity	Liquidity	Depth/price impact of trading	Amihud ratio (price changes relative to volume)
			Autocorrelations of returns
		Breadth	Effective bid-ask spreads (ex post)
			Quoted bid-ask spreads (ex ante)
		Immediacy	Average number of trades per day
			Number of days with zero return/volume

(Circular No. 905 dated 10 March 2016)

LIQUIDITY METRICS FOR LEVEL 2 ASSETS

Pursuant to paragraph 17 of Part I.II of *Appendix 72*, a security must meet the following metrics to be eligible as a Level 2 Asset:

(a) The security has a long term issuer rating that is investment grade or its equivalent;

(b) The security is traded in the secondary market with an ample number of market participants on both the buying and selling side of transactions; and

(c) There is a means to obtain market information on a security (i.e., bid, ask and done price). For peso securities, information on trade volume should also be available.

(Circular No. 996 dated 08 February 2019)

CALCULATION OF THE CAP ON LEVEL 2 ASSETS WITH REGARD TO SHORT-TERM SECURITIES FINANCING TRANSACTIONS

1. The formula for the calculation of the stock of HQLA is as follows:

Stock of HQLA	=	Unadjusted Level 1 Assets + Unadjusted Level 2 Assets -Adjusted for 40% cap on Level 2 Assets
Where:		
Adjustment for 40% cap		Max (Adjustment Stock of Level 2 Assets - 2/3 * Adjusted Stock of Level 1 Assets, 0)
Adjusted Level 1 Assets	=	Unadjusted Level 1 Assets + Level 1 assets lent or placed as collateral under short term[1] secured funding, secured lending or collateral swap transactions - Level 1 assets borrowed or received as collateral under short-term1 secured funding, secured lending or collateral swap transactions
Adjusted Level 2 Assets	=	Unadjusted Level 2 Assets + Level 2 assets lent or placed as collateral under short-term1 secured funding, secured lending or collateral swap transactions - Level 2 assets borrowed or received as collateral under short-term1 secured funding, secured lending or collateral swap transactions

Alternatively, the formula can be expressed as:

Stock of HQLA	=	Unadjusted Level 1 Assets + Unadjusted Level 2 Assets - Max (Adjusted Stock of Level 2 Assets - 2/3 * Adjusted Level 1 Assets, 0)

2. The calculation of the forty percent (40%) cap on Level 2 assets should take into account the impact on the stock of HQLA of the amounts of Level 1 and Level 2 assets involved in secured funding, secured lending and collateral swap transactions maturing within thirty (30) calendar days. The maximum amount of adjusted Level 2 assets in the stock of HQLA is equal to two-thirds of the adjusted amount of Level 1 assets after haircuts have been applied.

3. The adjusted amount of Level 1 assets is defined as the amount of Level 1 assets that would result after unwinding those short-term secured funding, secured lending and collateral swap transactions involving the exchange of any HQLA for any Level 1 assets (including cash) that meet, or would meet if held unencumbered, the operational requirements for HQLA.

4. The adjusted amount of Level 2 assets is defined as the amount of Level 2 assets that would result after unwinding those short-term secured funding, secured lending and collateral swap transactions involving the exchange of any HQLA for any Level 2 assets that meet, or would meet if held unencumbered, the operational requirements for HQLA.

(Circular No. 905 dated 10 March 2016)

[1] Pertains to maturity date up to and including 30 calendar days.

FORMAT OF SWORN CERTIFICATION OF COMPLIANCE WITH THE LIQUIDITY COVERAGE RATIO (LCR) REQUIREMENTS

(Appendix to Sec. 145-Q on Liquidity Coverage Ratio)

SWORN CERTIFICATION OF COMPLIANCE WITH THE LIQUIDITY COVERAGE RATIO (LCR) REQUIREMENTS

<NAME OF BANK>

C E R T I F I C A T I O N

Pursuant to Section 145-Q (*Liquidity Coverage Ratio*) of the Manual of Regulations for Non-Bank Financial Institutions (MORNBFI), we hereby certify that the Quasi-Bank has fully complied with the minimum LCR requirement on all calendar days of the month ended _____ 20___.

We further certify to the best of our knowledge that the above statement is true and correct.

President/CEO or Country Head	*[Other authorized signatories for Category A-1 report]*	
TIN:	TIN:	TIN:

[Officer Responsible for the Management of Liquidity]	Compliance Officer
TIN:	TIN:

SUBSCRIBED AND SWORN TO before me this ___ day of _____ 20__, at _____, Philippines affiant/s exhibiting their government-issued identification cards as follows:

NAME	GOVERNMENT-ISSUED ID	DATE OF ISSUE	PLACE OF ISSUE

Witness my hand and notarial seal on the date and place above-written.

NOTARY PUBLIC

Doc. No. ____;
Page No. ____;
Book No. ____;
Series of 20___.

(In case of occurrences of non-compliance/s during the month, the certification should read as follows:)

Pursuant to Section 145-Q (*Liquidity Coverage Ratio*) of the MORNBFI, we hereby certify that the Quasi-Bank has fully complied with the minimum LCR requirement on all calendar days of the month ended _____ 20___, except on *(example)*:

Dates (Day)	LCR Compliance (%)
11 January 2018 (Thursday)	99.56%
15 January 2018 (Monday)	98.10%
16 January 2018 (Tuesday)	98.97%

A shortfall notice containing the minimum information required under Appendix Q-82 of the MORNBFI was submitted to the Bangko Sentral on _____, through the appropriate supervising department of the Bangko Sentral.

We further certify to the best of our knowledge that above statement is true and correct.

President/CEO or Country Head	*[Other authorized signatories for Category A-1 report]*	
TIN:	TIN:	TIN:

[Officer Responsible for the Management of Liquidity]	Compliance Officer
TIN:	TIN:

SUBSCRIBED AND SWORN TO before me this ___ day of _____ 20__, at _____, Philippines affiant/s exhibiting their government-issued identification cards as follows:

NAME	GOVERNMENT-ISSUED ID	DATE OF ISSUE	PLACE OF ISSUE

Witness my hand and notarial seal on the date and place above-written.

NOTARY PUBLIC

Doc. No. ____;
Page No. ____;
Book No. ____;
Series of 20___.

(Circular No.996 dated 8 February 2018 and 905 dated 10 March 2016)

SWORN CERTIFICATION OF COMPLIANCE WITH
THE MINIMUM LIQUIDITY RATIO REQUIREMENT
(Appendix to Sec. 145-Q on *Minimum Liquidity Coverage Ratio for Stand-Alone Thrift Banks, Rural Banks, and Cooperative Banks*)

<Name of Quasi-Bank>

C E R T I F I C A T I O N

Pursuant to Section 145-Q (*Minimum Liquidity Ratio for Stand-Alone Thrift Banks, Rural Banks and Cooperative Banks*) of the Manual of Regulations for Non-Bank Financial Institutions, I/we hereby certify that –

☐ The Quasi-Bank has fully complied with the twenty percent (20%) Minimum Liquidity Ratio (MLR) Requirement on all banking days of the month/quarter ended <Year>.

☐ The Quasi-Bank incurred shortfalls on the following days of the month/quarter ended <Year>:

I/We further certify to the best of my/our knowledge that the above statement is true and correct.

(Signature over Printed Name of President, or
Executive Vice President and Compliance Officer/
Chief Accountant/Comptroller)

SUBSCRIBED AND SWORN TO before me this day of 20 , at, Philippines ~~affiant/s~~ exhibiting their government-issued identification cards as follows:

NAME	GOVERNMENT-ISSUED ID	DATE OF ISSUE	PLACE OF ISSUE

Witness my hand and notarial seal on the date and place above-written.

NOTARY PUBLIC

Doc. No. ;
Page No. ;
Book No. ;
Series of 20

(Circular No.996 dated 8 February 2018)

GUIDELINES ON THE BANGKO SENTRAL IMPLEMENTATION OF THE NSFR

The guidelines on the implementation of the NSFR are aligned with the provisions of the "Basel III: The Net Stable Funding Ratio" document issued by the Basel Committee on Banking Supervision (BCBS). National discretion is exercised in certain areas considering domestic conditions. For purposes of these guidelines, the definitions used in the LCR Framework as provided in *Appendix 72* of the Manual of Regulations for Banks (MORB) shall apply, unless otherwise explicitly provided.

A. Available Stable Funding

1. The available stable funding (ASF) represents the portion of the covered bank's capital and liabilities that are expected to be reliable sources of funds over a one-year time horizon. The amount of available stable funding is determined by assigning the carrying value of the covered QB's capital and liabilities to different available stable funding categories, multiplying each category by an available stable funding factor and adding the weighted amounts. The carrying value of the covered QB's capital and liabilities shall refer to the recorded amount before the application of any regulatory deductions and other adjustments.

Characteristics of Funding Stability

2. Under the NSFR framework, liabilities are accorded with presumed degree of stability as reflected in their corresponding available stable funding factor. The factors are scaled from 100% to zero percent (0%) with 100% representing the most stable account.

3. Three (3) characteristics are identified for funding stability, namely: tenor, type and counterparty:

   a. *Funding Tenor.* Longer-term liabilities are assumed to be more stable than short term liabilities. As such, funding that matures in more than one (1) year is considered more stable than those maturing in less than a year.

   b. *Funding type.* The framework recognizes that certain types of funding are inherently more stable than other types without considering the tenor. Retail deposits are generally considered more stable than wholesale deposits.

   c. *Funding counterparty.* The covered QB's counterparty influences the stability of funding such that retail customers or counterparties are considered more stable than similar types of funding provided by wholesale customers. Likewise, funds provided by non-financial corporates/entities are considered more stable than those provided by financial corporate/entities.

Maturity of Funding

4. Funding instruments with options to redeem and deposits with withdrawal notice periods shall be assumed to be redeemed through the exercise of an option or withdrawn on the earliest date possible.

5. For long dated liabilities, only the portion of cash flows due beyond six (6) months and one (1) year time horizon shall receive an available stable funding based on residual maturity of six (6) months to less than one (1) year and one (1) year or more, respectively.

ASF Categories

Liabilities and capital with 100% ASF factor

6. Liabilities and capital instruments receiving 100% ASF factor include:
   a. Total amount of regulatory capital[1] before the application of regulatory adjustments excluding Tier 2 instruments with residual maturities of less than one (1) year or those instruments with explicit or embedded options that, if exercised, would reduce the expected maturities to less than one (1) year.

   b. Other capital instruments not included above, that have effective residual maturities of one (1) year or more, but excluding any instruments with explicit or embedded options that, if exercised, would reduce the expected maturity to less than one (1) year.

   c. Secured and unsecured funding with residual maturities of one (1) year or more.

   d. Wholesale non-operational deposits with residual maturities of one (1) year or more.

[1] Regulatory capital is the sum of Tier 1 and Tier 2 capital before the application of any regulatory deductions and other adjustments.

e. Retail term deposits with residual maturities of one (1) year or more.

Liabilities with ninety-five percent (95%) ASF factor

7. Retail non-maturity deposits and retail term deposits with residual maturities of less than one (1) year and that have an outstanding balance of P500 thousand and below.

Liabilities with ninety percent (90%) ASF factor

8. Retail non-maturity deposits and retail term with residual maturities of less than one (1) year and that have an outstanding balance of more than P500 thousand

Liabilities with fifty percent (50%) ASF factor

9. Wholesale non-operational deposits with residual maturities of less than one (1) year from the Philippine NG and other sovereigns, LGUs, GOCCs, PSEs of Foreign Countries, and Multilateral Organizations including MDBs.

10. Wholesale non-operational deposits with residual maturities of less than one (1) year from non-financial corporates.

11. Wholesale non-operational deposits with residual maturities of six (6) months to less than one (1) year from the Bangko Sentral, other central banks, banks and financial corporates.

12. Wholesale operational deposits. All CASA including negotiable order of withdrawal accounts are automatically categorized as operational deposits.

13. Secured and unsecured funding with residual maturities of less than one (1) year provided by the NG and other sovereigns, LGUs, GOCCs, PSEs of Foreign Countries, and Multilateral Organizations including MDBs.

14. Secured and unsecured funding with residual maturities of less than one (1) year provided by non-financial corporates.

15. Secured and unsecured funding with residual maturities of six (6) months to less than one (1) year provided by the Bangko Sentral, other central banks, banks and financial corporates.

16. Other sources of funding with residual maturities of six (6) months to less than one (1) year.

17. For foreign bank branches, any balance of "Net due to head office/branches/ agencies abroad" excluding accumulated "unremitted profits" and "losses in operations".

Liabilities and equities with zero percent (0%) ASF factor

18. Wholesale non-operational deposits with residual maturities of less than six (6) months from the Bangko Sentral, other central banks, banks and financial corporates.

19. Secured and unsecured funding with residual maturities of less than six (6) months provided by the Bangko Sentral other central banks, banks and financial corporates.

20. Other sources of funding with residual maturities of less than six (6) months.

21. All other liabilities and equity items not included in the above categories. The liabilities shall include those without a stated maturity such as short positions and open maturity positions. Two (2) exceptions shall be recognized for liabilities without a stated maturity:

    - First, deferred tax liabilities, which shall be treated according to the nearest possible date on which such liabilities could be realized; and
    - Second, minority interest, which shall be treated according to the term of the instrument, usually in perpetuity.

    These liabilities shall then be assigned either a 100% ASF factor if the effective maturity is one (1) year or greater or fifty percent (50%), if the effective maturity is between six (6) months and less than one (1) year.

22. Trade date payables arising from purchase of financial assets pending actual receipt/settlement of the underlying securities.

B. Required Stable Funding

23. The amount of required stable funding (RDF) represents the amount of funding needed to support a covered QB's assets and OBS exposures based on their liquidity characteristics or liquidity risk profile. RSF is calculated by assigning the carrying value of assets and OBS exposures to the relevant RSF category. The carrying value is then multiplied by the corresponding RSF factor to arrive at the weighted amounts. The carrying value of an asset shall be gross of the GLLP and net of specific provisions.

Considerations for Asset Liquidity

24. Similar to available stable funding, a set if standardized weightings shall be used to determine the amount of stable funding a covered QB must maintain. RSF factors shall be scaled from zero percent (0%) to 100% based on liquidity characteristics of asset and OBS exposures.

25. The RSF factor assigned to each asset represents the amount of a particular asset estimated to be funded, either because the asset will be rolled over or because it could not be monetized through sale or be used as collateral in secured borrowing transaction, over the course of one (1) year

26. The following characteristics are considered collectively for each asset, as applicable:

    a. Credit Quality. Asset with higher credit quality are perceived to attract more demand from market participants than those with lower credit quality, and thus more liquid than the latter. Under the framework, assets with lower credit quality shall require more stable funding than those with higher credit quality.

    b. Tenor. Assets with longer maturities are expected to require more funding than those with shorter maturities. This is in view of the longer time necessary for the asset to be converted to cash or for cash inflows to be realized from the asset. Additionally, assets with longer tenor may liquidates at a discount because of the higher market and credit risks associated with the longer time to wait for cash inflows.

    c. Counterparty. Relationships with counterparties are critical in continuing business. Covered QBs would generally roll over certain exposures to non-financial counterparties to maintain business relationship and generate additional business in the future.

    d. Market Characteristics. Assets that have traded in an exchange tend to exhibit a higher degree of liquidity, thus, shall require less stable funding.

    e. Asset Encumbrance. In general, encumbered assets cannot be monetized during the period they are encumbered. The longer an asset is encumbered, the more stable funding it would require.

27. For purposes of determining the RSF, covered QBs shall include financial instruments, foreign currencies, and commodities for which a purchase order has been executed and shall exclude those for which a sales order has been executed.

Maturity of assets

28. In determining the maturity of an instrument, it shall be assumed that investors will exercise any option to extend maturity. On the other hand, for assets with options exercisable at the discretion of the covered QB, the reputational factors which may limit a covered QB's ability not to exercise the option shall be considered. For amortizing loans, the portion that comes due within the one-year period shall be classified under the less than one (1) year residual maturity category.

Asset Encumbrance

29. The RSF factor for an encumbered asset is either the same as, or higher than the RSF factor for an equivalent unencumbered asset. The specific RSF factors for encumbered assets depend on the remaining period of encumbrance. On-balance sheet assets that are encumbered for one year or more shall have an RSF factor of 100% while assets encumbered for a period of six (6) months to less than one (1) year shall have a fifty percent (50%) RSF factor. Encumbered assets with less than six (6) months remaining in the encumbrance period shall receive the same RSF factor as if the equivalent asset was encumbered.

30. Where beneficial ownership is retained in asset that are encumbered in a repo or other securities financing transactions, and these assets are included in the balance sheet, such assets shall be allocated in their respective RSF category.

RSF Categories

Asset assigned a zero percent (0%) RSF factor

31. Cash on hand, checks and other cash items.

32. Covered QB reserves in the Bangko Sentral and all claims on the Bangko Sentral (including demand). Overnight, and term deposits and reverse repos where the Bangko Sentral is the counterparty) with residual maturities of less than six (6) months.

33. Trade date receivables arising from sale of financial assets pending actual settlement/delivery of the underlying securities.

Assets assigned a five percent (5%) RSF factor

34. Eligible securities representing claims on or guaranteed by the NG, the Bangko Sentral, sovereigns, other central banks and PSEs of Foreign Countries, and Multilateral Organizations including MDBs. These securities are assigned zero percent (0%) risk weight under the standardized approach for credit risk and are not direct obligations of a covered bank or any of a covered QB's financial allied undertakings

Assets assigned a ten percent (10%) RSF factor

35. Loans to banks, financial corporates and other central banks with residual maturities of less than six (6) months and where the loans are secured by Level 1 assets as defined in the LCR rules.

Assets assigned a fifteen percent (15%) RSF factor

36. Eligible securities representing claims on or guaranteed by the LGUs, GOCCs, sovereigns, other central banks, and PSEs of Foreign Countries, and Multilateral Organizations including MDBs. These securities are assigned a twenty percent (20%) risk weight under the standardized approach for credit risk and are not direct obligations of a covered QB or any of a covered QB's financial allied undertakings.

37. Corporate debt securities (including commercial papers) assigned with a credit rating equal or equivalent to at least AA- by a third-party credit assessment agency recognized by the Bangko Sentral, and not issued by a covered QB or any of a covered QB's financial allied undertakings.

38. Loans to banks, financial corporates, and other central banks with residual maturities of less than six (6) months.

39. Non-operational deposits held at other banks with residual maturities of less than six (6) months

Assets assigned a fifty percent (50%) RSF factor

40. Eligible securities representing claims on or guaranteed by the LGUs, GOCCs, sovereigns, other central banks and PSEs of Foreign Countries, and Multilateral Organizations including MDBs. These securities are assigned a fifty percent (50%) risk weight under the standardized approach for credit risk and are not direct obligations of a covered QB or any of a covered QB's financial allied undertakings.

41. Corporate debt securities (including commercial papers) assigned with a credit rating of between A+ and BBB- or equivalent by a third-party credit assessment agency recognized by the Bangko Sentral, and not issued by a covered QB or any of a covered QB's financial allied undertakings.

42. Common equity share that are included in the main index of an organized exchange and not issued by a covered QB or any of a covered QB's financial allied undertakings.

43. Other debt securities with residual maturities of less than one (1) year.

44. Loans to banks, financial corporates, the Bangko Sentral and other central banks, with residual maturities of between six (6) months to less than one (1) year.

45. Non-operational deposits held at other banks with residual maturities of between six (6) month to less than one (1) year.

46. Operational deposits held at other banks.

47. Loans to the NG, LGUs, GOCCs, sovereigns, PSEs of Foreign Countries, and Multilateral Organizations including MDBs with residual maturities of less than one (1) year.

48. Loans too non-financial corporates and micro, small and medium enterprises (MSME) with residual maturities of less than one (1) year.

49. Consumer loans with residual maturities of less than one (1) year.

50. For foreign bank branches, any balance of "Net due from head office/branches/ agencies abroad' excluding accumulated "unremitted profits" and "losses in operation".

Assets assigned a 65.0 percent (65%) RSF factor

51. Loans to the NG, LGUs, GOCCs, sovereigns, PSEs of Foreign Countries, and Multilateral Organizations including MDBs with residual maturities of one (1) year or more and would apply for a fifty percent (50%) or lower risk weight under the standardized approach for credit risk.

52. Loans to non-financial corporates with residual maturities of one (1) year or more and would qualify for a fifty percent (50%) or lower risk weight under the standardized approach for a credit risk.

53. Residential real estate loan with residual maturities of one (1) year or more and would qualify for a risk weight of fifty percent (50%) under the standardized approach for credit risk.

Assets assigned an eighty-five percent (85%) RSF factor

54. Loans to the NG, LGUs, GOCCs, sovereigns, PSEs of Foreign Countries and Multilateral Organizations including MDBs with residual maturities of one year or more and would not qualify for a fifty percent (50%) risk weight under the standardized approach for credit risk.

55. Loans to non-financial corporates and MSMEs with residual maturities of one year or more and would not qualify for a fifty percent (50%) risk weight under the standardized approach for credit risk.

56. Residential real estate loans with residential maturities of one (1) year or more, do not qualify for a risk weight of fifty percent (50%) under the standardized approach for credit risk.

57. Other consumer loans with residual maturities of one (1) year or more.

58. Other traded equity securities and debt securities with residual of one (1) year or more and not issued by a covered QB or any of a covered QB's financial allied undertakings.

Assets assigned a 100% RSF factor

59. Loans to banks, financial corporates, the Bangko Sentral and other central banks, with residual maturities of one (1) year or more.

60. Non-operational deposits held at other banks with residual maturities of one (1) year or more.

61. Non-traded equity shares which are not issued by a covered QB or any of a covered QB's financial allied undertakings.

62. Non-performing loans and securities.

63. Items deducted from regulatory capital; and

64. All other assets.

C. Off-Balance Sheet Exposures

65. For OBS exposures, the covered QB shall apply the RSF factor shown below:

RSF Factor	Off-balance Sheet Items
5%	Guarantees and financial stability letters of credit Irrevocable and conditionally revocable credit and liquidity facilities
1%	Other transaction and trade-related contingent items Unconditionally revocable credit and liquidity facilities
0%	Non contractual obligations

D. Derivatives

66. The amount of the NSFR derivative assets is calculated based on the replacement cost for derivative contracts (obtained by marking to market) where the contract has a positive value. On the other hand, where the contract has a negative value, this shall be reflected as NSFR derivative liabilities. For contracts that inherently require net settlement (e.g., non-deliverable forward exchange contract), the expected derivatives exposure shall be reported on a net basis.

67. NSFR derivative assets are assigned a 100% RSF factor while NSFR derivative liabilities would not be considered a source of stable funding and would be assigned a zero percent (0%) available stable funding factor. When the NSFR derivative assets are greater than the NSFR derivative liabilities, a 100% RSF factor shall be assigned to five percent (5%) of the NSFR derivative liabilities.

FORMAT CERTIFICATION OF COMPLIANCE WITH THE NFSR
(Appendix to Sec. 145-Q on NSFR)

SWORN CERTIFICATION OF COMPLIANCE WITH
THE NET STABLE FUNDING RATIO (NFSR) REQUIREMENTS

<NAME OF QUASI-BANK>

C E R T I F I C A T I O N

Pursuant to Section 145-Q (*Net Stable Funding Ratio*) of the Manual of Regulations for Non-Bank Financial Institutions, we hereby certify that the QB has fully complied with the minimum NSFR requirement on all calendar days of the month/quarter ended _____ 20 __.

We further certify to the best of our knowledge that above statement is true and correct.

President/CEO or Country Head	*[Other authorized signatories for Category A-1 report]*	
TIN:	TIN:	TIN:

[Officer Charged with Liquidity Management Function]	Compliance Officer
TIN:	TIN:

SUBSCRIBED AND SWORN TO before me this ___ day of _____ 20 __, at _____, Philippines affiant/s exhibiting their government-issued identification card as follows:

NAME	GOVERNMENT-ISSUED ID	DATE OF ISSUE	PLACE OF ISSUE

Witness my hand and notarial seal on date and place above-written.

NOTARY PUBLIC

Doc. No. ____;
Page No. ____;
Book No. ____;
Series of 20___.

(In case of occurrences of non-compliance during the month/quarter, the certification should read as follows:)

Pursuant to Section 145-Q (*Net Stable Funding Ratio*) of the Manual of Regulations for Non-Bank Financial Institutions (MORNBFI), we hereby certify that the QB have fully complied with the minimum NSFR requirement on all calendar days of the month/quarter ended _____ 20 ___, except on (*example)*:

Dates (Day)	NSFR Compliance (%)
11 January 2018 (Thursday)	99.56%
15 January 2018 (Monday)	98.10%
16 January 2018 (Tuesday)	98.97%

A shortfall notice containing the minimum information required under Section 145-Q (*Supervisory framework for the minimum prudential liquidity requirements*) of the MORNFBI had been submitted to the Bangko Sentral on *17 January 2018,* through the appropriate supervisory department.

We further certify to the best of our knowledge that above statement is true and correct.

President/CEO or Country Head

[Other authorized signatories for Category A-1 report]

TIN: TIN: TIN:

[Officer Charged with Liquidity Management Function]

Compliance Officer

TIN: TIN:

SUBSCRIBED AND SWORN TO before me this ___ day of _____ 20 __, at _____, Philippines affiant/s exhibiting government-issued identification card as follows:

NAME	GOVERNMENT-ISSUED ID	DATE OF ISSUE	PLACE OF ISSUE

Witness my hand and notarial seal on date and place above-written.

NOTARY PUBLIC

Doc. No. ____;
Page No. ____;
Book No. ____;
Series of 20___.

GUIDELINES FOR THE ADMINISTRATION OF THE UNIT INVESTMENT TRUST FUND (UITF) CERTIFICATION PROGRAM

In line with the thrust of the Bangko Sentral to promote the development of the capital markets and to ensure investor protection, UITF Marketing Personnel are required to be certified through a UITF Certification Program (UCP) administered by a reputable financial services industry association/organization (FSIAO) acceptable to the Bangko Sentral.

The UCP is aimed at strengthening the qualification of UITF Marketing Personnel in order to ensure that they can provide sufficient information on UITFs to clients and promote delivery of safe and effective products and services, among others. The requirement is expected to advance the quality of UITF Marketing Personnel and their sales and marketing practices.

In order to ensure that the administration of UCP meets the expectations of the Bangko Sentral, the following guidelines shall be observed:

Section 1: Pre-requisites for the administration of the UCP

1. In order to be recognized by the Bangko Sentral as an administrator of the UCP, the FSIAO should meet the following qualification standard:

    a. It is formally organized as a FSIAO related to trust, investment funds, collective investment schemes and other related areas;

    b. It has adequate financial and organizational resources, and the system, to execute the UCP;

    c. It shall adopt a three-pronged process for the UCP which shall be composed of a qualifying examination, a requirement for continuing education, and the registration and registry to monitor and manage the certified UITF Marketing Personnel;

    d. It shall adopt an acceptable and relevant curriculum that is aimed at advancing the quality of the UITF marketing personnel; and

    e. It shall ensure that the UCP guidelines contain, at the minimum, provisions on the governance mechanism, operational requirements, complaints handling, and provisions on Data Privacy and/or confidentiality of information, among others.

2. The FSIAO, through its authorized representative, shall submit to the appropriate supervising department of the Bangko Sentral the following:

    a. Letter of its intent to administer the UCP;
    b. By-laws of the association/organization;
    c. Notarized Secretary's Certificate on Board of Directors/Trustees' resolution approving the application;
    d. Board-approved UCP guidelines; and
    e. Certification that it meets the requirements enumerated in these Guidelines.

3. Only the FSIAO that meets the criteria and requirements enumerated in these Guidelines shall be recommended for approval.

4. Upon the recommendation of the appropriate supervising department of the Bangko Sentral, the appropriate approving authority shall act on the FSIA's application. If approved, the authority to administer the UCP shall remain valid until revoked.

Section 2: Administration of the UCP

1. The FSIAO shall be responsible for ensuring that the administration of UCP is properly conducted and in accordance with the Board-approved UCP guidelines.

2. The FSIAO shall maintain the integrity and confidentiality of the UCP.

3. The FSIAO shall report to the Bangko Sentral any significant development and/or concern in the administration of the UCP.

4. In case of significant changes in the UCP guidelines, the FSIAO shall submit to the appropriate supervising department of the Bangko Sentral the revised Board-approved UCP guidelines for clearance.

5. The FSIAO shall ensure that the UCP guidelines are adequately disseminated to the FSIAO's members/member-institutions for information.

6. The FSIAO shall ensure that the UCP guidelines provide adequate transitory arrangements for existing Certified UITF Marketing Personnel, if necessary.

7. The FSIAO shall make the UCP guidelines, including the examination questions, available for review by the Bangko Sentral.

8. The FSIAO shall maintain records of the certified UITF Marketing Personnel which shall be made available to the Bangko Sentral upon request.

9. The FSIAO shall post the list of certified UITF marketing personnel in its website.

10. The appropriate supervising department of the Bangko Sentral shall undertake the monitoring and periodic review of the administration of the FSIAO of the UCP to ensure that the UCP remains relevant and at par with the requirements of the Bangko Sentral.

Section 3. Withdrawal or Suspension of Administration of UCP

1. The Bangko Sentral reserves the right to withdraw or suspend the administration of the UCP of the FSIAO not complying with the provisions enumerated in these Guidelines, after compliance with due process requirements.

2. The FSIAO may likewise voluntarily withdraw the administration of the UCP, subject to the approval of the Bangko Sentral.

3. The FSIAO that intends to withdraw as administrator of the UCP shall ensure proper transition of operational arrangements to minimize or eliminate potential disruption of the UCP administration.

4. The withdrawal or suspension of the FSIAO as administrator of the UCP shall be approved by the appropriate approving authority upon the recommendation of the appropriate supervising department of the Bangko Sentral.

(Circular No. 1018 dated 26 October 2018)

RULES AND PROCEDURES ON ADMINISTRATIVE CASES INVOLVING DIRECTORS AND OFFICERS OF BSFI

(Appendix to Sec. 136-Q on Rules of procedures on administrative cases involving directors and officers of BSFI)

RULE I-GENERAL PROVISIONS

Section 1. *Title.* - These Rules shall be known as the *Bangko Sentral ng Pilipinas Revised Rules of Procedure* on *Administrative Cases Involving Directors and Officers of Bangko Sentral - Supervised Financial Institutions.*

Section 2. *Applicability.* - These Rules shall apply to administrative cases filed with the Office of Special Investigation (OSI), Bangko Sentral, involving directors and officers of BSFI in relation to Section 37 of Republic Act No. 7653 (The New Central Bank Act) and Section 16 of Republic Act No. 8791 (The General Banking Law of 2000).

These Rules shall also apply to administrative cases arising out of the fact -finding investigation conducted by OSI.

Complaints against BSFI, as a juridical entity shall not be covered by these Rules.

Supervisory and enforcement actions shall also not be covered by these Rules.

Section 3. *Nature of Proceedings.*- The proceedings under these Rules shall be summary in nature and shall be conducted without necessarily adhering to the technical rules of procedure and evidence applicable to judicial trials .

In the absence of applicable provision in these Rules, and pursuant to the summary nature of these proceedings, the pertinent provisions of the Rules of Court may be applied suppletorily.

Section 4. *Appearance of Counsel.* -The parties, if they so desire, may be assisted or represented by counsel.

Section 5. *Confidentiality of Proceedings.* -Proceedings under these Rules shall be confidential and shall not be disclosed to third parties, except to the extent as may be provided under existing laws. All communications relating to these proceedings shall be made in writing, copy furnished the other party.

RULE II- DEFINITION OF TERMS

Section 6. *Adoption.*- The terms as defined in the Manual of Regulations are hereby adopted in these Rules.

RULE Ill - PLEADINGS AND NOTICES

Section 7. *Complaint.* - The complaint shall be in writing, and subscribed and sworn to by the complainant. No anonymous complaint shall be entertained.

Section 8. *Where to file.* - The complaint shall be filed with OSI, in as many copies as there are respondents, including two (2) copies for OSI.

Section 9. *Contents of the Complaint.* -The complaint shall contain the ultimate facts of the case, and shall include the following:

a. The full name and address of the complainant;

b. The full name and address of the respondent;

c. The position of the respondent, in the BSFI;

d. A specification of the charges against the respondent;

e. A statement of the material facts;

f. A statement as to whether or not a similar complaint has been filed with the Bangko Sentral, the Supreme Court, the Court of Appeals, any other tribunal or agency;

g. Except for complaints arising from factual investigation conducted by the OSI or the appropriate supervising sector of the Bangko Sentral a statement that the complaint was previously referred to appropriate supervising department of the Bangko Sentra for appropriate action of the Financial Institution where the bank officer or director complained of belongs, with a copy of the response of said Financial Institution that failed to settle or resolve the complaint, or upon the lapse of thirty {30) calendar days from referral of the complaint by the appropriate supervising department of the Bangko Sentral to the Financial Institution in case of the latter's failure or refusal to respond.

The complaint shall include copies of documents and sworn statements of witnesses, if any, in support of the complaint.

Section 10. *Action on the Complaint.* - Upon a determination that the complaint is sufficient in form and substance, and complies with Rule Ill, Section 9 of - these Rules, OSI shall issue a notice requiring the respondent to file a sworn answer to the complaint.

However, if the complaint fails to comply with the immediately preceding section, OSI shall dismiss the complaint, without prejudice, or take such appropriate action as may be warranted.

Section 11. *Answer.*- Within ten (10) days from receipt of the notice to file answer and a copy of the complaint, respondent shall submit a sworn answer, copy of which shall be furnished the complainant.

The respondent, in the sworn answer, shall specifically admit or deny all the charges specified in the complaint, including evidence in support thereof.

The failure of the respondent to file an answer within the prescribed period shall be considered as a waiver of the respondent's right to file the same, and the case shall be resolved based solely on the evidence presented by the complainant.

Section 12. *Prohibited Pleadings and Motions.* - The following pleadings or motions are prohibited:

(i) Motion to dismiss, except on the ground of lack of jurisdiction;
(ii) Motion for bill of particulars;
(iii) Motion for the issuance of *subpoena duces tecum* and/or *ad testificandum,* provisional remedies, modes of discovery, and similar reliefs;
(iv) Dilatory motions for postponement or extension of time; and
(v) Other pleadings or motions of a similar nature.

RULE IV- MODES OF SERVICE

Section 13. *Modes of Service.* Service of pleadings, motions, orders or processes may be made by personal delivery, registered mail, courier, or other modes of service as defined under this Rule.

Personal service shall be made by delivering to the parties a copy of the pleading, motion, order or process.

Service by registered mail or courier shall be made by sending a copy of the pleading, motion, order or process in a sealed envelope, addressed to the parties' residence, office or regular place of business.

Section 14. *Other modes of service.* - For processes or pleadings other than the notice to file answer and a copy of the complaint, service may also be made by electronic mail or other electronic form that provides a record of delivery .

Section 15. *Completeness of service.* - Personal service is complete upon actual delivery. Service by registered mail shall be deemed complete upon actual receipt by the parties, or after five (5) calendar days from the date of receipt of the first notice of the postmaster, whichever date is earlier.

Service made via courier shall be deemed complete on the date of the actual delivery by the courier.

For other modes of service, the date indicated in the electronic record of delivery or the transmission report shall be the effective date of receipt.

RULE V- JURISDICTION OVER THE RESPONDENT

Section 16. *Acquisition of jurisdiction over the respondent.* - Jurisdiction over the respondent is acquired once service of the notice to file answer and a copy of the complaint is completed.

Should the respondent refuse to receive the notice to file answer and a copy of the complaint, the service may be effected by leaving the same at the respondent's residence, office or regular place of business.

Should the respondent no longer be connected with the BSFI at the time of the filing of the complaint, service may be effected by leaving the notice to file answer and a copy of the complaint at, or sending them to, the respondent's last known address.

RULE VI - PROCEEDINGS BEFORE THE HEARING OFFICER

Section 17. *Submission of Position Papers.*- The Hearing Officer shall direct the parties to simultaneously submit their verified position papers with supporting documents and affidavits, if any, on a date to be set by the Hearing Officer.

Section 18. *Submission of Comment.* - A party may file a comment on the position paper within ten (10) calendar days from receipt thereof.

Section 19. *Issuance of Clarificatory Order.*- The Hearing Officer may issue a clarificatory order to elicit facts or information necessary for the prompt and just resolution of the administrative case.

RULE VII - RESOLUTION OF THE CASE

Section 20. *Submission of Report.* - Within sixty (60) calendar days from issuance of an Order declaring that the case is submitted for resolution, the Hearing Officer shall submit a report to the Monetary Board, which shall contain a recommendation stating clearly and distinctly the findings of facts, determination of issues and conclusions of law on which it is based. The period of time to resolve the case may be extended, for good cause, only upon approval of the General Counsel.

In case the report recommends the dismissal of the Complaint, the Report shall be submitted for approval by the Governor. The dismissal of the Complaint shall not be subject to appeal to the Monetary Board.

Section 21. *Issuance and Finality of Resolution.* -After consideration of the report, the Monetary Board shall issue its resolution which shall become final and executory upon the lapse of fifteen (15) calendar days from receipt thereof by the parties, unless a motion for reconsideration has been timely filed.

Section 22. *Motion for Reconsideration* . -A motion for reconsideration, on the ground of grave errors of fact or law, may be filed by the parties within fifteen (15) calendar days from receipt of the resolution with the Monetary Board.

No second motion for reconsideration shall be allowed.

Section 23. *Enforcement.* - The resolution shall be referred to the department of the Bangko Sentral concerned, for appropriate action.

RULE VIII - APPEAL

Section 24. *Appeal.* - An appeal from the resolution of the Monetary Board may be filed before the Court of Appeals within the period and in the manner provided under Rule 43 of the Rules of Court.

Interlocutory orders of the OSI shall not be subject to appeal to the Governor or the Monetary Board.

Section 25. *Effect of Appeal* . - The appeal shall not stay the enforcement of the resolution sought to be reviewed, unless the Court of Appeals shall direct otherwise upon such terms as it may deem just.

RULE IX- MISCELLANEOUS PROVISIONS

Section 26. *Repeal.* - All existing rules, regulations, orders or circulars or any part thereof inconsistent with these Rules are hereby repealed, amended or modified accordingly.

Section 27. *Separability Clause.* - If any part of these Rules is declared unconstitutional or illegal, the other parts or provisions shall remain valid.

Section 28. *Effectivity.* - These Rules shall take effect on 1 January 2019.

Section 29. *Transitory Provision.* -All pending administrative cases filed with the Supervised Banks Complaints Evaluation Group (SBCEG), Office of the General Counsel and Legal Services, shall be resolved by the SBCEG in accordance with the provisions of Sec. and App, prior to the effectivity of these Rules. Upon the effectivity of these Rules, all pending cases with the SBCEG shall be resolved in accordance with the new Rules in so far as applicable.

(Circular No. 1012 dated 12 September 2018)

GUIDELINES ON LICENSING OF ELECTRONIC PAYMENT AND FINANCIAL SERVICES (EPFS)
(*Appendix to Sec. 701-Q*)

A BSFI intending to provide EPFS shall comply with the following requirements in conjunction with the Guidelines on the Granting of License/Authority provided in *Appendix Q-77.*

1. Advanced EPFS

A BSFI that offers advanced EPFS shall undergo the licensing process and provide the documentary requirements, as follows:

Processing and Documentary Requirements	Type A[1]	Type B[2]
(1) Eligibility Test and Self-Assessment A BSFI must conduct a self-assessment vis-a-vis the defined prudential criteria described in Sec. 111-Q (*Prudential criteria*). Should the BSFI meet the prudential criteria, it shall submit a letter of intent with a certification signed by its president or officer of equivalent rank, and chief compliance officer (CCO) stating that the BSFI satisfies said requirements. If the Bangko Sentral concurs with the certification, the BSFI shall receive a confirmation of eligibility (COE) to offer EPFS.	✓	
(2) Application for the license The BSFI shall formally submit the following application documents to the appropriate department of the Bangko Sentral within six (6) months from the date of the COE.		
(a) Application letter signed by the president or officer of equivalent rank specially indicating the justification/reason for the application to provide EPFS	✓	✓
(b) Notarized Secretary's Certificate (or equivalent document in the case of foreign bank branches) attesting that the Board of Directors (or equivalent management committee in the case of foreign bank branches) has approved the application to provide EPFS	✓	✓
(c) Certification signed by the president (or officer of equivalent rank) and the CCO to the effect that the BSFI has met the following minimum pre-conditions: (i) An adequate risk management process is in place to identify, assess, monitor, and control the risks arising from the proposed EPFS; (ii) Appropriate policies and procedures in the following areas have been adopted to address all security risks and concerns affecting the EPFS platform and application system/s:	✓	✓
• *Authentication* – establishes the identity of both the sender and the receiver; uses trusted third parties that verify identities in cyberspace; • *Non-repudiation* – ensures that transactions cannot be repudiated or presents undeniable proof of participation by both the sender and the receiver in a transaction; • *Authorization* – establishes and enforces the access rights of entities (both persons and/or devices) to specifies computing resources and application functions; also locks out unauthorized entities from physical and logical access to the secured systems;		

[1] This applies to BSFIs that can be assessed against the prudential criteria provided in the Policy and Regulations on Licensing. These applicants must have been examined by the Bangko Sentral.

[2] This applies to proponents that cannot be assessed against the prudential criteria provided in the Policy and Regulations on Licensing. These include new-established BSFIs and new applicants for an authority to operate as "Electronic Money Issuer-Others".

• *Integrity* – assures that data has not been altered; • *Confidentiality* – assures that no one except the sender and the receiver of the data can gain access to clear data; and • *Availability* – assures that the system is operating properly during the time it is expected to be available; (iii) The EPFS system has been tested prior to its implementation and that the test results are satisfactory. As a minimum standard, appropriate system testing and user acceptance testing should have been conducted; and (iv) A documented business continuity planning process covering EPFS, among other areas of operation, has been adopted.		
(d) Details of the features and functionalities of the proposed EPFS, including the security controls and measures	✓	✓
(e) Process flow/brief narration of how transaction and data flow through the network	✓	✓
(f) Diagram of the configuration of the system supporting the proposed EPFS, showing the linkage between the host systems and network infrastructure	✓	✓
(g) Pro-forma client application form and terms and conditions for the availment of and/or use of the EPFS	✓	✓
(h) Brief discussion on the following topics in relation to the particular EPFS being applied for: • Oversight management process; • Business continuity plan/disaster recovery plan; • Incident response/problem management; • Consumer protection/awareness program; and • Information security policies and security features of the proposed EPFS	✓	✓
(i) Results of the user acceptance testing (UAT)	✓	✓
(j) Report on the independent assessment of the proposed EPFS, if applicable.	✓	✓
(k) Articles of Incorporation/By-Laws of the BSFI		✓
(l) Photocopy of the marketing materials for the proposed EPFS		✓
(m) Pro-forma agreements with accredited agents for the delivery/issuance of EPFS;		✓
(n) Anti-money Laundering (AML) Policy/Manual of Procedures; and		✓
(o) Latest Audited/Interim Financial Statements		✓

2. Basic EPFS

The BSFI shall notify the appropriate department of the Financial Supervision Sector (FSS) by submitting the following documents thirty (30) days prior to the launch/implementation of its EPFS:

(1) Notification letter signed by the institution's president or officer of equivalent rank;

(2) Details of the features and functionalities of the EPFS, including security controls and measures adopted relative to the offering of the EPFS; and

(3) Process flow/brief narration of how transaction and data flow through the network including the clearing switch in case the service involves participation in an Automated Clearing House (ACH).

3. Fees

A BSFI applying for an advanced EPFS shall pay processing and licensing fees as shown below:

Type of Fee	Classification				
	Banks			Non-banks	
	Universal and Commercial Banks	Thrift Banks	Rural and Coop. Bank	EMI-Others	Other Financial Inst.
Processing	50,000	20,000	10,000	20,000	10,000
Licensing	100,000	60,000	25,000	60,000	25,000

The assessment and collection of fees shall be made in accordance with the guidelines on fees provided in *Appendix Q-77.*

(Circular No. 1033 dated 22 February 2019)

<Name of BSFI>

C E R T I F I C A T I O N O N
C O M P L I A N C E W I T H T H E C O N D I T I O N S F O R
P A R T I C I P A T I O N I N A N A U T O M A T E D C L E A R I N G H O U S E

We, ***<Name of Officer>***, President (or Officer of Equivalent Rank) and ***<Name of Officer>,*** Compliance Officer, on behalf of the ***<Name of BSFI>***, with head/principal office address at ***<complete address of Head/Principal Office>***, after having been duly sworn to in accordance with law, hereby certify to the best of our knowledge, that ***<Name of BSFI>***:

a. Has satisfactorily met the prudential criteria provided under Secs. 111-Q /111-S/111-P/101-N/111-T (*Prudential criteria*);

b. Obtained a satisfactory assessment in the areas of Information Technology (IT), Anti-Money Laundering (AML), and Consumer Protection, as applicable, in the last examination conducted by the Bangko Sentral; and

c. Is capable of complying with the specific rules applicable to transactions performed under the National Retail Payment System Framework as provided in Secs. 801-Q/501-S/401-P/501-N/404-T (*Specific rules applicable to transactions performed under the NPRS Framework*);

We certify further that ***<name of BSFI>***, as a BSFI licensed to offer electronic payment and financial services (EPFS), has complied with the provisions under Secs. 701-Q/401-S/114-P/401-N (*Compliance with relevant regulations*).

We also certify that all relevant documents in support of the foregoing statements are kept on file and are readily available for verification by examiners of the Bangko Sentral during onsite verification/examination or when a written request is made to verify compliance.

This certification executed on ***<date of execution>*** is being submitted in compliance with the requirements of the Bangko Sentral.

Signed:

Name of President
President (or Officer of Equivalent Rank)

Signed:

Name
Compliance Officer

SUBSCRIBED AND SWORN to before me, this _____ day of _____ at _____, with affiant exhibiting their valid identifications indicated below:

Name	Government ID/Passport No.	Date/Place Issued

Notary Public

(Circular No. 1033 dated 22 February 2019)

<Name of BSFI>

C E R T I F I C A T I O N O N
T H E R E - R E G I S T R A T I O N O F
E L E C T R O N I C P A Y M E N T & F I N A N C I A L S E R V I C E S

We, ***<Name of Officer>***, President (or Officer of Equivalent Rank) and ***<Name of Officer>,*** Compliance Officer, on behalf of the ***<Name of BSFI>***, with head/principal office address at ***<complete address of Head/Principal Office>***, after having been duly sworn to in accordance with law, hereby certify that to the best of our knowledge, all the information contained in the attached documents supporting the institution's re-registration for electronic payment and financial services (EPFS) are hereby true and correct.

We certify further that ***<name of BSFI>*** complies with the provisions under Secs. 701-Q/401-S/114-P/401-N/ 404-T (*Compliance with relevant regulations*) except for: ***<enumerate provisions that have not yet been complied with>***. Aforementioned provision/s shall be complied by ***<target date for compliance>***.

We also certify that all relevant documents in support of the EPFS activities and operations are kept on file and are readily available for verification by examiners of the Bangko Sentral during onsite verification/examination or when a written request is made to determine compliance.

This certification executed on ***<date of execution>*** is being submitted in compliance with the requirements provided in the BSP Circular No._____ .

Signed:

_____
Name of President
President (or Officer of Equivalent Rank)

Signed:

_____
Name
Compliance Officer

SUBSCRIBED AND SWORN to before me, this _____ day of _____ at _____, with affiant exhibiting their valid identifications indicated below:

Name	Government ID/Passport No.	Date/Place Issued

Notary Public

Not. Reg. No. _____
Doc. No. _____
Page No. _____
Series of _____

(Circular No. 1033 dated 22 February 2019)

RESERVED

RESERVED

REPUTATIONAL RISK MANAGEMENT TOOLS FOR IDENTIFICATION AND ASSESSMENT

(Appendix to Sec. 151-Q on Reputational Risk Management)

The Bangko Sentral Supervised Financial Institutions (BSFIs) may employ any or a combination of the following tools in identifying and assessing reputational risk:

1. *Internal expert judgments* – Self-assessments or in-depth interviews with the institution's area experts (e.g. C-suite or senior executives) provide an inside-out view of the major enterprise strategies and risks, vulnerability points, as well as threats and opportunities including competitive positioning and industry pressures.

2. *Stakeholder analysis* – Stakeholders' perceptions and expectations are considered leading drivers of reputation. Stakeholder analysis involves the identification of key stakeholders in terms of their influence and impact on the institution's business and reputation. These critical stakeholders provide an outside-in perspective of their demands and expectations, and allow the institution to gauge the likely impact of the stakeholders' adverse reaction should these concerns not be met. The report may also flag interconnected threats across the various stakeholder groups, which individually may seem insignificant, but when viewed together require action. As stakeholders' concerns and expectations are evolving, regular monitoring should be conducted to account for emerging issues or threats.

3. *Reputational risk and control assessment* – This tool can be used to identify, categorize and rank the potential threats based on the likelihood that the reputational risk will materialize and the estimated impact. Such an assessment tool looks into the root causes of the risk, the controls in place to mitigate such risks, the effectiveness of such controls, and any resulting residual risk exposure. The past experience of similar institutions and the changes within the institution (e.g. personnel, system, or structural changes) as well as in the external environment should be taken into account in assessing the likelihood and impact of identified reputational threats. The determination of whether the controls are effective shall consider the internal and external audit reports, compliance reports, and management exception reports, among others.

   The outcome of the reputational risk and control assessment may be documented using the following:

   a. *Risk register* – A risk register provides a comprehensive view of the status and materiality of the identified risks which may impact the organization's reputation as well as the response actions taken. This aids in risk prioritization and allows for an in-depth understanding of the drivers, impacts, and vulnerabilities. At the minimum, details for each identified risk include the following:

      i. risk category to group similar risks;
      ii. risk description;
      iii. root causes of the risk or the core issue(s) involved;
      iv. existing controls to manage the risk and their effectiveness;
      v. risk assessment on the likelihood and impact on the institution's reputation;
      vi. designated risk owner; and
      vii. response plan and agreed actions.

   b. *Risk heat map* – A risk heat map or matrix is used to visualize and communicate the outcome of a risk assessment process. In particular, this tool aids in contrasting and prioritizing risks by categorizing the likelihood and impact of identified risks.

4. *Stress-testing* – The impact of stress scenarios to all material risk factors, including reputational risk, should be taken into account. Reputational risk scenarios should be included in the stress testing procedures to obtain a firm understanding of the effect of reputational risk in terms of other risk types (e.g. credit, liquidity, market or operational risk), and the possible second round effects. BSFIs should measure the reputational risk impact, including the amount of implicit support of securitizations or losses that might be sustained under adverse market conditions. In assessing the potential amount of the impact, both the on- and off-balance sheet exposures shall be considered. In this regard, banks, including material NBFIs are expected to adhere to the standards set forth under Sec. 151 on the *Guidelines on the Conduct of Stress Testing Exercises*. Similarly, NBFIs may refer to such guidelines in their conduct of stress testing taking into account the nature, size and complexity of their operations. The results of the stress testing shall feed into the internal capital adequacy assessment/capital planning process of BSFIs.

5. *Risk sensing* – This can be embedded into an organization's risk governance program to allow continuous identification of emerging threats as well as to complement crisis management response. Such a program may require human- and technology-enabled functions to facilitate data analysis and interpretation as inputs to business decisions.

Listening posts is a form of risk sensing program which uses advanced technology to gather the opinion of stakeholders as well as detect and track trends by selectively scanning the internet and social media for risk indicators, emerging risks and potential risk events. These include blogs, interviews, industry fora, academic papers, media commentaries and other social media and news sources. Listening posts can also be used to monitor changes in the customers and employees' sentiments and regulatory expectations. In this respect, BSFIs are expected to comply with the standards under Sec. 149-Q[1] on *Social Media Risk Management*.

(Circular No. 1114 dated 16 April 2021)

[1] For other NBFIs, please refer to Secs. 144-P/147-S/165-T/128-N, as applicable.

GUIDELINES IN DETERMINING A "TRUE SALE" TRANSACTION UNDER THE FIST ACT

The transfer by a BSFI of its NPAs to a FISTC or an individual shall be considered not a True Sale if the BSFI satisfies any of the enumerated below:

(a) Has direct or indirect management of the transferee FISTC;
(b) Has any of its directors, officers or employees on the board of the transferee FISTC;
(c) Is obligated to repurchase or substitute/exchange the NPA or any part of the pool of NPAs at any time, except in cases of a breach of representation or warranty of the BSFI;
(d) Is a Related Interest, as defined under Rule 11 of the FIST IRR, of the transferee FISTC;
(e) Has legal and beneficial ownership of more than ten percent (10%) of the (a) total number of outstanding shares of stock entitled to vote in the election of directors, and (b) the total number of outstanding shares of stock, whether or not entitled to vote, of the transferee FISTC; or
(f) Accepts the transferred NPAs as the FISTC's collateral for any unpaid balance of the consideration of the transfer of said NPAs.

Unless otherwise determined by the Bangko Sentral, the following shall be presumed not a True Sale, if the BSFI:

(a) Is made the beneficiary of a trust used as a vehicle for purchasing and securitizing the NPAs; or
(b) Pays further expenses in relation to the NPAs after said NPAs have been sold/transferred to the transferee FISTC/individual;
(c) Extends, directly or indirectly, any credit facility, guaranty or any similar financial transaction to the transferee FISTC; or
(d) Extends any credit facility, guaranty or any similar financial transaction to any party for the purpose of investing in the equity or IUIs of the FISTC, or for acquiring the NPAs from the FISTC; or
(e) Extends any credit facility, guaranty or any similar financial transaction to any party for the purpose of acquiring the NPAs from the transferring FI; or
(f) Acts as trustee (BSFI's trust department) or if the trust department of any of the BSFI's subsidiaries/Affiliates, Parent bank or Parent bank's Subsidiaries/Affiliates acting as trustee, under any circumstances, in the securitization of NPAs that it has transferred to the FISTC; or
(g) Accepts as collateral for a loan extended by said BSFI the equity shares and IUIs of the FISTC that acquired its NPAs; or
(h) Enters into buy-back and other similar arrangements, or financial derivative transactions with similar effect, involving the NPAs or the securities backed by such NPAs; or
(i) Enters into any other transaction where the BSFI retains effective control over the transferred NPAs or shares in the losses of the FISTC; or
(j) Enters into a profit-sharing arrangement with a FISTC in relation to the sale/transfer of NPAs that will result in a sale/transfer transaction that does not meet the derecognition criteria under PFRS 9.

Provided: That, the extension of credit to an individual for the purpose of acquiring a single-family residential unit or an empty lot or ROPA or NPL secured by real estate mortgage on a residential unit or an empty lot shall be allowed and not considered a violation of the required "true sale" transaction.

For purposes of the foregoing, the term "any party" includes proxies, nominees, and voting trustees.

(Circular No. 1117 dated 27 May 2021)

DEFINITION OF TERMS IN RELATION TO A BSFI'S INVESTMENTS IN THE IUIS OF A FISTC

The following definition of terms shall apply in relation to a BSFI's investments in the IUIs of a FISTC:

1. **Affiliate** shall refer to an entity linked directly or indirectly, to a reporting entity through any one or a combination of any of the following:

   (a) Ownership, control or power to vote, whether by permanent or temporary proxy or voting trust, or other similar contracts, by a company of at least ten percent (10%) or more of the outstanding voting stock of the reporting entity or vice-versa;
   (b) Interlocking directorship or officerships, except in cases involving independent directors as defined under existing regulations;
   (c) Common stockholders owning at least ten percent (10%) of the outstanding voting stock of the reporting entity or vice-versa;
   (d) Management contract or any arrangement granting power to the reporting entity to direct or cause the direction of management and policies of the entity, or vice-versa.

2. **Control** exists if and only if the investor has all of the following:

   (a) Power to direct the relevant activities of the investee, which significantly affect the investee's returns;
   (b) Exposure, or rights, to variable returns from its involvement with the investee; and
   (c) The ability to use its power over the investee to affect the amount of the investor's returns.

3. **Related interest** shall refer to any of the following:

   (a) Spouse or relative within the first degree of consanguinity or affinity, or relative by legal adoption, of a director, officer or stockholder of the selling BSFI (or its parent);

   (b) Partnership of which a director, officer, or stockholder of a selling BSFI (or its parent) or his spouse or relative within the first degree of consanguinity or affinity, or relative by legal adoption, is a general partner;

   (c) 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;

   (d) Corporation, association or firm of which any or a group of directors, officers, stockholders of the selling 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; Provided, an entity may still be considered a related interest under this Rule notwithstanding ownership of less than 20% if such entity clearly demonstrates control in the operating and financial policy decisions of the selling Fl as provided in Rule 11.1.1.2 of the FIST IRR;

   (e) Corporation, association or firm wholly or majority-owned or controlled by any related entity or a group of related entities mentioned in 3(2) and 3(4) above;

   (f) Corporation, association or firm which owns or controls, directly or indirectly, whether singly or as part of a group of related interests at least twenty percent (20%) of the subscribed capital of a substantial stockholder of the selling BSFI (or its parent), or which controls majority interest of the selling BSFI (or its parent);

   (g) Corporation, association or firm which has an existing management contract or any similar arrangement with the parent of the selling BSFI (or its parent); and

   (h) 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 to the selling BSFI (or its parent).

4. **Subsidiary** refers to an entity that is controlled by another entity.

(*Circular No. 1117 dated 27 May 2021*)

MANUAL OF REGULATIONS FOR NON-BANK FINANCIAL INSTITUTIONS

S REGULATIONS

(Regulations Governing Non-Stock Savings and Loan Associations)

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MANUAL OF REGULATIONS FOR NON-BANK FINANCIAL INSTITUTIONS

POWERS OF THE BANGKO SENTRAL

001-S EXAMINATION BY THE BANGKO SENTRAL

The head of the appropriate supervising department of the Bangko Sentral, personally or by deputy, shall make at least once a year and at such other times as he or the Monetary Board may deem necessary and expedient, an examination, inspection or investigation of the books and records, business affairs, administration and financial condition of Non-Stock Savings and Loan Associations (NSSLAs).

002-S SUPERVISORY ENFORCEMENT POLICY

The Policy sets forth guidance on the Bangko Sentral's supervision-by-risk framework. It also puts together in a holistic manner all the enforcement tools available to the Bangko Sentral as contained in various laws and rules and regulations[1] and communicates the deployment thereof in a consistent manner by the Bangko Sentral in the course of performing its supervisory function. It further sets out the guiding principles and objectives behind the deployment of such enforcement actions.

Nothing in this Section shall be construed as superseding enforcement actions previously imposed against Bangko Sentral-supervised FIs pursuant to existing laws, Bangko Sentral rules and regulations.

a. ***Policy statement and rationale***

The Bangko Sentral is issuing this Supervisory Enforcement Policy to provide guidance on its supervision-by-risk framework. The Bangko Sentral recognizes that risk-taking is integral to a financial institution's business. The existence of risk is not necessarily a reason for concern so long as Management exhibits the ability to effectively manage that level of risk and operates the financial institution (FI) in a safe and sound manner. Thus, when risk is not properly managed, the Bangko Sentral may deploy a wide range of enforcement actions provided under existing laws, Bangko Sentral rules and regulations, taking into consideration the nature and extent of the supervisory issues and concerns and the level of cooperation provided by Management.

The Bangko Sentral adopts a holistic approach to supervision with the objective of guiding FIs under its supervision to mitigate risk and achieve the desired changes.

Bangko Sentral's risk-based supervision, of which enforcement action is a key part, focuses on the safety and soundness of operations of the FIs. This policy sets forth the expectations of the Bangko Sentral when it deploys enforcement action and the consequences when expected actions are not performed within prescribed timelines.

Thus, this over-arching policy is needed - (a) as a collation of various enforcement actions already present in various laws, rules and regulations; (b) for better guidance of the FIs and the bank supervisors; and (c) as a means to broadcast to the banking/financial industry the consequences of failure to address the Bangko Sentral requirements and supervisory expectations.

b. ***Objectives of the enforcement policy***

The Bangko Sentral's Supervisory Enforcement Policy aims to achieve the following two (2) key objectives:

(1) Achieving the desired change. Effect a change in the overall condition and governance of Bangko Sentral-supervised FIs consistent with the expectations set under relevant laws and regulations; and
(2) Mitigating risk. Mitigate risks to the FIs and other stakeholders in order to maintain the stability of the financial system.

c. ***General principles***

The Bangko Sentral, in the deployment of enforcement actions, is guided by the following general principles:

(1) Root cause diagnosis. The enforcement action addresses the underlying cause of the supervisory issues and concerns.

[1] Section 4 of R.A. No. 8791 (General Banking Law of 2000) defines the scope of Bangko Sentral's supervisory powers, which may be grouped into three categories: (i) issuance of rules; (ii) examination and investigation; and (iii) enforcement of Prompt Corrective Action (PCA)

(2) Consistently matching the severity of enforcement action to the supervisory issue. The deployment of appropriate enforcement action is commensurate to the severity of the supervisory issues and concerns. The severity of the supervisory issues and concerns is assessed in terms of *prevalence*[1] and *persistence.*

(3) Successive or simultaneous deployment of enforcement actions. Enforcement actions may be deployed successively or simultaneously taking into account the nature and seriousness of the difficulties encountered by the FIs and the ability and willingness of the FI's Management to address the supervisory issues and concerns.

(4) Monitorability and follow-through. The Bangko Sentral monitors the FI's progress/compliance with the expected actions to address the supervisory issues, concerns and problems.

(5) Escalation of enforcement actions. Enforcement actions may be escalated if the desired change is not achieved and the root causes of the FI's issues, concerns and problems are not addressed by the FI within prescribed timelines.

d. ***Categories of enforcement actions***

The three (3) main categories of enforcement action are: (1) corrective actions, (2) sanctions and (3) other supervisory actions. These enforcement actions may be imposed singly or in combination with others.

(1) Corrective actions

Corrective actions are enforcement actions intended to require the FI to address the underlying cause of supervisory issues, concerns and problems. These include the following:

(a) Bangko Sentral Directives

Directives are basically orders and instructions communicated by the appropriate supervising department in Bangko Sentral requiring the FI to undertake a specific positive action or refrain from performing a particular activity within a prescribed timeline.

(b) Letter of Commitment (LOC)

The LOC is an enforcement action where the FI's Board of Directors (Board) is required, upon approval and/or confirmation by the Monetary Board, to make a written commitment to undertake a specific positive action or refrain from performing a particular activity with a given time period.

The LOC is generally used to arrest emerging supervisory concerns before these develop into serious weaknesses or problems, or to address remaining supervisory issues and concerns.

(2) Sanctions

Sanctions that may be imposed on an FI and/or its directors and officers, as provided under existing laws, Bangko Sentral rules and regulations, are subject to the prior approval and/or confirmation by the Monetary Board. Such sanctions include the following:

(a) FIs
- Restrictions on activities and privileges
- Suspension of authorities, privileges and other activities
- Divestment and/or Unwinding
- Monetary sanction - Penalties/Fines Against the FI

(b) Directors and officers
- Reprimand
- Restriction on compensation and benefits
- Divestment
- Suspension
- Disqualification
- Removal
- Monetary penalties/fines

The foregoing sanctions to individuals are without prejudice to the filing of separate civil or criminal actions against them, when appropriate.

[1] Prevalence pertains to the pervasiveness of the supervisory issues, concerns and problems in relation to their impact on the FI's solvency, asset quality, operating performance and liquidity, among others.

(3) Other supervisory actions

Subject to prior Monetary Board approval, the Bangko Sentral, when warranted, may deploy other supervisory actions such as (a) Initiation into the PCA Framework; (b) Issuance of a cease and desist order (CDO) against the FI as well as its directors and officers; (c) Conservatorship; and (d) Placement under receivership.

e. ***Due process***

An integral part of the deployment of enforcement actions is the observance of due process in all cases.

The FI and/or its directors and officers are afforded fair and reasonable opportunity to explain their side and to submit evidence/s in support thereof, which are given due consideration in determining the appropriate enforcement action(s) to be imposed.

003-S PROMPT CORRECTIVE ACTION FRAMEWORK

The framework for the enforcement of Prompt Corrective Action (PCA) on banks which is in *Appendix Q-40* shall govern the PCA taken on NSSLAs to the extent applicable, or by analogy.

004-S MONETARY PENALTIES ON BSFIs, AND/OR THEIR TRUSTEES, OFFICERS AND/OR EMPLOYEES

The Bangko Sentral recognizes the need to impose monetary penalties as one of the possible administrative sanctions to hold BSFIs, and/or their trustees, officers and/or employees accountable for their conduct, deter future commission of violations, and achieve the overarching supervisory objectives of changed behavior and mitigated risks.

Pursuant to Section 37 of R.A. No. 7653, as amended, BSFIs, and/or their trustees, officers and/or employees may be imposed a maximum monetary penalty of ₱1 million for each transactional violation or ₱100 thousand per calendar day for violations of a continuing nature. In case profit is gained or loss is avoided as a result of the violation, the Bangko Sentral may also impose a fine of no more than three (3) times the profit gained or loss avoided.

To ensure fairness, consistency and reasonableness in the imposition of monetary penalties, the Bangko Sentral takes into consideration the attendant circumstances of each case, such as the nature and gravity of the violation or irregularity and the size of the financial institution, including other aggravating and mitigating factors. Further, in accordance with Sec. 002-S, the Bangko Sentral may impose monetary penalties, singly or in combination with non-monetary sanctions, if appropriate.

The guidelines on the imposition of monetary penalties for violations in which sanctions fall under Section 37 of R.A. No. 7653 (The New Central Bank Act), as amended, and other applicable laws are in Sec. 811-S *(Other Payments of NSSLAs)* and *Appendix S-18.*

(Circular No. 1125 dated 20 August 2021)

PART ONE

ORGANIZATION, MANAGEMENT AND ADMINISTRATION

A. ESTABLISMENT OF NON-STOCK SAVINGS AND LOAN ASSOCIATIONS (NSSLAs)

101-S BASIC LAW GOVERNING NSSLAs

R.A. No. 8367, as amended, also known as the "Revised Non-Stock Savings and Loan Association Act of 1997", regulates the organization and operation of NSSLAs.

102-S SCOPE OF AUTHORITY OF NSSLAs

Policy Statement. The Bangko Sentral adopts the policy of the State to lay down the minimum requirements and the standards under which NSSLAs may organize and operate in a sound and efficient manner.

An NSSLA shall include any non-stock, non-profit corporation engaged in the business of accumulating the savings of its members and using such accumulations for loans to members to service the needs of households by providing long term financing for home building and development and for personal finance. An NSSLA may also engage in a death benefit program meant exclusively for the benefit of its members.

An NSSLA shall accept deposits from and grant loans to its members only. The NSSLAs shall provide assurance to their members and to supervisory authorities that they confine their membership to a well-defined group of persons and not to transact business with the general public.

Membership.

a. An NSSLA shall confine its membership to well-defined group of persons.

A *well-defined group* shall consist of any of the following:

(1) Employees, officers, and trustees of one company, including member-retirees;
(2) Government employees belonging to the same office, branch, or department, including member-retirees; and
(3) Immediate members of the families up to the second degree of consanguinity or affinity of those falling under Items "*(1)*" and "*(2)*" above.

NSSLAs whose articles of incorporation and by-laws were approved and registered prior to the effectivity of R.A. No. 8367 and which limit and/or allow membership coverage broader or narrower than the foregoing definition, shall be allowed to continue as such.

The Monetary Board may, as circumstances warrant, require NSSLAs mentioned in the immediately preceding paragraph to amend their by-laws to comply with the concept of a *well-defined group*.

b. In no case shall the total amount of entrance fee exceed one percent (1%) of the amount to be contributed or otherwise paid-in by the particular member: *Provided,* That for new members, the fee shall be based on the amount of contributions computed in accordance with the revaluation of the assets of the NSSLA.

Organizational requirements.[1]

a. *Articles of Incorporation; by-laws.* The articles of incorporation and by-laws of a proposed NSSLA, or any amendment thereto, shall not be registered with the SEC unless accompanied by a certificate of approval from the Monetary Board.

b. *Application for approval.* The articles of incorporation and by-laws of a proposed NSSLA, both accomplished in the prescribed forms, shall be submitted to the Monetary Board through the appropriate supervising department of the Bangko Sentral together with a covering application for the approval thereof, signed by a majority of the board of trustees and verified by one of them. The application shall include:

[1] Within two (2) months from 17 April 2019, NSSLA shall (i) perform a review of the activities of all their existing service units; and (ii) submit to the appropriate department of the Bangko Sentral a certified list of said existing service units, categorized as branch or satellite office as defined under this Section (*Definition of terms*). NSSLA's management should take appropriate action to ensure that the activities performed in their existing service units are in accordance with the provisions of Sec. 104-S and 105-S.

(1) The proposed articles of incorporation and by-laws together with the names and addresses of the incorporators, trustees and officers, with a statement of their character, experience, and general fitness to engage in the non-stock savings and loan business;

(2) An itemized statement of the estimated receipts and expenditures of the proposed NSSLA for the first year;

(3) Filing fee of P1,000; and

(4) Such other information as the Monetary Board may require.

c. *Grounds for disapproval of application*. The Monetary Board may deny the application to organize an NSSLA on the basis of a finding that:

(1) The NSSLA is being organized for any purpose other than to engage in the business of a legitimate NSSLA;
(2) The NSSLA's financial program is unsound;
(3) The proposed members are adequately served by one (1) or more existing NSSLAs; and
(4) There exist other reasons which the Monetary Board may consider as sufficient ground for such disapproval.

d. *Certificate of authority to operate; revocation or suspension thereof.* NSSLAs, prior to transacting business, shall procure a certificate of authority to transact business from the Monetary Board. After due notice and hearing, the Monetary Board may revoke or suspend, for such period as it determines, the certificate of authority of any NSSLA, the solvency of which is imperiled by losses or irregularities, or of any NSSLA which willfully violates any provision of R.A. No. 8367, these rules or any pertinent law or regulation.

(Circular No. 993 dated 29 January 2018)

103-S KNOW-YOUR-MEMBER

The NSSLAs shall not be used as a vehicle by unscrupulous persons, its trustees and officers to profit or take advantage of their nature and operations. Thus, the board of trustees (BOT) and management of NSSLAs shall be responsible in putting in place and implementing an effective risk management system, policies, processes and practices towards the effective determination and monitoring of the identity and eligibility of prospective and existing members on a continuing basis. While NSSLAs may create their own systems, the same shall consider the minimum standards set forth under these guidelines.

The membership of persons whose identity and/or membership are questionable and/or ineligible to become members shall cease immediately, and such persons shall solely bear any risk of loss or impairment as a result of their unauthorized membership. This shall be without prejudice to actions that may be taken against the NSSLAs concerned, their trustees, officers, employees and agents/sales representatives for misfeasance or malfeasance, irregularities or omissions, or other similar acts which result in violation of the concept of NSSLAs' well-defined group.

***Membership Selection and Screening*.** An NSSLA shall develop a clearly defined and written selection and screening policies and procedures to ensure compliance with its well-defined group. The selection and screening process employed by NSSLAs should be able to appropriately establish the true identity and eligibility of prospective members. The BOT and senior management of NSSLAs shall be ultimately responsible in the determination of the true identity and eligibility of individuals accepted as members. No reliance shall be made on representations by, nor shall the membership selection and screening process be delegated to or otherwise assumed by, agents or sales representatives engaged by the associations.

a. *Minimum Documentary Requirements*. An NSSLA shall require a prospective member to submit documents to establish his identity and eligibility. It shall be the responsibility of the BOT and management to enumerate the documentary requirements in their respective policies as well as the consistent and effective implementation thereof. For this purpose, minimum documentary requirements include, among others, the following:

Prospective Employee-Member	Prospective Eligible Immediate Family-Member
Valid identification card ("ID") with photo and signature issued by his/her employer company or department/branch/office of government, and any of the following or their equivalent as proof of eligibility: (1) Certificate of employment*; or (2) Certificate of compensation*; or (3) Endorsement from the company or department/branch/office of government.	Photo and signature bearing valid ID, such as driver's license, passport or similar documents, and the following as proof of eligibility: (1) NSO-issued marriage certificate for spouse; or (2) NSO-issued birth certificates of the principal member (i.e., the employee-member or member-retiree) and the immediate family. **

*In case of an NSSLA which is allowed to accept retirees as its members, proofs of eligibility applicable for a retiree shall be submitted. Member-retiree is not the same as retiree contemplated herein as the former is already a member prior to retirement while the latter is not.	**The extent of the applicable NSO-issued certificates to be submitted shall depend on the degree of kinship, and shall, on their face, be able to establish the degree of relationship.

In addition to the above requirements, the NSSLA's BOT and management shall ensure that the following minimum information are obtained and documented in an accomplished membership application form: (a) name of the applicant; (b) complete permanent address; (c) contact numbers; (d) name of and relationship with the principal (i.e., employee-member or member-retiree) in case of immediate family; and (e) specimen signatures.

NSSLAs are not prohibited from requiring additional documents that they deem necessary to establish the identity and eligibility of their prospective members.

b. *Validation of documents/information.* The information and documents proving the identity and eligibility of prospective members shall be subjected to validation. The conduct of validation procedures is a must for immediate families of employee-member or member-retiree, and may include, but not limited to, the following:

(1) Confirming the relationship with the employee-member or retiree-member and/or from duly authenticated official document;
(2) Verifying the permanent address through evaluation of documents such as utility bills, bank or credit card statement or other documents showing permanent address or through on-site visitation; and
(3) Confirming the submitted proof of employment directly to the employer of the prospective immediate family member.

c. *Face-to-face contact.* No prospective member shall be accepted without face-to-face contact with the NSSLAs' duly authorized personnel. NSSLAs shall ensure that compliance with this requirement is duly documented. The documentation, at a minimum, shall include the capital contribution account opening and membership application forms, which shall explicitly indicate that face-to-face contact was conducted by and between the member and the specifically named authorized personnel.

***Approval*.** Individual eligible for membership shall become a member of the NSSLA after the approval of his membership by the BOT. In case of delegated authority as allowed in the NSSLA by-laws, it shall be subject to the confirmation by the BOT. Prior to the approval or confirmation by the Board, the Association should ensure compliance with the payment of entrance fee and regulatory fixed capital or higher minimum fixed capital prescribed under the NSSLA's by-laws, as applicable. The Board Resolution on the approval or confirmation with accompanying document on delegated approval of the membership shall be maintained by the Corporate Secretary.

Changes in membership status arising from: (a) retirement of employee-member (i.e., from employee-member to member-retiree); and (b) termination of membership such as due to death, voluntary or involuntary termination by the NSSLA, shall likewise be subject to approval or confirmation by the BOT, as may be applicable. Such changes in membership status shall be duly supported by documentary proof/s.

Upon approval of membership, NSSLA shall issue Certificate of Membership (pre-numbered) or Membership ID to the new member. Said documents are not substitutable by passbook or other similar documents as proof of membership."

***Membership Registry*.** The NSSLA, through the corporate secretary or board-designated person, shall maintain a registry of all its members which shall clearly identify and show the relationships of members.

Proforma of the registry which shall be maintained and timely updated by the Corporate Secretary or board-designated person is shown below:

Names of Employee- or Member-Retiree	Date of Membership	Immediate Family Members	Date of Membership	Relationship (Up to second degree of consanguinity or affinity)
1. Juan dela Cruz - employee/retiree		1. Maria Dela Cruz		spouse

The NSSLA may adopt a different system, provided that such system shall be able to sufficiently provide the identity and clear relationships of members.

***Membership Administration, Record Keeping and Retention*.** The corporate secretary or board-designated person shall be in-charge in the maintenance and safe storage of all membership identification and eligibility records. Said person shall ensure the integrity of such files.

The original records shall be preserved and safely stored as long as the membership exists. With respect to terminated memberships, the same shall be maintained for at least five (5) years from the date of cessation of membership from the NSSLA unless there is a pending case involved, in which case records shall be maintained until the case is closed with finality. It is understood that original of the records are kept and maintained, and that other forms of the records, e.g., photocopy or scanned copy, may be kept but the originals thereof are made readily available. All records shall be readily available upon request for off-site supervision or during on-site examinations/investigations by the Bangko Sentral or audit by external auditors to verify compliance with the provisions on well-defined group.

Individual membership file shall contain each member's records, which include at the minimum: (a) accomplished membership application form; (b) documentary requirements to establish his identity and eligibility; (c) copy of Board Resolution (BR) of membership approval/confirmation, but alternatively, the BR No. and date of approval may be stamped on the accomplished application form and the BR referred to shall be made readily available; and (d) receipts or proofs for payment of fees required by by-laws and minimum capital contribution.

In case of eligible members who were accepted prior to 24 February 2018, inclusion of the following documents in the file shall be sufficient: (a) accomplished membership application/update form; (b) documentary requirements to establish identity and eligibility; and (c) copy of a proof that capital contribution exist prior to 24 February 2018.

Moreover, membership registry shall be updated to reflect the true status of membership of persons within the well-defined group (e.g., change in status from member-employee to member-retiree, termination of membership). In this regard, the BOT shall establish policies, processes and practices to ensure timely updating of status of membership and membership registry.

The BOT shall prescribe the necessary adequate security measures to ensure the confidentiality of such files.

***Orientation of members*.** To empower members and to address their expectations, the BOT and management of NSSLAs shall ensure that prospective members are provided with adequate orientation prior to the approval of their applications for membership. Such orientation shall cover their rights and privileges, particularly voting rights; expectations on earnings/net income distribution; participation during general membership assemblies; complaints mechanism and disclosure of results of operations, among others.

***Sanctions*.** Any violation of the provisions of this Section and/or the provision on well-defined group under Section 4 of R.A. No. 8367 and/or the By-Laws of the NSSLA shall subject the NSSLA, its trustee/s, officer/s and agent/s to applicable sanctions as the Monetary Board may impose pursuant to R.A. No. 8367 (The Revised Non-Stock Savings and Loan Association Act of 1997), these rules and any pertinent laws or regulations.

***Transitory Provisions*.** For existing members prior to 24 February 2018, NSSLAs shall comply with the foregoing requirements, and attain full compliance with the determination of the identity and eligibility of such members within one (1) year from 24 February 2018. In this regard, an NSSLA shall submit, within thirty (30) days from 24 February 2018, its plan of action/s, duly approved by its BOT, showing measures undertaken or to be undertaken to achieve full compliance with the requirements under this Section with respect to its existing members accepted prior to 24 February 2018.

The membership in the NSSLA of the existing members found to be ineligible by the BOT or thru examination conducted by the Bangko Sentral, pursuant to the provisions of this Section, shall immediately cease, and that members' corresponding outstanding balances shall be subject to an acceptable divestment plan duly approved by the NSSLA's BOT. Provided that, an acceptable divestment plan shall be submitted to the appropriate supervising department of the Bangko Sentral within thirty (30) calendar days from end of the one (1) year period to determine the identity and eligibility of existing members, and the NSSLA concerned shall thereafter submit a detailed quarterly status and monitoring report thereon. *Provided, further* that, non-compliance with the acceptable divestment plan, as determined in off-site monitoring or on-site examinations or investigations conducted by the Bangko Sentral, without justifiable cause/reason, shall subject the NSSLA, its trustees and/or officers to applicable enforcement action.

(Circular No. 993 dated 29 January 2018)

104-S ESTABLISHMENT, RELOCATION OR VOLUNTARY CLOSURE OF NSSLA SERVICE UNITS[1]

Policy Statement. The Bangko Sentral aims to promote greater access to financial services and adopt regulations that support sound, stable and prudent operation of NSSLAs in line with their business model. On the other hand, NSSLAs are expected to adhere to the standards of fair and efficient delivery of authorized financial products and service to their members.

Towards this end, the following shall govern the establishment, relocation or voluntary closure of service units of NSSLAs.

[1] Within two (2) months from 17 April 2019, NSSLA shall (i) perform a review of the activities of all their existing service units; and (ii) submit to the appropriate department of the Bangko Sentral a certified list of said existing service units, categorized as branch or satellite office as defined under this Section (*Definition of terms*). NSSLA's management should take appropriate action to ensure that the activities performed in their existing service units are in accordance with the provisions of Sec. 104-S and 105-S.

Definition of terms. For purposes of this Section, the following definitions shall apply:

a. *Service unit* shall refer to any permanent field office or place of business in the Philippines other than the head office where an NSSLA may perform activities and provide products and services to its members that are within the scope of its authority. A service unit is classified as either a branch or a satellite office.

b. *Branch* shall refer to a service unit authorized to conduct both cash and non-cash transactions. In this respect, a complete set of books and records shall be maintained in each branch.

c. *Satellite office* shall refer to a service unit authorized to perform non-cash transactions only and does not maintain a separate book of accounts as its transactions are taken-up in the books of the head office or a branch to which it is attached.

A satellite office shall perform non-cash transactions which cover the following:

(1) Provide member care services, such as receiving complaints or responding to inquiries/requests;
(2) Conduct prequalification activities relating to loan or membership applications;
(3) Accept applications for membership, or termination of membership or loan. The evaluation of such applications shall be done at the head office or branch to which the satellites office is attached;
(4) Accept checks of members for credit to their savings deposit and/or capital contribution accounts, or for payment of loans;
(5) Release checks or equivalent non-cash document to members to facilitate disbursement of loan proceeds; and
(6) Update and replace passbook.

d. *Mobile desk* shall refer to a temporary desk and chair manned by a single NSSLA personnel located within the premises of the mother company where no service unit is established therein.

e. *Kiosk* shall refer to a temporary booth in an organized information caravan of a group of NSSLAs.

Pre-requisite for the grant of authority to establish a service unit. NSSLAs may establish a service unit as a strategic measure in the implementation of its business model subject to prudential criteria provided under Sec. 111-S (*Prudential criteria*). No NSSLA operating in the Philippines shall establish a service unit without prior approval of the Bangko Sentral.

An NSSLA authorized to establish service units shall be responsible for all transactions conducted in such service units to the same extent and in the same manner as though such transactions had all been conducted in the head office.

Application for authority to establish a service unit. NSSLAs seeking to establish a service unit shall submit the following documents to the appropriate supervising department of the Bangko Sentral:

a. Application letter signed by the NSSLA president or officer of equivalent rank. The application shall indicate the number and classification of service unit to be established, the proposed location along with the sketch, and necessary justification. The application for a satellite office shall also indicate the office to which it shall be attached;

b. Corporate Secretary's Certificate stating that the NSSLA's board of trustees approved the establishment of the service unit; and

c. Certification/Undertaking signed by the NSSLA president or officer of equivalent rank stating that the NSSLA is compliant with the pre-requisite for the grant of authority to establish a service unit provided under this Section (*Pre-requisite for the grant of authority to establish a service unit*) and that said service unit shall only service the members of the NSSLA.

Any request for conversion of a branch to satellite office or vice-versa shall be considered as an application for establishment of a new service unit, subject to the above requirements: *Provided,* That, the documents shall contain information relevant to the conversion.

Location of service units. As a general rule, service units shall be established within the compound of the mother company: *Provided,* That in case of establishment outside the said compound, the NSSLA shall submit sufficient justification along with proof to support its representations.

Opening of service units. Approved service units shall be opened within one (1) year from the date of Bangko Sentral approval, subject to extension on a case-to-case basis: *Provided,* That the entire period of extension shall not exceed three (3) years reckoned from the date of said approval.

Requirements after opening a service unit. Not later than fifteen (15) business days from the date of opening, the NSSLA, through its chief compliance officer and the head of operations or its equivalent rank, shall:

a. Notify in writing the appropriate supervising department of the Bangko Sentral of the actual date of opening of the service unit; and
b. Submit a certification stating that the NSSLA has:

(1) Provided adequate personnel complement, internal control measures, physical facilities, information systems and security arrangements, including the installation of security devices and accessibility to persons with disability;

(2) Posted the required notices, schedules and other relevant information pertaining to its allowed activities, including the NSSLA's well-defined group coverage, in conspicuous places in the premises of the service unit;

(3) Provided efficient means of accounting and reporting as well as communication facilities (to be specified) between the head office, branches and satellite offices;

(4) Adopted a manual of operations for the service unit duly approved by the NSSLA's board of trustees; and

(5) Complied with the requirements under this Section (*Pre-requisite for the grant of authority to establish a service unit*) as of the time of actual opening.

An NSSLA that fails to comply with any of the requirements under this Section (*Pre-requisite for the grant of authority to establish a service unit*) as of the intended opening date shall refrain from opening the same until it has compiled with all the said requirements.

Relocation of service units. Relocation of existing service units is subject to the provisions under this Section (*Location of service units*) and the following procedures:

a. Submit to the appropriate supervising department of the Bangko Sentral the notice of relocation of service unit signed by the NSSLA president or officer of equivalent rank, together with a certified true copy of the resolution of the NSSLA's board of trustees authorizing said relocation, and an undertaking stating that the NSSLA shall comply with the notification requirement under Item "*b*" below. The notice shall include the sketch and other information on the new site, manner of occupancy, (e.g., whether lease or purchase) and the timetable for said relocation;

b. Display posters of notice of relocation in conspicuous places in the premises of the service unit to be relocated and in the official website of the NSSLA (if the NSSLA has an official website), at least forty-five (45) business days prior to relocation; and

c. Submit to the appropriate supervising department of the Bangko Sentral within five (5) business days from the date of relocation a certification signed by the NSSLA president or officer of equivalent rank, stating that the notification requirement under Item "*b*" above has been complied with and an undertaking stating that the service unit will only service members of the NSSLA.

Relocation beyond one (1) year from the date of closure shall be deemed permanent closure of the service unit. The opening of the service unit at the new site shall be deemed as an establishment of a new service unit subject to the provisions under this Section (*Pre-requisite for the grant of authority to establish a service unit*).

The foregoing guidelines shall apply only to relocation within a city/municipality. Otherwise, the rules on permanent voluntary closure and establishment of a new service unit shall apply.

Temporary voluntary closure of service units. Temporary voluntary closure of service units for the purpose of undertaking renovations/major repairs of office premises/facilities and for other valid reasons may be allowed: *Provided,* That the service unit shall be reopened within one (1) year from the date of temporary closure and in accordance with the following procedures:

a. Submit to the appropriate supervising department of the Bangko Sentral a written notice of temporary closure signed by the NSSLA president or officers of equivalent rank, together with a certified true copy of the resolution of the NSSLA's board of trustees stating the justification and authorizing said temporary closure; and an undertaking stating that the NSSLA shall comply with the notification requirements under Item "*b*" below. The notice shall include information as to the timetable for the said temporary closure and the nearest service unit that will handle the transactions of the service unit to be temporarily closed;

b. Send notice of temporary closure to the members and creditors of the service unit involved by personal service, or registered mail or other mail couriers, and post said notice in the official website of the NSSLA (if the NSSLA has an official website), upon receipt of acknowledgement of the notice from the Bangko Sentral, but at least two (2) months prior to the intended date of temporary closure. Display posters in conspicuous places in the premises of

the service unit to be closed at least two (2) months prior to the date of closure. Information as to the date of the reopening and the address of the service unit that will handle the transactions of the service unit to be temporarily closed shall be indicated in the said notice and posters. Proof of receipt of notice by the members and creditors shall be kept on file and made available upon request of the Bangko Sentral;

c. Submit to the appropriate supervising department of the Bangko Sentral within five (5) business days from the date of temporary closure of the service unit, a notice of such closure signed by the NSSLA president or officer of equivalent rank, together with a certification stating that the notification requirement under Item "*b*" above has been complied with; and

d. Submit to the appropriate supervising department of the Bangko Sentral within five (5) business days from the date of reopening of the service unit, notice of such reopening together with a certification signed by the NSSLA president or officer of equivalent rank, stating that the NSSLA has complied with the requirements under Item "*b*" of this Section (*Requirements after opening a service unit*).

Temporary voluntary closure of service units beyond one (1) year shall be deemed as permanent voluntary closure, and its re-opening shall be deemed as an establishment of a new service unit, subject to the provisions under this Section (*Pre-requisite for the grant of authority to establish a service unit*).

Permanent voluntary closure of service units. Permanent voluntary closure of any service unit shall be subject to prior approval of the Bangko Sentral and compliance with the following procedures:

a. Submit to the appropriate supervising department of the Bangko Sentral a request for approval, signed by the NSSLA president or officer of equivalent rank, together with a certified true copy of the resolution of the NSSLA's board of trustees stating the justification and authorizing the said closure on the date duly indicated;

b. Send written notice of closure to members and creditors of the service unit involved by personal service, or registered mail/other mail couriers or publish said notice in a newspaper of general circulation, and post the same in the official website of the NSSLA (if NSSLA has an official website), upon receipt of notice of the Bangko Sentral approval, but at least (3) months prior to the intended date of closure. Display posters in conspicuous places in the premises of the service unit to be closed at least three (3) months prior to the closure. Proof of receipt of notice by the members and the creditors shall be kept on file and made available upon request of the Bangko Sentral; and

c. Submit to the appropriate supervising department of the Bangko Sentral within five (5) business days from date of closure, a certification signed by the NSSLA president or officer of equivalent rank, stating that the closure was implemented and that the notification requirement under Item "*b*" above has been complied with.

Mobile desks and kiosks. Without prior authority from the Bangko Sentral, NSSLAs may operate mobile desks and kiosks, subject to the following guidelines:

a. A mobile desk or kiosk shall be used mainly for advertising, marketing or providing information about the NSSLA. Acceptance of application forms shall be allowed provided that the same will be forwarded to the nearest NSSLA branch or head office for processing;

b. The NSSLA shall notify the appropriate supervising department of the Bangko Sentral, not later than the day of the start of operation of the mobile desks or kiosks. Such notice shall include information on the period of operation, the specific address of operation, justification and proofs to support representation, the branch where application forms will be turned over, and certified true copy of the resolution of the NSSLA's board of trustees authorizing the operation of the mobile desk or kiosk; and

c. Within three (3) days from completion of the activity, the NSSLA thru the Compliance Officer and head of operations shall notify the appropriate supervising department of the Bangko Sentral of the termination of operations of the mobile desk or kiosk.

Supervisory enforcement action. The Bangko Sentral may deploy any of its supervisory action to promote adherence to the requirements set forth in the foregoing rules and bring about timely corrective actions and compliance with the Bangko Sentral directives.

For this purpose, the Bangko Sentral may, among others, limit the activities and services offered by a service unit or close any service unit. If any part of the certification submitted by the NSSLA as required in this Section is found to be false, the Bangko Sentral may also, among others, suspend the privilege to establish and/or open approved service units and/or relocate service units and impose sanctions on the certifying officers concerned.

Relocation of Head Offices

Relocation of an NSSLA's head office shall require prior approval of the Bangko Sentral, and compliance with the following procedures:

a. Submit to the appropriate supervising department of the Bangko Sentral a request for approval of the relocation of the NSSLA's head office signed by the NSSLA president or officer of equivalent rank, together with the following documentary requirements:

(1) A certified true copy of the resolution of the NSSLA's board of trustees stating the justification and authorizing the relocation of the head office;

(2) A certified true copy of the trustees' certificate stating that at least two-third (2/3) votes of members and majority of the trustees approved the proposed amendment to the Articles of Incorporation on the change of address;

(3) Description of the building and place of relocation, manner of occupancy, i.e., whether lease of purchase, estimate of the total costs to be incurred in connection with the relocation, and the proposed timetable for such relocation; and

(4) Plan for the disposition of the original site.

b. Send written notice of relocation to members and creditors by registered mail/other mail couriers and post such written notice in the official website of the NSSLA (if the NSSLA has an official website) upon receipt of notice of Bangko Sentral approval but at least three (3) months prior to the relocation: *Provided,* That said notification period may be reduced to forty-five (45) calendar days if the proposed relocation site is within the same municipality/city of the head office. Display posters in conspicuous places in the premises of the head office; and

c. Submit a notice of relocation to the appropriate supervising department of the Bangko Sentral within five (5) business days from the date of relocation, together with a certification signed by the NSSLA president or officer of equivalent rank, stating that the notification requirements under Item "*b*" above have been complied with.

(*Circular No. 1036 dated 21 March 2019*)

105-S BUSINESS NAME

NSSLAs organized or operating under R.A. No. 8367 and licensed by the Bangko Sentral shall include in their names the words "Savings and Loan Association". Such NSSLAs shall display in a conspicuous place at their business offices a sign including, among other things, the following words: "Authorized by the Bangko Sentral ng Pilipinas".

Prohibitions.

a. No person, association, partnership or corporation shall do business as an NSSLA, or shall use the terms "Savings and Loan Association" or any other title or name tending to give the public impression that it is engaged in the operations and activities of an NSSLA unless so authorized under R.A. No. 8367 and these regulations.

b. The use by an NSSLA of any other name or title or combination of names and titles or any other deviation from the equirements of this Section shall not be authorized except upon prior approval of the Monetary Board.

c. NSSLAs shall not issue, publish or cause or permit to be issued or published, any advertisement that it is doing or permitted to do business which is prohibited by law to an NSSLA.

d. No NSSLA shall advertise or represent itself to its members or to the public as a bank, or as a trust company.

106-S BUSINESS DAYS AND HOURS

NSSLAs may, with the prior approval of the appropriate supervising department of the Bangko Sentral, adopt such business days and hours as may be convenient for them. NSSLAs shall be open for business during business hours and days except when extraordinary instances caused by unforeseen, unavoidable event directly affect the NSSLA's ability to open for business. NSSLAs shall post conspicuously at all times in their place of business their schedule of regular business hours and days.

107-S PREMISES AND OTHER FIXED ASSETS

The following rules shall govern the premises and other fixed assets of NSSLAs.

Accounting for non-stock savings and loans associations premises; other fixed assets. NSSLAs premises, furniture, fixture and equipment shall be accounted for using the cost model under PAS 16 "Property, Plant and Equipment".

Reclassification of real and other properties acquired as non-stock savings and loans association premises. Real and Other Properties Acquired (ROPA) reclassified either as Real Property- Land or Real Property-Building shall be booked at their ROPA balance, net of any valuation reserves: *Provided,* That only such acquired asset or a portion thereof that will be immediately used or earmarked for future use may be reclassified and booked as Real Property-Land/Building.

NSSLAs, prior to the reclassification of their ROPA accounts to Real Property-Land/Building, shall first secure prior Bangko Sentral approval before effecting the reclassification and shall submit, in case of future use, justification and plans for expansion/use.

Batas Pambansa Blg. 344 – An Act to Enhance the Mobility of Disabled Persons by Requiring Certain Buildings, Institutions, Establishments and Public Utilities to Install Facilities and Other Devices. In order to promote the realization of the rights of disabled persons to participate fully in the social life and the development of the societies in which they live and the enjoyment of the opportunities available to other citizens, no license or permit for the construction, repair or renovation of public and private buildings for public use, educational institutions, airports, sports and recreation centers and complexes, shopping centers or establishments, public parking places, workplaces, public utilities, shall be granted or issued unless the owner or operator thereof shall install and incorporate in such building, establishment or public utility, such architectural facilities or structural features as shall reasonably enhance the mobility of disabled persons such as sidewalks, ramps, railings, and the like. If feasible, all such existing buildings, institutions, establishments, or public utilities may be renovated or altered to enable the disabled persons to have access to them.

Republic Act No. 9994 – An Act Granting Additional Benefits and Privileges to Senior Citizens, Further Amending Republic Act No. 7432 of 1992, as Amended by Republic Act No. 9257 of 2003. To be able to give full support to the improvement of the total well-being of the elderly and their full participation in society, and to motivate and encourage them to contribute to nation building, senior citizens shall be provided with express lanes in all branches and offices of NSSLAs. If the provision of express lanes is logistically impossible in any particular branch or office of any NSSLA, said branch or office shall ensure that senior citizens are accorded priority service. The provision of express lanes and/or priority service shall be made known to the general public through a clearly written notice prominently displayed in the transaction counters of all NSSLA branches and/or offices.

B. SPECIAL AUTHORITIES

111-S LICENSING

Statement of Policy and Objectives. Consistent with the mandate of the Bangko Sentral to promote a safe and sound banking system, the licensing process on permissible activities of BSFI is enhanced to align the process with international standards and best practices such as the "Core Principles for Effective Supervision" issued by the Basel Committee on Banking Supervision. The Bangko Sentral will not restrict the scope of risk-taking activities of BSFIs consequent of the licenses and/or authorities granted: *Provided,* That these licenses and/or authorities are in line with their business model and strategic direction: *Provided, further,* That these BSFIs demonstrate the capacity to implement these strategies and the ability to manage risks.

The enhanced policy guidelines set forth the expectations and criteria of the Bangko Sentral with respect to granting of licenses and authorities as well as its right to reject applications if the criteria set forth are not met by the applicant BSFIs ("applicants") or if the information provided is not adequate. The Bangko Sentral also reserves the right to withdraw or revoke the license and/or authority or enforce appropriate actions when an institution no longer meets the criteria or standards required to be met for the exercise of the license and/or authority.

These criteria are intended to incorporate the licensing process into Bangko Sentral's enforcement regime that is anchored on good governance, sound risk management system and effective control systems. Further, these criteria aim to provide more consistency on how the risk-focused supervision function is applied to the licensing process. This enhanced licensing policy aims to ensure that licenses and authorities are granted only to applicants that comply with the standards set.

It is also the thrust of these enhanced policy guidelines on granting licenses/authorities to establish Bangko Sentral's accountability and promote transparency on the licensing process which are consistent with its commitment to deliver prompt and efficient service.

Scope. Applications for licenses and/or authorities shall be categorized as follows:

a. *Type "A"* - applications for licenses and/or authorities where compliance with the defined prudential requirements/ criteria described in this Section (*Prudential Criteria*) is a pre-condition for applicants to be considered eligible;

b. *Type "B"* - applications for licenses and/or authorities processed regardless of risk profile; and

c. *Type "C"* - activities which no longer require submission of applications and processing but shall be subject to submission of reports/certification/notification within stated deadlines. However, compliance with pre-qualification requirements is subject to post verification and any false information and/or misrepresentation may be a basis for the imposition of appropriate enforcement actions described in this Section (*Enforcement Action*). The Bangko Sentral shall use this information to continuously tailor its supervisory strategy for the supervised entities and to maintain and continuously update its institutional database.

Prudential criteria. The prudential criteria set forth in this Section shall be used in determining the eligibility of applicants to the licenses and/or authorities granted by the Bangko Sentral. Accordingly, the following minimum conditions must be met:

a. Applicant domestic banks must have a CAMELS composite rating of at least "3" and a *"Management"* rating of not lower than "3", branches of foreign banks must have a ROCA rating of at least "3", and BSFIs must have a RAS rating of at least *"Acceptable"*. Whenever applicable, ratings equivalent to cited minimum rating grade requirements under appropriate rating systems (i.e., IT Rating Systems, Trust Rating Systems, among others) shall apply for certain licenses and/or authorities;

b. Applicants have no major supervisory concerns in governance, risk management systems, and internal controls and compliance system, and characterize/demonstrate the following:

(1) Governance

Applicants must display a culture of good corporate governance appropriate to its size, risk profile and complexity of operations. Board of directors and management, in their respective roles, provide an appropriate level and quality of oversight and support to all of the institution's activities. Sound management practices are observed and demonstrated through (1) active oversight and satisfactory performance by the board of directors and senior management, (2) appropriate policies, processes, and controls relative to the institution's size, complexity and risk profile, (3) maintenance of an independent and effective internal audit and compliance program as well as a sound internal control environment, and (4) effective risk monitoring and management information systems.

Applicants should not be found engaging in an activity which may be considered as conducting business in an unsafe and unsound manner. In cases where weaknesses, violations of law, policy and/or regulation exists, other than those considered unsafe or unsound practices, these should not be material to the safety and soundness of the institution, can be reasonably managed, and are being adequately addressed.

Quality of corporate governance shall be assessed based on the principles and framework set forth in the Guidelines in Assessing the Quality of Corporate Governance in BSFIs;

(2) Risk management system and internal controls

Applicants shall have a comprehensive risk management system approved by its board of directors (or equivalent management committee in the case of foreign bank branches) to identify, measure, evaluate, report and control or mitigate all material risks on a timely basis and to assess the adequacy of their capital in relation to their risk profile and market and macroeconomic conditions and whose sophistication are commensurate to the risks being monitored and controlled. The risk management system must be characterized by a clear delineation of responsibility for risk management, adequate risk measurement systems, appropriate risk limits structure, effective internal controls and complete, timely and efficient risk reporting systems.

Likewise, applicants shall have an effective and adequate system of internal controls for the conduct of their business taking into account their risk profile. These controls deal with organizational structure, accounting policies and processes, checks and balances, safeguarding of assets and investments and appropriate and effective internal audit and compliance functions. Standards and principles as well as the Bangko Sentral's expectations governing internal controls and audit under existing regulations shall apply in assessing the quality and effectiveness of the internal control systems of an applicant; and

(3) Compliance system

Applicants shall have a compliance system, appropriate to its size, risk profile and complexity of operations, designed to specifically identify and mitigate business risks[1] which may erode the franchise value of the institution. Compliance policies and procedures embodied in a Compliance Policy Manual should be sound and effectively implemented. Likewise, compliance monitoring and testing as well as review process should be robust to ensure BSFI conducts its business/operations in accordance with banking laws, rules and regulations and other laws relevant to banking such as securities laws and regulations. BSFI's should not have been found significantly non-compliant with prudential requirements such as SBL, DOSRI limits, capital adequacy ratio requirements, among others.

Standards and principles set forth in the Compliance Rating System framework shall apply in assessing the quality of BSFI's compliance system; and

c. Applicants have complied with directives and/or are not subject of specific directives and/or enforcement actions by the Bangko Sentral.

Applicants shall have corrected any findings of unsafe or unsound practices and have addressed any outstanding explicit directives from the Bangko Sentral and/or other relevant regulatory bodies, prohibiting the

[1] As defined under Sec. 161-Q (*Compliance function*) *business risk* refers to conditions which may be detrimental to the institution's business model and its ability to generate returns from operations, which in turn erodes its franchise value. Business risk includes reputation, compliance, market conduct and legal risks.

conduct of activities related to the licenses and/or authorities being applied, as of the date of application. Applicants with specific prohibitions to conduct certain activities shall not be eligible to apply for that particular license and/or authority.

No application shall be accepted until such time that enforcement actions are formally lifted by the Bangko Sentral and/or other relevant regulatory bodies after applicants have demonstrated to the Bangko Sentral that safety and soundness concerns are satisfactorily addressed and/or until such time applicants become eligible.

Applications of BSFIs under rehabilitation and/or enhanced supervision status[1] shall be dealt with in accordance with the eligibility test described in Section II.1(a) of *Appendix S-10*.

BSFIs granted with licenses/authorities shall continuously comply with the abovementioned standards and requirements even after the license/authority has been granted; otherwise, any deviation or non-compliance may be a basis for the imposition of appropriate enforcement actions described in this Section.

The specific guidelines and procedures on the Bangko Sentral's licensing framework are shown in *Appendix S-10.*

Enforcement actions. In line with the thrust of the Bangko Sentral to incorporate the licensing process into its enforcement regime, the Bangko Sentral reserves the right to deploy, as may be warranted, an adequate range of supervisory tools to ensure that grantees of licenses/authorities are and remain qualified to possess the same, bring about timely corrective actions and compliance with Bangko Sentral directives, and provide safety to depositors, creditors, other stakeholders as well as the public in general.

Enforcement actions that may be imposed include, but are not limited to:

a. Corrective action

Corrective actions are measures intended to primarily require BSFIs with approved licenses/authorities to rectify any deviations from the standards, principles and conditions expected for the exercise of the license and/or authority. Corrective actions may include, but are not limited to, issuance of directives and warnings.

b. Sanctions

The Monetary Board may impose any of the sanctions enumerated hereunder or a combination thereof.

(1) Non-monetary

(a) *Suspension of activities.* The conduct of activities related to the licenses/authorities granted may be suspended if the Bangko Sentral determines that the concerned BSFI no longer meets the criteria or standards set; or

(b) *Revocation of licenses/authorities.* The license/authority granted may be revoked in cases where violation, non- compliance with criteria/standards and/or false information are noted which affects the safety and soundness of BSFIs' operations; and/or

(c) *Administrative sanctions.* The responsible directors/officers who approve transactions and/or decisions that resulted in violations of laws, rules and regulations, orders, and directives issued by the Monetary Board or the Governor may be subject to reprimand, temporary suspension, and/or disqualification of directors/officers.

The Monetary Board is not precluded to impose non-monetary sanctions other than those identified from Items *"(a)"* to *"(c)"*; and/or

(2) Monetary

Monetary penalties may be imposed for any acts, omissions or transactions that are outside the permissible activities of the licenses/authorities granted or are in violation of laws, Bangko Sentral rules and regulations, orders and directives issued by the Bangko Sentral.

Type of license of permissible activities[2]. The type of license attached to permissible activities of Bangko Sentral supervised financial institutions (BSFIs) shall be as follows:

[1] Rehabilitation includes BSFIs under the Prompt Corrective Action (PCA), Rehabilitation Program, Letter of Commitment and any other similar cases where BSFIs are expected to comply specific terms and conditions to restore eligibility (safety and sound) status.

[2] **Transitory Provisions**. For application related to branching activities covered under Sec. 105 (*Processing and special licensing fees*), as amended, approved after 6 March 2019, the processing fees provided under the said Section, as amended, shall be collected upon approval of the application.
Applications for Type C licenses received prior to 6 March 2019 shall be deemed to have complied with the notification/certification requirements if after thirty (30) banking days from 6 March 2019, the appropriate supervising department of the FSS does not advise the BSFI concerned of any deficiency on such application.

Type of License	Permissible Activity	Related Sections
A	Engagement of Individual Agents or Sales Representatives	112-S
B	Amendment of Articles of Incorporation (AOI) and By-Laws	Sec. 102-S (*Organizational requirements*)
C	Outsourcing/Insourcing of Banking Functions	Sec. 113-S

Processing and Licensing Fees. All applications shall be charged with the following processing fees pursuant to Section II.3.i of *Appendix S-10*:

Type of License/ Authority	Processing Fees for Non-Bank Financial Institutions
A	10,000
B	10,000

Certain Type A licenses shall be charged with the following licensing fees upon approval pursuant to Section II.3.ii of *Appendix S-10*:

Type of License/ Authority	Licensing Fees* for Non-Bank Financial Institutions
A	50,000

*Licensing fee shall be net of the processing fee.

The foregoing tables shall not apply to licensing applications with separate fee structure under specific sections of this Manual.

(Circular Nos. 1118 dated 02 June 2021, 1031 dated 07 February 2019, and 947 dated 15 February 2017)

112-S ENGAGEMENT OF INIDIVUAL AGENTS OR SALE REPRESENTATIVES[1]

Policy Statement. The Bangko Sentral recognizes the roles of individual agents or sales representatives in facilitating the members' easy access to all products and services offered by NSSLAs and the efficient delivery of services to all the members. In the implementation of the provisions of Section 10 of Republic Act (R.A.) No. 8367 which requires a person to obtain license from the Monetary Board before the former can act as an agent or sales representative, risks involved in the engagement of individual agents or sales representatives have to be properly managed to minimize potential operational and reputational risks to the NSSLA that can undermine/compromise the safety and soundness of its operations. The Bangko Sentral sets forth herein its supervisory expectations and the minimum prudential requirements on the engagement by an NSSLA of individual agents or sales representatives, under a licensing mechanism that involves grant of Bangko Sentral authority to NSSLAs to engage individual agents or sales representatives, subject to NSSLAs' and individual agents or sales representatives' adherence to the parameters and conditions prescribed in this Section.

The Board of Trustees shall be responsible for formulating appropriate risk management system pertaining to the engagement of individual agents or sales representatives, which shall be embedded in the NSSLA's operational risk management system, to ensure that:

a. The individual agents or sales representatives appointed possess the necessary competence, character, integrity and probity;

b. Risks associated with the engagement of individual agents or sales representatives are properly identified, assessed, monitored and mitigated, and results thereof are adequately documented; and

c. The individual agents' or sales representatives' activities are consistently monitored to ensure compliance with this Section, the contract of agency or sales representative agreement, and other applicable laws and regulations.

[1] All licenses previously issued by the Bangko Sentral to agents or sales representatives shall remain valid until expiration of the period of effectivity set by the Bangko Sentral upon issuance of the license or the term/duration of the contract between the NSSLA and the agent or sales representative, whichever comes earlier, subject to compliance with the requirements of this Section, as applicable, concerning oversight and governance, risk management, reporting and individual agent or sales representative's operations/activities. After end of the transitory period, NSSLAs and individual agents or sales representatives shall fully comply with the provisions of this Section in the engagement and operations of individual agents or sales representatives: *Provided*, That the transitory period within which to fully comply with the provisions of this Section shall not apply where the period of effectivity of the authority is not specified upon Bangko Sentral approval and there is no subsisting contract between the NSSLA and the agent or sales representative: *Provided, further*, That where the validity period of the agent's or sales representative's authority is not so fixed upon BSP approval and in the contract, the NSSLA concerned shall be given a transitory period of one (1) year from effectivity of this Circular within which to fully comply with the provisions of this Section, subject to compliance, during the interim period, with the requirements of this Section, as applicable, concerning oversight and governance, risk management, reporting and individual agent or sales representative's operations/activities.

Definition of Terms. The following shall be defined and understood in this Section to mean, as follows:

a. *Individual Agent or Sales Representative* - refers to a natural person engaged by an NSSLA under a contract of agency or sales representative agreement to perform on its behalf, acts or services directly related to the functions and operations of an NSSLA as it may designate, except those inherent core functions of NSSLAs requiring exercise of discretion.

b. Contract of Agency or Sales Representative Agreement - refers to a written covenant between an NSSLA and its individual agent or sales representative which sets forth, among others, the purpose, scope, authority, responsibilities and obligations of the parties relative to the engagement.

Scope of Authority of Individual Agents or Sales Representatives. Subject to approval by the Deputy Governor of the appropriate supervising sector of the Bangko Sentral and confirmation by the Monetary Board, individual agents' or sales representatives may be engaged by NSSLAs to perform on its behalf, acts or services directly related to the functions and operations of an NSSLA, except those inherent NSSLA core functions requiring exercise of discretion. The following inherent core functions of NSSLA may not be subject of an agreement as it requires exercise of discretion, thus cannot be performed by an individual agent or sales representative:

a. Approval of (i) grant and/or renewal of loans, (ii) opening and closing of deposit and capital contribution accounts,(iii) transactions involving the deposit and capital contributions accounts (i.e., receipt, withdrawal or transfer) and the recording thereof, and (iv) applications for membership;

b. Conduct of Know-Your-Customer and Know-Your-Member procedures and activities;

c. Policy-making;

d. Board and management oversight; and

e. Risk governance.

Meanwhile, the following activities are allowed to be undertaken by individual agents or sales representatives: *Provided*, That should the NSSLA engage more than one individual agents or sales representatives, conflicting activities cannot be performed by one and the same individual agent or sales representative:

a. Accept loan application documents;
b. Conduct credit and background investigation on loan applicants;
c. Appraise loan collaterals except restructured loans requiring appraisal by an independent appraisal company;
d. Accept applications for opening of deposit accounts;
e. Promote the NSSLA and its business, and introduce the NSSLA's products and services to potential and existing members;
f. Conduct financial literacy training or program for potential and existing members;
g. Assist prospective members in their application for membership and submission of documentary requirements; and
h. Provide assistance to new and existing members on concerns/issues and complaints that may arise from operations.

Engagement of third parties to perform non-inherent NSSLA core functions, other than those specifically enumerated above, shall continue to be governed by the guidelines on outsourcing under Sec. 113-S.

General administrative services and other incidental services sought to be performed by a third party which are neither considered as acts of agency directly related to the functions and operations of an NSSLA nor covered by the guidelines on outsourcing, do not require prior Bangko Sentral approval.

Eligibility of an NSSLA to Engage an Individual Agent or Sales Representative. Subject to evaluation of the Bangko Sentral, an NSSLA which meets the following minimum conditions may engage the services of individual agents or sales representatives:

a. The NSSLA has shown that the engagement is directly related to the accomplishment of its business plan/strategy;
b. The NSSLA has established an appropriate risk management system to govern its engagement of individual agents or sales representatives;
c. The NSSLA has complied with prudential criteria set forth in Sec. 111-S; and
d. The NSSLA has not engaged in acts, practices or omissions that are considered prejudicial to the interest of members and/or has not conducted its business in an unsafe or unsound manner, which are continuing or remain uncorrected.

Selection and Approval of Prospective Individual Agents or Sales Representatives. NSSLAs shall establish a selection and approval process, duly approved by the Board of Trustees, that: (i) ensure that selected individual agents or sales representatives possess the competence, character, integrity and probity to discharge their duties; (ii) promote consumer protection; and (iii) provide for appropriate segregation of conflicting allowed activities among selected individual agents or sales representatives to prevent a conflict of interest situation. In the selection and approval process, the NSSLA shall determine, at the minimum, that the prospective individual agent or sales representative:

a. Has no derogatory records with National Bureau of Investigation and Philippine National Police involving dishonesty or breach of trust;

b. Has adequate and relevant experience in performing the allowed activities for which the individual agent or sales representative is sought to be engaged;

c. Has no existing contract of agency or sales representative agreement with other NSSLAs:

d. Is not a relative within the second degree of affinity or consanguinity of any incumbent trustee, officer or employee of the NSSLA; and

e. Has not been previously: (1) engaged as an individual agent or sales representative cited by the Bangko Sentral for acting beyond the scope of authority or performing prohibited activities as set forth in this Section; or (2) an employee of an NSSLA whose citation for conducting business in an unsafe or unsound manner or performing acts or practices considered prejudicial to the interest of members, is directly attributed to such employee.

The NSSLA shall document its assessment on the suitability of the individual agent or sales representative based on the NSSLA's established selection process. Prospects who qualified or passed the selection process shall be submitted to the NSSLA's Board of Trustees for approval and/or confirmation. Documents relative to the selection and approval of prospective individual agents or sales representatives shall be made available to the Bangko Sentral for review upon request.

Application Process. An eligible NSSLA that wishes to engage the services of individual agents or sales representatives shall submit the following documentary requirements to the appropriate supervising department of the Bangko Sentral:

a. Request for Bangko Sentral approval to engage individual agent/s or sales representative/s containing the justifications or reasons for the engagement particularly its direct relation to the accomplishment of the NSSLA's business plan/strategy, signed by the President or an officer of equivalent rank;

b. Certification under oath signed by the President or officer of equivalent rank on the following:

   (1) That the NSSLA has complied with the minimum conditions provided in this Section *(Eligibility of an NSSLA to Engage an Individual Agent or Sales Representative)*; and

   (2) That the proposed individual agent/s or sales representative/s has/have met the eligibility and qualification requirements based on the NSSLA's established selection and approval process as required in this Section *(Selection and Approval of Prospective Individual Agents or Sales Representatives)*;

c. Certified true copy of the resolution of the NSSLA's Board of Trustees or a Corporate Secretary's Certificate thereon showing the (1) approval and/or confirmation of the individual agent/s or sales representative/s and (2) acknowledgment of all the rights and liabilities arising from the acts and omissions of the agents and sales representatives for NSSLA-related services performed within the scope of their authority. The date of Board of Trustees· approval and/or confirmation should not be earlier than twenty (20) business days from submission of the application; and

d. List of Board-approved individual agent/s or sales representative/s, as well as their official addresses, contact details, allowed activities, and areas of operation.

Payment of non-refundable processing fee of Pl0,000.00 shall be required upon initial submission of the request for Bangko Sentral approval to grant the NSSLA the authority to engage individual agent/s or sales representative/s regardless of the number of selected individual agents or sales representatives. The manner of payment shall be in accordance with the provisions of Sec. 1102-Q *(Other Payments of NBFIs)* and *Appendix* 26.

Applications with incomplete documentation will be returned without prejudice to re-submission of request with complete documentary requirements prescribed in this Section and subject to payment of above-mentioned non-refundable processing fee.

The Bangko Sentral reserves the authority to conduct on-site verification of the representations stated in the application and the documents that support these representations. Likewise, it shall not be precluded from requiring other information/documents that it may deem necessary to arrive at an informed decision.

The NSSLA shall be notified of the decision of the Bangko Sentral on the request and shall be responsible for informing the individual agents or sales representatives of the said decision. including the conditions set forth for approval of the request. if any. Denial of the request by reason of the NSSLA's failure to comply with the conditions provided in this Section *(Eligibility of an NSSLA to Engage an Individual Agent or Sales Representative)* shall be without prejudice to re-submission of request with complete documentary requirements including proof of compliance with the conditions for eligibility, upon lapse of six (6) months from receipt of notice of denial of the request.

To forestall the possibility of a conflict of interest situation, NSSLA shall enjoy exclusivity of services of its engaged individual agents or sales representatives based on the contract of agency or sales representative agreement with a maximum term of five (5) years, subject to annual evaluation by the NSSLA of the performance of the individual agent or sales representative.

After the expiration or termination of contract/agreement with the NSSLA. an individual agent or sales representative may not enter into a contract of agency or sales representative agreement with another NSSLA for a period of one (1) year after such termination or expiration.

NSSLA with granted authority to engage individual agents or sales representatives shall comply with the abovementioned standards and requirements on a continuing basis; otherwise, any deviation, non-compliance, or misrepresentation may be a basis for revocation of its authority to engage individual agents or sales representatives and the imposition of appropriate enforcement actions described in this Section.

Oversight and Governance on the Operations of Individual Agent or Sales Representative. The NSSLA shall assume full responsibility and liability for all acts and omissions of its agents or sales representatives on NSSLA-related services. It shall ensure that individual agents or sales representatives act within the scope of their authority and conduct their operations in a safe and sound manner and in compliance with applicable laws, rules and regulations.

An NSSLA shall be responsible and accountable for the effective management of risks arising from the operations of individual agents or sales representatives. To effectively enforce this, the following shall be performed:

a. The Board of Trustees shall ensure that risk management and governance are clearly defined, through policies that include, at a minimum, the following: (1) standard of operations and performance management; (2) customer protection measures; (3) management information system; (4) anti-money laundering/combating the financing of terrorism (AML/CFT); and (5) termination of contract of agency or sales representative agreement.

b. The Management shall ensure that: (1) policies on risk management and controls set by the Board of Trustees relevant to the individual agent or sales representative operations are properly implemented; (2) risks and issues associated with individual agent or sales representative operations are continually assessed, monitored and managed: (3) performance of individual agent or sales representative is evaluated _and reported on a regular basis: and (4) performance and implementation of the policies on engaging the services of individual agents and sales representatives are periodically reported to the Board of Trustees.

c. The person/unit in-charge of managing individual agent or sales representative operations shall be responsible for:

   (1) Monitoring and supervising the individual agents or sales representatives to ensure that their activities are carried out in accordance with the contract of agency or sales representative agreement and that risks associated with the said activities are properly managed. This includes conduct of appropriate briefings and trainings before an individual agent or sales representative carries out the assigned activities:

   (2) Maintaining updated central record of all the information on individual agents and sales representatives and the activities that they carried out, which shall contain sufficient detail to establish an audit trail. This shall be readily accessible for review by the Board of Trustees and management, as well as by the Bangko Sentral and its examiners upon request.

      At a minimum, NSSLAs shall have records of the following:

      (a) Transactions that are facilitated by the individual agents or sales representatives. Related thereto, NSSLAs shall adopt a documentation system that promotes accountability (e.g., an entry in a loan application form where the individual agent or sales representative is required to sign as a loan facilitator);

      (b) Result of annual evaluation/assessment of the performance of individual agents or sales representatives vis-a-vis provisions of the contract of agency or sales representative agreement, as well as the result of the independent review of the internal audit to facilitate an informed and timely decision making by the Board of Trustees:

      (c) Commission and other remunerations paid to the individual agents or sales representatives including the basis of commission; and

      (d) Results and resolution of investigations conducted, if any, against individual agents or sales representatives;

   (3) Adopting a monitoring system to ensure that individual agents or sales representatives: (a) observe the exclusivity provision of the contract of agency or sales representative agreement; (b) adhere to the highest service standards; and (c) observe the consumer protection standards and applicable AML/CFT rules and regulations prescribed under Parts Seven and Six, respectively, of this Manual in their dealings with existing and prospective members of the NSSLA;

(4) Conducting investigation, on such grounds as may be defined by the Board of Trustees in the NSSLA policies, against individual agents or sales representatives, monitoring the resolution of investigations conducted, and imposing appropriate fines, penalties or sanctions, including termination of contract of agency or sales representative agreement, as may be provided in the contract/agreement; and

(5) Conducting annual evaluation/assessment of the performance of individual agents or sales representatives vis-a-vis provisions of the contract of agency or sales representative agreement, including the effectiveness of the individual agent's or sales representative's risk management practices in operations, and perform cost-benefit analysis in continuing the engagement.

Independent review of the selection and approval of prospective individual agents or sales representatives as well as their operations, including oversight and governance thereof, shall be included in the scope of internal audit and compliance testing.

Individual Agent or Sales Representative Operations. An individual agent or sales representative shall be governed by the rules of agency under the New Civil Code of the Philippines, and must act within the scope of his authority. In dealing with existing and prospective members of the NSSLA within the well-defined group, the individual agent or sales representative shall make appropriate disclosures on his capacity as individual agent or sales representative and the extent of his authority.

a. Contract of Agency or Sales Representative Agreement

The contract of agency or sales representative agreement between an NSSLA and its engaged individual agent or sales representative shall be exclusive and shall be for a period not exceeding five (5) years. The rights and obligations of the NSSLA and the individual agent or sales representative shall be clearly set out in the contract/agreement which should be approved by the Management and confirmed by the Board of Trustees. and shall be made available to the Bangko Sentral upon request.

The contract/agreement shall include, among others, the following:

(1) Activities that the individual agent or sales representative are authorized to perform. which shall include the requirement to transact only with existing and prospective members of the NSSLA within the well-defined group;

(2) Remuneration or fee structure;

(3) Rights of the parties. which shall include: (a) the right of the individual agent or sales representative to be provided by the NSSLA with appropriate briefings and trainings relative to the assigned activities; (b) the right of the NSSLA to conduct investigations, if warranted; and (c) the rights of the parties to be compensated or to impose applicable fines, penalties or sanctions for breach of any provision of the contract of agency or sales representative agreement;

(4) Responsibilities, obligations and accountabilities of the parties. These shall include the individual agents' or sales representatives' duties as provided under this Section such as, but not limited to, refrain from performing prohibited activities, provide prior written notification to the NSSLA of any change in the official address and contact details of the individual agents/sales representatives, and safekeep and turn-over records and documents pertinent to their operations to the NSSLA;

(5) Confidentiality clause covering all data and information during the effectivity and even after the termination of the contract. It shall state that the individual agent or sales representative shall observe Section 6 of R.A. No. 8367 on prohibition against inquiry into or disclosure of deposits, and R.A. No. 10173 on the security and protection of individual personal information. It shall also include actions that an NSSLA may take against the individual agent or sales representative for breach of confidentiality or any form of disclosure of confidential information in accordance with the provision on compensation, fines, penalties and sanctions as may be agreed upon by the parties under Item *"(3)"* above;

(6) Customer protection provisions and grievance mechanism;

(7) Applicable provisions on preventive measures and AML/CFT obligations;

(8) Annual evaluation and performance review of the individual agents and sales representatives;

(9) Term/duration of the contract of agency or sales representative agreement, as well as provisions on amendment, renewal, suspension, cancellation, withdrawal and termination thereof. The contract/ agreement shall specifically include a provision that deployment of enforcement action/s under this Section resulting in the revocation of the authority of the NSSLA to engage individual agents or sales representatives shall result in automatic termination of the contract of agency or sales representative agreement;

(10) Provision on the exclusivity of the services of the individual agent or sales representative for the term/duration of the contract which is a maximum period of five (5)years, subject to a cooling-off period of one (1) year as provided in this Section *(Application Process)*; and

(11) Provision on continuing compliance by the parties with the minimum conditions and qualifications provided in this Section *(Eligibility of an NSSLA to Engage an Individual Agent or Sales Representative: Selection and Approval of Prospective Individual Agents or Sales Representatives)*, including such provisions as the parties may agree on that will effectuate the conditions set forth by the Bangko Sentral on the approval of NSSLA's request to engage individual agent or sales representative.

b. Prohibited Activities

Individual agents or sales representatives are prohibited from conducting the following activities for the NSSLA:

(1) Performing functions beyond the scope of authority of individual agents or sales representatives as provided in this Section *(Scope of Authority of Individual Agents or Sales Representatives)* and as approved by the Board of Trustees of the NSSLA to be performed by the engaged individual agent or sales representative. This includes performance of functions outside the assigned areas of operations as approved by the Board of Trustees;

(2) Performing acts outside the contract of agency or sales representative agreement;

(3) Accepting any form of payment, gifts, gratuity, favor, entertainment, loan or anything of monetary value from existing and prospective members for the services rendered to them on behalf of the NSSLA;

(4) Operating an agency, entering into a sub-agency and/or managing/supervising other agents or sales representatives or group of agents or sales representatives, for purposes of performing the assigned activities on behalf of the NSSLA;

(5) Performing practices or acts prejudicial to the interest of the members or the NSSLA;

(6) Performing acts not in adherence to consumer protection standards, AML/CFT regulations, or in violation of the confidentiality clause of the contract/agreement; and

(7) Transacting with persons outside the well-defined group.

The above list is not exclusive. The Bangko Sentral may consider any other similar acts as prohibited activities.

The NSSLA, through its Board of Trustees and Management, shall be responsible for ensuring and monitoring that its individual agents or sales representatives are not engaging at any time in the above prohibited activities.

Performance by individual agents or sales representatives of any of the foregoing prohibited activities shall be a ground for deployment of appropriate enforcement actions as provided in this Section against the NSSLA, its trustees, officers and/or employees concerned.

c. Publication of List of Authorized Individual Agents or Sales Representatives

NSSLAs shall post in conspicuous places in the NSSLA premises and/or publish in their websites or other social media platform an updated list of all their authorized individual agents or sales representatives, including their names, contact details, term/duration of contract, allowed activities and areas of operations. The list shall be updated regularly. NSSLAs shall observe the requirements of R.A. No. 10173 in the disclosure of personal information of individual agents or sales representatives.

To facilitate easy identification of the NSSLA's authorized individual agents or sales representatives, and to protect the customer from transacting with unauthorized individual agents or sales representatives. the NSSLA shall provide a uniform affixed signage displayed conspicuously in the premises of the individual agent or sales representative indicating the following:

(1) That the individual agent or sales representative is "an authorized agent or sales representative of the NSSLA";
(2) Logo of the NSSLA;
(3) The specific functions that are allowed for the individual agents or sales representatives to undertake in behalf of the NSSLA;
(4) Duration of the contract/agreement; and
(5) NSSLA customer care hotline and email address.

d. Change in Business Address and Contact Details of the Individual Agent or Sales Representative:

Engaged individual agents or sales representatives are required to maintain an official address and contact details.

No individual agent or sales representative shall change official address and contact details without prior written notification to the NSSLA, except when justified or the situation so requires, in which case, the individual agent or sales representative shall immediately notify the NSSLA within three (3) calendar days from the time of change. Failure to inform the NSSLA may subject the individual agent or sales representative to appropriate fines, penalties or sanctions as may be agreed upon in the contract/agreement.

e. Change in Assigned Allowed Activities, Renewal and Addition of Individual Agents or Sales Representatives

An NSSLA which, upon evaluation/review of its business plan and performance of the individual agents or sales representatives, wishes to change the assigned allowed activities of existing individual agents or sales representatives. renew and/or add more individual agents or sales representatives, shall submit to the appropriate supervising department of the Bangko Sentral a notice of change, renewal and/or engagement of additional individual agents or sales representatives, within seven (7) business days from the date of the approval and/or confirmation of the NSSLA's Board of Trustees of the change, renewal and/or engagement of additional individual agents or sales representatives, subject to the same requirements provided in Items *"b", "c"* and *"d"* of the Application Process described in this Section. Moreover, change in assigned allowed activities would entail an amendment to the contract/agreement between the NSSLA and the individual agent or sales representative.

In case of renewal/addition of previously removed individual agents or sales representatives, the NSSLA shall document the basis/justification for such renewal/addition, which documentation shall form part of the updated central record of all the information on individual agents and sales representatives described in this Section *(Oversight and Governance on the Operations of Individual Agent or Sales Representative)*.

Reportorial Requirements. NSSLAs shall submit the following category *"B"*reports, duly certified by the Compliance Officer or any officer of equivalent rank, to the appropriate supervising department of the Bangko Sentral:

a. Event-driven report. List of individual agents or sales representatives removed or terminated prior to the end of term or expiration of contract of agency or sales representative agreement, if any, including the reason/ground for removal or termination, within seven (7) business days therefrom:

b. Periodic report. Notarized certification that an annual evaluation/performance review was conducted by the NSSLA on its engaged individual agents or sales representatives which shall cover the following areas, within ninety (90) calendar days from the end of the calendar year:

(1) Compliance with NSSLA's policies and procedures as well as applicable Bangko Sentral rules and regulations;
(2) Contribution to the attainment of NSSLA's business plans/strategies:
(3) Compliance with standard of operations and contract of agency or sales representative agreement; and
(4) Complaints handling and resolution.

Enforcement Actions. Consistent with the Bangko Sentral Supervisory Enforcement Policy under Sec. 002-S, the Bangko Sentral may deploy its range of supervisory actions to promote adherence to standards and principles set forth in this Section, to bring about timely corrective actions and compliance with Bangko Sentral directives and ensure that NSSLAs operate in sound, lawful and orderly manner. Non-observance of the provisions of this Section, including engagement of an agent or sales representative not submitted/reported to the Bangko Sentral as provided under this Section, may subject the NSSLA. its trustees, officers and employees to appropriate administrative sanctions pursuant to Section 37 of R.A. No. 7653, as amended, including cancellation of the authority granted to the NSSLA to engage agents or sales representatives. Any administrative sanctions imposed by the Bangko Sentral shall be without prejudice to the imposition of penalties under Section 23 of RA. No. 8367 against the NSSLA, its trustees, officers and/or employees and agents or sales representatives, and criminal charges against such persons under applicable laws.

(Circular No. 1118 dated 02 June 2021)

113-S GUIDELINES ON OUTSOURCING

The rules on outsourcing of banking functions as shown in Sec. 112 (*Statement of principle on outsourcing*) of the MORB and Appendix Q-36 shall be adopted insofar as they are applicable to NSSLAs.

(Circular No. 1031 dated 07 February 2019)

114-S CREDIT RISK MANAGEMENT; POLICY STATEMENT

(Transferred to Sec. 150-S)

C. CAPITALIZATION

121-S CAPITAL OF NSSLAs

Policy Statement. It is the policy of the Bangko Sentral to ensure that NSSLAs operate in a safe and sound manner. Towards this end, the Bangko Sentral shall set prudent and appropriate minimum capital adequacy requirements for NSSLAs that is capable to support the NSSLA as a going concern, commensurate to the risk exposures of the NSSLA and provides loss absorption mechanism, for both expected and unexpected losses.

Minimum capitalization of NSSLAs. The capital of an NSSLA shall comprise of: (1) capital contributions, both fixed capital and capital contribution buffer, (2) retained earnings free, (3) retained earnings reserve, (4) undivided profits, (5) other comprehensive income, and (6) revaluation increment reserves. An NSSLA shall have a minimum capital of ₱1.0 million. Thereafter, an NSSLA shall maintain a minimum capital that would allow it to comply with the capital adequacy ratio requirement as provided under Sec. 122-S.

Capital contributions of members.

Capital contributions represent ownership interest by the members in an NSSLA, including the rights provided in the By-Laws (e.g., voting rights, right to take part in the distribution of the income of the Association, etc.) arising therefrom. As such, it may absorb losses incurred by an NSSLA.

Each capital contribution of a member shall consist of fixed and buffer components, as defined hereunder:

a. *Fixed-capital contributions* shall refer to the portion of member's capital contributions that must be maintained and once increased and recorded, cannot be reduced for the duration of membership except upon termination of membership.

b. *Capital contribution buffer* shall refer to the capital contributions in excess of the fixed capital contribution which shall not exceed ten times (10X) thereof.

The capital contribution buffer may be reduced pursuant to the policies set by the Board of Trustees and duly confirmed by majority of the NSSLA's General Assembly.

Each member must own a capital contribution of an NSSLA which shall be under his name in the books of the NSSLA. The capital contributions of members shall be subject to the following requirements:

a. *Minimum amount of fixed capital contributions.* Every member of an NSSLA shall be required to contribute a fixed capital of at least P1,000.00, which shall be considered as the minimum capital contribution, unless a higher minimum is prescribed under the NSSLA's by-laws.

The payment of minimum capital contribution, including entrance or membership fee, as may be determined by the NSSLA concerned, shall be one of the requisites for membership. All payments which fail to meet the minimum amount of capital contribution shall be treated as payables and presented under "other liabilities" account in the financial reporting package.

b. *Ceiling in fixed capital contributions.* The total amount that a member may contribute as fixed capital contributions shall be subject to a ceiling which shall be determined by the board of trustees and duly confirmed by the majority of the NSSLA's general assembly. The prescribed ceiling shall be applied uniformly to all members and without prejudice to Bangko Sentral setting lower or higher ceiling.

c. *Reduction and ceiling of capital contribution buffer*. The NSSLA shall establish and prescribe the conditions and/or circumstances when members' capital contribution buffer may at least be maintained, such as, when the NSSLA is under liquidity stress or is unable to meet the capital-to-risk assets ratio requirement under Sec. 122-S.: *Provided*, That such conditions and/or circumstances shall be disclosed to the members upon their placement of capital contribution buffer and in a manner as may be determined by the Board of Trustees.

The amounts held in excess of the prescribed ceiling on capital contributions buffer (formerly referred as withdrawable capital contributions), i.e., ten times (10X) of fixed capital contributions, as of 22 March 2013 shall be allowed to continue as such but once reduced shall not thereafter be increased beyond the prescribed ceiling.

NSSLA shall encourage their respective members to increase their capital contributions. For this purpose, each NSSLA shall adopt policies and mechanisms towards the attainment thereof. The policies shall include but not limited to the following:

a. capital contribution build up program or schedule of capital contribution;
b. restriction on reduction of capital contribution;
c. ceilings on additional capital contribution; and/or
d. mode and terms of payment.

Administration of capital contributions of members

a. An NSSLA shall ensure that each member has a capital contribution account representing the member's capital contribution.

b. An NSSLA shall issue to its member a member's ownership document evidencing the member's capital contribution (e.g., certificate of capital contribution, passbook, etc.). Such document/s shall contain the capital contribution balance of the member with a breakdown showing separately the fixed and capital contribution buffer balances.

c. For purposes of identifying and monitoring the fixed capital and capital contribution buffer of a member's capital contribution, NSSLAs shall maintain records/capital contribution account ledger, either in manual or automated form, showing separately the fixed and capital contribution buffer of each member.

d. The member's ownership documents and the capital contribution account ledger shall be timely updated whenever transaction affecting the fixed and capital contribution buffer balances occurs.

e. Receipt of funds from persons not belonging to the well-defined group of an NSSLA is strictly prohibited. In cases of violations pertaining to receipts of funds intended as capital contribution and/or deposits from persons not belonging to the well-defined group of an NSSLA, such funds shall not be considered as capital contributions, as herein defined, and/or deposits, as the case may be, and shall be treated as payables and presented under other liabilities in the financial reporting package.

(*Circular No. 1045 dated 29 August 2019*)

122-S CAPITAL-TO-RISK ASSETS RATIO

Capital-to-risk assets ratio (CAR) is an important tool to measure solvency and effectively manage the risk-taking activities of an NSSLA, determine its capacity to absorb unexpected losses, and adequately provide protection to members and creditors.

The CAR, expressed as a percentage of total capital accounts to total risk assets shall not be less than ten percent (10%).

For purposes of computing CAR, the aggregate amount of capital contribution buffer that shall be allowed to form part of an NSSLA's total capital accounts shall be capped at ten times (10X) the aggregate amount of fixed capital contributions.

The total risk asset is defined as total assets minus the following assets:

a. Cash on hand;
b. Evidences of indebtedness of the Republic of the Philippines and any other evidences of indebtedness/obligations, the servicing and repayment of which are fully guaranteed by the Republic of the Philippines;
c. Loans to the extent covered by hold- out on, or assignment of, deposits maintained in the lending NSSLA;
d. Office premises, depreciated;
e. Furniture, fixtures and equipment, depreciated;
f. Real estate mortgage loans guaranteed by the Home Guarantee Corporation to the extent covered by the guarantee; and
g. Other non-risk items as the Monetary Board may, from time to time, authorize to be deducted from total assets.

The Monetary Board shall prescribe the manner of determining the total assets of such NSSLA for the purpose of this Section, but contingent accounts shall not be included among total assets.

Whenever the capital accounts of an NSSLA are deficient with respect to the preceding paragraph, the Monetary Board, after considering the report of the appropriate supervising department of the Bangko Sentral on the state of solvency of the NSSLA concerned, shall limit or prohibit the distribution of net income and shall require that part or all of net income be used to increase the capital accounts of the NSSLA until the minimum requirement has been met. The Monetary Board may, after considering the aforesaid report of the appropriate supervising department of the Bangko Sentral, and if the amount of the deficiency justifies it, restrict or prohibit the making of new investments of any sort by the NSSLA with the exception of the purchases of evidence of indebtedness included under Item *"b"* of this Section until the minimum required capital ratio has been restored.

(*Circular No. 1045 dated 29 August 2019*)

123-S WITHDRAWABLE SHARE RESERVE

NSSLAs shall create a withdrawable share reserve which shall consist of two percent (2%) of the total capital contributions of the members.

An amount corresponding to the withdrawable share reserve shall be set up by the NSSLA, such amount invested in bonds or evidences of indebtedness of the Republic of the Philippines or of its subdivisions, agencies or instrumentalities, the servicing and repayment of which are fully guaranteed by the Republic of the Philippines, and evidences of indebtedness of the Bangko Sentral.

For a uniform interpretation of the provisions of this Section, the following shall serve as guidelines:

a. The withdrawable share reserve shall be set up from the undivided profits of the NSSLA and shall be funded in the form of cash deposited as a separate account and/or an investment allowed under this Section;
b. Should there be an increase in the capital contribution, the reserve shall be correspondingly adjusted at the end of each month from undivided profits, if any; and
c. The reserve shall be adjusted first before the NSSLA shall declare and distribute to its members any portion of its net income at any time of the year.

124-S SURPLUS RESERVE FOR LEDGER DISCREPANCIES

Whenever an NSSLA has a discrepancy between its general ledger accounts and their respective subsidiary ledgers, the board of trustees of the NSSLA shall set up from the undivided profits of the NSSLA, if any, a surplus reserve, in an amount equivalent to the amount of the discrepancy, and this reserve shall not be available for distribution to members or for any other purpose unless and until the discrepancy is accounted for. The board of trustees shall also direct the employee responsible for the discrepancy to account for said discrepancy: *Provided*, That the failure of the employee to do so shall constitute as ground for his dismissal if the discrepancy is of serious or recurring nature.

125-S RESERVE FOR OFFICE PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

NSSLAs shall set aside five percent (5%) of their yearly net income until it amount to at least five percent (5%) of the total assets as a reserve for a building fund to cover the cost of construction or acquisition of office premises, and of the purchase of office furniture, fixtures and equipment.

An NSSLA which, as determined by its board of trustees, has adequate office premises, furniture, fixtures and equipment necessary for the conduct of its business need not set up the reserve: *Provided*, That this fact should be certified by its board of trustees in a resolution to be submitted to the appropriate supervising department of the Bangko Sentral for verification and approval: *Provided*, *however*, That in case reserves had been set up, the NSSLA so exempted may revert the reserves to free surplus.

126-S NET INCOME DISTRIBUTION

a. *Amount available for income distribution*. An NSSLA may distribute net income to members out of its adjusted Undivided Profits and the balance of its Surplus Free account as of the calendar year-end or fiscal year-end immediately preceding the date of net income distribution: *Provided*, That in addition to the requirements as provided in this Section, in no case shall the NSSLA distribute any of its net income and/or surplus to its members if its CAR and capital contributions are below the level required under Secs. 121-S and 122-S, respectively.

b. *Basis for participation in profits.* Member-contributors of an NSSLA may participate in the profits of the NSSLA on the basis of the balances of their capital contributions as determined by the board of trustees: *Provided*, That an NSSLA shall distribute net income to members only once in a calendar or fiscal year adopted by such NSSLA.

c. *Level of withdrawable share reserve.* No NSSLA shall distribute any of its net income to its members if the withdrawable share reserve required under Sec. 123-S is less than, or by such distribution would be reduced below, the amount specified in said Section. The reserve shall be adjusted first before the NSSLA shall distribute its net income for the year.

d. *Discrepancies between the general ledger and subsidiary ledger accounts.* The surplus reserves set up as required under Sec. 124-S shall not be reverted to Surplus Free available for distribution to members unless and until the discrepancy between the general ledger accounts and their respective subsidiary ledgers for which the surplus reserve has been set up ceases to exist.

e. *Other unbooked capital adjustments required by Bangko Sentral, whether or not allowed to be set up on a staggered basis.* The unbooked allowance for credit losses and other unbooked capital adjustments required by the Bangko Sentral based on the latest approved Report of Examination of the NSSLA, whether or not allowed to be set up on a staggered basis, shall be deducted from the amount of net income available for distribution to members.

f. *Interest and other income earned but not yet collected/received, net of allowance for credit losses.* Accrued interest and other income not yet received but already recorded by an NSSLA from financial assets, net of allowance for credit losses, shall be deducted from the amount of net income available for distribution to members.

Reporting and verification. Declaration of income for distribution to members shall be reported by an NSSLA concerned to the appropriate supervising department of the Bangko Sentral in the prescribed form (Revised BSP Form No. 7-26-25H) within ten (10) business days after date of declaration.

Pending verification of abovementioned report by the appropriate supervising department of the Bangko Sentral, the NSSLA concerned shall not make any announcement or communication on the intended distribution of net income or shall any actual distribution be made thereon.

In any case, the declaration may be announced and the income distributed, if after twenty (20) business days from the date of the report required herein shall have been received by the Bangko Sentral, no advice against such distribution has been received by the NSSLA concerned.

Recording of net income for distribution. The liability for members' share in the net income distribution shall be taken up in the books upon receipt of Bangko Sentral approval thereof, or if no such approval is received, after twenty (20) business days from the date the required Report on Distributable Net Income was received by the appropriate supervising department of the Bangko Sentral whichever comes earlier. A memorandum entry may be made to trustees and for full disclosure purposes, the amount of income for distribution may be disclosed in the financial statements by means of a footnote which should include a statement to the effect that the distribution is subject to review by the Bangko Sentral.

D. CORPORATE GOVERNANCE[1]

131-S POLICY STATEMENT AND DEFINITION OF TERMS

Policy Statement. Pursuant to Sections 2 (b) and (c) of the R.A. No. 8367, otherwise known as the "Revised Non-Stock Savings and Loan Association Act of 1997", it is the policy of the State to regulate and supervise the activities of NSSLAs in order to place their operations on a sound, stable and efficient basis, and lay down the minimum requirements and the standards under which NSSLAs may organize and operate. Following said policy, the Bangko Sentral strives to continuously strengthens corporate governance in its supervised financial institutions cognizant that this is central in sustaining the resiliency and stability of the financial system. In furtherance thereof, and to ensure effective administration of the Associations pursuant to the Monetary Board's regulatory power over NSSLAs under Section 22 of the same Act, these guidelines take into account the unique challenges of governance related to the member-driven nature of NSSLAs, as well as the existing applicable governance standards.

Definition of Terms. For purposes of these regulations, the following definitions shall apply:

a. *Complex NSSLAs* shall refer to institutions declared by the Bangko Sentral as such with total assets of at least ₱6 billion and having at least any one (1) of the following characteristics:

   (1) Board membership base which means that the number of members exceeded two (2) thousand;
   (2) Use of non-conventional business model, such as those using non-traditional delivery platform such as electronic platforms and agents; or
   (3) Extensive network of service units wherein there are five (5) or more service units, whether branches or satellite offices, and regardless of geographical location.

b. *Member* shall refer to any member of record in the books of the NSSLA who belongs to a well-defined group of persons as defined in the NSSLA's by-laws.

c. *Independent trustee* shall refer to a person who is independent of management and free from any business or other relationship which could or could reasonably perceived to materially interfere with the exercise of independent judgement in carrying out the responsibilities as a trustee. An independent trustee must be elected by members present or entitled to vote in absentia during the election of trustees.

d. *Officers* shall include the president/Chief Executive Officer (CEO), executive vice president, senior vice president, vice president, general manager, treasurer, corporate secretary, and other (i) mentioned as officers of the NSSLA, or whose duties as such are defined, in the by-laws, or (ii) generally known to be officers of the NSSLA (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 NSSLA: *Provided,* That members of a group or committee, including sub-groups or sub-committees, whose duties include functions of management such as those ordinarily performed by regulars officers, and are not purely recommendatory or advisory, shall likewise be considered as officers.

[1] An NSSLA shall be given a transition period of one (1) year from 8 May 2021 within which the herein requirements and to amend the pertinent provisions of its articles of incorporation and/or by-laws to effect corresponding changes.

e. *Risk appetite statement* shall refer to the articulation in written form of the aggregate level and types of risk that a financial institution 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.

f. *Risk governance framework* shall refer to the framework through which the board and management establish the firm's strategy; articulate and monitory adherence to risk appetite and risk limits; and identify, measure, and manage risk.

g. *Risk limits* shall refer to the allocation of the financial institution's risk appetite statement to: specific risk categories (e.g., credit, market, liquidity, operational); the business unit or platform level; lines of business or product level; and other levels, as appropriate.

h. *Simple NSSLAs* shall refer to Associations which, due to operational limitations, are not classified as Complex NSSLAs.

i. *Trustees* shall include:

(1) those who are named as such in the articles of incorporation;
(2) those duly elected in subsequent meetings of the NSSLA's members; and
(3) those elected to fill vacancies in the board of trustees.

(Circular No. 1115 dated 23 April 2021)

132-S BOARD OF TRUSTEES

Powers/Corporate powers of the board of trustees (board). The corporate powers of an NSSLA shall be exercised, its business conducted, and all its resources controlled through its board. The powers of the board as conferred by law are original and cannot be revoked by the members. The trustees shall should their office charges with the duty to exercise sound and objective judgment for the best interest of the NSSLA.

Composition of the board. Pursuant to Section 13 and 91 of R.A. No. 11232, the number of trustees shall be fixed in the articles of incorporation or by-laws which may or may not be more than fifteen (15).

To the extent practicable, the members of the board of trustees shall be selected from a broad pool of qualified candidates. The selection process for the members of the board of trustees shall include reviewing whether candidates are qualified for their positions, have sufficient time to fully carry out their responsibilities, and have the attitude to facilitate communication, collaboration and critical debate in the decision-making process.

To promote the independence of the board from the views of senior management, twenty percent (20%) of the board of trustees shall be independent trustees. For complex NSSLAs, there should be no less than two (2) independent trustees. Any decimal/fractional resulting from applying the required minimum proportion, i.e., twenty percent (20%), shall be rounded up to the nearest whole number.

The board of trustees shall define the responsibilities of independent trustees in accordance with the applicable laws, regulations and the NSSLA's by-laws, which shall be documented in the NSSLA's Corporate Governance Manual. The board of trustees shall also ensure that the independent trustees function in an environment that allows them to effectively challenge the President/CRO as circumstances may warrant.

Qualifications of trustees. No person shall be eligible as trustee of an NSSLA unless he/she is a member of such NSSLA.

In addition, a trustee shall have the following minimum qualifications:

a. He/She must be fit and proper for the position of a trustee. In determining whether a person is fit and proper for the position of a trustee, 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 a knowledge and experience, skills, diligence and independence of mind; sufficiency of time to carry out responsibilities; and ability to promote smooth interaction between trustees.

In assessing a trustee's integrity/probity, consideration shall be given to the trustee's reputation, observed conduct and behavior, as well as his ability to continuously comply with internal policies and appliable laws and regulations. Such regulations include industry/mother unit's conduct rules, and the relevant requirements and standards of any regulatory body, professional body, or government and any of its instrumentalities/agencies.

An elected trustees has the burden to prove that he/she possesses all the foregoing minimum qualifications and none of the cases mentioned under Sec 136-S. A trustees shall submit to the Bangko Sentral the required certification and other documentary proof of such qualifications using the *Appendix S-19* as guide, within thirty (30) days from the date of election. The board of trustees shall be responsible to take actions to comply with Bangko Sentral regulations. Inaction of the board of trustees shall be subject to appropriate supervisory enforcement actions.

The Bangko Sentral shall also consider its own records in determining the qualifications of a trustee. The members of the board of trustees shall possess the foregoing qualifications in addition to those required or prescribed under R.A. No. 8367, R.A. No. 11232 and other existing applicable laws and regulations.

b. He/She must have attended a special seminar on corporation governance for board of trustees. A trustee shall submit to the Bangko Sentral a certification of compliance with the Bangko Sentral-prescribed syllabus on corporate governance for first time trustees and documentary proof of such compliance.

Chairperson of the board of trustees

a. *Roles of the Chairperson of the board of trustees.* The Chairperson shall provide leadership in the board of trustees. He shall ensure effective functioning of the board of trustees, including maintaining a relationship of trust with members of the board of trustees. He shall: (1) ensure that the meeting agenda focuses on strategic matters including discussion on risk 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 trustees receives accurate, timely, and relevant information; (6) ensure the conduct of proper orientation of first time trustees and provide training opportunities for all trustees; and (7) ensure conduct of performance evaluation of the board of trustees at least once a year.

b. *Qualifications of the Chairperson of the board of trustees for complex NSSLAs.* The Chairperson of the board of trustees must be independent of management and free from any business or other relationship which could or could reasonable perceived to materially interfere with the exercise of independent judgement in carrying out the responsibilities of the said position. The positions of the Chairperson and President/CEO (or its equivalent title) shall not be held by one person. Incumbent Chairperson of the board of trustees concurrently holding the position of President/CEO (or its equivalent title) shall be given a grace period of one (1) year from 8 May 2021 within which to relinquish either of the aforementioned positions.

Board of trustees meetings. Meetings of the board of trustees may be held anywhere in or outside of the Philippines, unless the by-laws provide otherwise.

a. *Full board of trustee meetings.* The meeting of the board of trustees may be conducted through modern technologies or alternative modes of communication such as, but not limited to, teleconferencing and video conferencing, that allow them reasonable opportunity to actively participate in the deliberations on matters taken up therein: *Provided,* That every member of the board shall participate in at least fifty percent (50%) of all board meetings every year.

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. The attendance and participation of members in committee meetings shall be considered in the assessment of continuing fitness and propriety of each trustee as member of board-level committees and the board of trustees.

The corporate secretary shall maintain and retain records of the meetings for at least five (5) years, which records include but not limited to, minutes of the meetings electronic recording of teleconference or videoconference which shall be made available to the Bangko Sentral upon its request.

Duties and responsibilities of the board of trustees/trustees

Specific duties and responsibilities of the board of trustees. The board of trustees is primarily responsible for defining the NSSLA's vision and mission. 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 governance framework. The board of trustees shall approve the selection of the President/CEO (or its equivalent title) and key member of senior management and control functions and oversee their performance. Unless otherwise provided in the Revised Corporate Code, the board of trustees shall exercise the corporate power, conduct all business and control all properties of the corporation.

a. *The board of trustees shall define the NSSLA's corporate culture and values.* It shall establish a code of conduct and ethical standards in the NSSLA and shall institutionalize a system that will allow reporting of concerns or violations to an appropriate body. In this regard, the board of trustees shall:

(1) Approve a code of conduct or code of ethics, or comparable policy, 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 NSSLA as well as the corresponding disciplinary actions and sanctions. The code of conduct or ethics, or comparable policy, shall make clear that trustees, officers and all personnel are expected to conduct themselves ethically and perform their job with skill and due care and diligence in addition to complying with laws, regulations and internal policies.

(2) Consistently conduct the affairs of the NSSLA with a high degree of integrity and play a lead role in establishing the NSSLA's corporate culture and values. The board of trustees shall establish, actively promote, and communicate a culture of strong governance in the NSSLA, through adopted policies and displayed practices. The board of trustees shall ensure that the President/CEO (or the equivalent title) 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 NSSLA'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 trustees 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 trustees itself. It shall prevent the use of the facilities of the NSSLA 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 trustees shall be responsible for approving NSSLA's objectives and strategies and in overseeing Management's implementation thereof.* In this regard, the board of trustees shall:

(1) Ensure that the NSSLA has beneficial influence on the economy by continuously providing services and facilities which will be supportive of the national economy;

(2) Approve the NSSLA's strategic objectives and business plans. These shall take into account the NSSLA's long-term financial interests, its level of risk tolerance, and ability to manage risks effectively. In this respect, the board of trustees shall establish a system for measuring performance against plans;

(3) Actively engage in the affairs of the NSSLA and keep up with material changes in the NSSLA's business and regulatory environment as well as act in a timely manner to protect the long term interests of the NSSLA;

(4) Approve and oversee the implementation of policies and governing areas of the NSSLA's operations. The board of trustees 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 trustee 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 incentives policy for personnel.* In this regard, the board of trustees shall:

(1) Oversee selection of the President/CEO (or its equivalent title) 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 NSSLA's business, either current of planned, shall be the key considerations in the selection proves. 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 NSSLA.

(2) Approve and oversee the implementation of performance standards as well as remuneration and incentives policy. The policy should be consistent with the long-term strategic objectives and financial soundness of the NSSLA and should promote good performance, convey acceptable risk-taking behavior, and reinforce the NSSLA's operating and risk culture.

(3) Oversee the performance of senior management and heads of control functions:

(a) The board of trustees shall regularly monitor and sees the performance of the management team and heads of control functions based on approved performance standards.

(b) The board of trustees 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 trustees' performance expectations. These expectations shall include adherence to the NSSLA's values, risk appetite and risk culture, under all circumstances.

(c) The board of trustees shall regularly meet with senior management to engage in discussions, questions, and critically review the reports and information provided by the latter.

(4) Engage in succession planning for the President/CEO (or its equivalent title) and other critical positions, as appropriate. In this respect, the board of trustees shall establish an effective succession planning program. The program should include a system for identifying and developing potential successor for the President/CEO and other critical positions.

(5) Ensure that personnel's expertise and knowledge remain relevant given the NSSLA's strategic objectives, complexity of operations and risk profile. The board of trustees 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 area of responsibility.

(6) Ensure that employee pension funds are fully funded or the corresponding liability appropriately recognized in the books of the NSSLA at all times, and that all transactions involving the pension fund are conducted at arm's length terms.

d. *The board of trustees shall be responsible for approving and overseeing implementation of the NSSLA's corporate governance framework.* In this regard, the board of trustees 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 trustees 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 trustees shall meet regularly to properly discharge its functions, and likewise have discussions on values, conduct, and behaviors.

(b) The board of trustees 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 NSSLA and the board of trustees, the NSSLA's complexity of operations, as well as the board of trustees' long-term strategies and risk tolerance.

(c) The board of trustees shall regularly review the structure, size and composition of the board of trustees and board-level committees with the end in view of having balanced membership. Towards this end, a system and procedure for evaluation of the structure, size and composition of the board of trustees and board-level committees shall be adopted which shall include, but not limited to, benchmark and peer group analysis. The result of assessment shall form part of the ongoing improvement efforts of the board of trustees.

(d) The board of trustees shall adopt policies aimed at ensuring that board of trustees members are able to commit to effectively discharge their responsibilities which shall include policy on the number of trusteeship/directorship positions and/or other internal/external professional commitments that a trustees may have, commensurate with the responsibilities placed on the trustees, as well as the nature, scale and complexity of the NSSLA's operations.

(e) The board of trustees shall ensure that individual trustees and the members are accurately and timely informed of a comprehensive and understandable assessment of the NSSLA's performance, financial condition and risk exposures. All trustees shall have reasonable access to an information about the NSSLA at all times. It shall also ensure that adequate and appropriate information are disseminated to the concerned parties.

(f) The board of trustees shall assess at least annually its performance and effectiveness as a body, as well as its various committees, the President/CEO, the individual trustees, and the NSSLA itself, which may be facilitate by the corporate governance committee or external facilitators. The exercise shall cover the assessment of the ongoing suitability of each trustee taking into account his or her performance in the board of trustees and board-level committees.

(g) The board of trustees 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 trustees shall also ensure that independent views in meetings of the board of trustees shall be given full consideration and all such meetings shall be duly minuted.

(2) Develop a remuneration and incentives policy for trustees that shall be submitted for approval of the general assembly. The board of trustees shall ensure that the policy is consistent with the long-term interest of the NSSLA, does not encourage excessive risk-taking, and is not in conflict with the trustee's fiduciary responsibilities.

(3) Adopt a policy on retirement of officers (e.g., setting the maximum retirement age), as part of the succession plan, to promote dynamism and avoid perpetuation power.

(4) Conduct and maintain the affairs of the NSSLA within the scope of its authority as prescribed in its charter and in existing laws, rules and regulations. It shall ensure compliance with the latter, which include prudential reporting obligations. Serious weaknesses in adhering to these duties and responsibilities may be considered as practices prejudicial to the members.

(5) Maintain, and periodically update, organizations rules, by-laws, or other similar documents setting out its organization, rights, responsibilities and key activities. The board of trustees shall ensure that the NSSLA'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 of, approve, and monitor implementation of, corporate governance policies to ensure that these are followed and periodically reviewed for ongoing improvement.

e. *The board of trustees shall be responsible for approving NSSLA's risk governance framework and overseeing Management's implementation thereof.* In this regard, the board of trustees shall:

(1) Define the NSSLA's risk appetite. In setting the risk appetite, the board of trustees shall take into account the business environment, regulatory landscape, and the NSSLA'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 NSSLA.

(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 trustees shall ensure that the risk management, compliance, and internal audit functions have adequate staff and resources, and carry out their responsibilities independently, objectively and effectively.

(b) The board of trustees shall ensure that independent trustees 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.

Specific duties and responsibilities of a trustee. The position of an NSSLA trustees is a position of trust. A trustee assumes certain responsibilities to different constituencies or stakeholders, i.e., the NSSLA itself, member-depositors, its clients and other creditors, its management and employees, the regulators, 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 trustees 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.* A trustee is expected to remain fit and proper for the position for the duration of his term. He should possess unquestionable credibility to make decisions objectively and resist undue influence. He shall treat board trusteeship as a profession and shall have a clear understanding of his duties and responsibilities as well as his role in promoting good governance. Hence, he shall maintain his professional integrity and continuously seek to enhance his skills, knowledge and understanding of the activities that the trustee is engages in or intends to pursue as well as the developments in the NSSLA industry including regulatory changes through continuing education of training.

b. *To conduct fair business transactions with the NSSLA and to ensure that personal interest does not bias board decisions.* Trustees should, whenever possible, avoid situations that would give rise to a conflict of interest. If transactions with the institution cannot be avoided, it should be done in the regular course of business and upon terms not less favorable to the institution that those offered to others. The basic principle to be observed is this a trustee should not use his positions to make profit or to acquire benefit or advantage for himself and/or his related interests. He should avoid situations that would compromise his impartiality.

c. *To act honestly and in good faith, with loyalty and in the best interest of the NSSLA, its members, regardless of the amount of their capital contributions, and other stakeholders such as its investors, creditors, other clients and the general public.* A trustee must always act in good faith, with the care which an ordinarily prudent man would exercise under similar circumstances. While a trustee should always strive to promote the interest of all members, he should also give due regards to the rights and interests of other stakeholders.

d. *To devote time and attention necessary to properly discharge their duties and responsibilities.* Trustees should devote sufficient time to familiarize themselves with the institution's business. They must be constantly aware of the institution's condition and be knowledgeable enough to contribute meaningfully to the board's work. They much attend and actively participate in board and committee meetings, request and review meeting materials, ask questions, and request and review meeting materials, ask questions, and request explanations. If a person cannot give sufficient time and attention to the affairs of the institution, he should neither accept his nomination nor run for election as member of the board.

e. *To act judiciously.* Before deciding on any matter brought before the board of trustees, every trustee should thoroughly evaluate the issues, ask questions and seek clarifications when necessary.

f. *To contribute significantly to the decision-making process of the board.* Trustees should actively participate and exercise objective independent judgment on corporate affairs requiring the decision or approval of such board.

g. *To exercise independent judgment.* A trustee should view each problem/situation objectively. When a disagreement with other occurs, he should carefully evaluate the situation and state his position. He should not be afraid to take a position even though it might be unpopular. Corollary, he should support plans and ideas that he thinks will be beneficial to the institution.

h. *To have a working knowledge of the statutory and regulatory requirements affective the NSSLA institution, including the content of its articles of incorporation and by-laws, the requirements of the Bangko Sentral and where appliable, the requirements of other regulatory agencies.* A trustee should also keep himself informed of the industry developments and business trends in order to safeguard the institution's competitiveness.

i. *To observe confidentiality.* Trustees much observe the confidentiality of non-public information acquired by reason of their position as trustees. They may not disclose said information to any other person without the authority of the board.

NSSLAs shall furnish all of their newly-elected trustees with a copy of the specific duties and as an individual trustees prescribed under theses regulations, upon election. The NSSLA must keep on file the certification under oath of the trustees concerned that they have received copies of such general responsibility and specific duties and responsibilities and that they fully understand and accept the same.

(Circular No. 1115 dated 23 April 2021)

133-S BOARD-LEVEL COMMITTEES

The board of trustees may delegate some of its functions, but not its responsibilities, to board-level committees. In this regard, the board of trustees 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 trustees, what is expected of committee members, and tenure limits for serving on the committee. The board of trustees shall also consider occasional rotation of committee members and chairs to avoid undue concentration of power and promote fresh perspective.

b. Appoint member of the committees taking into account the optimal mix of skills and experience to allow the board of trustees, through the committees, to fully understand and objectively evaluate the relevant issues. In order to promote objectivity, the board of trustees shall appoint independent trustees to the greatest extent possible.

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; (3) Corporate Governance Committee; and (4) Membership Committee; *Provided,* That the board of trustees of simple NSSLAs may, at a minimum, constitutes only the Audit Committee and Membership Committee unless directly by the Bangko Sentral to create other board-level committees; *Provided, further,* That the board shall discuss risk management and corporate governance matters in their board of trustees meetings, with the view each of the trustees duly considered and minuted.

Both complex and simple NSSLAs may constitute as Executive Committee, as provided under the Revised Corporation Code.

Audit Committee

a. *Composition and Chairperson.* The audit committee shall be composed of at least three (3) members of the board of trustees. Majority of the members, including the chairperson shall be independent trustees. For a simple NSSLA, at least the chairperson shall be an independent trustee. The chairperson of the audit committee in a complex NSSLA shall not be the chair of the board of any other board-level committee.

   The audit committee shall have accounting, auditing, or other related financial management expertise or experience commensurate with the size, complexity of operations and risk profile of the NSSLA. 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 evaluation the adequate 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 evaluation its robustness considering the NSSLA's risk profile and strategic direction.

   (3) *Oversee the internal audit function.* the committee shall be responsible for the appointment/selection and dismissal of internal auditor, subject to board of trustees' confirmation. 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 NSSLA's internal controls, including financial, operational and compliance controls, and risk management system. The committee shall functionally meet with the head of the internal audit and such meetings shall be duly minuted and adequately documented. In this regard, the audit committee shall review and approve the performance of the head of internal audit, and budget of the internal audit function, subject to board of trustees' confirmation.

   (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, subject to board of trustees' confirmation, 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 trustee or executive officer to attend its meetings.

Risk Oversight Committee (ROC)

a. *Composition.* The committee shall be composed of at least three (3) members of the board of trustees, majority of whom shall be independent trustees, including the chairperson. For a simple NSSLA, at least one shall be an independent trustee. The ROC's chairperson shall not be the chair of the board 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 trustees on the NSSLA'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 NSSLA. 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 NSSLA'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 and dismissal of the Chief Risk Officers (CRO), subject to board of trustees' confirmation. It shall also ensure that the risk management function has adequate resources and effectively oversees the risk taking activities of the NSSLA.

Corporate Governance Committee (CGC)

a. *Composition and Chairperson.* The committee shall be composed of at least three (3) members of the board of trustees, majority of who shall be independent trustees, including the chairperson. For a simple NSSLA, at least one shall be an independent trustee.

b. *Duties and responsibilities of the CGC.* The CGC shall assist the board of trustees in fulfilling its corporate governance responsibilities. In this regard, the CGC shall:

(1) *Oversee the nomination process for members of the board of trustees and for positions appointed by the board of trustees.* The committee shall review and evaluate the qualifications of all persons nominated to the board of trustees as well as those nominated to other positions requiring appointment by the board of trustees matters pertaining to the assignment to board committees, as well as succession plan for the board members and senior management.

(2) *Oversee the continuing education program for the board of trustees.* The committee shall ensure allocation of sufficient time, budget and other resources for the continuing education of trustees, and draw on external expertise as needed. The committee shall establish and ensure effective implementation of policy for on-boarding/orientation program for newly-elected trustees and annual continuing education for all trustees.

For this purpose, the orientation program for newly-elected trustees and the annual continuing training on relevant topics shall be for at least eight hours. The training program should cover topics relevant in carrying out their duties and responsibilities as trustees.

(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 trustees, board-level committees, and senior management.

(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 NSSLA, 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 NSSLA'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, process and outcomes to ensure that it operates and achieves the objectives as intended.

Membership Committee

a. *Composition and Chairperson.* The committee shall be composed of at least three (3) members of the board of trustees whose chairperson shall be an independent trustee.

For a simple NSSLA, at least one shall be an independent trustee.

b. *Duties and responsibilities of the Membership Committee.* The committee shall be responsible for activities that promote membership growth, address members' welfare, and encourage the retention of existing members. In this regard, the committee shall:

(1) Ensure that members accepted are within the Association's "well-defined" group in accordance with the law and the Association's by-laws.
(2) Recommend to the board of trustees membership marketing, recruitment and retention plans.
(3) Provide training and orientation to members.
(4) Ensure that members are given the opportunity to participate effectively and vote in general membership meetings are informed of the rules, including voting procedures that govern the election of trustees.
(5) Promote the rights of the members, remove impediments to the exercise of those rights, and provide an adequate avenue for them to seek timely redress for breach of their rights.
(6) Make available to members accurate and timely information to enable them to make sound judgment on all matters brought to their attention for consideration or approval.
(7) Ensure that all members are treated fairly, equitably and without discrimination.
(8) Recommend the adoption of a consumer protection program and oversee its implementation.

(Circular No. 1115 dated 23 April 2021)

134-S OFFICERS

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 the position of an officer, the following matters must be considered: integrity/probity, education/training, and possessing 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 office's reputation, observed conduct and behavior, as well as his ability to continuously comply with internal policies and appliable laws and regulations. Such regulations include 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 appointment officer has the burden to prove that he/she possesses all the foregoing minimum qualifications and none of the cases mentioned under Sec. 136-S. ana officer shall submit to the Bangko Sentral the required certifications and other documentary proof of such qualifications using *Appendix S-19* as guide, within twenty (20) business days from the date of meeting of the board of trustees in which the officers is appointed/promoted. The board of trustees shall be responsible to take actions to comply with Bangko Sentral regulation. Inaction of the board of trustees shall be subject to appropriate supervisory enforcement action. 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. 8367, as amended, and other existing applicable laws and regulations.

Duties and responsibilities of officers:

a. To promote the good governance practices within the NSSLA, officers shall ensure that policies on governance as approved by the board of trustees are consistently adopted across the NSSLA.

b. To oversee the day-to-day management of the NSSLA. Officers shall ensure that NSSLA's activities and operations are consistent with the NSSLA's strategic objectives, risk strategy, corporate values and policies as approved by the board of trustees. They shall establish a NSSLA-wide management system characterized by strategically aligned and mutually reinforcing performance standards across the organization.

c. To ensure that duties are effectively delegated to the staff and to establish a management structure that promotes accountability and transparency. Officers shall establish measurable standards, initiatives and specific responsibilities and accountabilities for each NSSLA personnel. Officers shall oversee the performance of these delegated duties and responsibilities and shall ultimately be responsible to the board of trustees for the performance of the NSSLA.

d. To promote and strengthen checks and balances systems in the NSSLA, officers shall promote sound internal controls and avoid activities that shall compromise the effective dispense of their functions. Further, they shall ensure that they give due recognition to the importance of the internal audit, compliance and external audit functions.

President/CEO. The President of the CEO (or its equivalent title) shall be the overall-in-charge for the management of the business and affairs of the NSSLA governed by strategic direction and risk appetite approved by the board of trustees. He shall be primarily accountable to the board of trustees in championing the desired conduct and behavior, implementing strategies, and in promoting the long-term interest of the NSSLA.

Full-time Manager of NSSLAs. NSSLAs with total assets of at least ₱5.0 million shall maintain a full-time manager to take charge of the operations of the NSSLA. The manager shall possess all the qualifications and shall not have any disqualification under Sec. 134-S (*Qualifications of officers*) and Sec. 136-S (*Persons disqualified to become officers*), respectively.

Bonding of Officers and Employees. All officers and employees of an NSSLA who, in the regular discharge of their duties have access to money or negotiable securities shall, before entering upon such duties, furnish to the employing NSSLA a good and sufficient bond and providing for indemnity to the NSSLA against the loss of money or securities, by reason of their dishonesty. The bond of the cashier, assistant cashier, treasurer, and other employees having money accountability shall not be less than their average daily accountability. The form and amount of bond shall be approved by the Bangko Sentral. The bond must be issued by a reputable bonding company duly licensed by the Insurance Commission. Capital contribution or a cash bond deposited with the NSSLA or with a bank, may also be allowed.

(Circular No. 1115 dated 23 April 2021)

135-S ELECTION/APPOINTMENT OF TRUSTEES AND OFFICERS

Confirmation of election/appointment of trustees/officers

a. *Confirming Authority.* The election/appointment of trustees/officers shall be subject to confirmation by the following:

Confirming Authority	Position Level
1. Monetary Board	Trustees and president/chief executive officer (or equivalent rank) of NSSLAs with total of at least ₱10 billion
2. FSS Committee	• Trustees and President/Chief Executive Officer (or its equivalent position) of NSSLAs with total assets of less than ₱10 billion • Treasurer and heads of internal audit, risk management and compliance functions, and other officers with rank of senior vice president and above (or equivalent ranks) of NSSLAs

Provided, That NSSLAs shall report to appropriate department of the FSS, any succeeding resignation, retirement, or replacement of aforesaid trustees/officers within twenty (20) business days after such resignation/ retirement/replacement.

b. The election/appointment of abovementioned trustees/officers shall be deemed to have been confirmed by the Bangko Sentral, if after sixty (60) business days from receipt of the complete required reports, the appropriate supervising department of the FSS does not advise the NSSLA concerned against said election/appointment.

However the confirmation by the Monetary Board/FSS Committee of the election/appointment to abovementioned position levels shall not be required in the following cases:

(1) Re-election/re-appointment of a trustee/officer concerned in the same NSSLA; and

(2) Promotion of an officer, other than to that which requires a different level of confirming authority as provided in the first paragraph hereof, in the same NSSLA: *Provided,* That the trustee/officer concerned has been previously confirmed as provided in the first paragraph hereof[1]: *Provided, further,* That said trustee/officer has had continuous service within the same NSSLA.

The appointment of officers other than the abovementioned position levels shall not be subject to Monetary Board approval or Bangko Sentral confirmation.

c. The required certifications and other documentary proof of qualification for the confirmation of the election/appointment of trustees/officers of NSSLAs are shown in *Appendix S-19.*

Non-submission of complete documentary requirements within the prescribed period shall be construed as his/her failure to establish his/her qualifications for the position.

The board of trustees shall be responsible to take actions to comply with Bangko Sentral regulations. Inaction of the board of trustees shall be subject to appropriate supervisory enforcement actions.

Bio-data to Trustees and Officers

a. NSSLAs shall submit to the appropriate department of the FSS a biodata with ID picture of their trustees/officers subject of confirmation upon every election/re-election/appointment/promotion in a prescribed form and for newly-elected trustees/officers within a particular NSSLA, the duly notarized authorization form per *Appendix Q-44*, within twenty (20) business days from the date of election/re-election of the trustees/meeting of the board of trustees in which the officers are appointed/promoted in accordance with *Appendix S-2.*

The bio-data shall be updated and submitted in case of change of name due to change in civil status and change of residential address, within twenty (20) business days from the date the change occurred.

For officers other than those mentioned in paragraph "a" above, the NSSLA shall not be required to submit their bio-data to the Bangko Sentral.

b. The NSSLA shall, however keep a complete record of the bio-data of all its trustees and officers and shall maintain a system of updating said records which shall be made available during on-site examination or when required by the Bangko Sentral for submission for offsite verification.

[1] Also includes those previously approved elected undergraduate trustee

c. The NSSLA shall also submit to the appropriate department of the FSS a duly notarized list of the incumbent members of the board of trustees and officers (President or equivalent rank, down the line, format attached as *Appendix Q-59*), within twenty (20) business days from the election of the board of trustees as provided in the NSSLA's by-laws, in accordance to *Appendix S-2.*

d. If after evaluation, the appropriate department of the FSS shall find ground for disqualification, the trustee/officer so elected/re-elected/appointed/promoted may be recommended for removal from the office even if he/she has assumed the position to which he/she was elected/re-elected/appointed/promoted pursuant to Section 22 of R.A. No. 8367.

(Circular No. 1115 dated 23 April 2021)

136-S DISQUALIFICATION AND WATCHLISTING OF TRUSTEES AND OFFICERS

The following regulations shall govern the disqualification of NSSLAs' trustees and officers.

Persons disqualified to become trustees. Without prejudice to specific provisions of law prescribing disqualifications for trustees, the following are disqualified from becoming trustees:

a. *Permanently disqualified.* Trustees/officers/employees permanently disqualified by the Monetary Board from holding a director/trustee position:

(1) Persons who have been convicted by final judgment of a court for offenses involving dishonesty or breach of trust such as but not limited to, estafa, embezzlement, extortion, forgery, malversation, swindling, theft, robbery, falsification, bribery, violation of B.P. Blg. 22, violation of Anti- Graft and Corrupt Practices Act and prohibited acts and transactions under Section 7 of R.A. No. 6713 (Code of Conduct and Ethical Standards for Public Officials and Employees);

(2) Persons who have been convicted by final judgment of a court sentencing them to serve a maximum term of imprisonment of more than six (6) years;

(3) Persons who have been convicted by final judgment of the court for violation of banking/quasi-banking/NSSLA laws, rules and regulations;

(4) Persons who have been judicially declared insolvent, spendthrift or incapacitated to contract;

(5) Trustees, officers or employees of closed banks/QBs/trust entities who were found to be culpable for such institution's closure as determined by the Monetary Board;

(6) Trustees and officers of banks, QBs and trust entities found by the Monetary Board as administratively liable for violation of banking laws, rules and regulations where a penalty of removal from office is imposed, and which finding of the Monetary Board has become final and executory; or

(7) Trustees and officers of banks, QBs and trust entities or any person found by the Monetary Board to be unfit for the position of trustees or officers because they were found administratively liable by another government agency for violation of banking laws, rules and regulations or any offense/violation involving dishonesty or breach of trust, and which finding of said government agency has become final and executory.

b. *Temporarily disqualified.* Trustees/officers/employees disqualified by the Monetary Board from holding a trustee position for a specific/indefinite period of time. Included are:

(1) Persons who refuse to fully disclose the extent of their business interest or any material information to the appropriate supervising department of the Bangko Sentral when required pursuant to a provision of law or of a circular, memorandum, rule or regulation of the Bangko Sentral. This disqualification shall be in effect as long as the refusal persists;

(2) Trustees who have been absent or who have not participated for whatever reasons in more than fifty percent (50%) of all meetings, both regular and special, of the board of trustees during their incumbency, and trustees who failed to physically attend for whatever reasons in at least twenty-five percent (25%) of all board meetings in any year, except that when a notarized certification executed by the corporate secretary has been submitted attesting that said trustees were given the agenda materials prior to the meeting and that their comments/decisions thereon were submitted for deliberation/discussion and were taken up in the actual board meeting, said trustees shall be considered present in the board meeting. This disqualification applies only for purposes of the immediately succeeding election;

(3) Persons who are delinquent in the payment of their obligations as defined hereunder:

(a) *Delinquency* in the payment of obligations means that an obligation of a person with an NSSLA where he/she is a trustee or officer, or at least two (2) obligations with other banks/FIs, under different credit lines or loan contracts, are past due pursuant to existing regulations;

(b) Obligations shall include all borrowings from a bank/QB/trust entity/NSSLA/other Fis obtained by:

(i) A trustee or officer for his own account or as representative or agent of others or where he/she acts as a guarantor, endorser or surety for loans from such Fis;
(ii) The spouse or child under the parental authority of the trustee or officer;
(iii) Any person whose borrowings or loan proceeds were credited to the account of, or used for the benefit of a trustee or officer;
(iv) A partnership of which a trustee or officer, or his/her spouse is the managing partner or a general partner owning a controlling interest in the partnership; and
(v) A corporation, association or firm wholly-owned or majority of the capital of which is owned by any or a group of persons mentioned in the foregoing Items "*(i)*", "*(ii)*" and "*(iv)*";

This disqualification shall be in effect as long as the delinquency persists.

(4) Persons who have been convicted by a court for offenses involving dishonesty or breach of trust such as, but not limited to, estafa, embezzlement, extortion, forgery, malversation, swindling, theft, robbery, falsification, bribery, violation of B.P. Blg. 22, violation of Anti-Graft and Corrupt Practices Act and prohibited acts and transactions under Section 7 of R.A. No. 6713 (Code of Conduct and Ethical Standards for Public Officials and Employees), violation of banking laws, rules and regulations or those sentenced to serve a maximum term of imprisonment of more than six (6) years but whose conviction has not yet become final and executory;

(5) Trustees and officers of closed banks QBs/trust entities/NSSLAs and other Fis under Bangko Sentral supervision/regulation pending their clearance by the Monetary Board;

(6) Trustees disqualified for failure to observe/discharge their duties and responsibilities prescribed under existing regulations. This disqualification applies until the lapse of the specific period of disqualification or upon approval by the Monetary Board on recommendation by the appropriate supervising department of the Bangko Sentral of such trustees' election/re-election;

(7) Trustees who failed to attend the special seminar on corporate governance for board of trustees required by the Bangko Sentral. This disqualification applies until the trustee concerned had attended such seminar;

(8) Persons dismissed/terminated from employment for cause. This disqualification shall be in effect until they have cleared themselves of involvement in the alleged irregularity or upon clearance, on their request, from the Monetary Board after showing good and justifiable reasons, or after the lapse of five (5) years from the time they were officially advised by the appropriate supervising department of the Bangko Sentral of their disqualification;

(9) Those under preventive suspension;

(10) Persons with derogatory records as certified by, or on the official files of, the judiciary, NBI, PNP, quasi-judicial bodies, other government agencies, international police, monetary authorities and similar agencies or authorities of foreign countries for irregularities or violations of any law, rules and regulations that would adversely affect the integrity of the trustee/officer or the ability to effectively discharge his duties. This disqualification applies until they have cleared themselves of the alleged irregularities/violations or after a lapse of five (5) years from the time the complaint, which was the basis of the derogatory record, was initiated;

(11) Trustees and officers of banks, QBs and trust entities found by the Monetary Board as administratively liable for violation of banking laws, rules and regulations where a penalty of removal from office is imposed, and which finding of the Monetary Board is pending appeal before the appellate court, unless execution or enforcement thereof is restrained by the court;

(12) Trustees and officers of banks, QBs and trust entities or any person found by the Monetary Board to be unfit for the position of trustees or officers because they were found administratively liable by another government agency for violation of banking laws, rules and regulations or any offense violation involving dishonesty or breach of trust, and which finding of said government agency is pending appeal before the appellate court, unless execution or enforcement thereof is restrained by the court; and

(13) Trustees and officers of banks, QB and trust entities found by the Monetary Board as administratively liable for violation of banking laws, rules and regulations where a penalty of suspension from office or fine is imposed, regardless whether the finding of the Monetary Board is final and executory or pending appeal before the appellate court, unless execution or enforcement thereof is restrained by the court. The disqualification shall be in effect during the period of suspension or so long as the fine is not fully paid.

Persons disqualified to become officers.

a. The disqualifications for trustees mentioned in this Section (*Persons disqualified to become trustees*) shall likewise apply to officers, except those stated in Items *"b(2)"* and *"b(7)"*.
b. The spouses or relatives within the second degree of consanguinity or affinity are prohibited from holding officership positions across the following functional categories within an NSSLA:

(1) Decision making and senior management function, e.g., chairman, president, chief executive officer (CEO), chief operating officer (COO), general manager, and chief financial officer (CFO) other than the treasurer or controller;
(2) Treasury function, e.g., Treasurer and Vice President – Treasury;
(3) Recordkeeping and financial reporting functions, e.g., controller and chief accountant;
(4) Safekeeping of assets, e.g., chief cashier;
(5) Risk management function, e.g., chief risk officer;
(6) Compliance function, e.g., compliance officer; and
(7) Internal audit function, e.g., internal auditor.

The spouse or relative within the second degree of consanguinity or affinity of any person holding the position of manager, cashier, or accountant of a branch or extension office of an NSSLA or their respective equivalent positions is disqualified from holding or being appointed to any of said positions in the same branch or extension office.

c. Except as may otherwise be allowed under C.A. No. 108, otherwise known as "The Anti-Dummy Law," as amended, foreigners cannot be officers or employees of NSSLAs; and
d. Any appointive or elective public official, whether full time or part time, except in cases where such service is incident to financial assistance provided by the government or GOCCs or in cases allowed under existing law.

Disqualification procedures.

a. The board of trustees and management of every NSSLAs shall be responsible for determining the existence of the ground for disqualification of the NSSLA's trustee/officer or employee and for reporting the same to the Bangko Sentral. While the concerned NSSLA may conduct its own investigation and impose appropriate sanction/s as are allowable, this shall be without prejudice to the authority of the Monetary Board to disqualify a trustee/officer/employee from being elected appointed as trustee/officer in any FI under the supervision of the Bangko Sentral. Grounds for disqualification made known to the NSSLA shall be reported to the appropriate supervising department of the Bangko Sentral within seventy-two (72) hours from knowledge thereof.

b. On the basis of knowledge and evidence on the existence of any of the grounds for disqualification mentioned in this Section (*Persons disqualified to become trustees/officers*), the trustee or officer concerned shall be notified in writing either by personal service or through registered mail with registry return receipt card at his/her last known address by the appropriate supervising department of the Bangko Sentral of the existence of the ground for his/her disqualification and shall be allowed to submit within fifteen (15) calendar days from receipt of such notice an explanation on why he/she should not be disqualified and included in the watchlisted file, together with the evidence in support of his/her position. The head of said department may allow an extension on meritorious ground.

c. Upon receipt of the reply/explanation of the trustee/officer concerned, the appropriate supervising department of the Bangko Sentral shall proceed to evaluate the case. The trustee/officer concerned shall be afforded the opportunity to defend/clear himself/herself.

d. If no reply has been received from the trustee/officer concerned upon the expiration of the period prescribed under Item *"b"* above, said failure to reply shall be deemed a waiver and the appropriate supervising department of the Bangko Sentral shall proceed to evaluate the case based on available records/evidence.

e. If the ground for disqualification is delinquency in the payment of obligation, the concerned trustee or officer shall be given a period of thirty (30) calendar days within which to settle said obligation or, restore it to its current status or, to explain why he/she should not be disqualified and included in the watchlisted file, before the evaluation on his disqualification and watchlisting is elevated to the Monetary Board.

f. For trustees/officers of closed QBs, trust entities, NSSLAs or other FIs under Bangko Sentral supervision, the appropriate supervising department of the Bangko Sentral shall make appropriate recommendation to the Monetary Board clearing said trustees/officers when there is no pending case/complaint or evidence against them. When there is evidence that a trustees/officer has committed irregularity, the appropriate supervising department of the Bangko Sentral shall make recommendation to the Monetary Board that his/her case be referred to the OSI for further investigation and that he/she be included in the masterlist of temporarily disqualified persons until the final resolution of his/her case. Trustees/officers with pending cases/complaints shall also be included in said masterlist of temporarily disqualified persons upon approval by the Monetary Board until the final resolution of their cases. If the trustee/officer is cleared from involvement in any irregularity, the appropriate supervising department of the Bangko Sentral shall recommend to the Monetary Board his/her delisting. On the other hand, if the trustee officer concerned is found to be responsible for the closure of the institution, the appropriate supervising department of the Bangko Sentral shall recommend to the Monetary Board his/her delisting from the masterlist of temporarily disqualified persons and his/her inclusion in the masterlist of permanently disqualified persons.

g. If the disqualification is based on dismissal from employment for cause, the appropriate supervising department of the Bangko Sentral shall, as much as practicable, endeavor to establish the specific acts or omissions constituting the offense or the ultimate facts which resulted in the dismissal to be able to determine if the disqualification of the trustee/officer concerned is warranted or not. The evaluation of the case shall be made for the purpose of determining if disqualification would be appropriate and not for the purpose of passing judgment on the findings and decision of the entity concerned. The appropriate supervising department of the Bangko Sentral may decide to recommend to the Monetary Board a penalty lower than disqualification (e.g., reprimand, suspension, etc.) if, in its judgment the act committed or omitted by the trustee/officer concerned does not warrant disqualification.

h. All other cases of disqualification, whether permanent or temporary shall be elevated to the Monetary Board for approval and shall be subject to the procedures provided in paragraphs *"a", "b", "c"* and *"d"* above.

i. Upon approval by the Monetary Board, the concerned trustee/officer shall be informed by the appropriate supervising department of the Bangko Sentral in writing either by personal service or through registered mail with registry return receipt card, at his/her last known address of his/her disqualification from being elected/appointed as trustee/officer in any FI under the supervision of Bangko Sentral and/or of his/her inclusion in the masterlist of watchlisted persons so disqualified.

j. The board of trustees of the concerned institution shall be immediately informed of cases of disqualification approved by the Monetary Board and shall be directed to act thereon not later than the following board meeting. Within seventy-two (72) hours thereafter, the corporate secretary shall report to the Governor of the Bangko Sentral through the appropriate supervising department of the Bangko Sentral the action taken by the board on the trustee/officer involved.

k. Persons who are elected or appointed as trustee or officer in any of the Bangko Sentral supervised institutions for the first time but are subject to any of the grounds for disqualification provided for under this Section (*Persons disqualified to become trustees/officers*), shall be afforded the procedural due process prescribed above.

l. Whenever a trustee/officer is cleared in the process mentioned under Item *"c"* above or, when the ground for disqualification ceases to exist, he/she would be eligible to become trustee or officer of any bank, QB, trust entity or any institution under the supervision of the Bangko Sentral only upon prior approval by the Monetary Board. It shall be the responsibility of the appropriate supervising department of the Bangko Sentral to elevate to the Monetary Board the lifting of the disqualification of the concerned trustee/officer and his/her delisting from the masterlist of watchlisted persons.

Effect of non-possession of qualifications or possession of disqualifications. Trustees/officers elected or appointed without possessing the qualifications in Sec. 131-S (*Qualifications of trustees*) or Sec. 132-S (*Qualifications of officers*) or possessing any of the disqualifications as enumerated in this Section (*Persons disqualified to become trustees/officers*), shall vacate their respective positions immediately.

Watchlisting. To provide the Bangko Sentral with a central information file to be used as reference in passing upon and reviewing the qualifications of persons elected or appointed as trustee or officer of an NSSLA, the appropriate supervising department of the Bangko Sentral shall maintain a watchlist of disqualified NSSLA trustees/officers under the following procedures:

a. *Watchlist categories.* Watchlisting shall be categorized as follows:

(1) Disqualification File "A" (Permanent) – Trustees/officers/employees permanently disqualified by the Monetary Board from holding a trustee/officer position in any institution under the supervision/regulation of Bangko Sentral.

(2) Disqualification File "B" (Temporary) – Trustees/officers/employees temporarily disqualified by the Monetary Board from holding a trustee/officer position in any institution under the supervision/regulation of Bangko Sentral.

b. *Inclusion of trustees/officers/employees in the watchlist.* Upon recommendation by the appropriate supervising department of the Bangko Sentral, the inclusion of trustees/officers/employees in watchlist disqualification files "*A*" and "*B*" on the basis of decisions, actions or reports of the courts, banks, QBs, other NSSLAs and FIs under Bangko Sentral supervision, Bangko Sentral, NBI or any other administrative agencies shall first be approved by the Monetary Board.

c. *Notification of trustees/officers/employees.* Upon approval by the Monetary Board, the concerned trustee/officer/employee shall be informed through registered mail, with registry return receipt card at his/her last known address of his/her inclusion in the masterlist of watchlisted persons disqualified to be a trustee/officer in any FI under the supervision of the Bangko Sentral.

d. *Confidentiality.* Watchlist files shall be for internal use only of the Bangko Sentral and may not be accessed or queried upon by outside parties including banks, QBs, trust corporations, NSSLAs, and such institutions under the supervisory and regulatory powers of the Bangko Sentral except with the authority of the person concerned (without prejudice to the authority of the Governor and the Monetary Board to authorize release of the information) and with the approval of the head of the appropriate supervising department of the Bangko Sentral or Subsector Head or the Deputy Governor of the appropriate sector of the Bangko Sentral, or the Governor, or the Monetary Board.

The Bangko Sentral will disclose information on the person included in its watchlist files only upon submission of a duly notarized authorization from the concerned person and approval of such request by the head of the appropriate supervising department of the Bangko Sentral or Subsector Head or the Deputy Governor of the appropriate sector of the Bangko Sentral, or the Governor or the Monetary Board. The prescribed authorization form to be submitted to the appropriate supervising department of the Bangko Sentral is in *Appendix Q-44*.

NSSLAs can gain access to said information in the said watchlist for the sole purpose of screening their nominees/applicants for trustees/officers and/or confirming their elected trustees and appointed officers. NSSLAs must obtain the said authorization on an individual basis.

e. *Delisting.* All delistings shall be approved by the Monetary Board upon recommendation of the appropriate supervising department of the Bangko Sentral except in cases of persons known to be dead, where delisting shall be automatic upon proof of death and need not be elevated to the Monetary Board. Delisting may be approved by the Monetary Board in the following cases:

(1) Watchlist – Disqualification File "B" (Temporary) –

(a) After the lapse of the specific period of disqualification;

(b) When the conviction by the court for crimes involving dishonesty, breach of trust and/or violation of banking laws becomes final and executory, in which case the trustee/officer/employee is relisted to Watchlist – Disqualification File "A" (Permanent);

(c) Upon favorable decision or clearance by the appropriate body, i.e., court, NBI, bank, QB, trust entity or such other agency/body where the concerned individual had derogatory record. Trustees/officers/employees delisted from the Watchlist – Disqualification File "B" other than those upgraded to Watchlist – Disqualification File "A" shall be eligible for re-employment with any bank, QB, trust entity, NSSLA or other FI under Bangko Sentral supervision.

(Circular No. 1115 dated 23 April 2021)

E. RISK MANAGEMENT

141-S SUPERVISION BY RISK

The guidelines on supervision by risk in *Appendix Q-41* which provide guidance on how QBs should identify, measure, monitor and control risks shall govern the supervision by risks of NSSLAs to the extent applicable.

The guidelines set forth the expectation of the Bangko Sentral with respect to the management of risks and are intended to provide more consistency in how the risk-focused supervision function is applied to these risks. The Bangko Sentral will review the risks to ensure that an NSSLA's internal risk management processes are integrated and comprehensive. All NSSLAs should follow the guidance in risk management efforts.

142-S RISK MANAGEMENT FUNCTION

An effective independent risk management function is a key component of the NSSLA's second line of defense. The risk management function is generally responsible for:

a. identifying the key risk exposures and assessing and measuring the extent of risk exposures of the NSSLA and its trust operations;

b. monitoring the risk exposures and determining the corresponding capital requirement in accordance with the Basel capital adequacy framework and based on the NSSLA's internal capital adequacy assessment on an on-going basis;

c. monitoring and assessing decisions to accept particular risks whether these are consistent with board approved policies on risk tolerance and the effectiveness of the corresponding risk mitigation measures; and

d. reporting on a regular basis to senior management and to the board of directors of the results of assessment and monitoring.

Risk management personnel shall possess sufficient experience and qualifications, including knowledge on the NSSLA business, the developments in the market, industry and product lines, as well as mastery of risk disciplines. They shall have the ability and willingness to challenge business lines regarding all aspects of risk arising from the NSSLA's activities.

Chief Risk Officer (CRO). NSSLA may appoint a CRO, or any equivalent position, who shall be independent from executive functions and business line responsibilities, operations and revenue-generating functions. This independence shall be displayed in practice at all times as such, the CRO shall report directly to the board of trustees or to the risk oversight committee without any impediment.

The CRO shall have sufficient stature, authority and seniority within the NSSLA. This will be assessed based on the ability of the CRO to influence decisions that affect the NSSLA's exposure to risk. The CRO shall have the ability, without compromising his independence, to engage in discussion with the board of trustees, chief executive officer and other senior management on key risk issues and to access such information as he deems necessary to form his or her judgment. The CRO shall meet with the board of directors/risk oversight committee on a regular basis and such meetings shall be duly minuted and adequately documented.

CROs shall be appointed and replaced with prior approval of the board of trustees. In cases, when the CRO will be replaced, the NSSLA shall report the same to the appropriate supervising department of the Bangko Sentral within five (5) days from the time it has been approved by the board of trustees.

(Circular No. 1115 dated 23 April 2021)

143-S MARKET RISK MANAGEMENT

The guidelines on market risk management for QBs as shown in *Appendix Q-42* shall govern the market risk management of NSSLAs to the extent applicable.

The guidelines set forth the expectations of the Bangko Sentral with respect to the management of market risk and are intended to provide more consistency in how the risk- focused supervision is applied to this risk. NSSLAs are expected to have an integrated approach to risk management to identify, measure, monitor and control risks. Market risk should be reviewed together with other risks to determine overall risk profile.

The Bangko Sentral is aware of the increasing diversity of financial products and that industry techniques for measuring and managing market risk are continuously evolving. As such, the guidelines are intended for general application; specific application will depend to some extent on the size, complexity and range of activities undertaken by NSSLAs.

144-S LIQUIDITY RISK MANAGEMENT

The guidelines on liquidity risk management for QBs as shown in *Appendix Q-43* shall govern the liquidity risk management of NSSLAs to the extent applicable.

The guidelines set forth the expectations of the Bangko Sentral with respect to the management of liquidity risk and are intended to provide more consistency in how the risk-focused supervision function is applied to this risk. NSSLAs are expected to have an integrated approach to risk management to identify, measure, monitor and control risks. Liquidity risk should be reviewed together with other risks to determine overall risk profile.

These guidelines are intended for general application; specific application will depend on the size and sophistication of a particular NSSLA and the nature and complexity of its activities.

145-S INFORMATION TECHNOLOGY RISK MANAGEMENT (ITRM)

The enhanced guidelines on ITRM keep abreast with the aggressive and widespread adoption of technology in the financial service industry and consequently strengthen existing Bangko Sentral framework for IT risk supervision. ITRM should be considered a component and integrated with the institutions' risk management program. The guidelines likewise provide practical plans to address risks associated with emerging trends in technology and growing concerns on cyber security.

Policy statement. The rapid pace of digital innovation has significantly reshaped the financial services landscape. BSFIs employ advances in technology to sharpen business insights, enhance operational efficiencies, and deliver innovative financial products and services in line with emerging market trends and evolving client needs. Technological developments also enable greater access to financial services that promote an inclusive and responsive digital financial ecosystem. As technological innovations become more deeply entrenched in business models, infrastructure, and delivery channels, system-related failures and malfunctions can create major operational disruptions in BSFIs. Social media platforms may further complicate matters as news of disruptions as well as customer complaints can spread at unprecedented speeds. Further, cyber-threats and attacks confronting the financial services industry pose added risks that can undermine public trust and confidence in the financial system.

In line with their growing technology usage and dependence at the back of a dynamic operating and cyber-threat environment, BSFIs should establish robust and effective technology risk management processes, governance structures, and cybersecurity controls. This is to ensure that the benefits derived from technological innovations can be fully optimized without compromising financial stability, operational resilience, and consumer protection.

Purpose and scope. The enhanced guidelines aim to provide guidance in managing risks associated with use of technology. The guidelines outlined are based on international standards and recognized principles of international practice for ITRM and shall serve as Bangko Sentral's baseline requirement for all BSFIs.

The guidelines shall apply to BSFIs which include banks, non-banks with quasi-banking function (NBQB), non-bank electronic money issuers and other non-bank institutions which under existing Bangko Sentral rules and regulations and special laws are subject to Bangko Sentral supervision and/or regulation. Moreover, subject guidelines shall also apply to BSFIs with offshore data processing as may be appropriate to their situation. The framework covers different facets of ITRM, some of which are supplemented with detailed guidelines in *Appendices Q-61 to Q-66.*

The Bangko Sentral shall keep the Appendices updated and, in the future, issue additional regulations on new and emerging products, services, delivery channels, and other significant applications of technology.

Subject guidelines, including the *Appendices Q-61 to Q-66,* are not "one-size-fits-all" and implementation of these need to be risk- based and commensurate with size, nature and types of products and services and complexity of IT operations of the individual BSFIs. BSFIs shall exercise sound judgment in determining applicable provisions relevant to their risk profile.

IT profile classification. To ensure that IT risk management system, governance structure and processes are commensurate with the attendant IT risks, the Bangko Sentral shall determine the IT profile of all BSFIs and classify them as "Complex", "Moderate" or "Simple". The *IT profile* refers to the inherent risk of a BSFI before application of any mitigating controls, and is assessed taking into consideration the following factors:

a. *IT infrastructure and operations.* Inherent IT risks of a BSFI largely depend on the degree of automation of core processes and applications, the size of branch networks, and the characteristics of its IT organization. BSFIs with larger branch networks and more complex organizational structures usually require a higher degree of reliance on IT systems/infrastructure, which in turn, carry higher levels of inherent IT risks. Interconnectivity risks also play a factor in determining IT risk levels since added connections to third party networks increase complexity as well as exposure to potential information security/cybersecurity risks. These include participation in electronic payment systems and interconnections with other financial institutions, business partners, customers, and third party service providers, among others.

b. *Digital/Electronic financial products and services.* Digital/electronic financial products and services provided to the BSFI's corporate and retail clients, by their very nature, can have a direct impact on IT risks, including information security/cybersecurity risks. This is because these products and services are normally provided via the internet or public networks which are inherently risky. Digital/electronic financial products and services include ATM debit, prepaid and credit cards and e-channels such as ATM terminals, point-of-sale (POS) terminals, internet banking and mobile banking facilities, among others. BSFIs that are more aggressive in providing such services are expected to have greater IT risks.

c. *IT projects and initiatives.* The extent and nature of the BSFI's IT projects prospectively impact IT risk exposure and complexity. For instance, developing or acquiring a new core banking system is considered a major project, that if not adequately managed and overseen, may heighten inherent IT risks. Also, IT projects and initiatives entail the use of current resources in terms of funding and manpower that might affect existing IT operations and risk profile.

d. *Outsourced services.* While outsourcing in general does not diminish the BSFI's responsibility over the function/service outsourced, outsourcing poses an added dimension to IT and information security risks. For this reason, outsourcing arrangements require a higher degree of oversight, due diligence, and risk management controls. Outsourcing core IT services and functions via cloud computing platforms may further intensify IT and information security risks.

e. *Systemic importance.* The systemic importance of a BSFI is a critical determinant in assessing inherent IT and information security/cybersecurity risks since BSFIs identified as "Domestic Systemically Important Banks" or D-SIBs are essentially larger in size and have more complex operations and product offerings. Moreover, cyber-attacks against D-SIBs can have serious implications to financial and economic stability that may undermine public trust and confidence in the financial system.

f. *Threats.* The volume, type, and severity of cyber-attacks and fraud targeting a specific BSFI affects IT and cybersecurity risk profiles. Some BSFIs may be more prone to attacks compared to others by virtue of their asset size, customer base, systemic importance, and other factors. Thus, BSFIs that are likely targets of these types of threats should have greater degree of cyber-preparedness and resilience.

A general description for each IT profile classification is outlined as follows:

IT Profile Classification	General Description/Attributes
Complex	A BSFI with complex IT profile uses technology extensively in supporting mission-critical business processes and delivering financial products and services. It has ubiquitous branch network in the country and offers a wide array of digital/electronic financial products and services to a large number of corporate and retail clients. It is highly interconnected with external third party stakeholders and actively participates in electronic payment systems and networks, usually involving large-value transfers. Business strategies and objectives are largely anchored on IT platforms, digital innovation, and technology-based solutions. It is also aggressively utilizing/exploring emerging technologies such as cloud computing, social media and big data technologies.
Moderate	A BSFI classified as moderate uses technology to some extent, but not as aggressively as those classified as complex. Its branch network, IT organization and structure, and extent of IT projects are also relatively less significant than those of complex BSFIs. IT applications and systems are integrated but primarily support traditional banking products and services. It may offer basic digital/electronic products and services, such as ATM terminals/card-based products, to a limited number of clients.
Simple	A BSFI classified as simple generally has very limited use of technology with minimal interconnectivity to its clients and other institutions. Likewise, branch network or geographic presence is confined to a specific locality. IT applications and systems are stand-alone or are not fully integrated and e-banking products and services are rarely offered. A simple BSFI also has few IT personnel and customer base.

The IT profile of rural banks, cooperative banks, NBFIs, and non-bank institutions shall be classified as "Simple", unless notified by the Bangko Sentral of a higher classification. For other BSFIs, the Bangko Sentral shall notify in writing their assigned classification within a reasonable timeline from 5 December 2017. The Bangko Sentral-assigned classification shall remain effective until such time that the Bangko Sentral informs the concerned BSFI of a change in classification.

The Bangko Sentral assessment and classification process should not preclude BSFIs from assessing their own IT profile classification on an ongoing basis. All BSFIs are required to have periodic and rigorous self-assessment exercises using more robust data sets and variables as part of their information security risk management system.

IT rating system. The Bangko Sentral, in the course of its on-site examination activities, shall evaluate BSFIs' ITRM system and measure the results based on Bangko Sentral's IT rating system. A composite rating is assigned based on a "1" to "4" numerical scale, as follows:

4	BSFIs with this rating exhibit strong performance in every respect. Noted weaknesses in IT are minor in nature and can be easily corrected during the normal course of business.
3	BSFIs with this rating exhibit satisfactory performance but may demonstrate modest weaknesses in operating performance, monitoring, management processes or system development.
2	BSFIs with this rating exhibit less than satisfactory performance and require considerable degree of supervision due to a combination of weaknesses that may range from moderate to severe.
1	BSFIs with this rating exhibit deficient IT environment that may impair the future viability of the entity, thereby requiring immediate remedial action.

***Definition of terms*.** In these guidelines, terms are used with the following meanings:

a. *Advanced persistent threat or APT* shall refer *to* a sophisticated form of attack that involves coordinating multiple methods of identifying and exploiting a target's vulnerabilities over an extended period to do harm.

b. *Card skimming* shall refer to the illegal copying of information from the magnetic stripe of a credit or ATM card to gain access to accounts.

c. *Cloud computing* shall refer to a model for enabling ubiquitous, convenient, and on-demand network access to a shared pool of configurable computing resources that can be rapidly provisioned and released with minimal management effort or service provider interaction.

d. *Compromised state* shall refer to a state wherein someone or something has maliciously broken into networks, systems and computers which raises doubt as to the integrity of information assets, such as, but not limited to, program files, image files, and operating system files.

e. *Cyber-threat* shall refer to a deliberate act of omission or commission by any person carried out using the internet and/or other electronic channels, in order to communicate false or fraudulent representations to prospective victims, to conduct fraudulent transactions, or to illegally obtain proprietary data or information related to the institution, their customers and other stakeholders. Cyber-threat can be used synonymously with cyber-fraud, cyber-attack or cyber-related incidents.

f. *Cybersecurity* shall refer to technologies, processes, and practices designed to protect a BSFI's information assets and consumers by preventing, detecting, and responding to cyber-attacks.

g. *Data breach* shall refer to an incident in which sensitive, protected or confidential data or information has potentially been viewed, stolen, leaked, used, or destroyed by unauthorized persons.

h. *Defense-in-depth* shall refer to a security strategy or design of deploying security controls over multiple or various layers across the network, systems, and applications such that a failure in one control would be compensated by another control in the next layer. This approach effectively delays or disrupts an attacker's ability to progress within the attack sequence.

i. *Distributed Denial of Service (DDoS)* shall refer to a type of attack which makes use of the capacity limitation of enterprise networks, systems or ingress with extreme traffic loads.

j. *Hacking* shall refer to unauthorized access into or interference in networks, systems and computers without the knowledge and consent of the system/information owner.

k. *Information security program (ISP)* shall refer to information security policies, standards and procedures, security operations, technologies, organizational structures, and information security awareness and training programs aimed at protecting a BSFI's information assets and supporting infrastructure from internal and external threats.

l. *Information security strategic plan (ISSP)* shall refer to the roadmap to guide a BSFI in transforming the current state of security to the desired state taking into account business goals and strategies.

m. *Information security risk management (ISRM)* shall refer to the process of identifying, assessing, mitigating, managing, and monitoring information security risks, including cyber-risk, to ensure these are within acceptable levels. It should be integrated into the BSFI's ISP and enterprise-wide risk management system.

n. *Malware* shall refer to malicious software that compromises the confidentiality, availability or integrity of information systems, networks or data. Examples of malware include ransomware, trojans, adware, botnets, bugs, and spyware, among others.

o. *Pharming shall refer to* a form of cyber-attack that redirects a website traffic to another fake website to obtain user credentials and information.

p. *Phishing* shall refer to the use of electronic communications such as e-mail to masquerade with trusted identity to capture sensitive information to gain access to accounts. It involves tricking customers into giving sensitive information through fraudulent emails or websites.

q. *Reportable Major Cyber-related Incidents* shall refer to any cyber-related incidents that meet the criteria for reporting/notification to the Bangko Sentral as laid out in Item "*a(2)(a)*" of this Section (*Reporting and notification standards*).

r. *Security Operations center (SOC)* shall refer a unit or function that provides centralized visibility, continuous monitoring, and rapid response and recovery procedures on security incidents and events.

s. *Spearphishing shall* refer to a more advanced type of phishing attack which is customized to a particular target (e.g., executives, privileged users, etc.).

t. *Threat Actor shall* refer to a person, group or nation/state/government that carries out or intends to carry out damaging acts against another party. An advanced threat actor shall refer to a person, organized group, or nation/state/government that (a) possesses superior capabilities, resources and skills to launch sophisticated cyber-attacks; or (b) seeks military and/or intelligence information for cyber-espionage purposes.

u. Threat intelligence shall refer to the process of gathering and analyzing information about the proficiencies, tactics, and motives of malicious actors/attackers that enables a BSFI to institute appropriate countermeasures quickly.

Description of IT-related risks. As BSFIs increase their reliance on IT to deliver products and services, inappropriate usage of IT resources may have significant risk exposures. While IT does not trigger new types of risks, it brings in new dimensions to traditional banking risks (i.e., strategic risk, credit risk, market risk, liquidity risk and operational risk) that require new or enhanced control activities (e.g., a failure of a credit risk measurement application is an IT failure and, therefore, a systems failure in the sense of operational risk). Moreover, IT is an implied part of any system of internal controls, regardless of the type of risk and, consequently, forms an important element in organization-wide risk management. Among the risks associated with the use of IT are the following:

a. *Operational risk* is the risk to earnings and capital arising from problems with service or product delivery. This risk is a function of internal controls, IT systems, employee integrity and operating processes. Operational risk exists in all products and services;

b. *Strategic risk* is the risk to earnings and capital arising from adverse business decisions on IT-related investments or improper implementation of those decisions. The risk is a function of the compatibility of an organization's strategic goals, the business strategies developed to achieve those goals, the resources deployed against these goals and the quality of implementation. The resources needed to carry out business strategies are both tangible and intangible which include communication channels, operating systems, delivery networks and managerial capacities and capabilities;

c. *Reputation risk* is the risk to earnings and capital arising from negative public opinion. This affects the institution's ability to establish new relationships or services or continue servicing existing relationships. The risk can expose the institution to litigation, financial loss or damage to its reputation; and

d. *Compliance risk* is the risk to earnings and capital arising from the violations of, or non-conformance with laws, rules and regulations, prescribed practices or ethical standards. Compliance risk also arises in situations where the laws and rules governing certain products activities of the BSFI's clients may be ambiguous or untested. Compliance risk exposes the institution to monetary penalties, non-monetary sanctions and possibility of contracts being annulled or declared unenforceable.

IT Risk Management System (ITRMS). As BSFIs become more dependent on IT systems and processes, technology risks and information security issues have become progressively more complex and pressing in recent years. Information security is just as important as the new technologies being installed by BSFIs. As progress in technology shifts to higher gear, the trend in cyber-attacks, intrusions, and other form of incidents on computer systems shows that it will not only persist but will continue to increase in frequency and spread in magnitude.

Management of IT risks and information security issues becomes a necessity and an important part of BSFIs' risk management system. BSFIs are therefore required to establish a robust ITRM system covering four (4) key components: 1) IT governance, 2) risk identification and assessment, 3) IT controls implementation, and 4) risk measurement and monitoring.

a. *IT Governance.* This is an integral part of BSFIs' governance framework and consists of the leadership and organizational structures and processes that ensure the alignment of IT strategic plan with BSFIs' business strategy, optimization of resources management, IT value delivery, performance measurement and the effective and efficient use of IT to achieve business objectives and effective IT risk management implementation. BSFIs must establish an effective IT governance framework covering the following:

(1) *Oversight and organization of IT functions.* Accountability is a key concern of IT governance and this can be obtained with an organizational structure that has well-defined roles for the responsibility of information, business processes, applications, IT infrastructure, etc.

The Board of Directors is ultimately responsible for understanding the IT risks confronted by a BSFI and ensuring that they are properly managed, whereas the Senior Management is accountable for designing and implementing the ITRMS approved by the Board. For Complex BSFIs, the Board may delegate to an IT Steering Committee (ITSC) or its equivalent IT oversight function to cohesively monitor IT performance and institute appropriate actions to ensure achievement of desired results. The ITSC, at a minimum, should have as members a non-executive Board director who oversees the institution's IT function, the head of IT

group/department, and the highest rank officer who oversees the business user groups. The head of control groups should participate in ITSC meetings in advisory capacity only.

A charter should be ratified by the Board to clearly define the roles and responsibilities of the ITSC. Formal minutes of meeting should be maintained to document its discussions and decisions. The ITSC should regularly provide adequate information to the Board regarding IT performance, status of major IT projects or other significant issues to enable the Board to make well-informed decisions about the BSFIs' IT operations.

BSFIs should develop an IT strategic plan that is aligned with the institution's business strategy. This should be undertaken to manage and direct all IT resources in line with the business strategy and priorities. IT strategic plan should focus on long term goals covering three (3)- to five (5)-year horizon and should be sufficiently supplemented by tactical IT plans which specify concise objectives, action plans and tasks that are understood and accepted by both business and IT. The IT strategic plan should be formally documented, endorsed by the Board and communicated to all stakeholders. It should be reviewed and updated regularly for new risks or opportunities to maximize the value of IT to the institution.

BSFIs should also create an organization of IT functions that will effectively deliver IT services to business units. For "Complex" BSFIs, a full-time IT Head or equivalent rank should be designated to take the lead in key IT initiatives and oversee the effectiveness of the IT organization. In addition to managing the delivery of day-to-day IT services, the IT Head should also oversee the IT budget and maintain responsibility for performance management, IT acquisition oversight, professional development and training. The IT Head should be a member of executive management with direct involvement in key decisions for the BSFI and usually reports directly to the President or Chief Executive Officer.

A clear description of roles and responsibilities for individual IT functions should be documented and approved by the Board. Proper segregation of duties within and among the various IT functions should be implemented to reduce the possibility for an individual to compromise a critical process. A mechanism should be in place to ensure that personnel are performing only the functions relevant to their respective jobs and positions. In the event that an institution finds it difficult to segregate certain IT control responsibilities, it should put in place adequate compensating controls (e.g., peer reviews) to mitigate the associated risks.

(2) *IT policies, procedures and standards.* IT controls, policies, and procedures are the foundation of IT governance structure. It helps articulate the rules and procedures for making IT decisions, and helps to set, attain, and monitor IT objectives.

BSFIs should adopt and enforce IT-related policies and procedures that are well-defined and frequently communicated to establish and delineate duties and responsibilities of personnel for better coordination, effective and consistent performance of tasks, and quicker training of new employees. Management should ensure that policies, procedures, and systems are current and well-documented. The ITSC should review IT policies, procedures, and standards at least on an annual basis. Any updates and changes should be clearly documented and properly approved. IT policies and procedures should include at least the following areas:

- IT Governance/Management;
- Development and Acquisition;
- IT Operations;
- Communication networks;
- Information security;
- Electronic Banking/Electronic Products and Services; and
- IT Outsourcing/Vendor Management.

For simple BSFIs, some of the above areas (i.e., development, electronic banking, etc.) may not be applicable, thus sound judgment should be employed to ensure that the BSFI's IT policies and procedures have adequately covered all applicable areas.

(3) *IT audit.* Audit plays a key role in assisting the Board in the discharge of its corporate governance responsibilities by performing an independent assessment of technology risk management process and IT controls.

Auditors provide an assurance that important control mechanisms are in place for detecting deficiencies and managing risks in the implementation of IT. They should be qualified to assess the specific risks that arise from specific uses of IT. BSFIs should establish effective audit programs that cover IT risk exposures throughout the organization, risk-focused, promote sound IT controls, ensure the timely resolution of audit deficiencies and periodic reporting to the Board on the effectiveness of institution's IT risk management, internal controls, and IT governance. Regardless of size and complexity, the IT audit program should cover the following:

- Independence of the IT audit function and its reporting relationship to the Board or its Audit Committee;
- Expertise and size of the audit staff relative to the IT environment;
- Identification of the IT audit universe, risk assessment, scope, and frequency of IT audits;
- Processes in place to ensure timely tracking and resolution of reported weaknesses; and
- Documentation of IT audits, including work papers, audit reports, and follow-up.

In case in-house IT audit expertise is not available, such as for a simple BSFI, the IT audit support may be performed by external specialists and auditors of other institutions consistent with existing Bangko Sentral rules and regulations on outsourcing. (Detailed guidelines/standards on IT Audit are shown in *Appendix Q-61*).

(4) *Staff competence and training.* The rapid development in technology demands appropriate, skilled personnel to remain competent and meet the required level of expertise on an ongoing basis.

BSFIs should have an effective IT human resources management plan that meets the requirements for IT and the business lines it supports. Management should allocate sufficient resources to hire and train employees to ensure that they have the expertise necessary to perform their job and achieve organizational goals and objectives.

Management needs to ensure that staffing levels are sufficient to handle present and expected work demands, and to cater reasonably for staff turnover. Appropriate succession and transition strategies for key officers and personnel should be in place to provide for a smooth transition in the event of turnover in vital IT management or operations functions.

(5) *Management Information Systems (MIS).* The BSFIs' IT organization often provides an important support role for their MIS. Accurate and timely MIS reports are an essential component of prudent and reasonable business decisions. At the most senior levels, MIS provides the data and information to help the Board and management make strategic decisions. At other levels, MIS allows management to monitor the institution's activities and distribute information to other employees, customers, and members of management.

Advances in technology have increased the volume of information available to management and directors for planning and decision-making. However, if technology is not properly managed, the potential for inaccurate reporting and flawed decision making increases. Because report generation systems can rely on manual data entry or extract data from many different financial and transaction systems, management should establish appropriate control procedures to ensure information is correct, relevant, and adequately protected. Since MIS can originate from multiple equipment platforms and systems, the controls should ensure all information systems have sufficient and appropriate controls to maintain the integrity of the information and the processing environment. Sound fundamental principles for MIS review include proper internal controls, operating procedures, safeguards, and audit coverage.

(6) *IT risk management function.* Management of risk is a cornerstone of IT Governance. BSFIs should have a policy requiring the conduct of identification, measurement, monitoring and controlling of IT risks for each business function/service on a periodic basis. BSFIs should define and assign these critical roles to a risk management unit or to a group of persons from different units collectively performing the tasks defined for this function.

The function should have a formal technology risk acknowledgement and acceptance process by the owner of risk to help facilitate the process of reviewing, evaluating and approving any major incidents of non-compliance with IT control policies. The process can be supported by the following:

(a) a description of risk being considered for acknowledgement by owner of risk and an assessment of the risk that is being accepted;
(b) identification of mitigating controls;
(c) formulation of a remedial plan to reduce risk; and
(d) approval of risk acknowledgement from the owner of the risk and senior management.

ITRM processes should be integrated into the enterprise-wide risk management processes to allow BSFIs to make well-informed decisions involving business plans and strategies, risk responses, risk tolerance levels and capital management, among others.

b. *Risk identification and assessment.* BSFIs should maintain a risk assessment process that drives response selection and controls implementation. An effective IT assessment process begins with the identification of the current and prospective IT risk exposures arising from the institution's IT environment and related processes. The assessments should identify all information assets, any foreseeable internal and external threats to these assets, the likelihood of the threats, and the adequacy of existing controls to mitigate the identified risks. Management should continually compare its risk exposure to the value of its business activities to determine acceptable risk levels.

Once management understands the institution's IT environment and analyzes the risk, it should rank the risks and prioritize its response. The probability of occurrence and the magnitude of impact provide the foundation for reducing risk exposures or establishing mitigating controls for safe, sound, and efficient IT operations appropriate to the complexity of the organization. Periodic risk assessment process should be done at the enterprise- wide level and an effective monitoring program for the risk mitigation activities should be manifested through mitigation or corrective action plans, assignment of responsibilities and accountability and management reporting.

c. *IT controls implementation.* Controls comprise of policies, procedures, practices and organizational structures designed to provide reasonable assurance that business objectives will be achieved and undesired events will be mitigated. Management should establish an adequate and effective system of internal controls based on the degree of exposure and the potential risk of loss arising from the use of IT. Controls for IT environment generally should address the overall integrity of the environment and should include clear and measurable performance goals, the allocation of specific responsibilities for key project implementation, and independent mechanisms that will both measure risks and minimize excessive risk-taking. BSFI Management should implement satisfactory control practices that address the following as part of its overall IT risk mitigation strategy: 1) Information security; 2) Project management/development and acquisition and change management; 3) IT operations; 4) IT outsourcing/Vendor management; and 5) Electronic banking, Electronic payments, Electronic money and other Electronic products and services.

(1) *Information security.* Information is a vital asset of a BSFI that must be adequately protected and managed to preserve its confidentiality, integrity and availability. Considering the crucial role information plays in supporting business goals and objectives, driving core operations and critical decision-making, information security is intrinsically linked to the overall safety and soundness of BSFIs. Thus, the BSFI needs to put in place a robust, resilient and enterprise-wide framework for ISRM supported by effective information security governance and oversight mechanisms. Information security risk exposures must be managed to within acceptable levels through a dynamic interplay of people, policies and processes, and technologies and must be integrated with the enterprise-wide risk management system.

Management should adopt a holistic, integrated and cyclical approach to managing information security risks. An ISRM framework should be in place encompassing key elements and phases with effective governance mechanisms to oversee the entire process. The framework represents a continuing cycle that should evolve over time taking into account changes in the operating and business environment as well as the overall cyber-threat landscape.



Figure 1. Information Security Risk Management Framework

The ISRM framework is based upon the following underlying fundamental principles and concepts:

(a) *Strong leadership and effective Information Security (IS) governance and oversight.* The BSFI's Board and Senior Management set the overall tone and strategic direction for information security by providing strong leadership, effective information security governance and oversight. They should take the lead in establishing an information security culture that regards security as an intrinsic part of the BSFI's core business and operations. Instilling a strong security culture ensures that security controls, processes, and measures are deeply embedded into the institution's lines of business, products, services and processes, including its employees and external relationships. The Board and Senior Management should adopt the right mindset and understand the crucial role of information security in supporting/achieving business goals and objectives. Towards this end, they should oversee the

development of an information security strategic plan (ISSP) to clearly articulate security strategies and objectives aligned with business plans.

The BSFI should maintain a comprehensive, well-designed and effective information security program (ISP) that is commensurate with its operational and IT profile complexity. To ensure its effectiveness and sustainability, the ISP should have strong support from the Board and Senior Management as well as cooperation of all concerned stakeholders. Management should see to it that adequate resources, organizational functions/capabilities, policies, standards, and procedures as well as the supporting infrastructure commensurate with the BSFI's IT risk complexity and appetite are available and optimized to effectively implement the ISSP and ISP. Lastly, the Board and Senior Management should appoint a Chief Information Security Officer (CISO), a senior level executive with sufficient authority within the institution, who will be responsible and accountable for the organization-wide ISP.

(b) *Integrated, holistic and risk-based approach.* The ISRM should form an integral part of the BSFI's ISP and enterprise risk management system. It encompasses the people, policies and processes, and technology elements in the organization that should be harmonized to support information security goals and objectives. Information security is not achieved by merely focusing on technology or one aspect and no one element is superior over the other. Each of these elements must work together to achieve the desired security posture and manage information security risks to acceptable levels. In line with the increasing interconnectivity of BSFIs and other industry players, the ISRM should also consider security controls and requirements over third party service providers, customers, banks, and other third party stakeholders which are linked or have access to the BSFI's network and systems. This is because threat actors may launch their attacks on the BSFI through these third party networks.

Likewise, the ISRM including cyber-risk management programs should be commensurate with the inherent risks involved. This means that the BSFI's information security controls and maturity levels should be commensurate with its operations and complexity of IT profile. In this regard, in determining whether a certain control requirement is applicable to the BSFI, it shall first assess the complexity of its IT profile pursuant to this Section (*IT profile classification*). BSFIs with complex IT profile are expected to implement the more advanced security control measures and be at the higher levels of the information security/cyber-maturity curve. BSFIs may also refer to leading standards and frameworks issued by standard-setting bodies[1] on information security and cybersecurity in designing their ISRM.

(c) *Continuing cycle.* The ISRM involves a continuing cycle consisting of the following six (6) major phases:

(i) *Identify.* The starting point of the cycle is the identification of the BSFI's information security as well as cyber-related risks. Under this phase, management needs to identify its business processes and functions, information assets classified as to sensitivity and criticality, threats and vulnerabilities, interconnections, and security architecture. Identification of these factors facilitates BSFI's understanding and assessment of its inherent information security and cyber risks which are key inputs in determining, designing, and implementing the appropriate risk treatment options.

(ii) *Prevent.* After identifying these key factors and assessing the information security and cyber risks, the prevent phase comes into play where adequate protection mechanisms and controls are designed and implemented. These include measures ranging from baseline to advanced tools and approaches such as defense-in-depth, malware prevention, access controls and cybersecurity awareness programs, among others. These preventive controls are generally categorized into three (3) types, as follows:

(aa) *Administrative controls* - refer to the policies, standards, and procedures in place which articulate Management's intent, expectations, and direction on information security. It also includes security trainings and awareness programs and personnel security practices designed to prevent unwarranted employee behavior.

(bb) *Physical and environmental controls* - pertain to the security controls and measures implemented to protect physical infrastructure such as data centers, computer facilities, and equipment from damage, unauthorized access or environmental hazards.

(cc) *Technical controls* - refer to the logical security controls, security tools, and technologies to ensure that the confidentiality, integrity, and availability objectives for information assets are achieved.

(iii) *Detect.* Detection capabilities should also be in place as prevention alone is not sufficient. As demonstrated in recent cyber- attacks, the ability of an institution to quickly detect anomalous

[1] US National Institute of Standards and Technology (NIST), ISO/IEC, ISACA and Committee on Payments and Market Infrastructures (CPMI), among others

activities and evaluate the scope of an attack is an important aspect in significantly reducing negative impacts. Management should design and implement effective detection controls over the BSFI's networks, critical systems and applications, access points, and confidential information.

(iv) *Respond.* The response phase is triggered upon confirmation of an occurrence of a cyber-attack or security incident affecting the BSFI and its customers. With the growing incidence of sophisticated cybercrimes and threats, the BSFI should be prepared to respond quickly considering that cyber-attacks are no longer a remote possibility. Therefore, it should develop comprehensive, updated, and tested incident response plans supported by well-trained incident responders, investigators, and forensic data collectors. Through adequate response capabilities, the BSFI should be able to minimize and contain the damage and impact arising from security incidents, immediately restore critical systems and services, and facilitate investigation to determine root causes.

(v) *Recover.* This phase encompasses both the resumption of activities at a level which is considered "good enough for a certain period of time" and full recovery, i.e., an eventual return to full service. Management should be able to establish back-up facilities and recovery strategies to ensure the continuity of critical operations. During the recovery phase, it should ensure that information processed using back-up facilities and alternate sites still meet acceptable levels of security. To achieve cyber resilience, the BSFI should consider information security incidents and cyber-related attack scenarios in its business continuity management and recovery processes.

(vi) *Test.* The BSFI needs to continually assess and test controls and security measures implemented under the prevent, detect, respond, and recover phases to ensure that these are effective and working as intended. Likewise, a comprehensive, systematic and layered testing and assurance program covering security processes and technologies should be in place. This is to ensure that the ISRM is on track in providing appropriate level of information security commensurate to the BSFIs' IT profile complexity. This phase also ensures that both the ISSP and ISP remain effective vis-a-vis the fast-evolving cyber- threat landscape.

(d) *Cyber threat intelligence and collaboration.* In response *to* the growing cyber-threat landscape, BSFIs need to step up their information security posture and resilience beyond their respective networks. Likewise, BSFIs need to enhance situational awareness that would provide a keen sense of the threat landscape as it relates to their IT risk and cyber-risk profiles, operating complexities, and business models. Further, BSFIs need to collaborate with each other, including regulators, law enforcement agencies, and other third party stakeholders for a collective, coordinated, and strategic response through information sharing and collaboration. Information sharing allows BSFIs to enhance threat intelligence that enables quick identification, prevention and response to emerging and persistent threats. (Detailed guidelines/standards on information security are shown in *Appendix Q-62*).

(2) *Project management/development and acquisition and change management.* BSFIs should establish a framework for management of IT-related projects. The framework should clearly specify the appropriate project management methodology that will govern the process of developing, implementing and maintaining major IT systems. The methodology, on the other hand, should cover allocation of responsibilities, activity breakdown, budgeting of time and resources, milestones, checkpoints, key dependencies, quality assurance, risk assessment and approvals, among others. In the acquisition and/or development of IT solutions, BSFIs should ensure that business and regulatory requirements are satisfied. (Detailed guidelines/standards on Project Management/Development and Acquisition and Change Management are shown in *Appendix Q-63*).

(3) *IT operations.* IT has become an integral part of the day-to-day business operation, automating and providing support to nearly all of the business processes and functions within the institution. Therefore, the IT systems should be reliable, secure and available when needed which translates to high levels of service and dependency on IT to operate.

One of the primary responsibilities of IT operations management is to ensure the institution's current and planned infrastructure is sufficient to accomplish its strategic plans. BSFI management should ensure that IT operates in a safe, sound, and efficient manner throughout the institution. Given that most IT systems are interconnected and interdependent, failure to adequately supervise any part of the IT environment can heighten potential risks for all elements of IT operations and the performance of the critical business lines of the BSFIs. Such scenario necessitates the coordination of IT controls throughout the institution's operating environment. (Detailed guidelines/standards on IT Operations are shown in *Appendix Q-64*).

(4) *IT outsourcing/vendor management program.* IT outsourcing refers to any contractual agreement between a BSFI and a service provider or vendor for the latter to create, maintain, or reengineer the institution's IT architecture, systems and related processes on a continuing basis. A BSFI may outsource IT systems and processes except those functions expressly prohibited by existing regulations. The decision to outsource should fit into the institution's overall strategic plan and corporate objectives and said arrangement should comply with the provisions of existing

Bangko Sentral rules and regulations on outsourcing. Although the technology needed to support business objectives is often a critical factor in deciding to outsource, managing such relationships should be viewed as an enterprise-wide corporate management issue, rather than a mere IT issue.

While IT outsourcing transfers operational responsibility to the service provider, the BSFIs retain ultimate responsibility for the outsourced activity. Moreover, the risks associated with the outsourced activity may be realized in a different manner than if the functions were inside the institution resulting in the need for controls designed to monitor such risks. BSFI management should implement an effective outsourcing oversight program that provides the framework for management to understand, monitor, measure, and control the risks associated with outsourcing. BSFIs outsourcing IT services should have a comprehensive outsourcing risk management process which provides guidance on the following areas: 1) risk assessment; 2) selection of service providers; 3) contract review; and 4) monitoring of service providers. Detailed guidelines/standards on IT Outsourcing/Vendor Management and on the adoption of outsourced cloud computing model are shown in *Appendix Q-65.*

(5) *Electronic products and services.* The evolution in technology revolutionized the way banking and financial products and services are delivered. Physical barriers were brought down enabling clients to access their accounts, make transactions or gather information on financial products and services anywhere they are, at any time of the day and at their own convenience. As development in technology continues to accelerate, innovative electronic products and services are foreseen to bring more accessibility and efficiency. However, BSFIs may be confronted with challenges relating to capacity, availability and reliability of the electronic services. Likewise, fraudulent activities via electronic channels are also rising in number.

BSFIs should protect customers from fraudulent schemes done electronically. Otherwise, consumer confidence to use electronic channels as safe and reliable method of making transactions will be eroded. To mitigate the impact of cyber fraud, BSFIs should adopt aggressive security posture such as the following:

(a) The entire ATM system shall be upgraded/converted to allow adoption of end-to-end Triple DES (3DES) encryption standards by 01 January 2015. The 3DES encryption standards shall cover the whole ATM network which consists of the host processors, switches, host security module (HSM), automated teller machines (ATMs), point-of-sale (POS) terminals and all communication links connected to the network;

(b) ATMs to be installed after 14 September 2013 should be 3DES compliant; and

(c) ATMs, POS terminals and payment cards are also vulnerable to skimming attacks due to the lack of deployment of globally recognized EMV enabled technology by BSFIs. Magnetic stripe only ATMs, POS Terminals and cards are largely defenseless against modern fraud techniques. Therefore, all concerned BSFIs should shift from magnetic stripe technology to EMV chip-enabled cards, POS Terminals and ATMs. The entire payment card network should be migrated to EMV by 01 January 2017. This requirement shall cover both issuing and acquiring programs of concerned BSFIs. A written and Board-approved EMV migration plan should be submitted to Bangko Sentral within six (6) months from 22 August 2013. Likewise, the detailed guidelines covering subject EMV requirement shall be issued separately.

The guidelines on EMV Implementation are shown in *Appendix S-12*. The guidelines on EMV Card Fraud Liability Shift Framework (ECFLSF) are in *Appendix S-12*. Detailed guidelines/standards on Electronic Products and Services are shown in *Appendix Q-66.*

d. *Risk measurement and monitoring.* BSFI Management should monitor IT risks and the effectiveness of established controls through periodic measurement of IT activities based on internally established standards and industry benchmarks to assess the effectiveness and efficiency of existing operations. Timely, accurate, and complete risk monitoring and assessment reports should be submitted to management to provide assurance that established controls are functioning effectively, resources are operating properly and used efficiently and IT operations are performing within established parameters. Any deviation noted in the process should be evaluated and management should initiate remedial action to address underlying causes. The scope and frequency of these performance measurement activities will depend on the complexity of the BSFI's IT risk profile and should cover, among others, the following:

(1) *Performance vis-à-vis approved IT strategic plan.* As part of both planning and monitoring mechanisms, BSFI management should periodically assess its uses of IT as part of overall business planning. Such an enterprise-wide and ongoing approach helps to ensure that all major IT projects are consistent with the BSFI's overall strategic goals. Periodic monitoring of IT performance against established plans shall confirm whether IT strategic plans remain in alignment with the business strategy and the IT performance supports the planned strategy.

(2) *Performance benchmarks/service levels*. BSFIs should establish performance benchmarks or standards for IT functions and monitor them on a regular basis. Such monitoring can identify potential problem areas and provide assurance that IT functions are meeting the objectives. Areas to consider include system and network availability, data center availability, system reruns, out of balance conditions, response time, error rates, data entry volumes, special requests, and problem reports.

Management should properly define services and service level agreements (SLA) that must be monitored and measured in terms understandable to the business units. SLA with business units and IT department should be established to provide a baseline to measure IT performance.

(3) *Quality assurance/quality control*. BSFI should establish quality assurance (QA) and quality control (QC) procedures for all significant activities, both internal and external, to ensure that IT is delivering value to business in a cost effective manner and promotes continuous improvement through ongoing monitoring. QA activities ensure that product conforms to specification and is fit for use while QC procedures identify weaknesses in work products and to avoid the resource drain and expense of redoing a task. The personnel performing QA and QC reviews should be independent of the product/process being reviewed and use quantifiable indicators to ensure objective assessment of the effectiveness of IT activities in delivering IT capabilities and services.

(4) *Policy compliance.* BSFIs should develop, implement, and monitor processes to measure IT compliance with their established policies and standards as well as regulatory requirements. In addition to the traditional reliance on internal and third party audit functions, BSFIs should perform self-assessments on a periodic basis to gauge performance which often lead to early identification of emerging or changing risks requiring policy changes and updates.

(5) *External assessment program.* Complex BSFIs may also seek regular assurance that IT assets are appropriately secured and that their IT security risk management framework is effective. This may be executed through a formal external assessment program that facilitates a systematic assessment of the IT security risk and control environment over time.

Reporting and notification standards. In line with the increased reliance on and adoption of technology by BSFIs, along with growing concerns on cybersecurity, BSFIs should submit regular and event-driven reports covering technology-related information as well as incidence of major cyber-attacks and operational disruptions. This will enable the Bangko Sentral to have an enhanced visibility on the changing IT risk landscape and to proactively ensure that the impact and risks arising from cyber-related incidents and operational disruptions are minimized and contained to avert potential systemic risks to the financial system.

a. Reporting requirement. BSFIs are required to submit to the Bangko Sentral the following reports/information:

(1) Periodic reports. BSFIs shall submit an Annual IT Profile, as listed in *Appendix S-2*, electronically to the appropriate supervising department of the Bangko Sentral within twenty-five (25) calendar days from the end of reference year.

(2) Event-driven reports. BSFIs shall notify the Bangko Sentral upon discovery of any of the following:

(a) Reportable Major Cyber-related Incidents. These cover all events which may seriously jeopardize the confidentiality, integrity or availability of critical information, data or systems of BSFIs, including their customers and other stakeholders. Reporting of such incidents to the Bangko Sentral should form part of the incident management plan of BSFIs.

An incident is considered a reportable major cyber-related incident, if after assessing the nature of the incident or attack, the BSFI has determined that the same:

(i) resulted in an unauthorized access and infiltration into the BSFI's internal network (i.e., hacking, advanced persistent threats, presence of malware);
(ii) involved a system-level compromise (i.e., attacks on BSFI's core systems, as opposed to phishing attempts of individual clients);
(iii) affected a significant number of customer accounts simultaneously;
(iv) involved significant data loss or massive data breach;
(v) indicated spearphishing attacks targeting the BSFIs' directors, senior executives, officers, or privileged users;
(vi) resulted in the unavailability of critical systems/services (e.g., Distributed Denial of Service (DDoS) attack resulting in service outage);
(vii) inflicted material financial losses to the BSFIs, their customers and other stakeholders; or
(viii) has been suspected to be perpetrated by an advanced threat actor.

(b) Disruptions of financial services and operations. These include disruption of critical operations which lasts for more than two (2) hours due to internal and external threats, which may be natural, man-made or technical in origin. Such scenarios usually involve loss of personnel, technology, alternate site, and service providers. Causes of such interruptions include, but are not limited to, fire, earthquakes, flood, typhoon, long-term power outage, technical malfunctions, pandemics and other threats.

Security events/attacks which are normally prevented by security systems/devices need not be reported to the Bangko Sentral, except if the same involve significant financial value and/or multitude of customer accounts beyond BSFI's reasonable threshold levels. For instance, an attempt to fraudulently transfer funds involving large sums of money requires immediate notification to the Bangko Sentral as this can be a signal of impending attacks to other BSFIs.

b. Procedure for event-driven reporting. The following procedures shall be followed by BSFIs in reporting reportable major cyber-related incidents and/or disruptions of financial services and operations stated in Item *"a(2)"*of this Section (*Reporting and notification standards*):

(1) The BSFIs' Compliance Officer and/or BSFI-designated Officer shall notify the appropriate supervising department of the Bangko Sentral within two (2) hours from discovery of the reportable major cyber-related incidents and/or disruptions of financial services and operations stated in Item *"a(2)*" of this Section (Reporting and notification standards), in accordance with *Appendix S-2*.

(2) The BSFIs shall disclose, at the minimum, the nature of the incident and the specific system or business function involved.

(3) Within twenty-four (24) hours from the time of the discovery of the reportable major cyber-related incident and/or disruption, a follow-up report should be sent to the appropriate supervising department of the Bangko Sentral through e-mail indicating the following, as applicable:

(a) nature of the incident;
(b) manner and time of initial detection;
(c) impact of the incident based on initial assessment (e.g., length of downtime, number of affected customers/accounts, number of complaints received, value of transactions involved);
(d) initial response or actions taken/to be taken (e.g., conduct of root cause analysis) with respect to the incident; and
(e) information if the incident resulted in activation of the Business Continuity Plan (BCP) and/or Crisis Management Plan (CMP).

c. Verification of root cause. Depending on the nature and severity of the reported incident/disruption, the Bangko Sentral may require BSFIs to provide additional information or updates until the matter is satisfactorily resolved. Likewise, the Bangko Sentral may conduct special examination or overseeing inspection, if necessary, to verify root cause of the incident, assess the impact to the BSFI and the financial system as a whole, identify areas for improvement to prevent recurrence of the incident, and promote enterprise and industry-wide operational resilience.

d. Compliance with reporting of crimes and losses. Compliance with event-driven report requirement shall not excuse BSFIs from complying with the existing rules on the reporting of crimes and losses under Sec. 173 of the MORB and *Appendix S-3*. Likewise, any cyber-related incident which does not qualify as a reportable major cyber-related incident and other disruptions arising from crimes and losses must be reported to the Bangko Sentral in accordance with the aforesaid regulations. Operational risk events which are covered under Item *"a(2)"* on the event-driven reporting and notification requirements shall no longer require separate reporting and notification pursuant to Sec. 146-Q (*Notification/Reporting to Bangko Sentral*).

e. Information gathering. Should the conduct of in-depth studies and research on certain technology development or key area of concern relating to technology risk and cybersecurity be warranted, the Bangko Sentral, from time to time, may request BSFIs to submit specific data and information thereon through surveys, questionnaires or other means.

Sanctions and penalties. BSFIs should make available all policies and procedures and other documents/requirements related to the foregoing during on-site examination as well as provide copies thereof to the Bangko Sentral when a written request is made to determine their compliance with this Section.

Consistent with Sec. 002-S, the Bangko Sentral may deploy enforcement actions to promote adherence with the requirements set forth in this Section and bring about timely corrective actions. Any violation of the provisions of this Section, its appendices and annexes, shall subject the BSFI and/or its directors, officers, and/or employees to the monetary and non-monetary sanctions, as provided under existing laws, Bangko Sentral rules and regulations. Enforcement actions shall be imposed on the basis of the overall assessment of BSFIs' ITRMS. Whenever a BSFI's ITRMS is rated "1" pursuant to this Section, the following additional sanctions may be imposed:

a. Non-compliance with the requirements in Item *"b"* of this Section (*Reporting and notification standards*) will be subject to "High" penalty level monetary sanctions pursuant to Sec. 811-S *(Other Payments of NSSLAs)* and *Appendix* S-18. Consistent with Sec.002-S, the Bangko Sentral may deploy applicable enforcement actions on the BSFI and/or its directors, officers, and/or employees for violations on this requirement.

b. Annual IT Profile and other periodic reports which have been considered as erroneous, delayed or unsubmitted shall be subject to the penalties for *Category B* reports under Sec. 171 of the MORB.

On the requirement to adopt multi-factor authentication techniques for sensitive communications and/or high risk transactions pursuant to Item *"4.1.2"* of *Appendix Q-66*, the Bangko Sentral may issue directives to improve authentication and authorization procedures for sensitive communications and/or high risk transactions, or impose sanctions to limit the level of or suspend any electronic products and services that are not compliant with such requirements.

(Circular Nos. 1051 dated 27 September 2019, 1019 dated 31 October 2018, 982 dated 9 November 2017, and 958 dated 25 April 2017)

146-S BUSINESS CONTINUITY MANAGEMENT[1]

BSFIs can be adversely affected by disruption of critical operations due to internal and external threats, which may be natural, man-made or technical in origin. Extreme events may cause major disruptions whose impact are very broad in scope, duration or both and can pose a substantial risk to the continued operation of BSFIs. Because BSFIs play a crucial role in the financial system and economy as a whole, it is important to ensure that their operations can withstand the effects of major disruptions. Thus, BSFIs need to have a comprehensive business continuity management (BCM) process as an integral part of their operational risk management system. A well-designed BCM process enables BSFIs to resume critical operations swiftly and minimize operational, financial, legal, reputational, and other material risks arising from a disruption. This also helps mitigate systemic risks as well as maintain public trust and confidence in the financial system.

Purpose, applicability, and scope. The guidelines aim to promote sound management of business continuity risks. These align existing regulations, to the extent possible, with leading standards and recognized principles on BCM, and shall serve as the Bangko Sentral's baseline requirement for all BSFIs.

The guidelines shall apply to BSFIs which include banks, non-banks with quasi-banking function (NBQB), non-bank electronic money issuers and other non-bank institutions which under existing Bangko Sentral rules and regulations and special laws are subject to Bangko Sentral supervision and/or regulation. Moreover, subject guidelines shall also apply to BSFIs with offshore data processing as may be appropriate to their situation.

Definition of terms. In these guidelines, terms are used with the following meanings:

a. *Alternate and business recovery sites* shall refer to standby facilities for use during disruption of critical operations to ensure business continuity. These provide work space and/or the necessary technology environment needed to process business-critical information. Organizations may have more than one (1) alternate site. In some cases, alternate sites may involve facilities that are used for normal day-to-day operations but which are able to accommodate additional business processes when a primary location becomes inoperable. Examples of alternate sites include relocation and disaster recovery sites, whether managed directly or maintained by a third party for a BSFI or for use by multiple organizations.

b. *Business continuity* shall refer to a state of continued, uninterrupted operation of a business.

c. *BCM* shall refer to an enterprise-wide framework encompassing policies, standards, facilities, personnel and practices that provides for continuous functioning of the institution during disruptions. It is proportionate to the BSFI's internal and external risk exposures and tailored to the nature, scale, and complexity of its business.

d. *Business continuity plan (BCP)/plan* shall refer to a documented plan detailing the orderly and expeditious process of recovery, resumption, and restoration of business functions in the event of disruptions. It should be able to cover and establish linkages among its multiple components, such as communication plan, crisis management plan, contingency funding plan, and technology recovery plan.

e. *Business impact analysis (BIA)* shall refer to the process of identifying and measuring (quantitatively and qualitatively) the business impact or loss of business processes in the event of a disruption. It is used to identify recovery priorities, recovery resource requirements, essential staff, and dependencies (internal and external) to be incorporated in the plan.

[1] BSFIs shall comply with the foregoing standards on BCM within a period of one (1) year from 11 April 2017. In this regard, a BSFI should be able to show its plan of actions with specific timelines, as well as the status of initiatives being undertaken to fully comply with the provisions of Sec. 146-S starting July 2017, upon request of the Bangko Sentral.

f. *Crisis* shall refer to a situation that requires urgent action due to its disruptive impact on the BSFI's core activities or business and operating environment.

g. *Crisis management plan (CMP)* shall refer to a documented plan detailing the actions to be taken when a crisis strikes a BSFI and designed to maintain order amidst the confusion surrounding such situations. During and immediately after a crisis, the members of the crisis management team will convene and activate the plan to attain control over the crisis and minimize its impact to operations.

h. *Critical process* shall refer to any activity, function or service, which when lost would materially affect the continued operation of the BSFI.

i. *Cyber resilience* shall refer to an organization's ability to anticipate, handle, adapt to, and/or recover from evolving cyber threats.

j. *Events* shall refer to disruption scenarios such as loss of people, technology, alternate site, and service providers.

k. *Pandemic* shall refer to epidemics or outbreaks in humans of infectious diseases that have the ability to spread rapidly over large areas, possibly worldwide.

l. *Recovery point objective (RPO)* shall refer to acceptable amount of data loss should a disruption occur without severe impact on the recovery of operations.

m. *Recovery time objective (RTO)* shall refer to the period of time following an incident within which a product, system or business process must be resumed or resources must be recovered.

n. *Resilience* shall refer to the ability of an organization to anticipate, handle, adapt to and/or recover from a disruption and resume operations.

o. *Risk assessment* shall refer to the process involving the identification and assessment of potential threats and vulnerabilities that could severely interrupt a BSFI's business activities and the corresponding likelihood and magnitude of impact on business processes.

p. *Technology recovery plan (TRP)/Disaster recovery plan (DRP)* shall refer to a documented plan detailing the technology strategy and requirements during recovery for business and support functions. The relevant regulations are in Item *"3.3.2.13"* of *Appendix Q-64*.

Roles and responsibilities.

a. *Board of directors and senior management.* The BSFI's board and senior management are responsible for overseeing the implementation of a sound BCM process, which involves the creation and promotion of an organizational culture that places high priority on business continuity. This should be reinforced by providing sufficient financial and human resources associated with the BSFI's business continuity initiatives. Senior management should establish BCM policies, standards, and processes, which must be duly endorsed to and approved by the board.

Awareness training and periodic reporting to board and senior management on matters related to business continuity are equally important to ensure their continuing commitment and support. At a minimum, periodic management reports should include the following: (a) implementation status of the BCP; (b) incident reports; (c) plan test results;(d) changes to the plan; and (e) related action items to strengthen the BSFI's ability to recover during disruptions.

b. *BCM coordinator/unit.* Coordination and supervision of all business continuity activities should be assigned to a competent individual and/or unit with technical knowledge and experience consistent with the nature and complexity of the BSFI's business activities. A complex[1] BSFI may need a BCM unit with a team of departmental liaisons throughout the organization. For a simple BSFI, an individual BCM coordinator may suffice. While the BCM coordinator/unit may recommend initiatives or activities to be prioritized, the board and senior management are ultimately responsible for understanding the critical business processes and subsequently establishing plans to meet business process requirements in a safe and sound manner.

c. *BSFI personnel.* BSFI personnel should understand their roles and responsibilities on the prevention of crisis and recovery of business operations during disruptions. Business and support functions should allocate responsibilities for managing disruptions and provide clear guidance regarding the succession of authority to account for unavailability of key personnel in the event of a disruption.

[1] Pursuant to Sec. 147-Q, BSFIs are classified as *"simple"* but maybe re-classified as *"complex"* depending on extent or degree of reliance of core business functions or technology.

d. *Audit.* An independent review of the BSFIs' BCM framework and corresponding plans should be periodically performed with frequency based on a sound risk assessment process. This is to ensure that significant policy revisions resulting from changes in the operating environment, lessons learned from plan tests, and internal and regulatory audit recommendations have been considered. Moreover, plan testing exercises should be independently observed, verified, and evaluated to ensure reasonableness and validity of the testing process and the accuracy of test results.

Business continuity management framework. BSFIs should adopt a cyclical, process-oriented BCM framework, which, at a minimum, should include five (5) phases, namely: BIA and risk assessment, strategy formulation, plan development, plan testing, and personnel training and plan maintenance. This framework represents a continuous cycle that should evolve over time based on changes in business and operating environment, audit recommendations, and test results. This framework should cover each business function and the technology that supports it. Other related policies, standards, and processes should also be integrated in the overall BCM framework.

Figure 1. Business Continuity Management Process



a. *Business impact analysis and risk assessment.* A comprehensive BIA and risk assessment should be undertaken to serve as the foundation in the development of the plan. The BIA entails determining and assessing the potential impact of disruptions to critical business functions, processes, and their interdependencies through work-flow analyses, enterprise-wide interviews, and/or inventory questions. Accordingly, the BSFI should determine the recovery priority, RTO, RPO, and the minimum level of resources required to ensure continuity of its operations consistent with the criticality of business function and technology that supports it. The BSFI should then conduct risk assessment incorporating the results of the BIA and evaluating the probability and severity of a wide-range of plausible threat scenarios in order to come up with recovery strategies that are commensurate with the nature, scale, and complexity of its business functions.

Domestic systemically important banks (D-SIBs). To minimize the extent or impact of a D-SIB's failure in the financial system, BSFIs identified as D-SIBs by the Bangko Sentral, pursuant to Sec. 126-Q (*Domestic systematically important banks*), should set the RTO for each of their critical processes to a maximum of four (4) hours from the point of disruption. For non-D-SIB BSFIs, the RTO of critical processes should be primarily driven by their BIA and risk assessment.

b. *Strategy formulation.* Recovery and resumption strategies to achieve the agreed time-frame and deliver the minimum required services as identified in the BIA should be defined, approved, and tested. The minimum requirements for the provision of essential business and technology service levels during disruptions should be established by concerned business and support functions.

(1) *Recovery strategy.* As business resumption relies primarily on the recovery of technology resources, adequate provisions should be in place to ensure systems availability and recoverability during disruptions as prescribed under *Appendix Q-64.* Recovery strategies should be able to meet the agreed requirements between business units and support functions for the provision of essential business and technology service levels.

(2) *Continuity of operations/business resumption strategy.* The business continuity models adopted by the BSFI to handle prolonged disruptions should be based on the risk assessment of its business environment and the characteristics of its operations. The resumption strategies and resource requirements should be approved by the board as recommended by senior management or the relevant board committees to ensure alignment with corporate goals and business objectives.

c. *Plan development.* Plans are an important, tangible evidence of the BSFI's business continuity initiatives. The objective of the plan is to provide detailed guidelines and procedures on response and management of a crisis, recovery of critical business services and functions and to ultimately resume to normal operations. The plan should be formulated on an enterprise-wide basis, reviewed and approved by the board and senior management at least annually and disseminated to all concerned employees. The plan should include provisions for both short-term and prolonged disruptions.

A well-written plan should describe the various types of events or scenarios that could prompt BCP activation. It should include, at a minimum, the following components:

(1) Escalation, declaration and notification procedures;

(2) Responsibilities and procedures to be followed by each continuity or recovery teams and their members. The procedures should enable the BSFI to respond swiftly to a crisis (i.e., a crisis management plan) and to recover and resume the critical processes outlined in the plan within the stipulated time frame during disruptions;

(3) A list of resources required to recover critical processes in the event of a major disruption. This would include, but not limited to: (a) key recovery personnel; (b) computer hardware and software; (c) communication systems; (d) office equipment; and (e) vital records and data;

(4) Relevant information about the alternate and recovery sites; and

(5) Procedures for restoring normal business operations. This should include the orderly entry of all business transactions and records during disruption into the relevant systems up to completion of all verification and reconciliation procedures.

Communication is a critical aspect of a BCP. In this respect, the BSFI should include a communication plan for notifying all relevant internal and external stakeholders (e.g., employees, customers, vendors, regulators, counterparties, and key service providers, media and the public) following a disruption. The BSFI should maintain an up-to-date call tree and contact list of key personnel and service providers, including communication flow and channels for internal and external stakeholders. Clear and effective communication will facilitate escalation for appropriate management action and instruction to all concerned and help manage reputation risks. The BSFI should consider alternate methods of communication and preparation of pre-determined messages tailored to a number of plausible disruption scenarios to ensure various stakeholders are timely, consistently, and effectively informed.

A crisis management plan should be included in the BCP to assist senior management in dealing with and containing an emergency and avoid spillover effects to the business. Senior management should identify potential crisis scenarios and develop corresponding crisis management procedures. This includes identifying a mix of individuals from various departments who are authorized to make instantaneous decisions during crisis situations. This team shall be responsible for the actual declaration of an event, activation of the plan, and internal and external communication process.

When outsourcing plan development, management should ensure that the chosen service provider has the expertise required to analyze the business needs of the BSFI and that the arrangement conforms with legal and regulatory requirements. The service provider should be able to design executable strategies relevant to the BSFI's risk environment and design education and training programs necessary to achieve successful BCP deployment.

d. *Plan testing*

(1) *Types of testing methods.* Plan testing is a vital element of the BCM. It ensures that the plan remains accurate, relevant, and operable. Tests should be conducted periodically, with the nature, scope, and frequency determined by the criticality of the applications, business processes, and support functions. In some cases, plan tests may be warranted due to changes in BSFI's business, responsibilities, systems, software, hardware, personnel, facilities, or the external environment.

Testing methods can vary from simple to complex each bearing its own characteristics, objectives, and benefits. Types of testing methods in order of increasing complexity include:

(a) *Tabletop exercise/structured walk-through test* – the primary objective is to ensure that critical personnel from all areas are familiar with the plan and that it accurately reflects the BSFI's ability to recover from a disruption.

(b) *Walk-through drill/simulation test* – similar to a tabletop exercise but with a more focused application. During this test, participants choose a specific scenario to which relevant plan provisions shall be applied.

(c) *Communication/call tree test* – an exercise that validates the capability of crisis management teams to respond to specific events and the effectiveness of the call tree notification process in disseminating information to employees, vendors, and key clients.

(d) *Alternate site test/exercise* – tests the capability of staff, systems, and facilities, located at alternate sites to effectively support production processing and workloads.

(e) *Component test/exercise* – A testing activity designed to validate the continuity of individual systems, processes, or functions, in isolation.

(f) *Functional drill/parallel test* – test to determine capability of alternate site and BSFI employees to support strategy as defined in the plan, which involves actual mobilization of personnel, establishing communications, and recovery processing.

(g) *Enterprise-wide full-interruption/full-scale test* – the most comprehensive type of test encompassing the entire organization and requires activation of all the components of the plan at the same time to simulate a real-life emergency and processing data and transactions using back-up media at the recovery site.

(2) *Test policy/plan.* Testing should be viewed as a continuously evolving cycle. The BSFI should incorporate the results of BIA and risk assessment and work towards a testing strategy that increases in scope and complexity to address a variety of threat scenarios. Test scenarios should vary from isolated system failures to wide-scale disruptions and promote testing its primary and alternate facilities, as well as with key counterparties and third-party service providers.

A testing policy should define roles and responsibilities for the implementation and evaluation of the testing program. Test plans with pre-determined goals and test criteria should be developed for each testing activity. It should clearly define the objectives of testing, identify the functions, systems, or processes to be tested and the criteria for assessing what constitutes a successful test. Formal testing documentation (i.e., test plans, test scenarios, test procedures, test results) should be prepared to ensure thoroughness and effectiveness of testing and properly maintained for audit and review purposes.

(3) *Annual enterprise-wide business continuity testing.* The BSFI must conduct an enterprise-wide business continuity test at least annually, or more frequently depending on changes in the operating environment, to ensure its plan's relevance, effectiveness, and operational viability. The scope of testing should be comprehensive to cover the major components of the plan as well as coordination and interfaces among important parties.

(4) *Analysis and report of test result.* Plan tests, including successes, failures, and lessons learned, should be thoroughly analyzed to promote continuous BCM improvement. Exceptions noted should be documented and corrective actions should be closely monitored to ensure that they are implemented in a timely manner by concerned parties, including the board and senior management, business line management, risk management, IT management, and other internal stakeholders.

e. *Personnel training and plan maintenance.*

(1) *Training Program.* A business continuity training program should be provided to all concerned employees to promote awareness, familiarity, and understanding of their roles and responsibilities in the event of a disruption. The training program should be offered on a continuing basis for existing and new employees and should be updated to address changes to the plan.

(2) *Plan maintenance.* Plans and results of BIA and risk assessment should be reviewed and updated on an ongoing basis (at least annually or when necessary) so that they remain consistent with the BSFI's current operations and business strategies. BCM-related documents (i.e., BCP, test program, policy guidelines, and program requirements) should be subject to change management process to ensure these are updated with proper approval and documentation with respect to any significant changes in the business environment or as a result of audit findings.

Other policies, standards and processes. The following policies, standards and processes should be integrated into the BCM process:

a. *Pandemic planning.* Similar to natural disasters or technical disruptions, pandemics may also interrupt a BSFI's business activities. However, the difficulty in determining a pandemic's scope and duration present additional challenges in ensuring resilience and continuity of a BSFI's operations.

Generally, pandemic plans are integrated in the BSFI's BCP and follow the same BCM process with additional considerations, such as:

(1) *Business impact analysis and risk assessment.* The BCM process should consider pandemics as early as the BIA and risk assessment phase. The BIA and risk assessment should be updated to incorporate complexities that may arise from pandemics, such as (1) increasing level of absenteeism based on a pandemic's severity; and (2) the need for another layer of contingency plans as regular disaster or emergency response methods are no longer feasible.

(2) *Strategy formulation.* To complement strategies for natural and technical disruptions, the following should be given due consideration when planning for pandemics:

(a) *Trigger events* – Trigger events and strategies should be defined depending on the nature of a pandemic. Pandemic planning should have the flexibility to accommodate varying degrees of epidemic or outbreak as pandemics normally occur in waves or phases and of varying severity.

(b) *Remote access capability* – In the event of a pandemic, enabling remote access may be one of the primary strategies available to a BSFI. To support a telecommuting strategy, the BSFI should ensure adequate capacity, bandwidth and authentication mechanisms in its technological infrastructure against expected network traffic or volume of transactions.

(c) *External parties* – With pandemics not limited to the BSFI, establishing working relationships with external parties is an essential component. In addition to the communication plan for all relevant internal and external stakeholders, the BSFI should establish open relationships and communication channels with local public health and emergency response teams or other government authorities. The BSFI should inform concerned parties of any potential outbreaks and, at the same time, be aware of any developments in the expected scope and duration of a pandemic.

(d) *Employee awareness* – As information becomes available from reputable sources or local agencies, the BSFI should ensure that steps to limit or reduce the risk of being affected by the pandemic are cascaded to its employees.

(3) *Plan development.* Pandemic plans should be commensurate to the nature, size and complexity of a BSFI's business activities and have sufficient flexibility to address the various scenarios that may arise. At a minimum, the pandemic plan should include:

(a) Strategy that is scalable dependent on the extent and depth of the outbreak;
(b) Preventive measures, including monitoring of current environment and hygiene tools available to employees;
(c) Communication plan with internal and external stakeholders, including concerned local public health teams and government agencies; and
(d) Tools, systems and procedures available to ensure continuity of its critical operations even with the unavailability of BSFI's staff for prolonged periods.

(4) *Plan testing.* Test policy/plan should include strategies to assess capability to continue critical operations, systems and applications even in the event of a severe pandemic. When regular tests are unable to cover pandemic scenarios, separate pandemic plan tests should be carried out.

(5) *Personnel training and plan maintenance.* The plan should be updated as developments and information become available. As needed, employee training programs should cover pandemic risks, including the roles and responsibilities of each employee during pandemic situations.

b. *Cyber resilience.* Cyber-threats and attacks against the financial services industry have become increasingly widespread, sophisticated and coordinated. Recent cyber-attacks worldwide highlight, not only the degree of disruption to a BSFI's operations, but also the extent of reputational damage which could undermine public trust and confidence. As such, the BSFI should consider the potential impact of these cyber events into its BCM process and institute adequate cyber resilience capabilities.

Given the unique characteristics of cyber-threats and attacks, traditional back-up and recovery arrangements adopted by the BSFI may no longer be sufficient and even increase the damage to the BSFIs' network, operations and critical information assets. In worst case scenarios, back-up systems and alternate recovery sites are likewise affected rendering both sites inoperable. To ensure cyber resilience, the BSFI should take into consideration a wide-range of cyber-threat scenarios perpetrated from diverse threat sources (e.g., skilled hackers, insiders, state-sponsored groups) which seek to compromise the confidentiality, availability and integrity of its information assets and networks. Defensive strategies and innovative recovery arrangements should be explored that are commensurate with the BSFI's cyber-security risk exposures and aligned with its information security program in accordance with *Appendix Q-62*.

c. *Information security.* Mitigation strategies should consider security controls to manage risks that may arise once an event triggers plan activation. Security during disasters and disruptions is an important consideration to manage risks arising from the change in working environment. The relevant guidelines/standards on information security that may be considered in strategy formulation and/or in choosing alternate sites are in *Appendix Q-62*.

d. *Interdependencies.* An effective plan coordinates across its many internal and external components, identifies potential process or system dependencies, and mitigates risks from interdependencies. The BSFI may have very complex operating and recovery environment wherein interdependencies need to be duly considered, such as telecommunications, third party service providers, and recovery site. Given the critical resources and services that are being shared with the BSFI or other entities, additional mitigating controls and recovery strategies need to be integrated in the plan.

e. *Liquidity risk management.* Sound liquidity risk management practices enable a BSFI to maintain availability of funds even in times of financial stress or adverse changes in market conditions. In the event of a business disruption, sound liquidity risk management practices should similarly apply. The BSFI should ensure it has sufficient liquidity to support its recovery strategies and continue supporting the delivery of basic banking services to the clients pending full business resumption. Guidelines on liquidity risk management are in *Appendix Q-43*.

f. *Project management.* Senior Management should ensure that availability and business continuity requirements are considered at the planning and development stages of new business products and services and other critical technology processes, such as systems development and acquisition, and change management.

g. *Event/problem management.* Operations personnel should be properly trained to recognize events that could trigger implementation of the plan. Although an event may not initially activate the plan, it may become necessary as conditions and circumstances change. Management should train and test BSFI personnel to implement and perform appropriate business continuity procedures within the timeframes of the plan.

h. *Outsourcing.* When a BSFI enters into an outsourcing arrangement, it should put due consideration on the business continuity and disaster recovery arrangements of the service provider to ensure continuity of operations. Detailed guidelines/standards on business continuity considerations for outsourcing arrangements are in *Appendix Q-65*.

i. *Insurance.* Insurance is an option available to a BSFI for recovery of losses that cannot be completely prevented and the expenses related to recovering from a disruption. The BSFI should regularly review the adequacy and coverage of its insurance policies in reducing any foreseeable risks caused by disruptive events, such as loss of offices, critical facilities and equipment, and casualty. Insurance policies may also need to address the BSFI's legal responsibilities for failing to deliver services to its customers and counterparties. To facilitate the claims process, the BSFI should create and retain a comprehensive hardware and software inventory list in a secure off-site location and detailed expenses should be documented to support insurance claims.

Supervisory enforcement actions. BSFIs should make available all policies and procedures and other documents/information related to the foregoing during on-site examination as well as provide copies thereof to the regulator when a written request is made to determine compliance.

Consistent with Sec. 002-S, the Bangko Sentral may deploy enforcement actions to promote adherence with the requirements set forth in this Section and bring about timely corrective actions. The Bangko Sentral may issue directives to improve the BCM process, or impose sanctions to limit the level of or suspend any business activity that has adverse effects on the safety and soundness of the BSFI, among others. Monetary and non-monetary sanctions, as provided under existing laws, Bangko Sentral rules and regulations, may likewise be imposed on a BSFI and/or its directors, officers and/or employees for violation of this Section.

(Circular Nos. 1051 dated 27 September 2019 and 951 dated 20 March 2017)

147-S SOCIAL MEDIA RISK MANAGEMENT[1]

Social media, a low-cost solution capable of disseminating real-time information via the internet, presents vast opportunities for growth, customer engagement and business benefits as usage, customer reach and adoption scale up and become widespread and ubiquitous. Considering these potential benefits alongside exponential growth in the number of social media users and its massive reach, BSFIs have started to leverage on social media platform/s to promote their business and improve customer interaction experience to help drive business objectives/strategies.

Similar to any new technology, however, social media introduces a new attack vector which may expose BSFIs to compliance, legal, reputational, strategic, and operational risks. Risks in social media include susceptibility to account take-over, malware distribution, brand bashing, inadvertent disclosure of sensitive information and privacy violation, among other possible threats. As such, BSFIs should adopt an appropriate risk management system, commensurate to the extent

[1] BSFIs shall comply with the foregoing standards on social media risk management within a period of six (6) months from 04 April 2017. In this regard, a BSFI should be able to show, upon request of the Bangko Sentral, its plan of actions with specific timelines, as well as the status of initiatives being undertaken to fully comply with the provisions of this Section.

and degree of their social media usage, to effectively identify, measure, manage and monitor risks arising from the use of social media platforms. This should form an integral part of their operational risk management system.

***Applicability and scope*.** The guidelines underscore the importance of having a well-defined social media risk management strategy in supporting BSFI's overall business goals and objectives. These guidelines align existing regulations, to the extent possible, with leading standards and recognized principles. They outline the minimum standards/basic principles that shall govern the BSFI's framework to aid in the sound management of risks associated with the use of social media for official purpose or employees' personal use, within and outside the organization.

It is not intended to provide procedural specifics or a "one-size-fits-all" solution for carrying out compliance and risk management responsibilities. Each BSFI is therefore expected to establish its own risk management strategy; suitable to its size, risk tolerance level, and the nature and scope of social media activities engaged in.

The guidelines shall apply to all BSFIs which include banks, NBQB, non-bank electronic money issuers, and other non-bank institutions which under existing Bangko Sentral rules and regulations and special laws are subject to Bangko Sentral supervision and/or regulation.

Definition of terms. In these guidelines, terms are used with the following meanings:

a. *Attack vector* shall refer to the path or means by which an attacker can gain access to a computer system in order to deliver a malicious code (e.g., virus, worms, trojans).

b. *Non-technical controls* shall refer to management, administration, and operational controls employed that are manual and procedural in nature (e.g., security-related policies and procedures; operational procedures; personnel, physical, and environmental security controls; performance management and measurement).

c. *Risk assessment* shall refer to the process involving the identification and assessment of potential threats and vulnerabilities related to the use of social media and determination of the likelihood that the threat will occur as well as the corresponding impact to the business should the threat occur.

d. *Social media* shall refer to online communication channels dedicated to community-based content generation and sharing, interaction, and collaboration.

e. *Social media platform* shall refer to any form of interactive communication medium wherein users can generate and disseminate content (e.g., text, images, audio, video) through social networks using the internet. Examples of popular social media platform categories include the following:

   (1) Social networking (e.g., Facebook, LinkedIn)
   (2) Micro-blogging (e.g., Twitter, Tumblr)
   (3) Blogging (e.g., Wordpress, Blogger)
   (4) Photo Sharing (e.g., Flicker, Instagram, Pinterest)
   (5) Video Sharing (e.g., Youtube, Vimeo, Vine)
   (6) Crowdsourcing (e.g., Ushahidi, Inc.)

f. *Technical controls* shall refer to the controls incorporated into the computer hardware, software, or firmware to aid in the effective implementation of policies and standards (e.g., access control, authentication, web scanner/crawler).

Social media risk management system. BSFIs should establish an appropriate framework that will result in sound social media governance and risk management. At a minimum, the framework shall include the following elements:

a. Clearly defined governance structure indicating the roles and responsibilities of the board of directors and senior management in setting the direction on the BSFI's use of social media, including its alignment to the BSFI's strategic goals/plans; establishing adequate standards, policies, procedures, and controls; and implementing ongoing risk assessment of social media-related activities.

   The board of directors shall be primarily responsible for defining the BSFI's risk tolerance level, understanding the nature and degree of risks the BSFI will be exposed to, and ensuring that these risks are properly addressed. Moreover, the board of directors, as part of its duties, shall approve and oversee the design and implementation of the social media strategy; related standards, policies and procedures; and means to ensure compliance with said standards and/or policies as well as applicable laws and regulations. Senior management, on the other hand, shall be responsible for the implementation of the social media risk management system approved by the board of directors.

The governance process should also include reporting mechanisms to the board of directors and/or senior management to enable periodic evaluation of the effectiveness of the BSFI's social media strategy/program, in terms of achieving its stated objectives, and measures put in place to manage the risks related to its use.

b. Policies and procedures governing the following, among others:

(1) Scope and definition of social media;

(2) Social media regulatory landscape reflecting applicable laws, rules and regulations for compliance;

(3) Individuals and/or composition of the team/s who will be responsible for the creation, maintenance, and monitoring of the BSFI's proprietary social media sites/pages. Their corresponding roles and accountabilities should also be clearly defined;

(4) Content management and approval process;

(5) Ongoing assessment, management, and monitoring of risks associated with social media-related activities;

(6) Acceptable use as well as prohibitions/restrictions on the business/official use of social media platforms. These guidelines shall likewise apply to the employees'[1] personal use of social media, insofar as it may impact the BSFI's operations, reputation and/or compliance with applicable laws and regulations. These should cover matters such as, but not limited to, expectations, ethical behavior, types/nature and extent of BSFI and/or customer-related information that can be posted, statements that can or cannot be made about or in behalf of the institution, comments that should not be made about a competitor, and corresponding sanctions/penalties for inappropriate use of social media and committing non-permissible activities;

(7) Use and monitoring of the BSFI's proprietary social media sites/pages to ensure compliance with applicable laws, regulations and internal policies;

(8) Monitoring and recording of suspicious transactions and customer activities on the BSFI's proprietary social media sites/pages;

(9) Adoption of technical and non-technical controls to address risks associated with the use of social media platform/s including methodologies to manage risks from online postings, edits, replies and retention;

(10) Due diligence process for selecting, managing and continuous monitoring of third-party service providers (TSP) that administer the BSFI's social media site(s)/page(s). In addition, the specific roles and responsibilities of the TSP, including liabilities and accountabilities for errors, omissions, fraud, and other instances, resulting from the TSP's actions, which may adversely affect the BSFI, should also be defined;

(11) Social media crisis management plan and escalation procedures;

(12) Enterprise-wide employee training and awareness programs covering relevant topics such as the BSFI's social media use policies, employee roles and responsibilities and non-permissible activities;

(13) Records retention of social media data; and

(14) Communication of the BSFI's official social media sites/pages to its customers to avoid confusion and being misled to unofficial sites.

c. Specific roles and responsibilities of the risk management, consumer protection, audit and compliance functions to ensure that social media risks are adequately managed and integrated in the BSFI's enterprise-wide risk management systems.

BSFIs that do not utilize social media should nevertheless have clear policies and measures in place to address the potential reputation risks that may arise within the various social media platforms and provide guidance on employee use of social media.

Compliance with relevant regulations. BSFIs, in formulating and implementing their social media policies, should ensure compliance with the applicable requirements of Bangko Sentral rules and regulations on financial consumer protection, especially those relating to disclosures and transparency in advertising and promotional materials, protection of client information, effective recourse, and financial education and awareness. They should likewise conform with the relevant provisions of Bangko Sentral outsourcing framework should they decide to outsource the conduct of social media-related activities to a service provider.

[1] Include the BSFI's employees, contractual employees and/or project hires, and third-party service providers.

The use of social media platforms, including information gathered therein, for the conduct of account origination activities should comply with applicable rules and regulations, especially on the provisions relating to customer identification procedures under the existing anti-money laundering rules and regulations. In the event that BSFIs opt to use social media for processing financial transactions, the applicable Bangko Sentral rules and regulations on electronic payment and financial services and technology risk management should likewise be observed to ensure security, reliability and authenticity of such transactions.

The regulations mentioned herein are not exhaustive. It is the BSFI's responsibility to ensure that all applicable laws and regulations relevant to the activities it will choose to engage in using social media will be adequately complied with. Moreover, the BSFI is expected to stay abreast of and continuously adapt to changes in the regulatory requirements.

Supervisory enforcement actions. BSFIs should make available all policies and procedures and other documents/information related to the foregoing during the on-site examination as well as provide copies thereof when a written request is made to determine compliance.

Consistent with Sec. 002-S, the Bangko Sentral may deploy enforcement actions to promote adherence with the requirements set forth in this Section and bring about timely corrective actions. The Bangko Sentral may issue directives to improve the social media risk management system or impose monetary and non-monetary sanctions on a BSFI and/or its directors, officers and/or employees.

(Circular Nos. 1033 dated 22 February 2019 and 949 dated 15 March 2017)

148-S REPUTATIONAL RISK MANAGEMENT

The guidelines on reputational risk management of QBs under Sec. 151-Q shall govern the reputational risk management of BSFIs to the extend applicable.

The guidelines set out the supervisory expectations and the minimum prudential requirements in managing reputational risk. A BSFI is expected to adopt a reputational risk management framework that is commensurate to its size, nature and complexity of operations, overall risk profile, and systemic importance.

(Circular No. 1114 dated 16 April 2021)

149-S GUIDELINES FOR THE ADOPTION OF OPEN FINANCE FRAMEWORK[1]

Policy Statement. It is the thrust of the Bangko Sentral to promote an enabling environment that fosters innovation, encourages coopetition, and advances financial inclusion while safeguarding the integrity and stability of the financial system. In line with this, the Bangko Sentral is introducing the Open Finance Framework that aims to empower customers by giving them better control over their personal and financial data catalyzing the development of products and services that are responsive to their needs.

The Open Finance Framework espouses consent-driven data portability, interoperability, and collaborative partnerships among financial institutions and third-party providers (TPPs). Under the framework, financial institutions and TPPs can leverage on permissioned-access customer financial information to develop bespoke financial products and services for customers. The Open Finance Framework subscribes to the principle that "customers are the owners of personal and transaction data" hence, information shall only be shared with the consent of the customers.

Coverage. The Open Finance Framework covers technology, products, services, information, and policies that enable customers to securely share their financial data with qualified parties, either BSFIs or TPPs.

Definition of Terms. The terms used in this Section shall be defined as follows:

a. *Account Information Service Provider (AISP)* refers to an information technology service and/or software solution provider that processes data and provides an alternative access point to multiple sources of data other than payment transactions;

b. *Application Programming Interfaces (APIs)* refer to a set of rules and specifications for software programs to communicate with each other, forming an interface between different programs to facilitate interaction;

c. *Customer-permissioned data* refers to data held by Participants (e.g., customer transactions, personal identification data, and customer financial history) that are permissioned by the Participants' customer to be accessed by a third party (and possibly shared onwards with fourth parties if covered by the customer's consent);

[1] All existing API arrangements prior to the creation of this Section, i.e. 17 June 2022, they shall comply with the applicable requirements prescribed herein within one (1) year from 13 July 2021. In cases awaiting policy-setting or further clarifications, compliance timetable shall be further determined by the OFOC.

d. *Open Finance* refers to leveraging on and sharing of customer-permissioned data among banks, other financial institutions, and TPPs to develop innovative financial solutions, such as among others, those that provide real-time payments, promote greater transparency to account holders, and provide marketing and cross-selling opportunities to banks, other financial institutions, and TPPs;

e. *Open Finance Standards* refer to the recommended standards in implementing the Open Finance Framework that takes into account various factors, including the financial industry's level of readiness to adopt such standards and the overall benefits arising from such standardization;

f. *Open API*, also known as external or public API, refers to a software technology interface that provides a means of accessing data based on a public standard;

g. *Open Data* refers to publicly obtainable data that is published by Participants, including, but not limited to financial products, service information, and other public information;

h. *Open Access* refers to allowing authorized third parties to access consented data without needing to establish a business relationship with the Open API publisher;

i. *Payment Initiation Service Provider (PISP)* refers to a registered operator of payment systems (OPS), as defined under Republic Act (R.A.) No. 11127 – The National Payments Systems Act and clarified in Part 1, Section 101 of the Manual of Regulations for Payment Systems (MORPS), that carries out payment orders at the request of payment service users in connection with payment accounts held at other payment service providers;

j. *Third party providers* or TPPs refers to any external legal entity such as service providers, integrators, solutions vendors, and/or infrastructure support that interact with BSFIs to provide services to customers. They are classified as either AISP and/or PISP, however, other TPP classification may be created by the Open Finance Oversight Committee (OFOC), as deemed applicable;

k. *Participant* refers to the entities covered by the Open Finance Framework such as the BSFIs and TPPs;

l. *Open API publisher* refers to the Participant that keeps/is the custodian of customer data;

m. *Third party* refers to the Participant who has open access to customer-permissioned data residing in another Participant (publisher) through the Open API; and

n. *Fourth party* refers to an outsourcing partner or a service provider of a third party.

Governance Framework. The Bangko Sentral shall recognize an Open Finance Oversight Committee (OFOC), an industry-led self-governing body, that shall exercise governance over the activities and Participants of the Open Finance Ecosystem. The OFOC shall be subject to the regulation and supervision of the Bangko Sentral.

The Bangko Sentral shall facilitate the establishment of the OFOC in coordination with industry stakeholders. For this purpose, the initial set of members of the OFOC shall be comprised of representatives from each bank classification, non-bank financial institutions, electronic money issuers, operators of payment systems, TPPs, and other relevant sectors, as determined by the Bangko Sentral. The OFOC shall:

a. Adopt membership and participation rules that are non-discriminatory to ensure that key areas of interest of the financial industry are adequately represented and that all members and applicants for membership are treated fairly and consistently.

b. Define the functions, roles, and responsibilities of the Committee and the Participants. It shall adopt policies in monitoring Participants' compliance with the established policies and in handling non-compliance thereto including the corresponding sanctions or penalties for non-compliance.

c. Adopt standards, agreements, policies, and guidelines (Conventions) governing the Open Finance Framework which shall be consistent with relevant laws, rules and regulations and regional/global standards. At the minimum, these shall cover the following:

   (1) Registration/On-boarding of non-BSFI Participants;
   (2) API standards reference or other equivalent documentation;
   (3) Authorization, authentication, and encryption requirements for each product/service tier;
   (4) Disclosure and transparency requirements as prescribed under Sec. 1002-Q ;
   (5) Consent management;
   (6) Protection of client information including responsible data handling as well as data privacy and protection;
   (7) Reciprocity arrangement among Participants;
   (8) Economic model; and

(9) Consumer protection and effective recourse as prescribed under Part Ten .

d. Cooperate with and extend fullest assistance permissible to the Bangko Sentral and other regulators in enforcing applicable laws and regulations, in promoting adherence to this Framework.

Consistent with the provisions of Sec. 002-S, the Bangko Sentral reserves the right to deploy its range of supervisory tools to promote adherence to the requirements and expectation set forth in this Framework. In this regard, the Bangko Sentral may issue directives to or impose sanctions against the OFOC, such as suspension or revocation of any authority of the OFOC (including any or all of its generally authorized activities), without prior notice, to promote the safety and soundness of the financial system and/or to protect Participants, its customers, or the general public.

Registration Standards. BSFIs with a composite rating of at least "3" under the Supervisory Assessment Framework (SAFr), or its equivalent, are automatically eligible to become Participants of the Open Finance Ecosystem. On the other hand, those that do not meet the minimum rating must secure prior Bangko Sentral approval to participate in the Open Finance Ecosystem. Participants which are not under the regulation and supervision of the Bangko Sentral shall comply with the applicable registration requirements set by the OFOC, pursuant to pertinent laws, rules and regulations of the Bangko Sentral and other relevant authorities. Participants shall be responsible for ensuring fourth party compliance with applicable laws, rules and regulations.

Open Finance Standards. The OFOC shall issue guidelines aimed at ensuring that:

a. access to and participation in the standard-setting process, including any planning and consultation activities, is non-discriminatory;
b. the standards development process is transparent; and
c. the Open Finance Standards will be accessible to all qualified parties.

The API standards reference or other equivalent documentation that shall be developed by the OFOC shall meet the recommended technical standards to facilitate industry-wide adoption, and shall cover, at a minimum, the following:

(1) *API Architecture Standards.* These shall comprise, among others, reference for Open API specifications, including communication protocols, and architecture types. Participants are encouraged to adopt recognized industry-wide architectural styles such as Representational State Transfer (REST) and Simple Object Access Protocol (SOAP);

Data Standards. These shall include data formats, data structures, and related data protection and privacy rules to enable Participants to share data and information accurately and efficiently. Participants shall adopt data formats which are recognized by the industry such as, but not limited to, JavaScript Object Notation (JSON), Extensible Markup Language (XML), Comma Separated Values (CSV), and Structured Query Language (SQL). The "data dictionary" shall be published online, with sufficient level of detail to facilitate third party understanding and adoption;

(2) *Security Standards.* These shall cover minimum security compliance requirements, guidelines, and specifications that must be met by Participants, including authentication, authorization, and encryption. Participants should always refer to industry sound practices, relevant regulatory, and internal requirements, and apply holistic controls on information and cybersecurity based on a risk- and principles-based approach to protect their systems as well as financial and consumer data. At a minimum, Participants shall adopt the latest and robust authorization and authentication protocols that are adequate for the risks presented by Open Access, such as, but not limited to, multi-factor authentication, Transport Layer Security (TLS)/Advanced Encryption Standard (AES)/Hashed Message Authentication Code (HMAC) encryption standards and OAuth 2.0 authentication standard. Participants should use more secure methods for sharing data, such as token-based authentication through APIs. The API must be designed in such a way that the end-user access shall be limited to data that the end-user has permission to see or process. These access rights must be appropriately recorded, verified, measured, and audited. In terms of secure hosting, PCI DSS and ISO 27001 are most desired; and

(3) *Outsourcing Standards.* These shall refer to the management of risks arising from outsourcing activities particularly those involving data disclosure and confidentiality, data privacy and protection, data management such as procedures for accessing and processing data, obtaining consent, contract management, security, performance monitoring and business continuity, among others.

Adoption of Open Finance Standards and Publication of Open APIs. All Participants that intend to provide Open Access shall adopt the Open Finance Standards and shall comply with relevant laws and pertinent Bangko Sentral regulations particularly on Outsourcing, Operational Risk Management, IT Risk Management, Internal Control, Anti-Money Laundering/Countering the Financing of Terrorism, Financial Consumer Protection, and sound corporate governance principles, among others.

Open Finance Standards may be revised periodically to address emerging issues or to improve the Open API functionalities. To facilitate third party adoption, Participants shall publish detailed Open API documentation and ensure consistency with the latest version of Open Finance Standards.

Tiered Approach towards Open Finance Standards Adoption. Open Finance Standards shall be classified into five (5) tiers based on data sensitivity, data type, and data holder type. The tiers are not necessarily sequential, and multiple implementations may occur simultaneously.

a. *Tier 1* – Product and Service Information. Refers to "read-only" information on financial data and other details of financial products/services that is readily accessible online and can be freely used, reused, and redistributed by any entity such as deposit/lending rates, credit card offerings, service charges and other public data.

b. *Tier 2* – Subscription and New Account Applications. Includes customer acquisition and account opening processes, along with facilitating digital application and submission of supporting documents. Applications for deposits, loans, debit/credit cards, and other financial products are covered under this category.

c. *Tier 3* – Account Information. Refers to personal (e.g., name, registered address, phone numbers, etc.) and financial information provided by a customer at any given time or other details pertaining to the account of authenticated customers for stand-alone or aggregated views. This consists of, but are not limited to, data types such as account balance, credit card outstanding balance, transaction records, credit limit change, and credit score.

d. *Tier 4* – Transactions. Covers payments and other financial transactions such as scheduled payments and transfers initiated by customers.

e. *Tier 5* – Others. Covers other more complex financial products or use cases and those that are not covered by tiers 1-4.

Cooperative Regulatory Oversight. The Bangko Sentral duly recognizes that other regulatory/supervisory authorities may be involved in the Open Finance Framework as this would involve other Participants that are not under the supervisory ambit of the Bangko Sentral. In this regard, the Bangko Sentral shall coordinate with the concerned regulatory authority with respect to the implementation of the Open Finance Framework.

Regulatory Sandbox

The Bangko Sentral seeks to provide a regulatory environment that is conducive for the deployment of innovative financial services, including the development of standards for Open Finance. In line with this, the Bangko Sentral will permit innovation in Open Finance, such as but not limited to, the development of an industry API sandbox, in which Open APIs can be deployed and tested in a live environment and within specified parameters and timeframes.

Recommendation to Build a Central API Sandbox. While API providers will be encouraged to develop local sandboxes, it is recognized that costs may present a barrier and further incentives may be required. Thus, the Bangko Sentral encourages the OFOC to establish a central sandbox for testing developers and for other purposes related to local sandbox development (e.g., outsourcing sandbox development to trusted parties). The OFOC shall ensure that the central sandbox (i) implements all levels of security for APIs and (ii) contains a set of executable tests that API developers can use to validate compliance. The OFOC shall provide the executable tests to developers free of charge so that barriers to entry are avoided.

The OFOC shall maintain a list of approved Use Case API Services[1] with defined technical and security standards. This list shall include clear mechanisms and guidelines for providing the API services (e.g., basic APIs such as Authentication, Account Information, Transfers, etc.). The Use Case list per API service is a list that will be regularly updated based on new API innovations that have been reviewed by the Bangko Sentral or other relevant governing body.

Consumer Protection. Participants shall adopt customer awareness measures to, at the minimum, educate their customers on the following: (i) safeguarding of information; (ii) use of the Open API; (iii) actual fees and charges related to the access of information and performance of transactions; (iv) fair and equitable terms and conditions; (v) products and services appropriate to the capacity and risk appetite of the consumer; and (vi) problem resolution procedures. Participants shall disclose, prior to entering an initial transaction and on an ongoing basis, all material risks to their clients in a manner that is clear, fair and not misleading. Participants shall carry out initiatives to give consumers the knowledge, skills, and confidence to understand and evaluate the information they receive and empower them to make informed financial decisions.

[1] All existing API arrangements prior to the issuance of Circular No. 1122 dated 17 June 2021, they shall comply with the applicable requirements prescribed herein within one (1) year from 13 July 2021. In cases awaiting policy-setting or further clarifications, compliance timetable shall be further determined by the OFOC.

Data Privacy and Data Protection. Each contract relating to the implementation or use of Open API shall contain a clause for the recognition by each party that the customers have ownership over their data being collected and processed through the transaction, and that they have all the rights enumerated under R.A. No. 10173 (Data Privacy Act of 2012). This views that while customer and transaction data are in the custody of the Open API publisher, their rights to control the use of such data is limited to the boundaries of the consent the customer provided. All Participants shall comply with relevant requirements of the Data Privacy Act of 2012, its Implementing Rules and Regulations, and other National Privacy Commission issuances.

Dispute Mechanism*.* Participants shall have an adequate, prompt, and effective mechanism or procedure for handling and resolving disputes covering Open Finance issues aligned with agreed Conventions, as applicable.

User Consent and access to opt-in and opt-out mechanisms*.* Proper mechanisms shall be in place to ensure customers' private information is not used for purposes that are against their interests. The customers should, at all times, not only be educated and informed but they must also consent to how their data is being used and be provided with opt-in and opt-out mechanisms if and when they want to withdraw or modify the scope of their consent. Customers must be periodically informed as to how the Participants have utilized their permissioned data within a given period. Proper mechanisms based on industry standards shall be in place in providing a consent management portal/service that is interoperable, open, and has extensible information structure for recording obtained consents, consent duration, timestamp and opted-in/opted-out services, among others.

(Circular No. 1122 dated 17 June 2021)

150-S CREDIT RISK MANAGEMENT; POLICY STATEMENT

It is the policy of the Bangko Sentral to ensure that NSSLAs under its supervision have adequate and effective credit risk management systems commensurate to their lending operations. Towards this end, the following guidelines on credit risk management set forth the expectations of the Bangko Sentral with respect to the comprehensive management of credit risk. The guidelines convey the principles and sound practices that shall be embedded in the credit risk management framework of NSSLAs and shall cover the following areas:

a. establishing an appropriate credit risk environment;
b. operating under a sound credit granting process; and
c. maintaining appropriate credit administration, measurement, monitoring and control processes over credit risk.

While NSSLAs may employ different approaches in the management of their credit risk, the Bangko Sentral expects that all these areas are effectively addressed.

Evaluation of credit risk management system*.* The Bangko Sentral shall evaluate the NSSLAs' credit risk management systems. It will not restrict the credit risk-taking activities of NSSLAs: *Provided,* That extension of credit is made to eligible members and credit risk is effectively managed. Consistent with the credit risk management guidelines, the Bangko Sentral expects that an NSSLA:

a. Understands, identifies, measures, monitors and controls all risks attendant to the NSSLA's credit risk-related activities;

b. Adopts a credit risk management system that provides assurance to the members, other stakeholders and the supervisory authority that good quality of the credit portfolio is maintained and that the NSSLA operates in a safe and sound manner; and

c. Maintains capital commensurate with the risk exposure assumed.

Otherwise, the Bangko Sentral may direct the NSSLAs to reduce its exposure to an appropriate level and/or to strengthen its risk management system.

In evaluating the above parameters, the Bangko Sentral shall consider the following factors:

a. The NSSLA's business strategies, operating environment and the competencies of its trustees, officers and personnel; and
b. The major sources of the NSSLA's credit risk exposure and the complexity and level of risk posed by the assets and liabilities.

A. Establishing an Appropriate Credit Risk Environment

Role of the Board and Senior Management

a. *Board of Trustees****.*** The board of trustees shall ensure that it fully understand all the risks attendant to the NSSLA's credit activities and shall be responsible for the approval and regular review of credit risk strategy and credit policy, as well as the oversight of the implementation of a comprehensive and effective credit risk

management system appropriate for the size, complexity and scope of operations of an NSSLA. The board shall ensure that the system provides for adequate policies, processes and procedures to identify, measure, monitor and control all credit risks inherent in an NSSLA's products and activities, both at the individual and portfolio levels on a consistent and continuing basis; and that an independent assessment of the system is periodically performed, the results of which shall be reported to it or to a board-level committee for appropriate action.

b. *Senior Management*. Senior management shall be responsible for ensuring that the credit risk-taking activities of an NSSLA are aligned with the credit risk strategy approved by the board of trustees. It shall also be responsible for developing and implementing an NSSLA's credit policies and procedures that lay down the conditions and guidelines for an effective credit risk management process, as well as proper channels of communication to ensure that these policies are clearly communicated and adhered to by all levels within the NSSLA.

NSSLAs shall conduct their lending operations with independence and fairness relative to their dealings with members, agents and entities employing their members or paymaster/cashier/treasurer of such entities, as the case may be.

For new products and activities, the board of trustees and senior management shall ensure that it fully understand the risk involved therein and put in place adequate policies, procedures and controls to identify, measure, monitor and manage risks before being introduced or undertaken.

Credit risk management structure. Senior management or an appropriate level of management shall implement a board-approved credit risk management structure that clearly delineates lines of authority, and establishes accountabilities and responsibilities of individuals involved in the different phases of the credit risk management process.

Depending on the size, complexity and scope of credit activities, and in addition to the roles and responsibilities of the board and senior management, an NSSLA's credit risk management organization may be broadly classified into the following functional lines of activities to properly segregate accountabilities, ensure that no individual is assigned conflicting responsibilities, and effectively monitor and control the risks being taken:

a. Front Office: credit origination, classification, provision of allowances for losses including changes thereon, when necessary and the monitoring of credit exposures of member-borrowers on a day-to-day basis;

b. Back Office: credit administration, including, among others: ensuring complete documentation, credit disbursement and recording of payments received; maintenance of credit and collateral files; and compilation of management information reports; and

c. Middle Office: credit review, problem loan management, and risk management/control.[1]

The structure shall likewise provide for independent audit of the credit risk management system of the NSSLA. The scope of internal audit shall include, among others, the evaluation of the independence and overall effectiveness of the credit review function.

For simple NSSLAs[2]: (1) the problem loan management function may still be performed by the credit originating function and/or unit responsible for monitoring the quality of such credit; and (2) the independent credit review function may be concurrently performed by qualified personnel fulfilling other independent control oversight functions (e.g., compliance, internal audit).

All personnel or staff involved in the credit risk management process shall be qualified, competent and have the necessary training and experience to exercise prudent judgment in assessing, managing and/or controlling credit risk, and a solid understanding of an NSSLA's strategic direction, policies, procedures, risk tolerance and limits. Their qualification standards, roles and responsibilities shall be clearly defined in the credit operating policies and procedures manual of the NSSLA. The board and senior management shall ensure that adequate resources and appropriate level of staffing are allocated to execute all kinds of credit activities.

Credit policies, processes and procedures. NSSLAs shall have in place sound, comprehensive and clearly defined credit policies, processes and procedures consistent with prudent standards, practices, applicable laws and relevant regulatory requirements adequate for their size, complexity and scope of operations. The board-approved policies, processes and procedures shall cover all phases of the credit risk management system.

[1] The risk management function shall report directly to the Risk Management Committee (RMC) or appropriate board-level committee or the board.

[2] Simple NSSLAs shall refer to NSSLAs which, due to operational limitations, are not classified as Complex NSSLAs. Complex NSSLAs shall refer to institutions declared by the Bangko Sentral as such with total assets of at least P5 billion and having at least any one (1) of the following characteristics: (1)Extensive membership base such as those which membership extends to employees/retirees of two or more companies/agencies/institutions, and/or their relatives, and/or with serious issue on the "well-defined" group requirement under R.A. No. 8367 (Revised NSSLA Act of 1997); or (2)Use of non-conventional business model, such as those using non-traditional delivery platform such as electronic platforms and agents.

The credit policy shall:

a. Articulate the credit culture which reflects the NSSLA's values, beliefs and behaviors;
b. Be periodically reviewed and changes thereon must be approved by the board; and
c. Have appropriate line of accountability.

These policies, processes and procedures shall be documented in sufficient detail, and periodically reviewed and updated to take into account new activities and products, as well as new lending approaches. To promote constant awareness and guidance within the NSSLA, these shall be communicated and disseminated to all levels of the NSSLA.

B. Operating Under a Sound Credit Granting Process

Credit granting and loan evaluation/analysis process and underwriting standards. Consistent with safe and sound lending practice, NSSLAs shall grant credit to eligible members in allowable amounts and periods of time, and after ascertaining that the member-borrowers are capable of fulfilling their commitment to the NSSLA. Towards this end, an NSSLA shall establish well-defined credit-granting criteria and underwriting standards, which shall duly consider the purpose and structure of the credit, source of repayment and collection cycle.

An NSSLA shall conduct its credit assessment in a holistic and prudent manner, taking into account all relevant factors that could influence the prospect for the loan to be repaid according to its terms and conditions. This shall include an appropriate consideration of the member-borrowers' existing debt obligations with the NSSLA and other financial institutions/credit granting entities and repayment history, as well as an assessment of whether the loan can be expected to be repaid without causing undue hardship and over-indebtedness. NSSLAs shall ensure that their credit policies and underwriting standards still consider reasonable cost of living, while the terms and conditions of the loans do not prejudice members' welfare.

NSSLAs shall factor into their credit-granting decisions, the likelihood of providing allowance for credit losses and holding adequate capital to absorb unexpected losses for credits with apparent weaknesses.

NSSLAs may utilize collaterals (e.g., real estate, capital contribution, deposits), and other financial instruments (e.g., insurance) to help mitigate risk in credit exposures. However, these shall not substitute for a comprehensive assessment of the member-borrower's creditworthiness or fully compensate for insufficient information. NSSLAs shall establish:

a. adequate policies in determining the acceptability of various forms of credit risk mitigants and appropriate collateral value limits;
b. procedures for regularly assessing the value of physical collaterals and availability of financial guarantees; and
c. a process to ensure that said collaterals are, and continue to be, enforceable, realizable and marketable.

Credit approval process. The approval process for new credits as well as the amendment, renewal and restructuring of existing credit exposures shall be aligned with the credit risk management structure and clearly articulated in an NSSLA's written credit policy. It shall also include an escalation process where approval for restructuring of credits, policy exceptions or excesses in internal limits, is escalated to units/officer with higher authorities, as approved by the board of trustees.

The said policies must also cover the escalation processes and procedures, including approving authorities, in resolving cases of re-billing and handling of accounts falling under extra-ordinary circumstances that may adversely affect the quality of the individual loan account and total loan portfolio.

Renewal. NSSLAs shall put in place policies and procedures on renewal of loans. A loan renewal shall supersede the original loan. Credits and other accommodations shall only be renewed:

a. Upon re-establishment of the creditworthiness of the borrower using the same credit-granting criteria for the evaluation and approval of new loans; and
b. When the corresponding accrued interest receivable has been paid.

C. Maintaining an Appropriate Credit Administration Process

Credit Administration. NSSLAs shall have in place a system for the ongoing administration of their various credit portfolios. Credit administration refers to activities that support and control extension and maintenance of credit. NSSLAs shall ensure the efficiency and effectiveness of the following credit administration functions:

a. *Credit documentation.* Policies and procedures shall be put in place to ensure completeness of documentation, including a file documentation tickler system, execution of the loan transaction, and enforceability of documents.

For each loan granted by an NSSLA, a promissory note must be executed by the member-borrower in favor of the NSSLA expressing particulars such as the amount of the loan, date granted, due date, interest rate and other similar information. In addition, member-borrowers must execute an authorization requiring the payroll or its equivalent to make deduction from their salary the amount specified in the contractual obligation and remit such deduction to the NSSLA;

b. *Disbursement*. Proper approval shall be obtained and complete documentation shall be ensured prior to disbursement. Exceptions, if any, shall be duly approved;

c. *Billing and repayment*. Payments received shall be properly recorded. Measures shall be in place to ensure that late payments are tracked and collected; and

d. *Maintenance of credit files*. Credit files shall include sufficient and updated information necessary to ascertain the financial condition of the member-borrower and include documents covering the history of an NSSLA's relationship with the borrower. All loan and collateral documents shall be kept in a secured area in NSSLA premises under joint custody.

For billing and repayment, on the basis of properly executed authorization to deduct from member-borrowers, the billing policies shall expressly provide information on the methodologies, timing and frequency, and bases of billing through the salary or pension remittance systems. In the case of loans payable over-the-counter or means other than through salary-deduction scheme, the policies shall also provide for the mechanics and requisites thereof, specifically on the use of collection agents/representatives or its equivalent.

For each loan granted, the NSSLA expects repayment based on terms agreed upon with member-borrowers. Upon receipt of the first amortization, it is assumed that the succeeding periodic amortizations are collected continuously thereafter. Accordingly, normal collection period (NCP) shall be defined as the period from the date of loan release to the date the NSSLA is able to collect the first periodic amortization of a loan payable by installment, or full settlement in the case of loans payable by balloon payment. The NCP shall be incorporated in the NSSLA's credit policies and considered in its loan review and monitoring system in order to reflect the true status of loan accounts and ensure that adequate loss provisioning is provided.

For repayments remitted through payroll or pension systems, the NCP shall be set by the NSSLA's board of trustees based on the recent collection history (e.g., last three years) and/or remittance periods specified in contracts with private companies or government units required to deduct and remit amounts due from employee- or retiree-members of such NSSLAs. This should be supported by documentary evidences that sufficiently justify the length of time identified as the NCP. In no case, however, shall the NCP exceed four (4) months from the date of release of the loan. For over-the-counter payments, the cure period as specified under Sec. 307-S (*Accounts considered past due*) shall apply instead of the NCP.

However, when repayments of loans through payroll/pension systems are beyond the established NCP and/or there are shortfalls in contracted amortizations, the NSSLA needs to determine whether these situations may be considered as extra-ordinary circumstances. Extra-ordinary circumstances are triggered by events or conditions beyond the control[1] of the NSSLA; the effect of which may apply to a specific product or group of members rather than on an individual basis; and there is reasonable basis to assess that the member-borrowers' repayment capacity is not impaired.

For these extra-ordinary circumstances, the board of trustees shall adopt and implement:

a. Policies and mechanism towards the proper identification and declaration of situations considered as extra-ordinary given their operating environment;
b. Commensurate policies and processes of measuring, monitoring and controlling the risks falling under extra-ordinary circumstance; and
c. Effective Management Information System (MIS) towards adequate and timely generation of data, reports and feedback on extra-ordinary accounts.

The Board and Management are expected to adequately support by documentary evidences the identification of extra-ordinary circumstances and that the loans are not impaired. The Bangko Sentral is not precluded from validating the said identification and non-impairment for the purpose of ascertaining the condition of the loans.

Occurrence of events beyond the control of the NSSLA which have indications that member-borrowers' repayment capacity is compromised and may result in impairment of loans (e.g., member-borrower's absence without official leave, termination from employment, early retirement, etc.) shall not be considered as falling under extra-ordinary circumstances. In which case, the loans shall be subject to appropriate work-out strategy, adverse classification and loss provisioning.

[1] For example, collective delay in remittance due to payroll or pension system issues, unilateral move by employers or by law to increase net-take home pay requirements

D. Maintaining an Appropriate Credit Measurement, Monitoring and Control Process

Credit Risk Measurement. NSSLAs shall adopt sound and appropriate risk measurement methodologies which shall provide a framework to control and monitor the quality of credit as well as total loan portfolio. To ensure adherence to the NSSLA's risk tolerance, it shall implement an internal credit grading system that enables the identification of the credit behavior and measurement of the risk profile of member-borrowers.

NSSLAs shall develop a contingency plan for scenarios and outcomes that involve credit risk in excess of the NSSLAs' established risk tolerance. This plan may include increasing monitoring, limiting portfolio growth and exit strategies for both significant individual transactions and key portfolio segments.

Credit Risk Management Information and Reporting Systems. NSSLAs shall render accurate, reliable and timely information and reports relating to credit risk management. Thus, adequate management information and reporting systems shall be in place to support the identification, measurement and monitoring of credit risk and the overall effectiveness risk management process. The information generated from such systems shall enable the board and all levels of management to fulfill their respective oversight roles, including determining the level of capital commensurate with the credit risk exposure of the NSSLA.

a. At a minimum, an effective MIS shall enable NSSLAs to:

   (2) Provide adequate information on the quality and composition of the credit portfolio (including off-balance sheet accounts);

   (3) Determine accurately the level of credit risk exposures of an NSSLA through its various activities (e.g. renewal and extension of loans, collection process, status of delinquent accounts, write-offs, provisioning, among others);

   (4) Timely identify and monitor credit risk concentrations, exposures approaching risk limits, exceptions to credit risk limits and overrides to ensure that policy and underwriting deviations as well as breaches and other potential problems are promptly reported to the board and management for appropriate corrective action;

   (5) Aggregate credit exposures to individual borrowers and family group; and

   (6) Permit additional analysis of the credit portfolio, including stress testing;

b. Maintain a database for research and use of analytical techniques, report exposures, track quality and account performances, and maintain limits; The credit policy shall clearly define the types of information and reports to be generated, frequency of reporting, deadline of submission, and the users/recipients of and personnel responsible for the preparation of such information and reports; and

c. NSSLAs shall provide sufficient controls to ensure the integrity of the MIS. Reports shall be periodically reviewed to ensure adequacy of scope and reliability and accuracy of the information generated. Internal audit shall also periodically assess the controls over MIS.

Credit Monitoring. To ensure that timely and adequate board/management action is taken to maintain the quality of the NSSLA's credit portfolio and other risk assets, and that adequate loss provisioning is set up and maintained at a level sufficient to absorb the loss inherent in the credit accounts, an NSSLA shall establish an effective monitoring system appropriate to its risk profile. The said system, which shall be clearly articulated in the policies and procedures, shall consist of processes and information systems to effectively monitor the condition and quality of individual loan/risk asset and the entire portfolio, and determine the appropriate allowance for credit losses (ACL).

This shall include criteria that identify and report problem credits to reasonably assure that they are appropriately monitored as well as administered and provided for.

The system should be able to, among others, provide measures to ensure that: a. the board and management are kept informed of the current financial condition of the member-borrowers and the various credit portfolios; b. loan covenants are consistently adhered to; c. cash flow projections meet repayment requirements; d. prudential and internal limits are not exceeded; and e. potential problem credits and other transactions are identified. Exceptions, breaches and potential problems noted shall be promptly reported to board/management for corrective action, possible classification and/or provisioning and more frequent monitoring.

NSSLAs shall monitor compliance with prudential and internal limits on a regular basis. Substantial exposures, as the NSSLA may set, shall be subject to more intensive monitoring. For this purpose, NSSLAs shall maintain a central liability ledger system for each borrower. This system shall allow monitoring of: a. exposures against prescribed and internal limits on a daily basis; b. asset quality indicators (e.g., non-performing loans, collateral values, etc.); and c. trends in loan growth to identify potential weaknesses in the portfolio.

Credit Review Process

a. NSSLAs shall implement an independent and objective credit review process to determine: (1) that credits are granted in accordance with the NSSLA's policies and procedures; (2) overall asset growth and quality (e.g., PD/NPL, write-offs and recoveries), including appropriateness of classification and adequacy of booked loss reserves and loan-loss provisioning consistent with the minimum standards required in Appendix S-9;(3) trends in the portfolio (segmentation as to loans to employee-members, retiree-members and immediate family-members); and (4) emerging problems (e.g., risk concentration, risk migration, and deficiencies in credit administration, measurement and monitoring processes).

b. NSSLAs may employ an appropriate sampling methodology to determine the scope of credit review. At a minimum, credit review shall be conducted on all individual borrowers with substantial exposures, and on a group basis to factor in the connections among related parties in a borrowing group. Credit review for credits that are similar in purpose or risk characteristics may be performed on a portfolio basis. The portfolio sample selected for review shall provide reasonable assurance that all major credit risk issues have been assessed and valid conclusions can be drawn. Moreover, sampling methodology shall be documented and periodically reviewed to ensure its quality and minimize bias.

c. Credit review shall also evaluate credit administration function and ensure that credit files are complete and updated, and that all loan approvals and other necessary documents have been obtained.

d. Credit reviews shall be performed at least annually, and more frequently for substantial exposures, new accounts and classified accounts. Assessments shall be promptly discussed with the officers responsible for the credit activities and escalated to senior management.

e. Results of the credit review shall be regularly and promptly reported to the board of trustees or the proper board-level committee for their appropriate action. The board shall mandate and track the implementation of corrective action/s in instances of unresolved deficiencies and breaches in policies and procedures. Deficiencies shall be addressed in a timely manner and monitored until resolved/corrected.

Credit Classification and Provisioning

a. *Classification of Loans and Other Credit Accommodations*[1]. NSSLAs shall have in place a reliable credit classification system to promptly identify credit exposures with potential or existing problem and determine appropriate ACL. All credit classifications, not only those reflecting severe credit deterioration, shall be considered in determining the appropriate ACL.

During a transitory period of three (3) years from 25 September 2019, NSSLAs shall be subject to the regulatory guidelines in setting up ACL prescribed in *Appendix S-8.*

(1) All NSSLAs shall map their classification of loans and other credit accommodations against the regulatory classification criteria provided below. However, NSSLAs are encouraged and not precluded from using additional criteria provided they are consistent with the regulatory classification, as follows:

(a) *Pass*. These are loans and other credit accommodations that do not have a greater-than-normal credit risk. The member-borrowers has the apparent ability and willingness to satisfy their obligations in full.

(b) *Especially Mentioned (EM).* These are loans and other credit accommodations that have potential weaknesses that deserve management's close attention. If left uncorrected, such weakness/(es) may affect the repayment of the loan. Some degree of structural weakness may be found in virtually any aspect of the loan arrangement or type of loan, and the presence of one (or more) need not be indicative of an overall credit weakness deserving criticism. Instead, the NSSLA must evaluate the relative importance of such factors in the context of the member-borrower's overall financial capacity and relationship with the NSSLA. Basic characteristics include, but are not limited to, any of the following:

(i) Deficiencies in underwriting, documentation, structure and/or credit administration that can compromise an NSSLA's ability to control credit relationship if economic or other events adversely affect the borrower;

(ii) Continuous renewal without reduction in principal, except when the capacity to pay of the borrower has been clearly re-established;

[1] Other credit accommodations include accounts receivables, sales contract receivables, accrued interest receivables and advances.

(iii) Adverse economic or market conditions, that in the future may affect the member-borrower's ability to meet scheduled repayments. Loans and other credit accommodations affected by these characteristics may retain the EM classification in the next examination should the same adverse conditions persist: *Provided,* That the loans remain current; or

(iv) Intermittent delays or inadequate repayment of principal, interest or periodic amortizations of loans and other credit accommodations granted by the NSSLA or by other financial institutions, where such information is available.

(c) *Substandard***.** These are loans and other credit accommodations that have well-defined weakness/(es), which may jeopardize repayment/liquidation in full, either in respect of the cash flow or financial position, which may include adverse trends or developments that affect willingness or repayment ability of the member-borrower. Basic characteristics include any of the following:

(i) Weak financial condition and results of operation of the employer that leads to the member-borrower's inability to generate sufficient cash flow for debt servicing;
(ii) Past due secured loans and other credit accommodations where properties offered as collateral have been found with defects as to ownership or with other adverse information;
(iii) Breach of any key financial covenants/agreements that will adversely affect the capacity to pay of the borrower; or
(iv) Classified "Especially Mentioned" as of the last credit review without adequate corrective action.

(d) *Doubtful*. These are loans and other credit accommodations that exhibit more severe weaknesses than those classified as "Substandard", whose characteristics on the basis of currently known facts, conditions and values make collection or liquidation highly improbable, however the exact amount remains undeterminable as yet. Classification as "Loss" is deferred because of specific pending factors that may strengthen the assets. Some basic characteristics include any of the following:

(i) Secured loans and other credit accommodations where property/ies offered as collateral are (aa) either subject to an adverse claim rendering settlement of the loan through foreclosure doubtful, or (bb) whose value have materially declined without the borrower offering additional collateral for the loan/s to cover the deficiency; or

(ii) Loans and other credit accommodations wherein the possibility of loss is extremely high but because of certain important and reasonable pending factors that may work to the advantage and strengthening of the loan, its classification as an estimated loss is deferred until the next credit review.

(e) *Loss***.** These are loans and other credit accommodations that are considered uncollectible or worthless and of such little value that their continuance as bankable assets is not warranted although the loans may have some recovery or salvage value. This shall be viewed as a transitional category for loans and other credit accommodations that have been identified as requiring write-off during the current reporting period even though partial recovery may be obtained in the future. Their basic characteristics include any of the following:

(i) When the borrower's and co-makers'/guarantors' whereabouts are unknown, or they are insolvent, or their earning power is permanently impaired; or
(ii) Where the collateral securing the loans are without recoverable value.

(2) Split classification may apply for non-performing secured loans and other credit accommodations, depending on the recoverability and liquidity of the collateral. The secured portion may be classified as "substandard" or "doubtful", as appropriate, while the unsecured portion shall be classified as "loss" if there is no other source of payment other than the collateral.

(3) NSSLAs may upgrade a classified loan or restore it to a "pass" rating: *Provided,* That it does so on the basis of a written policy on the upgrading of classification or rating and the credit review function is reliable and effective. Such policy shall include a comprehensive analysis of the repayment capability/financial strength of the borrower and the corrective actions made on the weaknesses noted to support the upgrade in classification. Upgrading may be supported by the following developments:

(a) When all arrears or missed payments on principal and interests including penalties have been cleared rendering the account to be fully compliant with the original terms of the loan;

(b) Upon establishing that the weaknesses were substantially addressed and that the borrower has exhibited a sustained trend of improvement and willingness and capability to fully pay its loans and advances in a timely manner to justify the upgrade;

(c) Offering of new or additional collateral security; or

(d) In the case of restructured loans, the classification shall only be upgraded after establishing a satisfactory track record of at least six (6) consecutive payments of the required amortization of principal and interest, or until the borrower has sufficiently exhibited that the loan will be fully repaid (continued collection in accordance with the terms of the loans is expected) and the loan meets the criteria of lower loan classification.

b. *Transitory period to develop loan loss estimation methodology.*

After three (3) years from 25 September 2019, NSSLAs may develop and adopt a sound loan loss estimation methodology that: (1) can reasonably estimate provisions for loans and other credit accommodations and risk assets in a timely manner, using their experience and research and this guidance to ensure that the ACL[1] are adequate and (2) is fundamentally anchored on the principle of recognizing expected credit loss (ECL) in accordance with the provisions of Philippine Financial Reporting Standards 9 (PFRS 9). In such case, NSSLAs shall refer to *Appendix Q-57*. Otherwise, NSSLAs shall remain subject to the regulatory guidelines in setting up ACL prescribed in *Appendix S-8.*

c. *Loan Loss Estimation Methodology, Provisioning and ACL*

(1) An NSSLA's loan loss methodology shall consider the following:

(b) Written policies and procedures for the credit risk management systems and controls inherent in the methodology, including roles and responsibilities of the NSSLA's board of trustees and senior management;

(c) A detailed analysis of the entire loan portfolio performed on a regular basis;

(d) Accounting of the NSSLA's lending activities which adequately consider a realistic view of the uncertainty and risks inherent in these activities. Loan accounting policies and practices shall be selected and applied in a consistent way that reasonably assures that loan and loan loss provision information is reliable and verifiable;

(e) Identification of loans to be evaluated individually and segmentation of the remaining portfolio into groups of loans with similar credit risk characteristics for collective assessment.

(ii) *Individually assessed loans*. NSSLAs shall establish a materiality threshold for significant credit exposures that will warrant an individual assessment, which threshold shall be regularly reviewed.

The loan loss estimates shall reflect consideration of the facts and circumstances that affect the repayment of each individual loan as of the evaluation date. The following factors are relevant in estimating loan losses for individually assessed loans:

(aa) Significant financial difficulty of the borrower;
(bb) Probable bankruptcy or other financial reorganization of the borrower;
(cc) Breach of contract, such as a default or delinquency in interest or principal payments; or
(dd) Concession granted by the NSSLA, for economic or legal reasons relating to the borrower's financial difficulty, which would not otherwise be considered.

The methodology shall include procedures describing the determination and measurement of the amount of any impairment, the impairment measurement techniques available and steps performed to determine which technique is most appropriate in a given situation; or

(iii) *Collectively assessed loans*. NSSLAs may use different methods to group loans for the purpose of assessing credit risk and valuation considering the following characteristics: loan type, product type, market segment, credit risk grading and classification, collateral type, geographical location and past-due status. Estimated credit losses shall reflect consideration of the NSSLA's historical net charge-off rate[2] of the groups, adjusted for changes in trends, conditions and other relevant factors that affect repayment of the loans in such groups as of the evaluation date, and applied consistently over time;

(f) The quality and net realizable values of physical collateral and other guarantees and credit risk mitigants incorporated in the loan agreement, where applicable;

[1] ACL represents the aggregate amount of individual and collectively assessed probable credit losses.
[2] The historical net charge-off rate is generally based on the annualized historical gross loan charge-offs, less recoveries, recorded by the NSSLA.

(g) Address the methods used to validate models, if any, for credit risk assessment;

(h) The analyses, estimates, reviews and other provisioning methodology functions shall be performed by competent and well-trained personnel and be well documented, with clear explanations of the supporting analyses and rationale; and

(i) Use experienced credit judgment. Assessment of expected losses shall be based not only on prescriptive rules or formula but must be complemented with experienced credit judgment by the appropriate levels of management. The scope for actual discretion shall be prudently within the following constraints:

(i) Experienced credit judgments shall be subject to established policies and procedures;
(ii) With approved and documented analytical framework for assessing loan quality applied consistently over time;
(iii) Estimates shall be based on reasonable and verifiable assumptions and supported by adequate documentation; and
(iv) Assumptions concerning the impact on borrowers of changes in general economic activity, both favorable and unfavorable, shall be made with sufficient prudence.

The method of determining loan loss provisions shall reasonably assure the timely recognition of loan losses. While historical loss experience and recent economic conditions are reasonable starting point for the institution's analysis, these factors are not, by themselves, sufficient basis to determine the appropriate level of aggregate loan loss provisions. Management shall also consider any current factors that are likely to cause loan losses to differ from historical loss experience, including changes in the following:

(i) Lending policies and procedures, including underwriting standards and collection, charge-off, and recovery practices;

(ii) National and local economic and business conditions and developments, including the condition of various market segments;

(iii) Trend, volume and severity of past due loans and loans graded as low quality, as well as trends in the volume of impaired loans, troubled debt restructurings and other loan modifications;

(iv) The experience, ability, and depth of management and staff of lending operations/ department/unit;

(v) Changes related to new market segments and products;

(vi) Quality of the NSSLA's loan review system and the degree of oversight by senior management and board of trustees;

(vii) The existence and effect of any concentrations of credit, and changes in the level of such concentrations; and

(viii) Credit risk profile of the loan portfolio as a whole as well as the effect of external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the NSSLA's current portfolio.

Experienced credit judgment shall also be used to determine an acceptable period that will yield reliable historical loss rates, as loss rate periods shall not be restricted to a fixed time period to determine the average historical loss experience for any group of loans with similar credit risk characteristics. An NSSLA shall maintain sufficient historical loss data over a full credit cycle to provide robust and meaningful statistical loan loss estimates for establishing the level of collective impairment losses for each group of loans with similar credit risk characteristics. When applying experienced credit judgment, an NSSLA shall provide a sound rationale for excluding any historical loss data that is deemed not representative of the performance of the portfolio.

(j) NSSLAs shall set up general loan loss provision (GLLP) equivalent to one percent (1%) of the outstanding balance of assessed loans for which no specific provisions are made and/or for which the estimated loan losses are less than one percent (<1%), less loans which are considered non-risk under existing laws, rules and regulations.

(k) NSSLAs shall ensure the adequacy of the ACL for the entire loan portfolio. They shall have a policy for the regular review of the ACL, which shall be conducted at least semi-annually after considering results of the credit review, level of classified loans, delinquency reports, historical losses and market

conditions. Failure to make adequate provisions for estimated future losses, if any, may result in material misrepresentation of an NSSLA's financial condition.

Credit Workout and Remedial Management of Problem Credits. NSSLAs shall develop and maintain a disciplined and vigorous process for the early identification and intervention for potential or existing problem credits. The process shall ensure that timely and adequate management action is taken to maintain the quality of the credit portfolio, prevent further deterioration, and minimize the likelihood of future losses.

a. Problem credits refer to credits that display signs of potential problems and/or well-defined weaknesses such as those not performing according to the terms of the contract, or with credit quality impairment, or deficiencies relating to their approval and/or conduct that are not in keeping with sound and prudent credit policies. These shall include past due loans, non-performing loans and restructured loans.

b. NSSLAs shall adopt appropriate and cost effective workout, restructuring or remedial management policies, processes and strategies to revive and recover problem credits. The strategies shall take into account the specific condition of the obligor and the NSSLA's interest, and shall be approved by the board of trustees or management, in accordance with internal policy.

c. At a minimum, the policies and strategies shall cover the following areas:

(1) authority and responsibilities of officers and staff in managing problem credits;
(2) collection strategy to be adopted for different types of loans;
(3) restructuring and handling of restructured accounts and/or loans for workout;
(4) supervision and monitoring of loan recovery performance;
(5) management and disposal of real and other properties acquired (ROPA), including appraisal process;
(6) management information system to support the reporting, monitoring and decision making processes;
(7) defined timelines and provision for regular monitoring; and
(8) other strategies, such as the use of collection agencies, and criteria for hiring a consultant on problem credits.

d. Restructuring strategies

(1) Restructuring may be resorted to for the purpose of lessening the financial difficulty of the borrower towards full settlement of his obligation, and restructuring agreements shall always take into account the borrower's capacity to pay his obligation and available credit enhancements such as financial guarantees and physical collateral. Thus, NSSLAs shall have full discretion on whether to restructure loans in order to provide flexibility in arranging the repayment of such loans without impairing or endangering the NSSLA's interest.

(2) Accounts shall not be restructured unless the financial capacity of the obligor to repay has been re-established, the events or crises that triggered the financial stress had been identified, and the nature and extent of protection of the NSSLA's exposure had been determined, to justify the need for restructuring.

(3) At a minimum, the classification and provisioning of a loan, prior to the execution of the restructuring agreement shall be retained until the borrower has sufficiently exhibited that the loan will be fully repaid.

(4) A second restructuring of a loan shall be allowed only if there are reasonable justifications: *Provided,* That it shall be considered a non-performing loan and classified, at least, *"Substandard".* The restoration to a performing loan status and/or upgrading of loan classification, e.g., from *"Substandard"* to *"Especially Mentioned",* may be allowed if circumstances warrant an upgrading in accordance with this Section (*Credit workout and remedial management of problem credits)*.

(5) When restructuring of exposures is pursued, this shall not be under terms more favorable than those transacted with others and shall be approved by the board, excluding the trustee-borrower, if any.

(6) Physical collaterals offered, such as real estate, shall be appraised by an independent appraisal company (not a subsidiary or an affiliate of the NSSLA) acceptable to the Bangko Sentral at the time of restructuring and every year thereafter to ensure that current market values are being used. A credit exposure benchmark of ₱1.0 million for simple FIs and ₱5.0 million for all other NSSLAs shall be observed, such that physical collaterals for credit exposures beyond this amount will require an independent appraisal.

e. Problem credits, including restructured accounts, shall be subjected to more frequent review and monitoring. Regular reports on the status of loan accounts and progress of any remedial plan shall be submitted to management to facilitate an informed decision whether escalated remedial actions are called for.

Writing Off Problem Credits. Policies for writing off problem credits must be approved by the board of trustees in accordance with existing rules and regulations, and shall incorporate, at a minimum, well-defined criteria (i.e., circumstances, conditions and historical write-off experience) under which credit exposures may be written off. Procedures shall explicitly narrate and document the necessary operational steps and processes to execute the policies.

Policies and procedures shall be periodically reviewed and if necessary, revised in a timely manner to address material internal changes (e.g., change in business focus) or external circumstances (e.g., changes in economic conditions).

NSSLAs shall write-off problem credits, regardless of amount, against ACL or current operations within a reasonable period as soon as such problem credits are determined to be worthless as defined in the NSSLAs' written policies.

Policies shall define and establish the reasonable period of time within which to write-off loans already classified as "loss". There shall be no undue delay in implementing write-offs. Notice for write-off of problem credits shall be submitted in the prescribed form (*Appendix S-14*) to the appropriate supervising department of the Bangko Sentral within forty-five (45) calendar days after every write-off, with a sworn statement signed by the President of the NSSLA or officer of equivalent rank that the write-off did not include transactions with trustees and officers, direct or indirect, and was undertaken in accordance with board-approved internal credit policy.

An effective monitoring and reporting system shall be in place to monitor debts written off and future recoveries. Progress on recovery shall be periodically reported to the board of trustees. A database of loan accounts written off shall be maintained and must be periodically reviewed for updates on individual loan borrower's information, including the effects of write-offs to membership eligibility.

Enforcement Actions. The Bangko Sentral reserves the right to deploy its range of supervisory enforcement actions to promote adherence to standards and principles set forth in these guidelines, bring about timely corrective actions and compliance with Bangko Sentral directives and ensure that NSSLAs operate in a sound, lawful and orderly manner. Non-observance of the provisions of this Section may subject the NSSLA, its trustees and officers to appropriate sanctions.

Enforcement actions shall be based on a holistic assessment to determine if NSSLAs adopt appropriate credit risk management practices and/or maintain capital commensurate with the risk assumed based on existing rules and regulations. These may include, but are not limited to, the following:

a. Corrective Actions. These are measures intended to primarily require NSSLAs to rectify any deviations from the standards and principles expected in the conduct of their credit risk-taking activities to address the negative impact of such deviation. Corrective actions generally include issuance of specific directives to address supervisory concerns within a reasonable timeframe.

b. Sanctions. The Monetary Board (MB) may impose sanctions on an NSSLA and/or its Board, trustees and officers, as provided under existing laws, Bangko Sentral rules and regulations proportionate to the gravity/seriousness of offense.

c. Other Enforcement Actions. Subject to prior MB approval, the Bangko Sentral, when warranted, may deploy other enforcement actions such as:

    (1) Initiation into the prompt corrective action (PCA) framework whenever grounds for PCA exist;

    (2) Requiring the NSSLA to gross up the amount of required allowance for credit losses based on the examination of a representative sample of loans, if in the course of the Bangko Sentral examination, a high incidence of non-reporting/concealment of past due and/or problem loans is noted; or

    (3) Other appropriate non-monetary enforcement actions that the MB may impose.

Transitory Provision. NSSLAs shall be given six (6) months from 25 September 2019 to: (1) perform a gap analysis of their current credit practices and processes vis-à-vis the standard provided in this Section and (2) submit an action plan to the Bangko Sentral for addressing such gaps duly approved by the board of trustees to achieve full compliance within a reasonable period of time but in no case longer than two (2) years from 25 September 2019.

All action plans shall be subject to acceptance through the Sub-Sector Head of the appropriate sub-sector of the Bangko Sentral. Should an NSSLA fail to submit aforecited action plan within the specified period or the same is deemed not acceptable, it shall be subject to the immediate application of the supervisory standards of this Section.

Any NSSLA that fails to comply with the foregoing shall be subject to the imposition of appropriate monetary and/or non-monetary sanctions.

(*Circular No. 1046 dated 29 August 2019*)

F. COMPLIANCE, INTERNAL CONTROL AND AUDIT

151-S COMPLIANCE FRAMEWORK

It is the policy of the Bangko Sentral to promote the safety and soundness of operations and activities of Compliance Risk Management. Toward this end, the trustees and officers of the NSSLA, who are expected to conduct and manage the affairs of the NSSLA in a lawful and orderly manner**,** shall establish a dynamic and responsive compliance risk management system, prescribed in this Section, as an integral part of the culture and risk governance framework of the NSSLA. In this respect, the compliance risk management system shall be the responsibility and shared accountability of all personnel, officers, and the board of trustees.

The compliance risk management system shall be designed to specifically identify and mitigate risks that may erode the franchise value of the NSSLA, such as risk of legal or regulatory sanctions, material financial loss, or loss to reputation, an NSSLA may suffer as a result of its failure to comply with laws, rules and regulations, and codes of conduct applicable to its activities. Said risk may also arise from failure to manage conflict of interest, treat members fairly, comply with agreements with and internal policies of the finance centers and/or mother company, or effectively manage risks arising from money laundering and terrorist financing activities**.**

As such, a compliance risk management system found to be materially inadequate may be construed as an act, practice or omission prejudicial to the interest of members.

Compliance function. The compliance function shall have a formal status within the organization. It shall be established by a charter or other formal document approved by the board of trustees that defines the compliance function's standing, authority, and independence. The compliance function shall have the right to obtain access to information necessary to carry out its responsibilities, conduct investigations of possible breaches of the compliance policy, and shall have direct access to the board of trustees or appropriate board-level committee.

The compliance function shall facilitate effective management of compliance risk by:

a. Advising the board of trustees and senior management on relevant laws, rules and regulations, and standards, including keeping them informed on developments in the area;

b. Apprising NSSLA personnel on compliance issues, and acting as a contact point within the NSSLA for compliance queries from NSSLA personnel;

c. Establishing written guidance to staff on the appropriate implementation of laws, rules and regulations, and standards through policies and procedures and other documents contained in compliance manuals, internal codes of conduct, and practice guidelines;

d. Identifying, documenting, and assessing the compliance risks associated with the NSSLA's business activities, including new products and business units;

e. Assessing the appropriateness of the NSSLA's compliance procedures and guidelines, promptly following up any identified deficiencies, and where necessary, formulating proposals for amendments;

f. Monitoring and testing compliance by performing sufficient and representative compliance testing; and

g. Maintaining a constructive working relationship with the Bangko Sentral and other regulators.

Compliance program. The compliance program shall set out the planned activities of the compliance function, such as the review of the implementation of specific policies and procedures; conduct of compliance risk assessment and compliance testing; educating staff on compliance matters; and monitoring compliance risk exposures. The program shall espouse a risk based approach and shall have appropriate coverage across businesses and units. For this purpose, the compliance program shall be updated on a regular basis or at least annually.

Chief Compliance Officer (CCO). The CCO should have the necessary qualifications, experience, and professional background and should have a sound understanding of relevant laws and regulations and their potential impact on the NSSLA's operations. The CCO should be up-to-date with the developments in laws, rules and regulations maintained through continuous training. The CCO shall serve on a full-time basis and shall functionally report to the board of trustees or board-level committee.

NSSLAs operating on a business model deemed "simple"[1] by the Bangko Sentral, by virtue of their scale and complexity of activities, may designate its Internal Auditor to serve as the CCO in concurrent capacity. "Simple" NSSLAs may also designate a non-executive trustee to serve in a concurrent capacity as the CCO or Internal Auditor but not as both CCO and Internal Auditor.

An appointed CCO has the burden to prove that he/she possesses all the minimum qualifications and none of the disqualifications of an officer. The CCO shall submit to the Bangko Sentral proof of such qualifications[2]. Non-submission of complete documentary requirements within the prescribed period shall be construed as his/her failure to establish his/her qualifications for the positions and results in his/her removal as CCO. The Bangko Sentral shall also consider its own records in determining the qualifications of CCO.

The CCO shall oversee the identification and management of the NSSLA's compliance risk and shall supervise the compliance function staff. The CCO is expected to liaise with the Bangko Sentral on compliance related issues and shall also be responsible for ensuring the integrity and accuracy of all documentary submissions to the Bangko Sentral. The CCO shall functionally meet/report to the board of trustees or board-level committee and such meetings shall be duly minuted and adequately documented. In this regard, the board of trustees/board-level committee shall review and approve the performance and compensation of the CCO, and budget of the compliance function.

Responsibilities of the board of trustees and senior management. Aside from the duties and responsibilities of the board of trustees mentioned under Sec. 131-S, the board of trustees shall, among others, ensure that it is aware of and understands the relevant laws, rules and regulations affecting the NSSLA's operations; approve and regularly review the compliance risk strategy and policy; and ensure that the compliance function has proper status in the organization, has adequate staff and resources, and carry out its responsibilities independently, objectively and effectively.

The board of trustees shall ensure that a compliance program is defined for the NSSLA and that compliance issues are resolved expeditiously. For this purpose, a board-level committee such as Audit Committee, chaired by a non-executive trustee, shall oversee the compliance program.

Senior management, with the CCO as lead operating officer, shall be responsible for the consistent implementation and adherence of personnel among others, to the pre-defined compliance standards. Senior management, through the CCO, should periodically report to the board of trustees or board-level committee matters that affect the design and implementation of the compliance program. Any changes, updates and amendments to the compliance program must be approved by the board of trustees. However, any material breaches of the compliance program shall be reported to and promptly addressed by the CCO within the mechanisms defined by the compliance manual.

Outsourcing of compliance risk assessment and testing. The review, assessment and testing of the compliance program may be outsourced to qualified third parties. The handling and management of this outsourcing arrangement shall be governed by Sec. 113-S.

(Circular Nos. 1115 dated 23 April 2021 and 1016 dated 5 October 2018)

152-S INTERNAL CONTROL FRAMEWORK

Internal control is a process designed and effected by the board of trustees, senior management, and all levels of personnel to provide reasonable assurance on the achievement of objectives through efficient and effective operations; reliable, complete and timely financial and management information; and compliance with applicable laws, regulations, supervisory requirements, and the organization's policies and procedures.

NSSLAs shall have in place adequate and effective internal control framework for the conduct of their business taking into account their size, risk profile and complexity of operations. The internal control framework shall embody management oversight and control culture; risk recognition and assessment; control activities; information and communication; and monitoring activities and correcting deficiencies.

Management oversight and control culture. Consistent with the principles provided under Sec. 131-S (*Powers/responsibilities and duties of trustees*) and Sec. 132-S (*Duties and responsibilities of officers*), the board of directors and senior management shall be responsible for promoting high ethical and integrity standards; establishing the appropriate culture that emphasizes, demonstrates and promotes the importance of internal control; and designing and implementing processes for the prevention and detection of fraud.

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[1] Simple NSSLAs shall refer to NSSLAs which, due to operational limitations, are not classified as Complex NSSLAs.
As defined under Sec. 131-S(a), *complex NSSLAs* shall refer to institutions declared by the Bangko Sentral as such with total assets of at least ₱6 billion and having at least any one (1) of the following characteristics: (1) board membership base which means that the number of m embers exceeded 2 thousand; (2) use of non-conventional business model, such as those using non-traditional delivery platform such as electronic platforms and agents; or (3) extensive network service units wherein there are five (5) or more service units, whether branchers or satellite offices, and regardless of geographic location.

[2] Using the list in *Appendix Q-58* as a guide

a. The board of trustees shall be ultimately responsible for ensuring that senior management establishes and maintain an adequate, effective and efficient internal control framework commensurate with the size, risk profile and complexity of operations of the NSSLA. The board of trustees shall also ensure that the internal audit function has an appropriate stature and authority within the NSSLA and is provided with adequate resources to enable it to effectively carry-out its assignments with objectivity.

Further, the board of trustees shall, on a periodic basis:

(1) conduct discussions with management on the effectiveness of the internal control system;

(2) review of evaluations made by the audit committee on the assessment of effectiveness of internal control made by management, internal auditors and external auditors;

(3) ensure that management has promptly followed up on recommendations and concerns expressed by auditors and supervisory authorities on internal control weaknesses; and

(4) review and approve the remuneration of the head and personnel of the internal audit function. Said remuneration shall be in accordance with the NSSLA's remuneration policies and practices and shall be structured in such a way that these do not create conflicts of interest or compromise independence and objectivity.

b. The audit committee shall be responsible for overseeing senior management in establishing and maintaining an adequate, effective and efficient internal control framework. It shall ensure that systems and processes are designed to provide assurance in areas including reporting, monitoring compliance with laws, regulations and internal policies, efficiency and effectiveness of operations and safeguarding of assets.

The audit committee shall oversee the internal audit function and shall be responsible for:

(1) monitoring and reviewing the effectiveness of the internal audit function;

(2) approving the internal audit plan, scope and budget;

(3) reviewing the internal audit reports and the corresponding recommendations to address the weaknesses noted, discussing the same with the head of the internal audit function and reporting significant matters to the board of directors;

(4) ensuring that the internal audit function maintains an open communication with senior management, the audit committee, external auditors, and the supervisory authority;

(5) reviewing discoveries of fraud and violations of laws and regulations as raised by the internal audit function;

(6) reporting to the board of directors the annual performance appraisal of the head of the internal audit function;

(7) recommending for approval of the board of directors the annual remuneration of the head of the internal audit function and key internal auditors;

(8) appointing, reappointing or removing the head of the internal audit function and key internal auditors; and

(9) selecting and overseeing the performance of the internal audit service providers.

In particular, the audit committee shall be responsible for:

(1) ensuring the independence of the internal audit service provider;

(2) reporting to the board of directors on the status of accomplishments of the outsourced internal audit activities, including significant findings noted during the conduct of the internal audit;

(3) ensuring that the internal audit service provider comply with sound internal auditing standards such as the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing* and other supplemental standards issued by regulatory authorities/government agencies, as well as with relevant code of ethics;

(4) ensuring that the audit plan is aligned with the overall plan strategy and budget of the NSSLA and is based on robust risk assessment; and

(5) ensuring that the internal audit service provider has adequate human resources with sufficient qualifications and skills necessary to accomplish the internal audit activities.

c. Senior management shall be responsible for maintaining, monitoring and evaluating the adequacy and effectiveness of the internal control system on an ongoing basis, and for reporting on the effectiveness of internal controls on a periodic basis. Management shall develop a process that identifies, measures, monitors and controls risks that are inherent to the operations of the NSSLA; maintain an organizational structure that clearly assigns responsibility, authority and reporting relationships; ensure that delegated responsibilities are effectively carried out; implement internal control policies and ensure that activities are conducted by qualified personnel with the necessary experience and competence. Management shall ensure that NSSLA personnel undertake continuing professional development and that there is an appropriate balance in the skills and resources of the front office, back office, and control functions. Moreover, Management shall promptly inform the internal audit function of the significant changes in the NSSLA's risk management systems, policies and processes.

d. All personnel need to understand their roles and responsibilities in the internal control process. They should be fully accountable in carrying out their responsibilities effectively and they should communicate to the appropriate level of management any problem in operations, action or behavior that is inconsistent with documented internal control processes and code of ethics.

Risk recognition and assessment. An effective internal control system shall identify, evaluate and continually assess all material risks that could affect the achievement of the NSSLA's performance, information and compliance objectives. The potential for fraud shall be considered in assessing the risks to the achievement of said objectives. Further, the risk assessment shall cover all risks facing the NSSLA, which include, among others, credit; country and transfer; market; interest rate; liquidity; operational; compliance; legal; and reputational risks.

Effective risk assessment identifies and considers both internal (e.g., complexity of the organization's structure, nature of the NSSLA's activities and personnel profile) and external (e.g., economic conditions, technological developments and changes in the industry) factors that could affect the internal control framework. The risk assessment shall be conducted at the level of individual business units and across all NSSLA activities/groups/units and subsidiaries, in the case of a parent FI. Internal controls shall be revised to address any new or previously uncontrolled or unidentified risks.

Control activities. Control activities shall form part of the daily activities of the NSSLA and all levels of personnel in the NSSLA. Control activities are designed and implemented to address the risks identified in the risk assessment process. These involve the establishment of control policies and procedures, and verification that these are being complied with.

NSSLAs shall have in place control activities defined at every business level, which shall include a system that provides for top and functional level reviews; checking compliance with exposure limits and follow-up on noncompliance; a system of approvals and authorizations, which shall include the approval process for new products and services; and a system of verification and reconciliation.

Control activities complement existing policies, procedures and other control systems in place such as, among others, having clearly defined organizational structure and reporting lines, and arrangements for delegating authority; adequate accounting policies, records and processes; robust physical and environmental controls for tangible assets and access controls to information assets; and appropriate segregation of conflicting functions.

a. *Clear arrangements for delegating authority.* The functions and scope of authority and responsibility of each personnel should be adequately defined, documented and clearly communicated. The extent to which authorities may be delegated and the corresponding accountabilities of the personnel involved shall be approved by the appropriate level of management or the board of directors.

b. *Adequate accounting policies, records and processes.* NSSLAs shall maintain adequate financial policies, records and processes. These records shall be kept up-to-date and contain sufficient detail to establish an audit trail. Further, NSSLAs shall conduct independent balancing and reconciliation of records and reports to ensure the integrity of the reported data and balances. NSSLAs shall also put in place a reliable information system that covers all of its significant activities which shall allow the board of directors and management access to data and information relevant to decision making such as, among others, financial, operations, risk management, compliance and market information. Moreover, these systems shall be secured, monitored independently and supported by adequate contingency arrangements.

c. *Robust physical and environmental controls to tangible assets and access controls to information assets.* NSSLAs shall adopt policies and practices to safeguard their tangible and information assets. These shall include, but shall not be limited to:

(1) Identifying officers with authorities to sign for and on behalf of the NSSLA. Signing authorities shall be approved by the board of trustees and the extent of authority at each level shall be clearly defined;

(2) Implementing joint custody on certain assets. Joint custody shall mean the processing of transactions in the presence, and under the direct observation of a second person. Both persons shall be equally accountable for the physical protection of the items and records involved: *Provided*, That persons who are related to each other within the third degree of consanguinity or affinity shall not be made joint custodians;

(3) Adopting dual control wherein the work of one (1) person is to be verified by a second person to ensure that the transaction is properly authorized, recorded and settled;

(4) Incorporating sequence number control in the accounting system which shall also be used in promissory notes, checks and other similar instruments. Management shall also put in place appropriate controls to monitor the usage, safekeeping and recording of accountable forms;

(5) Restricting access to information assets by classifying information as to degree of sensitivity and criticality and identifying information owners or personnel with authorities to access particular classifications based on job responsibilities and the necessity to fulfill one's duties; and

(6) Implementing authentication and access controls prior to granting access to information such as, among others, implementing password rules. This shall be supplemented by appropriate monitoring mechanisms that will allow audit of use of information assets.

d. *Segregation of conflicting functions*. NSSLAs shall ensure that areas of potential conflicts of interest shall be identified, minimized and subjected to independent monitoring. Further, appropriate segregation of functions shall be observed in identified areas that may pose potential conflict of interest. Moreover, periodic reviews of responsibilities and functions shall be conducted to ensure that personnel are not in a position to conceal inappropriate actions.

Examples of internal control measures are in *Appendix Q-72*.

Information and communication. An effective internal control system requires that there are adequate and comprehensive internal financial, operational and compliance data, as well as external information about events and conditions that are relevant to decision making. Information shall be reliable, timely, accessible, and provided in a consistent format. NSSLAs shall have in place a reliable management information system that covers significant activities of the NSSLA and has the capability to generate relevant and quality information to support the functioning of internal control.

NSSLAs shall also establish effective channels of communication to ensure that all personnel fully understand and adhere to policies and procedures and control measures relevant to their duties and responsibilities and that relevant information is reaching the appropriate personnel. Management shall also ensure that all personnel are cognizant of their duty to promptly report any deficiency to appropriate levels of management or to the board of trustees, where required. These shall enable them to quickly respond to changing conditions and avoid unnecessary costs.

Monitoring activities and correcting deficiencies. The overall effectiveness of the internal controls shall be monitored on an ongoing basis. Monitoring functions and activities shall be adequately defined by management, integrated in the operating environment and should produce regular reports for review. In this regard, all levels of review shall be adequately documented and results thereof reported on a timely basis to the appropriate level of management.

Evaluations of the effectiveness of the internal control system and the corresponding monitoring activities may be done by personnel from the same operational area in the form of self- assessment or from other areas such as internal audit: *Provided*, That, self-assessment done by business units shall be subject to independent validation.

Evaluations done shall be adequately documented and internal control deficiencies and weaknesses identified shall be reported on a timely basis to the appropriate level of management or the board of trustees, where necessary, and addressed promptly.

Bonding of Officers and Employees. All officers and employees of an NSSLA who, in the regular discharge of their duties have access to money or negotiable securities shall, before entering upon such duties, furnish to the employing NSSLA a good and sufficient bond and providing for indemnity to the NSSLA against the loss of money or securities, by reason of their dishonesty. The bond of the cashier, assistant cashier, treasurer, and other employees having money accountability shall not be less than their average daily accountability. The bond must be issued by a reputable bonding company duly licensed by the Insurance Commission and approved by the Bangko Sentral. Capital contribution or a cash bond deposited with the NSSLA or with a bank, may also be allowed.

153-S 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 established to examine, evaluate and improve the effectiveness of internal control, risk management and governance systems and processes of an organization, which helps management and the board of trustees in protecting the NSSLA and its reputation. The internal audit function shall both assess and complement operational management, risk management, compliance and other control functions. In this respect, internal audit shall be conducted in frequencies commensurate with the assessed levels of risk in specific NSSLA areas.

a. *Permanency of the internal audit function*. Each NSSLA shall have a permanent internal audit function. In the case of group structures involving a parent NSSLA and subsidiary or affiliate BSFI, the internal audit function shall either be established in each of the BSFI or centrally by the parent NSSLA.

b. *Internal audit function in group structures. In case each BSFI belonging to group structures* has its own internal audit function, said internal audit function shall be accountable to the financial institution's own board of directors and shall likewise report to the head of the internal audit function of the parent bank within a reasonable period and frequency prescribed by the board of directors of the parent NSSLA.

On the other hand, in case the parent NSSLA's internal audit function shall cover the internal audit activities in the subsidiary or affiliate BSFI, the board of directors of the parent NSSLA shall ensure that the scope of internal audit activities is adequate considering the size, risk profile and complexity of operations of the subsidiary or affiliate concerned.

The establishment of internal audit function centrally by the parent bank in group structures shall not fall under the outsourcing framework as provided under Sec. 112 (*Statement of Principle on Outsourcing*) of the MORB**.** In this respect, the head of the internal audit function of the parent bank shall define the internal audit strategies, methodology, scope and quality assurance measures for the entire group: *Provided,* That this shall be done in consultation and coordination with the respective board of directors and of the subsidiary or affiliate BSFI: *Provided, further,* That the board of directors of the subsidiary or affiliate BSFI, shall remain ultimately responsible for the performance of the internal audit activities.

c. *Outsourcing of internal audit activities.* NSSLAs may outsource, in accordance with existing Bangko Sentral regulations on outsourcing, internal audit activities covering all areas of its operations: *Provided,* That the board of trustees of the NSSLA shall remain ultimately responsible for the conduct of effective internal audit: *Provided, further,* That The internal audit activity shall not be outsourced to the NSSLA's own external auditor/audit firm nor to internal audit service provider that was previously engaged by the NSSLA in the same area intended to be covered by the internal audit activity that will be outsourced, without a one-year "cooling off" period.

Qualifications of the head of the internal audit function. The head of the internal audit function must have an unassailable integrity, relevant education/experience/training, and has an understanding of the risk exposures of the NSSLA, as well as competence to audit all areas of its operations. He must also possess the following qualifications:

a. The head of the internal audit function of a UB or a KB must be a Certified Public Accountant (CPA) or a Certified Internal Auditor (CIA) and must have at least five (5) years experience in the regular audit (internal or external) of a UB or KB as auditor-in-charge, senior auditor or audit manager. He must possess the knowledge, skills, and other competencies to examine all areas in which the institution operates. Professional competence as well as continuing training and education shall be required to face up to the increasing complexity and diversity of the institution's operations.

b. The head of the internal audit function of a complex TB, RB and Coop Bank; QB and; trust entity must be a graduate of any accounting, business, finance or economics course with technical proficiency on the conduct of internal audit and must have at least five (5) years experience in the regular audit (internal or external) of a TB, national Coop Bank, QB or trust entity or, at least three (3) years experience in the regular audit (internal or external) of a UB or KB.

c. The head of the internal audit function of a simple or non-complex TB, RB and Coop Bank; and NSSLA must be a graduate of any accounting, business, finance or economics course with technical proficiency on the conduct of internal audit and must have at least two (2) years experience in the regular audit (internal or external) of a UB, KB, TB, RB, Coop Bank, QB or NSSLA.

A qualified head of the internal audit function of a UB or a KB shall be qualified to audit TBs, RB, Coop Banks, QBs, trust entities, NSSLAs, subsidiaries and affiliates engaged in allied activities, and other financial institutions under Bangko Sentral supervision. A qualified internal auditor of a complex TB, RB, and Coop Bank; QB and; trust entity shall likewise be qualified to audit non-complex TB, RB and Coop Bank and NSSLA.

The head of the internal audit function shall be appointed/reappointed or replaced with prior approval of the audit committee. In cases, when the head of the internal audit function will be replaced, the NSSLA shall report the same and the corresponding reason for replacement, to the appropriate supervising department of the Bangko Sentral within five (5) days from the time it has been approved by the board of directors.

Duties and responsibilities of the head of the internal audit function or the chief audit executive.

a. To demonstrate appropriate leadership and have the necessary skills to fulfill his responsibilities for maintaining the unit's independence and objectivity;

b. To be accountable to the board of trustees or audit committee on all matters related to the performance of its mandate as provided in the internal audit charter. The head of the internal audit function shall submit a report to the audit committee or board of trustees on the status of accomplishments of the internal audit unit, including findings noted during the conduct of the internal audit as well as status of compliance of concerned departments/units;

c. To ensure that the internal audit function complies with sound internal auditing standards such as the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing* and other supplemental standards issued by regulatory authorities/government agencies, as well as with relevant code of ethics;

d. To develop an audit plan based on robust risk assessment, including inputs from the board of trustees, audit committee and senior management and ensure that such plan is comprehensive and adequately covers regulatory matters. The head of the internal audit function shall also ensure that the audit plan, including any revisions thereto, shall be approved by the audit committee; and

e. To ensure that the internal audit function has adequate human resources with sufficient qualifications and skills necessary to accomplish its mandate. In this regard, the head of the internal audit function shall periodically assess and monitor the skill-set of the internal audit function and ensure that there is an adequate development program for the internal audit staff that shall enable them to meet the growing technical complexity of NSSLA operations.

Professional competence and ethics of the internal audit function. The internal audit function shall be comprised of professional and competent individuals who collectively have the knowledge and experience necessary in the conduct of an effective internal audit on all areas of NSSLA's operations. The skill set of the internal audit staff shall be complemented with appropriate audit methodologies and tools as well as sufficient knowledge of auditing techniques in the conduct of audit activities.

All internal audit personnel shall act with integrity in carrying-out their duties and responsibilities. They should respect the confidentiality of information acquired in the course of the performance of their duties and should not use it for personal gain or malicious actions. Moreover, internal audit personnel shall avoid conflicts of interest. Internally-recruited internal auditors shall not engage in auditing activities for which they have had previous responsibility before a one-year "cooling off" period has elapsed. The internal audit personnel shall adhere at all times to the NSSLA's Code of Ethics as well as to an established code of ethics for internal auditors such as that of the Institute of Internal Auditors.

***Independence and objectivity of the internal audit function*.** The internal audit function must be independent of the activities audited and from day-to-day internal control process. It must be free to report audit results, findings, opinions, appraisals and other information through clear reporting line to the board of trustees or audit committee. It shall have authority to directly access and communicate with any officer or employee, to examine any activity or entity of the NSSLA, as well as to access any records, files or data whenever relevant to the exercise of its assignment.

If independence or objectivity of internal audit function is impaired, in fact or appearance, the details of the impairment must be disclosed to the audit committee. Impairment to organizational independence and individual objectivity may include, but is not limited to, personal conflict of interest, scope limitations, restrictions on access to records, personnel, and properties, and resource limitations, such as funding.

The internal audit function shall inform senior management of the results of its audits and assessment. Senior management may consult the internal auditor on matters related to risks and internal controls without tainting the latter's independence: *Provided*, That the internal auditor shall not be involved in the development or implementation of policies and procedures, preparation of reports or execution of activities that fall within the scope of his review.

Staff of the internal audit function shall be periodically rotated, whenever practicable, and without jeopardizing competence and expertise to avoid unwarranted effects of continuously performing similar tasks or routine jobs that may affect the internal auditor's judgment and objectivity.

Internal audit charter. NSSLAs shall have an internal audit charter approved by the board of trustees. The internal audit charter shall be periodically reviewed by the head of the internal audit function and any changes thereto shall be approved by the board of trustees.

The internal audit charter shall establish, among others, the following:

a. Purpose, stature and authority, and responsibilities of the internal audit function as well as its relations with other control functions in the NSSLA. The charter shall recognize the authority of the internal audit function, to initiate direct communication with any NSSLA personnel; to examine any activity or entity; and to access any records, files, data and physical properties of the NSSLA, in performing its duties and responsibilities;

b. Standards of independence, objectivity, professional competence and due professional care, and professional ethics;

c. Guidelines or criteria for outsourcing internal audit activities to external experts;

d. Guidelines for consulting or advisory services that may be provided by the internal audit function;

e. Responsibilities and accountabilities of the head of the internal audit function;

f. Requirement to comply with sound internal auditing standards such as the Institute of Internal Auditor's *International standards for the Professional Practice of Internal Auditing* and other supplemental standards issued by regulatory authorities/government agencies, as well as with relevant code of ethics; and

g. Guidelines for coordination with the external auditor and supervisory authority.

Scope. All processes, systems, units, and activities, including outsourced services, shall fall within the overall scope of the internal audit function. The scope of internal audit shall cover, among others, the following:

a. Evaluation of the adequacy, efficiency and effectiveness of internal control, risk management and governance systems in the context of current and potential future risks;

b. Review of the reliability, effectiveness and integrity of management and financial information systems, including the electronic information system and electronic banking services;

c. Review of the systems and procedures of safeguarding the NSSLA's physical and information assets;

d. Review of compliance of trading activities with relevant laws, rules and regulations;

e. Review of the compliance system and the implementation of established policies and procedures; and

f. Review of areas of interest to regulators such as, among others monitoring of compliance with relevant laws, rules and regulations, including but not limited to the assessment of the adequacy of capital and provisions; liquidity level; regulatory and internal reporting.

(Circular No. 1115 dated 23 April 2021)

154-S FRAMEWORK ON THE SELECTION OF EXTERNAL AUDITORS

Policy Statement. The Bangko Sentral considers the external auditing profession as a partner in promoting the integrity of financial reports and transparency in the financial system. In this light, the Bangko Sentral is issuing this framework on the selection of external auditors (individual practitioners and audit firms) for Bangko Sentral Supervised Financial Institutions (BSFIs) in line with its cooperative arrangements with the Securities and Exchange Commission (SEC), Insurance Commission (IC), and Philippine Deposit Insurance Corporation (PDIC), under the auspices of the Financial Sector Forum (FSF).

Appointment of External Auditors of BSFIs

a. BSFIs shall engage the services of an external auditor included in the List of Selected External Auditors for BSFIs. In this respect, a BSFI shall only appoint an external auditor belonging to the same category or from categories higher than the category of the BSFI concerned as provided in this section: *Provided*, That the Monetary Board may require the BSFI to appoint an external auditor from higher categories as part of the Bangko Sentral's supervisory action on the BSFI. The external auditor appointed by the BSFI shall likewise audit the BSFI's trust department as well as its subsidiaries and affiliates engaged in allied activities, as applicable.

b. External Auditors shall be classified into three categories and shall extend their services to BSFIs belonging to the same category or from categories lower than the category of the external auditor, as follows:

(1) Group A

(a) UBs/KBs
(b) Foreign banks and branches or subsidiaries of foreign banks
(c) Banks, trust departments and trust corporations with additional derivatives authority, pursuant to Sec. 613 of the MORB

Group B

(a) TBs
(b) NBFIs with quasi-banking license
(c) Trust departments and trust corporations

(2) Group C

(a) RBs and Coop Banks
(b) Non-stock Savings and Loan Associations
(c) Pawnshops
(d) Remittance and Transfer Companies (RTCs)/Money Changers/Foreign Exchange Dealers (MCs/FXDs), including Virtual Currency Exchanges and Electronic Money Issuers
(e) Credit Card Issuers/Acquirers

The above categories shall include their subsidiaries and affiliates engaged in allied activities and other financial institutions subject to Bangko Sentral's consolidated supervision.

c. External auditors applying for first time inclusion or renewal of inclusion in the List of Selected External Auditors for BSFIs shall submit their application to the SEC. The application shall be subject to the requirements set out by the SEC as agreed upon by the Bangko Sentral, SEC, IC and PDIC.

d. The inclusion in the List of Selected External Auditors for BSFIs shall be valid for five (5) years or for a shorter period prescribed by the financial sector supervisors.

e. The Bangko Sentral shall periodically evaluate the performance of the external auditor through an assessment of the quality of the BSFI's audited financial statements and its compliance with the requirements provided under this Section. The results of assessment shall serve as basis for the continuing inclusion of external auditors in the List of Selected External Auditors for BSFIs.

f. The external auditor, including the engagement and quality control partners of the audit firm, of the BSFI shall be rotated in accordance with the relevant provisions of the Code of Ethics for Professional Accountants in the Philippines as adopted by the Philippine Board of Accountancy.

Audit Engagement and Reportorial Requirements

a. The BSFI's Audit Committee/board of directors/board of trustees shall ensure that the scope of external audit work appropriately covers areas relevant to BSFI's operations and risk exposures. These include the following:

(1) Review of the adoption of applicable reporting framework as well as the assessment of the accuracy, adequacy, and reliability of accounting records and financial reports;
(2) Assessment of the propriety and adequacy of disclosures in the financial statements;
(3) Assessment of the adequacy and effectiveness of internal controls and risk management systems;
(4) Assessment of the quality of capital in relation to risk exposures; and
(5) Evaluation of the quality of corporate governance.

b. The engagement contract of BSFIs with the external auditor shall include, at a minimum, the following provisions:

(1) That disclosure of information, such as those enumerated under Item *"c"* of this Section (Audit engagement and reportorial requirements), by the external auditor to the Bangko Sentral and/or other financial sector supervisors shall not constitute a breach of confidentiality on the part of the external auditor nor shall it be a ground for civil, criminal, or disciplinary proceedings against the external auditor;

(2) That the external auditor shall be allowed read-only access to the Bangko Sentral's Report of Examination on the BSFI and that the external auditor shall appropriately consider the contents thereof and maintain its confidentiality; and

(3) That the BSFI concerned and external auditor shall comply with all the requirements under this Section.

The engagement contract shall be made available by the BSFI to the Bangko Sentral upon request.

c. The external auditor shall report to the appropriate supervising department of the Bangko Sentral within fifteen (15) calendar days upon discovery of any matter adversely affecting the condition or soundness of the BSFI, such as, but not limited to the following cases:

(1) Any material finding involving fraud or error;

(2) Actual or potential losses, the aggregate of which amounts to at least ten percent (10%) of the consolidated total assets of the BSFI;

(3) Significant doubt as to the ability of the BSFI to continue as a going concern;

(4) Material breach of laws or Bangko Sentral rules and regulations such as but not limited to prescribed capital and liquidity ratios, significant deficiency in allowance for credit losses, material weaknesses in fair value measurement methodology, and significant vulnerabilities to money laundering and combating the financing of terrorism;

(5) Material internal control weaknesses which may lead to financial reporting problems; and

(6) Findings on matters of corporate governance that may require urgent action by the Bangko Sentral.

Where a thorough investigation or evaluation of facts is necessary on the noted case, an initial report shall be submitted within the prescribed timeline: *Provided*, That a complete report is submitted not later than fifteen (15) calendar days from completion of investigation or evaluation.

In case there are no matters to report, the external auditor shall submit to the appropriate supervising department of the Bangko Sentral, not later than 120 calendar days after the close of the calendar year or the fiscal year adopted by the BSFI, a certification that there is none to report.

d. The board of directors and management of the BSFI shall be primarily responsible for the financial statements submitted to the Bangko Sentral. External auditors are expected to conduct the audit of financial statements in accordance with the provisions of the Philippine Standards on Auditing.

e. The external auditor shall directly inform the appropriate supervising department of the Bangko Sentral of the pre-termination of the engagement contract or his/her resignation/replacements as external auditor as well as the reasons thereto, within fifteen (15) calendar days of the pre-termination of the contract or his/her resignation/replacement.

Supervisory Enforcement Action

The Bangko Sentral reserves the right to deploy its range of supervisory enforcement actions to promote adherence with the requirements set forth in this Section and bring about timely corrective actions. For this purpose, the Bangko Sentral may issue directives or impose sanctions on BSFIs and/or its directors/trustees who approved the appointment of the external auditor, who/which are not in the List of Selected External Auditors for BSFIs, and/or for non-compliance with the provisions of this Section. The Bangko Sentral may likewise shorten the period of validity of inclusion of an external auditor in the List of Selected External Auditors for BSFIs, suspend, or delist external auditors from its List of Selected External Auditors for BSFIs based on the results of assessment of the quality of audited financial statements (AFS) as well as non-compliance with the provisions of this Section. The guidelines on the supervision/delisting of external auditor in the list of selected external auditors for BSFIs is prescribed in *Appendix S-7.*

Transitory provisions

a. External auditors whose inclusion in the List of Selected External Auditors for BSFIs is valid to cover the audit of 2018 financial statements are hereby given one (1) year extension on their inclusion in the List of Selected External Auditors for BSFIs allowing them to engage in the audit of the 2019 financial statements.

b. All applications (new and renewal) for inclusion in the List of Selected External Auditors for BSFIs to cover in the audit of 2020 financial statements and thereafter shall be filed with the SEC starting June 2019.

(Circular No. 1040 dated 20 May 2019)

G. REPORTING GOVERNANCE

161-S FINANCIAL RECORDS

NSSLAs shall have a true and accurate account, record or statement of their daily transactions. The making of any false entry or the willful omission of entries relevant to any transaction is a ground for the Monetary Board for the imposition of administrative sanctions under Section 37 of R.A. No. 7653, without prejudice to the criminal liability of the director or officer responsible therefore under Sections 35 and 36 of No. 7653 and/or the applicable provisions of the Revised Penal Code. Records shall be up to-date and shall contain sufficient detail so that an audit trail is established.

Uniform System of Accounts. NSSLAs are required to pattern their charts of accounts and recording systems after the Uniform System of Accounts prescribed for NSSLAs including reportorial and publication requirements. The voucher system of accounting or the ticket system, or such other accounting system acceptable to the Bangko Sentral as well as the prescribed chart of accounts shall be adopted for use by NSSLAs.

Philippine Financial Reporting Standards/Philippine Accounting Standards (PFRS)

Policy Statement. It is the thrust of the Bangko Sentral to align its financial reporting requirements with standards and practices that are widely accepted internationally to promote fairness, transparency, and accountability in the financial industry. In this light, the Bangko Sentral is issuing guidelines governing the adoption of the PFRS, aimed at ensuring consistency of application and comparability of financial reports across the industry.

a. *Adoption of PFRS*. Non-Stock Savings and Loan Association (NSSLAs) shall adopt the PFRS in recording transactions and in the preparation of financial statements and reports to the Bangko Sentral. However, in cases where there are differences between Bangko Sentral regulations and PFRS as when more than one (1) options are allowed, or certain maximum or minimum limits are prescribed by PFRS, the option or limit prescribed by the Bangko Sentral shall be adopted by NSSLAs.

b. *Preparation of prudential reports.* For prudential reporting, NSSLAs shall adopt the PFRS in the following cases:

   (1) Preparation of solo financial statements as provided in *Appendix S-15*.

   (2) Recognition of allowance for credit losses (ACL). NSSLAs shall at all times recognize adequate and timely ACL and shall adopt the principles provided under the Enhanced Standards on Credit Risk Management under Sec. 114-S as well as the provisions of *Appendix S-8* in measuring credit losses.

c. *Preparation of Audited Financial Statements (AFS).* AFS shall be PFRS-compliant and shall be submitted to the Bangko Sentral in accordance with the provisions of Sec. 163-S (*Audited financial statements of NSSLAs*). NSSLAs shall submit to the Bangko Sentral adjusting entries reconciling the balances in the financial statements for prudential reporting with that in the AFS.

d. *Guidelines on the adoption of PFRS 9 Financial Instruments.* NSSLAs should have adopted, as part of the PFRS framework, PFRS 9: Financial Instruments upon its mandatory effectivity date of 01 January 2018.

   For this purpose, NSSLAs shall be governed by the following:

   (1) Consistent with the duties and responsibilities of the board of trustees (board) provided under Sec. 131-S (*General resposibility of the board of trustees; and Duties and responsibilities*), the board, shall ensure that the NSSLA appropriately and consistently adopts PFRS 9 as part of its reporting governance process. In this respect, the board shall assess the impact of PFRS 9 on business strategies and risk management systems and ensure availability of sufficient resources, including capacity building initiatives, in adopting the standard.

   The board shall approve policies and guidelines relative to the adoption of PFRS 9, which shall cover responsibilities of the different units in the NSSLA as well as the extent of participation or involvement of third parties in the adoption process. The board shall likewise ensure that adequate control measures are in place to ensure the integrity of reports.

   (2) Management shall implement the policies set by the board related to the adoption of PFRS 9 and ensure that sound professional judgment is exercised in implementing the provisions of the standard. Management shall provide feedback to the board on the effectiveness of implementation of PFRS 9.

   (3) NSSLAs shall be guided by the provisions of *Appendix S-16* on "Guidelines on the Adoption of Philippine Financial Reporting Standards 9 (PFRS 9) – Classification and Measurement" and *Appendix S-8* on "Impairment" in implementing the provisions of PFRS 9.

e. *Supervisory Enforcement Action.* Consistent with the provisions of Sec. 002-Q, the Bangko Sentral reserves the right to deploy its range of supervisory tools and enforcement actions to promote adherence to the standards and principles set forth in these guidelines, bring about timely corrective actions and compliance with the Bangko Sentral directives and ensure that NSSLAs operate in a sound, lawful and orderly manner. In this respect, the Bangko Sentral may issue directives or impose sanctions on the NSSLA and/or its trustees, officers and/or employees concerned for noted supervisory issues on the adoption of PFRS 9.

Prudential reports affected by non-adherence to the provisions of this Section (*Philippine Financial Reporting Standards*) shall be subject to penalties/sanctions provided under Sec. 162-S (*Sanctions and procedures for filing and payment of fines*).

f. *Transitory Provisions*. NSSLAs shall observe the following transition rules:

(1) NSSLAs shall apply PFRS 9, retrospectively, in accordance with the transition requirements and guidance provided under PFRS 9 and Philippine Accounting Standards (PAS) 8 "*Changes in Accounting Policies, Changes in Accounting Estimates and Errors".* NSSLAs shall be guided by the provisions of PAS 8 if the retrospective application is impracticable.

(2) An NSSLA is expected to comply with the reportorial and disclosure requirements of the Securities and Exchange Commission on the adoption of PFRS 9.

Financial Reporting Package[1]

In line with the adoption of the PFRS, NSSLAs are required to adopt the Manual of Accounts prescribed under the Financial Reporting Package for Non-Stock Savings and Loan Associations (FRPNSSLA) for prudential reporting purposes[2]. The general features as well as the implementing guidelines of the FRPNSSLA is provided in *Appendix S-15*.

The FRPNSSLA shall become effective starting with the reporting quarter-ending 31 March 2020, and shall be submitted to the appropriate supervising department of the Bangko Sentral in the manner prescribed under Appendix S-2. Said report shall be classified as Category A-1 Report.

(Circular Nos. 1047 dated 29 August 2019, 915 dated 05 July 2016, and 912 dated 27 May 2016)

162-S REPORTS

NSSLAs shall submit to the appropriate supervising department of the Bangko Sentral the reports in prescribed form listed in *Appendix S-2*.

Categories and signatories of reports. For purposes of designating the signatories of reports, certain weekly, monthly, quarterly, semi-annual, and annual statements/reports required to be submitted to the Bangko Sentral are hereby grouped into *Categories A-1, A-2, A-3* and *Category B*, as enumerated in *Appendix S-4*.

Category A-1 reports shall be signed by the NSSLA's chief executive officer (who may be the president or chairman of the board, or designated in the by-laws), or in his absence, by the executive vice president or the officer duly authorized under a resolution approved by the board of trustees and by the chief finance officer (i.e., controller or chief accountant, who shall likewise be duly authorized by the NSSLA's board of trustees in a format prescribed in *Appendix S-4*.

Category A-2 reports of the head office of the NSSLA shall be signed by the NSSLA's president or senior vice-president/equivalent position. Offices/units (such as branch) reports in this category shall be signed by their respective managers/officers-in-charge. Likewise, the signing authority in this category shall be contained in a resolution approved by the board of trustees in the format prescribed in *Appendix S-4*.

Category A-3 and B reports are those required to be submitted to the Bangko Sentral and are not included in Categories A-1 and A-2. They shall be signed by officers or their alternates, who shall be duly designated by the board of trustees. A copy of the board resolution with format as prescribed in *Appendix S-4*, covering the initial designation and subsequent changes in signatories and alternates, shall be submitted to the appropriate supervising department of the Bangko Sentral within three (3) days from the date of resolution.

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[1] *Transitory Provisions.* Parallel runs of the FRPNSSLA and the existing Consolidated Statement of Condition and Consolidated Statement of Income and Expenses shall be conducted on a quarterly basis for the reporting periods ending 30 September and 31 December 2019. During the parallel runs covering the said reporting periods, the Consolidated Statement of Condition and Consolidated Statement of Income and Expenses shall by electronically transmitted by NSSLAs to the Bangko Sentral on or before the end of the immediately following month while the FRPNSSLA shall be submitted to the Bangko Sentral within forty-five (45) calendar days after the end of reference quarter. If the 45th calendar day falls on a Saturday, Sunday or Holiday, or on a day which business operations of the Bangko Sentral is suspended, the following business days shall apply.
During the reporting periods wherein the parallel runs shall be conducted, existing penalties under Sec. 162-S (*Sanctions and procedures for filing and payment of fines*) shall not be imposed for late and/or erroneous submission of FRPNSSLA while said penalties shall continue to be imposed for late and/or erroneous submission of the Consolidated Statement of Condition and Consolidated Statement of Income and Expenses. Upon effectivity of the FRPNSSLA, the penalties prescribed under Sec. 162-S (*Sanctions and procedures for filing and payment of fines*) shall be imposed for late and/or erroneous submission of FRPNSSLA.

[2] Refer to FRP for NSSLA

If a report is submitted to the Bangko Sentral under the signature of an officer who is not listed or included in any of the resolutions mentioned above, the appropriate supervising department of the Bangko Sentral shall refuse to acknowledge the report as valid or consider the report as not having been submitted at all. If such a report is not resubmitted by the NSSLA under the signature of a duly authorized signing officer, administrative sanctions/penalties shall be imposed on the erring NSSLA for the late reporting or failure to submit the required report, as the case may be.

Manner of filing. The submission of the reports shall be effected by filing them personally with the appropriate supervising department of the Bangko Sentral or with the Bangko Sentral Regional Offices or by sending them registered mail or special delivery, unless otherwise specified in the circular or memorandum of the Monetary Board or the Bangko Sentral.

Report on Crimes/Losses (RCL). Non Stock Savings and Loans Associations shall electronically submit an RCL within ten (10) calendar days from knowledge of the crime/incident.

Reporting and Notification Guidelines on Crime/Losses

a. NSSLAs shall report on the following matters to the Bangko Sentral:

(1) Crimes whether consummated, frustrated or attempted against property/facilities (such as robbery, theft, swindling or estafa, forgery and other deceits) and other crimes involving loss/ destruction of property of the NSSLA when the amount involved in each crime is P20,000 or more.

Crimes involving NSSLA personnel, regardless of amount and whether or not such crimes resulted in the loss/destruction of property of the NSSLA, shall likewise be reported to the Bangko Sentral.

(2) Incidents involving material loss, destruction or damage to the NSSLA's property/facilities, other than arising from a crime, where the amount involved per incident is P20,000 or more.

(3) Definition of terms. For the purpose of this regulation, the following definitions shall apply:

(a) Swindling (*Estafa*) - a crime committed by a person who defrauds another causing the latter to suffer damage by any of the following means:

(i) with unfaithfulness or abuse of confidence;
(ii) by false pretense or fraudulent acts executed prior to or simultaneously with the commission of the fraud; or
(iii) through other fraudulent means and other forms of swindling, under Articles 315 to 317 of the Revised Penal Code, as amended.

(b) *Theft* - a crime committed by a person who, with intent to gain but without violence against or intimidation of persons nor force upon things, shall take personal property of another without the latter's consent pursuant to Article 308 and other pertinent provisions of Chapter III, Title X of the Revised Penal Code, as amended.

(c) *Robbery* - a crime committed by a person who, with intent to gain, shall take any personal property belonging to another, by means of violence against or intimidation of any person, or using force upon anything pursuant to Article 295 and other pertinent provisions of Chapter 1, Title X of the Revised Penal Code, as amended.

(d) *Falsification* - a crime committed by a person who falsifies a document by

(i) Counterfeiting or imitating any handwriting, signature or rubric;

(ii) Causing it to appear that persons have participated in any act or proceeding when they did not in fact so participate;

(iii) Attributing to persons who have participated in an act or proceeding statements other than those in fact made by them;

(iv) Making untruthful statements in a narration of facts;

(v) Altering true dates;

(vi) Making any alteration or intercalation in a genuine document which changes its meaning;

(vii) Issuing in an authenticated form a document purporting to be a copy of an original document when no such original exists, or including in such a copy a statement contrary to, or different from, that of the genuine original; or

(viii) Intercalating any instrument or note relative to the issuance thereof in a protocol, registry, or official book and other acts falling under Articles 169, 171, 172 and 178 of the Revised Penal Code, as amended.

(e) *Credit-card related crimes* – crimes arising through the use of credit cards.

(f) *Other crimes that may cause loss to the NSSLA* - crimes committed that cannot be appropriately classified under any of the above classifications.

(g) *Negligence* - the failure to exercise the care which an ordinarily prudent person would use under the circumstances in the discharge of the duty then resting upon him.

(h) *Non-crime related loss* – Incidents that may cause the NSSLA to suffer a loss arising from fortuitous events.

(i) Insider - person involved include trustees, officers and employees of the NSSLA.

(j) Outsider - persons involved other than an insider.

(k) Perpetrator - a person, whether an insider or outsider, who is responsible for the commission of crime either by direct participation, inducement or cooperation, including accomplices and accessories as defined under Articles 18 and 19 of the Revised Penal Code, as amended.

(l) Victim - an insider or outsider other than the perpetrator, who is the aggrieved party to the crime and may as a result of the incident, suffered the loss.

(m) Attempted crime - a crime is attempted when the perpetrator commences the commission of the crime directly by overt acts and does not perform all of the acts of execution which should produce the crime by reason of some cause or accident other than his own desistance under Article 6 of the Revised Penal Code, as amended.

(n) Frustrated crime - a crime is classified as frustrated, when the perpetrator performs all the acts of execution which would produce the crime as a consequence but which, nevertheless, do not produce it by reason of causes independent of the will of the perpetrator under Article 6 of the Revised Penal Code, as amended.

(o) Consummated crime - a crime is consummated when all the acts necessary for the execution and accomplishment of the crime was performed. As a result, the NSSLA may have suffered a loss, the recoverable portion of which should be deducted to arrive at the probable loss incurred by the NSSLA.

(p) Termination of the investigation – an investigation is said to be terminated when all the material facts/information which are sufficient to support a conclusion relative to the matters involved have already been gathered and a finding/conclusion may be made based on the gathered information.

b. The following guidelines shall be observed in the preparation and submission of the report.

(1) The Branch or Head Office's RCL shall be submitted electronically to the Bangko Sentral in the email address to be provided by FSS within ten (10) calendar days from knowledge of the crime or incident through the NSSLA's Head Office and shall be certified correct by the compliance officer or officer of equivalent rank and function. When the deadline falls on a non-business day, the report shall be submitted on the immediately following business day.

Supporting documents (e.g., police report on the investigation of the incident) shall be made readily available by the NSSLA during Bangko Sentral examination or as requested by the Bangko Sentral.

(2) Where a thorough investigation and evaluation of facts is necessary to complete the report, an initial report electronically submitted in the email address to be provided by FSS within the said deadline of ten (10) calendar days may be accepted: *Provided*, That a complete report is electronically submitted in the email address to be provided by FSS not later than twenty (20)calendar days from termination of investigation.

Moreover, an RCL with incomplete information shall be considered as erroneous report, and the NSSLA concerned shall be required to submit an amended report subject to penalties on late reporting for Category B reports under Sec. 162-S.

***Sanctions and procedures for filing and payment of fines*.** Failure to submit the above reports on or before the specified dates shall subject the person responsible or entity concerned to the penalties provided by law.

For willful delay in the submission of reports, the following rules shall apply:

a. *Definition of Terms.* The following definitions shall apply:

(1) *Report* shall refer to all written reports/statements required of an NSSLA to be submitted to the Bangko Sentral periodically or within a specified period.

(2) *Willful delay in the submission of reports* shall refer to the failure of any NSSLA to submit on time the report defined in Item *"(1)"* above. Failure to submit a report on time due to fortuitous events, such as fire and other natural calamities and public disorders, shall not be considered as willful delay.

(3) *Examination* shall include, but need not be limited to, the verification, review, audit, investigation and inspection of the books and records, business affairs, administration and financial condition of any NSSLA including the reproduction of the records as well as the taking possession of the books and records and keeping them under Bangko Sentral custody after giving proper receipts therefore. It shall also include the interview of the directors and personnel of any NSSLA.

(4) *Refusal to permit examination* shall mean any act or omission which impedes, delays or obstructs the duly authorized Bangko Sentral officer/examiner/employee from conducting an examination, including the act of refusing to honor a letter of authority to examine presented by any officer/examiner/employee of the Bangko Sentral.

b. *Fines for willful delay in submission of reports.* NSSLAs incurring willful delay in the submission of required reports shall pay a fine in accordance with the following schedule:

(1) For Categories A-1, A-2 and A-3 reports	
Per day of default until the report is filed	P180
(2) For Category B reports	
Per day of default until the report is filed	60

Delay or default shall start to run on the day following the last day required for the submission of reports. However, should the last day of filing fall on a non-working day in the locality where the reporting NSSLA is situated, delay or default shall start to run on the day following the next working day. The due date/deadline for submission of reports to Bangko Sentral as prescribed under this Section governing the frequency and deadlines indicated in *Appendix S-2* shall be automatically moved to the next business day whenever a half-day suspension of business operations in government offices is declared due to an emergency such as typhoon, floods, etc.

For the purpose of establishing delay or default, the date of acknowledgment by the appropriate supervising department of the Bangko Sentral or the Regional Offices/Units appearing on the copies of such reports filed or submitted or the date of mailing postmarked on the envelope/the date of registry or special delivery receipt, as the case may be, shall be considered as the date of filing.

Delayed schedules/attachments and amendments shall be considered late reporting subject to above penalties.

c. *Sanctions for willful refusal to permit examination/making of false statement*

(1) Any NSSLA which shall willfully refuse to permit examination shall pay a fine of P3,000 daily from the day of refusal and for as long as such refusal lasts.

The provisions of Section 34 of R. A. No. 7653 shall apply to any agent, manager, or other officer-in-charge of any NSSLA who willfully refuses any lawful examination into the affairs of such NSSLA.

The willful making of a false statement or misleading statement on a material fact to appropriate supervising department of the Bangko Sentral charged with the regulation of NSSLAs or to his examiner shall be punished in accordance with Section 36 of R. A. No. 7653.

(2) *Procedures in imposing the fine*

(a) The Bangko Sentral officer/examiner/employee shall report the refusal of the NSSLA to permit examination to the head of the appropriate supervising department of the Bangko Sentral, who shall forthwith make a written demand upon the NSSLA concerned for such examination. If the NSSLA continues to refuse said examination without any satisfactory explanation therefor, the Bangko Sentral officer/examiner/employee concerned shall submit a report to that effect to the appropriate department head.

(b) The fine shall be imposed starting on the day following the receipt by the appropriate supervising department of the written report submitted by the Bangko Sentral officer/examiner/employee concerned regarding the continued refusal of the NSSLA to permit the desired examination.

d. *Manner of payment or collection of fines.* The regulations embodied in Sec. 811-S (*Other Payments of NSSLAs*) and *Appendix* S-18 shall be observed in the collection of the fines from NSSLAs.

e. *Appeal to the Monetary Board.* NSSLAs may appeal to the Monetary Board a ruling of the appropriate department imposing a fine.

f. *Other penalties.* The foregoing penalties shall not preclude the application of, or shall be without prejudice to, other administrative sanctions as well as to the filing of criminal case as provided for in the other provisions of the law, as may be warranted by the nature of the offense.

(Circular Nos. 1125 dated 20 August 2021 and 1104 dated 27 November 2020)

163-S AUDITED FINANCIAL STATEMENTS

The Bangko Sentral recognizes that external auditors play a vital role in contributing to the conduct of effective supervision and sustaining the confidence of the public in the financial system. In this light, the regulations on financial audit aim to enhance the quality of information channeled to the supervisory process and ultimately promote fairness, transparency and accuracy in financial reporting.

The following rules shall govern the submission of audited financial statements (AFS) of NSSLAs.

For purposes of this Section, AFS shall include the balance sheets, income statements, statements of changes in equity, statements of cash flows, notes to financial statements, and the opinion of the external auditor.

Financial Audit. NSSLAs shall cause an annual financial audit by an external auditor included in the List of Selected External Auditors for BSFIs not later than thirty (30) calendar days after the close of the calendar year or the fiscal year adopted by the NSSLA. The AFS shall be submitted by the NSSLA, to the appropriate supervising department of the Bangko Sentral, not later than 120 calendar days after the close of the calendar year or the fiscal year adopted by the NSSLA, accompanied by the documentary requirements as enumerated under *Appendix S-17*.

In addition, the external auditor shall be required by the NSSLA to submit to the board of trustees a Letter of Comments (LOC) indicating any material weakness or breach in the institution's internal control and risk management systems not later than 120 calendar days after the close of the calendar year or fiscal year adopted by the NSSLA. If no material weakness or breach is noted to warrant the issuance of an LOC, a certification under oath stating that no material weakness or breach in the internal control and risk management systems was noted in the course of the audit of the NSSLA shall be submitted in its stead, together with the AFS.

Material weakness shall be defined as a significant control deficiency, or combination of deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be detected or prevented by the institution's internal control. A material weakness does not mean that a material misstatement has occurred or will occur, but that it could occur. A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the institution's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles. The phrase "more than remote likelihood" shall mean that future events are likely to occur or are reasonably possible to occur.

The board of trustees, in a regular or special meeting, shall consider and act on the AFS and the LOC and shall submit not later than 120 calendar days after the close of the calendar year or fiscal year adopted by the NSSLA, a copy of its resolution (containing the date of receipt of the AFS and LOC by the board trustees) to the appropriate supervising department of the Bangko Sentral. The resolution shall show the action(s) taken on the AFS and the findings and recommendations stated in the LOC, if any.

The AFS required to be submitted shall in all respect be Philippine Financial Reporting Standards (PFRS)/PAS-compliant. The guidelines under Sec. 161-S shall be adopted.

NSSLAs as well as external auditors shall strictly observe the requirements in the submission of the AFS and reports required to be submitted under *Appendix S-17.*

The reports and certifications of institutions concerned, schedules and attachments required under this Section (*Financial Audit*) shall be considered as Category *B* reports, delayed submission of which shall be subject to the penalties under Item *"b.2"* of Sec. 162-S *(Sanctions and procedures for filing and payment of fines).*

Posting of audited financial statements. NSSLAs shall post in conspicuous places in their head offices, all their branches and other offices, as well as in their respective websites, their latest AFS.

***Disclosure requirements to the audited financial statements*.** NSSLAs shall disclose the information prescribed under Annex B of *Appendix S-17* in the AFS.

(Circular Nos. 1075 dated 07 February 2020 and 911 dated 02 May 2016)

164-S PUBLICATION REQUIREMENTS

NSSLAs shall, within 120 calendar days after the close of the calendar year or their fiscal year, as the case may be, furnish the Monetary Board and post in any of the NSSLAs' bulletin boards or in any other conspicuous place a copy of their financial statements showing, in such form and detail as the Monetary Board shall require, the amount and character of the assets and liabilities of the NSSLAs at the end of the preceding calendar/fiscal year. The Monetary Board may, in addition to the foregoing, require the disclosure of such other information as it shall deem necessary for the protection of the members of the NSSLA.

(*Circular No. 1047 dated 29 August 2019*)

H. ACTS OR PRACTIVES PREJUDICIAL TO THE INTEREST OF MEMBERS

171-S RULES GOVERNING PREJUDICIAL ACTS, PRACTICES OR OMISSIONS

In line with the policy of the State to regulate and supervise the activities of Non-Stock Savings and Loan Associations (NSSLAs) through issuance of minimum requirements and standards resulting in judicious utilization of credit; to place their operations on a sound, stable and efficient basis so they may provide for the establishment of additional savings and credit facilities in a fair manner to their members; to curtail or prevent acts, practices or omissions of these NSSLAs which are prejudicial to their members' interest; and to maximize the protection of members of NSSLAs against misfeasance and malfeasance of the trustees and officers thereof, the following rules and regulations on prejudicial acts or practices are hereby issued.

Acts, practices or omissions considered prejudicial to the interest of members.

a. In determining whether a particular act, practice or omission prejudicial to the interest of members, the Monetary Board, upon report of the head of appropriate supervising department of the Bangko Sentral, based on the finding in an examination or a complaint, shall consider the following circumstances:

   (1) The act, practice or omission is contrary to the generally accepted standards of prudent operation resulting in, or may result in abnormal risk, damage or loss to the NSSLA; or
   (2) The act, practice or omission unduly burdens the members of the NSSLA and/or provide unwarranted benefit, advantage or preference to any party; or
   (3) The act, practice or omission has resulted or may result in material loss, damage or undue injury to members.

b. Acts, practices or omissions which may be considered as prejudicial to the interest of members include, but are not limited to, the following:

   (1) Charging of unreasonably high service fees in the grant of loans. For this purpose, service fee is considered unreasonably high if the service fee rate exceeds fifty percent (50%) of the annual nominal interest rate charged on a loan. If the service fee rate is not indicated in the loan document, reference shall be made to the ratio of service fee to the principal loan granted;

   (2) Recognizing as income unused insurance premiums instead of refunding and/or crediting the same to borrowers;

   (3) Non-disclosure to borrowers of borrowing costs such as, but not limited to, service fees and costs related to services rendered by agents/sales representatives and consultants in the financials and management reports;

   (4) Adopting and implementing policies that are discriminatory such as, but not limited to, limiting the capital contributions of members that has the effect of concentrating control to a particular family. For this purpose, a family refers to the employee-member and/or retiree-member and their relatives up to second degree of consanguinity or affinity;

   (5) Granting of unauthorized compensation, in any form, to trustees and/or officers. Compensation shall be considered unauthorized when not allowed in the By-Laws or not approved by authorized bodies such as the members in a general assembly or the Board of Trustees.

(6) Granting new or additional loans to borrowers who have insufficient paying capacity or poor credit history;

(7) Collecting payments from members even after full payment of their loans, including failure to refund over-collections to members;

(8) Charging and/or paying material unauthorized disbursements, including expenses, or engaging in the practice of charging and/or paying unauthorized disbursements even if not material but when aggregated, result in material financial loss to the NSSLA; or

(9) Allowing the use of NSSLA's properties or privileges without due compensation.

The foregoing list is not exclusive. The Monetary Board may consider any other acts, practices, or omissions as prejudicial to the interest of members.

Enforcement actions. Based on the seriousness and materiality of the prejudicial acts, practices or omissions, the NSSLA, its trustees and officers shall be subject to administrative sanctions under Section 37 of R.A. No. 7653 or "The New Central Bank Act" and/or other applicable enforcement actions. The Monetary Board, pursuant to its authority under Section 22 of R.A. No. 8367 and subject to due notice and hearing, may order the suspension or revocation of an NSSLA's license to operate as such if the prejudicial acts, practices or omissions amount to willful violation of this Section, the provisions of R.A. No. 8367 or any other rule or regulation promulgated thereunder.

For this purpose, the act, practice or omission is deemed willful if, despite Bangko Sentral directive to stop the said act, practice, or omission, the NSSLA and/or its trustees and/or officers, continue to commit the same or related acts. As used herein, the term "related acts" refer to specific acts which result in the same prejudicial act, practice or omission.

Moreover, the above is without prejudice to the filing of appropriate criminal charges against culpable persons as provided for under Section 23(c) of R.A. No. 8367.

(Circular Nos. 1013 dated 17 September 2018 and 933 dated 16 December 2016)

I. REVOCATION AND SUSPENSION OF LICENSE

181-S VOLUNTARY DISSOLUTION

NSSLAs contemplating to dissolve shall give written notice thereof to the Monetary Board through the appropriate supervising department of the Bangko Sentral at least thirty (30) days before taking steps to effect dissolution.

182-S REVOCATION/SUSPENSION OF LICENSE OF NSSLAs

In reference to Section 22 of R.A. No. 8367 or the "Revised Non-Stock Savings and Loan Association Act of 1997", the Monetary Board, upon due notice and hearing, has the authority to either revoke or suspend the license of any NSSLA for such period as it deems necessary, based on any of the following grounds:

a. *Suspension of license:*

(1) Repeated violations [uncorrected similar examination findings for the last two examinations, regular or special] of any of the provisions of R.A. No. 8367, and/or any rules or regulations promulgated to implement said law, or Bangko Sentral directives and/or instructions; and

(2) Paid-up capital is impaired by continuing losses for the last two (2) fiscal years.

Lifting of the suspension of license shall be approved by the Monetary Board upon recommendation of the appropriate supervising department of the Bangko Sentral.

b. *Revocation of license:*

(1) When the solvency of the NSSLA is imperiled by losses and irregularities;
(2) When the NSSLA willfully violates any provision of R.A. No. 8367, any rule or regulation promulgated to implement said law and Bangko Sentral directives and/or instructions;
(3) When the NSSLA is conducting business in an unsafe and unsound manner;
(4) When it is unable to pay its liabilities as they become due in the ordinary course of business;
(5) When it has insufficient realizable assets, as determined by the Bangko Sentral, to meet its liabilities;
(6) When it cannot continue in business without involving probable losses to its members or creditors; and
(7) When it has willfully violated a cease and desist order of the Monetary Board involving acts or transactions which amount to fraud or a dissipation of assets of the institution.

As to the effects of the revocation/suspension of license of the NSSLA, the NSSLA is prohibited from engaging in the business of accumulating the savings of its members and using such accumulations for loans to its members, subject to applicable sanctions and penalties provided by law in case of violation thereof. After the cessation of its operations due to revocation of its license, the NSSLA should proceed with its dissolution, in accordance with the provisions under the Corporation Code. The dissolution of a corporation involves the termination of its corporate existence, at least, as far as the right to go on doing ordinary business is concerned, and the winding up of its affairs, the payments of its debts and distribution of its assets among the members or stakeholders or other persons involved. The board of trustees of the corporation also has the option of adopting a plan for the distribution of its assets, as stated under Section 95 of the Corporation Code.

After the revocation/suspension of its license, the Monetary Board may direct the board of trustees of the NSSLA to proceed with the voluntary dissolution of the corporation. In the event that the board of trustees refuses to effectuate such dissolution, the Monetary Board may refer the matter to the Solicitor General for the filing of a *quo warranto* case against the corporation in accordance with the provisions of the Corporation Code.

PART TWO

DEPOSIT AND BORROWING OPERATIONS

A. DEPOSITS

201-S DEMAND DEPOSITS

No NSSLA shall have or carry upon its books for any person any demand, commercial or checking account, or any credit to be withdrawn upon the presentation of any negotiable check or draft.

202-S SAVINGS DEPOSITS

Definition*. Savings deposits* are deposits evidenced by a passbook consisting of funds deposited to the credit of one (1) or more individuals with respect to which the depositor may withdraw anytime, unless prior notice in writing of an intended withdrawal is required by the NSSLA.

Minimum Deposit. Savings deposits with NSSLAs may be opened with a minimum deposit of ₱100.

Withdrawals. Withdrawal from a savings deposit shall be made through the presentation to the NSSLA of a duly accomplished withdrawal slip together with the depositor's passbook.

NSSLAs shall reserve the right to require the depositor to give prior written notice of withdrawal of not more than thirty (30) days.

NSSLAs may limit the number of withdrawals that a depositor may make: *Provided,* That the number of the withdrawals allowed shall not be less than three (3) times a month. A service charge to be determined by the board of trustees of the NSSLA and approved by the Bangko Sentral, may be charged by the NSSLA for every withdrawal made in excess of the maximum number allowed in any one (1) month.

203-S TIME DEPOSITS

Minimum term and size of time deposits; Withdrawal of time deposits.

a. *Term* – No time deposit shall be accepted for a term of less than thirty (30) days.
b. *Minimum Size* – NSSLAs shall not require a minimum amount of time deposit greater than ₱1,000.
c. *Withdrawals* – The withdrawal of a time deposit can be made only by presentation of the certificate of time deposit on the day of or after its maturity.

B. INTEREST AND FEES

211-S INTEREST ON SAVINGS DEPOSITS

Savings deposits of NSSLAs shall not be subject to any interest rate ceiling.

212-S INTEREST ON TIME DEPOSITS

Interest on time deposits shall not be subject to any interest rate ceiling.

***Time of payment*.** Interest on time deposits may be paid at maturity or upon withdrawal or in advance: *Provided, however,* That interest paid in advance shall not exceed the interest for one (1) year.

***Treatment of matured time deposits*.** A time deposit not withdrawn or renewed on its due date shall be treated as a savings deposit and shall earn an interest from maturity to the date of actual withdrawal or renewal at a rate applicable to savings deposits.

213-S FEES ON DORMANT SAVINGS DEPOSITS[1]

Dormant savings deposits. Savings deposit shall be classified as dormant if no deposit or withdrawal has been made for the last two (2) years. A monthly dormancy fee, not exceeding thirty pesos (₱30.00), may only be imposed five (5) years

[1] Effective 25 April 2017.

after the last activity, provided the NSSLA notified its member of the dormancy and the possible imposition of a dormancy fee at least sixty (60) days prior to the:

a. dormancy of the account; and
b. imposition of the fee.

Individual notifications shall be sent to the client's last known postal address/e-mail address/contact number either through postal or registered mail, courier delivery, electronic mail, text messages, telephone calls or other alternative modes of communication, as may be elected by the client.

(Circular No. 928 dated 24 October 2016)

C. DEPOSIT OPERATIONS

221-S OPENING AND OPERATION OF DEPOSIT ACCOUNTS

The following are basic provisions on the opening and operation of deposit accounts of NSSLAs.

***Who may open deposit accounts*.** Only members who have contributed P1,000 or more to the capital of the NSSLA may open deposit accounts with NSSLAs. A natural person, although lacking capacity to contract, may nevertheless open a savings or time deposit account for himself, provided he has sufficient discretion. However, he cannot withdraw therefrom, except through, or with the assistance of a guardian authorized to act for him. Parents may deposit for their minor children, and guardians for their wards.

Notwithstanding the provisions of the preceding paragraph, the cashier, bookkeeper and their assistants, and other employees of an NSSLA whose duties entail the handling of cash or checks are prohibited from opening savings deposit accounts with the head office or branch of the NSSLA in which they are assigned as such.

Identification of member-depositors. NSSLAs shall be responsible for the proper identification of their member-depositors.

Number of deposit accounts. A member-depositor may open and have more than one (1) savings deposit in his own name in the same capacity, and he may open and have various deposits in different capacities such as guardian, agent, or trustee for others.

***Signature card*.** A signature card bearing at least three (3) specimen signatures of each member-depositor shall be required upon opening of a deposit account.

Passbook and certificate of time deposit. A savings deposit passbook, signed by the receiving teller and an authorized officer, shall be issued to a member-depositor showing, among other things, his name and address, account number, date, amount of deposit, interest credits and balance. NSSLAs shall pre- number their savings deposit passbooks. In the case of a time deposit, a certificate of time deposit signed by two (2) authorized officers, shall be issued to the member- depositor containing, among other things, his name, amount of deposit, date when the deposit was made, its due date and interest rate.

Deposits in checks and other cash items. Checks and other cash items may be accepted for deposit by NSSLAs: *Provided*, That withdrawals from such deposits shall not be made until the check or other cash item is collected.

D. BORROWINGS

231-S CONDITIONS AND LIMITS

An NSSLA may borrow money or incur such obligation up to not more than twenty percent (20%) of the total assets of the NSSLA, from any public lending institution, and from private banking institutions, and such private lending institutions as may be approved by the Monetary Board: *Provided,* That the proceeds of such loan shall be used exclusively to meet the normal credit requirements of its members. The Monetary Board may, in meritorious cases, raise the ceiling on the borrowing capacity of an NSSLA to not more than thirty percent (30%) of its total assets. NSSLAs organized by employees of an entity or a corporation may borrow funds from said entity or corporation, but not vice-versa.

E. OTHER LIABILITIES

241-S DISCLOSURE OF REMITTANCE CHARGES AND OTHER RELEVANT INFORMATION[1]

It is the policy of the Bangko Sentral to promote the efficient delivery of competitively-priced remittance services by banks and other remittance service providers by promoting competition and the use of innovative payment systems, strengthening the financial infrastructure, enhancing access to formal remittance channels in the source and destination countries, deepening the financial literacy of consumers, and improving transparency in remittance transactions, consistent with sound practices.

Towards this end, NBFIs under Bangko Sentral supervision, including FXDs/MCs and RAs, providing overseas remittance services shall disclose to the remittance sender and to the recipient/beneficiary, the following minimum items of information regarding remittance transactions, as defined herein:

a. *Transfer/remittance fee* - charge for processing/sending the remittance from the country of origin to the country of destination and/or charge for receiving the remittance at the country of destination;
b. *Exchange rate* - rate of conversion from foreign currency to local currency, e.g., peso-dollar rate;
c. *Exchange rate differential/spread* - foreign exchange mark-up or the difference between the prevailing Bangko Sentral reference/guiding rate and the exchange/ conversion rate;
d. *Other currency conversion charges* - commissions or service fees, if any;
e. *Other related charges* - e.g., surcharges, postage, text message or telegram;
f. *Amount/currency paid out in the recipient country* - exact amount of money the recipient should receive in local currency or foreign currency; and
g. *Delivery time to recipients/ beneficiaries* - delivery period of remittance to beneficiary stated in number of days, hours or minutes.

Non-bank remittance service providers shall likewise post said information in their respective websites and display them prominently in conspicuous places within their premises and/or remittance/service centers.

In case of domestic remittance transactions, all fees to the transactions shall be charged upfront by all NBFIs under Bangko Sentral supervision from the sender/ remitter's end, with appropriate disclosure to the sender/remitter of the components of the fees being charged. This does not preclude the Bangko Sentral-supervised NBFI and/or other participants to the domestic remittance transaction from charging service fees. *Domestic remittance transaction*, for this purpose, is a transfer of funds between a sender/remitter and a beneficiary who are both within the Philippines, and is not covered by electronic payment transaction as defined under the NRPS framework.

(Circular Nos. 980 dated 6 November 2017 and 952 dated 22 March 2017)

[1] The BSFIs shall have until 27 April 2017 to comply with the provision of this Section.

PART THREE

LOANS AND INVESTMENTS

A. GENERAL PROVISIONS ON LENDING OPERATIONS

301-S GRANT OF LOANS AND OTHER CREDIT ACCOMMAODATIONS

Limitations on lending authority. NSSLAs shall not commit to make any loan for amounts in excess of the total of the following amounts:

a. Amount of cash available for loan purposes;
b. Amount of cash which can be readily realized upon the sale or redemption of permissible investments made by NSSLAs; and
c. Amount of credit available for loan purposes from government or private NSSLAs.

Maximum loan maturity. No loan granted by NSSLAs shall have a maturity date of more than five (5) years, except loans on the security of unencumbered real estate for the purpose of home building and home development which may be granted with maturities not exceeding twenty-five (25) years and medium or long-term loans to finance agricultural projects.

(Circular No. 1046 dated 29 August 2019)

302-S "TRUTH IN LENDING ACT" DISCLOSURE REQUIREMENTS

NSSLAs are required to strictly adhere to the provisions of R. A. No. 3765, otherwise known as the "Truth in Lending Act," and shall make the disclosure of the true and effective cost of borrowing an integral part of every credit transaction contract.

a. *Transactions covered.*

(1) Any loan, mortgage, deed of trust, advance and discount;

(2) Any conditional sales contract, any contract to sell, or sale or contract of sale of property or services, either for present or future delivery, under which, part or all of the price is payable subsequent to the making of such sale or contract;

(3) Any option, demand, lien, pledge, or other claim against, or for delivery of, property or money;

(4) Any purchase, or other acquisition of, or any credit upon the security of any obligation or claim arising out of any of the foregoing; and

(5) Any transaction or series of transactions having a similar purpose or effect.

b. *Transactions not covered.* Considering that the specific purpose of the law is the full disclosure of the true cost of credit, the following categories of credit transactions are outside the scope of the above regulations:

(1) Credit transactions which do not involve the payment of any finance charge by the debtor; and
(2) Credit transactions in which the debtor is the one specifying a definite and fixed set of credit terms such as bank deposits, insurance contracts, sale of bonds, etc.

Definition of terms.

a. *Creditor* (who shall furnish the information) means any person engaged in the business of extending credit (including any person who as a regular business practice makes loans or sells or rents property or services on a time, credit, or installment basis, either as principal or as agent), who requires as an incident to the extension of credit, the payment of a finance charge.

The term *creditor* shall include, but shall not be limited to, banks and banking institutions, insurance and bonding companies, savings and loan associations, credit unions, financing companies, installment houses, real estate dealers, lending investors, pawnshops, and any other person or entity engaged in the business of extending credit who requires as an incident to the extension of credit, the payment of a finance charge.

b. *Person* means any individual, corporation, partnership, NSSLA, or other organized group of persons, or the legal successor or representative of the foregoing, and includes the Philippine Government or any agency thereof, or any other government, or any of its political subdivisions, or any agency of the foregoing.

c. *Cash price or delivered price* (in case of trade transactions) is the amount of money which would constitute full payment upon delivery of the property (except money) or service purchased at the creditor's place of business. In the case of financial transactions, cash price represents the amount of money received by the debtor upon consummation of the credit transaction, net of finance charges collected at the time the credit is extended (if any).

d. *Down payment* represents the amount paid by the debtor at the time of the transaction in partial payment for the property or service purchased.

e. *Trade-in* represents the value of an asset, agreed upon by the creditor and debtor, given at the time of the transaction in partial payment for the property or service purchased.

f. *Non-finance charges* correspond to the amounts advanced by the creditor for items normally associated with the ownership of the property or of the availment of the service purchased which are not incident to the extension of credit. For example, in the case of the purchase of an automobile on credit, the creditor may advance the insurance premium as well as the registration fee for the account of the debtor.

g. *Amount to be financed* consists of the cash price plus non-finance charges less the amount of the down payment and value of the trade-in.

h. *Finance charge* includes interest, fees, service charges, discounts, and such other charges incident to the extension of credit.

i. *Simple annual rate* is the uniform percentage which represents the ratio between the finance charge and the amount to be financed under the assumption that the loan is payable in one (1) year with single payment upon maturity and there are no up- front deductions to principal.

For loans with terms different from the above assumptions, the effective annual interest rate shall be calculated and disclosed to the borrower as the relevant true cost of the loan comparable to the concept of simple annual rate.

For loans with contractual interest rates stated on monthly basis, the effective interest rate may be expressed as a monthly rate.

In accordance with the Philippine Accounting Standards (PAS) definition, *effective interest rate* is the rate that exactly discounts estimated future cash flows through the life of the loan to the net amount of loan proceeds. For consistency, methodology and standards for discounted cash flow models shall be prescribed to be used for the purpose.

Information to be disclosed. The following are the minimum information required to be disclosed to NSSLA borrowers (sample form in *Appendix S-5*):

a. The total amount to be financed;

b. The finance charges expressed in terms of pesos and centavos;

c. The net proceeds of the loan; and

d. The percentage that the finance charge bears to the total amount to be financed expressed as a simple annual rate or an effective annual interest rate as described in Item *"h"* of this Section (*Definition of terms*). Effective annual interest rate may also be quoted as a monthly rate in parallel with the quotation of the contractual rate.

NSSLAs are required to furnish each borrower a copy of the disclosure statement, prior to the consummation of the transaction.

***Inspection of contracts covering credit transactions*.** NSSLAs shall keep in their office or place of business copies of contracts covering all credit transactions entered into by them which involve the extension of credit to another and the payment of finance charges therefor. Such copies shall be available for inspection or examination by the appropriate supervising department of the Bangko Sentral.

***Dissemination of relevant information*.** NSSLAs shall ensure that all persons to whom credit is extended are well informed of the salient provisions of Republic Act No. 3765, otherwise known as the "Truth in Lending Act" as contained in the revised format of disclosure statement in *Appendix S-5* through any acceptable medium of communication such as, but not limited to, posters, brochures, pamphlets, leaflets, educational videos, corporate websites, infographics and social media platforms. Said information must be conspicuously displayed and made available at all times, in physical or electronic format, to all persons to whom credit is extended by NSSLAs subject to the consumer protection standards and social media risk management guidelines. Such medium of communication shall include an explicit notification that the disclosure statement in writing is a required attachment to the credit transaction contract which NSSLAs shall provide all persons to whom credit is extended with a copy of said disclosure statement prior to the consummation of the credit transaction.

Sanctions and penal provisions. Non-compliance with any of the provisions of this Section shall be subject to the appropriate monetary penalties under Sec. 811-S *(Other Payments of NSSLAs)* and *Appendix* S-18 depending on the severity of non-disclosure, number of loans and amount involved in the violation. In addition to sanctions under R.A. No. 3765, the following sanctions may be imposed:

a. *First offense*. Reprimand on the erring officer/s;
b. *Second offense*. Reprimand on the entire board of trustees; and
c. *Subsequent offense/s:*

   (1) Suspension of the erring officer/s and/ or entire board of trustees; and
   (2) Restriction on lending activities.

This is without prejudice to other penalties and sanctions provided under Sections 36 and 37 of R.A. No. 7653.

(Circular Nos. 1125 dated 20 August 2021, 1052 dated 2 October 2019 and 988 dated 20 December 2017)

303-S SECURED LOANS

Loans by an NSSLA may be secured by any or all of the following:

a. Mortgages on registered real estate;

b. Chattel mortgages on harvested or stored crops of non-perishable character;

c. Chattel mortgages on livestock, tools, equipment or machinery, supplies or materials, merchandise and other personal properties;

d. Assignment of quedans which gives the right of disposal of readily marketable products;

e. Time and/or savings deposits and/or capital contribution;

f. Pledge of bonds, stock and other securities of GOCCs and other bonds, stocks or securities which are non-speculative in nature;

g. Land transfer certificates issued by the government to tenant farmers, under the agrarian reform program to the extent of sixty percent (60%) of the value of the farm holdings: *Provided,* That a certification shall be first secured from the office of the Registry of Deeds to the effect that the Land Transfer Certificate being presented is valid; and

h. Other securities as may be approved by the Monetary Board.

304-S POLICIES ON SALARY-BASED GENERAL-PURPOSE CONSUMPTION LOANS[1]

Policy statement. The Bangko Sentral recognizes the helpful role of salary-based, consumer lending schemes in allowing an individual borrower to manage his/her cash flows provided these are granted under sound credit standards and fair consumer practices. The Bangko Sentral likewise encourages competition and transparency to promote efficient and innovative delivery of financial services and fair dealing with customers.

Definition; Transactions covered; Exclusions; Report.

a. *Definition. Salary-based general- purpose consumption loans.* Refer to unsecured loans for a broad range of consumption purposes, granted to individuals mainly on the basis of regular salary, pension or other fixed compensation, where repayment would come from such future cash flows, either through salary deductions, debits from the borrower's deposit account, mobile payments, pay- through collections, over-the-counter payments or other type of payment arrangement agreed upon by the borrower and lender.

b. *Transactions Covered.* Salary-based general-purpose consumption loans may include credit accommodations for education, hospitalization, emergency, travel, household and other personal consumption needs.

c. *Exclusions.* Credit cards, motor vehicles and other personal loans which are covered by other existing applicable regulations are excluded from the coverage of this Section.

d. *Report.* For the purpose of reporting in the Financial Reporting Package, financial assistance under an approved fringe benefit program should be reported/classified according to the purpose of the financial assistance (e.g., housing/real estate, motor vehicle, salary-based general-purpose consumption, etc.)

[1] This Section shall apply to all salary-based general purpose consumption loans as defined herein including those outstanding prior to 26 September 2015.

Credit granting.

a. Policies of financial institutions (FIs) shall be consistent with best practices and sound credit processes prescribed under Bangko Sentral regulations, including a comprehensive assessment of the borrower's creditworthiness, and shall not be reliant on mere formula such as those automatically granted based on certain multiples of monthly salary or other regular compensation.

b. Individual borrowing capacity should be prudently assessed considering reasonable estimates of total personal and household indebtedness as well as disposable income available for family and personal needs after considering debt servicing.

c. Original loan term shall not exceed three (3) years but may have longer maturity in meritorious cases provided that in no case shall maturity exceed five (5) years.

   No loan renewal shall be granted without re-assessing borrowing capacity and establishing continuing creditworthiness. Further, no loan renewal shall be allowed without payment of accrued interest receivable and substantial reduction in principal.

d. In the case of loan "takeout" from another FI, the FI taking out the loan(s) should ensure that the loan from the originating FI has been fully settled. FIs are expected to institute adequate controls over loan "takeout" such as: (a) directly releasing the loan proceeds to the FIs where the loan will be taken out; and (b) obtaining a copy of the official receipt evidencing full settlement of account from the originating FI, among others.

Consumer protection. FIs are required to strictly adhere to Bangko Sentral regulations on Financial Consumer Protection as prescribed under Part Seven entitled Bangko Sentral Regulations on Financial Consumer Protection.

Sanctions*.* The Monetary Board may, at its evaluation and discretion, impose sanctions on an FI and/or its Board, directors and officers, proportionate to the gravity/seriousness of the offense in cases of persistent non-observance of the provisions contained herein.

(Circular No. 903 dated 29 February 2016)

305-S POLICY ON LOAN LIMIT TO A SINGLE BORROWER (SBL)

Policy on Loan Limit to a Single Borrower (SBL)*.* The NSSLAs have shown continued growth in terms of size and complexity of overall operations, offering wider range of credit facilities to meet the increasing demand for financial products and services of their members. While the Bangko Sentral recognizes that the NSSLAs have to adequately serve their members' financial needs, their lending operations shall be bound by the standards and expectations set forth in the NSSLA Law and its implementing rules and regulations. Consistent with policies to encourage judicious utilization of credit among the members and to lay down the minimum requirements and standards under which NSSLAs may organize and operate, the following rules on loan limit to a single borrower are hereby adopted to:

a. ensure adherence, consistency and uniformity of application of determination of loan limit;
b. prevent practices prejudicial to the members or over-indebtedness; and
c. achieve the objectives consistent with the nature of operation of NSSLAs as self-help institutions.

Loan limit to a single borrower. An NSSLA may grant loans but shall not exceed the member's deposits and capital contributions, plus twelve (12) months of his regular salary as the NSSLA may allow or up to seventy percent (70%) of the fair market value (FMV) of any property acceptable as collateral on first mortgage that he may offer as security.

It shall be the primary responsibility of the NSSLA, its trustees and officers to ensure compliance with the SBL. The Board of Trustees (BOT) shall adopt appropriate policies and procedures, including a system to reasonably monitor compliance, which shall be integrated in the NSSLA's applicable risk management system, e.g., credit, compliance, and/or operational risk management systems.

For this purpose, accurate and adequate records in support thereof shall be made available for verification by the Bangko Sentral.

SBL guidelines**.** For purposes of implementing the foregoing, the following guidelines shall apply:

a. **Timing of determining the limit.** The SBL shall be determined at the time of approval of a loan and/or its renewal/restructuring/extension or its equivalent.

b. **Amount of the loans.** The amount of loans to be used in determining compliance with the SBL of a member shall be the sum of gross amount of the new loan he applied for and the total outstanding balance of his existing loans with the NSSLA.

c. **SBL in formula.** The SBL shall be computed, as follows:

SBL =	Basic limit	Sum of deposits and capital contributions (including the fixed and capital contribution buffer or other names they shall be called)
	Plus	
	Variable limit	Twelve (12) months regular salary, as the NSSLA may allow, or seventy percent (70%) of FMV of the property acceptable as collateral on first mortgage offered as security

In determining the variable limit, the seventy percent (70%) of FMV parameter shall apply only when a collateral on first mortgage is offered as security to the new loan. Without such offering of collateral for a new loan, the variable limit shall be the twelve (12) months regular salary as herein defined: *Provided*, That notwithstanding the offering of a collateral, whenever the twelve (12) months regular salary is higher than the amount equivalent to seventy percent (70%) of FMV, the said twelve (12) months regular salary may be considered as the variable limit.

d. **Twelve (12) months regular salary**. The phrase *twelve (12) months regular salary* cited under Section 7, R.A. No. 8367 shall refer to the total amount of regular salary of a member for a period not exceeding twelve (12) months. The following shall be considered in the policies, procedures and processes to be adopted by an NSSLA in determining the total amount of regular salary of a member:

(1) Determination of salary. In determining the amount of salary, reference shall be made to the proof establishing the same. In general, salary is evidenced by a pay slip or its equivalent. Salary of an employee-member include the basic salary and other benefits, such as 13th month pay and bonuses mandated under the collective bargaining agreement: *Provided*, That in the case of a member-retiree, it shall refer to his retirement pension.

(2) Test of regularity. A salary shall be considered regular if the payment, not the amount, is assured as established by way of a company or national policy, law, tradition or collective bargaining agreement.

In general, a member sources his regular salary from a single employer or payor. However, where an employee-member is employed in more than one (1) company, or a member-retiree is employed in a company, his total regular salary for a period not exceeding twelve (12) months may cover such other sources of regular salary as may be allowed by the NSSLA concerned, taking into consideration its risk appetite and adequacy of its risk management system in place.

e. **Utilization of deposits and capital contributions.** The outstanding balances of deposits and capital contributions owned and registered in the name of a qualified member-borrower at the time of approval of his loan and/or the renewal/restructuring/ extension thereof or its equivalent shall be utilized in determining his SBL. In case of co-owned deposit or capital contribution accounts, the NSSLA may require a declaration from the co-owners of a specific account to certify their respective shares or ownership, in order to correctly determine the members' SBL. In the absence of said declaration, his percentage share equivalent to the amount of the co-owned account divided by the number of co-owners, shall be included in the computation of the SBL.

f. **FMV.** For purposes of complying with the variable limit of seventy percent (70%) of FMV of property acceptable as collateral on first mortgage offered as security of a loan, the following guidelines shall apply:

(1) Properties with market value of at least ₱5 million or more should be appraised by independent appraisers. An in-house appraisal of all collaterals referred herein shall be made every other year: *Provided*, That immediate re-appraisal shall be conducted on such collaterals which materially decline in value; and

(2) Those below ₱5 million may be appraised in-house; *Provided,* That appropriate policies and procedures are adopted to ensure the reliability thereof: *Provided, further*, That an NSSLA is not precluded from engaging the services of an independent appraiser for properties with market value of less than ₱5 million.

g. **Documentary and other requirements.** The determination of and adherence to the SBL shall be duly documented to provide audit trail. The variables used in the determination thereof shall be duly supported.

For the purpose of verifying compliance with the SBL, the Bangko Sentral has the authority to disregard unsupported amounts and/or any variable in the computation of the SBL.

h. **Certification of compliance.** NSSLAs shall submit within 15 days after end of each reference quarter, to the appropriate supervising department of the Bangko Sentral, a notarized certification stating that the NSSLA concerned has complied with the SBL requirement. The certification shall be executed by the NSSLA president.

i. **Enforcement actions.** The Bangko Sentral may deploy its range of supervisory actions to promote adherence to standards and principles set forth in this Section, to bring about timely corrective actions and compliance with Bangko Sentral directives and ensure that NSSLAs operate in sound, lawful and orderly manner. Non-observance of the provisions of this Section, may subject the NSSLA, its trustees and officers to appropriate sanctions. Any administrative sanctions imposed by the Bangko Sentral shall be without prejudice to the imposition of penalties under Section 23 of R.A. No. 8367 against the NSSLA, its trustees, officers and/or employees and agents, and criminal charges against such persons under applicable laws.

(Circular No. 1026 dated 6 December 2018)

306-S INTEREST AND OTHER CHARGES

The following rules shall govern the rates of interest and other charges on loans granted by NSSLAs.

Interest in the absence of stipulation. The rate of interest for the loan or forbearance of any money, goods or credit and the rate allowed in judgments, in the absence of express contract as to such rate of interest, shall be six percent (6%) per annum.

Escalation clause; when allowable. Parties to an agreement pertaining to a loan or forbearance of money, goods or credits may stipulate that the rate of interest agreed upon may be increased in the event that the applicable maximum rate of interest is increased by the Monetary Board: *Provided,* That such stipulations are valid only if there is also a stipulation in the agreement that the rate of interest agreed upon shall be reduced in the event that the applicable maximum rate of interest is reduced by law or by the Monetary Board: *Provided, further,* That the adjustment in the rate of interest agreed upon shall take effect on or after the effectivity of the increase or decrease in the maximum rate of interest.

Accrual of interest earned on loans and other credit accommodations. Accrual of interest earned on non-performing loans and other credit accommodations shall not be allowed.

Method of computing interest. NSSLAs shall only charge interest based on the outstanding balance of a loan at the beginning of an interest period.

For a loan where the principal is payable in installments, interest per installment period shall be calculated based on the outstanding balance of the loan at the beginning of each installment period.

Towards this end, all loan-related documents shall show repayment schedules in a manner consistent with this provision. Marketing materials and presentations shall likewise be consistent with this provision.

(*Circular No. 1046 dated 29 August 2019*)

307-S PAST DUE ACCOUNTS AND NON- PERFORMING LOANS

The following regulations shall guide BSFIs in determining their past due accounts and non-performing loans.

Definition of terms. For purposes of this Section, the following definitions shall apply:

a. *Restructured loans* shall refer to loans and other credit accommodations the original contractual terms and conditions of which have been modified in accordance with a formal restructuring agreement that sets forth a revised schedule of payments for the purpose of lessening the financial difficulty of the borrower and maximizing collection and realizable economic value on an obligation within a reasonable period of time. The modification may include, but is not limited to, change in principal due, maturity, interest rate and other charges, collateral, or other terms and conditions.

b. *Items in litigation* shall refer to loans or other credit accommodations for which cases, such as collection or foreclosure, have been filed in court or sheriff's office, as the case may be. The loan or other credit accommodation shall remain in this account during the pendency of the proceedings, until full payment, restructuring of the obligation, foreclosure of the collateral, or such other disposition is made as would cause such proceedings to cease.

Accounts considered past due. As a general rule, loans, investments, receivables, or any financial asset, including restructured loans, shall be considered past due when any principal and/or interest or installment due, or portions thereof, are not paid at their contractual due date, in which case, the total outstanding balance thereof shall be considered as past due. However, NSSLAs may provide a cure period on a credit product-specific basis for loans with over-the-counter payment arrangement, not to exceed thirty (30) calendar days within which to allow the borrowers to catch up on their late payment without being considered as past due: *Provided,* That any cure period policy shall be based on verifiable collection experience

and reasonable judgment that support tolerance of occasional payment delays: *Provided*, further, That the observance of a cure period policy shall not preclude the timely adverse classification of an account that has developed material credit weakness/es, and that NSSLAs shall regularly review the reasonableness of its cure period policy.

Non-performing loans. Loans, investments, receivables, or any financial asset shall be considered non-performing, even without any missed contractual payments, when it is considered impaired under existing accounting standards[1], classified as doubtful or loss, in litigation, and/or there is evidence that full repayment of principal and interest is unlikely without foreclosure of collateral, if any. All other loans, even if not considered impaired, shall be considered non-performing if any principal and/or interest are unpaid for more than ninety (90) days from contractual due date, or accrued interests for more than ninety (90) days have been capitalized, refinanced, or delayed by agreement.

Microfinance and other small loans with similar credit characteristics shall be considered non-performing after contractual due date or after it has become past due.

Restructured loans shall be considered non-performing. However, if prior to restructuring, the loans were categorized as performing, such classification shall be retained.

Non-performing loans, investments, receivables, or any financial asset (and/or any replacement loan) shall remain classified as such until (a) there is sufficient evidence to support that full collection of principal and interests is probable and payments of interest and/or principal are received for at least six (6) months; or (b) written-off.

Updating of information provided to credit information bureaus. NSSLAs which have provided adverse information, such as the past due or litigation status of loan accounts, to credit information bureaus, or any organization performing similar functions, shall submit monthly reports to these bureaus or organizations on the full payment or settlement of the previously reported accounts within five (5) business days from the end of the month when such full payment was received. For this purpose, it shall be the responsibility of the reporting NSSLAs to ensure that their disclosure of any information about their borrowers/clients is with the consent of borrowers concerned.

(Circular Nos. 1046 dated 29 August 2019 and 941 dated 20 January 2017)

308-S LOAN PORTFOLIO AND OTHER RISK ASSETS REVIEW SYSTEM

(Deleted by Circular No. 1046 dated 29 August 2019)

309-S RESTRUCTURED LOANS

(Deleted by Circular No. 1046 dated 29 August 2019)

310-S ACQUIRED ASSETS IN SETTLEMENT OF LOANS

The following rules shall govern assets acquired in settlement of loans.

Posting and Maintaining Acquired Assets. NSSLAs shall post at all times in a conspicuous place in the premises of their head office and each of their service unit a list of acquired assets together with the corresponding lowest price at which the NSSLA is willing to sell such property. Any real property acquired shall be disposed of by the NSSLA within a period of five (5) years: *Provided*, *however*, That the NSSLA may, after said period, continue to hold the property for its own use, subject to the limitations of Section 18(b) of R.A. No. 8367.

Booking

a. Real and Other Properties Acquired (ROPA) in settlement of loans through foreclosure or dation in payment shall be booked under the ROPA account as follows:

   (1) Upon entry of judgment in case of judicial foreclosure;
   (2) Upon execution of the Sheriff's Certificate of Sale in case of extrajudicial foreclosure; and
   (3) Upon notarization of the Deed of Dacion in case of dation in payment (*dacion en pago*).

   ROPA shall be booked initially at the carrying amount of the loan (i.e., outstanding loan balance adjusted for any unamortized premium or discount less allowance for credit losses computed based on Philippine Accounting Standard (PAS) 39 provisioning requirements, which take into account the fair value of the collateral) plus booked accrued interest less allowance for credit losses (computed based on PAS 39 provisioning requirements) plus

[1] Applicable accounting standard is PAS 39 until 31 December 2017 and International Financial Reporting Standards (IFRS) 9 starting 01 January 2018. A financial asset or a group of financial assets is impaired when there is objective evidence that its recoverable value is less than its carrying amount, as a result of one or more loss events that occurred after the initial recognition of the asset and that the loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. It may not be possible to identify a single, discrete event that caused the impairment. Rather, the combined effect of several events may have caused the impairment.

transaction costs incurred upon acquisition (such as non-refundable capital gains tax and documentary stamp tax paid in connection with the foreclosure/purchase of the acquired real estate property).

b. The carrying amount of ROPA shall be allocated to land, building, other non-financial assets and financial assets (e.g., deposits or capital contribution in the NSSLA) based on their fair values, which allocated carrying amounts shall become their initial costs.

c. The non-financial assets portion of ROPA shall remain in ROPA and shall be accounted for as follows:

(1) Land and building shall be accounted for using the cost model under PAS 40 "Investment Property";
(2) Buildings shall be depreciated over the remaining useful life of the assets, which shall not exceed ten (10) years from the date of acquisition; and
(3) Land and buildings shall be subject to the impairment provisions of PAS 36 "Impairment".

d. Financial assets shall be accounted for in accordance with the provisions of PAS 39.

e. Claims arising from deficiency judgments rendered in connection with the foreclosure of mortgaged properties shall be judged under the real account "Deficiency Judgment Receivable"; while probable claims against the borrower arising from the foreclosure of mortgages properties shall be lodged under the contingent account "Deficiency Claims Receivable".

f. Before foreclosing or acquiring any property in settlement of loans, it must be properly appraised to determine its true economic value. If the amount of ROPA to be booked exceeds P5.0 million, the appraisal must be conducted by an independent appraiser acceptable to the Bangko Sentral. An in-house appraisal of all ROPAs shall be made at least every other year: *Provided*, That immediate re-appraisal shall be conducted on ROPAs which materially decline in value.

The provisions of this Subsection shall be applied to all outstanding ROPAs and sales contract receivables (SCR): *Provided*, That for properties acquired before 01 January 2005, the carrying amount of the acquired properties when initially booked under ROPA shall be the cost subject to depreciation and impairment testing, which shall be reckoned from the time of acquisition.

Sales contract receivable

a. SCR shall be recorded based on the present value of the installments receivables discounted at the imputed rate of interest. Discount shall be accreted over the life of the SCR by crediting interest income using the effective interest method. Any difference between the present value of the SCR and the derecognized assets shall be recognized in profit or loss at the date of sale in accordance with the provisions of PAS 18 "*Revenue*": *Provided*, *furthermore*, That SCR shall be subject to impairment provision of PAS 39.

The provision of this Section *(Sales contract receivable)* shall be applied to all outstanding ROPAS and SCRs: *Provided,* That for properties acquired before 01 January 2005, the carrying amount of the acquired properties when initially booked under ROPA shall be the cost subject to depreciation and impairment testing, which shall be reckoned from the time of acquisition.

b. SCRs which meet all the requirements/conditions enumerated below are considered performing assets and not subject to classification:

(1) That there has been a down payment or installment payments on the principal of at least twenty percent (20%) of the agreed selling price;

(2) That payment of the principal must be in equal installments or in diminishing amounts and with maximum intervals of one (1) year;

(3) That any grace period in the payment of principal shall not be more than one (1) year; and

(4) That there is no installment payment in arrear either on principal or interest: *Provided,* That an SCR account classified "Substandard" may only be upgraded to pass/unclassified/performing status after a satisfactory track record of at least three (3) consecutive payments of the required amortization of principal and/or interest has been established.

The Bangko Sentral however, reserves the right to require that specific provision on ROPA and SCR be made, if based on its assessment, the NSSLA is unable to make the necessary impairment provisioning.

(*Circular No. 1046 dated 29 August 2019*)

311-S SALE/TRANSFER TRANSACTIONS OF BSFIs PURSUANT TO R.A. NO. 11523, OTHERWISE KNOWN AS THE FINANCIAL INSTITUTIONS STRATEGIC TRANSFER (FIST) ACT

Policy Statement.

This Section sets forth the guidelines governing the sale/transfer, investment transactions of banks and other institutions licensed by the Bangko Sentral to perform (i) quasi-banking functions and (ii) credit-granting activities, including but not limited to pawnshops, NSSLAs, and non-bank credit card issuers pursuant to R.A. No. 11523, otherwise known as the FIST Act and its IRR. The implementation of the FIST Act reinforces the BSFIs' primary role of providing financial services and liquidity to support households, business enterprises and productive sectors of economy by allowing BSFIs to dispose of their NPAs and increase their liquidity and risk-bearing capacity.

Sale/transfer transactions of non-performing assets (NPAs) by BSFIs for purposes of availing of the tax exemptions and incentives/privileges under the FIST Act shall comply with the provisions under this Section.

Definition of Terms.

For purposes of this Section, the following definitions shall apply:

a. **Certificate of Eligibility (COE)** refers to the certificate issued by the Bangko Sentral as to the eligibility of the non-performing loan (NPL) or real and other properties acquired (ROPA) for purposes of availing the tax exemptions and privileges pursuant to the provisions of the FIST Act.

b. **Data Package** refers to the set of documents prescribed by the Securities and Exchange Commission (SEC) under Rule No. 5.1.j of the IRR and the additional documentation required under this Section (*Sale and Transfer of Assets*), which must be prepared and made available by the selling BSFI in respect of the sale/transfer of NPAs to FIST Corporations (FISTCs)/individuals. The Data Package should contain, among others, scanned copy of all pertinent documents and the particulars of each property or loan account being sold and should be made electronically available to potential bidders.

c. **FISTC** refers to a stock corporation organized in accordance with R.A. No. 11232, otherwise known as the "Revised Corporation Code of the Philippines," the provisions of Section 4 of the FIST Act and Rule 4 of the IRR. It is incorporated primarily to invest in or acquire NPAs of financial institutions under the FIST Act. With respect to foreign FISTCs, existing laws on ownership of real properties shall apply.

d. **Individual** refers to a natural person who, subject to certain conditions, is entitled to the tax exemptions, incentives, and fee privileges under the FIST Act.

e. **NPAs** refers to the NPLs and ROPA of BSFIs. NPAs are those NPLs and ROPA that are classified as such under the FIST Act on or before 31 December 2022.

f. **NPLs** refer to secured or unsecured loans and other receivables, including restructured loans and sales contracts receivables (SCRs), whose principal and/or interest have remained unpaid for at least ninety (90) days after they have become past due or any of the events of default under the loan agreement/restructuring agreement/sales contract, as applicable, has occurred.

   NPLs shall also include loans that are classified as items in litigation on or before 31 December 2022 for which collection and foreclosure cases have been filed or are subject to pending cases that seek to restrain foreclosure or consolidation of title of foreclosed assets, or where a restraining order or injunction has been issued to prevent foreclosure of mortgage or consolidation of title of foreclosed assets.

g. **ROPAs** refers to real and other properties acquired by a BSFI in settlement of loans and receivables, including real properties, shares of stocks, and personal properties which have been acquired by way of dation in payment (dacion en pago) or judicial or extra-judicial foreclosure or execution of judgement or enforcement of security interest.

h. **SCRs** refer to the amortized cost of assets acquired in settlement of loans through foreclosure or dation in payment and subsequently sold on installment basis whereby the title to the said property is transferred to the buyers only upon full payment of the agreed selling price.

i. **Special Purpose Vehicles (SPVs)** refer to entities created under R.A. No. 9182, as amended, otherwise known as the "The Special Purpose Vehicle (SPV) Act of 2002," primarily incorporated to invest in or acquire NPAs of financial institutions under the SPV Act, whose application for reconfirmation has been approved by the SEC.

j. **True sale** refers to a sale wherein the selling BSFI transfers or sells its NPAs to an individual/FISTC, without recourse for cash or property in exchange for the transfer or sale, and without prejudice to the BSFI and the FISTC agreeing on sharing of profits and subject to the following results:

(1) The transferor transfers full legal and beneficial title to and relinquishes effective control over the transferred NPAs; and
(2) The transferred NPAs are legally isolated and put beyond the reach of the transferor and its creditors;

Provided, That the transferring BSFI shall not have direct or indirect control, of the transferee FISTC: *Provided, further,* That the selling BSFI does not have legal or beneficial ownership of more than ten percent (10%) of the (a) total number of outstanding shares of stock entitled to vote in the election of directors; and (b) the total number of outstanding shares of stock, whether or not entitled to vote, of the transferee FISTC.

For purposes of determining existence of control, the provisions of Sec. 131-Q shall apply.

All references to FISTCs in subsequent provisions of this Section shall also refer to SPVs as defined under this Section (*Definition of Terms*).

Issuance of COEs.

A BSFI which intends to avail of the tax exemptions and fee privileges under the FIST Act shall apply for a COE in accordance with the Bangko Sentral's guidelines for obtaining a COE under the FIST Act. The following transactions shall require a COE:

a. The sale/transfer of NPAs by a BSFI to a FISTC;

b. The dation in payment (dacion en pago) of NPL by a borrower or third party on behalf of the borrower to a BSFI; and

c. The sale/transfer of NPL (secured by a real estate mortgage on a residential unit or an empty lot) or ROPA (single family residential unit or an empty lot) by a BSFI to an individual: *Provided,* That an individual is limited to only one acquisition of NPA (either NPL or ROPA).

Notice, Manner and Nature of Sale/Transfer of NPAs

The following provisions on notice, manner and nature of sale/transfer of NPAs under Sections 12 and 13 of the FIST Act and Rules 12 and 13 of the IRR shall apply:

a. ***Prior Notice.*** No transfer of NPLs to a FISTC/individual shall take effect unless the BSFI concerned gives prior notice to the borrowers of the NPLs and all persons actually or constructively known to the BSFI to be holding prior encumbrances upon the assets mortgaged or subject to security interest. The BSFI's notification to the borrower shall include a breakdown of his/her loan and related credit obligations that shall be the subject of the sale/transfer. Such notice shall be in writing and made in accordance with the 2019 Revised Rules of Civil Procedure, including Rule 13. Sections 5-15 and 17 on the modes and proof of service, Rule 14, Section 12 on the service upon domestic private juridical entity. The borrower shall be given a period of at most thirty (30) calendar days upon receipt of notice from the BSFI to restructure or renegotiate the loan under such terms and conditions as may be agreed upon by the borrower and the BSFI concerned.

b. ***Sale/Transfer of Assets***

A selling BSFI shall provide prospective bidders, including individuals and FISTCs, with a data package as defined under this Section (*Definition of Terms*). At a minimum, the data package shall include the documents prescribed under Rule 5.1.j of the IRR and the following documents, if available:

(1) For NPLs:

(a) Promissory Note/Pawn ticket;
(b) Restructuring Agreement, debt settlement agreement and other loan agreements of similar nature; and
(c) Chattel Mortgage and Security Agreement, third-party financial guarantee or surety arrangement.

(2) For ROPA:

(a) Proof of property's ownership, e.g., Transfer Certificate of Title (TCT), with registered real estate mortgage (REM), tax declaration for unregistered land, Certificate of Stocks or other certificate/proof of participation in securities, Official Receipt/Certificate of Registration for motor vehicle;

(b) Certificate of Sale (COS) for Extra-judicial foreclosure/Notarized Deed of Dacion in case of dation in payment/judgment in case of judicial foreclosure for real estate ROPA with unconsolidated land title; and

(c) Latest Real Estate Tax Receipt.

(3) For SCRs:

(a) Notarized Sales Contract;

(b) Proof of property's ownership, e.g., TCT, with REM, tax declaration for unregistered land, Certificate of Stocks or other certificate/proof of participation in securities, Official Receipt/Certificate of Registration for motor vehicle;

(c) COS for Extra-judicial foreclosure/Notarized Deed of Dacion in case of dation in payment/judgment in case of judicial foreclosure for real estate ROPA with unconsolidated land title; and

(d) Latest Real Estate Tax Receipt.

All sales or transfers of NPAs by a BSFI shall meet the definition of a true sale under this Section (*Definition of Terms*) and shall be made in accordance with the provisions of Section 13 of the FIST Act and Rule 13 of the IRR. Sales/Transfers of NPAs shall be in the nature of a "true sale" after proper notice in accordance with the procedure provided under this Section (*Notice, Manner and Nature of Sale/Transfer of NPAs*), without need for the borrower's consent: *Provided,* That in the transfer of the NPLs, the provisions on the right of the debtor to reimburse the assignee or transferee under Article 1634 of the New Civil Code shall not apply: *Provided, further,* That after the sale, the FISTC/individual shall assume all legally transferrable rights and obligations of the transferring BSFI.

The Bangko Sentral shall not issue the COE to a BSFI in case of its non-compliance with the FIST Act, its IRR, and this Section, including, but not limited to, the following: (1) the asset subject of the sale/transfer transaction does not meet the definition of an NPA under this Section (*Definition of Terms*), or (2) the sale/transfer transaction (i) does not meet the definition of a "true sale", (ii) falls under the transactions not considered "true sale" under *Appendix S-20,* or (iii) is presumed to be not a "true sale" transaction under the same Appendix, based on documents submitted/presented relative to its COE application, without prejudice to the submission by the BSFI of a new application/request with complete requirements and accurate documents.

Moreover, the Bangko Sentral reserves its authority to pass upon the "true sale" nature of the sale/transfer even after the issuance of the COE, and revoke a COE already issued upon finding of any violation of the "true sale" nature of the transaction.

The guidelines in determining whether the sale/transfer satisfies the requirements of a "true sale" is in *Appendix S-20.*

c. ***Subsequent notice.***

Within fifteen (15) banking/business days after the execution of the NPL's sale or transfer documents, the transferring BSFI shall inform the borrower, in writing sent to the latter's last known address or email address, of the fact of the sale or transfer of the NPLs. Non-compliance with the post-notification requirements shall not invalidate the sale or transfer of NPLs but shall subject the erring BSFI to appropriate sanctions and penalties under the FIST Act and its IRR, as well as other pertinent laws, rules, and regulations.

d. ***Subsequent transfers.***

The re-acquisition of the NPA by the borrower or owner from the FISTC, individual, or subsequent transferee other than by the exercise of the right of redemption as provided for in Section 20 of the FIST Act and Rule 20 of the IRR shall be in accordance with the terms and conditions as may be agreed upon by them.

Prudential Relief Measures on the Sale/Transfer of NPAs

BSFIs may avail of the prudential relief measures that shall be granted by the Bangko Sentral in relation to their NPA sale/transfer transactions.

Limitations on Amount Available for Dividends

BSFIs may carry-over any loss incurred as a result of the result of the transfer of an NPA within a period of not more than two-years from the date of effectivity of the FIST Act (i.e. on 18 February 2021) for a period of five (5) consecutive taxable years immediately following the year of the transfer that resulted to such loss: *Provided,* That the loss meets the requirements under Section 17 of the FIST Act and Rule 17.1 of the IRR: *Provided, further,* That the tax savings derived

by a BSFI from this net operating loss carry-over shall not be made available for dividend declaration under Sec. 123-Q but shall be retained as a form of capital build-up pursuant to Section 17 of the FIST Act and Rule 17.2 of the IRR.

Prudential Report

BSFIs that availed of the tax exemptions and incentives/privileges under the FIST Act shall submit a Monthly Report on the Sale/Transfer and Investment transactions of BSFIs under the FIST Act to the Bangko Sentral. The report shall be considered a Category B report and shall be submitted within twenty (20) business days after end of reference month. The submission of the aforementioned report shall be subject to the guidelines provided under Sec. 162-S.

Penalties and Administrative Sanctions

A BSFI and/or its concerned directors, officers, and employees who violate any provision of the FIST Act, its IRR, and this Section, or who, in a notice or certification, makes any untruthful statement of a material fact or omits to state a material fact, or who violate the required "true sale" nature of the sale/transfer of NPAs shall be penalized pursuant to Sections 18 and 24 of the FIST Act, Rules 18 and 24 of the IRR; Section 37 of R.A. No. 7653, or "The New Central Bank Act", as amended, and other applicable laws, without prejudice to the enforcement actions that may be deployed by the Bangko Sentral consistent with Sec. 002-S (*Supervisory enforcement policy*).

(Circular No. 1117 dated 27 May 2021)

B. LOANS/CREDIT ACCOMMODATIONS TO TRUSTEES, OFFICERS, STOCKHOLDERS AND THEIR RELATED INTERESTS

321-S GENERAL POLICY

The transactions of all trustees or officers with the NSSLA shall not be under terms more favorable than those transacted with other members.

322-S DIRECT/INDIRECT BORROWINGS; CEILINGS

No NSSLA shall directly or indirectly make any loan to any trustee or officer of such NSSLA, either for himself or as agent or as partner of another, except with the written approval of the majority of the trustees of the NSSLA, excluding the trustee concerned: *Provided,* That the aggregate loans to such trustees and officers shall not exceed twenty percent (20%) of the total capital contributions of the NSSLA.

323-S RECORDS; REPORTS

In all cases of accommodations granted to trustees and officers under Sec. 322-S, the written approval of the majority of the trustees of the NSSLA, excluding the trustee concerned, shall be entered upon the records of the NSSLA and a copy of such entry shall be transmitted forthwith to the appropriate supervising department of the Bangko Sentral within twenty (20) business days from the date of approval.

324-S SANCTIONS

The office of any trustee or officer of an NSSLA who violates the provisions of these rules on accommodations granted to trustee and officers shall immediately become vacant and said trustees or officer shall be punished by imprisonment of not more than one (1) year nor more than ten (10) years and by a fine of not less than P5,000 nor more than P50,000 pursuant to Section 15 of R.A. No. 8367.

C. INVESTMENTS

331-S FUND INVESTMENTS

Consistent with the policies under the NSSLA Law (Republic Act No. 8367), NSSLAs shall primarily utilize the accumulated savings of its members for loans to service household needs of such members. However, temporary excess funds may be placed in safe and liquid investment outlets pending their deployment to support core operations. Excess funds generated from deposits and withdrawable capital contributions which the NSSLAs are unable to utilize for prudent lending activities may be returned to their contributing members at the discretion of the board, provided that, the association, thereafter, remains compliant with the required capital-to-risk assets ratio and two percent withdrawable share reserve on total capital contributions.

The responsibility for supervising the NSSLAs investment account rests solely with the board of trustees. They have a fiduciary duty to the members and depositors, and are charged with an implied trust to use funds only for permitted purposes. They should ensure that risks in the investment portfolio should be minimized to ensure that liquidity and marketability are maintained. They must recognize that the investment account is primarily a secondary reserve for liquidity rather than a vehicle to generate speculative profits.

It is therefore imperative that the board of trustees adopt policies that clearly define the investment strategy and provide guidance to management on the direction and the level of risk the NSSLA is prepared to assume over its investments. It is through established objectives, strategies and policies that the board can actively monitor the appropriateness of NSSLA's risk profile and perform overall oversight function over its investment activities. A written investment policy duly approved by the Board shall contain at the minimum, the following:

a. An explicit statement that outlines the investment objectives, which shall be consistent with applicable law;
b. Types of permissible investments taking into consideration the safety and liquidity of such investments;
c. Approval authorities (placement and termination) and corresponding limits;
d. Concentration limits;
e. Procedures on monitoring the status of investments and the frequency of reporting to the Board of Trustees;
f. Procedures to safekeep all relevant records and documents of the investment; and
g. Periodic review and updating of the investment policy.

An NSSLA may invest its funds in any or all of the following:

a. In sound non-speculative enterprises, as well as in bonds, securities, and other obligations issued by the Government of the Philippines, or any of its political subdivisions, instrumentalities, or corporations including government-owned or controlled corporations (hereinafter referred to as the "government"), subject to the following conditions:

   (1) The credit needs of the members shall be served/satisfied first;

   (2) Investment other than those bonds, securities, and other obligations issued by the Government should meet all of the following criteria:

      (a) Safe. The value of the investment is protected and/or guaranteed, i.e., the full amount invested can be collected with certainty;
      (b) Readily marketable. The security is quoted in an active market and can readily be bought and sold. It can readily be converted into cash, or exchanged with ease in the market;
      (c) High grade. The security must have the highest credit rating[1] given by a reputable credit rating agency recognized by Bangko Sentral[2]; and
      (d) Locally issued. Peso-denominated and issued by corporations created or organized in the Philippines under its laws; and

   (3) The total aggregate amount of investment shall not exceed ten percent (10%) of the NSSLA's total assets. Investments in excess of ten percent (10%) shall require prior approval of the Bangko Sentral and shall be subject to regular review during general examination if the limit approved is still appropriate in the circumstance.

      Transitory provision. NSSLAs with outstanding investments that: (1) exceed the aggregate allowable limit except those previously authorized by Bangko Sentral; and/or (2) are not compliant with any of the conditions/provisions set forth in this Section, shall be given ninety (90) days from 27 February 2018 to propose an action plan duly approved by the Board of Trustees to achieve full compliance.

   The action plan, which is subject to monitoring by the Bangko Sentral, shall provide for the details of the outstanding investments of the NSSLAs with corresponding divestment timelines for those which are not compliant with any of the conditions/provisions of this Section. Non-compliance with the action plan without justifiable cause/reason shall subject the Association and/or the responsible trustees/officers to applicable sanction/s.

b. In real property, in an aggregate amount not exceeding at any one time five percent (5%) of the total assets of such NSSLA; and

c. In furniture, fixtures, furnishings and equipment, and leasehold improvements for its offices, in amount not exceeding at any one time ten percent (10%), of its total capital contribution.

(Circular No. 994 dated 29 January 2018)

[1] With credit rating of "Aaa" or its equivalent for long-term issuances and 1 (Best grade) or its equivalent for short-term issuances.
[2] The provisions of Sec. 1131 (*Recognition of PhilRatings as domestic credit rating agency for bank supervisory purposes*) and Sec. 1132 (*Recognition of Fitch Singapore Pte., Ltd. as International credit rating agency for bank supervisory purposes*) of the MORB, shall apply for purposes of identifying reputable credit rating agencies recognized by Bangko Sentral.

332-S MARKING TO MARKET OF FINANCIAL INSTRUMENTS

Financial instruments that are required to be classified and measured at fair value, within the scope of PFRS 9 under *Appendix S-16*, shall be marked-to-market in accordance with the provisions of PFRS 13 on Fair Value Measurement and the related rules and regulations issued by the Securities and Exchange Commission (SEC). Investments in debt instruments shall be marked-to-market following the guidelines set out in *Appendix Q-23*.

NSSLAs and the concerned officers found to have violated the provisions of these regulations shall be subject to enforcement actions under Sec. 161-S (*PFRS/PAS*).

(Circular No. 1047 dated 29 August 2019)

PART FOUR

ELECTRONIC SERVICES AND OPERATIONS

401-S ELECTRONIC PAYMENT AND FINANCIAL SERVICES

The guidelines concerning electronic payment and financial services, as may be applicable, are found in Sec. 701-Q.

Requirements for the grant of authority to offer EPFS. Pursuant to Sec. 111-S on the Bangko Sentral Policy and Regulations on Licensing, BSFIs that intend to offer EPFS shall obtain the appropriate authority/license, as follows:

Classification	Category of License/Authority
Advanced EPFS	Type A[1]/B[2]
Basic EPFS	Type C

BSFIs shall observe the "Guidelines on Licensing of Electronic Payment and Financial Services" shown in *Appendix Q-79*.

Reportorial requirements. BSFIs shall provide the Bangko Sentral with the required data and updates on their EPFS.

a. *Required Reports*. The following reports shall be submitted to the appropriate supervising department of the Bangko Sentral in the manner prescribed under *Appendix S-2*:

   (1) EPFS Transactions and Indicators; and
   (2) Changes and Enhancements in EPFS

b. Sanctions. Failure to comply with the reportorial requirements shall subject the concerned BSFI to applicable sanctions for "Erroneous/Delayed/Erroneous and Delayed/Unsubmitted reports" as prescribed under Sec. 162-S.

Enforcement action. Failure to comply with the provisions of this Section shall cause the concerned BSFI to be subject to enforcement action in accordance with Sec. 002-Q and/or Sec. 111-S (*Enforcement actions*).

(Circular No. 1033 dated 22 February 2019)

402-S ISSUANCE AND OPERATIONS OF ELECTRONIC MONEY

The following guidelines shall govern the issuance of electronic money (e-money) and the operations of electronic money issuers (EMIs).

Policy statement. It is the policy of the Bangko Sentral to foster the development of efficient and convenient retail payment and fund transfer mechanism in the Philippines. The availability and acceptance of e-money as a retail payment medium will be promoted by providing the necessary safeguards and controls to mitigate the risks associated in an e-money business.

Definitions.

E-money shall mean monetary value as represented by a claim on its issuer, that is –

a. electronically stored in an instrument or device;
b. issued against receipt of funds of an amount not lesser in value than the monetary value issued;
c. accepted as a means of payment by persons or entities other than the issuer;
d. withdrawable in cash or cash equivalent; and
e. issued in accordance with this Section.

Electronic money issuer shall be classified as follows:

a. Banks (hereinafter called EMI- Bank);
b. NBFI supervised by the Bangko Sentral (hereinafter called EMI-NBFI); and
c. Non-bank institutions registered with the Bangko Sentral as a money transfer agent under Sec. 108-N (*Money Service Business Operations*) of the MORNBFI (hereinafter called EMI-Others).

[1] This applies to BSFIs that *can* be assessed against the prudential criteria provided in the Policy and Regulations on Licensing. These applicants must have been examined by the Bangko Sentral.

[2] This applies to proponents that *cannot* be assessed against the prudential criteria provided in the Policy and Regulations on Licensing. These include newly-established BSFIs and new applicants for an authority to operate as "Electronic Money Issuer-Others".

For purposes of this Section:

a. *Electronic instruments or devices* shall mean cash cards, e-wallets accessible via mobile phones or other access device, stored value cards, and other similar products.
b. E-money issued by NSSLAs shall not be considered as deposits.

Prior Bangko Sentral approval NSSLAs planning to be an EMI-NBFI shall comply with the requirements of Sec. 401-S and with Sec. 173-Q, when applicable.

Common provisions. In addition to the provisions under Sec. 701-Q (*Compliance with relevant regulations*), EMIs shall comply with the following requirements:

a. E-money instrument issued shall be subject to aggregate monthly load limit of P100,000 unless a higher amount has been approved by the Bangko Sentral. In case an EMI issues several e-money instruments to a person (e-money holder), the total amount loaded in all the e-money instruments shall be consolidated in determining compliance with the aggregate monthly load limit;

b. EMIs shall put in place a system to maintain accurate and complete record of e-money instruments issued, the identity of e-money holders, and the individual and consolidated balances thereof. The system must have the capability to monitor the movement of e-money transactions and link e-money instruments issued to common e-money holders. The susceptibility of a system to intentional or unintentional misreporting of transaction and balances shall be sufficient ground for imposition by the Bangko Sentral of sanctions, as may be applicable.

c. E-money may only be redeemed at face value. It shall not earn interest nor rewards and other similar incentives convertible to cash, nor be purchased at a discount. E-money is not considered a deposit, hence, it is not insured with the PDIC.

d. EMIs shall not ensure that e-money instruments clearly identify the issuer who is ultimately responsible to the e-money holders. This shall be communicated to the client who shall acknowledge the same in writing.

e. It is the responsibility of EMIs to ensure that their distributors/e-money agents comply with all applicable requirements of the Anti-Money Laundering laws, rules and regulations.

f. EMIs shall provide an acceptable redress mechanism to address the complaints of its customers.

g. EMIs shall disclose in writing and its customers shall signify agreement to the information embodied in Item "*c*" above upon their participation in the e-money system. In addition, it shall provide clear guidance in English and Filipino on consumers' right of redemption, including conditions and fees for redemption, if any. Information on available redress procedures for complaints together with the address and contact information of the issuer shall also be provided.

h. Prior to the issuance of e-money, EMIs should ensure that the following minimum systems and controls are in place:

   (1) Sound and prudent management, administrative and accounting procedures and adequate internal control mechanisms;
   (2) Properly-designed computer systems which are thoroughly tested prior to implementation;
   (3) Appropriate security policies and measures intended to safeguard the integrity, authenticity and confidentiality of data and operating processes;
   (4) Adequate business continuity and disaster recovery plan; and
   (5) Effective audit function to provide periodic review of the security control environment and critical systems.

i. EMIs shall provide the SDC quarterly statements containing, among others, information on investments, volume of transactions, total outstanding e-money balances, and liquid assets in such forms as may be prescribed later on.

j. EMIs shall notify the Bangko Sentral in writing of any change or enhancement in the e-money facility thirty (30) days prior to implementation. If said change or enhancement requires prior Bangko Sentral approval, the same shall be evaluated accordingly. Any change or enhancement that shall expand the scope or change the nature of the e-money instrument shall be subject to prior approval of the Deputy Governor of the appropriate sector of the Bangko Sentral. These changes or enhancements may include the following:

   (1) Additional capabilities of the e-money instrument/s, like access to new channels (e.g., inclusion of internet channel in addition to merchant Point of Sale terminals);
   (2) Change in technology service providers and other major partners in the e-money business (excluding partner merchants), if any; and
   (3) Other changes or enhancements.

Quasi-bank license requirement. EMI-NBFIs and EMI-Others that engage in lending activities must secure a quasi-banking license from the Bangko Sentral.

Sanctions. Monetary penalties and other sanctions for the following violations committed by EMI-NBFIs shall be imposed:

Nature of Violation/Exception	Sanction/Penalties
1. Issuing e-money without prior Bangko Sentral approval	Applicable penalties under Sections 36 & 37 of R.A. No. 7653; Watchlisting of owners/partners/principal officers
2. Violation of any of the provisions of R.A. No. 9160 (Anti-Money Laundering Law of 2001 as amended by R.A. No. 9194) and its implementing rules and regulations	Applicable penalties prescribed under the Act
3. Violation/s of this Section	Penalties and sanctions under the abovementioned laws and other applicable laws, rules and regulations

In addition, the susceptibility of a system to intentional or unintentional misreporting of transactions and balances shall be sufficient ground for appropriate Bangko Sentral action or imposition of sanctions, whenever applicable.

Outsourcing of services by Electronic Money Issuers (EMIs) to Electronic Money Network Service Providers (EMNSP). The guidelines on outsourcing of services by Electronic Money Issuers (EMIs) to Electronic Money Network Service Providers (EMNSP) are shown in *Appendix Q-56*.

Sanctions. Violations committed by EMIs pertaining to outsourcing activities to EMNSP shall be subject to appropriate monetary penalties under Sec. 811-S *(Other Payments of NSSLAs)* and *Appendix S-18* and/or other non-monetary sanctions under Section 37 of RA No. 7653.

(Circular Nos. 1033 dated 22 February 2019 and 988 dated 20 December 2017)

PART FIVE

REGULATIONS ON PAYMENT SYSTEMS

501-S NATIONAL RETAIL PAYMENT SYSTEM (NRPS) FRAMEWORK

Adoption of NRPS Framework. It is the policy of the Bangko Sentral to promote the establishment of a safe, efficient, and reliable retail payment system in the Philippines. Towards this end, the Bangko Sentral adopts the National Retail Payment System (NRPS) Framework consistent with Bangko Sentral regulations on risk management in light of the complex interplay of different types of risk arising from the rapid evolution of retail payment activities of Bangko Sentral supervised financial institutions (BSFIs). The NRPS vision will help achieve higher economic growth and enhance the overall competitiveness of our economy.

In carrying out retail payment-related activities, BSFIs shall adhere to the NRPS Framework as set forth in this Section and *Appendix S-11.* This framework requires BSFIs to ensure that the retail payment systems they participate in demonstrate sound risk management, and effective and efficient interoperability. BSFIs shall comply with Bangko Sentral rules and regulations, particularly on information technology, consumer protection, and anti-money laundering/combating the financing of terrorism (AML/CFT).

Definition of terms.

a. *Automated Clearing House (ACH)* – a multilateral agreement among ACH participants governing the clearing and settlement of payment orders for a specific payment stream.

b. *ACH Participant* – a financial institution duly licensed by the Bangko Sentral that is a Payment System Management Body (PSMB) member, and undertakes clearing in and is a signatory to at least one (1) ACH.

c. *ACH Participant Group (ACH-PG)* – a group organized by ACH participants for a payment stream or a group of similar payment streams for the purpose of approving and implementing the clearing rules and agreements applicable to a specific payment stream. It also liaises and consults with other parties in relation to clearing.

d. *Channel* – the means by which an electronic financial product or service is delivered*, e.g.,* internet, phone, ATM.

e. *Clearing* – the process of transmitting, reconciling and, in some cases, confirming payment orders prior to settlement, and the establishment of the final obligations for settlement.

f. *Clearing Switch Operator (CSO)* – provides clearing switch services.

g. *Direct clearing participant* – a financial institution that is: (a) duly licensed by the Bangko Sentral and is authorized to provide electronic financial and payment services; (b) engaged in holding of funds of customers in the form of accounts (bank account or electronic money account); (c) clears transactions through an ACH and is the participant ultimately responsible for obligations generated from cleared transactions; and (d) has a demand deposit account with the Bangko Sentral and a PhilPaSS member, or is sponsored into settlement by a qualified sponsor which is a member of PhilPaSS and maintains a DDA with the Bangko Sentral, to settle its clearing obligations.

h. *Electronic payment* – synonymous to electronic fund transfer (EFT); refers to transfers of funds between two transaction accounts in the same or different BSFIs which are initiated and received using electronic devices and channels to transmit payment instructions. This excludes domestic remittance transaction under existing Bangko Sentral regulations.

i. *Fund* – any unit of value that forms the consideration or object of transactions.

j. *Interoperability* - enables financial products and services belonging to a particular scheme or business model to be used or interoperated between other schemes or business models usually of another institution. While interoperability often times require technical compatibility between systems, it can only take effect once commercial/business interconnectivity agreements have been completed.

k. *National Retail Payment System (NRPS)* – a policy and regulatory framework that aims to establish a safe, efficient, and reliable retail payment system in the Philippines.

l. *Payment instrument* – any instrument, whether tangible or intangible, that enables a person to transfer funds.

m. *Payment order* – an order or message requesting the transfer of funds to the order of the payee.

n. *Payment system* – the set of payment instruments, processes, procedures and participants that ensures the circulation of money or movement/transfer of funds.

o. *PSMB* – a private industry-led self-governing body that is duly recognized by the Bangko Sentral to develop and enforce rules and agreements pertaining to members' clearing and settlement activities in accordance with the NRPS Framework and applicable Bangko Sentral regulations. The body shall be comprised of retail payment industry participants which are direct clearing participants. This body shall be a juridical entity that is not-for-profit and with the power to set and implement rules pertaining to members' clearing activities.

p. *Point of Interaction (POI)* – a hardware and/or software whereby a customer or user is able to query or initiate a transaction from his account. Examples of POI include kiosk, smart device, etc.

q. *Retail payments* – payments that meet at least one of the following characteristics: (i) the payment is not directly related to a financial market transaction; (ii) the settlement is not time-critical; (iii) the payer, the payee, or both are individuals or non-financial organizations; and (iv) either the payer, the payee, or both are not direct participants in the payment system that is processing the payment. This definition of retail payment includes person-to-person, person-to-business, business-to-person, business-to-business, person/business-to-government, and government-to-person/business payments.[1]

r. *Settlement* – an act that discharges obligations in respect of fund transfers between two (2) or more parties.

s. *Sponsored into Settlement Member* – PSMB members who undertake settlement in at least one (1) ACH by engaging the settlement services of an ACH participant that can directly settle transactions through PhilPaSS.

t. *Settlement sponsor bank or Sponsoring bank* – PSMB members who undertake settlement directly through PhilPaSS.

u. *Working Group* – In the context of an ACH, it is a group organized for a specific payment stream under an ACH Participant Group. The ACH Working Group is responsible for drawing up, reviewing or revising the rules and agreements applicable to a specific ACH.

Purpose and scope. The NRPS Framework shall apply to all BSFIs which meet regulatory requirements and the criteria set on a per Automated Clearing House (ACH) basis under the NRPS framework.

The NRPS framework covers all retail payment-related activities, mechanisms, institutions and users. It applies to all domestic payments which are denominated in Philippine Peso (Php), and which may be for payments of goods and services, domestic remittances or fund transfers.

Retail payments under the NRPS Framework are payments that meet at least one of the following characteristics:

a. the payment is not directly related to a financial market transaction;
b. the settlement is not time-critical;
c. the payer, the payee, or both are individuals or non-financial organizations; and
d. either the payer, the payee, or both are not direct participants in the payment system that is processing the payment.

NRPS key principles. Under the NRPS framework, sound governance shall be performed by a payment system management body (PSMB), an industry-led self-governing body that is duly recognized and overseen by the Bangko Sentral. In the absence of a PSMB which conforms to the NRPS principles in *Appendix S-11,* the functions of providing sound governance to the retail payment system participated in by BSFIs shall be discharged by the Bangko Sentral. Clearing switch operators shall not participate in the governance of the payment system.

All clearing shall be done within the NRPS governance structure, wherein exclusive bilateral clearing arrangements are not allowed.

Non-discriminatory participation shall be espoused in the retail payment system. Hence, all BSFIs are highly encouraged to join the NRPS governance structure provided they meet the qualification criteria.

A reasonable market-based and transparent pricing mechanism shall be adopted by all BSFIs participating in the NRPS governance structure.

Further details on the key principles are embodied in the NRPS Framework shown in *Appendix S-11.*

[1] Developing a comprehensive National Retail Payments Strategy, Financial Infrastructure Service line Payment Systems Policy and Research, World Bank, October 2012, available at http://siteresources.worldbank.org/FINANCIALSECTOR/Resources/Developing_a_comprehensive_national_retail_payments_strategy_for_GPW_10_20%28vl%29.pdf.

Specific rules applicable to transactions performed under the NRPS framework. The following rules shall apply to retail payment transactions which are cleared and settled in accordance with the NRPS Framework:

a. Minimum requirements to offer Electronic Payment and Financial Services (EPFS). EPFS shall require notification to or approval by the Bangko Sentral in accordance with Sec. 401-S. To offer EPFS, BSFIs shall conform to the following requirements:

   (1) BSFIs shall make electronic payments available in all its delivery channels whenever applicable;

   (2) BSFIs shall enable its clients to move/receive funds to/from accounts with other BSFIs, or, at a minimum, receive funds. Movement of funds between BSFIs shall be carried out through participation in an ACH;

   (3) BSFIs shall immediately credit the account of its clients after receipt of clearing advice; and

   (4) BSFIs shall conform to Sec. 401-S, the IT Risk Management Standards and Guidelines on electronic banking, electronic payment, electronic money and other electronic products and services provided in *Appendix Q-66.*

b. Fees on transactions. The BSFI's board of directors shall adopt a policy on the imposition of any fee on electronic payment transactions. The policy shall include the basis and quantitative support for the setting of fees and rationalization of the fee structure or amount. Imposition of fees for transactions performed by BSFIs that meet the requirements in Item *"a"* of this Section (*Specific rules applicable to transactions performed under the NRPS framework*) shall be consistent with the following:

   (1) On consumer pricing-

      (a) BSFIs shall adopt reasonable and fair market-based pricing models, which do not arise from agreements with other BSFIs to fix the price of product or service delivery.

      (b) The service fees for electronic payments are expected to be lower than the fees collected from transactions made manually or over-the-counter (OTC) as electronic payments are considered to provide more efficient and cost- effective means of delivering service.

      (c) The recipient shall not pay for electronic crediting to recipient's account and the recipient shall receive the amount in full. Such account to account fund transfers shall not be considered as domestic remittance transactions under Sec. 241-S.

   (2) The BSFI shall disclose to the Bangko Sentral the details of all fees that will be charged to the client. This will be posted in an electronic bulletin board of fees for transactions performed under the NRPS framework. The bulletin board shall be maintained by the Bangko Sentral in its website for enhanced transparency and competitiveness.

c. Anti-Money Laundering Requirements. All BSFIs shall observe applicable AML/CFT requirements under Part Six for all transactions performed under the NRPS framework. As part of on-going monitoring of customers and their transactions, the following rules shall apply to transactions performed under the NRPS framework by BSFIs that meet the requirements in Item *"a"* of this Section (*Specific rules applicable to transactions performed under the NRPS framework*):

   (1) The *originating institution (OJ)* shall be responsible for monitoring, including appropriate watchlist screening or monitoring, its own client's transactions. It is the responsibility of the 0I to ensure that the account name of the source account and the amount are consistent with the Sender Name and the amount indicated in the Payment Instruction sent by the 0I.

   (2) The *receiving institution (RI)* shall be responsible for monitoring, including appropriate watchlist screening or monitoring, its own client's transactions. It is the responsibility of the RI to ensure that the actual account number credited and the amount are consistent with the Beneficiary Account Number and the amount indicated in the Payment Instruction received by the RI.

   (3) On the basis of the above, account number matching will suffice for domestic account-to-account electronic payments. OIs and RIs shall ensure that customers are informed that account number matching will suffice to implement a transaction, and OIs and RIs shall be held free and harmless from liability for their reliance on account number matching.

d. BSFIs participating in the NRPS governance structure are required to comply with existing regulations of the Bangko Sentral.

Reports. BSFIs participating in the NRPS governance structure shall comply with regular reporting requirements, which will be covered by a separate issuance.

Examination of BSFIs. BSFIs shall make available all policies, procedures and other documents/information related to this Section during the on-site examination, as well as provide copies thereof when a written request is made by the Bangko Sentral.

Sanctions. Consistent with Sec. 002-S, the Bangko Sentral may deploy enforcement actions to promote adherence to the requirements set forth in this Section and bring about timely corrective actions. The Bangko Sentral may issue directives to enforce compliance with the NRPS Framework or impose sanctions to limit the level of or suspend any business activity that has adverse effects on the safety and soundness of the BSFI, among others.

Any violation of this Section shall subject the BSFI and/or its directors, officers and/or employees to the monetary and non-monetary sanctions under Section 37 of Republic Act (R.A.) No. 7653, including but not limited to the following depending on the gravity of the violation committed and the circumstances attendant thereto:

a. Suspension of offering new electronic financial products and services;
b. Suspension/revocation of authority to provide electronic financial products and services; and
c. Suspension/revocation of authority to settle through the Philippine Payments and Settlements System.

(Circular Nos. 1033 dated 22 February 2019, 1022 dated 26 November 2018, and 980 dated 6 November 2017)

502-S SETTLEMENT OF INSTANT RETAIL PAYMENT

Policy Statement. It is the thrust of the Bangko Sentral to ensure efficiency of payment systems in the country. In line with this thrust, the Bangko Sentral requires BSP-Supervised Financial Institutions (BSFIs) participating in an automated clearing house (ACH) for instant retail payments to ensure that this ACH provides for certainty of settlement of the multilateral clearing obligations of the clearing participants. The settlement scheme agreed upon by the clearing participants shall form an integral part of the comprehensive credit risk management for instant retail payment services.

For the purpose of this Section, an instant retail payment, otherwise known as fast payment, is defined as an electronic payment in which the transmission of the payment message and the availability of "final" funds to the payee occur in real time or near-real time on as near to a 24-hour and seven-day (24/7) basis as possible[1]. Moreover, as used in this Section, clearing participants shall refer to direct clearing participants.

Minimum requirements for the operation of a settlement mechanism for instant retail payments. The settlement mechanism for instant payments shall meet the following minimum requirements:

a. A clearing participant or its settlement sponsor shall maintain with the Bangko Sentral a demand deposit account (DDA) which shall be used specifically for the settlement of the clearing participant's net clearing obligations arising from instant retail payments;

b. The clearing participant or its settlement sponsor shall prefund the settlement of its net clearing obligation through the DDA stated above, ensuring that such account can sufficiently cover said obligation at any point during a settlement cycle. When prefunding, the clearing participant/settlement sponsor shall consider increasing the fund in its account for longer settlement cycles such as during weekends and holidays;

c. The clearing participants shall agree on thresholds which shall be the bases of the Clearing Switch Operator (CSO) to execute a notification process that enables the clearing participants to efficiently monitor movements in their instant retail payment positions, and at the same time alerts them to place additional funds in their DDAs particularly when the ultimate threshold is breached;

d. The service contract between the clearing participants and the CSO shall include, at a minimum, the following provisions:

   (1) The CSO shall record the clearing participants' DDA balances obtained from the Bangko Sentral at the start of every settlement cycle and monitor the clearing participants' net clearing obligations against their respective account balances;

   (2) Should the instant retail payments position (Funds in the DDA minus net clearing obligation/withdrawal from the DDA) of any of the clearing participants breach their agreed-upon thresholds, the CSO shall immediately send an electronic notification to the concerned clearing participant; and

[1] Based on the paper "Fast payments – Enhancing the speed and availability of retail payments" of the Committee on Payments and Market Infrastructures, Bank for International Settlements

(3) Any instant retail payment which is not fully covered by the corresponding DDA or which will result in a negative instant retail payments position shall be rejected by the CSO. A clearing participant with an instant retail payments position of zero shall be suspended from carrying out further outgoing instant payment transactions until said participant registers a positive position on account of its incoming payment transactions and/or subsequent deposits into its DDA;

e. Should the clearing participants determine that the funds in their DDAs for instant retail payments are excessive after taking into account their highest potential clearing obligations, the clearing participants shall be allowed to withdraw from their DDAs to enable them to make optimal use of their funds; and

f. The Bangko Sentral shall not be precluded from deploying applicable regulatory enforcement actions to concerned clearing participants notwithstanding the inclusion of sanctions in the ACH for non-compliance with the clearing participants' agreed-upon settlement mechanism.

Risk management. In view of the risks involved in the prescribed settlement mechanism for instant retail payments, including the possibility that a rejected payment transaction of a client due to prefunding issues may give rise to serious reputational damages to the concerned clearing participant, the BSFIs participating in the instant retail payment ACH shall ensure that they have the necessary operational and liquidity risk management measures in place. Such measures shall be designed in accordance with the guidelines provided under Sec. 146-Q on Operational Risk Management, and Sec. 144-S on Liquidity Risk Management.

***Supervisory enforcement action*.** Consistent with Section 002-Q, the Bangko Sentral may deploy enforcement actions to promote compliance with the requirements set forth in this Section and ensure timely implementation of preventive or corrective measures as needed. As part of its enforcement actions, the Bangko Sentral may issue directives or impose sanctions which limit the level of or suspend any business activity that adversely affects the safety and soundness of a BSFI.

(Circular No. 1000 dated 23 April 2018)

503-S PARTICIPATION IN AUTOMATED CLEARING HOUSES (ACHS)

BSFIs that have been licensed to offer funds transfer services shall make these services interoperable by participating in an ACH. Prior to its participation, a BSFI shall observe the following guidelines:

a. Secure a Confirmation of Eligibility (COE) by submitting to the Bangko Sentral through the appropriate supervising department of the Bangko Sentral a letter of intent to participate in an identified ACH. This letter shall be accompanied by a certification (*Annex A of Appendix Q-89*) signed by the president (or any officer of equivalent rank and function) and chief compliance officer (CCO).

If the BSFI is not yet a member of the Payment System Management Body (PSMB), it shall also indicate in its letter that it intends to become a member of this body;

b. Submit the following minimum documentary requirements to the PSMB duly recognized by the Bangko Sentral.

(1) Valid COE. A COE shall be valid for a period of six (6) months from date of issuance;

(2) Corporate Secretary's Certificate (or equivalent document in the case of foreign bank branches) on the approval of the board of directors (or equivalent management committee in the case of foreign bank branches) of the participation of the BSFI in the ACH; and

(3) Copy of the agreement with the bank sponsoring the BSFI into settlement, if applicable; and

c. Comply with any other requirements set by the PSMB or provided in the ACH.

(Circular No. 1033 dated 22 February 2019)

PART SIX

ANTI-MONEY LAUNDERING REGULATIONS

601-S ANTI-MONEY LAUNDERING REGULATIONS

Covered persons, including their subsidiaries and affiliates, shall comply with the provisions of Part Nine of the Q-Regulations, R.A. No. 9160 (Anti-Money Laundering Act of 2001), as amended, and its IRR.

Sanctions and penalties.

a. Whenever a covered person violates the provisions of Section 9 of R.A. No. 9160, as amended, or of this Section, the officer(s) or other persons responsible for such violation shall be punished by a fine of not less than P50 thousand nor more than P200 thousand or by imprisonment of not less than two (2) years nor more than ten (10) years, or both, at the discretion of the court pursuant to Section 36 of R.A. No. 7653, otherwise known as "The New Central Bank Act".

b. Without prejudice to the criminal sanctions prescribed above against the culpable persons, the Monetary Board may, at its discretion, impose upon any covered institution, its directors and/or officers for any violation of Section 9 of R.A. No. 9160, as amended, the administrative sanctions provided under Section 37 of R.A. No. 7653.

(Circular No. 950 dated 15 March 2015)

602-S VALID IDENTIFICATION CARDS FOR FINANCIAL TRANSACTIONS

The provisions of Part Nine of the Q-Regulations on valid identification documents shall apply.

PART SEVEN

FINANCIAL CONSUMER PROTECTION

701-S FINANCIAL CONSUMER PROTECTION FRAMEWORK[1]

Policy Statement. The Framework is in line with the responsibility of the Bangko Sentral under Section 3 of Republic Act No. 7653, as amended by Republic Act No. 11211, to promote broad and convenient access to high quality financial services and consider the interest of the general public. Bangko Sentral aims to ensure that financial service providers conduct ethical business practices and do not engage in practices that may cause harm to the consumer as well as consider consumer outcomes in the conduct of their business. Practices that harm consumers introduce risks not only at the level of the financial institution but also to the overall health of the financial sector particularly through decreased public trust and confidence. A well-informed and protected consumer can better benefit from the financial services received and be a more responsible client.

The Framework establishes the guidelines and expectations from Bangko Sentral supervised financial institutions (BSFIs) to institutionalize consumer protection as an integral component of corporate governance and culture as well as risk management. The objective of the Framework is for BSFIs to manage the risks of financial loss that are detrimental to the financial consumers or consumer protection risks inherent to the BSFIs' operations that, if not properly managed, would affect other relevant risks, such as compliance, reputational, legal, operational and credit risks.

***Scope and Applicability*.** The Framework applies to all BSFIs in the conduct of their business. The BSFIs' adoption of the Framework shall be proportionate to their asset size, structure, nature of products and services, and complexity of operations.

***Consumer protection risk management system* (CPRMS).** A BSFI should have a CPRMS that is integrated into the BSFI's enterprise-wide risk management processes and risk governance framework. The CPRMS includes the governance structure, policies, processes, measurement and control procedures to ensure that consumer protection risks are identified, measured, monitored, and mitigated. A carefully devised, implemented, and monitored CPRMS provides the foundation for ensuring the BSFI's adherence to consumer protection standards of conduct and compliance with consumer protection laws, rules and regulations, thereby, ensuring that identified risks to the BSFI and associated risk of financial harm or loss to consumers are properly managed.

Consumer Protection Oversight.

a. *Responsibilities of the Board of Director (Board).* The Board shall be primarily responsible for approving and overseeing the implementation of the BSFI's CPRMS. The Board's responsibilities shall include the following:

   (1) Approve the CPRMS and consumer assistance mechanism (CAM) that takes into consideration the BSFI's business model, market, product lines, and relationships with third parties that may give rise to consumer protection risks;

   (2) Promote a culture of ethical behavior and adherence to the highest standards of fair and responsible dealing with consumers;

   (3) Ensure that adequate information and actions taken are reported on a regular basis in terms of the measurement of consumer protection related risks, reports from the CAM as well as other material consumer related developments that will impact the BSFI;

   (4) Ensure the adequate provision of resources and effective implementation of personnel training and competency requirements;

   (5) Approve remuneration and compensation packages structured to encourage responsible business conduct, fair treatment and avoidance/mitigation of conflicts of interest; and

   (6) Review periodically the implementation and effectiveness of the CPRMS including how findings are reported and whether the audit mechanisms are in place to enable adequate oversight, and put in place a regular mechanism to review the relevance of the CPRMS in case of changes in the BSFI business model and/or operating environment.

[1] BSFIs shall be given six (6) months from 26 September 2019 to: (1) perform a gap analysis of their current consumer protection practices vis-i-vis this Section and (2) propose an action plan duly approved by the Board of Directors to achieve full compliance within a reasonable period of time but in no case longer than one (1) year from 26 September 2019.

b. *Responsibilities of Senior Management.* The Senior Management shall be responsible for ensuring that the practices of the BSFIs are aligned with the approved consumer protection policies and risk management system and consistently displayed throughout the BSFI's place of business particularly across all business units that deal directly with consumers. In this regard, the Senior Management shall:

(1) Ensure that approved CPRMS and CAM policies and procedures are clearly documented, properly understood and appropriately implemented across all levels and business units.

(2) Establish an effective monitoring and management information system to regularly measure, aggregate, and analyze consumer related issues to determine the level of consumer protection risk. An appropriate and clear reporting and escalation mechanism should also be integrated in the risk governance framework. The management information system shall be able to:

(a) Provide adequate information on the performance and quality of the BSFI's CAM that allows for identification of emerging consumer issues and root cause analysis;

(b) Determine the level of consumer protection risk exposure through assessment of its implementation of the Consumer Protection Standards of Conduct (i.e. transparency and disclosure, protection of client information, fair treatment, effective recourse and financial learning and awareness);

(c) Identify and monitor, in a timely manner, consumer protection risk exposures approaching risks of loss to financial consumers, legal and reputational risk as well as other related risks; and

(d) Identify and assess emerging or increasing consumer risks that affect the BSFI such as through social media monitoring and market monitoring.

(3) Ensure that adequate systems and controls are in place to promptly identify issues that affect the consumer across all phases of the relationship with the consumer;

(4) Ascertain that weaknesses in the consumer protection practices or consumer protection emerging risks are addressed and corrective actions are taken in a timely manner; and

(5) Ensure observance of expectations and requirements prescribed under relevant regulations on compliance and internal audit.

(Circular Nos. 1048 dated 6 September 2019, 972 dated 22 August 2017, 890 dated 02 November 2015, and 857 dated 21 November 2014)

702-S POLICIES AND PROCEDURES, CONSUMER PROTECTION STANDARDS OF CONDUCT

The CPRMS and CAM should ensure systematic application of policies and procedures, including the Consumer Protection Standards of Conduct (Standards). The Standards should reflect the core principles, which BSFIs must observe at all times in their dealings with financial consumers: *Provided, further*, That these Standards should be embedded into the corporate culture of the BSFI, enhancing further its defined governance framework while addressing conflicts that are inimical to the interests of the financial consumer.

Disclosure and transparency.[1] BSFIs must ensure that their consumers have a reasonable holistic understanding of the products and services which they may be acquiring or availing. In this context, full disclosure and utmost transparency, to the extent allowed under applicable laws and regulations, are the critical elements that empower the consumer to make comparison and informed financial decisions. This is made possible by providing the consumer with ready access to information that accurately represents the nature and structure of the product or service, its terms and conditions, as well as its fundamental benefits and risks.

The BSFI demonstrates adherence to appropriate and adequate disclosure and transparency when:

a. The manner of disclosure, whether in advertising materials, terms and conditions, and other forms of communication, are clear, concise, accurate, understandable and not misleading.

b. Information are disclosed before, during and after a sale of a financial product or service and during key stages of the relationship with the consumer; especially if there are any changes in the terms and conditions.

c. Terms and Conditions contain all significant provisions of the financial product or service giving prominence to key features/facts. It includes the following with specific details relating to the type of product or service being offered:
(1) Information on risks, return, possible warnings, any waiver of rights and limitations of liabilities, consumer's

[1] This Section should be read in conjunction with existing regulations related to disclosure and transparency of key information on loan and investment products and services, regulations on the conduct of treasury and trust activities of BSFIs and regulations governing fees on retail bank product/services and dormant deposit accounts.

rights and responsibilities, consequences of failure to meet obligations, rights and responsibilities of the BSFI, involvement of authorized agents, any conflict of interest by BSFI staff, cancellation and product portability, among others;

(2) The full price or cost to the consumer including all interest, fees, charges, and penalties. The terms and conditions must clearly state whether interest, fees, charges, and penalties can change over time. The method for computing said interest, fees, charges, and penalties shall be disclosed consistent with existing regulations; and

(3) For more complex products, such as investment products, the key features as well as costs and risks shall be highlighted in a key facts statement or Product Highlight Sheet (PHS). The PHS shall enable comparison with other products and shall be provided at no additional cost. Before the consumer signs any contract, the BSFI should ensure that the consumer has freely signed a statement to the effect that the consumer has duly received, read, and understood the PHS.

d. Advertising materials are not false, misleading, or contain deceptive statements or omit key information that may materially and/or adversely affect the decision of the consumer to avail of a service or acquire a product. BSFIs are responsible for all the statements made in said advertising materials.

e. The terms and conditions, advertising materials and other communications contain the following:

(1) Contact and information of the BSFI's internal complaints handling unit; and
(2) Statement that the BSFI is a regulated entity and contact information of the regulator.

f. Communication of the BSFI staff is conducted in such a manner that clients can understand the terms of the contract and their rights and obligations, taking into consideration client segments that may have financial literacy limitations.

g. Adequate time is given to consumers to review, ask questions and receive information to fully understand the terms and conditions prior to signing the contract or executing the transaction. BSFI should ensure that documents signed by the consumer are completely filled out and have no blank terms. The consumer should be given a copy of each of the documents he/she signed (including, but not limited to the contract) with all terms and conditions. The consumer should also be provided with proof of the transaction, whether printed or in electronic copy at the option of the consumer, immediately after the transaction has been completed.

h. Statements of Account or Billing Statements are provided regularly in a convenient manner to the consumer, or through the channel through which the product was sold, commensurate to the type of product and terms.

i. Notifications in writing (or electronic form) and through other channels are provided to the consumer with regard to any of the key features and terms of the product, the nature and extent of the change and its potential impact on the consumer. This notification requirement also apply to similar changes to any condition/s specified in the contract. Nonetheless, this does not cover financial products that have been identified at the inception to be subject to floating interest rate all throughout their life cycle as long as basis has not changed.

The principles of the above standards for disclosure and transparency shall be applicable even to products and services offered electronically as well as to products catering to different market segments with particular consideration for segments that may have limited financial literacy.

Protection of client Information.[1] Financial consumers have the right to expect that their financial transactions, as well as relevant personal information disclosed in the course of a transaction, are kept confidential and are secured. Towards this end, BSFIs must ensure that they have well-articulated information security guidelines, well-defined protocols, a secure database, and periodically re-validated procedures in handling the personal information of their financial consumers. This should be an end-to-end process that should cover, among others, the array of information that will be pre-identified and collected, the purpose and manner of gathering each information, the Information Technology (IT)-security infrastructure of the BSFI, and the protocols for disclosure, both within the BSFI and especially to third parties.

The BSFI demonstrates the ability to protect client information if it is able to:

a. Have a written privacy policy to safeguard its customers' personal information. This policy should govern the gathering, processing, use, distribution, storage, and eventual disposal of client information and the identification of levels of permissible access to consumer's data for employees. The BSFI should ensure that privacy policies and sanctions for violations are implemented and strictly enforced.

b. Ensure that privacy policies are regularly communicated throughout the organization.

[1] This Section should be read in conjunction with existing regulations on IT Risk Management System and laws and regulations on data privacy.

c. Have appropriate systems in place to protect the confidentiality and security of the personal data of its customers against any threat or hazard to the security or integrity of the information and against unauthorized access. This includes a written information security plan that describes its program to protect customer personal information. The plan must be appropriate to its size and complexity, nature and scope of its activities, and the sensitivity of consumer information it handles.

d. Have a strong IT System in place to protect the confidentiality, security, accuracy, and integrity of customer's personal information. This includes network and software design, as well as information processing, database storage, transmission, retrieval, and disposal. Security must be maintained throughout the life-cycle of customer information, from data entry to disposal, and provide clear policies and procedures on data breaches including mechanisms to compensate consumers.

e. Subject to the provisions of existing laws and regulations on data privacy, send written communication to its consumers informing and explaining how it will use and share the consumer's personal information.

f. Obtain the consumers' written consent, unless in situations allowed as an exception by law or Bangko Sentral-issued regulations on confidentiality of consumer's information, before sharing consumers' personal information with third parties such as credit bureau, collection agencies, marketing and promotional partners, financial technologies that use a varied range of consumer data and other relevant external parties.

g. Provide access to consumers to the information shared and allow consumers to challenge the accuracy and completeness of the information and have these amended as appropriate.

Fair treatment. This principle ensures that financial consumers are treated fairly, honestly, and professionally at all stages of its relationship with the BSFI. BSFIs shall adopt mechanisms to safeguard the interest of their consumers which shall include rules regarding ethical staff behavior, acceptable selling practices, fair and equitable terms and conditions, provision of products and services appropriate to the capacity and risk appetite of the consumers, among others, and incorporate the same in their policies and procedures, control functions and agreements with outsourced third parties.

The BSFI demonstrates the principle of fair treatment towards financial consumers if the policies and practices observe the following:

a. Terms and conditions are not unfair in that there is significant imbalance in the parties' rights and obligations arising under the contract, to the detriment of the consumer.

b. Product and services are offered with skill, due care and diligence and shall consider the consumers' financial situation, needs, capabilities and overall risk profile. Adequate product suitability and affordability mechanisms shall be in place subject to existing rules and regulations. If the requested products are of higher risk rating than a consumer's risk tolerance assessment results, the BSFI should draw the consumer's attention to the risk mismatch and provide a written disclosure of consequences which is accepted by the client. Product bundling should also take into consideration the product suitability and should not unduly limit consumer choice.

c. Adequate product approval are in place to ensure that products and services are fit for the targeted consumer. Product development, review, distribution and after sales process shall take into consideration the risks to consumers.

d. BSFIs do not unduly limit a consumer's ability to cancel or transfer the product to another provider as disclosed in the terms and conditions. As may be appropriate, BSFIs shall provide the consumer who is a natural person with a cooling off period subject to the following conditions:

   (1) The "cooling-off' period shall be for a reasonable number of days, of at least two (2) banking days, immediately following the submission of any agreement or contract, particularly for financial instruments with a remaining term of at least one (1) year: *Provided*, That consumers with aggregate investment size of P500 thousand and above are excluded from invoking the cooling off period: *Provided, further*, That securities "traded" or "to be traded" are exempt from the coverage of the cooling-off period.

   (2) Consumers may be permitted to cancel the agreement without penalty of any kind upon his or her written notice to the BSFI during the cooling-off period. The BSFI may however collect or recover reasonable amount of processing fees. Conditions and fees for products with automatic right to cooling off must be appropriately determined, discussed and explained to consumers.

e. BSFI staff treats consumers with professional competence and in a manner that is fair and responsible. The BSFI shall:

   (1) Incorporate in its Code of Conduct (Code) the values and standards that uphold protection of consumers and embed the Consumer Protection Standards of Conduct; and have process in place to detect, respond to and enforce sanctions on violations thereof.

(2) Align its recruitment and training policies around professional, fair and responsible treatment of clients, for instance:

(a) BSFI staff receives adequate training suitable for the complexity of the products or services they sell and are able to explain the key features of the product, including statutory and regulatory requirements.

(b) BSFI staff does not use deceptive or high pressure/aggressive sales techniques and should not force clients to sign contracts or rush into a financial deal without the benefit of shopping around.

(c) BSFI staff involved in collections, as well as agents contracted for the purpose, receives training in acceptable debt collection practices and loan recovery procedures consistent with existing relevant regulations.

(d) BSFI staff does not employ practices that discriminate or take advantage of difficulties faced by, vulnerable groups such as the low-income earners, and persons with disability.

(e) Establish policies and procedures that aim to protect consumers' deposits and other assets against internal or external fraud or misuse and have mechanisms in place to manage and resolve actual conflicts of interest with respect to compensation policies that arise in the interaction between their staff and agents and their consumers and potential consumers.

(3) Include ethical behavior, professional conduct, and quality of interaction with consumers as part of staff performance evaluations.

(4) Ensure that the remuneration structure for staff of BSFI and authorized agent is in a manner that encourages responsible business conduct, fair treatment and avoidance/mitigation of conflicts of interest.

(5) Perform appropriate due diligence before selecting the authorized agents/outsourced parties taking into account the agents' integrity, professionalism, financial soundness, operational capability and capacity, and compatibility with the FI's corporate culture and implement controls to monitor the agents' performance on a continuous basis.

Effective recourse. Financial consumers should be provided with accessible, affordable, independent, fair, accountable, timely, and efficient means for resolving complaints with their financial transactions. BSFIs should have in place mechanisms for complaint handling and redress, and may employ various modalities or technological innovations.

The BSFI demonstrates the ability to provide effective recourse if it is able to:

a. Establish an effective Consumer Assistance Management System (CAMS) designed to receive, record, evaluate, resolve, monitor and report consumer complaints, concerns, inquiries or requests to be implemented by a designated officer, unit, group or department commensurate to the size, structure, nature of products and services, and complexity of operations, ensuring that there is no conflict of interest.

b. Establish, maintain and implement internal policies and practices for a reasonable and prompt handling of consumer concern.

c. Make available a wide range of channels in which consumers can conveniently lodge their complaints, inquiries and requests; and put in place a dedicated helpdesk or hotline for the said purpose.

d. Maintain a management information system for the complaints from consumers that allows for consolidation, comparison and analysis on a regular basis including investigating whether complaints indicate an isolated issue or a more widespread issue for consumers. This analysis and reports of consumer complaints must have clear reporting and escalation structure within the BSFI's risk governance framework. The complaints reports shall be submitted in accordance with the existing regulations.

e. Establish clear policies on investigation, resolution and restitution of complaints and making the process clear to the consumer.

f. Ensure that information on the consumer assistance channels and applicable timelines for handling concerns are published in the following:

(1) Terms and Conditions of a BSFIs product or service;
(2) Various channels of service delivery; and
(3) Conspicuous places within the premises of BSFIs and their branches/other offices.

g. Provide for adequate resources to handle financial consumer complaints efficiently and effectively. Staff handling complaints should have appropriate experience, knowledge, and expertise. Depending on the BSFI's size and complexity of operation, a Senior staff member should be appointed to be in charge of the complaint handling process.

Financial education and awareness. Financial education initiatives give consumers the knowledge, skills, and confidence to understand and evaluate the information they receive and empower them to make informed financial decisions.

Because BSFIs deal directly with financial consumers, they have the reach, expertise, and established relationships ideal to deliver financial education, distinct and separate from information about their products. BSFIs should provide basic information on consumers' and the BSFI's rights and responsibilities.

BSFIs should demonstrate efforts at financial education, which may include digital literacy for products offered electronically, with the presence of programs whether as specific initiatives or as aspects embedded in their regular interface with consumers.

(Circular Nos. 1048 dated 06 September 2019, 1003 dated 16 May 2018, 930 dated 18 November 2016, 898 dated 14 January 2016, 890 dated 02 November 2015, and 857 dated 21 November 2014)

703-S ENFORCEMENT ACTIONS

Consistent with Sec. 002-Q, the Bangko Sentral may deploy enforcement actions to promote adherence to the Bangko Sentral Regulations on Financial Consumer Protection.

(Circular Nos. 1048 dated 06 September 2019, 890 dated 02 November 2015, and 857 dated 21 November 2014)

PART EIGHT

OTHER NSSLA REGULATIONS

A. OTHER APPLICABLE REGULATIONS

801-S OTHER REGULATIONS APPLICABLE TO NSSLAs

Other rules and regulations applicable to the examination of thrift banks, insofar as they are applicable and not inconsistent with these rules shall apply to NSSLAs.

B. FEES/CHARGES

811-S OTHER PAYMENTS OF NSSLAs

Payments to the Bangko Sentral. NSSLAs shall make payments for transactions, including penalties and other charges, other than those required to be paid through the NSSLAs' DDA, in accordance with the manner of payment provide in the billing notice, or through any such acceptable means of payment as may be provided in pertinent advisories issued by the Bangko Sentral. Such payments shall be accompanied by the appropriate form as shown in *Appendix Q-27*. Payments not accompanied by the required payment forms shall be presumed to be additions to reserves and shall be credited to the DDA of the paying NSSLA.

(Circular Nos. 1125 dated 20 August 2021 and 988 dated 20 December 2017)

812-S ANNUAL SUPERVISORY FEES

The prescribed rate of annual supervisory fees for an NSSLA~~,~~ shall be one-sixty-fifth of one percent (1/65 of 1%) of its *Average Assessable Assets* (AAA) of the immediately preceding year but shall not exceed the maximum amount provided below:

Total AAA of NSSLA	Maximum Amount of Annual Fees
>P1.0 billion	P500,000.00
>P750.0million - P1.0 billion	P400,000.00
>P500.0million - P750.0 million	P200,000.00
>P250.0million - P500.0 million	P100,000.00
>P100.0million - P250.0 million	P 50,000.00
Up to P100.0Million	P 10,000.00

Provided, That the minimum amount of annual fees of NSSLAs with AAA of up to P100.0 million shall be P10,000.00.

The annual supervisory fee shall be payable within thirty (30) days from receipt of the billing statement from the Bangko Sentral. Failure to pay the annual fee within the prescribed period shall subject the NSSLA to administrative sanctions.

For purposes of computing the annual supervisory fees, AAA shall be the summation of end-of-quarter total assessable assets (end-of-quarter total assets per balance sheet, after deducting cash on hand and amounts due from banks) divided by the number of quarters in operation during the particular assessment period.

(As amended by M-2021-023 dated 12 April 2021, M-2019-010 dated 8 April 2019)

C. SUNDRY PROVISIONS

821-S CONFIDENTIAL INFORMATION

No trustee, officer or employee of NSSLAs or of the Bangko Sentral shall disclose any information relating to member-borrowers and their applications or to the operations of the NSSLAs unless permitted by the Monetary Board of the Bangko Sentral: *Provided, however*, That in the case of NSSLAs under examination, the head of the appropriate supervising department of the Bangko Sentral may furnish findings of examination to the office or firm where such NSSLAs do business.

All deposits of whatever nature with NSSLAs are considered absolutely confidential in nature, and may not be examined, inquired or looked into by any person, government official, bureau or office, except upon written permission of the depositor, or in cases of impeachment, or upon order of competent court in cases of bribery or dereliction of duty of public officials or in cases where the money deposited or invested is the subject matter of litigation.

No official or employee of NSSLAs shall disclose to any person any information concerning said deposits, except in cases mentioned in the preceding paragraph. Any official or employee of NSSLAs who violates this Section shall be punished under R.A. No. 1405, as amended.

822-S PHILIPPINE AND FOREIGN CURRENCY NOTES AND COINS

The rules and regulations that shall govern the treatment and disposition of counterfeit Philippine and foreign currency notes and coins, the reproduction and/or use of facsimiles of legal tender Philippine currency notes and coins, the replacement and redemption of legal tender Philippine currency notes and coins considered mutilated or unfit for circulation, and the treatment and disposition of Philippine currency notes and coins called in for replacement are provided in Sec. 1111-Q.

LIST OF APPENDICES

No.	Subject Matter
S-1	Safeguards in Bonding of NSSLA Accountable Officers and Employees
S-2	List of Reports Required from Non-Stock Savings and Loan Association
S-3	Reporting Guidelines on Crimes/Losses
S-4	Guidelines on Prescribed Reports Signatories and Signatory Authorization
S-5	Format of Disclosure Statement on Small Business/Retail/Consumer Credit
S-6	Abstract of "Truth in Lending Act" (Republic Act No. 3765)
S-7	Guidelines on the Suspension/Delisting of External Auditor in the List of Selected External Auditors for Bangko Sentral Supervised Financial Institutions (BSFIs)
S-8	Guidelines on the Adoption of Philippine Financial Reporting Standards (PFRS) 9 – Impairment and in Setting Up of Allowance for Credit Losses
S-9	Guidelines and Procedures Governing the Consumer Assistance Management System (CAMS) of BSP-Supervised Financial Institutions
S-10	Guidelines on Granting of License/Authority
S-11	National Retail Payment System (NRPS) Framework
S-12	Guidelines on Europay, Mastercard and Visa (EMV) Implementation
S-13	EMV Card Fraud Liability Shift Framework (ECFLSF)
S-14	Notice/Application for Write-off of Loans Other Credit Accommodations, Advances and Other Assets
S-15	Financial Reporting Package for Non-Stock Savings and Loan Associations (FRPNSSLA)
S-16	Guidelines on the Adoption of Philippine Financial Reporting Standards 9 (PFRS 9) – Classification and Measurement
S-17	Checklist of Bangko Sentral Requirements in the Submission of Audited Financial Statements
S-18	Guidelines on the Imposition of Monetary Penalties on NSSLAs, and/or their Trustees, Officers and/or Employees for Violations of Banking and other Applicable Laws with Sanctions Falling under Section 37 of R.A. No. 7653 (The New Central Bank Act), as Amended
S-19	Documentary Requirements to be Submitted to Bangko Sentral for the Election/Appointment of Trustees/Officers of NSSLAs
S-20	Guidelines on Determining a “True Sale” Transaction under the FIST Act

SAFEGUARDS IN BONDING OF NSSLA ACCOUNTABLE OFFICERS AND EMPLOYEES
(Appendix to Sec. 152-S on Bonding of Officers and Employees)

1. *The Teller*. He should not be allowed to accumulate more than a specific maximum amount to be determined by the association but in no case to exceed ₱10,000 in cash at any given time while in the performance of his duties. The procedures in this regard are as follows:

    a. *Cash.* All cash in excess of the maximum amount determined by the association shall be turned over to the cashier. When deposits received by a teller will increase his cash in excess of the maximum limit, the teller shall immediately make a cash turn-over of, at least, the excess. Thus, although his transactions during the day may total more than the maximum limit, the amount of money directly in his custody at any given time will never exceed the limit.

    b. *Checks and Other Cash Items (COCIs).* All COCIs received by a teller should be stamped as "non-negotiable." The stamping should be made diagonally on the face of the check. Thus, all checks that are received by the tellers lose their further negotiability. There should, however, be an agreement with the association's depository banks whereby they will accept for deposit only to the account of the association the COCI previously stamped by the tellers as "non- negotiable." Therefore, only the association and nobody else can further negotiate these checks, and only the association's depository bank will accept them and solely for deposit to its account. Thus, even in the remote possibility that someone presents a COCI stolen from the association to one of its depository banks, it will not be accepted for encashment.

2. *The COCIs Clerk.* In view of the fact that all COCIs received by the tellers are stamped "non-negotiable" as detailed above, the COCIs clerk who records and processes these checks carries no accountabilities whatsoever. From the moment that a check is received up to the moment that it is deposited to the account of the association with one of its depository banks, that check is just a piece of paper to be processed and recorded. It will only reassume its negotiability upon its receipt by the association's depository bank. In cases, however, where checks are received by mail, the COCIs clerk shall be charged with the duty of stamping the checks as "non-negotiable."

3. As an added precautionary measure, the manager/accountant/loan officer should check from time to time whether all COCIs received are stamped "non-negotiable." In the event that a COCI is not so stamped and it results in financial loss on the part of the association, the employee charged with the duty to stamp and who failed to do so, shall be held personally responsible, together with the manager/accountant/loan officer, for the loss.

LIST OF REPORTS REQUIRED FROM NON-STOCK SAVINGS AND LOAN ASSOCIATION

(Appendix to Sec. 162-S)

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
A-1		Sec. 162-S	Financial Reporting Package for NSSLAs (FRPNSSLAs) Balance Sheet and Control Prooflist Income Statement and Control Prooflist Schedules: 1- Due from Banks 2- Loans and Receivables 3- Interest Rate and Residual Maturity Matching 4- NSSLA Premises, Furniture, Fixture and Equipment 5- Real and Other Properties Acquired (ROPA)/Non-current Assets Held For Sale (NCAHS) 6- Membership Profile 6-A- Breakdown of Capital Contribution	Quarterly	within 30 calendar days after end of the reference quarter (If the 30th calendar day falls on a Saturday, Sunday or Holiday, or on a day which business operations of the Bangko Sentral is suspended, the following business day shall apply.)	sdcnssla-csoc@bsp.gov.ph
A-2	BSP 7-26-02H	Sec. 162-S *(M-028 dated 09.11.17)*	Consolidated Statement of Condition	Monthly	15 banking days after end of reference month	sdcnbqb-csoc@bsp.gov.ph
A-2	Unnumbered	Sec. 601-S	Report on Suspicious Transactions	As transaction occurs	10th business day from date of transaction/knowledge	Original and duplicate - Anti-Money Laundering Council (AMLC)

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
A-2	Unnumbered	Sec. 601-S	Report on Covered Transactions	As transaction occurs	10th business day from date of transaction/knowledge	Original and duplicate - Anti-Money Laundering Council (AMLC)
A-2	Unnumbered	Sec. 401-Q (*Reportortial Requirements*) *(Cir. No. 1033 dated 02.22.19)*	EPFS Transactions and Indicators	Monthly	15 banking days after end of reference month	sdc-ccbar@bsp.gov.ph
A-2	Unnumbered	Sec. 401-Q (*Reportortial Requirements*) *(Cir. No. 1033 dated 02.22.19)*	Changes and Enhancements in EPFS	Semi-annually	15 banking days after end of reference semester	sdc-ccbar@bsp.gov.ph
A-2	Unnumbered (no prescribed form)	Sec. 131-S *(Cir. No. 1115 dated 23 April 2021)*	Certification under oath of trustees that they have received copies of the general responsibility and specific duties and responsibilities of the board of trustees and of a trustee and that they fully understand and accept the same	Upon election as first-time trustee within a NSSLA	20th business day after date of election	Electronic/online to the appropriate supervising department of the Bangko Sentral
A-3	BSP 7-26-03H	Sec. 162-S *(M-028 dated 09.11.17)*	Consolidated Statement of Income and Expenses	Quarterly	on or before the end of the immediately following month	sdcnssla-csoc@bsp.gov.ph
A-3	BSP 7-26-18.1H	Sec. 323-S	Copy of entry in NSSLA records of written approval of majority of directors on credit a2accommodation to directors and officers with accompanying Certification on Loans Granted to Directors/Officers	As approved	20th business day date of approval	Original – ISD I
A-2	Unnumbered	Sec. 401-Q (*Reportorial Requirements*) *(Cir. No. 1033 dated 02.22.19)*	Changes and Enhancements in EPFS	Semi-annually	15 banking days after end of reference semester	sdc-ccbar@bsp.gov.ph

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
A-3	BSP 7-26-03H	Sec. 162-S *(M-028 dated 09.11.17)*	Consolidated Statement of Income and Expenses	Quarterly	on or before the end of the immediately following month	sdcnssla-csoc@bsp.gov.ph
B	SES II Form 15 (NPO8-TB)	Sec. 134-S	Biographical Data of Trustees/Officers with rank of senior vice president and above with ID picture	Upon every election/re-election or appointment/promotion or if change in name or residential address occurs	20th business day from date of election/re-election of the trustees/meeting of the board of the trustees in which the officers are appointed/promoted	Hard copy to appropriate department of the Bangko Sentral
			- If submitted in CD form – Notarized first page of each of the trustees'/officers' Biographical Data saved in CD and control proof list		20th business day from the date the change of name or residential address occurred	
			- If sent by electronic mail – Notarized first page of Biographical or Notarized list of names of Trustees/Officers whose Biographical Data were submitted thru electronic mail to be fixed to SDC			
B		Sec. 134-S	Duly accomplished and notarized authorization form for querying the Bangko Sentral watchlist files	Upon election/re-election or appointment/promotion as first time trustee/officer within an NSSLA	20th business day from date of election/re-election of the trustees/meeting of the board of trustees in which the officers are appointed/promoted	Hard copy to appropriate department of the Bangko Sentral
B	Unnumbered	Sec. 134-S	List of Members of the Board of Trustees and Officers	Annually	20th business day from the election of the board of trustees	Hard copy to appropriate department of the Bangko Sentral

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
B	BSP-7-26-20H	Sec. 162-S *(M-028 dated 09.11.17)*	Report on Crime/Losses	As crime/ incident occurs	Initial report not later than 10 calendar days from knowledge of crime/incident	sdckb-rcl@bsp.gov.ph sdctb-rcl@bsp.gov.ph sdcrb-rcl@bsp.gov.ph sdcnbqb-rcl@bsp.gov.ph sdctc-rcl@bsp.gov.ph
					Complete/Finance report not later than 20 calendar days from termination of investigation	sdckb-rcl@bsp.gov.ph sdctb-rcl@bsp.gov.ph sdcrb-rcl@bsp.gov.ph sdcnbqb-rcl@bsp.gov.ph sdctc-rcl@bsp.gov.ph
B	Unnumbered	Sec. 162-S *(Cir. No. 1104 dated 27 November 2020)*	Report on Crimes/Losses	As crime/incident occurs		*Soft copy to the appropriate supervising department of the Bangko Sentral*
			- Initial		Within ten (10) calendar days from the knowledge of the crime/incident	
			- Final		Within twenty (20) calendar days from termination of investigation	
		Sec. 307-S (*Write-off of loans as bed debts*)	Notice/Application for Write-Off of Loans	As Write-Off occurs	30th day prior to the intended date of write-off	-do-
B		Sec. 162-S	Board Resolution on NSSLA's signatories to reports submitted to Bangko Sentral	As authorized	3rd day from date of resolution	Electronic mail or diskette form to SDC or if hard copy original to appropriate department of the Bangko Sentral duplicate to SDC
B	Form 1 Schedule 1	*(M-028 dated 09.11.17)*	Report on Electronic Money Transactions (applicable to Electronic money issuer)	Quarterly	15 banking days after end of reference quarter	sdckb-emoney@bsp.gov.ph sdctb-emoney@bsp.gov.ph sdcrb-emoney@bsp.gov.ph sdcnbfi-emoney@bsp.gov.ph

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
			Quarterly Statement of E-Money Transactions – Volume and Amount of E-Money Transactions Quarterly Statement of Liquidity Cover Schedules 1 – E-Money Balances			
	Unnumbered	Sec. 145-S (*Reports)* *(M-028 dated 09.11.17)*	IT Risk Profile Report	Annually	25 calendar days after end of reference year	sdckb-itprofile@bsp.gov.ph sdctb-itprofile@bsp.gov.ph sdcrb-itprofile@bsp.gov.ph sdctc-itprofile@bsp.gov.ph
B	Unnumbered	Sec. 145-S (*Reports)* *(M-028 dated 09.11.17)*	Reportable Major Cyber-Related Incidents	As incidents occur	Within two (2) hours upon discovery	citsg@bsp.gov.ph[1]
					Within twenty-four (24) hours from discovery	citsg@bsp.gov.ph
B	Unnumbered	Sec. 145-S (*Reports)* *(M-028 dated 09.11.17)*	Disruptions of financial services and operations.	As disruptions occur	Within two (2) hours upon discovery	citsg@bsp.gov.ph
					Within twenty-four (24) hours from discovery	citsg@bsp.gov.ph
B		Sec. 163-S *(Cir. No. 1075 dated 7 February 2020)*	Audited/Unaudited Financial Statements required in Sec. 164-S together with attachments listed in Appendix S-15	Annually	Not later than 120 calendar days after the close of the reference calendar or fiscal year	Appropriate supervising department of the Bangko Sentral
B	Unnumbered (no prescribed form)	Sec. 131-S *(Cir. No. 1115 dated 23 April 2021)*	Verified statement of trustee/officer that he/she has all the qualifications and none of the disqualifications	After election or appointment and as changes occur	7th business day as changes occur or after election/appointment	Electronic/online to the appropriate supervising department of the Bangko Sentral

[1] For speedy identification, the email transmission should usse the following required format as the subject: <EDRN>underscore<eventtype>underscore<bank/NBQBname>underscore<reportstatus><yyyymmdd>.

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
B	SES II Form 15 (NP08-TB)	Sec. 134-S *(Cir. No. 1115 dated 23 April 2021)*	Biographical Data of Trustees/Officers mentioned in Sec. 132-S with ID picture	Upon every election/re-election or appointment/promotion or if change in name or residential address occurs	20th business day from date of election/re-election of the trustees/meeting of the board of trustees in which the officers are appointed/promoted	Electronic online to the appropriate department of the FSS
B		*(Cir. No. 1117 dated 27 May 2021)*	Monthly Report on the Sale/Transfer and Investment Transactions of BSFIs under the Financial Institutions Strategic Transfer (FIST) Act	Monthly	20 banking/business days after end of reference month	E-mail to the DSA

REPORTING GUIDELINES ON CRIMES/LOSSES
(Appendix to Sec. 162-S on Reports)

(Deleted by Circular No. 1104 dated 27 November 2020)

GUIDELINES ON PRESCRIBED REPORTS SIGNATORIES AND SIGNATORY AUTHORIZATION
(Appendix to Sec. 162-S on Reports)

Category A-1 reports shall be signed by the chief executive officer, or in his absence, by the executive vice-president, and by the comptroller, or in his absence, by the chief accountant, or by officers holding equivalent positions. The designated signatories in this category, including their specimen signatures, shall be contained in a resolution approved by the board of trustees in the format prescribed in this Appendix.

Category A-2 reports of head offices shall be signed by the president, executive vice-presidents, vice-presidents or officers holding equivalent positions. Such reports of other offices/units (such as branches) shall be signed by their respective managers/officers in-charge. Likewise, the signing authority in this category shall be contained in a resolution approved by the board of trustees in the format prescribed in this Appendix.

Categories A-3 and B reports shall be signed by officers or their alternates, who shall be duly designated by the board of trustees. A copy of the board resolution, with format as prescribed in this Appendix.

Copies of the board resolutions on the report signatory designations shall be submitted to the appropriate supervising department of the Bangko Sentral within three (3) business days from the date of resolution.

FORMAT OF RESOLUTION FOR SIGNATORIES OF CATEGORY A-1 REPORTS

Resolution No. _____

Whereas, it is required under Sec. 162-S (*Categories and signatories of reports*) that Category A-1 reports be signed by the Chief Executive Officer, or in his absence, by the Executive Vice-President, and by the Comptroller, or in his absence, by the Chief Accountant, or by officers holding equivalent positions.

Whereas, it is also required that aforesaid officers of the institution be authorized under a resolution duly approved by the institution's Board of Trustees;

Whereas, we, the members of the Board of Trustees of (Name of Institution), are conscious that, in designating the officials who would sign said Category A-1 reports, we are actually empowering and authorizing said officers to represent and act for or in behalf of the Board of Trustees in particular and (Name of Institution) in general; Whereas, this Board has full faith and confidence in the institution's Chief Executive Officer, Executive Vice-President, Comptroller and Chief Accountant, as the case may be, and, therefore, assumes responsibility for all the acts which may be performed by aforesaid officers under their delegated authority;

Now, therefore, we, the members of the Board of Trustees, resolve, as it is hereby resolved that:

1. Mr. _____ President _____ Specimen Signature
2. Mr. _____ or Executive Vice President _____ Specimen Signature
3. Mr. _____ and Comptroller _____ Specimen Signature
4. Mr. _____ or Chief Accountant _____ Specimen Signature

are hereby authorized to sign Category A-1 reports of (Name of Institution).

Done in the City of Philippines, this day of , 20 .

_____
CHAIRMAN OF THE BOARD

_____ TRUSTEE _____ TRUSTEE

_____ TRUSTEE _____ TRUSTEE

_____ TRUSTEE _____ TRUSTEE

ATTESTED BY:

_____
CORPORATE SECRETARY

FORMAT OF RESOLUTION FOR SIGNATORIES OF CATEGORY A-2 REPORTS

Resolution No. _____

Whereas, it is required under Sec. 162-S (*Categories and signatories of reports*) that Category A-2 reports of head offices be signed by the President, Executive Vice-Presidents, Vice-Presidents or officers holding equivalent positions, and that such reports of other offices be signed by the respective managers/officers-in-charge;

Whereas, it is also required that aforesaid officers of the institution be authorized under a resolution duly approved by the institution's Board of Trustees;

Whereas, we, the members of the Board of Trustees of (Name of Institution), are conscious that, in designating the officials who would sign said Category A-2 reports, we are actually empowering and authorizing said officers to represent and act for or in behalf of the Board of Trustees in particular and (Name of Institution) in general;

Whereas, this Board has full faith and confidence in the institution's President (and/or the Executive Vice-President, etc., as the case may be) and, therefore, assumes responsibility for all the acts which may be performed by aforesaid officers under their delegated authority;

Now, therefore, we, the members of the Board of Trustees, resolve, as it is hereby resolved that:

Name of Officer	*Specimen Signature*	*Position Title*	*Report No.*
_____	_____	_____	_____

are hereby authorized to sign the Category A-2 reports of (Name of Institution).

Done in the City of _____ Philippines, this _____ day of _____, 20__.

_____
CHAIRMAN OF THE BOARD

_____	_____
TRUSTEE	TRUSTEE
_____	_____
TRUSTEE	TRUSTEE
_____	_____
TRUSTEE	TRUSTEE

ATTESTED BY:

_____
CORPORATE SECRETARY

FORMAT OF RESOLUTION FOR SIGNATORIES OF CATEGORIES A-3 AND B REPORTS

Resolution No. _____

Whereas, it is required under Sec. 162-S (*Categories and signatories of reports*) that Categories A-3 and B reports be signed by officers or their alternates;

Whereas, it is also required that aforesaid officers of the institution be authorized under a resolution duly approved by the institution's Board of Trustees;

Whereas, we the members of the Board of Trustees of (Name of Institution), are conscious that, in designating the officials who would sign said Categories A-3 and B reports, we are actually empowering and authorizing said officers to represent and act for or in behalf of the Board of Trustees in particular and (Name of Institution) in general;

Whereas, this Board has full faith and confidence in the institution's authorized signatories and, therefore, assumes responsibility for all the acts which may be performed by aforesaid officers under their delegated authority;

Now, therefore, we, the members of the Board of Trustees, resolve, as it is hereby resolved that:

Name of Authorized Signatory/Alternate	Specimen Signature	Position Title	Report No.
1. Authorized (Alternate)			
2. Authorized (Alternate)			
etc.			

are hereby authorized to sign the Category A-2 reports of (Name of Institution).

Done in the City of_____Philippines, this____day of_____, 20_____.

_____
CHAIRMAN OF THE BOARD

_____ TRUSTEE	_____ TRUSTEE
_____ TRUSTEE	_____ TRUSTEE
_____ TRUSTEE	_____ TRUSTEE

ATTESTED BY:

_____
CORPORATE SECRETARY

FORMAT OF DISCLOSURE STATEMENT ON SMALL BUSINESS/RETAIL/CONSUMER CREDIT

*(Appendix to Sec. 302-S on **"Truth in Lending Act" Disclosure Requirements**)*

_____
(Business Name of Creditor)

DISCLOSURE STATEMENT ON LOAN/CREDIT TRANSACTION
(As required under R.A. No. 3765, Truth in Lending Act)

NAME OF BORROWER _____
ADDRESS _____

1. CREDIT TRANSACTION AMOUNT		**₱ XXX**
2. OTHER BANK CHARGES/DEDUCTIONS COLLECTED[1]		**₱ XXX**
a. Documentary/Science Stamps	₱ _____	
b. Mandatory Credit Insurance	_____	
c. Others (Specify) _____	_____	
_____	_____	
3. NET PROCEEDS OF CREDIT TRANSACTION (Item 1 less Item 2)		**₱ XXX**

4. SCHEDULE OF PAYMENTS

a. Single payment due on	**(date)**	**₱ XXX**
b. Installment Payments	**(Please see attached amortization schedule)**	

5. EFFECTIVE INTEREST RATE (Interest and Other Charges)	**XXX%**

Explanation: The effective interest rate is higher than the contractual interest rate of ___% because of some deductions in Item 2 above

6. CONDITIONAL CHARGES THAT MAY BE IMPOSED (if applicable). Please specify manner of imposition:

a. Late Charge	₱ _____
b. Prepayment (penalty/refund)	_____
c. Others (Specify) _____	_____
_____	_____

CERTIFIED CORRECT:

_____ _____
(Signature of Creditor/Authorized Representative Over Printed Name) Position

I ACKNOWLEDGE RECEIPT OF A COPY OF THIS STATEMENT PRIOR TO THE CONSUMMATION OF THE CREDIT TRANSACTION.

_____ _____
(Signature of Borrower over Printed Name) Date

[1] **Notes:**
- Small business/Retail/Consumer Loans includes microfinance, auto (motor), salary, personal, medical, educational and other loans of similar nature
- This document contains the minimum information required to be disclosed to the borrower and may be enhanced to improve client information Itemize all charges including advance deductions

AMORTIZATION SCHEDULE
(Sample Only)

Installment (A)	Loan (B)	Principal (C)	Interest (D)	Total (E)	O/S Balance (F)
	xxx				*xxx*
1		xxx	xxx	xxx	xxx
2		*xxx*	*xxx*	*xxx*	*xxx*
3		*xxx*	*xxx*	*xxx*	*xxx*
4		*xxx*	*xxx*	*xxx*	*xxx*
5		*xxx*	*xxx*	*xxx*	*xxx*
6		*xxx*	*xxx*	*xxx*	*xxx*
7		*xxx*	*xxx*	*xxx*	*xxx*
8		*xxx*	*xxx*	*xxx*	*xxx*
9		*xxx*	*xxx*	*xxx*	*xxx*
10		*xxx*	*xxx*	*xxx*	*xxx*
11		*xxx*	*xxx*	*xxx*	*xxx*
12		*xxx*	*xxx*	*xxx*	*xxx*
	Total	*xxx*	*xxx*	*xxx*	

Legends:

A - Number of installment periods based on loan term
B - Gross amount of loan
C - Installment payment on the principal
D - Installment payment on the interest
E - Total amortization payment for the installment period
F - Outstanding principal balance of the loan

(Circular No. 1052 dated 2 October 2019)

ABSTRACT OF "TRUTH IN LENDING ACT" (Republic Act No. 3765)
(Appendix to Sec. 302-S on Posters)

Section 1. This Act shall be known as the "Truth in Lending Act."

Section 2. Declaration of Policy. It is hereby declared to be the policy of the State to protect its citizens from a lack of awareness of the true cost of credit to the user by assuring a full disclosure of such cost with a view of preventing the uninformed use of credit to the detriment of the national economy.

xxx xxx xxx

Section 3. As used in this Act, the term –

xxx xxx xxx

(3) "Finance charge" includes interest, fees, service charges, discounts, and such other charges incident to the extension of credit as the Board may by regulation prescribe.

xxx xxx xxx

Section 4. Any creditor shall furnish to each person to whom credit is extended, prior to the consummation of the transaction a clear statement in writing setting forth, to the extent applicable and in accordance with rules and regulations prescribed by the Board, the following information:

(1) the cash price or delivered price of the property or service to be acquired;
(2) the amounts, if any, to be credited as down payment and/or trade-in;
(3) the difference between the amounts set forth under clauses "*(1)*" and "*(2)*";
(4) the charges, individually itemized, which are paid or to be paid by such person in connection with the transaction but which are not incident to the extension of credit;
(5) the total amount to be financed;
(6) the finance charge expressed in terms of pesos and centavos; and
(7) the percentage that the finance charge bears to the total amount to be financed expressed as a simple annual rate on the outstanding unpaid balance of the obligation.

xxx xxx xxx

Section 6. (a) Any creditor who in connection with any credit transaction fails to disclose to any person any information in violation of this Act or any regulation issued thereunder shall be liable to such person in the amount of ₱100 or in an amount equal to twice the finance charge required by such creditor in connection with such transaction, whichever is the greater, except that such liability shall not exceed ₱2,000 on any credit transaction.

xxx xxx xxx

(c) Any person who willfully violates any provision of this Act or any regulation issued thereunder shall be fined by not less than P1,000 nor more than P5,000 or imprisonment for not less than 6 months nor more than one year or both.

xxx xxx xxx

(d) Any final judgment hereafter rendered in any criminal proceeding under this Act to the effect that a defendant has willfully violated this Act shall be prima facie evidence against such defendant in an action or proceeding brought by any other party against such defendant under this Act as to all matters respecting which said judgment would be an estoppel as between the parties thereto.

Sec. 7. This Act shall become effective upon approval.

Approved, 22 June 1963.

GUIDELINES ON THE SUSPENSION/DELISTING OF EXTERNAL AUDITOR IN THE LIST OF SELECTED EXTERNAL AUDITORS FOR BANGKO SENTRAL SUPERVISED FINANCIAL INSTITUTIONS (BSFIs)

(Appendix to Sec. 154-S on Framework on the Selection of External Auditors)

Section 1. Grounds for Suspension/Delisting of External Auditors

An external auditor included in the List of Selected Auditors for BSFIs shall be suspended or delisted by the Bangko Sentral, without prejudice to the imposition of other sanctions by the Securities and Exchange Commission (SEC)[1], under any of the following grounds:

a. Gross negligence in the conduct of the audit or failure to comply with the Philippine Standards on Auditing and such other issuances of the Auditing and Assurance Standards Council;

b. Issuance of an unqualified opinion which is not supported by full compliance by the auditee with the applicable financial reporting framework due to material deficiencies or misstatements in the financial statements;

c. Conduct of an audit despite the lack or eventual loss of independence as provided for under the Code of Ethics for Professional Accountants in the Philippines;

d. Conduct of any non-audit services for his statutory audit clients, if he has not undertaken the safeguards to reduce the threat to his independence;

e. Any material misrepresentation in the reports submitted to the Bangko Sentral;

f. Failure to comply with the provisions set forth under Sec. 154-S;

g. Refusal for no valid reason, upon lawful order of the Bangko Sentral, to submit requested documents in connection with an ongoing investigation. The external auditor shall, however, be made aware of such investigation; and

h. Failure to obtain from the Securities and Exchange Commission an accreditation appropriate to the client's category provided under Sec. 154-S on the appointment of external auditor.

Section 2. Procedures and Effects of Delisting/Suspension

a. On the basis of the results of the assessment of the quality of audited financial statements and evidence on the existence of the grounds for suspension or delisting under Section 1 above, the external auditor shall be notified in writing by the appropriate supervising department of the Bangko Sentral of the existence of the ground for his/her suspension or delisting in the List of Selected External Auditors for BSFIs and shall be allowed to submit within fifteen (15) calendar days from receipt of such notice an explanation on why he/she should not be suspended/delisted, together with the evidence in support of his/her position.

   An external auditor shall only be suspended or delisted after due notice and opportunity to defend/clear himself/herself.

b. Failure of the external auditor concerned to reply within the period prescribed under Item *"a"* above, shall be considered as a waiver on his/her part of the opportunity to defend/clear himself/herself. In this respect, the appropriate supervising department of the Bangko Sentral shall proceed with the evaluation of the case based on available records/evidence.

c. Upon approval by the Monetary Board, the external auditor concerned shall be informed in writing by the appropriate supervising department of the Bangko Sentral of his/her suspension or delisting in the List of Selected External Auditors for BSFIs.

d. A suspended or delisted external auditor shall be automatically included in the Bangko Sentral's Watchlist Disqualification File "B" (temporary).

e. The Securities and Exchange Commission shall be immediately informed of the suspension or delisting of the external auditor.

f. Suspended external auditors may re-apply for inclusion in the List of the Selected External Auditors for BSFIs after the lapse of five (5) years from the date of effectivity of the suspension.

(Circular No. 1040 dated 20 May 2019)

[1] Accrediting Agency duly designated by the member-agency of the Financial Sector Forum, comprising of the Bangko Sentral ng Pilipinas, Securities and Exchange Commission, Insurance Commission, and Philippine Deposit Insurance Corporation.

GUIDELINES ON THE ADOPTION OF PHILIPPINE FINANCIAL REPORTING STANDARDS (PFRS) 9 – IMPAIRMENT AND IN SETTING UP OF ALLOWANCE FOR CREDIT LOSSES

[*Appendix to Sec. 114-S (Credit classification and provisioning)]*

NSSLAs with the capacity to adopt loan loss methodologies fundamentally anchored on the principle of recognizing expected credit loss (ECL) in accordance with the provisions of PFRS 9 may opt to develop the same. In this respect, these NSSLAs shall refer to the *Appendix Q-57* for guidance and compliance.

However, NSSLAs with credit operations that may not economically justify adoption of said loan loss estimation methodology shall, at a minimum, be subject to the following guidelines:

Section 1. Stages of Credit Impairment

a) Credit impairment is recognized in three stages under PFRS9:

Stage of credit impairment	Characteristics
Stage 1	- Credit exposures that are considered "performing" and with no significant increase in credit risk since initial recognition or with low credit risk
Stage 2	- Credit exposures that are considered "under-performing" or not yet non-performing but with significant increase in credit risk since initial recognition
Stage 3	- Credit exposures with objective evidence of impairment, thus, considered as "non-performing"

b) NSSLAs shall promptly recognize and maintain adequate allowance for credit losses at all times. It shall adopt the principles provided under the enhanced guidelines on sound credit risk management practices for NSSLAs[1] in implementing sound and robust credit risk measurement methodologies that adequately considers ECL. In this respect, the ECL methodology shall not be considered as a separate and distinct process but as an important element of the entire credit risk management process.

As a general rule, Especially Mentioned and Substandard – Underperforming [e.g., substandard accounts that are unpaid or with missed payment of less than ninety (90) days] shall be considered as Stage 2 accounts, while Substandard Non-performing, Doubtful, and Loss accounts shall be considered as Stage 3 accounts.

Section 2. Individually Assessed Credit Exposures[2]

1. Loans and other credit exposures with unpaid principal and/or interest shall be classified and provided with allowance for credit losses (ACL) based on the number of days of missed payments as follows:

<u>For unsecured loans and other credit exposures:</u>

No. of Days Unpaid/with Missed Payment	Classification	Minimum ACL	Stage
31 – 90 days	Substandard (underperforming)	10%	2
91 – 120 days	Substandard (non-performing)	25%	3
121 – 180 days	Doubtful	50%	3
181 days and over	Loss	100%	3

<u>For secured loans and other credit exposures:</u>

No. of Days Unpaid/with Missed Payment	Classification	Minimum ACL	Stage
31 – 90 days*	Substandard (underperforming)	10%	2
91 – 180 days*	Substandard (non-performing)	10%	3
181 – 365 days	Substandard (non-performing)	25%	3

[1] Sec. 114-S

[2] Other credit exposures include exposures under the scope of PFRS 9, such as investments in debt securities measured at fair value through other comprehensive income and amortized cost, loan commitments, sales contract receivables, accounts receivables, accrued interest receivables, and advances.

No. of Days Unpaid/with Missed Payment	Classification	Minimum ACL	Stage
Over a year – 5 years	Doubtful	50%	3
Over 5 years	Loss	100%	3

** When there is imminent possibility of foreclosure and expectation of loss, ACL shall be increased to 25%.*

Provided, That where the quality of physical collaterals or financial guarantees securing the loans and advances are determined to be insufficient, weak or without recoverable values, such loans and advances shall be treated as if these are unsecured.

2. Loans and other credit exposures that exhibit the characteristics for classified accounts described under Sec. 114-S (*Credit classification and provisioning*) shall be provided with ACL as follows:

Classification	Minimum ACL	Stage
Especially Mentioned	5%	2
Substandard – Secured	10%	2 or 3[1]
Substandard – Unsecured	25%	2 or 3[2]
Doubtful	50%	3
Loss	100%	3

3. Unsecured loans and other credit accommodations classified as *"Substandard"* in the last two (2) internal credit reviews which have been continuously renewed/extended without reduction in principal and is not in process of collection, shall be downgraded to *"Doubtful"* classification and provided with a fifty percent (50%) allowance for credit losses.

4. Loans and other credit accommodations under litigation which have been classified as *"Pass"* prior to the litigation process shall be classified as *"Substandard"* and provided with twenty percent (20%) allowance for credit losses.

5. Loans and other credit accommodations that were previously classified as *"Pass"* but were subsequently restructured shall have a minimum classification of Especially Mentioned (EM) and provided with a five percent (5%) allowance for credit losses, except for loans which are considered non- risk under existing laws, rules and regulations.

6. Classified loans and other credit accommodations that were subsequently restructured shall retain their classification and provisioning until the borrower has sufficiently exhibited that the loan will be fully repaid.

Section 3. Collectively Assessed Loans[2] and Other Credit Exposures

1. Current "*Pass"* loans and other credit exposures should be provided with a reasonable level of collective allowance, using historical loss experience adjusted for current conditions

2. Loans and other credit exposures with unpaid principal and/or interest shall be classified and provided with ACL based on the number of days of missed payments as follows:

<u>For unsecured loans and other credit exposures:</u>

No. of Days Unpaid/with Missed Payment*	Classification	Minimum ACL	Stage
1 – 30 days	Especially Mentioned	2%	2
31 – 60 days / 1st restructuring	Substandard	25%	2 or 3[3]
61 – 90 days	Doubtful	50%	3[4]
91 days and over / 2nd restructuring	Loss	100%	3

** Par for microfinance loans*

[1] The stage depends on whether the accounts are classified as non-performing (Stage 3) or underperforming (Stage 2).

[2] This includes microfinance loans, micro enterprises and small business loans and consumer loans such as salary loans, credit card receivables, auto loans, housing loans and other consumption loans, and other loan types which fall below the FI's materiality threshold for individual assessment.

[3] The stage depends on whether the accounts are classified as non-performing (Stage 3) or underperforming (Stage 2).

[4] Secs. 304/303-Q/N (*Non-performing Loans*) provides that doubtful accounts are considered as non-performing hence, shall be classified under Stage 3 notwithstanding the number of missed amortizations.

For secured and other credit exposures:

No. of Days Unpaid/with Missed Payment	Classification	ACL %		Stage
		Other types of collateral	Secured by real estate	
31 – 90 days	Substandard (underperforming)	10	10	2
91 – 120 days	Substandard (non-performing)	25	15	3
121 – 360 days	Doubtful	50	25	3
361 days – 5 years	Loss	100	50	3
Over 5 years	Loss	100	100	3

Provided, that where the quality of physical collaterals or financial guarantees securing the loans and advances are determined to be insufficient, weak or without recoverable values, such loans and advances shall be treated as if these are unsecured.

Section 4. General and Specific Provisions for Loan Accounts

a) NSSLAs shall treat Stage 1 provisions for loan accounts as General Provision (GP), while Stages 2 and 3 provisions shall be treated as Specific Provisions (SP).

b) NSSLAs shall set up general loan loss provision (GLLP) equivalent to 1 percent (1%) of all outstanding Stage 1 on-balance sheet loans, except for accounts considered as credit risk-free under existing regulations. NSSLAs are not required to provide a 1 percent (1%) GP on other credit exposures covered by PFRS 9 such as off-balance sheet accounts and investments.

c) Allowance for credit losses for Stages 1, 2, and 3 accounts shall be recognized in the profit or loss statement. NSSLAs that shall use the guidelines provided under this Appendix (S-8) in determining allowance for credit losses shall book the entire amount of General Provision (GP), in profit or loss.

(Circular Nos. 1046 dated 29 August 2019)

GUIDELINES AND PROCEDURES GOVERNING THE CONSUMER ASSISTANCE MANAGEMENT SYSTEM (CAMS) OF BSP-SUPERVISED FINANCIAL INSTITUTIONS

(Appendix to Sec. 702-S on Effective Recourse)

(As deleted by Circular No. 1048 dated 06 September 2019, and as amended by Circular No. 857 dated 21 November 2014)

GUIDELINES ON GRANTING OF A LICENSE/AUTHORITY
(Appendix to Sec. 111-S on Licensing)

I. Guiding principle

The Bangko Sentral, the licensing authority, has the power to set criteria and reject applications that do not comply with the criteria/standards set. In this light, the Bangko Sentral is providing the following guidelines on its licensing process to establish accountability and promote transparency to banks and BSFIs wishing to apply for any licenses/authorities within the jurisdiction of the Bangko Sentral. These guidelines also aim to provide more consistency in how risk-focused supervision is applied to licensing process.

The Bangko Sentral will not restrict the scope of risk-taking activities of BSFIs consequent of the licenses and/or authorities granted: *Provided,* That these licenses and/ or authorities are in line with their business model and strategic direction: *Provided, further,* That BSFIs demonstrate the capacity and ability to implement these strategies.

As indicated in the new licensing policy, applications for licenses and/or authorities are categorized as follows:

1. *Type "A"* – applications for licenses and/or authorities where compliance with the defined prudential requirements/criteria described in Sec. 111-S (*Prudential criteria*) is a pre-condition for applicants to be considered eligible;

2. *Type "B"* – applications for licenses and/or authorities processed regardless of risk profile; and

3. *Type "C"* - activities which no longer require submission of applications and processing but shall be subject to submission of reports/certification/ notification within stated deadlines. However, compliance with pre-qualification requirements is subject to post verification and any false information and/or misrepresentation may be a basis for the imposition of appropriate enforcement actions described in Sec. 111-S (*Enforcement actions*).

II. Guidelines and procedures

1. *Process flow.* The licensing application process involves four (4) stages, to wit:

   a. *Stage 1. Eligibility test and assessment.* The Bangko Sentral shall consider an applicant's eligibility for licenses/authorities categorized as *Type "A"* in accordance with the standards and/or prudential criteria described in Sec. 111-S (*Prudential criteria*); and whether approval thereof is consistent with applicable laws, rules, regulations, policies and safety and soundness considerations.

      In this regard, BSFIs shall signify to the appropriate supervising department of the Bangko Sentral its interest to apply for a license(s) or authority/ies. However, the Bangko Sentral expects each BSFI to have conducted self-assessment vis-à-vis prudential criteria and/or requirements to determine whether it is eligible and/or qualified to apply for any specific license/authority, prior to signifying its interest.

      BSFIs with CAMELS composite rating of below "3", or under PCA or rehabilitation may still be considered eligible, on a case by case basis, upon showing valid justifications and/or verifiable evidence of significant compliance with the comprehensive PCA plan (PCAP)/rehabilitation plan approved by the Bangko Sentral and/or if licenses and/or authorities applied for are vital to the implementation of the PCAP/rehabilitation plan.

   b. *Stage 2. Application.* The BSFI upon receipt of notice and/or confirmation from the Bangko Sentral of its eligibility can now formally submit its application letter together with the documentary requirements, as applicable to the license/authority applied for. Applications with incomplete documentation will be returned without prejudice to re-submission of a complete application and collection of applicable fees.

   c. *Stage 3. Processing.* Upon receipt of a complete application, the appropriate supervising department of the Bangko Sentral shall proceed in preparing the memorandum elevating to the appropriate approving authority of the Bangko Sentral its recommended action/s.

   d. *Stage 4. Decision.* Within five (5) working days upon approval and/or confirmation from the appropriate authority of the Bangko Sentral, BSFIs shall expect to be notified of the decision on their request/application.

      The Bangko Sentral may request information and/or documents aside from the minimum documentary

requirements for each type of license/authority to arrive at an informed decision. It may also conduct limited inspection or validation, when warranted.

The Bangko Sentral may approve any application of an eligible applicant after evaluating the application and considering relevant factors. Likewise, the Bangko Sentral may deny applications if (a) significant supervisory or compliance concerns exist or (b) the applicants fail to provide material information necessary to make an informed decision.

2. *Responsibility*

The Bangko Sentral expects each applicant to prepare accurately and completely each application/certification/reports submitted to the appropriate supervising department of the Bangko Sentral.

By virtue of the application, the applicant authorizes the Bangko Sentral to conduct an on-site evaluation or inspection for the purpose of ascertaining compliance with relevant laws, rules, regulations and/ or directives, and/or applicant's risk management capabilities, when warranted.

For this purpose, the applicant shall include in its application letter the authorization in favor of the Bangko Sentral giving its consent to the conduct of on-site verification of the documents and/or representations stated in the application filed in connection with the license or authority applied for.

3. *Fees*

An applicant, depending on its classification and type of license/authority applied for, shall be assessed the following fees per application:

a. *Processing fee* - shall be charged upon filing of an application and is non-refundable. In case of re-submission of application that is returned for incomplete documentation, another processing fee shall be charged anew; and

b. *Licensing fee* - shall be charged to certain application upon approval. The licensing fee shall be net of the processing fee.

For banks, assessed fees shall be debited from the applicants' demand deposit account with the Bangko Sentral upon the lapse of fifteen (15) calendar days reckoned from receipt of Bangko Sentral's decision on its request/application. For this purpose, banks shall, upon filing of an application, state in its application letter the authority to debit their demand deposit account with the Bangko Sentral for the applicable fees to the license or authority applied for. Otherwise, assessed fees shall be paid to the Bangko Sentral.

4. *Post decision*

Unless otherwise prescribed by the Bangko Sentral, an applicant may file a new application for a denied and/or withdrawn application after the lapse of six (6) months reckoned from the date of denial/withdrawal: *Provided,* That any weaknesses, deficiencies and/or non-compliance with any laws, rules, regulations and/or directives that made the applicants ineligible have already been satisfactorily addressed.

(Circular No. 947 dated 15 February 2017)

NATIONAL RETAIL PAYMENT SYSTEM (NRPS) FRAMEWORK
(Appendix to Section 501-S)

A. NRPS Framework

The NRPS is a policy and regulatory framework that aims to establish a safe, efficient, and reliable electronic retail payment system in the Philippines. Given that retail payment systems contribute to the stability and efficiency of the financial system as a whole, the attainment of the NRPS vision will help achieve higher economic growth and enhance overall competitiveness of our economy.

With the rapid evolution of retail payments due to advancements in technology, retail payments related activities of BSFIs introduced a complex interplay of different types of risks. Thus, while the Bangko Sentral promotes the modernization of the country's retail payment system in accordance with the NRPS Framework, it is critical to ensure that enabling policies and a multifaceted approach to strengthening risk management are timely adopted, and greater attention is devoted to retail payments activities of BSFIs such as clearing and settlement.

In carrying out these activities, BSFIs are expected to adhere to the NRPS Framework and measures aimed at strengthening risk management as set forth in Sec. 803 and this Appendix. Hence, the retail payment system and activities that BSFIs participate in should establish the following:

1. Strengthened risk management through a better, holistic and multi-stakeholder approach to governance, and an enhanced transparency of clearing and settlement transactions classified according to risk profile.

2. Augmented efficiencies and effectiveness in the retail payment system by minimizing duplicative efforts, promoting interoperability among retail payment system participants, standardizing clearing and settlement rules, and harmonizing various initiatives towards the achievement of the shared goals of safe, reliable and efficient retail payment system.

3. Continued compliance with Bangko Sentral rules and regulations particularly on information technology, consumer protection, and AML/CFT.

Retail payments under the NRPS Framework are payments that meet at least one of the following characteristics: (i) the payment is not directly related to a financial market transaction; (ii) the settlement is not time-critical; (iii) the payer, the payee, or both are individuals or non-financial organizations; and (iv) either the payer, the payee, or both are not direct participants in the payment system that is processing the payment. This definition of retail payment includes person-to-person, person-to-business, business-to-person, business-to-business, person/business-to-government, and government-to-person/business payments.[1] On the other hand, large-value payments refer to payments, generally of very large amounts, which are mainly exchanged between banks or between participants of financial markets and that usually require urgent and timely settlement.

The Bangko Sentral, as a central bank, generally plays a variety of essential roles in the payment system by being an operator of the real-time gross settlement system (RTGS), an overseer in core payment arrangements, a user and participant of payment services, and, most critically, a catalyst for payment system reform. It is through the performance of these roles that the Bangko Sentral seeks to acquire a broader and holistic perspective on the role and the status of the payment system in the financial system and the economy in accordance with one of the pillars of central banking of promoting safe and efficient payment systems in the country.

1. Key Principles

    a. Governance of the payment system shall be separate and distinct from the actual clearing operations to enable the retail payment system participants to effectively and efficiently deploy resources to focused and specialized activities. The governance of the payment system includes the establishment and implementation of standards and rules among payment system participants.

    b. Sound governance shall be performed by an industry-led self-governing body that is duly recognized and overseen by the Bangko Sentral.

    c. All qualified BSFIs may apply to be direct clearing participants and, as such, participate in the governance structure.

[1] Developing a comprehensive National Retail Payments Strategy, Financial Infrastructure Systems Policy and Research, World Bank, October 2012, available at http://siteresources.worldbank.org/FINANCIALSECTOR/Resources/Developing_a_ comprehensive_national_retail_payments_strategy_for_G PW _IO _20%2BvL%29.pdf.

d. All clearing participants shall subscribe to and comply with the PSMB-formulated principles, policies, and business rules that will govern the payments system.

e. All clearing shall be done within the NRPS governance structure. Bilateral clearing arrangements outside of the NRPS governance structure are considered as undertakings that carry risks that cannot be identified, measured, monitored and/or controlled, nor can said undertakings be properly considered in attaining a holistic perspective and improving governance of the retail payment system. Hence, bilateral arrangements outside of the NRPS governance structure shall not be allowed and failure to comply therewith shall result in deployment of appropriate supervisory actions from the Bangko Sentral.

f. All significant retail payment streams shall be covered by an ACH.

g. Non-discriminatory participation shall be espoused in the retail payment system by allowing all qualified direct clearing participants to participate in the formulation of standards and rules, as well as participate in business arrangements.

h. A reasonable market-based and transparent pricing mechanism shall be adopted by all BSFIs which are clearing participants. Reasonable service fees shall be allowed only for actual services rendered directly related to the delivery of electronic financial and payment services to clients of a BSFI.

i. Bangko Sentral policies and supervisory actions, not directly involving payments governance within the scope of the PSMB, shall be addressed directly to the individual payment system participants as BSFIs.

2. Objectives:

a. To enable effective and efficient interface and interoperability using shared and resilient infrastructure;
b. To foster innovation and new business models;
c. To promote fair access and competition amongst NRPS participants;
d. To facilitate the provision of a wide range of payment products and services with needed certainty, affordability (based on a reasonable market-based pricing methodology) and trust; and
e. To make relevant information on retail payment system available to concerned stakeholders.

The NRPS Framework espouses the cooperation of different competitors, or what is known as *"coopetition"*, in the domestic retail payments by delineating areas to be covered between the cooperative and the competitive spheres.

It is recognized that certain areas are dedicated for cooperation and collaboration among BSFIs participating in the retail payment system towards the common goals of safety, efficiency, reliability and resiliency. This cooperative sphere centers on the clearing and settlement activities of BSFIs which shall collaborate through the formulation and implementation of clearing and settlement standards, rules, and agreements under a formal governance structure that conforms to the NRPS principles.

To complement the cooperative sphere is the competitive sphere where the NRPS principles promote competition through innovation in the delivery of quality and cost-effective financial products and services, the creation of new business models customized to the needs of target consumers, and the development of services with a higher level of security, among others. The competitive sphere shall be governed by reasonable, transparent and effective consumer pricing mechanisms to allow BSFIs cost-recovery and fair financial returns. Each BSFI shall be responsible for prescribing its pricing mechanisms for its financial products and services taking into consideration, among others, the nature of the product or service, the market segment to be served and the costs incurred to provide such product or service.

B. Governance - Payment System Management Body (PSMB)

The PSMB is an industry-led self-governing body that is duly recognized and overseen by the Bangko Sentral.

To attain a holistic perspective and multi-stakeholder organized structure that would bring about good governance in the retail payment system, BSFIs shall adhere to the following key principles when engaging in clearing activities and must do so only within the NRPS governance structure.

1. Key Principles

a. The retail payment transactions covered under the NRPS governance structure shall be as follows:

i. For card-based instruments, the card shall be both issued and acquired locally; and
ii. For online, mobile, or other electronic payment instructions/instruments, the account of payer (sender) and account of payee (recipient) shall be both maintained with BSFIs that are licensed to offer EFPS.

b. The PSMB shall be a not-for-profit juridical entity.

c. The PSMB shall adopt a Charter in consultation with the Bangko Sentral.

d. The PSMB membership criteria shall, at all times, be consistent with the NRPS Framework and Bangko Sentral regulations, in addition to the following principles:

   i. All qualified direct clearing participants should be members of the PSMB.
   ii. To be a PSMB member, a BSFI shall be a participant in at least one (1) ACH and actively participate in an ACH within one (1) month of joining the PSMB.
   iii. Each PSMB member shall be entitled to only one (1) vote.

e. The PSMB shall be funded by the members on an agreed basis.

f. The PSMB shall be governed by a PSMB board which shall observe the following principles:

   i. The PSMB board shall have multi-stakeholder representation in accordance with the volume of the risk-taking activities, such as clearing volume, within a specified time frame [e.g., immediately preceding twenty-four (24) months]. The basis for computing the clearing volume across all ACHs or payment streams shall include all payment streams with clearing activities as of the date when the election of the PSMB board is called, except if a valid reason is shown to limit the parameters.

   ii. The PSMB board shall also abide by sound corporate governance practices which may include, but is not limited to, allocating seat/s for independent board member/s or board member/s that represent/s the broader public interest and has/have competence and experience in the payments field.

   iii. The PSMB board members shall appoint as official representative their chief executive officer (CEO) and designate a formal alternate who can act with full authority (e.g., voting, approval, decision-making, and others).

   iv. Each PSMB board member shall have one (1) vote.

   v. No two (2) PSMB board members shall come from the same group of companies where one is majority-owned or controlled by the other company.

   vi. The Chairperson shall be elected among PSMB board members and shall not serve for two (2) successive terms.

g. The PSMB shall be independent from the clearing switch operator/s with respect to business operations.

h. All BSFIs that are part of the NRPS governance structure shall subscribe to and comply with the PSMB-formulated principles, policies, and business rules that will govern the payments system provided such PSMB-formulated principles, policies and business rules are in conformity with the NRPS Framework and principles as well as applicable laws and regulations.

2. Objectives

a. The PSMB will provide sound governance to the retail payment system and serve as a forum of collaboration for ensuring appropriate conditions for retail payments in the country. Towards this end, the PSMB will perform these functions with respect to its members:

   i. Ensure compliance by PSMB members with criteria, standards and rules promulgated and adopted by the PSMB's membership and PSMB board, as applicable.

   ii. Set policies and standards on clearing activities of PSMB members.

   iii. Standardize retail clearing agreements across payment streams, which may include minimum guideline on the content of service level agreements with CSOs.

   iv. Manage members' conformance to multilateral retail clearing agreements.

   v. Review applications for establishment of ACHs and to accordingly approve the formation thereof to ensure, among others, that the NRPS principle of a payment stream falling only under one (1) ACH is observed by PSMB members.

vi. Prescribe policies and rules to promote visibility of retail clearing and resulting settlement positions to manage risks resulting from or associated with clearing and settlement activities.

vii. Set forth policies, rules and/or standards to ensure that no anti-competitive activities occur in clearing operations of PSMB members.

viii. Promote fair access to the payment system amongst PSMB members.

ix. Enable effective and efficient interface and interoperability using shared and resilient infrastructure.

x. Establish a dispute resolution mechanism for PSMB members on matters not covered or cannot be resolved under the ACH dispute resolution framework.

xi. Provide a clearing environment that will support payments innovation and the adoption of new business models by the payment system participants.

C. Automated Clearing House (ACH)

The ACH is a multilateral legally binding agreement amongst clearing participants. The ACH shall govern clearing and settlement determination.

To promote interoperability and standardize clearing and settlement rules and procedures, BSFIs are expected to observe the following key principles in forming and participating in ACHs under the NRPS governance structure.

1. Key Principles

   a. ACHs shall be created and differentiated based on payment streams, which comprise of payment instruments or instructions, business rules, clearing activities and risk considerations which are of similar nature or which create similar risk profiles.

   b. A payment stream can fall under only one (1) ACH.

   c. The formation of and participation in an ACH shall be open to all qualified clearing participants.

   d. The formation of an ACH shall be considered a business arrangement to be agreed upon between participants of an ACH.

   e. An ACH shall engage the services of only one (1) clearing switch operator.

   f. PSMB members may be part of more than one (1) ACH Participant Group and/or participate in more than one (1) AcH, provided the PSMB member meets the requirements for participating in such ACH.

   g. At least two (2) direct clearing participants can initiate the creation of an ACH subject to the recognition of the PSMB Board, or in the absence of a PSMB, the Bangko Sentral.

2. Salient Features

   a. ACH participants shall elect representatives to an ACH Participant Group, which once recognized by the PSMB, shall draw up and implement ACH rules and agreements and contract a qualified clearing switch operator. To assist in drafting the ACH agreements, the Participant Group may nominate a Working Group to formulate draft agreements subject to the former's approval.

   b. The assignment of a new ACH to an existing or new ACH Participant Group shall be approved by the PSMB Board.

   c. Where a new ACH Participant Group has to be formed, it shall be recognized by the PSMB Board once its charter has been accepted by the ACH participants and meets the PSMB criteria for an ACH Participant Group.

D. Clearing Switch Operator (CSO)

The CSO provides clearing switch services.

To augment efficiencies in the retail payment system while ensuring a robust and resilient infrastructure underlying retail payment transactions of BSFIs, BSFIs should observe the following key principles in engaging the services of CSOs relative to the delivery of a retail payment product or service within the NRPS governance structure.

1. Key Principles

    a. The operations of the CSO that services an ACH shall be limited to the provision of clearing and other services that do not compete with services offered by BSFIs participating in the ACH.

    b. Clearing switch operations shall be conducted effectively and efficiently consistent with international standards as this is a critical prerequisite for the functioning of all the various systems supporting and underlying retail payment services.

    c. The CSO shall have a reliable, resilient, robust, and secure infrastructure to ensure consistency and continuity of services under different operating conditions.

    d. The CSO shall be a duly licensed entity in the Philippines. Entities organized under the laws of countries other than the Philippines shall secure a license to do business in the Philippines and comply with the Foreign Investments Act of 1991 as well as other applicable laws and regulations.

    e. A CSO can extend service to multiple ACHs.

    f. Each ACH, through their designated CSO, shall individually settle their clearing results through the RTGS system operated by the Bangko Sentral.

(Circular No. 980 dated 06 November 2017)

GUIDELINES ON EUROPAY, MASTERCARD AND VISA (EMV) IMPLEMENTATION
(Appendix to Sec. 145-S)

A. Background

In response to the increasing sophistication of frauds perpetrated through magnetic stripe (magstripe), international payment networks have orchestrated the shift towards EMV chip-enabled card. The EMV is an interoperability standard for chipbearing smart card technology defined by EMVCo in 1994, adoption of which has resulted to significant reduction in card frauds due to skimming[1] and counterfeiting.

To outpace and manage fraudsters' shift towards jurisdictions that are still using magstripe, Bangko Sentral supervised financial institutions (BSFIs) via Circular No. 808 dated 22 August 2013 were required to migrate their entire payment network to the more secure EMV chip-enabled cards.

B. Statement of Policy

It is the policy of the Bangko Sentral to foster the development of safe, secure, efficient, and reliable retail payment systems, protect the integrity and confidentiality of customer accounts and information and uphold consumer protection.

C. Scope

These guidelines shall govern the migration to and implementation of EMV of all BSFIs with debit card issuing and acquiring functions. For credit card, only cash advance transaction at Automated Teller Machines (ATMs) shall be covered since other credit card transactions are governed by the rules of the international payment networks.

It is incumbent upon all affected BSFIs to ensure that other key players in the domestic payment network comply with these guidelines.

For purposes of the subject guidelines, payment transactions covered are limited to card present and contact transactions in ATMs, POS terminals and other similar devices. Guidelines governing card-not-present as well as contactless transactions shall be issued separately.

D. Definition of Terms

1. *EMV,* which stands for Europay, MasterCard and Visa, is a global standard for credit, debit and prepaid payment cards based on chip card technology. EMV chip-based payment cards, also known as smart cards, contain an embedded microprocessor, a type of small computer. The microprocessor chip contains the information needed to use the card for payment, and is protected by various security features. Chip cards are a more secure alternative to traditional magstripe payment cards.

   Implementing EMV shall address the deficiencies inherent in magstripe by reducing fraud arising from counterfeit, lost and stolen card information through the following features:

   a. Authentication of the chip card to ensure that the card is genuine so as to protect against counterfeit fraud for on line-authorized transactions;
   b. Digitally signing payment data for transaction integrity;
   c. More robust cardholder verification to protect against lost and stolen card fraud for EMV transactions in all acceptance environments.

2. *Acquiring institution (acquirer)* is a bank or financial institution that processes credit or debit card transactions via ATM or POS terminals.

3. *Bangko Sentrol Supervised Financial Institutions (BSFIs)* include banks, non-banks with quasi-banking function (NBQB), non-bank electronic money issuers and other non-bank institutions which under existing Bangko Sentral rules and regulations and special laws are subject to Bangko Sentral supervision and/or regulation.

4. *Co-branded cards* are Philippine-issued cards affiliated with international payment networks.

[1] Skimming is the illegal copying of information from the magnetic stripe of a payment card to gain access to accounts.

5. *Debit cards* are payment cards linked to bank deposit or prepaid/electronic money (e-money) accounts.

6. *Domestic payment* network includes BSFIs as well as other key players such as merchants, providers of ATMs, point-of-sale (POS) terminals and similar devices, card vendors, card personalization bureaus and domestic switches responsible for processing and handling domestic transactions.

7. *Domestic switches* refer to BancNet and Megalink.

8. *EMV chip* liability shift means that the liability and responsibility for counterfeit or fraudulent transaction shall shift to the BSFI who is not EMV-compliant.

9. *EMVCo* is the governing body that manages the EMV specification.

10. *Hybrid cards* are payment cards that have both EMV chip and magstripe.

11. *International payment* networks refer to the payment networks that have global establishment. For purposes of subject guidelines, recognized international networks shall refer to Visa, Mastercard, UnionPay, Diners/Discover, American Express, and Japan Credit Bureau (JCB).

12. *Interoperability* refers to the ability of Philippine cardholders to transact at Philippine ATM and POS terminals, regardless of network affiliation or branding of the card.

13. *Issuing institution (issuer)* is a bank or non-bank financial institution that issues payment cards, whether proprietary or co-branded, to consumers.

14. *Payment cards* are cards that can be used by cardholders and accepted by terminals to withdraw cash and/or make payment for purchase of goods or services, fund transfer and other financial transactions. Typically, payment cards are electronically linked deposit, prepaid or loan/credit accounts.

15. *Philippine domestic EMV specification* refers to the specification or standards based on EMV that shall be adopted in the Philippine financial market for the proprietary or non-co-branded cards.

16. *Proprietary cords* are Philippine-issued cards without international payment network affiliation.

17. *Technical fallback* is a state in which a chip cannot be used and another type of entry, such as magstripe, is used to complete a transaction.

E. General Rule

In line with the declaration of policy, BSFIs, in migrating to EMV, shall consider the following:

1. BSFIs shall maintain interoperability of the domestic payment network;
2. The Philippine EMV implementation shall use established EMV specification as follows:

    a. Issuers of proprietary cards shall use the Philippine domestic EMV specification; and
    b. Issuers of co-branded cards shall use the EMV specification of their affiliated international payment network.

3. At a minimum, all debit accepting devices shall acquire/accept Philippine issued proprietary cards using the Philippine domestic EMV specification of members/participants of the domestic switches;
4. The domestic payment network shall ensure continued interoperability and acceptance of Philippine EMV issued cards using the Philippine domestic EMV specification on Philippine EMV deployed acceptance devices;[1] and
5. BSFIs shall strengthen consumer protection by adequately handling and containing consumer concerns and complaints arising from fraudulent schemes done electronically.

[1] Include EMV-compliant ATMs, POS terminals and other similar devices.

F. The Philippine Domestic EMV Specification

With the main objectives of maintaining interoperability and reducing card fraud, BSFIs shall adopt a Philippine domestic EMV specification for proprietary cards. The domestic EMV specification should:

- Adopt the EMV specification according to EMVCo;
- Apply to ATM and domestic debit POS transactions;
- Support contact transactions;
- Support online card authentication to ensure that transactions are made using a valid card;
- Support online authorization to enable issuer to manage fraud and credit risk at the transaction level;
- Support online PIN cardholder verification method;
- Support technical fallback to magstripe in the interim, as provided in Section I of these guidelines, without prejudice to the issuer's decision to process/approve fallback transactions.

G. Minimum Operational Requirements

1. Issuing institutions shall:

    a. Ensure that they have the technical systems and network necessary to process and handle EMV transactions;
    b. Support EMV data elements in authorization messages;
    c. Define chip cards feature, functionality and interface capability;
    d. Enhance risk management systems to leverage chip;
    e. Determine the card migration strategy;
    f. Update customer support and operational systems to support chip cards;
    g. Be certified for network interfaces and card personalization by a certification body organized by BSFIs pursuant to these guidelines;
    h. Replace card base; and
    i. Educate the consumers.

2. Acquiring institutions shall:

    a. Ensure that card-accepting devices are EMV-certified to support the acquiring and routing of Philippine-issued debit cards using the Philippine domestic EMV specification;
    b. Ensure that P|N-entry devices are Payment Card Industry PIN Transaction Security (PC|-PTS)[1] compliant; and
    c. Enable a debit POS environment that supports online PIN for Philippine-issued debit cards.

3. Domestic switches shall:

    a. Establish infrastructure and systems that are EMV-compliant and able to support switched EMV transactions from domestic interconnected networks;
    b. Ensure continued support to existing transaction sets and functions provided to consumers;
    c. Enhance efforts to educate their members on EMV collaboration and seek effective alignment of strategy and design principles; and
    d. Ensure continued ability to support, in the interim, transactions in magstripe format subject to liability shift policies acceptable to Bangko Sentral, the standards of which shall be covered in subsequent guidelines.

H. Detailed Guidelines, Policies and Processes

BSFIs shall agree on and implement detailed technical and operational requirements, policies and procedures that are acceptable to the Bangko Sentral, the standards of which shall be covered in subsequent guidelines, and aligned with subject EMV Implementation Guidelines, covering but not limited to the following:

1. Philippine Application Identifier (AID);
2. Single Common AID, Single Common Card Personalization Profile and Single Common Terminal Configuration for domestic transactions;
3. Transaction routing;

[1] A security requirement of the Payment Card Industry (PCI) regarding testing of PIN-entry devices using predefined standards to get certification.

4. Testing and certification
5. Dispute and fraud risk management; and
6. Other processes affected by the EMV migration.

I. Hybrid Card, Fallback Function and EMV Liability Shift

While the EMV infrastructure and environment are in the process of achieving full stability, hybrid cards may still be acceptable as a fallback option in cases when the EMV chip or terminal is unable to process domestic chip transactions. In this regard, BSFIs shall formulate a liability shift framework that is acceptable to the Bangko Sentral.

J. Updated EMV Migration Plan

Any changes arising from the aforementioned guidelines shall be incorporated in the EMV Migration Plan and all affected BSFIs shall resubmit their updated plan to Bangko Sentral's Core Information Technology Specialist Group (CITSG) within sixty (60) calendar days from the date of the Circular.

All BSFIs shall support migration to EMV standards. Consequently, all cards issued and card-accepting devices should be EMV-compliant.

(Circular No. 1019 dated 31 October 2018)

EMV CARD FRAUD LIABILITY SHIFT FRAMEWORK (ECFLSF)
(Appendix to Sec. 145-S)

I. Introduction

This document outlines the Bangko Sentral's guidelines implementing the EMV Card Fraud Liability Shift Framework (ECFLSF). Pursuant to Sec. 148 (*IT Risk management systems*) and *Appendix 113* of the MORB, Bangko Sentral Supervised Financial Institutions (BSFIs) should shift from the magnetic stripe (magstripe) technology to EMV-compliant cards, POS terminals and ATMs. The immediate impact and benefit on the adoption of EMV technology is the reduction in card fraud resulting from counterfeit or skimming attacks.

While migration efforts to shift to EMV technology are ongoing, the use of magstripe in payment cards and/or card-accepting devices shall be allowed subject to card fraud liability shift. This means that the BSFIs which have not yet or have partially adopted the EMV technology shall be held responsible for losses associated with the use of a counterfeit card in a card-present environment.

II. Statement of Policy

It is the policy of the Bangko Sentral to foster the development of safe, secure, efficient and reliable retail payment systems, protect the integrity and confidentiality of customer accounts and information and uphold consumer protection.

Towards this end, the Bangko Sentral requires all concerned BSFIs to migrate to a more secure payment technology and sets forth subject principles for allocation of card fraud liability with the aim of ensuring compliance of the different retail payment system participants with the Bangko Sentral's EMV migration requirement. Pending full migration to the EMV technology, the ECFLSF shall likewise accelerate the dispute resolution and restitution process for customers who have valid claims arising from counterfeit fraud or skimming attacks.

III. Applicability and Scope

These guidelines shall apply to all BSFIs with debit and credit card issuing and acquiring functions and shall govern the allocation of liability associated with fraudulent transactions arising from counterfeit cards beginning 1 January 2017, subject to the conduct of proper investigation by the concerned participant/s of the payment card network. The coverage shall be limited to card-present and contact transactions of Philippine-issued payment cards used domestically in automated teller machines (ATMs), point-of-sale (POS) terminals, and other similar devices routed to either domestic or international payment networks.

Consequently, the ECFLSF shall not apply to card-not-present and contactless transactions. Furthermore, foreign-issued payment cards used domestically and Philippine-issued payment cards used abroad shall not be covered as these are already subject to the existing liability shift and chargeback rules of the international payment networks.

IV. Definition of Terms

For purpose of these guidelines, the following definitions shall apply:

1) *Acquiring institution (Acquirer),* is a bank or non-financial institution that processes credit or debit card transactions via ATMs, POS terminals, and other similar devices.

2) *EMV compliant device or terminal* is a device or terminal that has, or is connected to, a contact chip card reader, has an EMV application, certified, and is able to process EMV transactions.

3) *Co-branded cards* are Philippine-issued cards affiliated with international payment networks.

4) *Counterfeit card* is an imitation or falsification of a genuine magstripe card or EMV chip card with track data copied from a hybrid EMV card.

5) *Debit cards* are payment cards linked to bank deposit or prepaid/electronic money (e-money) accounts.

6) *Fallback to magstripe transaction occurs* when the chip on the card is not being read by a terminal. This is similar to technical fallback, which is defined in *Appendix 113* of the MORB as a state in which the chip cannot be used and another type of entry, such as magstripe, is used to complete a transaction.

7) *Hybrid cards* are payment cards that have both EMV chip and magstripe.

8) *International payment networks* refer to the payment networks that have global establishment. For purposes of subject guidelines, recognized international networks shall refer to Visa, Mastercard, UnionPay, Diners/Discover, American Express, and Japan Credit Bureau (JCB).

9) *Issuing institution (Issuer)* is a bank or non-bank financial institution that issues payment cards, whether proprietary or co-branded, to consumers.

10) *Payment cards* are cards that can be used by cardholders and accepted by terminals to withdraw cash and/or make payment for purchase of goods or services, fund transfer and other financial transactions. Typically, payment cards are electronically-linked to deposit, prepaid or loan/credit accounts.

V. Guiding Principles

1) The adoption of EMV technology is designed to reduce and mitigate risks arising from counterfeit card fraud. While it remains virtually impossible to create a counterfeit EMV card that can be used to conduct an EMV payment transaction successfully, the presence of magstripe in a hybrid EMV card makes it still vulnerable to counterfeit attacks.

2) A BSFI that has enabled the most secure EMV options shall be protected from financial liability arising from losses on counterfeit card fraud. The liability for this type of fraud shall shift to the BSFI which is not or is partially compliant with the EMV migration requirement.

3) To resolve the issue on the allocation of card fraud liability using the guidelines described herein, the involved parties (such as issuer, acquirer, and payment network) should, first, characterize the fraud committed, and then, assess the technology being employed, in light of the applicable payment network rules. The party supporting EMV technology will prevail and in case of a technology-tie (neither or both parties are EMV compliant), the liability for fraudulent transactions generally remains with the Issuer.

VI. Allocation of Card Fraud Liability

Allocation of liability for counterfeit card fraud is summarized in the following table:

	Card Capabilities	Acceptance Device Support	Scenario	Liability
1	Magnetic stripe only	Magnetic stripe only	Magnetic card transaction was completed	Issuer
2	Magnetic stripe only	EMV compliant	Magnetic card transaction was completed	Issuer
3	EMV compliant hybrid card	Magnetic stripe only	Magnetic card transaction was completed	Acquirer[1]
4	EMV compliant hybrid card	EMV compliant	Fallback transaction; Magnetic card transaction was completed	Issuer

The information provided above shall be considered as a general guide as each fraudulent transaction shall be separately investigated on. Likewise, the domestic and international payment networks may come up with other scenarios and probable conditions that illustrate how liability is assigned on counterfeit card fraud using different combinations of card and acceptance device capabilities. However, the resolution of such scenarios/conditions should follow the principles espoused in these guidelines.

VII. Consumer Protection and Complaints Handling and Resolution

1) The participants in the domestic payment network (such as issuer, acquirer, and payment network) should collaborate and devise detailed rules and procedures including arbitration mechanisms to operationalize the ECFLSF. Accordingly, a body responsible for strictly implementing the above-mentioned detailed rules and procedures on ECFLSF should be constituted.

[1] When an Acquirer accepts a magstripe card that was counterfeited with track data copied from an EMV compliant hybrid card and the counterfeit card is used at a device/terminal that is not EMV-compliant, resulting in a transaction to be successfully processed, the Acquirer is liable for any chargeback resulting from such fraud.

2) Cardholders' complaints and/or requests for chargeback as a result of counterfeit card shall be considered as complex complaint/request defined in *Appendix 115* of the MORB and hence, shall follow the standards provided in such regulations, except for the processing and resolution timeline which should be within 10 days instead of 45 days.

3) Issuers and Acquirers should ensure that affiliated international payment networks align their existing liability and chargeback rules with the ECFLSF insofar as Philippine-issued payment cards used in the domestic payment environment are concerned.

(Circular No. 1019 dated 31 October 2018)

Guidelines on Submission of Information Technology (IT) Profile Report

In order to build the baseline information of IT systems of Philippine banks and to risk profile the complexity of IT operations based on technology-related products and services offered, delivery channels, and processes involved, all banks are required to accomplish and submit annually an IT Profile Report as of 31 December of the reference year.

In accordance with Sec. 148 of the Manual of Regulations of Banks (MORB) on Technology Risk Management, the following shall be observed in the submission of the IT Profile Report:

1. The IT Profile reporting template can be accessed at http://www.bsp.gov.ph/frp/templates. Reports shall be submitted on an annual basis within twenty-five (25) calendar days from the end of reference year. (Attached as Annex A is sample format of IT Profile Report.)

2. The IT Profile report shall be submitted electronically to the following e-mail addresses:

E-mail Address	Type of Reporting Institution
sdckb-itprofile@bsp.gov.ph	Universal/Commercial Banks (U/KBs)
sdctb-itprofile@bsp.gov.ph	Thrift Banks (TBs)
sdcrb-itprofile@bsp.gov.ph	Rural/Cooperative Banks (R/CBs)

3. The following format shall be used for the subject of the e-mail: "ITPROFILE <bankname>, <reference period>", e.g.:

To	: sdctb-itprofile@bsp.gov.ph
cc	:
Subject	: ITPROFILE <bankname>, 31 December 20yy

4. The certification, duly notarized and signed by the authorized official of the reporting institution, shall be sent within the prescribed submission deadline to the Director of the Department of Supervisory Analytics (DSA) via facsimile at (632) 708-7554 or 708-7558.

5. Within the same period prescribed in Item 1, Institutions that are unable to transmit their IT Profile Report electronically may submit the same report in compact disc (CD), together with the aforementioned certification through messengerial or postal services. Said report shall be submitted to the following:

   The Director
   Department of Supervisory Analytics
   Bangko Sentral ng Pilipinas
   11th Floor, Multi-Storey Building
   BSP Complex, A. Mabini Street
   Malate, Manila 1004

6. The IT Profile Report template and other relevant attachments are also available upon request at the Bangko Sentral Department of Supervisory Analytics through the above-mentioned e-mail addressed and/or postal address.

Guidelines on the Electronic Submission of the Report on Crimes and/or Losses (RCL)

Pursuant to existing regulations prescribing the reporting of cyber related fraud as well as other crime related incidents to the BSP and in line with on-going initiatives of maximizing available Information Technology infrastructure for regulatory reporting, the following guidelines shall be observed in submitting the RCL:

1. Reportable incidents shall be transmitted electronically using the data entry template (DET) prescribed for the updated RCL. The prescribed DET and its supporting Control Prooflist (CP) for the Initial Report and Final Report, respectively, and the User Guide as relevant reference for accomplishing the DET can be downloaded from http://www.bsp.gov.ph/ses/reporting_templates or requested directly from the Department of Supervisory Analytics (DSA). The Control Prooflist for the initial and final RCL need not be notarized.

2. The updated RCL reporting structure and its corresponding DET considered the reportable cyber fraud incidents as well as other incidents required under Secs. 148 *(Reports)* and 173 *(Report on crimes/losses)*.

3. The DET for the RCL (DET-RCL) together with the corresponding scanned CP in Portable Document Format (PDF) duly notarized and signed by the authorized official of the reporting bank shall be electronically transmitted within the existing deadline prescribed for Initial Report and Final Report, as the case may be, to the following prescribed e-mail addresses:

Type of Institution	E-mail Address
Universal and Commercial Banks	sdckb-rcl@bsp.gov.ph
Thrift Banks	sdctb-rcl@bsp.gov.ph
Rural and Cooperative Banks	sdcrb-rcl@bsp.gov.ph

4. The following format shall be used for the subject of the e-mail:

   <report name>space<bank name>space<control no.>space<report status>, e.g.:

   To : sdctb-rcl@bsp.gov.ph (example for thrift banks)
   Subject : RCL <Bank A> 102016-0001 INITIAL

   using the following required format for the filenames:
   <reference no.>_<report status>. <file extension>, e.g.:

   - RCL_000250_102016-0001_INITIAL.xls and
   - RCL_000250_102016-0001_INITIAL.pdf

5. Each email transmission shall correspond to only one (1) DET-RCL file as multiple RCL cases in a single email transmission will be automatically rejected, thus considered unsubmitted. Each DET-RCL transmission shall be accompanied by its corresponding CP as described in item 3. DET-RCL files which are transmitted without the required CP shall be deemed unsubmitted.

6. Hard copy submission of the RCL shall no longer be accepted. Nevertheless, within the same prescribed period, banks that are unable to transmit electronically may submit their DET-RCL and its accompanying CP in compact discs (CD) through messengerial or postal services. The DET-RCL and its accompanying CP shall be submitted to:

   The Director
   Department of Supervisory Analytics
   Bangko Sentral ng Pilipinas
   11th Floor, Multi-Storey Building
   BSP Complex, A. Mabini Street
   Malate, Manila 1004

7. Report submissions that do not conform to the above prescribed procedures shall not be accepted and will be considered non-compliant with the Bangko Sentral reporting standards as provided under Sec. 171. It likewise follows that only files prescribed by the Bangko Sentral for the RCL shall be accepted as compliant with the existing reportorial requirements subject to validation and applicable penalties for erroneous, delayed, or unsubmitted reporting.

NOTICE/APPLICATION FOR WRITE-OFF OF LOANS
OTHER CREDIT ACCOMMODATIONS, ADVANCES AND OTHER ASSETS
[Appendix to Sec. 114-S (Writing off problem credits)]

Formerly SES Form 6H (CBP 7-16-21)

_____
Name of Non-Stock Savings and Loan Association (NSSLA)

_____
Address

_____
Date

Name of Borrower	Date of Membership	Loan and Advances Details							Deposit + Capital Contribution	Amount to be Written-Off (₱)	Recommending Body/Officer	Justification for Write-Off
		Approving Officer	Date Granted	Original Amount (₱)	Outstanding Balance (₱)	Maturity Date	Date of Last Payment	Accrued Interest (₱)				
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)

Total Amount to be Written-Off: _____

I certify that the foregoing loans and advances aggregating ₱ _____ were authorized to be written-off by the Board of Trustees of this Association in its Resolution No. _____ dated _____.

_____
(Signature of Authorized Officer over Printed Name)

(Circular No. 1046 dated 29 August 2019)

Financial Reporting Package for Non-Stock Savings and Loan Associations (FRPNSSLA)

[Appendix to Sec. 161-S (Financial Reporting Package)]

The FRPNSSLA is a set of financial statements for prudential reporting purposes composed of the Balance Sheet, Income Statement and Supporting Schedules. The FRPNSSLA is primarily designed to align the Bangko Sentral reportorial requirements with the provisions of the Philippine Financial Reporting Standards (PFRS). It is also designed to meet the statistical requirements of the Bangko Sentral.

Organization of the Instructions of the FRPNSSLA

The instruction is divided into the following sections:

1. The General Instructions, which describe the overall reporting requirements;

2. Manual of Accounts, which provides in the order presented in the Balance Sheet and the Income Statement the definitions of the accounts in the FRPNSSLA;

3. Line Item Instructions for the Balance Sheet, Income Statement and Supporting Schedules; and

4. Report Formats.

In determining the required treatment of particular transactions or in determining the definitions of the various items, the General Instructions, Manual of Accounts and Line Item Instructions must be used jointly. A single section does not necessarily give the complete instructions for completing all items of the reports.

GENERAL INSTRUCTIONS

Who must Report on What Forms/Schedules

All Non-Stock Savings and Loan Associations (NSSLAs) are required to prepare the Financial Reporting Package. The FRPNSSLA shall be prepared on a solo basis. Solo basis shall refer to the combined financial statements of the head office and branches/other offices of the NSSLA.

Solo income statement shall be prepared quarterly on a cumulative basis, i.e., first quarter report shall cover results of operations during the first quarter, second quarter report shall cover results of operations during the first and second quarters, etc.

Schedules that do not apply to a particular NSSLA should only be left blank when submitted.

Frequency of Reporting

The FRPNSSLA shall be prepared and submitted quarterly within thirty (30) calendar days after the end of the reference quarter. If the 30th calendar day falls on a Saturday, Sunday, or Holiday, or on a day which business operations of the Bangko Sentral is suspended, the following business day shall apply.

Amounts Reported

All amounts reported in the FRPNSSLA must be in absolute figures including two decimal places, except for "Losses" columns/rows which shall be reported in negative figures, i.e., enclosed in parentheses.

(Circular No. 1047 dated 29 August 2019)

Guidelines on the Adoption of Philippine Financial Reporting Standards (PFRS 9) – Classification and Measurement

[Appendix to Sec. 161-S (PFRS)]

Section 1. Classification and Measurement of Financial Assets and Financial Liabilities

Non Stock Savings and Loan Associations (NSSLAs) shall classify and measure financial assets and financial liabilities, in accordance with the provisions of PFRS 9. In this respect, NSSLAs shall observe the following:

A. **Classification of Financial Assets** - Financial assets shall be classified based on their contractual cash flow characteristics and the business model for holding the instruments.

Financial assets that are debt instruments. Financial assets that are debt instruments shall be classified under any of the following categories:

a) **Financial Assets at Fair Value through Other Comprehensive Income (FVOCI).** A financial asset measured at FVOCI shall meet both of the following conditions:

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

b) **Financial assets measured at amortized cost**. A financial asset that is a debt instrument, other than those that are designated at fair value through profit or loss, which meet both of the following conditions:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

B. **Classification of Financial Liabilities** - Financial liabilities shall be classified and subsequently measured at amortized cost using the effective interest method.

Section 2. **Business Model in Managing Financial Assets**

Business model pertains to the manner by which a portfolio of financial assets will be managed to generate cash flows such as by collecting contractual cash flows or by both collecting contractual cash flows and selling the financial assets, among others. NSSLAs shall determine the business model for a portfolio of financial assets based on scenarios that are reasonably expected to occur, taking into consideration the expected changes to asset allocations or to balance sheet structure as a result of business strategies. In this respect, these scenarios do not include "worst case" or "stress case" scenarios.

a) The criteria that will be used in determining the business model for managing financial assets shall be applied to a portfolio of financial assets and not on an instrument-by-instrument basis.

b) Business models for managing financial assets shall be observed through specific activities being undertaken by the NSSLA to achieve their stated objectives. An NSSLA shall exercise sound judgment and shall use all relevant evidences available at the date of assessment in determining the business model for managing portfolios of financial assets. Such relevant evidences include but are not limited to:

- Risks affecting the performance of financial assets and the business model and how these risks will be managed;
- Frequency, volume, timing and nature of sales in prior periods, the reasons for such sales, and expectations about future sales activity;
- The manner by which business model and the financial assets held within it are evaluated and reported to the NSSLA's board of trustees and senior management; and
- The basis for compensation of concerned personnel and/officers (e.g., whether the compensation is based on the fair value of the assets managed or the contractual cash flows collected).

c) Business models for managing financial assets shall be approved by the board of trustees and shall be adequately documented. The documentation for each business model shall include, among others, detailed description of specific business objectives (whether to hold in order to collect contractual cashflows and to sell or to collect contractual cashflows only); cases of sales and/or derecognition of financial assets and conditions for changes in business model that are considered consistent with the provisions of PFRS 9; and appropriate level of authority designated to approve determination of business model of specific portfolios of financial assets as well as the sales, derecognition, and changes in business model of financial assets.

d) Changes in business model are expected to be rare and shall be determined as a result of external or internal changes which are significant to the NSSLA's operations and evident to external parties. Change in intention related to the management of particular financial assets does not constitute a change in business model. The change in business model shall be approved by the appropriate level of authority based on sound justifications and in accordance with accounting standards. The qualitative and quantitative impact of the change in business model shall be adequately documented and appropriately disclosed in the audited financial statements in line with the disclosure of risk management policies on the relevant risk exposure.

e) All affected financial assets shall be reclassified when, and only when, a NSSLA changes its business model for managing financial assets in accordance with the provisions of Item "*(d)*". Financial liabilities are not allowed to be reclassified.

If cash flows are realized in a way that is different from the expectations at the date at which the NSSLA assessed the business model, it does not constitute a change in the classification of the remaining financial assets as long as the NSSLA considered all relevant and objective information available when it initially made the business model assessment.

In cases where an NSSLA changes a business model, the financial assets within the said model shall not be reclassified within the reporting period that the change in business model was made. The reclassification in this case shall only take effect in the next financial reporting month. In this respect, any previously recognized gains, losses or interest shall not be restated.

Section 3. **Contractual Cash Flow Characteristics**

a) In order for a financial asset to be classified and measured at amortized cost or FVOCI, the contractual terms of the financial asset must give rise on specific dates to cash flows that are SPPI on the principal amount outstanding.

b) The cashflows that are considered SPPI are consistent with basic lending arrangement where the principal is the fair value of the financial asset at initial recognition and the interest represents consideration for the time value of money, credit risk, profit margin and other basic lending risks and costs associated with holding the financial asset for a particular period of time.

c) An NSSLA shall determine if the contractual cashflows are SPPI in accordance with the provisions of PFRS 9. In this respect, an NSSLA shall assess the contractual terms of a financial instrument before investing in the same and determine if such instrument introduces exposure to risks or volatility that is unrelated to a basic lending arrangement.

d) Policies and procedures shall include guidelines in performing the SPPI assessment, and shall identify the units responsible for conducting and reviewing the propriety of the assessment as well as the documentation supporting the classification of financial assets.

Section 4. **Supervisory Expectations on Classification and Measurement of Financial Assets and Financial Liabilities**

a) The business model for managing financial assets shall be assessed in line with the NSSLA's internal risk management policies such as credit, market and liquidity risk management. For instance, financial assets which were classified and measured at amortized cost mostly relate to the management of credit risk and/or interest rate risk since there is no intent to sell the financial asset prior to maturity.

b) The business model for managing financial assets shall be assessed based on the objective information on the activities undertaken for the portfolios of financial assets.

c) The manner by which the performance of financial assets is measured given a specific business model shall be assessed. Key performance indicators should be consistent with the specific business models for portfolios of financial assets. For instance, performance of financial assets classified at amortized cost may be measured through (net) interest income since the objective is to generate accrual income from long-term investments. The results of the impairment testing and credit review of accounts may likewise be considered.

d) Bases for incentives or compensation granted to personnel involved in managing specific portfolios of financial assets shall be evaluated in line with the expected activities under a specific business model.

e) The roles and responsibilities of units involved in the management, monitoring, and reporting of performance of financial assets for specific business models shall be clearly defined. The Bangko Sentral shall assess the effective implementation of the lines of defense, which shall include the evaluation of the propriety of segregation of functions.

The delineation of the roles and responsibilities of the lines of defense shall be evaluated as well as the effectiveness of the scope and frequency of their review. These lines of defense are expected to evaluate consistency of internal policies and practices with the provisions of PFRS 9 and adherence of the NSSLA with established policies.

f) The review of the lines of defense shall cover, among others, the assessment of the following:

i. Comprehensiveness of reports submitted to the board or senior management. These should include the risks that may affect the performance of the business model; consistency of the performance of the financial assets held within the business model against strategic and financial objectives; and results of internal and external validation on management and monitoring of business model.

ii. Propriety of sales or derecognition of financial assets based on the business model for managing the same. For instance, the NSSLA decides to sell a portion of a portfolio of financial assets held and measured at amortized cost, a review should be conducted to ascertain whether the business models has not changed as a result of such sale. In case of change in business model, the self-assessment functions shall look into the circumstances that triggered the decisions to change, consistency of said decision with internal policies and principles of the standard, propriety of the governance process, and adequacy of documentation.

(Circular No. 1047 dated 29 August 2019)

CHECKLIST OF BANGKO SENTRAL REQUIREMENTS IN THE SUBMISSION OF AUDITED FINANCIAL STATEMENTS
[Appendix to Sec. 163-S (Financial Audit)]

Information/Data Required	Deadline for submission
1. Audited Financial Statements (AFS)	Not later than 120 calendar days after the close of the calendar year or fiscal year adopted by the NSSLA.
2. Certification by the external auditor on compliance with Bangko Sentral requirements on: a. Confidentiality clause pertinent to read-only access to the Report of Examination; and b. Disclosure under Sec. 163-S *(Disclosure requirements to the audited financial statements)* and other information that may be required.	For submission together with the AFS, not later than 120 calendar days after the close of the calendar year or fiscal year adopted by the NSSLA.
3. Reconciliation statement, including copies of adjusting entries on the reconciling items, between the AFS and the prudential reports submitted to the Bangko Sentral (i.e., balance sheet and income statement for NSSLA) following the formats in Annex A.	For submission together with the AFS, not later than 120 calendar days after the close of the calendar year or fiscal year adopted by the NSSLA.
4. Letter of Comments (LOC)[1] indicating material weaknesses on internal control and risk management system as well as other issues, which may include findings on the quality of governance[2], that should be brought to the attention of the board/management along with the recommendations for corrective action. Otherwise, a certification by the external auditor that there are no issues noted in the course of the audit to warrant the submission of an LOC.	For submission together with the AFS, not later than 120 calendar days after the close of the calendar year or fiscal year adopted by the NSSLA.
5. Copy of the board resolutions showing the actions on the AFS and the submitted LOC, if any.	For submission together with the AFS, not later than 120 calendar days after the close of the calendar year or fiscal year adopted by the NSSLA.
6. The external auditor shall report directly to the Bangko Sentral the following: a. Any material finding involving fraud or error; b. Actual or potential losses the aggregate of which amounts to at least ten percent (10%) of the consolidated total assets of the NSSLA; c. Significant doubt as to the ability of the NSSLA to continue as a going concern; d. Material breach of laws or Bangko Sentral rules and regulations such as but not limited to prescribed capital and liquidity ratios, significant deficiency in allowance for credit losses, material weaknesses in fair value measurement methodology, significant vulnerabilities to money laundering and countering the financing of terrorism; e. Material internal control weaknesses which may lead to financial reporting problems; and f. Findings on matters of corporate governance that may require urgent action by the Bangko Sentral.	Within fifteen (15) calendar days from discovery.

[1] LOC or equivalent letter to management/board of trustees
[2] Reportable issues on the quality of governance shall only pertain to financial reporting matter.

In case there are no matters to report (e.g., fraud, dishonesty, breach of laws, etc.) a notarized certification that there is none to report.	Not later than 120 calendar days after the close of the calendar year or fiscal year adopted by the NSSLA.

(Circular No. 1075 dated 7 February 2020)

Name of Financial Institution

Comparison of Submitted Consolidated Balance Sheet and Income Statement and Audited Financial Statements

As of (end of calendar or fiscal year)

(In Thousand Pesos)

	Submitted Report	Audited Report	Variance/ Discrepancy	Reasons for Discrepancy
Cash and Other Cash Items				
Due from BSP				
Due from Other Banks				
Financial Assets Held for Trading (HFT)				
Held-to-Maturity (HTM) Financial Assets				
Available-for-Sale Financial Assets				
Loans and Receivables, net				
Equity Investments in Subsidiaries, Associates & Joint Ventures				
NSSLA Premises, Furniture, Fixtures and Equipment, net				
Real and Other Properties Acquired (ROPA), net				
Other Assets				
Due from Head Office/Branches/ Agencies Abroad				
Total Assets				
Deposit Liabilities				
Bills Payable				
Accrued Interest, Taxes and Other Expenses				
Other Liabilities				
Due to Head Office/Branches				
Total Liabilities				
Capital Contribution				
Surplus (Free)				
Surplus Reserves				
Undivided Profits				
Total Capital				
Total Liabilities and Capital				
Total Income				
Total Expenses				
Net Income before Income Tax				

DISCLOSURE REQUIREMENTS TO THE AUDITED FINANCIAL STATEMENTS (AFS)
[Appendix to Sec. 163-S (Disclosure requirements to the audited financial statements)]

NSSLAs shall include the following additional information in the AFS:

a. Notes to the financial statements:

(1) Capital position which shall include Total Risk-Weighted Assets and Capital-to-Risk Assets Ratio;

(2) Leverage ratio and Total Exposure Measure[1];

(3) Liquidity position which shall include minimum liquidity ratio.

(4) Provisioning methodology and key assumptions in providing allowance for credit losses; and

(5) Accounting policies which shall include, but shall not be limited to, general accounting principles, valuation policies for financial instruments and Real and Other Properties Acquired (ROPA), and policies on foreign currency translations.

b. Supplementary information:

(1) Basic quantitative indicators of financial performance such as (a) return on average equity; (b) return on average assets; and (c) net interest margin, using the following formulas:

(i) Return on Average Equity (%) =

$$\frac{\text{Net Income (or Loss) after Income Tax x 100}}{\text{Average Total Capital Accounts}}$$

Where:

$$\text{Average Total Capital Accounts} = \frac{\text{Total Capital Accounts Current calendar/fiscal year-end balance + Previous calendar/fiscal year-end balance}}{2}$$

(ii) Return on Average Assets (%) =

$$\frac{\text{Net Income (or Loss) after Income Tax x 100}}{\text{Average Total Assets}}$$

Where:

$$\text{Average Total Assets} = \frac{\text{Total Assets Current calendar/fiscal year-end balance + Previous calendar/fiscal year-end balance}}{2}$$

(iii) Net Interest Margin (%) =

$$\frac{\text{Net Interest Income x 100}}{\text{Average Interest Earning Assets}}$$

Where:

Net Interest Income = Total Interest Income – Total Interest Expense

$$\text{Average Interest Assets} = \frac{\text{Total Interest Earning Assets Current calendar/fiscal year-end balance + Earning Previous calendar/fiscal year-end balance}}{2}$$

[1] Leverage ratio can be computed as: (i) Total Gross Loans/Deposit Liabilities; (ii) Total Loan Portfolio/(Deposit Liabilities + Capital Contribution), (iii) Total Liabilities/Average Total Assets, and (iv) Total Liabilities/Average Total Capital Accounts, among others.

iv) Net Interest Margin = Inclusive of Declared Amount for Net Income Distribution (%)

$$\frac{\text{Total Interest Income} - (\text{Total Inclusive of Interest Expense} + \text{Declared Amount for Net Income Distribution})}{\text{Average Interest Earning Assets}} \times 100$$

Where:

Declared amount for net income distribution refers to the amount declared within the current calendar/fiscal year.

(2) Breakdown of total loans as to (i) security (secured, including type of security, and unsecured; and (ii) status (performing and non-performing) per product line;

(3) Breakdown of Exposures to Trustees, Officers and their Related Interests (TORI) as to:

- Outstanding loans to TORI
- Percent of TORI loans to total loan portfolio
- Percent of unsecured TORI loans to total TORI loans
- Percent of past due TORI loans to total TORI loans
- Percent of non-performing TORI loans to total TORI loans

(4) Aggregate amount of secured liabilities and assets pledged as security; and

(5) Nature and amount of contingencies and commitments arising from off-balance sheet items (include late deposit/payment received, items held for safekeeping/custody, items held as collateral, deficiency claims receivable and other contingent accounts).

For items “3”, “4”, and “5”, indicate if there is none to report.

GUIDELINES ON THE IMPOSITION OF MONETARY PENALTIES ON NSSLAs, AND/OR THEIR TRUSTEES, OFFICERS AND/OR EMPLOYEES FOR VIOLATIONS OF BANKING AND OTHER APPLICABLE LAWS WITH SANCTIONS FALLING UNDER SECTION 37 OF REPUBLIC ACT NO. 7653 (THE NEW CENTRAL BANK ACT), AS AMENDED

(Appendix to Sec. 004-S on Monetary Penalties on NSSLAs, and/or their Trustees, Officers, and/or Employees)

The following are the guidelines on the imposition of monetary penalties on NSSLAs, and/or their trustees, officers and/or employees.

I. *Definition of Terms*. For purposes of this Appendix, the following definitions shall apply:

a. *Transactional violation* refers to an act or omission constituting a violation of any applicable law or any order, instruction/directive or regulation issued by the Monetary Board, or any order, instruction/directive or ruling by the Governor which is consummated and concluded in a single instance/occasion.

For licensing-related violations, transactional violation refers to the failure to obtain approval prior to engaging in an activity which the institution is qualified to undertake at the onset, based on eligibility test and assessment of compliance with the prudential criteria set forth under existing Bangko Sentral rules and regulations.

b. *Continuing violation* refers to an act or omission constituting a violation of any applicable law or any order, instruction/directive or regulation issued by the Monetary Board, or any order, instruction/directive or ruling by the Governor in which the violation persists or lingers over time from the instant the particular act was committed or omitted until the violation is stopped.

For licensing-related violations, continuing violation refers to an act which the institution is not qualified to undertake at the onset based on eligibility test and assessment of compliance with the prudential criteria set forth under existing Bangko Sentral rules and regulations.

II. *Imposition and Payment of Monetary Penalties.*

a. In accordance with Section 37 of R.A. No. 7653, as amended, monetary penalties may be imposed against NSSLAs and/or their trustees, officers and/or employees for any willful violation of its charter or bylaws; willful delay in the submission of reports or publications thereof as required by law, rules and regulations; any refusal to permit examination into the affairs of the institution; any willful making of a false or misleading statement to the Monetary Board or the appropriate supervising and examining department or its examiners; any willful failure or refusal to comply with, or violation of, any banking law or any order, instruction or regulation issued by the Monetary Board, or any order, instruction or ruling by the Governor; or any commission of irregularities, and/or conducting business in an unsafe or unsound manner and/or performing acts, practices or omissions considered prejudicial to the interest of members as may be determined by the Monetary Board.

In the absence of specific provision under other applicable laws or Bangko Sentral rules and regulations prescribing the imposable monetary penalty for the above-mentioned violations/offenses, NSSLAs, and/or their trustees, officers and/or employees may be imposed a maximum monetary penalty of ₱1 million for each transactional violation or ₱100 thousand per calendar day for violations of a continuing nature as provided under Section 37 of R.A. No. 7653, as amended. Further, in case profit is gained or loss is avoided as a result of the violation, the Bangko Sentral may impose a fine of no more than three (3) times the profit gained or loss avoided on top of the aforementioned monetary penalty.

The Bangko Sentral considers the attendant circumstances of the case, including aggravating and mitigating factors, in the guided exercise of supervisory discretion to reach a reasonable and proportionate monetary penalty that best achieve the Bangko Sentral's supervisory objectives. These factors include the: (1) nature, gravity and seriousness of the violation or irregularity; (2) financial and/or non-financial impact of the violation or irregularity to the NSSLAs, its industry and/or the financial system; (3) intentionality, frequency and duration of the violation or irregularity; and (4) measures undertaken to stop or correct the violation or irregularity.

The appropriate department of the Bangko Sentral shall notify the NSSLAs, and/or trustee, officer and/or employee concerned of the violation, together with a directive for the NSSLAs, and/or trustee, officer and/or employee concerned to show cause within fifteen (15) business days from receipt of the letter why no monetary penalty under Section 37 of R.A. No. 7653, as amended, should be imposed. The recommendation to impose monetary penalties shall be approved by the Governor or the Monetary Board, as the case may be, pursuant to Section 37 of R.A. No. 7653, as amended: *Provided*, That monetary penalties against trustees, officers and/or employees shall be approved only by the Monetary Board. The decision of the Governor/Monetary Board shall be communicated to the NSSLAs, and/or trustee, officer and/or employee concerned.

However, the Bangko Sentral is not precluded from imposing non-monetary sanctions along with monetary penalties if circumstances so warrant.

b. *Basis for the computation of the period or duration of penalty.* The computation of the period or duration of all penalties shall be based on calendar days. For this purpose the terms "per banking day", "per business day", "per day" and/or "a day" as used in this Manual, and other Bangko Sentral rules and regulations shall mean "per calendar day" and/or "calendar day" as the case may be.

c. *Payment of Monetary Penalties.* NSSLAs, and/or their trustees, officers and/or employees shall pay the monetary penalties within fifteen (15) calendar days from receipt of the notice of the decision of the Governor imposing said monetary penalties, and payment thereof shall not be suspended by the filing of an appeal to the Monetary Board.

Monetary penalties imposed by original decisions of the Monetary Board shall be paid within fifteen (15) calendar days from the last day to file a motion for reconsideration where none has been filed or within fifteen (15) calendar days from receipt of the notice of the decision of the Monetary Board affirming the decision on motion for reconsideration, as the case may be.

For uniform implementation of the above regulations, the following procedural guidelines shall be observed:

(1) Upon approval of the fines/penalties by the Governor/Monetary Board, the Department/Office concerned shall send the Statement of Account (SOA)/billing letter to the NSSLAs with an advice that the penalty should be paid in full within fifteen (15) calendar days from receipt of SOA/billing letter. For NSSLAs which maintain a DDA with the Bangko Sentral, the amount of the penalty/ies that remain unpaid shall be automatically debited from their DDA after the lapse of the fifteen (15)-calendar day period within which to pay the monetary penalties. The NSSLAs shall likewise be advised that penalty or portion thereof which remained unpaid after the lapse of said fifteen (15)-day period shall be subject to additional charge of six percent (6%) per annum reckoned from the business day immediately following the end of the fifteen (15)-day period up to the day of actual payment.

(2) On the business day immediately following the end of said fifteen (15)-day period, unpaid penalties shall be automatically debited, without additional charge, against the NSSLA's DDA with the Bangko Sentral by the Comptrollership Sub-sector (CoSS) based on the amount booked by the Department/Office concerned after first confirming with the CoSS the sufficiency of the NSSLA's DDA balance to cover the amount of the penalty.

(3) If, based on its confirmation with the CoSS, the Department/Office concerned received information that the NSSLA's DDA balance is insufficient to cover the amount of the penalty, it shall accordingly advise and request the NSSLA to immediately fund its DDA.

(4) As soon as it is funded, the NSSLA's DDA shall be debited by the CoSS for the amount of the penalty, plus the six percent (6%) additional charge for late payment of the penalty reckoned from the business day immediately following the end of the fifteen (15)-day period up to the day of actual payment, based on the amount booked by the Department/Office concerned.

(5) In the absence of DDA with the Bangko Sentral, penalties shall be paid through any acceptable means of payment and in accordance with the provisions of Sec. 811-S.

(6) In the case of penalty/ies imposed on NSSLAs trustees, officers, and/or employees, the employer NSSLA and said trustees, officers, and/or employees shall be advised by the appropriate supervising department of the Bangko Sentral that the employer NSSLA's DDA with the Bangko Sentral shall be debited for the amount of the penalty as advance payment on behalf of the trustee, officer, and/or employee whose penalty/ies remain unpaid after the lapse of fifteen (15) calendar days within which to pay the monetary penalty. In case the trustee, officer, and/or employee is no longer connected with the NSSLAs, payment thereof shall be for the account of the trustee, officer, and/or employee who shall pay directly to the Bangko Sentral through any such acceptable means of payment in accordance with the provisions of Sec. 811-S (Other Payments of NSSLAs) and *Appendix* S-18. The procedures under Items *"2", "3"* and *"4"* hereof shall likewise apply.

III. *Appeal or Motion for Reconsideration.*

The imposition of monetary penalties by the Governor shall be final and executory until reversed, modified or lifted by the Monetary Board on appeal. The appeal shall be filed within fifteen (15) calendar days from receipt of the notice of the decision, copy furnished the appropriate department of the Bangko Sentral. No motion for reconsideration of the decision of the Governor or of the Monetary Board on appeal shall be allowed.

Original decisions of the Monetary Board imposing monetary penalties shall become final and executory after fifteen (15) calendar days from receipt of the Monetary Board decision, unless a motion for reconsideration is timely filed, copy furnished the appropriate department of the Bangko Sentral.

The appeal or the motion for reconsideration shall be in writing and shall specify the findings or conclusions in the decision which are not supported by the evidence or which are contrary to law, making express reference to the evidence or to the provisions of law alleged to be contrary to such findings or conclusions.

A *pro forma* appeal or motion for reconsideration shall be denied outright and shall not prevent the decision from attaining finality.

(Circular No. 1125 dated 20 August 2021)

DOCUMENTARY REQUIREMENTS TO BE SUBMITTED TO BANGKO SENTRAL FOR THE ELECTION/APPOINTMENT OF TRUTEES/OFFICERS OF NSSLAs[1]

(Appendix to Secs. 134-S and 135-S)

Requiring Bangko Sentral Confirmation[2]		Not Requiring Bangko Sentral Confirmation
Trustees	**Chief Executive Officer and Other Officers enumerated in Sec. 134-S[3]**	**Officers below the rank of Senior Vice President Requiring a different set of minimum qualifications[4]**
• Letter-request for Bangko Sentral confirmation signed by authorized officer[5] with an affirmative statement that the institution has conducted fit and proper test on the trustee/s concerned	• 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 trustees approving the appointment	
• Secretary's Certificate attesting to the resolution of the members or board of trustees approving the election.		
• Bio-data with a photograph (2" x 2") taken within the last six (6) months	• Bio-data with a photograph (2" x 2") taken within the last six (6) months	• Bio-data with a photograph (2" x 2") taken within the last six (6) months
• Certification under oath of the trustee concerned that he/she possesses all the qualifications and none of the disqualifications to become a trustee.	• Certification under oath of the officer concerned that he/she possesses all the qualifications and none of the disqualifications to become an officer	
• For first-time trustees in a particular NSSLA as defined in Sec. 134-S:	• For first-time officers to be subject to Bangko Sentral confirmation in a particular NSSLA as defined in Sec. 134-S:	

[1] To be submitted within twenty (20) business days from date of election/re-election/appointment/promotion to the appropriate department of the FSS.
[2] Including those exempted from the required Bangko Sentral confirmation as provided in Sec. 134-S.
[3] E.g., treasurer, 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.
[5] Authorized signatory is the Chief Executive Officer 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 Trustees, as may be applicable. For those exempted from the required Bangko Sentral confirmation as provided in Sec. 134-S, submit statement that the institution has conducted a fit and proper test on the trustee/officer concerned.

a. Copy of certificate of attendance in Corporate Governance seminar

b. Certification under oath that the trustee has received copies of the general responsibility and specific duties and responsibilities of the board of trustees and of a trustee 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 trustee concerned

- For re-elected trustees, Secretary's Certificate on the attendance by the trustee concerned to the board meetings held for the last twelve (12) months covering the term of service, indicating percentage of attendance to board meetings

(Circular No. 1115 dated 23 April 2021)

a. Duly accomplished and notarized authorization form for querying the Bangko Sentral watchlist file from the officer concerned

- Brief description of his/her duties and responsibilities

- Brief description of his/her duties and responsibilities

GUIDELINES IN DETERMINING A "TRUE SALE" TRANSACTION UNDER THE FIST ACT

The transfer by a BSFI of its NPAs to a FISTC or an individual shall be considered not a True Sale if the BSFI satisfies any of the enumerated below:

(a) Has direct or indirect management of the transferee FISTC;

(b) Has any of its directors, officers or employees on the board of the transferee FISTC;

(c) Is obligated to repurchase or substitute/exchange the NPA or any part of the pool of NPAs at any time, except in cases of a breach of representation or warranty of the BSFI;

(d) Is a Related Interest, as defined under Rule 11 of the FIST IRR, of the transferee FISTC;

(e) Has legal and beneficial ownership of more than ten percent (10%) of the (a) total number of outstanding shares of stock entitled to vote in the election of directors, and (b) the total number of outstanding shares of stock, whether or not entitled to vote, of the transferee FISTC; or

(f) Accepts the transferred NPAs as the FISTC's collateral for any unpaid balance of the consideration of the transfer of said NPAs.

Unless otherwise determined by the Bangko Sentral, the following shall be presumed not a True Sale, if the BSFI:

(a) Is made the beneficiary of a trust used as a vehicle for purchasing and securitizing the NPAs; or

(b) Pays further expenses in relation to the NPAs after said NPAs have been sold/transferred to the transferee FISTC/individual;

(c) Extends, directly or indirectly, any credit facility, guaranty or any similar financial transaction to the transferee FISTC; or

(d) Extends any credit facility, guaranty or any similar financial transaction to any party for the purpose of investing in the equity or IUIs of the FISTC, or for acquiring the NPAs from the FISTC; or

(e) Extends any credit facility, guaranty or any similar financial transaction to any party for the purpose of acquiring the NPAs from the transferring FI; or

(f) Acts as trustee (BSFI's trust department) or if the trust department of any of the BSFI's subsidiaries/Affiliates, Parent bank or Parent bank's Subsidiaries/Affiliates acting as trustee, under any circumstances, in the securitization of NPAs that it has transferred to the FISTC; or

(g) Accepts as collateral for a loan extended by said BSFI the equity shares and IUIs of the FISTC that acquired its NPAs; or

(h) Enters into buy-back and other similar arrangements, or financial derivative transactions with similar effect, involving the NPAs or the securities backed by such NPAs; or

(i) Enters into any other transaction where the BSFI retains effective control over the transferred NPAs or shares in the losses of the FISTC; or

(j) Enters into a profit-sharing arrangement with a FISTC in relation to the sale/transfer of NPAs that will result in a sale/transfer transaction that does not meet the derecognition criteria under PFRS 9.

Provided: That, the extension of credit to an individual for the purpose of acquiring a single-family residential unit or an empty lot or ROPA or NPL secured by real estate mortgage on a residential unit or an empty lot shall be allowed and not considered a violation of the required "true sale" transaction.

For purposes of the foregoing, the term "any party" includes proxies, nominees, and voting trustees.

(Circular No. 1117 dated 27 May 2021)

MANUAL OF REGULATIONS FOR NON-BANK FINANCIAL INSTITUTIONS

P – REGULATIONS
(Regulations Governing Pawnshops)

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MANUAL OF REGULATIONS FOR NON-BANK FINANCIAL INSTITUTIONS

POWERS OF THE BANGKO SENTRAL

001-P EXAMINATION BY THE BANGKO SENTRAL

The head of the appropriate supervising department of the Bangko Sentral and his duly designated representatives are authorized to conduct an examination, inspection, or investigation of books, records, business affairs, administration, and financial condition of any pawnshop, whenever said official deems it necessary for the effective implementation of P.D. No. 114, and other pertinent rules and regulations. Said official and his duly designated representatives may administer oaths to any director, officer, or employee of the pawnshop.

If, upon such examination, inspection, or investigation, the official or his deputies shall establish that the pawnshop is violating or is not complying with the requirements of P.D. No. 114 and of the provisions of other pertinent rules and regulations, said official shall immediately inform the Monetary Board of his findings and recommendations, and the Monetary Board shall take appropriate action to stop such violation or non-compliance, and punish the pawnshop and/or the persons responsible.

Any business establishment which represents itself as a pawnshop and/or regularly grant loans against pawns/collaterals physically delivered to the establishment or is suspected to be a pawnshop or found to be operating as a pawnshop illegally shall be reported to the office of the city or municipal mayor where the establishment is located, for appropriate action, without prejudice to whatever legal action under Section 18 of P.D. No. 114 that may be taken against the owners and operators of the establishment.

Refusal to permit examination. Refusal to permit examination shall mean any act or omission which impedes, delays or obstructs the duly authorized Bangko Sentral officer/examiner/employee from conducting an examination or visitorial inspection, including the act of refusing to accept or honor a letter of authority to examine presented by any duly authorized officer/examiner/employee of the Bangko Sentral and the act of refusing to present pawnshop's records upon request.

(Circular Nos. 961 dated 02 June 2017 and 938 dated 23 December 2016)

002-P SUPERVISORY ENFORCEMENT POLICY

The Policy sets forth guidance on the Bangko Sentral's supervision-by-risk framework. It also puts together in a holistic manner all the enforcement tools available to the Bangko Sentral as contained in various laws and rules and regulations[1] and communicates the deployment thereof in a consistent manner by the Bangko Sentral in the course of performing its supervisory function. It further sets out the guiding principles and objectives behind the deployment of such enforcement actions.

Nothing in this Section shall be construed as superseding enforcement actions previously imposed against Bangko Sentral-supervised FIs pursuant to existing laws, Bangko Sentral rules and regulations.

a. ***Policy statement and rationale***

The Bangko Sentral is issuing this Supervisory Enforcement Policy to provide guidance on its supervision-by-risk framework. The Bangko Sentral recognizes that risk-taking is integral to a financial institution's business. The existence of risk is not necessarily a reason for concern so long as Management exhibits the ability to effectively manage that level of risk and operates the financial institution (FI) in a safe and sound manner. Thus, when risk is not properly managed, the Bangko Sentral may deploy a wide range of enforcement actions provided under existing laws, Bangko Sentral rules and regulations, taking into consideration the nature and extent of the supervisory issues and concerns and the level of cooperation provided by Management.

The Bangko Sentral adopts a holistic approach to supervision with the objective of guiding FIs under its supervision to mitigate risk and achieve the desired changes.

Bangko Sentral's risk-based supervision, of which enforcement action is a key part, focuses on the safety and soundness of operations of the FIs. This policy sets forth the expectations of the Bangko Sentral when it deploys enforcement action and the consequences when expected actions are not performed within prescribed timelines.

Thus, this over-arching policy is needed - (a) as a collation of various enforcement actions already present in various laws, rules and regulations; (b) for better guidance of the FIs and the bank supervisors; and (c) as a means to broadcast to the banking/financial industry the consequences of failure to address the Bangko Sentral requirements and supervisory expectations.

[1] Section 4 of R.A. No. 8791 (General Banking Law of 2000) defines the scope of Bangko Sentral's supervisory powers, which may be grouped into three categories: (i) issuance of rules; (ii) examination and investigation; and (iii) enforcement of Prompt Corrective Action (PCA)

b. ***Objectives of the enforcement policy***

The Bangko Sentral's Supervisory Enforcement Policy aims to achieve the following two (2) key objectives:

(1) Achieving the desired change. Effect a change in the overall condition and governance of Bangko Sentral-supervised FIs consistent with the expectations set under relevant laws and regulations; and

(2) Mitigating risk. Mitigate risks to the FIs and other stakeholders in order to maintain the stability of the financial system.

c. ***General principles***

The Bangko Sentral, in the deployment of enforcement actions, is guided by the following general principles:

(1) Root cause diagnosis. The enforcement action addresses the underlying cause of the supervisory issues and concerns.

(2) Consistently matching the severity of enforcement action to the supervisory issue. The deployment of appropriate enforcement action is commensurate to the severity of the supervisory issues and concerns. The severity of the supervisory issues and concerns is assessed in terms of *prevalence*[1] and *persistence*.

(3) Successive or simultaneous deployment of enforcement actions. Enforcement actions may be deployed successively or simultaneously taking into account the nature and seriousness of the difficulties encountered by the FIs and the ability and willingness of the FI's Management to address the supervisory issues and concerns.

(4) Monitorability and follow-through. The Bangko Sentral monitors the FI's progress/compliance with the expected actions to address the supervisory issues, concerns and problems.

(5) Escalation of enforcement actions. Enforcement actions may be escalated if the desired change is not achieved and the root causes of the FI's issues, concerns and problems are not addressed by the FI within prescribed timelines.

d. ***Categories of enforcement actions***

The three (3) main categories of enforcement action are: (1) corrective actions, (2) sanctions and (3) other supervisory actions. These enforcement actions may be imposed singly or in combination with others.

(1) Corrective actions

Corrective actions are enforcement actions intended to require the FI to address the underlying cause of supervisory issues, concerns and problems. These include the following:

(a) Bangko Sentral Directives

Directives are basically orders and instructions communicated by the appropriate supervising department in Bangko Sentral requiring the FI to undertake a specific positive action or refrain from performing a particular activity within a prescribed timeline.

(b) Letter of Commitment (LOC)

The LOC is an enforcement action where the FI's Board of Directors (Board) is required, upon approval and/or confirmation by the Monetary Board, to make a written commitment to undertake a specific positive action or refrain from performing a particular activity with a given time period.

The LOC is generally used to arrest emerging supervisory concerns before these develop into serious weaknesses or problems, or to address remaining supervisory issues and concerns.

(2) Sanctions

Sanctions that may be imposed on an FI and/or its directors and officers, as provided under existing laws, Bangko Sentral rules and regulations, are subject to the prior approval and/or confirmation by the Monetary Board. Such sanctions include the following:

(a) FIs

[1] Prevalence pertains to the pervasiveness of the supervisory issues, concerns and problems in relation to their impact on the FI's solvency, asset quality, operating performance and liquidity, among others.

- Restrictions on activities and privileges
- Suspension of authorities, privileges and other activities
- Divestment and/or unwinding
- Monetary sanction - penalties/fines against the FI

(b) Directors and officers

- Reprimand
- Restriction on compensation and benefits
- Divestment
- Suspension
- Disqualification
- Removal
- Monetary penalties/fines

The foregoing sanctions to individuals are without prejudice to the filing of separate civil or criminal actions against them, when appropriate.

(3) Other supervisory actions

Subject to prior Monetary Board approval, the Bangko Sentral, when warranted, may deploy other supervisory actions such as (a) initiation into the Prompt Corrective Action (PCA) Framework; (b) issuance of a cease and desist order (CDO) against the FI as well as its directors and officers; (c) conservatorship; and (d) placement under receivership.

e. ***Due process***

An integral part of the deployment of enforcement actions is the observance of due process in all cases.

The FI and/or its directors and officers are afforded fair and reasonable opportunity to explain their side and to submit evidence/s in support thereof, which are given due consideration in determining the appropriate enforcement action(s) to be imposed.

003-P MONETARY PENALTIES ON BSFIs, AND/ON THEIR TRUSTEES, OFFICERS AND/OR EMPLOYEES

The Bangko Sentral recognizes the need to impose monetary penalties as one of the possible administrative sanctions to hold BSFIs, and/or their trustees, officers and/or employees accountable for their conduct, deter future commission of violations, and achieve the overarching supervisory objectives of changed behavior and mitigated risks.

Pursuant to Section 37 of R.A. No. 7653, as amended, BSFIs, and/or their trustees, officers and/or employees may be imposed a maximum monetary penalty of ₱1 million for each transactional violation or ₱100 thousand per calendar day for violations of a continuing nature. In case profit is gained or loss is avoided as a result of a violation, the Bangko Sentral may also impose a fine of no more than three (3) times the profit gained or loss avoided.

To ensure fairness, consistency and reasonableness in the imposition of monetary penalties, the Bangko Sentral takes into consideration the attendant circumstances of each case, such as the nature and gravity of the violation or irregularity and the size of the financial institution, including other aggravating and mitigating factors. Further, in accordance with Sec. 002-P, the Bangko Sentral may impose monetary penalties, singly or in combination with non-monetary sanctions, if appropriate.

The guidelines on the imposition of monetary penalties for violations in which sanctions fall under Section 37 of R.A. No. 7653 (The New Central Bank Act), as amended, and other applicable laws are in *Appendix P-15.*

(Circular No. 1125 dated 20 August 2021)

PART ONE

PAWNSHOP BUSINESS - ORGANIZATION, MANAGEMENT AND ADMINISTRATION

A. ESTABLISHMENT AND ORGANIZATION OF PAWNSHOPS

101-P BASIC LAW GOVERNING PAWNSHOPS

P.D. No. 114, known as the Pawnshop Regulation Act, regulates the establishment and operation of pawnshops.

Scope of authority of pawnshops. A duly organized and licensed pawnshop has, in general, the power to engage in the business of lending money on the security of personal property within the framework and limitations of P.D. No. 114 and the following regulations, subject to the regulatory and supervisory powers of the Bangko Sentral.

Definition of terms.

a. *Pawnshop operator* shall refer to a person or a juridical entity authorized by the Bangko Sentral to engage in pawnshop business.

b. *Pawnshop business* shall refer to the business of lending money on personal property that is physically delivered to the control and possession of the pawnshop operator as loan collateral. The term shall be synonymous, and may be used interchangeably, with *pawnbroker* or *pawnbrokerage*.

c. *Pawnshop office* shall refer to the area where the pawning business is conducted.

d. *Pawner* shall refer to the borrower from a pawnshop.

e. *Pawnee* shall refer to the pawnshop or pawnbroker.

f. *Pawn* is the personal property delivered by the pawner to the pawnee as security for a loan.

g. *Pawn ticket* is the pawnbroker's receipt for a pawn.

h. *Property* shall include only such personal property which can be physically delivered to the control and possession of the pawnee.

(Circular Nos. 961 dated 02 June 2017 and 938 dated 23 December 2016)

102-P FORM OF ORGANIZATION

A pawnshop may be established as a single proprietorship, a partnership or corporation.

Only Filipino citizens may establish and own a pawnshop organized as a single proprietorship.

If a pawnshop is organized as a partnership, at least seventy percent (70%) of its capital shall be owned by Filipino citizens. Pawnshops established as partnerships prior to 29 January 1973, with non-Filipino partners whose aggregate holdings amount to more than thirty percent (30%) of the capital may retain the percentage of their aggregate holdings as of 29 January 1973, and said percentage shall not be increased, but may be reduced, and once reduced shall not be increased thereafter beyond thirty percent (30%) of the capital stock of such pawnshop.

In the case of a pawnshop organized as a corporation, at least seventy percent (70%) of the voting stock therein shall be owned by citizens of the Philippines, or if there be no capital stock, at least seventy percent (70%) of the members entitled to vote shall be citizens of the Philippines.

Pawnshops registered as a corporation with foreign equity participation in excess of thirty percent (30%) of the voting stock, or members entitled to vote, of the pawnshop may retain the percentage of foreign equity as of 29 January 1973, and said percentage shall not be increased, but may be reduced and once reduced, shall not be increased thereafter beyond thirty percent (30%) of the voting stock, or number of members entitled to vote, of such pawnshop.

The percentage of foreign-owned voting stock in a pawnshop corporation shall be determined by the citizenship of its individual stockholders. If the voting stock in a pawnshop corporation is held by another corporation, the percentage of foreign ownership in that pawnshop, shall be computed on the basis of the foreign citizenship of the individuals owning voting stocks in, or members entitled to vote of, the stockholder corporation.

(Circular No. 938 dated 23 December 2016)

103-P AUTHORITY TO OPERATE FROM THE BANGKO SENTRAL

Pursuant to Section 6 of P.D. No. 114, an operator securing Bangko Sentral's Authority to Operate a pawnshop business shall file an application with the appropriate supervising department of the Bangko Sentral. The application shall be signed by the proprietor/managing partner/president or officer of equivalent rank and shall be accompanied by the documents listed in *Appendix P-1*.

In considering the application to operate a pawnshop business, the Bangko Sentral shall take into account the fitness and propriety of the pawnshop operator and/or its incorporators/directors/trustees/partners/officers. In determining whether a person is fit and proper to be an operator of a pawnshop business, regard shall be given to the following: integrity/probity, market reputation, competence, and financial capacity.

Classification of pawnshop operator license. The following are the powers and scope of authorities of pawnshop operators, depending on the type of license issued by the Bangko Sentral:

Type	Description
"A"	Pawnshop business with not more than ten (10) offices.
"B"	a. Pawnshop business with more than ten (10) offices; or b. Pawnshop business with money changing/foreign exchange dealing
"C"	Pawnshop business with corollary remittance activity requiring Bangko Sentral registration, with or without money changing/foreign exchange dealing.
"D"	Virtual pawnshop operators or those engaged in pawnshop business through electronic pawning (e-pawning) which refer to systems and processes that enable customers to pawn their personal property through electronic channels.

The Bangko Sentral shall not issue the *"B"*, *"C"* and *"D"* pawnshop operator licenses to single-proprietorship or partnership form of pawnshop operators.

All pawnshop businesses are allowed to act as Remittance Sub-Agents as defined in Sec. 901-N (*Definition of terms*).

Mandatory training requirement. The proprietors[1], partners, directors , president or officer of equivalent rank and function, and over-all head of the pawnshop operation and the head of the compliance unit shall attend, before the start of operations, a seminar on AML/combating the financing of terrorism (CFT) laws, rules and regulations, conducted by the Bangko Sentral, AMLC, or any reputable training provider[2].

Corporate governance. A pawnshop operator organized as a corporation shall comply with the SEC requirements on corporate governance, if applicable, and as proof of compliance, the said corporate pawnshop operator shall submit to the Bangko Sentral a notarized certification to that effect.

Filing/licensing fees. An operator securing Bangko Sentral's Authority to Operate a pawnshop business shall pay a filing fee of P1,000.00 upon filing of an application and is non-refundable.

Upon approval of the application, as the case may be, the following licensing fee, depending on the type of license being applied for, shall be charged:

License	Fee
"A"	₱5,000
"B"	₱25,000
"C"	₱50,000
"D"	₱50,000

The amount of licensing fee to be assessed to the applicant shall be net of the filing fee paid.

The Bangko Sentral reserves the right to collect other reasonable fees/charges to cover the cost of processing the applications of pawnshops.

(Circular Nos. 1039 dated 3 May 2019, 961 dated 02 June 2017, and 938 dated 23 December 2016)

[1] Refer to owner of single proprietorship pawnshops

[2] Refers to an entity which has an adequate track record of successfully conducting training programs preferably on financial institution-oriented courses, including AML/CFT training. For this purpose, the Pawnshop shall be responsible in ascertaining whether the training provider is reputable as herein defined.

104-P REGISTRATION WITH THE CITY/MUNICIPALITY

The pawnshop operator shall secure a business permit from the city or municipality wherein a pawnshop office is to be established and operated, in accordance with the requirements of the pertinent ordinance in that city or municipality.

***Notification*.** A pawnshop operator is allowed to establish and operate more than one (1) pawnshop office: *Provided, however,* That it shall be the responsibility of the pawnshop operator to notify the appropriate supervising department of the Bangko Sentral regarding new pawnshop office/s operated during the month within five (5) working days from end of the reference month.

Such notification shall include the exact address of the pawnshop office and the starting date of its actual operations and must be signed by the proprietor/managing partner/president or an officer of equivalent rank and function.

(Circular Nos. 1039 dated 3 May 2018, 961 dated 02 June 2017, and 938 dated 23 December 2016)

105-P REGISTERED/BUSINESS NAME

No person or entity shall advertise, use signage or hold itself out as being engaged in the business of a pawnshop or use in its business name the words "pawnshop", "pawnbrokerage", or words of similar import, or transact in any manner the business of a pawnshop unless so authorized to operate as such by the Bangko Sentral.

Change of registered/business name. A pawnshop shall not change its registered/business name without submitting the following documents to the appropriate supervising department of the Bangko Sentral within ten (10) working days before effecting such change:

a. Certificate of Registration from DTI or SEC, as the case may be, indicating the new registered/business name; and
b. Original Bangko Sentral Authority to Operate issued under the old name.

A new Bangko Sentral Authority to Operate shall be issued indicating the new registered/business name of the pawnshop.

The metal plate/s issued by the Bangko Sentral to the pawnshop under its original name shall be surrendered for the issuance of new metal plate/s indicating the new registered/business name. The Bangko Sentral reserves the right to collect a reasonable amount to cover the cost of production/issuance of the metal plate/s.

Use of registered/business name in signage, pawn tickets and other forms. The following guidelines shall be observed with respect to the use of the registered/business name in the signage, pawn ticket and other forms of a pawnshop:

a. As a general rule, the registered name appearing in the Certificate of Registration from the DTI or SEC, as the case may be, shall be used consistently in the pawnshop's signage and in all documents including pawn tickets, official receipts, stationery and other similar documents of the pawnshop.

b. A pawnshop that uses or will use a name that is different from its registered name or that uses or will use a name already registered and being used by another pawnshop shall indicate parenthetically under such name, the registered name of the pawnshop with the DTI or SEC, as the case may be, with the words *"owned and operated by"* before the registered name in the pawnshop's pawn tickets, official receipts, stationery and other similar documents.

c. A pawnshop that is a subsidiary or affiliate of another pawnshop shall likewise indicate such relationship in the pawn tickets, official receipts, stationery and other similar documents.

   A *subsidiary* is a corporation more than fifty percent (50%) of the voting stock of which is owned by another corporation; while an *affiliate* is a corporation less than fifty percent (50%) of the voting stock of which is owned by another corporation.

d. The exact address of the pawnshop shall be indicated consistently in all pawnshop documents (e.g., pawn tickets, official receipts, stationery and other similar documents) and in the business permit issued by the city or municipality.

(Circular No. 974 dated 29 September 2017 and 961 dated 02 June 2017, M-2017-003 dated 27 January 2017, and Circular No. 938 dated 23 December 2016)

106-P COMMENCEMENT OF PAWNSHOP OPERATIONS

A pawnshop operator shall commence actual pawnshop business operations within six (6) months from the date of issuance of the Authority to Operate. Failure to commence actual pawnshop business operations within the aforementioned six (6)-month period shall render the Bangko Sentral Authority to Operate as automatically cancelled.

The pawnshop operator shall notify the Bangko Sentral in writing of the start of operations within five (5) business days from the actual start of operations.

(Circular Nos. 961 dated 02 June 2017 and 938 dated 23 December 2016)

107-P BUSINESS DAYS AND HOURS

Pawnshops shall be open for business at least five (5) days a week and for at least six (6) hours a day. The business hours and business days shall be posted conspicuously at all times within the premises of the pawnshop.

(Circular Nos. 961 dated 02 June 2017 and 938 dated 23 December 2016)

108-P TRANSFER/RELOCATION/CLOSURE OF PAWNSHOP OFFICE

Consistent with the requirements stated in Section 16 of P.D. No. 114, no pawnshop shall transfer or relocate its place of business within three (3) months following the maturity of any loan or pledge, or before any pawn shall have been sold or disposed of as provided under P.D. No. 114 and these regulations. The requirement for the publication of notice mandated under the same section of P.D. No. 114 shall be strictly observed for such transfer/relocation of the pawnshop's place of business.

A notice of transfer shall be submitted to the appropriate supervising department of the Bangko Sentral within five (5) working days after the effectivity of such transfer. The metal plate issued for the transferred/relocated pawnshop office shall also be surrendered to the Bangko Sentral for the issuance of a new metal plate. The Bangko Sentral reserves the right to collect a reasonable amount to cover the cost of production/issuance of said metal plate.

Voluntary Closure of a Pawnshop Office. Voluntary closure of a pawnshop office may be effected only after compliance with the requirements under Section 16 of P.D. No. 114.

A notice of closure of pawnshop office shall be submitted to the appropriate supervising department of the Bangko Sentral within five (5) working days after the effectivity of such closure. The metal plate issued to such pawnshop office shall also be surrendered to the Bangko Sentral.

(Circular Nos. 961 dated 02 June 2017 and 938 dated 23 December 2016)

B. SPECIAL AUTHORITIES

111-P LICENSING

Consistent with the mandate of the Bangko Sentral to promote a safe and sound banking system, the licensing process on permissible activities of BSFI is enhanced to align the process with international standards and best practices such as the "Core Principles for Effective Supervision" issued by the Basel Committee on Banking Supervision. The Bangko Sentral will not restrict the scope of risk-taking activities of BSFIs consequent of the licenses and/or authorities granted: *Provided,* That these licenses and/or authorities are in line with their business model and strategic direction: *Provided, further,* That these BSFIs demonstrate the capacity to implement these strategies and the ability to manage risks.

The enhanced policy guidelines set forth the expectations and criteria of the Bangko Sentral with respect to granting of licenses and authorities as well as its right to reject applications if the criteria set forth are not met by the applicant BSFIs ("applicants") or if the information provided is not adequate. The Bangko Sentral also reserves the right to withdraw or revoke the license and/or authority or enforce appropriate actions when an institution no longer meets the criteria or standards required to be met for the exercise of the license and/or authority.

These criteria are intended to incorporate the licensing process into Bangko Sentral's enforcement regime that is anchored on good governance, sound risk management system and effective control systems. Further, these criteria aim to provide more consistency on how the risk-focused supervision function is applied to the licensing process. This enhanced licensing policy aims to ensure that licenses and authorities are granted only to applicants that comply with the standards set.

It is also the thrust of these enhanced policy guidelines on granting licenses/authorities to establish Bangko Sentral's accountability and promote transparency on the licensing process which are consistent with its commitment to deliver prompt and efficient service.

Scope. Applications for licenses and/or authorities shall be categorized as follows:

a. *Type "A"* - applications for licenses and/or authorities where compliance with the defined prudential requirements/criteria described in this Section is a pre-condition for applicants to be considered eligible;

b. *Type "B"* - applications for licenses and/or authorities processed regardless of risk profile; and

c. *Type "C"* - activities which no longer require submission of applications and processing but shall be subject to submission of reports/certification/notification within stated deadlines. However, compliance with pre-qualification requirements is subject to post verification and any false information and/or misrepresentation may be a basis for the imposition of appropriate enforcement actions described in this Section. The Bangko Sentral shall use this information to continuously tailor its supervisory strategy for the supervised entities and to maintain and continuously update its institutional database.

Prudential criteria. The prudential criteria set forth in this Subsection shall be used in determining the eligibility of applicants to the licenses and/or authorities granted by the Bangko Sentral. Accordingly, the following minimum conditions must be met:

a. Applicant domestic banks must have a CAMELS composite rating of at least "3" and a *"Management"* rating of not lower than "3", branches of foreign banks must have a ROCA rating of at least "3", and BSFIs must have a RAS rating of at least *"Acceptable"*. Whenever applicable, ratings equivalent to cited minimum rating grade requirements under appropriate rating systems (i.e., IT Rating Systems, Trust Rating Systems, among others) shall apply for certain licenses and/or authorities;

b. Applicants have no major supervisory concerns in governance, risk management systems, and internal controls and compliance system, and characterize/demonstrate the following:

(1) Governance

Applicants must display a culture of good corporate governance appropriate to its size, risk profile and complexity of operations. Board of directors and management, in their respective roles, provide an appropriate level and quality of oversight and support to all of the institution's activities. Sound management practices are observed and demonstrated through (a) active oversight and satisfactory performance by the board of directors and senior management, (b) appropriate policies, processes, and controls relative to the institution's size, complexity and risk profile, (c) maintenance of an independent and effective internal audit and compliance program as well as a sound internal control environment, and (d) effective risk monitoring and management information systems.

Applicants should not be found engaging in an activity which may be considered as conducting business in an unsafe and unsound manner. In cases where weaknesses, violations of law, policy and/or regulation exists, other than those considered unsafe or unsound practices, these should not be material to the safety and soundness of the institution, can be reasonably managed, and are being adequately addressed.

Quality of corporate governance shall be assessed based on the principles and framework set forth in the Guidelines in Assessing the Quality of Corporate Governance in BSFIs;

(2) Risk management system and internal controls

Applicants shall have a comprehensive risk management system approved by its board of directors (or equivalent management committee in the case of foreign bank branches) to identify, measure, evaluate, report and control or mitigate all material risks on a timely basis and to assess the adequacy of their capital in relation to their risk profile and market and macroeconomic conditions and whose sophistication are commensurate to the risks being monitored and controlled. The risk management system must be characterized by a clear delineation of responsibility for risk management, adequate risk measurement systems, appropriate risk limits structure, effective internal controls and complete, timely and efficient risk reporting systems.

Likewise, applicants shall have an effective and adequate system of internal controls for the conduct of their business taking into account their risk profile. These controls deal with organizational structure, accounting policies and processes, checks and balances, safeguarding of assets and investments and appropriate and effective internal audit and compliance functions. Standards and principles as well as the Bangko Sentral's expectations governing internal controls and audit under existing regulations shall apply in assessing the quality and effectiveness of the internal control systems of an applicant; and

(3) Compliance system

Applicants shall have a compliance system, appropriate to its size, risk profile and complexity of operations, designed to specifically identify and mitigate business risks[1] which may erode the franchise value of the institution. Compliance policies and procedures embodied in a Compliance Policy Manual should be sound and effectively implemented. Likewise, compliance monitoring and testing as well as review process should be robust to ensure BSFI conducts its business/operations in accordance with banking laws, rules and

[1] As defined under Sec. 161-Q, *business risk* refers to conditions which may be detrimental to the institution's business model and its ability to generate returns from operations, which in turn erodes its franchise value. Business risk includes reputation, compliance, market conduct and legal risks.

regulations and other laws relevant to banking such as securities laws and regulations. BSFI's should not have been found significantly non-compliant with prudential requirements such as SBL, DOSRI limits, capital adequacy ratio requirements, among others.

Standards and principles set forth in the Compliance Rating System framework shall apply in assessing the quality of BSFI's compliance system; and

c. Applicants have complied with directives and/or are not subject of specific directives and/or enforcement actions by the Bangko Sentral.

Applicants shall have corrected any findings of unsafe or unsound practices and have addressed any outstanding explicit directives from the Bangko Sentral and/or other relevant regulatory bodies, prohibiting the conduct of activities related to the licenses and/or authorities being applied, as of the date of application. Applicants with specific prohibitions to conduct certain activities shall not be eligible to apply for that particular license and/or authority.

No application shall be accepted until such time that enforcement actions are formally lifted by the Bangko Sentral and/or other relevant regulatory bodies after applicants have demonstrated to the Bangko Sentral that safety and soundness concerns are satisfactorily addressed and/or until such time applicants become eligible.

Applications of BSFIs under rehabilitation and/or enhanced supervision status[1] shall be dealt with in accordance with the eligibility test described in Sec. II.1(a) of *Appendix P-5*.

BSFIs granted with licenses/authorities shall continuously comply with the abovementioned standards and requirements even after the license/authority has been granted; otherwise, any deviation or non- compliance may be a basis for the imposition of appropriate enforcement actions described in this Section.

The specific guidelines and procedures on the Bangko Sentral's licensing framework are shown in *Appendix P-5.*

Enforcement actions. In line with the thrust of the Bangko Sentral to incorporate the licensing process into its enforcement regime, the Bangko Sentral reserves the right to deploy, as may be warranted, an adequate range of supervisory tools to ensure that grantees of licenses/authorities are and remain qualified to possess the same, bring about timely corrective actions and compliance to Bangko Sentral directives, and provide safety to depositors, creditors, other stakeholders as well as the public in general.

Enforcement actions that may be imposed include, but are not limited to:

a. Corrective action

Corrective actions are measures intended to primarily require BSFIs with approved licenses/authorities to rectify any deviations from the standards, principles and conditions expected for the exercise of the license and/or authority. Corrective actions may include, but are not limited to, issuance of directives and warnings.

b. Sanctions

The Monetary Board may impose any of the sanctions enumerated hereunder or a combination thereof.

(1) Non-monetary

(a) *Suspension of activities.* The conduct of activities related to the licenses/authorities granted may be suspended if the Bangko Sentral determines that the concerned BSFI no longer meets the criteria or standards set; or

(b) *Revocation of licenses/authorities.* The license/authority granted may be revoked in cases where violation, non-compliance with criteria/standards and/or false information are noted which affects the safety and soundness of BSFIs' operations; and/or

(c) *Administrative sanctions.* The responsible directors/officers who approve transactions and/or decisions that resulted in violations of laws, rules and regulations, orders, and directives issued by the Monetary Board or the Governor may be subject to reprimand, temporary suspension, and/or disqualification of directors/officers.

[1] Rehabilitation includes BSFIs under the Prompt Corrective Action (PCA), Rehabilitation Program, Letter of Commitment and any other similar cases where BSFIs are expected to comply specific terms and conditions to restore eligibility (safety and sound) status.

The Monetary Board is not precluded to impose non-monetary sanctions other than those identified from Items *"(a)"* to *"(c)"*; and/or

(2) Monetary

Monetary penalties may be imposed for any acts, omissions or transactions that are outside the permissible activities of the licenses/authorities granted or are in violation of laws, Bangko Sentral rules and regulations, orders and directives issued by the Bangko Sentral.

Type of license of permissible activities[1]. The type of license attached to permissible activities of Bangko Sentral supervised financial institutions (BSFIs) shall be as follows:

Type of License	Permissible Activity	Related Sections
A		
B		
C	Outsourcing/Insourcing of Banking Functions	Sec. 112-P

Processing and Licensing Fees. All applications shall be charged with the following processing fees pursuant to Section II.3.i of *Appendix P-5*:

Type of License/ Authority	Processing Fees for Non-Bank Financial Institutions
A	10,000
B	10,000

Certain Type A licenses shall be charged with the following licensing fees upon approval pursuant to Section II.3.ii of *Appendix P-5*:

Type of License/ Authority	Licensing Fees* for Non-Bank Financial Institutions
A	50,000

*Licensing fee shall be net of the processing fee.

The foregoing tables shall not apply to licensing applications with separate fee structure under specific sections of this Manual.

(Circular No. 1031 dated 07 February 2019, and 947 dated 15 February 2017)

112-P GUIDELINES ON OUTSOURCING

The rules on outsourcing of banking functions as shown in Sec. 112 (*Statement of Principle on outsourcing*) of the MORB and *Appendix Q-36* shall be adopted insofar as they are applicable to pawnshops.

(Circular No. 1031 dated 07 February 2019 and 938 dated 23 December 2016)

113-P ENGAGING IN COROLLARY BUSINESS ACTIVITIES

A pawnshop may engage in corollary businesses as may be registered with Bangko Sentral: *Provided,* That such pawnshop shall maintain records of such business that allows distinction from the pawnshop operation.

Allowable corollary business activities of pawnshops shall include money changing and/or performing as remittance agent, as may be registered with the Bangko Sentral. Pawnshops may also engage in other business activities such as acting as bills payment agent for utility companies and other entities, ticketing agent for airline companies, and other similar business activities: *Provided,* That the appropriate supervising department of the Bangko Sentral shall be notified within five (5) working days from the date of actual engagement of the pawnshop in such business activity.

(Circular Nos. 961 dated 02 June 2017 and 938 dated 23 December 2016)

[1] Applications filed with the Bangko Sentral prior to 6 March 2019 shall not be charged with processing and licensing fees provided under Sec. 111-Q (*Processing and licensing fees*). For application related to branching activities covered under Sec. 105 (*Processing and special licensing fees*), as amended, approved after 6 March 2019, the processing fees provided under the said Section, as amended, shall be collected upon approval of the application. Applications for Type C licenses received prior to 6 March 2019 shall be deemed to have complied with the notification/certification requirements if after thirty (30) banking days from 6 March 2019, the appropriate supervising department of the FSS does not advise the BSFI concerned of any deficiency on such application.

114-P ELECTRONIC PAYMENT AND FINANCIAL SERVICES

The guidelines concerning electronic payment and financial services as may be applicable, as found in Sec. 701-Q, shall be adopted by pawnshops.

Requirements for the grant of authority to offer EPFS. Pursuant to Sec. 111-P on the Bangko Sentral Policy and Regulations on Licensing, BSFIs that intend to offer EPFS shall obtain the appropriate authority/license, as follows:

Classification	Category of License/Authority
Advanced EPFS	Type A[1]/B[2]
Basic EPFS	Type C

BSFIs shall observe the "Guidelines on Licensing of Electronic Payment and Financial Services" shown in *Appendix Q-89*.

Reportorial Requirements. BSFIs shall provide the Bangko Sentral with the required data and updates on their EPFS.

a. *Required Reports.* The following reports shall be submitted to the appropriate supervising department of the Bangko Sentral in the manner prescribed under *Appendix P-7:*

   (1) EPFS Transactions and Indicators; and
   (2) Changes and Enhancements in EPFS

b. *Sanctions*. Failure to comply with the reportorial requirements shall subject the concerned BSFI to applicable sanctions for "Erroneous/Delayed/Erroneous and Delayed/Unsubmitted reports" as prescribed under Sec. 161-P.

Enforcement action. Failure to comply with the provisions of this Section shall cause the concerned BSFI to be subject to enforcement action in accordance with Sec.111-P (*Enforcement actions*).

(Circular No. 1033 dated 22 February 2019, 961 dated 02 June 2017, and 938 dated 23 December 2016)

C. CAPITALIZATION

121-P MINIMUM PAID-IN CAPITAL OF PAWNSHOPS

Every pawnshop operator shall have a minimum paid-in capital in cash as follows:

Type of License	Amount of Capital
"A"	₱100,000
"B"	1,000,000
"C"	50,000,000
"D"	50,000,000

Capital build-up program. Pawnshops established and operating prior to 28 January 2017 shall comply with the minimum capitalization and borrowing limits prescribed under this Section and Sec. 201-P. Any pawnshop that does not meet these requirements shall submit an acceptable plan of compliance, for a period not to exceed one (1) year from date of submission, to the Bangko Sentral along with the application for an Authority to Operate under Sec. 103-P within six (6) months from 28 January 2017. Any delay in the submission of such plan shall be subject to appropriate sanctions.

(Circular Nos. 961 dated 02 June 2017 and 938 dated 23 December 2016)

122-P TRANSFER OF OWNERSHIP

No pawnshop operator organized as sole proprietorship shall transfer ownership over the pawnshop business without securing prior Bangko Sentral approval. The pawnshop operator shall file the documents listed in *Appendix P-2* before transferring the ownership of the pawnshop business.

The owners/stockholders of a pawnshop operator organized as a partnership or corporation may transfer the ownership of the pawnshop business to another. However, a copy of the contract/agreement/arrangement shall be submitted to the appropriate supervising department of the Bangko Sentral before effecting the transfer if such transaction, in itself or in relation with other/previous transactions, will:

[1] This applies to BSFIs that *can* be assessed against the prudential criteria provided in the Policy and Regulations on Licensing. These applicants must have been examined by the Bangko Sentral.

[2] This applies to proponents that *cannot* be assessed against the prudential criteria provided in the Policy and Regulations on Licensing. These include newly-established BSFIs and new applicants for an authority to operate as "Electronic Money Issuer-Others".

a. result in ownership or control of more than twenty percent (20%) interest in a pawnshop organized as a partnership or more than twenty percent (20%) of the voting shares of stock of a pawnshop organized as a corporation by any person whether natural or juridical, or which will enable such person to elect, or be elected as, a director of such pawnshop; or

b. effect a change in the majority ownership or control of the interests in a pawnshop organized as a partnership or the voting shares of stock of the pawnshop organized as a corporation from one (1) group of persons to another group.

(Circular No. 938 dated 23 December 2016)

D. CORPORATE GOVERNANCE

131-P DEFINITIONS, QUALIFICATIONS, AND DUTIES AND RESPONSIBILITIES OF PROPRIETOR/PARTNERS/ DIRECTORS/OFFICERS

The following shall be the definitions and qualifications, duties and responsibilities of proprietor/partners/directors/officers.

Definitions.

a. *Proprietor* is the person who owns the pawnshop business and named as such in the Certificate of Registration issued by the DTI and in the business permit issued by the city/municipality where the pawnshop business is established or operating.

b. *Partners* are the persons named in the articles of partnership.

c. *Incorporators* are those mentioned as such in the articles of incorporation as originally forming and composing the corporation and who are signatories thereof.

d. *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 pawnshop's stockholders; and
(3) those elected to fill vacancies in the board of directors.

The number of members of the board of directors, pursuant to Section 10 of Batas Pambansa No. 68, shall be at least five (5), and a maximum of fifteen (15) directors.

e. *Officers/Managers* - are those persons whose duties as such are defined in the by-laws (for corporations) or those who are generally known to be the officers of the pawnshop either thru announcement, representation, publication or any kind of communication made by the pawnshop. The term officer shall include, but not limited to the following: the proprietor, managing partner, president, and manager or officer-in-charge of head office or branch.

General qualifications. Any person can be a proprietor, partner, or director, president or officer of equivalent rank and function, and over-all head of the pawnshop operation and the head of the compliance unit of pawnshops provided he/she:

a. Must have complied with the AML/CFT training as prescribed under Sec. 103-P (*Mandatory training requirements*); and
b. Must not be included in the Bangko Sentral Watchlist Files.

An NBI clearance shall also be required for any newly accepted/elected/appointed partner, director, president or officer of equivalent rank and function, and over-all head of the pawnshop operation and the head of the compliance unit of pawnshop.

(Circular Nos. 1039 dated 3 May 2019, 974 dated 29 September 2017, 961 dated 02 June 2017, M-2017-003 dated 27 January 2017, and Circular No. 938 dated 23 December 2016)

132-P DISQUALIFICATION AND WATCHLISTING OF DIRECTORS AND OFFICERS

The following regulations shall govern the disqualification of pawnshop directors and officers.

Persons disqualified from becoming directors. Without prejudice to specific provisions of law prescribing disqualifications for directors/trustees, the following are disqualified from becoming directors of pawnshops:

a. *Permanently disqualified.*

Directors/trustees/officers/employees permanently disqualified by the Monetary Board from holding a director position:

(1) Persons who have been convicted by final judgment of a court for offenses involving dishonesty or breach of trust such as, but not limited to, estafa, embezzlement, extortion, forgery, malversation, swindling, theft, robbery, falsification, bribery, violation of B.P. Blg. 22, violation of Anti-Graft and Corrupt Practices Act and Prohibited Acts and Transactions under Section 7 of R.A. No. 6713 (Code of Conduct and Ethical Standards for Public Officials and Employees);

(2) Persons who have been convicted by final judgment of the court sentencing them to serve a maximum term of imprisonment of more than six (6) years;

(3) Persons who have been convicted by final judgment of the court for violation of banking laws, rules and regulations;

(4) Persons who have been judicially declared insolvent, spendthrift or incapacitated to contract;

(5) Directors, officers or employees of closed BSFIs who were found to be culpable for such institution's closure as determined by the Monetary Board;

(6) Directors and officers of BSFIs found by the Monetary Board as administratively liable for violation of banking or other relevant laws, rules and regulations where a penalty of removal from office is imposed, and which finding of the Monetary Board has become final and executory; or

(7) Directors and officers of BSFIs or any person found by the Monetary Board to be unfit for the position of director or officer because they were found administratively liable by another government agency for violation of banking or other relevant laws, rules and regulations or any offense/violation involving dishonesty or breach of trust, and which finding of said government agency has become final and executory.

b. *Temporarily disqualified.*

Directors/officers/employees disqualified by the Monetary Board from holding a director/trustee position for a specific/indefinite period of time. Included are:

(1) Persons who refuse to fully disclose the extent of their business interest or any material information to the appropriate supervising department of the Bangko Sentral when required pursuant to a provision of law or of a circular, memorandum or rule or regulation of the Bangko Sentral. This disqualification shall be in effect as long as the refusal persists;

(2) Directors who have been absent or who have not participated for whatever reasons in more than fifty percent (50%) of all meetings, both regular and special, of the board of directors during their incumbency, or any twelve (12)-month period during said incumbency. This disqualification applies only for purposes of the immediately succeeding election;

(3) Persons who are delinquent in the payment of their obligations as defined hereunder:

(a) *Delinquency in the payment of obligations* means that an obligation of a person with the institution where he/she is a director or officer, or at least two (2) obligations with other FIs, under different credit lines or loan contracts, are past due pursuant to Secs. 304 *(Past Due Account and Non-Performing Loans),* Sec. 303-Q (Section deleted), 309-S *(Past Due Accounts and Non-Performing Loans)* and 304-P *(Past Due Accounts; Renewal)*;

(b) *Obligations* shall include all borrowings from any FI obtained by:

(i) A director/trustee or officer for his own account or as representative or agent of others or where he/she acts as guarantor, endorser or surety for loans from such FIs;
(ii) The spouse or child under the parental authority of the director/trustee or officer;
(iii) Any person whose borrowings or loan proceeds were credited to the account of, or used for the benefit of a director/trustee or officer;
(iv) A partnership of which a director/trustee or officer, or his/her spouse is the managing partner or a general partner owning a controlling interest in the partnership; and
(v) A corporation, association or firm wholly-owned or majority of the capital of which is owned by any or a group of persons mentioned in the foregoing Items *"(i)", "(ii)"* and *"(iv)"*.

This disqualification shall be in effect as long as the delinquency persists.

(4) Persons who have been convicted by a court for offenses involving dishonesty or breach of trust such as, but not limited to, estafa, embezzlement, extortion, forgery, malversation, swindling, theft, robbery, falsification, bribery, violation of B.P. Blg. 22, violation of Anti-Graft and Corrupt Practices Act and Prohibited Acts and Transactions under Section 7 of R.A. No. 6713 (Code of Conduct and Ethical Standards for Public Officials and Employees), violation of banking laws, rules and regulations or those sentenced to serve a maximum term of imprisonment of more than six (6) years but whose conviction has not yet become final and executory;

(5) Directors/trustees and officers of closed institutions under the supervisory and regulatory powers of the Bangko Sentral pending their clearance by the Monetary Board;

(6) Directors/trustees disqualified for failure to observe/discharge their duties and responsibilities prescribed under existing regulations. This disqualification applies until the lapse of the specific period of disqualification or upon approval by the Monetary Board or the appropriate supervising department of the Bangko Sentral of such directors'/trustees' election/reelection;

(7) Persons dismissed/terminated from employment in the institutions under the supervision of the Bangko Sentral. This disqualification shall be in effect until they have been cleared themselves of involvement in the alleged irregularity or upon clearance, on their request, from the Monetary Board after showing good and justifiable reasons;

(8) Those under preventive suspension;

(9) Persons with derogatory records as certified by, or on the official files of, the judiciary, NBI, PNP, quasi-judicial bodies, other government agencies, international police, monetary authorities and similar agencies or authorities of foreign countries for irregularities or violations of any law, rules and regulations that would adversely affect the integrity of the director/officer or the ability to effectively discharge his duties. This disqualification applies until they have cleared themselves of the alleged irregularities/violations or after a lapse of five (5) years from the time the complaint, which was the basis of the derogatory record, was initiated;

(10) Directors and officers of BSFIs found by the Monetary Board as administratively liable for violation of banking or other relevant laws, rules and regulations where a penalty of removal from office is imposed, and which finding of the Monetary Board is pending appeal before the appellate court, unless execution or enforcement thereof is restrained by the court;

(11) Directors and officers of BSFIs or any person found by the Monetary Board to be unfit for the position of director or officer because they were found administratively liable by another government agency for violation of banking or other relevant laws, rules and regulations, or any offense/violation involving dishonesty or breach of trust, and which finding of said government agency is pending appeal before the appellate court, unless execution or enforcement thereof is restrained by the court; or

(12) Directors and officers of BSFIs found by the Monetary Board as administratively liable for violation of banking or other relevant laws, rules and regulations where a penalty of suspension from office or fine is imposed, regardless whether the finding of the Monetary Board is final and executory or pending appeal before the appellate court, unless execution or enforcement thereof is restrained by the court. The disqualification shall be in effect during the period of suspension or so long as the fine is not fully paid.

Persons disqualified from becoming officers.

a. The disqualifications for directors mentioned in this Section shall likewise apply to officers, except those stated in Item "*b.(2)*".

b. Except as may be authorized by the Monetary Board or the Governor, the spouse or a relative within the second degree of consanguinity or affinity of any person holding the position of chairman, president, executive vice president or any position of equivalent rank, general manager, treasurer, chief cashier or chief accountant is disqualified from holding or being elected or appointed to any of said positions in the same pawnshop and the spouse or relative within the second degree of consanguinity or affinity of any person holding the position of manager, cashier, or accountant of a branch or office of a pawnshop is disqualified from holding or being appointed to any of said positions in the same branch or office.

Disqualification procedures.

a. The board of directors/trustees and management of every pawnshop shall be responsible for determining the existence of the ground for disqualification of the pawnshop's directors/trustees/officer or employee and for reporting the same to the Bangko Sentral. While the concerned pawnshop may conduct its own investigation and impose appropriate sanction/s as are allowable, this shall be without prejudice to the authority of the Monetary Board to disqualify a pawnshop director/trustee/officer/employee from being elected/appointed as director/trustee/officer in any FI under the supervision of the Bangko Sentral. Grounds for disqualification made known to the institution shall be reported to the appropriate supervising department of the Bangko Sentral within seventy-two (72) hours from knowledge thereof.

b. On the basis of knowledge and evidence on the existence of any of the grounds for disqualification mentioned in this Section, the director or officer concerned shall be notified in writing either by personal service or through registered mail with registry return receipt card at his/her last known address by the appropriate supervising department of the Bangko Sentral of the existence of the ground for his/her disqualification and shall be allowed to submit within fifteen (15) calendar days from receipt of such notice an explanation on why he/she should not be disqualified and included in the watchlisted file, together with the evidence in support of his/her position. The head of said department may allow an extension on meritorious ground.

c. Upon receipt of the reply/explanation of the director/trustee/officer concerned, the appropriate supervising department of the Bangko Sentral shall proceed to evaluate the case. The director/trustee/officer concerned shall be afforded time/period to defend/clear himself/herself.

d. If no reply has been received from the director/trustee/officer concerned upon the expiration of the period prescribed under Item "*b*" above, said failure to reply shall be deemed a waiver and the appropriate supervising department of the Bangko Sentral shall proceed to evaluate the case based on available records/evidence.

e. If the grounds for disqualification is delinquency in the payment of obligation, the concerned director/trustee or officer shall be given a period of thirty (30) calendar days within which to settle said obligation or, restore it to current status or, to explain why he/she should not be disqualified and included in the watchlisted file, before the evaluation on his disqualification and watchlisting is elevated to the Monetary Board.

f. For directors/trustees/officers of closed pawnshops, the appropriate supervising department of the Bangko Sentral shall make appropriate recommendation to the Monetary Board clearing said directors/trustees/officers when there is no pending case/complaint or evidence against them. When there is evidence that a director/trustee/officer has committed irregularity, the appropriate supervising department of the Bangko Sentral shall make recommendation to the Monetary Board that his/her case be referred to the Office of Special Investigation (OSI) for further investigation and that he/she be included in the master list of temporarily disqualified persons until the final resolution of his/her case. Directors/trustees/officers with pending cases/complaints shall also be included in said master list of temporarily disqualified persons upon approval by the Monetary Board until the final resolution of their cases. If the director/trustee/officer is cleared from involvement in any irregularity, the appropriate supervising department of the Bangko Sentral shall recommend to the Monetary Board his/her delisting. On the other hand, if the director/trustee/officer concerned is found to be responsible for the closure of the institution, the appropriate supervising department of the Bangko Sentral shall recommend to the Monetary Board his/her delisting from the disqualified persons and his/her inclusion in the master list of permanently disqualified persons.

g. If the disqualification is based on dismissal from employment for cause, the appropriate supervising department of the Bangko Sentral shall, as much as practicable, endeavor to establish the specific acts or omissions constituting the offense of the ultimate facts which resulted in the dismissal to be able to determine if the disqualification of the director/trustee/officer concerned is warranted or not. The evaluation of the case shall be made for the purpose of determining if disqualification would be appropriate and not for the purpose of passing judgment on the findings and decision of the entity concerned. The appropriate supervising department of the Bangko Sentral may decide to recommend to the Monetary Board a penalty lower than disqualification (e.g., reprimand, suspension, etc.) if, in its judgment the act committed or omitted by the director/trustee/officer concerned does not warrant disqualification.

h. All other cases of disqualification, whether permanent or temporary, shall be elevated to the Monetary Board for approval and shall be subject to the procedures provided in Items "*a", "b", "c*" and "*d"* above.

i. Upon approval by the Monetary Board, the concerned directors/trustees/officers shall be informed by the appropriate supervising department of the Bangko Sentral in writing either by personal service or through registered mail with registry return receipt card, at his/her last known address of his/her disqualification from being elected/appointed as director/trustee/officer in any FI under the supervision of Bangko Sentral and/or of his/her inclusion in the master list of watchlisted persons so disqualified.

j. The board of directors/trustees of the concerned institution shall be immediately informed of cases of disqualification approved by the Monetary Board and shall be directed to act thereon not later than the following board meeting. Within seventy-two (72) hours thereafter, the corporate secretary shall report to the Governor of the Bangko Sentral through the appropriate supervising department of the Bangko Sentral the action taken by the board on the director/trustee/officer involved.

k. Persons who are elected or appointed as director/trustee or officer in any of the BSFIs for the first time but are subject to any of the grounds for disqualification provided for under this Section shall be afforded the procedural due process prescribed above.

l. Whenever a director/trustee/officer is cleared in the process mentioned under Item "*c*" above or, when the ground for disqualification ceases to exist, he/she would be eligible to become director/trustee or officer of any bank, QB, trust entity or any institution under the supervision of the Bangko Sentral only upon prior approval by the Monetary Board. It shall be the responsibility of the appropriate supervising department of the Bangko Sentral to elevate to the Monetary Board the lifting of the disqualification of the concerned director/trustee/officer and his/her delisting from the masterlist of watchlisted persons.

Effect of possession of disqualifications. Directors/trustees/officers elected or appointed possessing any of the disqualifications as enumerated herein, shall vacate their respective positions immediately.

Watchlisting. To provide the Bangko Sentral with a central information file to be used as reference in passing upon and reviewing the qualifications of persons elected or appointed as directors/trustees or officer of an institution under the supervisory and regulatory powers of the Bangko Sentral, the Bangko Sentral shall maintain a watchlist of disqualified directors/trustees/officers under the following procedures:

a. *Watchlist categories.* Watchlisting shall be categorized as follows:

(1) Disqualification File "A" (Permanent)–Directors/trustees/officers/employees permanently disqualified by the Monetary Board from holding a director/trustee/officer position.
(2) Disqualification File "B" (Temporary) – Directors/trustees/officers/employees temporarily disqualified by the Monetary Board from holding a director/trustee/officer position.

b. *Inclusion of directors/trustees/officers/employees in the watchlist.* Upon recommendation by the appropriate supervising department of the Bangko Sentral, the inclusion of directors/trustees/officers/employees in watchlist disqualification files "A" and "B" on the basis of decisions, actions or reports of the courts, institutions under the supervisory and regulatory powers of the Bangko Sentral, NBI or other administrative agencies shall first be approved by the Monetary Board.

c. *Notification of directors/trustees/officers/employees.* Upon approval by the Monetary Board, the concerned director/trustee/officer/employee shall be informed through registered mail, with registry return receipt card, at his last known address of his inclusion in the masterlist of watchlisted persons disqualified to be a director/trustee/officer in any institution under the supervisory and regulatory powers of the Bangko Sentral.

d. *Confidentiality.* Watchlisting shall be for internal use only and may not be accessed or queried upon by outside parties including such institutions under the supervisory and regulatory powers of the Bangko Sentral, except with the authority of the person concerned and with the approval of the Deputy Governor of the appropriate sector of the Bangko Sentral, the Governor, or the Monetary Board.

The Bangko Sentral will disclose information on its watchlist files only upon submission of a duly accomplished and notarized authorization from the concerned person and approval of such request by the Deputy Governor of the appropriate sector of the Bangko Sentral or the Governor or the Monetary Board. The prescribed authorization form to be submitted to the appropriate supervising department of the Bangko Sentral is in *Appendix Q-44 of the Q-Regulations*.

Pawnshops can gain access to information in the said watchlist for the sole purpose of screening their applicants for hiring and/or confirming their elected directors and appointed officers. Pawnshops must obtain the said authorization on an individual basis.

e. *Delisting.* All delistings shall be approved by the Monetary Board upon recommendation of the appropriate supervising department of the Bangko Sentral except in cases of persons known to be dead where delisting shall be automatic upon proof of death and need not be elevated to the Monetary Board. Delisting may be approved by the Monetary Board in the following cases:

Watchlist – Disqualification File "B" (Temporary) –

(1) After the lapse of the specific period of disqualification;

(2) When the conviction by the court for crimes involving dishonesty, breach of trust and/or violation of banking laws becomes final and executory, in which case the director/trustee/officer/employee is relisted to Watchlist-Disqualification File "A" (Permanent); or

(3) Upon favorable decision or clearance by the appropriate body, i.e., court, NBI, institutions under the supervisory and regulatory powers of the Bangko Sentral, or such other agency/body where the concerned individual had derogatory record.

Directors/trustees/officers/employees delisted from the Watchlist –Disqualification File "B" other than those upgraded to Watchlist-Disqualification File "A" shall be eligible for re-employment with any institution under the supervisory and regulatory powers of the Bangko Sentral.

Applicability of this Section to the managing proprietor and managing partner of a pawnshop (in the case of a sole proprietorship/partnership). The foregoing disqualification and watchlisting provisions shall apply, where practicable, to the managing proprietor or managing partner of a pawnshop that is a sole proprietorship or partnership, in which case, the Bangko Sentral shall initiate the disqualification proceedings against the managing proprietor/managing partner. For this purpose, a *managing proprietor* or *managing partner* shall refer to a person directly involved in the operation of a pawnshop business.

In case the disqualification shall cause the dissolution of the proprietorship or partnership, the Authority to Operate shall be cancelled and the pawnshop shall be removed from the Bangko Sentral Registry of Pawnshops.

Issuance of Metal Plate. A metal plate bearing the unique registration number of the pawnshop head office shall be issued to the pawnshop operator. The Bangko Sentral reserves the right to collect a reasonable amount to cover the cost of the production/issuance of the metal plate.

(Circular No. 1039 dated 3 May 2019, 974 dated 29 September 2017, and M-2017-003 dated 27 January 2017)

E. RISK MANAGEMENT

141-P RISK MANAGEMENT SYSTEM

All pawnshops shall develop sound risk management policies and practices to ensure that risks associated with the operations of a pawnshop business are identified, assessed, monitored, mitigated and controlled as well as to ensure the effective implementation of these regulations.

The risk management system framework stated under Part One – E, Risk Management of the MORNBFI-Q Regulations shall govern all pawnshops to the extent applicable.

(Circular Nos. 961 dated 02 June 2017 and 938 dated 23 December 2016)

142-P INFORMATION TECHNOLOGY RISK MANAGEMENT (ITRM)

The enhanced guidelines on ITRM of NBFIs as shown in Sec. 147-Q shall be adopted insofar as they are applicable to pawnshops.

Policy statement. The rapid pace of digital innovation has significantly reshaped the financial services landscape. BSFIs employ advances in technology to sharpen business insights, enhance operational efficiencies, and deliver innovative financial products and services in line with emerging market trends and evolving client needs. Technological developments also enable greater access to financial services that promote an inclusive and responsive digital financial ecosystem. As technological innovations become more deeply entrenched in business models, infrastructure, and delivery channels, system-related failures and malfunctions can create major operational disruptions in BSFIs. Social media platforms may further complicate matters as news of disruptions as well as customer complaints can spread at unprecedented speeds. Further, cyber-threats and attacks confronting the financial services industry pose added risks that can undermine public trust and confidence in the financial system.

In line with their growing technology usage and dependence at the back of a dynamic operating and cyber-threat environment, BSFIs should establish robust and effective technology risk management processes, governance structures, and cybersecurity controls. This is to ensure that the benefits derived from technological innovations can be fully optimized without compromising financial stability, operational resilience, and consumer protection.

IT Profile Classification. To ensure that IT risk management system, governance structure and processes are commensurate with the attendant IT risks, the Bangko Sentral shall determine the IT profile of all BSFIs and classify them as "Complex", "Moderate" or "Simple". The *IT profile* refers to the inherent risk of a BSFI before application of any mitigating controls, and is assessed taking into consideration the following factors:

a. *IT infrastructure and operations.* Inherent IT risks of a BSFI largely depend on the degree of automation of core processes and applications, the size of branch networks, and the characteristics of its IT organization. BSFIs with larger branch networks and more complex organizational structures usually require a higher degree of reliance on IT systems/infrastructure, which in turn, carry higher levels of inherent IT risks. Interconnectivity risks also play a factor in determining IT risk levels since added connections to third party networks increase complexity as well as exposure to potential information security/cybersecurity risks. These include participation in electronic payment systems and interconnections with other financial institutions, business partners, customers, and third party service providers, among others.

b. *Digital/Electronic financial products and services.* Digital/electronic financial products and services provided to the BSFI's corporate and retail clients, by their very nature, can have a direct impact on IT risks, including information security/cybersecurity risks. This is because these products and services are normally provided via the internet or public networks which are inherently risky. Digital/electronic financial products and services include ATM debit, prepaid and credit cards and e-channels such as ATM terminals, point-of-sale (POS) terminals, internet banking and mobile banking facilities, among others. BSFIs that are more aggressive in providing such services are expected to have greater IT risks.

c. *IT projects and initiatives.* The extent and nature of the BSFI's IT projects prospectively impact IT risk exposure and complexity. For instance, developing or acquiring a new core banking system is considered a major project, that if not adequately managed and overseen, may heighten inherent IT risks. Also, IT projects and initiatives entail the use of current resources in terms of funding and manpower that might affect existing IT operations and risk profile.

d. *Outsourced services.* While outsourcing in general does not diminish the BSFI's responsibility over the function/service outsourced, outsourcing poses an added dimension to IT and information security risks. For this reason, outsourcing arrangements require a higher degree of oversight, due diligence, and risk management controls. Outsourcing core IT services and functions via cloud computing platforms may further intensify IT and information security risks.

e. *Systemic importance.* The systemic importance of a BSFI is a critical determinant in assessing inherent IT and information security/cybersecurity risks since BSFIs identified as "Domestic Systemically Important Banks" or D-SIBs are essentially larger in size and have more complex operations and product offerings. Moreover, cyber-attacks against D-SIBs can have serious implications to financial and economic stability that may undermine public trust and confidence in the financial system.

f. *Threats.* The volume, type, and severity of cyber-attacks and fraud targeting a specific BSFI affects IT and cybersecurity risk profiles. Some BSFIs may be more prone to attacks compared to others by virtue of their asset size, customer base, systemic importance, and other factors. Thus, BSFIs that are likely targets of these types of threats should have greater degree of cyber-preparedness and resilience.

A general description for each IT profile classification is outlined as follows:

IT Profile Classification	General Description/Attributes
Complex	A BSFI with complex IT profile uses technology extensively in supporting mission-critical business processes and delivering financial products and services. It has ubiquitous branch network in the country and offers a wide array of digital/electronic financial products and services to a large number of corporate and retail clients. It is highly interconnected with external third party stakeholders and actively participates in electronic payment systems and networks, usually involving large-value transfers. Business strategies and objectives are largely anchored on IT platforms, digital innovation, and technology-based solutions. It is also aggressively utilizing/exploring emerging technologies such as cloud computing, social media and big data technologies.
Moderate	A BSFI classified as moderate uses technology to some extent, but not as aggressively as those classified as complex. Its branch network, IT organization and structure, and extent of IT projects are also relatively less significant than those of complex BSFIs. IT applications and systems are integrated but primarily support traditional banking products and services. It may offer basic digital/electronic products and services, such as ATM terminals/card-based products, to a limited number of clients.

Simple	A BSFI classified as simple generally has very limited use of technology with minimal interconnectivity to its clients and other institutions. Likewise, branch network or geographic presence is confined to a specific locality. IT applications and systems are stand-alone or are not fully integrated and e-banking products and services are rarely offered. A simple BSFI also has few IT personnel and customer base.

The IT profile of rural banks, cooperative banks, NBFIs, and non-bank institutions shall be classified as "Simple", unless notified by the Bangko Sentral of a higher classification. For other BSFIs, the Bangko Sentral shall notify in writing their assigned classification within a reasonable timeline from the effectivity of this Circular. The Bangko Sentral-assigned classification shall remain effective until such time that the Bangko Sentral informs the concerned BSFI of a change in classification.

The Bangko Sentral assessment and classification process should not preclude BSFIs from assessing their own IT profile classification on an ongoing basis. All BSFIs are required to have periodic and rigorous self-assessment exercises using more robust data sets and variables as part of their information security risk management system.

Definition of Terms. In these guidelines, terms are used with the following meanings:

a. *Advanced persistent threat or APT* shall refer *to* a sophisticated form of attack that involves coordinating multiple methods of identifying and exploiting a target's vulnerabilities over an extended period to do harm.

b. *Card skimming* shall refer to the illegal copying of information from the magnetic stripe of a credit or ATM card to gain access to accounts.

c. *Cloud computing* shall refer to a model for enabling ubiquitous, convenient, and on-demand network access to a shared pool of configurable computing resources that can be rapidly provisioned and released with minimal management effort or service provider interaction.

d. *Cyber-threat* shall refer to a deliberate act of omission or commission by any person carried out using the internet and/or other electronic channels, in order to communicate false or fraudulent representations to prospective victims, to conduct fraudulent transactions, or to illegally obtain proprietary data or information related to the institution, their customers and other stakeholders. Cyber-threat can be used synonymously with cyber-fraud, cyber-attack or cyber- related incidents.

e. *Cybersecurity* shall refer to technologies, processes, and practices designed to protect a BSFI's information assets and consumers by preventing, detecting, and responding to cyber-attacks.

f. *Defense-in-depth* shall refer to a security strategy or design of deploying security controls over multiple or various layers across the network, systems, and applications such that a failure in one control would be compensated by another control in the next layer. This approach effectively delays or disrupts an attacker's ability to progress within the attack sequence.

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g. *Distributed denial of service (DDoS)* shall refer to a type of attack which makes use of the capacity limitation of enterprise networks, systems or ingress with extreme traffic loads.

h. *Information security program (ISP)* shall refer to information security policies, standards and procedures, security operations, technologies, organizational structures, and information security awareness and training programs aimed at protecting a BSFI's information assets and supporting infrastructure from internal and external threats.

i. *Information security strategic plan (ISSP)* shall refer to the roadmap to guide a BSFI in transforming the current state of security to the desired state taking into account business goals and strategies.

j. *Information security risk management (ISRM)* shall refer to the process of identifying, assessing, mitigating, managing, and monitoring information security risks, including cyber-risk, to ensure these are within acceptable levels. It should be integrated into the BSFI's ISP and enterprise-wide risk management system.

k. *Malware* shall refer to malicious software that compromises the confidentiality, availability or integrity of information systems, networks or data. Examples of malware include ransomware, trojans, adware, botnets, bugs, and spyware, among others.

l. *Phishing* shall refer to the use of electronic communications such as e-mail to masquerade with trusted identity to capture sensitive information to gain access to accounts. It involves tricking customers into giving sensitive information through fraudulent emails or websites.

m. *Security operations center (SOC)* shall refer a unit or function that provides centralized visibility, continuous monitoring, and rapid response and recovery procedures on security incidents and events.

n. *Threat intelligence* shall refer to the process of gathering and analyzing information about the proficiencies, tactics, and motives of malicious actors/attackers that enables a BSFI to institute appropriate countermeasures quickly.

Risk Management System (ITRMS). As BSFIs become more dependent on IT systems and processes, technology risks and information security issues have become progressively more complex and pressing in recent years. Information security is just as important as the new technologies being installed by BSFIs. As progress in technology shifts to higher gear, the trend in cyber-attacks, intrusions, and other form of incidents on computer systems shows that it will not only persist but will continue to increase in frequency and spread in magnitude.

Management of IT risks and information security issues becomes a necessity and an important part of BSFIs' risk management system. BSFIs are therefore required to establish a robust ITRM system covering four (4) key components: 1) IT governance, 2) risk identification and assessment, 3) IT controls implementation, and 4) risk measurement and monitoring.

a. *IT Governance.* This is an integral part of BSFIs' governance framework and consists of the leadership and organizational structures and processes that ensure the alignment of IT strategic plan with BSFIs' business strategy, optimization of resources management, IT value delivery, performance measurement and the effective and efficient use of IT to achieve business objectives and effective IT risk management implementation. BSFIs must establish an effective IT governance framework covering the following:

(1) *Oversight and organization of IT functions.* Accountability is a key concern of IT governance and this can be obtained with an organizational structure that has well-defined roles for the responsibility of information, business processes, applications, IT infrastructure, etc.

The Board of Directors is ultimately responsible for understanding the IT risks confronted by a BSFI and ensuring that they are properly managed, whereas the Senior Management is accountable for designing and implementing the ITRMS approved by the Board. For Complex BSFIs, the Board (ITSC) or its equivalent IT oversight function to cohesively monitor IT performance and institute appropriate actions to ensure achievement of desired results. The ITSC, at a minimum, should have as members a non-executive Board director who oversees the institution's IT function, the head of IT group/department, and the highest rank officer who oversees the business user groups. The head of control groups should participate in ITSC meetings in advisory capacity only.

A charter should be ratified by the Board to clearly define the roles and responsibilities of the ITSC. Formal minutes of meeting should be maintained to document its discussions and decisions. The ITSC should regularly provide adequate information to the Board regarding IT performance, status of major IT projects or other significant issues to enable the Board to make well-informed decisions about the BSFIs' IT operations.

BSFIs should develop an IT strategic plan that is aligned with the institution's business strategy. This should be undertaken to manage and direct all IT resources in line with the business strategy and priorities. IT strategic plan should focus on long term goals covering three (3)-to five (5)-year horizon and should be sufficiently supplemented by tactical IT plans which specify concise objectives, action plans and tasks that are understood and accepted by both business and IT. The IT strategic plan should be formally documented, endorsed by the Board and communicated to all stakeholders. It should be reviewed and updated regularly for new risks or opportunities to maximize the value of IT to the institution.

BSFIs should also create an organization of IT functions that will effectively deliver IT services to business units. For "Complex" BSFIs, a full-time IT Head or equivalent rank should be designated to take the lead in key IT initiatives and oversee the effectiveness of the IT organization. In addition to managing the delivery of day-to-day IT services, the IT Head should also oversee the IT budget and maintain responsibility for performance management, IT acquisition oversight, professional development and training. The IT Head should be a member of executive management with direct involvement in key decisions for the BSFI and usually reports directly to the President or Chief Executive Officer.

A clear description of roles and responsibilities for individual IT functions should be documented and approved by the Board. Proper segregation of duties within and among the various IT functions should be implemented to reduce the possibility for an individual to compromise a critical process. A mechanism should be in place to ensure that personnel are performing only the functions relevant to their respective jobs and positions. In the event that an institution finds it difficult to segregate certain IT control responsibilities, it should put in place adequate compensating controls (e.g., peer reviews) to mitigate the associated risks.

(2) *IT policies, procedures and standards.* IT controls, policies, and procedures are the foundation of IT governance structure. It helps articulate the rules and procedures for making IT decisions, and helps to set, attain, and monitor IT objectives.

BSFIs should adopt and enforce IT-related policies and procedures that are well-defined and frequently communicated to establish and delineate duties and responsibilities of personnel for better coordination, effective and consistent performance of tasks, and quicker training of new employees. Management should ensure that policies, procedures, and systems are current and well-documented. The ITSC should review IT policies, procedures, and standards at least on an annual basis. Any updates and changes should be clearly documented and properly approved. IT policies and procedures should include at least the following areas:

- IT Governance/Management;
- Development and Acquisition;
- IT Operations;
- Communication networks;
- Information security;
- Electronic Banking/Electronic
- Products and Services; and
- IT Outsourcing/Vendor Management
- For simple BSFIs, some of the above areas (i.e. development, electronic banking, etc.) may not be applicable, thus sound judgment should be employed to ensure that the BSFI's IT policies and procedures have adequately covered all applicable areas.

(3) *IT audit.* Audit plays a key role in assisting the Board in the discharge of its corporate governance responsibilities by performing an independent assessment of technology risk management process and IT controls.

Auditors provide an assurance that important control mechanisms are in place for detecting deficiencies and managing risks in the implementation of IT. They should be qualified to assess the specific risks that arise from specific uses of IT. BSFIs should establish effective audit programs that cover IT risk exposures throughout the organization, risk-focused, promote sound IT controls, ensure the timely resolution of audit deficiencies and periodic reporting to the Board on the effectiveness of institution's IT risk management, internal controls, and IT governance. Regardless of size and complexity, the IT audit program should cover the following:

- Independence of the IT audit function and its reporting relationship to the Board or its Audit Committee;
- Expertise and size of the audit staff relative to the IT environment;
- Identification of the IT audit universe, risk assessment, scope, and frequency of IT audits;
- Processes in place to ensure timely tracking and resolution of reported weaknesses; and
- Documentation of IT audits, including work papers, audit reports, and follow-up.

In case in-house IT audit expertise is not available, such as for a simple BSFI, the IT audit support may be performed by external specialists and auditors of other institutions consistent with existing Bangko Sentral rules and regulations on outsourcing. (Detailed guidelines/standards on IT Audit are shown in *Appendix Q-61*).

(4) *Staff competence and training.* The rapid development in technology demands appropriate, skilled personnel to remain competent and meet the required level of expertise on an ongoing basis. BSFIs should have an effective IT human resources management plan that meets the requirements for IT and the business lines it supports. Management should allocate sufficient resources to hire and train employees to ensure that they have the expertise necessary to perform their job and achieve organizational goals and objectives.

Management needs to ensure that staffing levels are sufficient to handle present and expected work demands, and to cater reasonably for staff turnover. Appropriate succession and transition strategies for key officers and personnel should be in place to provide for a smooth transition in the event of turnover in vital IT management or operations functions.

(5) *Management Information Systems (MIS).* The BSFIs' IT organization often provides an important support role for their MIS. Accurate and timely MIS reports are an essential component of prudent and reasonable business decisions. At the most senior levels, MIS provides the data and information to help the Board and management make strategic decisions. At other levels, MIS allows management to monitor the institution's activities and distribute information to other employees, customers, and members of management.

Advances in technology have increased the volume of information available to management and directors for planning and decision-making. However, if technology is not properly managed, the potential for inaccurate reporting and flawed decision making increases. Because report generation systems can rely on manual data entry or extract data from many different financial and transaction systems, management should establish appropriate control procedures to ensure information is correct, relevant, and adequately protected. Since MIS can originate from multiple equipment platforms and systems, the controls should ensure all information systems have sufficient and appropriate controls to maintain the integrity of the information and the processing environment. Sound fundamental principles for MIS review include proper internal controls, operating procedures, safeguards, and audit coverage.

(6) *IT risk management function.* Management of risk is a cornerstone of IT Governance. BSFIs should have a policy requiring the conduct of identification, measurement, monitoring and controlling of IT risks for each business function/service on a periodic basis. BSFIs should define and assign these critical roles to a risk management unit or to a group of persons from different units collectively performing the tasks defined for this function.

The function should have a formal technology risk acknowledgement and acceptance process by the owner of risk to help facilitate the process of reviewing, evaluating and approving any major incidents of non-compliance with IT control policies. The process can be supported by the following:

- a description of risk being considered for acknowledgement by owner of risk and an assessment of the risk that is being accepted;
- identification of mitigating controls;
- formulation of a remedial plan to reduce risk; and
- approval of risk acknowledgement from the owner of the risk and senior management.

ITRM processes should be integrated into the enterprise-wide risk management processes to allow BSFIs to make well-informed decisions involving business plans and strategies, risk responses, risk tolerance levels and capital management, among others.

b. *Risk identification and assessment.* BSFIs should maintain a risk assessment process that drives response selection and controls implementation. An effective IT assessment process begins with the identification of the current and prospective IT risk exposures arising from the institution's IT environment and related processes. The assessments should identify all information assets, any foreseeable internal and external threats to these assets, the likelihood of the threats, and the adequacy of existing controls to mitigate the identified risks. Management should continually compare its risk exposure to the value of its business activities to determine acceptable risk levels.

Once management understands the institution's IT environment and analyzes the risk, it should rank the risks and prioritize its response. The probability of occurrence and the magnitude of impact provide the foundation for reducing risk exposures or establishing mitigating controls for safe, sound, and efficient IT operations appropriate to the complexity of the organization. Periodic risk assessment process should be done at the enterprise wide level and an effective monitoring program for the risk mitigation activities should be manifested through mitigation or corrective action plans, assignment of responsibilities and accountability and management reporting.

c. *IT controls implementation.* Controls comprise of policies, procedures, practices and organizational structures designed to provide reasonable assurance that business objectives will be achieved and undesired events will be mitigated. Management should establish an adequate and effective system of internal controls based on the degree of exposure and the potential risk of loss arising from the use of IT. Controls for IT environment generally should address the overall integrity of the environment and should include clear and measurable performance goals, the allocation of specific responsibilities for key project implementation, and independent mechanisms that will both measure risks and minimize excessive risk-taking. BSFI Management should implement satisfactory control practices that address the following as part of its overall IT risk mitigation strategy: 1) Information security; 2) Project management/development and acquisition and change management; 3) IT operations; 4) IT outsourcing/Vendor management; and 5) Electronic banking, Electronic payments, Electronic money and other Electronic products and services.

(1) *Information security.* Information is a vital asset of a BSFI that must be adequately protected and managed to preserve its confidentiality, integrity and availability. Considering the crucial role information plays in supporting business goals and objectives, driving core operations and critical decision-making, information security is intrinsically linked to the overall safety and soundness of BSFIs. Thus, the BSFI needs to put in place a robust, resilient and enterprise- wide framework for ISRM supported by effective information security governance and oversight mechanisms. Information security risk exposures must be managed to within acceptable levels through a dynamic interplay of people, policies and processes, and technologies and must be integrated with the enterprise-wide risk management system.

Management should adopt a holistic, integrated and cyclical approach to managing information security risks. An ISRM framework should be in place encompassing key elements and phases with effective governance mechanisms to oversee the entire process. The framework represents a continuing cycle that should evolve over time taking into account changes in the operating and business environment as well as the overall cyber-threat landscape.



Figure 1. Information Security Risk Management Framework

The ISRM framework is based upon the following underlying fundamental principles and concepts:

(a) *Strong leadership and effective Information Security (IS) governance and oversight.* The BSFI's Board and Senior Management set the overall tone and strategic direction for information security by providing strong leadership, effective information security governance and oversight. They should take the lead in establishing an information security culture that regards security as an intrinsic part of the BSFI's core business and operations. Instilling a strong security culture ensures that security controls, processes, and measures are deeply embedded into the institution's lines of business, products, services and processes, including its employees and external relationships. The Board and Senior Management should adopt the right mindset and understand the crucial role of information security in supporting/achieving business goals and objectives. Towards this end, they should oversee the development of an information security strategic plan (ISSP) to clearly articulate security strategies and objectives aligned with business plans.

The BSFI should maintain a comprehensive, well-designed and effective information security program (ISP) that is commensurate with its operational and IT profile complexity. To ensure its effectiveness and sustainability, the ISP should have strong support from the Board and Senior Management as well as cooperation of all concerned stakeholders. Management should see to it that adequate resources, organizational functions/capabilities, policies, standards, and procedures as well as the supporting infrastructure commensurate with the BSFI's IT risk complexity and appetite are available and optimized to effectively implement the ISSP and ISP. Lastly, the Board and Senior Management should appoint a Chief Information Security Officer (CISO), a senior level executive with sufficient authority within the institution who will be responsible and accountable for the organization-wide ISP.

(b) *Integrated, holistic and risk-based approach.* The ISRM should form an integral part of the BSFI's ISP and enterprise risk management system. It encompasses the people, policies and processes, and technology elements in the organization that should be harmonized to support information security goals and objectives. Information security is not achieved by merely focusing on technology or one aspect and no one element is superior over the other. Each of these elements must work together to achieve the desired security posture and manage information security risks to acceptable levels. In line with the increasing interconnectivity of BSFIs and other industry players, the ISRM should also consider security controls and requirements over third party service providers, customers, banks, and other third party stakeholders

which are linked or have access to the BSFI's network and systems. This is because threat actors may launch their attacks on the BSFI through these third party networks

Likewise, the ISRM including cyber-risk management programs should be commensurate with the inherent risks involved. This means that the BSFI's information security controls and maturity levels should be commensurate with its operations and complexity of IT profile. In this regard, in determining whether a certain control requirement is applicable to the BSFI, it shall first assess the complexity of its IT profile pursuant to this Section. BSFIs with complex IT profile are expected to implement the more advanced security control measures and be at the higher levels of the information security/cyber-maturity curve. BSFIs may also refer to leading standards and frameworks issued by standard-setting bodies[1] on information security and cyber security in designing their ISRM.

(c) *Continuing cycle.* The ISRM involves a continuing cycle consisting of the following six (6) major phases:

(i) *Identify.* The starting point of the cycle is the identification of the BSFI's information security as well as cyber-related risks. Under this phase, management needs to identify its business processes and functions, information assets classified as to sensitivity and criticality, threats and vulnerabilities, interconnections, and security architecture. Identification of these factors facilitates BSFI's understanding and assessment of its inherent information security and cyber risks which are key inputs in determining, designing, and implementing the appropriate risk treatment options.

(ii) *Prevent.* After identifying these key factors and assessing the information security and cyber risks, the prevent phase comes into play where adequate protection mechanisms and controls are designed and implemented. These include measures ranging from baseline to advanced tools and approaches such as defense-in-depth, malware prevention, access controls and cybersecurity awareness programs, among others. These preventive controls are generally categorized into three (3) types, as follows:

(aa) *Administrative controls* - refer to the policies, standards, and procedures in place which articulate Management's intent, expectations, and direction on information security. It also includes security trainings and awareness programs and personnel security practices designed to prevent unwarranted employee behavior.

(bb) *Physical and environmental controls* - pertain to the security controls and measures implemented to protect physical infrastructure such as data centers, computer facilities, and equipment from damage, unauthorized access or environmental hazards.

(cc) *Technical controls* - refer to the logical security controls, security tools, and technologies to ensure that the confidentiality, integrity, and availability objectives for information assets are achieved.

(iii) *Detect.* Detection capabilities should also be in place as prevention alone is not sufficient. As demonstrated in recent cyber- attacks, the ability of an institution to quickly detect anomalous activities and evaluate the scope of an attack is an important aspect in significantly reducing negative impacts. Management should design and implement effective detection controls over the BSFI's networks, critical systems and applications, access points, and confidential information.

(iv) *Respond.* The response phase is triggered upon confirmation of an occurrence of a cyber-attack or security incident affecting the BSFI and its customers. With the growing incidence of sophisticated cybercrimes and threats, the BSFI should be prepared to respond quickly considering that cyber-attacks are no longer a remote possibility. Therefore, it should develop comprehensive, updated, and tested incident response plans supported by well-trained incident responders, investigators, and forensic data collectors. Through adequate response capabilities, the BSFI should be able to minimize and contain the damage and impact arising from security incidents, immediately restore critical systems and services, and facilitate investigation to determine root causes.

(v) *Recover*. This phase encompasses both resumption of activities at a level which is considered "good enough for a certain period of time" and full recovery, i.e., an eventual return to full service. Management should be able to establish back-up facilities and recovery strategies to ensure the continuity of critical operations. During the recovery phase, it should ensure that information processed using back-up facilities and alternate sites still meet acceptable levels of security. To achieve cyber resilience, the BSFI should consider information security incidents and cyber-related attack scenarios in its business continuity management and recovery processes.

[1] US National Institute of Standards and Technology (NIST), ISO/IEC, ISACA and Committee on Payments and Market Infrastructures (CPMI), among others.

(vi) *Test.* The BSFI needs to continually assess and test controls and security measures implemented under the prevent, detect, respond, and recover phases to ensure that these are effective and working as intended. Likewise, a comprehensive, systematic and layered testing and assurance program covering security processes and technologies should be in place. This is to ensure that the ISRM is on track in providing appropriate level of information security commensurate to the BSFIs' IT profile complexity. This phase also ensures that both the ISSP and ISP remain effective vis-a-vis the fast-evolving cyber- threat landscape.

(d) *Cyber threat intelligence and collaboration.* In response *to* the growing cyber-threat landscape, BSFIs need to step up their information security posture and resilience beyond their respective networks. Likewise, BSFIs need to enhance situational awareness that would provide a keen sense of the threat landscape as it relates to their IT risk and cyber-risk profiles, operating complexities, and business models. Further, BSFIs need to collaborate with each other, including regulators, law enforcement agencies, and other third party stakeholders for a collective, coordinated, and strategic response through information sharing and collaboration. Information sharing allows BSFIs to enhance threat intelligence that enables quick identification, prevention and response to emerging and persistent threats. (Detailed guidelines/standards on information security are shown in *Appendix Q-62*)

(Circular Nos. 1051 dated 27 September 2019, 982 dated 9 November 2017, 961 dated 02 June 2017, 958 dated 25 April 2017, and 938 dated 23 December 2016)

143-P BUSINESS CONTINUITY MANAGEMENT[1]

BSFIs can be adversely affected by disruption of critical operations due to internal and external threats, which may be natural, man-made or technical in origin. Extreme events may cause major disruptions whose impact are very broad in scope, duration or both and can pose a substantial risk to the continued operation of BSFIs. Because BSFIs play a crucial role in the financial system and economy as a whole, it is important to ensure that their operations can withstand the effects of major disruptions. Thus, BSFIs need to have a comprehensive business continuity management (BCM) process as an integral part of their operational risk management system. A well-designed BCM process enables BSFIs to resume critical operations swiftly and minimize operational, financial, legal, reputational, and other material risks arising from a disruption. This also helps mitigate systemic risks as well as maintain public trust and confidence in the financial system.

Purpose, applicability, and scope. The guidelines aim to promote sound management of business continuity risks. These align existing regulations, to the extent possible, with leading standards and recognized principles on BCM, and shall serve as the Bangko Sentral's baseline requirement for all BSFIs.

The guidelines shall apply to BSFIs which include banks, non-banks with quasi-banking function (NBQB), non-bank electronic money issuers and other non-bank institutions which under existing Bangko Sentral rules and regulations and special laws are subject to Bangko Sentral supervision and/or regulation.

Moreover, subject guidelines shall also apply to BSFIs with offshore data processing as may be appropriate to their situation.

Definition of terms. In these guidelines, terms are used with the following meanings:

a. *Alternate and business recovery sites* shall refer to standby facilities for use during disruption of critical operations to ensure business continuity. These provide work space and/or the necessary technology environment needed to process business-critical information. Organizations may have more than one (1) alternate site. In some cases, alternate sites may involve facilities that are used for normal day-to-day operations but which are able to accommodate additional business processes when a primary location becomes inoperable. Examples of alternate sites include relocation and disaster recovery sites, whether managed directly or maintained by a third party for a BSFI or for use by multiple organizations.

b. *Business continuity* shall refer to a state of continued, uninterrupted operation of a business.

c. *BCM* shall refer to an enterprise-wide framework encompassing policies, standards, facilities, personnel and practices that provides for continuous functioning of the institution during disruptions. It is proportionate to the BSFI's internal and external risk exposures and tailored to the nature, scale, and complexity of its business.

d. *Business continuity plan (BCP)/plan* shall refer to a documented plan detailing the orderly and expeditious process of recovery, resumption, and restoration of business functions in the event of disruptions. It should be able to cover and establish linkages among its multiple components, such as communication plan, crisis management plan, contingency funding plan, and technology recovery plan.

[1] BSFIs shall comply with the foregoing standards on BCM within a period of one (1) year from 11 April 2017. In this regard, a BSFI should be able to show its plan of actions with specific timelines, as well as the status of initiatives being undertaken to fully comply with the provisions of Sec. 143-P starting July 2017, upon request of the Bangko Sentral.

e. *Business impact analysis (BIA)* shall refer to the process of identifying and measuring (quantitatively and qualitatively) the business impact or loss of business processes in the event of a disruption. It is used to identify recovery priorities, recovery resource requirements, essential staff, and dependencies (internal and external) to be incorporated in the plan.

f. *Crisis* shall refer to a situation that requires urgent action due to its disruptive impact on the BSFI's core activities or business and operating environment.

g. *Crisis management plan (CMP)* shall refer to a documented plan detailing the actions to be taken when a crisis strikes a BSFI and designed to maintain order amidst the confusion surrounding such situations. During and immediately after a crisis, the members of the crisis management team will convene and activate the plan to attain control over the crisis and minimize its impact to operations.

h. *Critical process* shall refer to any activity, function or service, which when lost would materially affect the continued operation of the BSFI.

i. *Cyber resilience* shall refer to an organization's ability to anticipate, handle, adapt to, and/or recover from evolving cyber threats.

j. *Events* shall refer to disruption scenarios such as loss of people, technology, alternate site, and service providers.

k. *Pandemic* shall refer to epidemics or outbreaks in humans of infectious diseases that have the ability to spread rapidly over large areas, possibly worldwide.

l. *Recovery point objective (RPO)* shall refer to acceptable amount of data loss should a disruption occur without severe impact on the recovery of operations.

m. *Recovery time objective (RTO)* shall refer to the period of time following an incident within which a product, system or business process must be resumed or resources must be recovered.

n. *Resilience* shall refer to the ability of an organization to anticipate, handle, adapt to and/or recover from a disruption and resume operations.

o. *Risk assessment* shall refer to the process involving the identification and assessment of potential threats and vulnerabilities that could severely interrupt a BSFI's business activities and the corresponding likelihood and magnitude of impact on business processes.

p. *Technology recovery plan (TRP)/Disaster recovery plan (DRP)* shall refer to a documented plan detailing the technology strategy and requirements during recovery for business and support functions. The relevant regulations are in Item *"3.3.2.13"* of *Appendix Q-64*.

Roles and responsibilities.

a. *Board of directors and Senior management.* The BSFI's board and senior management are responsible for overseeing the implementation of a sound BCM process, which involves the creation and promotion of an organizational culture that places high priority on business continuity. This should be reinforced by providing sufficient financial and human resources associated with the BSFI's business continuity initiatives. Senior management should establish BCM policies, standards, and processes, which must be duly endorsed to and approved by the board.

Awareness training and periodic reporting to board and senior management on matters related to business continuity are equally important to ensure their continuing commitment and support. At a minimum, periodic management reports should include the following:

(1) implementation status of the BCP;
(2) incident reports;
(3) plan test results;
(4) changes to the plan; and
(5) related action items to strengthen the BSFI's ability to recover during disruptions.

b. *BCM coordinator/unit.* Coordination and supervision of all business continuity activities should be assigned to a competent individual and/or unit with technical knowledge and experience consistent with the nature and

complexity of the BSFI's business activities. A complex[1] BSFI may need a BCM unit with a team of departmental liaisons throughout the organization. For a simple BSFI, an individual BCM coordinator may suffice. While the BCM coordinator/unit may recommend initiatives or activities to be prioritized, the board and senior management are ultimately responsible for understanding the critical business processes and subsequently establishing plans to meet business process requirements in a safe and sound manner.

c. *BSFI personnel.* BSFI personnel should understand their roles and responsibilities on the prevention of crisis and recovery of business operations during disruptions. Business and support functions should allocate responsibilities for managing disruptions and provide clear guidance regarding the succession of authority to account for unavailability of key personnel in the event of a disruption.

d. *Audit.* An independent review of the BSFI's BCM framework and corresponding plans should be periodically performed with frequency based on a sound risk assessment process. This is to ensure that significant policy revisions resulting from changes in the operating environment, lessons learned from plan tests, and internal and regulatory audit recommendations have been considered. Moreover, plan testing exercises should be independently observed, verified, and evaluated to ensure reasonableness and validity of the testing process and the accuracy of test results.

Business Continuity Management Framework. BSFIs should adopt a cyclical, process-oriented BCM framework, which, at a minimum, should include five (5) phases, namely: BIA and risk assessment, strategy formulation, plan development, plan testing, and personnel training and plan maintenance. This framework represents a continuous cycle that should evolve over time based on changes in business and operating environment, audit recommendations, and test results. This framework should cover each business function and the technology that supports it. Other related policies, standards, and processes should also be integrated in the overall BCM framework.

Figure 1. Business Continuity Management Process



a. *Business impact analysis and risk assessment.* A comprehensive BIA and risk assessment should be undertaken to serve as the foundation in the development of the plan. The BIA entails determining and assessing the potential impact of disruptions to critical business functions, processes, and their interdependencies through work- flow analyses, enterprise-wide interviews, and/or inventory questions. Accordingly, the BSFI should determine the recovery priority, RTO, RPO, and the minimum level of resources required to ensure continuity of its operations consistent with the criticality of business function and technology that supports it. The BSFI should then conduct risk assessment incorporating the results of the BIA and evaluating the probability and severity of a wide-range of plausible threat scenarios in order to come up with recovery strategies that are commensurate with the nature, scale, and complexity of its business functions.

Domestic systemically important banks (D-SIBs). To minimize the extent or impact of a D-SIB's failure in the financial system, BSFIs identified as D-SIBs by the Bangko Sentral, pursuant to Sec. 126-Q, should set the RTO for each of their critical processes to a maximum of four (4) hours from the point of disruption. For non-D-SIB BSFIs, the RTO of critical processes should be primarily driven by their BIA and risk assessment.

b. *Strategy formulation*. Recovery and resumption strategies to achieve the agreed time-frame and deliver the minimum required services as identified in the BIA should be defined, approved, and tested. The minimum requirements for the provision of essential business and technology service levels during disruptions should be established by concerned business and support functions.

[1] Pursuant to Sec. 147-Q. BSFIs are classified as *"simple"* but maybe re-classified as *"complex"* depending on extent or degree of reliance of core business functions to technology.

(1) *Recovery strategy*. As business resumption relies primarily on the recovery of technology resources, adequate provisions should be in place to ensure systems availability and recoverability during disruptions as prescribed under *Appendix Q-64.* Recovery strategies should be able to meet the agreed requirements between business units and support functions for the provision of essential business and technology service levels.

(2) *Continuity of operations/business resumption strategy*. The business continuity models adopted by the BSFI to handle prolonged disruptions should be based on the risk assessment of its business environment and the characteristics of its operations. The resumption strategies and resource requirements should be approved by the board of directors as recommended by senior management or the relevant board committees to ensure alignment with corporate goals and business objectives.

c. *Plan development*. Plans are an important, tangible evidence of the BSFI's business continuity initiatives. The objective of the plan is to provide detailed guidelines and procedures on response and management of a crisis, recovery of critical business services and functions and to ultimately resume to normal operations. The plan should be formulated on an enterprise-wide basis, reviewed and approved by the board and senior management at least annually and disseminated to all concerned employees. The plan should include provisions for both short-term and prolonged disruptions.

A well-written plan should describe the various types of events or scenarios that could prompt BCP activation. It should include, at a minimum, the following components:

(1) Escalation, declaration and notification procedures;

(2) Responsibilities and procedures to be followed by each continuity or recovery teams and their members. The procedures should enable the BSFI to respond swiftly to a crisis (i.e., a crisis management plan) and to recover and resume the critical processes outlined in the plan within the stipulated time frame during disruptions;

(3) A list of resources required to recover critical processes in the event of a major disruption. This would include, but not limited to:

(a) key recovery personnel;
(b) computer hardware and software;
(c) communication systems;
(d) office equipment; and
(e) vital records and data;

(4) Relevant information about the alternate and recovery sites; and

(5) Procedures for restoring normal business operations. This should include the orderly entry of all business transactions and records during disruption into the relevant systems up to completion of all verification and reconciliation procedures.

Communication is a critical aspect of a BCP. In this respect, the BSFI should include a communication plan for notifying all relevant internal and external stakeholders (e.g., employees, customers, vendors, regulators, counterparties, and key service providers, media and the public) following a disruption. The BSFI should maintain an up-to-date call tree and contact list of key personnel and service providers, including communication flow and channels for internal and external stakeholders. Clear and effective communication will facilitate escalation for appropriate management action and instruction to all concerned and help manage reputation risks. The BSFI should consider alternate methods of communication and preparation of predetermined messages tailored to a number of plausible disruption scenarios to ensure various stakeholders are timely, consistently, and effectively informed.

A crisis management plan should be included in the BCP to assist senior management in dealing with and containing an emergency and avoid spillover effects to the business. Senior management should identify potential crisis scenarios and develop corresponding crisis management procedures. This includes identifying a mix of individuals from various departments who are authorized to make instantaneous decisions during crisis situations. This team shall be responsible for the actual declaration of an event, activation of the plan, and internal and external communication process.

When outsourcing plan development, management should ensure that the chosen service provider has the expertise required to analyze the business needs of the BSFI and that the arrangement conforms with legal and regulatory requirements. The service provider should be able to design executable strategies relevant to the BSFI's risk environment and design education and training programs necessary to achieve successful BCP deployment.

d. *Plan testing*

(1) *Types of testing methods*. Plan testing is a vital element of the BCM. It ensures that the plan remains accurate, relevant, and operable. Tests should be conducted periodically, with the nature, scope, and frequency determined by the criticality of the applications, business processes, and support functions. In some cases, plan tests may be warranted due to changes in BSFI's business, responsibilities, systems, software, hardware, personnel, facilities, or the external environment.

Testing methods can vary from simple to complex each bearing its own characteristics, objectives, and benefits. Types of testing methods in order of increasing complexity include:

(a) *Tabletop exercise/structure d walk-through test* – the primary objective is to ensure that critical personnel from all areas are familiar with the plan and that it accurately reflects the BSFI's ability to recover from a disruption.

(b) *Walk-through drill/simulation test* – similar to a tabletop exercise but with a more focused application. During this test, participants choose a specific scenario to which relevant plan provisions shall be applied.

(c) *Communication/call tree test* – an exercise that validates the capability of crisis management teams to respond to specific events and the effectiveness of the call tree notification process in disseminating information to employees, vendors, and key clients.

(d) *Alternate site test/exercise* - tests the capability of staff, systems, and facilities, located at alternate sites to effectively support production processing and workloads.

(e) *Component test/exercise* - A testing activity designed to validate the continuity of individual systems, processes, or functions, in isolation.

(f) *Functional drill/parallel test* – test to determine capability of alternate site and BSFI employees to support strategy as defined in the plan, which involves actual mobilization of personnel, establishing communications, and recovery processing.

(g) *Enterprise-wide full-interruption/full-scale test* – the most comprehensive type of test encompassing the entire organization and requires activation of all the components of the plan at the same time to simulate a real-life emergency and processing data and transactions using back-up media at the recovery site.

(2) *Test policy/plan*. Testing should be viewed as a continuously evolving cycle. The BSFI should incorporate the results of BIA and risk assessment and work towards a testing strategy that increases in scope and complexity to address a variety of threat scenarios. Test scenarios should vary from isolated system failures to wide-scale disruptions and promote testing its primary and alternate facilities, as well as with key counterparties and third-party service providers.

A testing policy should define roles and responsibilities for the implementation and evaluation of the testing program. Test plans with pre-determined goals and test criteria should be developed for each testing activity. It should clearly define the objectives of testing, identify the functions, systems, or processes to be tested and the criteria for assessing what constitutes a successful test. Formal testing documentation (i.e., test plans, test scenarios, test procedures, test results) should be prepared to ensure thoroughness and effectiveness of testing and properly maintained for audit and review purposes.

(3) *Annual enterprise-wide business continuity testing*. The BSFI must conduct an enterprise-wide business continuity test at least annually, or more frequently depending on changes in the operating environment, to ensure its plan's relevance, effectiveness, and operational viability. The scope of testing should be comprehensive to cover the major components of the plan as well as coordination and interfaces among important parties.

(4) *Analysis and report of test result.* Plan tests, including successes, failures, and lessons learned, should be thoroughly analyzed to promote continuous BCM improvement. Exceptions noted should be documented and corrective actions should be closely monitored to ensure that they are implemented in a timely manner by concerned parties, including the board and senior management, business line management, risk management, IT management, and other internal stakeholders.

e. *Personnel training and plan maintenance.*

(1) *Training program*. A business continuity training program should be provided to all concerned employees to promote awareness, familiarity, and understanding of their roles and responsibilities in the event of a disruption. The training program should be offered on a continuing basis for existing and new employees and should be updated to address changes to the plan.

(2) *Plan maintenance.* Plans and results of BIA and risk assessment should be reviewed and updated on an ongoing basis (at least annually or when necessary) so that they remain consistent with the BSFI's current operations and business strategies. BCM-related documents (i.e., BCP, test program, policy guidelines, and program requirements) should be subject to change management process to ensure these are updated with proper approval and documentation with respect to any significant changes in the business environment or as a result of audit findings.

Other policies, standards and processes. The following policies, standards and processes should be integrated into the BCM process:

a. *Pandemic planning.* Similar to natural disasters or technical disruptions, pandemics may also interrupt a BSFI's business activities. However, the difficulty in determining a pandemic's scope and duration present additional challenges in ensuring resilience and continuity of a BSFI's operations.

Generally, pandemic plans are integrated in the BSFI's BCP and follow the same BCM process with additional considerations, such as:

(1) *Business impact analysis and risk assessment.* The BCM process should consider pandemics as early as the BIA and risk assessment phase. The BIA and risk assessment should be updated to incorporate complexities that may arise from pandemics, such as (a) increasing level of absenteeism based on a pandemic's severity; and (b) the need for another layer of contingency plans as regular disaster or emergency response methods are no longer feasible.

(2) *Strategy formulation.* To complement strategies for natural and technical disruptions, the following should be given due consideration when planning for pandemics:

(a) *Trigger events* – Trigger events and strategies should be defined depending on the nature of a pandemic. Pandemic planning should have the flexibility to accommodate varying degrees of epidemic or outbreak as pandemics normally occur in waves or phases and of varying severity.

(b) *Remote access capability* – In the event of a pandemic, enabling remote access may be one of the primary strategies available to a BSFI. To support a telecommuting strategy, the BSFI should ensure adequate capacity, bandwidth and authentication mechanisms in its technological infrastructure against expected network traffic or volume of transactions.

(c) *External parties* – With pandemics not limited to the BSFI, establishing working relationships with external parties is an essential component. In addition to the communication plan for all relevant internal and external stakeholders, the BSFI should establish open relationships and communication channels with local public health and emergency response teams or other government authorities. The BSFI should inform concerned parties of any potential outbreaks and, at the same time, be aware of any developments in the expected scope and duration of a pandemic.

(d) *Employee awareness* – As information becomes available from reputable sources or local agencies, the BSFI should ensure that steps to limit or reduce the risk of being affected by the pandemic are cascaded to its employees.

(3) *Plan development.* Pandemic plans should be commensurate to the nature, size and complexity of a BSFI's business activities and have sufficient flexibility to address the various scenarios that may arise. At a minimum, the pandemic plan should include:

(a) Strategy that is scalable dependent on the extent and depth of the outbreak;
(b) Preventive measures, including monitoring of current environment and hygiene tools available to employees;
(c) Communication plan with internal and external stakeholders, including concerned local public health teams and government agencies; and
(d) Tools, systems and procedures available to ensure continuity of its critical operations even with the unavailability of BSFI's staff for prolonged periods.

(4) *Plan testing.* Test policy/plan should include strategies to assess capability to continue critical operations, systems and applications even in the event of a severe pandemic. When regular tests are unable to cover pandemic scenarios, separate pandemic plan tests should be carried out.

(5) *Personnel training and plan maintenance.* The plan should be updated as developments and information become available. As needed, employee training programs should cover pandemic risks, including the roles and responsibilities of each employee during pandemic situations.

b. *Cyber resilience.* Cyber-threats and attacks against the financial services industry have become increasingly widespread, sophisticated and coordinated. Recent cyber-attacks worldwide highlight, not only the degree of disruption to a BSFI's operations, but also the extent of reputational damage which could undermine public trust and confidence. As such, the BSFI should consider the potential impact of these cyber events into its BCM process and institute adequate cyber resilience capabilities.

Given the unique characteristics of cyber-threats and attacks, traditional back-up and recovery arrangements adopted by the BSFI may no longer be sufficient and even increase the damage to the BSFIs' network, operations and critical information assets. In worst case scenarios, back-up systems and alternate recovery sites are likewise affected rendering both sites inoperable. To ensure cyber resilience, the BSFI should take into consideration a wide-range of cyber-threat scenarios perpetrated from diverse threat sources (e.g., skilled hackers, insiders, state-sponsored groups) which seek to compromise the confidentiality, availability and integrity of its information assets and networks. Defensive strategies and innovative recovery arrangements should be explored that are commensurate with the BSFI's cyber-security risk exposures and aligned with its information security program in accordance with *Appendix Q-62*.

c. *Information security.* Mitigation strategies should consider security controls to manage risks that may arise once an event triggers plan activation. Security during disasters and disruptions is an important consideration to manage risks arising from the change in working environment. The relevant guidelines/standards on information security that may be considered in strategy formulation and/or in choosing alternate sites are in *Appendix Q-62*.

d. *Interdependencies.* An effective plan coordinates across its many internal and external components, identifies potential process or system dependencies, and mitigates risks from interdependencies. The BSFI may have very complex operating and recovery environment wherein interdependencies need to be duly considered, such as telecommunications, third party service providers, and recovery site. Given the critical resources and services that are being shared with the BSFI or other entities, additional mitigating controls and recovery strategies need to be integrated in the plan.

e. *Liquidity risk management.* Sound liquidity risk management practices enable a BSFI to maintain availability of funds even in times of financial stress or adverse changes in market conditions. In the event of a business disruption, sound liquidity risk management practices should similarly apply. The BSFI should ensure it has sufficient liquidity to support its recovery strategies and continue supporting the delivery of basic banking services to the clients pending full business resumption. Guidelines on liquidity risk management are in *Appendix Q-43*.

f. *Project management.* Senior management should ensure that availability and business continuity requirements are considered at the planning and development stages of new business products and services and other critical technology processes, such as systems development and acquisition, and change management.

g. *Event/problem management.* Operations personnel should be properly trained to recognize events that could trigger implementation of the plan. Although an event may not initially activate the plan, it may become necessary as conditions and circumstances change. Management should train and test BSFI personnel to implement and perform appropriate business continuity procedures within the timeframes of the plan.

h. *Outsourcing.* When a BSFI enters into an outsourcing arrangement, it should put due consideration on the business continuity and disaster recovery arrangements of the service provider to ensure continuity of operations. Detailed guidelines/standards on business continuity considerations for outsourcing arrangements are in *Appendix Q-65*.

i. *Insurance.* Insurance is an option available to a BSFI for recovery of losses that cannot be completely prevented and the expenses related to recovering from a disruption. The BSFI should regularly review the adequacy and coverage of its insurance policies in reducing any foreseeable risks caused by disruptive events, such as loss of offices, critical facilities and equipment, and casualty. Insurance policies may also need to address the BSFI's legal responsibilities for failing to deliver services to its customers and counterparties. To facilitate the claims process, the BSFI should create and retain a comprehensive hardware and software inventory list in a secure off-site location and detailed expenses should be documented to support insurance claims.

Supervisory enforcement actions. BSFIs should make available all policies and procedures and other documents/information related to the foregoing during on-site examination as well as provide copies thereof to the regulator when a written request is made to determine compliance.

Consistent with Sec. 002-P, the Bangko Sentral may deploy enforcement actions to promote adherence with the requirements set forth in this Section and bring about timely corrective actions. The Bangko Sentral may issue directives to improve the BCM process, or impose sanctions to limit the level of or suspend any business activity that has adverse effects on the safety and soundness of the BSFI, among others. Monetary and non-monetary sanctions, as provided under existing laws, Bangko Sentral rules and regulations, may likewise be imposed on a BSFI and/or its directors, officers and/or employees for violation of subject Section.

(Circular Nos. 1051 dated 27 September 2019 and 951 dated 20 March 2017)

144-P SOCIAL MEDIA RISK MANAGEMENT[1]

Social media, a low-cost solution capable of disseminating real-time information via the internet, presents vast opportunities for growth, customer engagement and business benefits as usage, customer reach and adoption scale up and become widespread and ubiquitous. Considering these potential benefits alongside exponential growth in the number of social media users and its massive reach, BSFIs have started to leverage on social media platform/s to promote their business and improve customer interaction experience to help drive business objectives/strategies.

Similar to any new technology, however, social media introduces a new attack vector which may expose BSFIs to compliance, legal, reputational, strategic, and operational risks. Risks in social media include susceptibility to account take-over, malware distribution, brand bashing, inadvertent disclosure of sensitive information and privacy violation, among other possible threats. As such, BSFIs should adopt an appropriate risk management system, commensurate to the extent and degree of their social media usage, to effectively identify, measure, manage and monitor risks arising from the use of social media platforms. This should form an integral part of their operational risk management system.

***Applicability and scope*.** The guidelines underscore the importance of having a well-defined social media risk management strategy in supporting BSFI's overall business goals and objectives. These guidelines align existing regulations, to the extent possible, with leading standards and recognized principles. They outline the minimum standards/basic principles that shall govern the BSFI's framework to aid in the sound management of risks associated with the use of social media for official purpose or employees' personal use, within and outside the organization.

It is not intended to provide procedural specifics or a "one-size-fits-all" solution for carrying out compliance and risk management responsibilities. Each BSFI is therefore expected to establish its own risk management strategy; suitable to its size, risk tolerance level, and the nature and scope of social media activities engaged in.

The guidelines shall apply to all BSFIs which include banks, non-banks with quasi-banking function (NBQB), non-bank electronic money issuers, and other non-bank institutions which under existing Bangko Sentral rules and regulations and special laws are subject to Bangko Sentral supervision and/or regulation.

Definition of terms. In these guidelines, terms are used with the following meanings:

a. *Attack vector* shall refer to the path or means by which an attacker can gain access to a computer system in order to deliver a malicious code (e.g., virus, worms, trojans).

b. *Non-technical controls* shall refer to management, administration, and operational controls employed that are manual and procedural in nature (e.g., security-related policies and procedures; operational procedures; personnel, physical, and environmental security controls; performance management and measurement).

c. *Risk assessment* shall refer to the process involving the identification and assessment of potential threats and vulnerabilities related to the use of social media and determination of the likelihood that the threat will occur as well as the corresponding impact to the business should the threat occur.

d. *Social media* shall refer to online communication channels dedicated to community-based content generation and sharing, interaction, and collaboration.

e. *Social media platform* shall refer to any form of interactive communication medium wherein users can generate and disseminate content (e.g., text, images, audio, video) through social networks using the internet. Examples of popular social media platform categories include the following:

[1] BSFIs shall comply with the foregoing standards on social media risk management within a period of six (6) months from 04 April 2017. In this regard, a BSFI should be able to show, upon request of the Bangko Sentral, its plan of actions with specific timelines, as well as the status of initiatives being undertaken to fully comply with the provisions of this Section.

(1) Social networking (e.g., Facebook, LinkedIn)
(2) Micro-blogging (e.g., Twitter, Tumblr)
(3) Blogging (e.g., Wordpress, Blogger)
(4) Photo Sharing (e.g., Flicker, Instagram, Pinterest)
(5) Video Sharing (e.g., Youtube, Vimeo, Vine)
(6) Crowdsourcing (e.g., Ushahidi, Inc.)

f. *Technical controls* shall refer to the controls incorporated into the computer hardware, software, or firmware to aid in the effective implementation of policies and standards (e.g., access control, authentication, web scanner/crawler).

Social media risk management system. BSFIs should establish an appropriate framework that will result in sound social media governance and risk management. At a minimum, the framework shall include the following elements:

a. Clearly defined governance structure indicating the roles and responsibilities of the board of directors and senior management in setting the direction on the BSFI's use of social media, including its alignment to the BSFI's strategic goals/plans; establishing adequate standards, policies, procedures, and controls; and implementing ongoing risk assessment of social media-related activities.

The board of directors shall be primarily responsible for defining the BSFI's risk tolerance level, understanding the nature and degree of risks the BSFI will be exposed to, and ensuring that these risks are properly addressed. Moreover, the board of directors, as part of its duties, shall approve and oversee the design and implementation of the social media strategy; related standards, policies and procedures; and means to ensure compliance with said standards and/or policies as well as applicable laws and regulations. Senior management, on the other hand, shall be responsible for the implementation of the social media risk management system approved by the board of directors.

The governance process should also include reporting mechanisms to the board of directors and/or senior management to enable periodic evaluation of the effectiveness of the BSFI's social media strategy/program, in terms of achieving its stated objectives, and measures put in place to manage the risks related to its use.

b. Policies and procedures governing the following, among others:

(1) Scope and definition of social media;

(2) Social media regulatory landscape reflecting applicable laws, rules and regulations for compliance;

(3) Individuals and/or composition of the team/s who will be responsible for the creation, maintenance, and monitoring of the BSFI's proprietary social media sites/pages. Their corresponding roles and accountabilities should also be clearly defined; Content management and approval process;

(4) Ongoing assessment, management, and monitoring of risks associated with social media-related activities;

(5) Acceptable use as well as prohibitions/restrictions on the business/official use of social media platforms. These guidelines shall likewise apply to the employees'[1] personal use of social media, insofar as it may impact the BSFI's operations, reputation and/or compliance with applicable laws and regulations. These should cover matters such as, but not limited to, expectations, ethical behavior, types/nature and extent of BSFI and/or customer-related information that can be posted, statements that can or cannot be made about or in behalf of the institution, comments that should not be made about a competitor, and corresponding sanctions/penalties for inappropriate use of social media and committing non-permissible activities;

(6) Use and monitoring of the BSFI's proprietary social media sites/pages to ensure compliance with applicable laws, regulations and internal policies;

(7) Monitoring and recording of suspicious transactions and customer activities on the BSFI's proprietary social media sites/pages;

(8) Adoption of technical and non-technical controls to address risks associated with the use of social media platform/s including methodologies to manage risks from online postings, edits, replies and retention;

(9) Due diligence process for selecting, managing and continuous monitoring of third-party service providers (TSP) that administer the BSFI's social media site(s)/page(s). In addition, the specific roles and responsibilities of the TSP, including liabilities and accountabilities for errors, omissions, fraud, and other instances, resulting from the TSP's actions, which may adversely affect the BSFI, should also be defined;

[1] Include the BSFI's employees, contractual employees and/or project hires, and third-party service providers.

(10) Social media crisis management plan and escalation procedures;

(11) Enterprise-wide employee training and awareness programs covering relevant topics such as the BSFI's social media use policies, employee roles and responsibilities and non-permissible activities;

(12) Records retention of social media data; and

(13) Communication of the BSFI's official social media sites/pages to its customers to avoid confusion and being misled to unofficial sites.

c. Specific roles and responsibilities of the risk management, consumer protection, audit and compliance functions to ensure that social media risks are adequately managed and integrated in the BSFI's enterprise-wide risk management systems.

BSFIs that do not utilize social media should nevertheless have clear policies and measures in place to address the potential reputation risks that may arise within the various social media platforms and provide guidance on employee use of social media.

Compliance with relevant regulations. BSFIs, in formulating and implementing their social media policies, should ensure compliance with the applicable requirements of Bangko Sentral rules and regulations on financial consumer protection, especially those relating to disclosures and transparency in advertising and promotional materials, protection of client information, effective recourse, and financial education and awareness. They should likewise conform with the relevant provisions of Bangko Sentral outsourcing framework should they decide to outsource the conduct of social media-related activities to a service provider.

The use of social media platforms, including information gathered therein, for the conduct of account origination activities should comply with applicable rules and regulations, especially on the provisions relating to customer identification procedures under the existing anti-money laundering rules and regulations. In the event that BSFIs opt to use social media for processing financial transactions, the applicable Bangko Sentral rules and regulations on electronic payment and financial services and technology risk management should likewise be observed to ensure security, reliability and authenticity of such transactions.

The regulations mentioned herein are not exhaustive. It is the BSFI's responsibility to ensure that all applicable laws and regulations relevant to the activities it will choose to engage in using social media will be adequately complied with. Moreover, the BSFI is expected to stay abreast of and continuously adapt to changes in the regulatory requirements.

Supervisory enforcement actions. BSFIs should make available all policies and procedures and other documents/information related to the foregoing during the on-site examination as well as provide copies thereof when a written request is made to determine compliance.

Consistent with Sec. 002-P, the Bangko Sentral may deploy enforcement actions to promote adherence with the requirements set forth in this Section and bring about timely corrective actions. The Bangko Sentral may issue directives to improve the social media risk management system or impose monetary and non- monetary sanctions on a BSFI and/or its directors, officers and/or employees.

(Circular No. 1033 dated 22 February 2019 and 949 dated 15 March 2017)

145-P REPUTATIONAL RISK MANAGEMENT

The guidelines on reputational risk management for QBs under Sec. 151-Q shall govern the reputational risk management of BSFIs to the extent applicable.

The guidelines set out the supervisory expectations and the minimum prudential requirements in managing reputational risk. A BSFI is expected to adopt a reputational risk management framework that is commensurate to its size, nature and complexity of operations, overall risk profile, and systemic importance.

(Circular No. 1114 dated 16 April 2021)

146-P GUIDELINES FOR THE ADOPTION OF OPEN FINANCE FRAMEWORK[1]

Policy Statement. It is the thrust of the Bangko Sentral to promote an enabling environment that foster innovation, encourages coopetition, and advances financial inclusion while safeguarding the integrity and stability of the financial

[1] All existing API arrangements prior to the creation of this Section (i.e. 17 June 2021), they shall comply with the applicable requirements prescribed herein within one (1) year from 13 July 2021. In cases awaiting policy-setting or further clarifications, compliance timetable shall be further determined by the OFOC.

system. In line with this, the Bangko Sentral is introducing the Open Finance Framework that aims to empower customers by giving them better control over their personal and financial data catalyzing the development of products and services that are responsive to their needs.

The Open Finance Framework espouses consent-driven data portability, interoperability, and collaborative partnerships among financial institutions and third-party providers (TPPs). Under the framework, financial institutions and TPPs can leverage on permissioned-access customer financial information to develop bespoke financial products and services for customers. The Open Finance Framework subscribes to the principle that "customers are the owners of personal and transaction data" hence, information shall only be shared with the consent of the customers.

Coverage. The Open Finance Framework covers technology, products, services, information, and policies that enable customers to securely share their financial data with qualified parties, either BSP-supervised financial institutions (BSFIs) or TPPs.

Definition of Terms. The terms used in this Section shall be defined as follows:

a. *Account Information Service Provider (AISP)* refers to an information technology service and/or software solution provider that processes data and provides an alternative access point to multiple sources of data other than payment transactions;

b. *Application Programming Interfaces (APIs)* refer to a set of rules and specifications for software programs to communicate with each other, forming an interface between different programs to facilitate interaction;

c. *Customer-permissioned data* refers to data held by Participants (e.g., customer transactions, personal identification data, and customer financial history) that are permissioned by the Participants' customer to be accessed by a third party (and possibly shared onwards with fourth parties if covered by the customer's consent);

d. *Open Finance* refers to leveraging on and sharing of customer-permissioned data among banks, other financial institutions, and TPPs to develop innovative financial solutions, such as among others, those that provide real-time payments, promote greater transparency to account holders, and provide marketing and cross-selling opportunities to banks, other financial institutions, and TPPs;

e. *Open Finance Standards* refer to the recommended standards in implementing the Open Finance Framework that takes into account various factors, including the financial industry's level of readiness to adopt such standards and the overall benefits arising from such standardization;

f. *Open API*, also known as external or public API, refers to a software technology interface that provides a means of accessing data based on a public standard;

g. *Open Data* refers to publicly obtainable data that is published by Participants, including, but not limited to financial products, service information, and other public information;

h. *Open Access* refers to allowing authorized third parties to access consented data without needing to establish a business relationship with the Open API publisher;

i. *Payment Initiation Service Provider (PISP)* refers to a registered operator of payment systems (OPS), as defined under Republic Act (R.A.) No. 11127 – The National Payments Systems Act and clarified in Part 1, Section 101 of the Manual of Regulations for Payment Systems (MORPS), that carries out payment orders at the request of payment service users in connection with payment accounts held at other payment service providers;

j. *Third party providers* or TPPs refers to any external legal entity such as service providers, integrators, solutions vendors, and/or infrastructure support that interact with BSFIs to provide services to customers. They are classified as either AISP and/or PISP, however, other TPP classification may be created by the Open Finance Oversight Committee (OFOC), as deemed applicable;

k. *Participant* refers to the entities covered by the Open Finance Framework such as the BSFIs and TPPs;

l. *Open API publisher* refers to the Participant that keeps/is the custodian of customer data;

m. *Third party* refers to the Participant who has open access to customer-permissioned data residing in another Participant (publisher) through the Open API; and

n. *Fourth party* refers to an outsourcing partner or a service provider of a third party.

Governance Framework. The Bangko Sentral shall recognize an Open Finance Oversight Committee (OFOC), an industry-led self-governing body, that shall exercise governance over the activities and Participants of the Open Finance Ecosystem. The OFOC shall be subject to the regulation and supervision of the Bangko Sentral.

The Bangko Sentral shall facilitate the establishment of the OFOC in coordination with industry stakeholders. For this purpose, the initial set of members of the OFOC shall be comprised of representatives from each bank classification, non-bank financial institutions, electronic money issuers, operators of payment systems, TPPs, and other relevant sectors, as determined by the Bangko Sentral. The OFOC shall:

a. Adopt membership and participation rules that are non-discriminatory to ensure that key areas of interest of the financial industry are adequately represented and that all members and applicants for membership are treated fairly and consistently.

b. Define the functions, roles, and responsibilities of the Committee and the Participants. It shall adopt policies in monitoring Participants' compliance with the established policies and in handling non-compliance thereto including the corresponding sanctions or penalties for non-compliance.

c. Adopt standards, agreements, policies, and guidelines (Conventions) governing the Open Finance Framework which shall be consistent with relevant laws, rules and regulations and regional/global standards. At the minimum, these shall cover the following:

    (1) Registration/On-boarding of non-BSFI Participants;
    (2) API standards reference or other equivalent documentation;
    (3) Authorization, authentication, and encryption requirements for each product/service tier;
    (4) Disclosure and transparency requirements as prescribed under Sec. 1002-Q;
    (5) Consent management;
    (6) Protection of client information including responsible data handling as well as data privacy and protection;
    (7) Reciprocity arrangement among Participants;
    (8) Economic model; and
    (9) Consumer protection and effective recourse as prescribed under Part Six (6) of the P-Regulations.

d. Cooperate with and extend fullest assistance permissible to the Bangko Sentral and other regulators in enforcing applicable laws and regulations, in promoting adherence to this Framework.

Consistent with the provisions of Sec. 002-P , the Bangko Sentral reserves the right to deploy its range of supervisory tools to promote adherence to the requirements and expectation set forth in this Framework. In this regard, the Bangko Sentral may issue directives to or impose sanctions against the OFOC, such as suspension or revocation of any authority of the OFOC (including any or all of its generally authorized activities), without prior notice, to promote the safety and soundness of the financial system and/or to protect Participants, its customers, or the general public.

Registration Standards. BSFIs with a composite rating of at least "3" under the Supervisory Assessment Framework (SAFr), or its equivalent, are automatically eligible to become Participants of the Open Finance Ecosystem. On the other hand, those that do not meet the minimum rating must secure prior Bangko Sentral approval to participate in the Open Finance Ecosystem. Participants which are not under the regulation and supervision of the Bangko Sentral shall comply with the applicable registration requirements set by the OFOC, pursuant to pertinent laws, rules and regulations of the Bangko Sentral and other relevant authorities. Participants shall be responsible for ensuring fourth party compliance with applicable laws, rules and regulations.

Open Finance Standards. The OFOC shall issue guidelines aimed at ensuring that:

a. access to and participation in the standard-setting process, including any planning and consultation activities, is non-discriminatory;
b. the standards development process is transparent; and
c. the Open Finance Standards will be accessible to all qualified parties.

The API standards reference or other equivalent documentation that shall be developed by the OFOC shall meet the recommended technical standards to facilitate industry-wide adoption, and shall cover, at a minimum, the following:

(1) *API Architecture Standards.* These shall comprise, among others, reference for Open API specifications, including communication protocols, and architecture types. Participants are encouraged to adopt recognized industry-wide architectural styles such as Representational State Transfer (REST) and Simple Object Access Protocol (SOAP);

Data Standards. These shall include data formats, data structures, and related data protection and privacy rules to enable Participants to share data and information accurately and efficiently. Participants shall adopt data formats which are recognized by the industry such as, but not limited to, JavaScript Object Notation (JSON), Extensible Markup Language (XML), Comma Separated Values (CSV), and Structured Query Language

(SQL). The "data dictionary" shall be published online, with sufficient level of detail to facilitate third party understanding and adoption;

(2) *Security Standards.* These shall cover minimum security compliance requirements, guidelines, and specifications that must be met by Participants, including authentication, authorization, and encryption. Participants should always refer to industry sound practices, relevant regulatory, and internal requirements, and apply holistic controls on information and cybersecurity based on a risk- and principles-based approach to protect their systems as well as financial and consumer data. At a minimum, Participants shall adopt the latest and robust authorization and authentication protocols that are adequate for the risks presented by Open Access, such as, but not limited to, multi-factor authentication, Transport Layer Security (TLS)/Advanced Encryption Standard (AES)/Hashed Message Authentication Code (HMAC) encryption standards and OAuth 2.0 authentication standard. Participants should use more secure methods for sharing data, such as token-based authentication through APIs. The API must be designed in such a way that the end-user access shall be limited to data that the end-user has permission to see or process. These access rights must be appropriately recorded, verified, measured, and audited. In terms of secure hosting, PCI DSS and ISO 27001 are most desired; and

(3) *Outsourcing Standards.* These shall refer to the management of risks arising from outsourcing activities particularly those involving data disclosure and confidentiality, data privacy and protection, data management such as procedures for accessing and processing data, obtaining consent, contract management, security, performance monitoring and business continuity, among others.

Adoption of Open Finance Standards and Publication of Open APIs. All Participants that intend to provide Open Access shall adopt the Open Finance Standards and shall comply with relevant laws and pertinent Bangko Sentral regulations particularly on Outsourcing, Operational Risk Management, IT Risk Management, Internal Control, Anti-Money Laundering/Countering the Financing of Terrorism, Financial Consumer Protection, and sound corporate governance principles, among others.

Open Finance Standards may be revised periodically to address emerging issues or to improve the Open API functionalities. To facilitate third party adoption, Participants shall publish detailed Open API documentation and ensure consistency with the latest version of Open Finance Standards.

Tiered Approach towards Open Finance Standards Adoption. Open Finance Standards shall be classified into five (5) tiers based on data sensitivity, data type, and data holder type. The tiers are not necessarily sequential, and multiple implementations may occur simultaneously.

a. *Tier 1* – Product and Service Information. Refers to "read-only" information on financial data and other details of financial products/services that is readily accessible online and can be freely used, reused, and redistributed by any entity such as deposit/lending rates, credit card offerings, service charges and other public data.

b. *Tier 2* – Subscription and New Account Applications. Includes customer acquisition and account opening processes, along with facilitating digital application and submission of supporting documents. Applications for deposits, loans, debit/credit cards, and other financial products are covered under this category.

c. *Tier 3* – Account Information. Refers to personal (e.g., name, registered address, phone numbers, etc.) and financial information provided by a customer at any given time or other details pertaining to the account of authenticated customers for stand-alone or aggregated views. This consists of, but are not limited to, data types such as account balance, credit card outstanding balance, transaction records, credit limit change, and credit score.

d. *Tier 4* – Transactions. Covers payments and other financial transactions such as scheduled payments and transfers initiated by customers.

e. *Tier 5* – Others. Covers other more complex financial products or use cases and those that are not covered by tiers 1-4.

Cooperative Regulatory Oversight. The Bangko Sentral duly recognizes that other regulatory/supervisory authorities may be involved in the Open Finance Framework as this would involve other Participants that are not under the supervisory ambit of the Bangko Sentral. In this regard, the Bangko Sentral shall coordinate with the concerned regulatory authority with respect to the implementation of the Open Finance Framework.

Regulatory Sandbox

The Bangko Sentral seeks to provide a regulatory environment that is conducive for the deployment of innovative financial services, including the development of standards for Open Finance. In line with this, the Bangko Sentral will permit innovation in Open Finance, such as but not limited to, the development of an industry API sandbox, in which Open APIs can be deployed and tested in a live environment and within specified parameters and timeframes.

Recommendation to Build a Central API Sandbox. While API providers will be encouraged to develop local sandboxes, it is recognized that costs may present a barrier and further incentives may be required. Thus, the Bangko Sentral encourages the OFOC to establish a central sandbox for testing developers and for other purposes related to local sandbox development (e.g., outsourcing sandbox development to trusted parties). The OFOC shall ensure that the central sandbox (i) implements all levels of security for APIs and (ii) contains a set of executable tests that API developers can use to validate compliance. The OFOC shall provide the executable tests to developers free of charge so that barriers to entry are avoided.

The OFOC shall maintain a list of approved Use Case API Services[1] with defined technical and security standards. This list shall include clear mechanisms and guidelines for providing the API services (e.g., basic APIs such as Authentication, Account Information, Transfers, etc.). The Use Case list per API service is a list that will be regularly updated based on new API innovations that have been reviewed by the Bangko Sentral or other relevant governing body.

Consumer Protection. Participants shall adopt customer awareness measures to, at the minimum, educate their customers on the following: (i) safeguarding of information; (ii) use of the Open API; (iii) actual fees and charges related to the access of information and performance of transactions; (iv) fair and equitable terms and conditions; (v) products and services appropriate to the capacity and risk appetite of the consumer; and (vi) problem resolution procedures. Participants shall disclose, prior to entering an initial transaction and on an ongoing basis, all material risks to their clients in a manner that is clear, fair and not misleading. Participants shall carry out initiatives to give consumers the knowledge, skills, and confidence to understand and evaluate the information they receive and empower them to make informed financial decisions.

Data Privacy and Data Protection. Each contract relating to the implementation or use of Open API shall contain a clause for the recognition by each party that the customers have ownership over their data being collected and processed through the transaction, and that they have all the rights enumerated under R.A. No. 10173 (Data Privacy Act of 2012). This views that while customer and transaction data are in the custody of the Open API publisher, their rights to control the use of such data is limited to the boundaries of the consent the customer provided. All Participants shall comply with relevant requirements of the Data Privacy Act of 2012, its Implementing Rules and Regulations, and other National Privacy Commission issuances.

Dispute Mechanism. Participants shall have an adequate, prompt, and effective mechanism or procedure for handling and resolving disputes covering Open Finance issues aligned with agreed Conventions, as applicable.

User Consent and access to opt-in and opt-out mechanisms. Proper mechanisms shall be in place to ensure customers' private information is not used for purposes that are against their interests. The customers should, at all times, not only be educated and informed but they must also consent to how their data is being used and be provided with opt-in and opt-out mechanisms if and when they want to withdraw or modify the scope of their consent. Customers must be periodically informed as to how the Participants have utilized their permissioned data within a given period. Proper mechanisms based on industry standards shall be in place in providing a consent management portal/service that is interoperable, open, and has extensible information structure for recording obtained consents, consent duration, timestamp and opted-in/opted-out services, among others.

(Circular No. 1122 dated 17 June 2021)

F. INTERNAL CONTROL

151-P INTERNAL CONTROL FRAMEWORK

Pawnshops shall adopt an internal control system appropriate to the size and complexity of its business.

Every pawnshop shall adopt minimum internal control measures to safeguard the assets of the pawnshop. Such measures may include but is not limited to, dual control, check and balance and internal audit. No employee shall be permitted to process a transaction affecting his own account.

The following shall be the minimum internal control standards that pawnshops are expected to observe in their operations.

Proper accounting records.

a. All pawnshops shall maintain proper and adequate accounting records which include reconciliation of due to/from head office/branches, if the pawnshop has several offices.
b. Records should be kept up-to-date and shall contain sufficient detail so that an audit trail is established.

[1] All existing API arrangements prior to the issuance of Circular No. 1122 dated 17 June 2021, they shall comply with the applicable requirements prescribed herein within one (1) year from 13 July 2021. In cases awaiting policy-setting or further clarifications, compliance timetable shall be further determined by the OFOC.

Number control. The following forms, instruments and accounts must be number-controlled:

a. Pawn tickets;
b. Official receipts; and
c. Expense vouchers.

Safekeeping of records and insurance of premises. Vital records for the current year must be kept inside the safe or vault when not in use. Vital records are pawn ticket duplicates, loan paid and loan extended registers or loan paid and extended vouchers. Other pawnshop records/documents may be placed in filing cabinets/shelves outside the vault or safe but within the pawnshop premises.

For this purpose, a pawnshop's vault, i.e., its walls, ceiling and floor, shall be made of steel-reinforced concrete or such other equally safe materials/specifications. Vault doors shall be made of steel or other drill and torch-resistant materials.

Safes should be sufficiently heavy or be securely anchored to the floor of the premises.

Vital records kept in electronic media including back-up copies thereof shall be kept in safes or vaults designed to protect them from damage due to fire or other fortuitous events.

The pawnshop premises and furniture, fixtures and equipment of pawnshops must be insured against fire.

Bonding of accountable officers/employees. In order to safeguard pawnshop's assets (pawned items) and mitigate the risk of loss arising from malfeasance or fraudulent practices of their employees, pawnshop operators shall adopt any of the following measures:

a. Bonding of accountable officers/employees with reputable insurance/surety companies accredited by the Insurance Commission; or
b. Equivalent self-insurance mechanism acceptable to Bangko Sentral.

(Circular Nos. 974 dated 29 September 2017, 961 dated 02 June 2017, M-2017-003 dated 27 January 2017, and Circular No. 938 dated 23 December 2016)

152-P FRAMEWORK ON THE SELECTION OF EXTERNAL AUDITORS

Policy Statement. The Bangko Sentral considers the external auditing profession as a partner in promoting the integrity of financial reports and transparency in the financial system. In this light, the Bangko Sentral is issuing this framework on the selection of external auditors (individual practitioners and audit firms) for Bangko Sentral Supervised Financial Institutions (BSFIs) in line with its cooperative arrangements with the Securities and Exchange Commission (SEC), Insurance Commission (IC), and Philippine Deposit Insurance Corporation (PDIC), under the auspices of the Financial Sector Forum (FSF).

Appointment of External Auditors of BSFIs

a. BSFIs shall engage the services of an external auditor included in the List of Selected External Auditors for BSFIs. In this respect, a BSFI shall only appoint an external auditor belonging to the same category or from categories higher than the category of the BSFI concerned as provided in this section: *Provided*, That the Monetary Board may require the BSFI to appoint an external auditor from higher categories as part of the Bangko Sentral's supervisory action on the BSFI. The external auditor appointed by the BSFI shall likewise audit the BSFI's trust department as well as its subsidiaries and affiliates engaged in allied activities, as applicable.

b. External Auditors shall be classified into three categories and shall extend their services to BSFIs belonging to the same category or from categories lower than the category of the external auditor, as follows:

    (1) Group A

        (a) UBs/KBs
        (b) Foreign banks and branches or subsidiaries of foreign banks
        (c) Banks, trust departments and trust corporations with additional derivatives authority, pursuant to Sec. 613 of the MORB.

    (2) Group B

        (a) TBs
        (b) NBFIs with quasi-banking license
        (c) Trust departments and trust corporations

(3) Group C

(a) RBs and Coop Banks
(b) Non-stock Savings and Loan Associations
(c) Pawnshops
(d) Remittance and Transfer Companies (RTCs)/Money Changers/Foreign Exchange Dealers (MCs/FXDs), including Virtual Currency Exchanges and Electronic Money Issuers
(e) Credit Card Issuers/Acquirers

The above categories shall include their subsidiaries and affiliates engaged in allied activities and other financial institutions subject to Bangko Sentral's consolidated supervision.

c. External auditors applying for first time inclusion or renewal of inclusion in the List of Selected External Auditors for BSFIs shall submit their application to the SEC. The application shall be subject to the requirements set out by the SEC as agreed upon by the Bangko Sentral, SEC, IC and PDIC.

d. The inclusion in the List of Selected External Auditors for BSFIs shall be valid for five (5) years or for a shorter period prescribed by the financial sector supervisors.

e. The Bangko Sentral shall periodically evaluate the performance of the external auditor through an assessment of the quality of the BSFI's audited financial statements and its compliance with the requirements provided under this Section. The results of assessment shall serve as basis for the continuing inclusion of external auditors in the List of Selected External Auditors for BSFIs.

f. The external auditor, including the engagement and quality control partners of the audit firm, of the BSFI shall be rotated in accordance with the relevant provisions of the Code of Ethics for Professional Accountants in the Philippines as adopted by the Philippine Board of Accountancy.

Audit Engagement and Reportorial Requirements

a. The BSFI's Audit Committee/board of directors/board of trustees shall ensure that the scope of external audit work appropriately covers areas relevant to BSFI's operations and risk exposures. These include the following:

(1) Review of the adoption of applicable reporting framework as well as the assessment of the accuracy, adequacy, and reliability of accounting records and financial reports;
(2) Assessment of the propriety and adequacy of disclosures in the financial statements;
(3) Assessment of the adequacy and effectiveness of internal controls and risk management systems;
(4) Assessment of the quality of capital in relation to risk exposures; and
(5) Evaluation of the quality of corporate governance.

b. The engagement contract of BSFIs with the external auditor shall include, at a minimum, the following provisions:

(1) That disclosure of information, such as those enumerated under Item *"c"* of this Section (*Audit engagement and reportorial requirements*), by the external auditor to the Bangko Sentral and/or other financial sector supervisors shall not constitute a breach of confidentiality on the part of the external auditor nor shall it be a ground for civil, criminal, or disciplinary proceedings against the external auditor;

(2) That the external auditor shall be allowed read-only access to the Bangko Sentral's Report of Examination on the BSFI and that the external auditor shall appropriately consider the contents thereof and maintain its confidentiality; and

(3) That the BSFI concerned and external auditor shall comply with all the requirements under this Section.

The engagement contract shall be made available by the BSFI to the Bangko Sentral upon request.

c. The external auditor shall report to the appropriate supervising department of the Bangko Sentral within fifteen (15) calendar days upon discovery of any matter adversely affecting the condition or soundness of the BSFI, such as, but not limited to the following cases:

(1) Any material finding involving fraud or error;

(2) Actual or potential losses, the aggregate of which amounts to at least ten percent (10%) of the consolidated total assets of the BSFI;

(3) Significant doubt as to the ability of the BSFI to continue as a going concern;

(4) Material breach of laws or Bangko Sentral rules and regulations such as but not limited to prescribed capital and liquidity ratios, significant deficiency in allowance for credit losses, material weaknesses in fair value measurement methodology, and significant vulnerabilities to money laundering and combating the financing of terrorism;

(5) Material internal control weaknesses which may lead to financial reporting problems; and

(6) Findings on matters of corporate governance that may require urgent action by the Bangko Sentral.

Where a thorough investigation or evaluation of facts is necessary on the noted case, an initial report shall be submitted within the prescribed timeline: *Provided*, That a complete report is submitted not later than fifteen (15) calendar days from completion of investigation or evaluation.

In case there are no matters to report, the external auditor shall submit to the appropriate supervising department of the Bangko Sentral, not later than 120 calendar days after the close of the calendar year or the fiscal year adopted by the BSFI, a certification that there is none to report.

a. The board of directors and management of the BSFI shall be primarily responsible for the financial statements submitted to the Bangko Sentral. External auditors are expected to conduct the audit of financial statements in accordance with the provisions of the Philippine Standards on Auditing.

b. The external auditor shall directly inform the appropriate supervising department of the Bangko Sentral of the pre-termination of the engagement contract or his/her resignation/replacements as external auditor as well as the reasons thereto, within fifteen (15) calendar days of the pre-termination of the contract or his/her resignation/replacement.

Supervisory Enforcement Action

The Bangko Sentral reserves the right to deploy its range of supervisory enforcement actions to promote adherence with the requirements set forth in this Section and bring about timely corrective actions. For this purpose, the Bangko Sentral may issue directives or impose sanctions on BSFIs and/or its directors/trustees who approved the appointment of the external auditor, who/which are not in the List of Selected External Auditors for BSFIs, and/or for non-compliance with the provisions of this Section. The Bangko Sentral may likewise shorten the period of validity of inclusion of an external auditor in the List of Selected External Auditors for BSFIs, suspend, or delist external auditors from its List of Selected External Auditors for BSFIs based on the results of assessment of the quality of audited financial statements (AFS) as well as non-compliance with the provisions of this Section. The guidelines on the supervision/delisting of external auditor in the list of selected external auditors for BSFIs is prescribed in *Appendix P-13*

Transitory provisions

a. External auditors whose inclusion in the List of Selected External Auditors for BSFIs is valid to cover the audit of 2018 financial statements are hereby given one (1) year extension on their inclusion in the List of Selected External Auditors for BSFIs allowing them to engage in the audit of the 2019 financial statements.

b. All applications (new and renewal) for inclusion in the List of Selected External Auditors for BSFIs to cover in the audit of 2020 financial statements and thereafter shall be filed with the SEC starting June 2019.

(Circular No. 1040 dated 20 May 2019)

G. REPORTING GOVERNANCE

161-P RECORDS AND REPORTS

Pawnshops shall maintain records and submit required reports to the Bangko Sentral.

Maintenance of records. The accounting period of pawnshops shall be on calendar year basis.

The accounting records of pawnshops shall consist of records of original entry and books of final entry. The records of original entry shall consist of pawn tickets, official receipts, vouchers and other supporting documents. The books of final entry shall consist of the general ledger, subsidiary ledgers and registers of loans extended and loans paid.

A pawnshop that uses a computerized system may record its loan transactions in individual loan extended vouchers which shall contain the same information and/or equivalent controls necessary to comply with Section 11 of P.D. No. 114 in lieu of the loans extended and loans paid registers.

The Description of Loan Registers of Pawnshops provided in Item "*b*" of *Appendix P-6* shall be followed.

a. *Uniform system of accounts.* Pawnshops shall strictly adopt/implement the Uniform System of Accounts prescribed for pawnshops in the recording of daily transactions including reportorial requirements.

The Uniform Chart of Accounts for Pawnshops is provided in Item "*a*" of *Appendix P-6.*

b. *Philippine Financial Reporting Standards (PFRS)/Philippine Accounting Standards (PAS).* All records and reports of pawnshops shall conform to the PFRS/PAS.

c. *Retention of records.* Pawnshop records, ledgers, books and documents (including those in electronic media):

(1) shall not be destroyed or disposed of for at least five (5) years;
(2) shall have backup hard and/or soft copy to allow reconstruction of records in case of loss or destruction due to fire and other fortuitous events; and
(3) shall be made available for Bangko Sentral examination upon request.

Reporting obligations to the Bangko Sentral. Pawnshop operators shall submit to the appropriate supervising department of the Bangko Sentral the reports listed in *Appendix P-7* in the forms as may be prescribed by the Deputy Governor of the appropriate sector of the Bangko Sentral.

Any change in, or amendment to, the articles of incorporation/co-partnership, by-laws or material documents required to be submitted to the Bangko Sentral shall be reported by submitting copies of the amended articles of incorporation, by-laws or material document to the appropriate supervising department of the Bangko Sentral within fifteen (15) days following such change.

a. *Categories of and signatories to reports.* Reports required to be submitted to the Bangko Sentral are classified into *Categories A-1, A-2, A-3* and *B* reports as indicated in the list of reports required to be submitted to the Bangko Sentral in *Appendix P-7*.

The pawnshop operator, or his/her duly designated representative, shall sign the reports required to be submitted to the Bangko Sentral: *Provided,* That in case of duly designated representatives, the pawnshop operator shall retain responsibility for the accuracy and timeliness of the report. Reports submitted in electronic media shall be subject to the same requirements or equivalent controls.

A report submitted to the Bangko Sentral under the signature of an officer who is not authorized in accordance with the requirements in this guidelines shall be considered as not being submitted.

b. *Manner of filing.* The submission of the reports shall be effected through modalities acceptable to the Bangko Sentral.

Report on Crimes/Losses (RCL). Pawnshop Operators shall electronically submit an RCL within ten (10) calendar days from knowledge of the crime/incident.

Reporting and Notification Guidelines on Crime/Losses

a. Pawnshops Operators shall report on the following matters to the Bangko Sentral:

(1) Crimes whether consummated, frustrated or attempted against property/facilities (such as robbery, theft, swindling or estafa, forgery and other deceits) and other crimes involving loss/ destruction of property of the pawnshop when the amount involved in each crime is P20,000 or more.

Crimes involving Pawnshop personnel, regardless of amount and whether or not such crimes resulted in the loss/destruction of property of the pawnshop, shall likewise be reported to the Bangko Sentral.

(2) Incidents involving material loss, destruction or damage to the pawnshop's property/facilities, other than arising from a crime, where the amount involved per incident is P20,000 or more.

(3) Crimes and/or incidents other than crimes involving loss, destruction or damage to the pawnshop's pawned articles, regardless of amount.

(4) *Definition of terms.* For the purpose of this regulation, the following definitions shall apply:

(a) Swindling (*Estafa*) - a crime committed by a person who defrauds another causing the latter to suffer damage by any of the following means:

(i) with unfaithfulness or abuse of confidence;
(ii) by false pretense or fraudulent acts executed prior to or simultaneously with the commission of the fraud; or
(iii) through other fraudulent means and other forms of swindling, under Articles 315 to 317 of the Revised Penal Code, as amended.

(b) *Theft* - a crime committed by a person who, with intent to gain but without violence against or intimidation of persons nor force upon things, shall take personal property of another without the latter's consent pursuant to Article 308 and other pertinent provisions of Chapter III, Title X of the Revised Penal Code, as amended.

(c) *Robbery* - a crime committed by a person who, with intent to gain, shall take any personal property belonging to another, by means of violence against or intimidation of any person, or using force upon anything pursuant to Article 295 and other pertinent provisions of Chapter 1, Title X of the Revised Penal Code, as amended.

(d) *Falsification* - a crime committed by a person who falsifies a document by

(i) Counterfeiting or imitating any handwriting, signature or rubric;

(ii) Causing it to appear that persons have participated in any act or proceeding when they did not in fact so participate;

(iii) Attributing to persons who have participated in an act or proceeding statements other than those in fact made by them;

(iv) Making untruthful statements in a narration of facts;

(v) Altering true dates;

(vi) Making any alteration or intercalation in a genuine document which changes its meaning;

(vii) Issuing in an authenticated form a document purporting to be a copy of an original document when no such original exists, or including in such a copy a statement contrary to, or different from, that of the genuine original; or

(viii) Intercalating any instrument or note relative to the issuance thereof in a protocol, registry, or official book and other acts falling under Articles 169, 171, 172 and 178 of the Revised Penal Code, as amended.

(e) *Credit-card related crimes* – crimes arising through the use of credit cards.

(f) *Other crimes that may cause loss to the Pawnshop* - crimes committed that cannot be appropriately classified under any of the above classifications.

(g) *Negligence* - the failure to exercise the care which an ordinarily prudent person would use under the circumstances in the discharge of the duty then resting upon him.

(h) *Non-crime related loss* – Incidents that may cause the Pawnshop to suffer a loss arising from fortuitous events.

(i) *Insider* - person involved include proprietor/partners/directors, officers and employees of the Pawnshop.

(j) *Outsider* - persons involved other than an insider.

(k) *Perpetrator* - a person, whether an insider or outsider, who is responsible for the commission of crime either by direct participation, inducement or cooperation, including accomplices and accessories as defined under Articles 18 and 19 of the Revised Penal Code, as amended.

(l) *Victim* - an insider or outsider other than the perpetrator, who is the aggrieved party to the crime and may as a result of the incident, suffered the loss.

(m) *Attempted crime* - a crime is attempted when the perpetrator commences the commission of the crime directly by overt acts and does not perform all of the acts of execution which should produce the crime by reason of some cause or accident other than his own desistance under Article 6 of the Revised Penal Code, as amended.

(n) *Frustrated crime* - a crime is classified as frustrated, when the perpetrator performs all the acts of execution which would produce the crime as a consequence but which, nevertheless, do not produce it by reason of causes independent of the will of the perpetrator under Article 6 of the Revised Penal Code, as amended.

(o) *Consummated crime* - a crime is consummated when all the acts necessary for the execution and accomplishment of the crime was performed. As a result, the Pawnshop may have suffered a loss, the recoverable portion of which should be deducted to arrive at the probable loss incurred by the Pawnshop.

(p) *Termination of the investigation* – an investigation is said to be terminated when all the material facts/information which are sufficient to support a conclusion relative to the matters involved have already been gathered and a finding/conclusion may be made based on the gathered information.

b. The following guidelines shall be observed in the preparation and submission of the report.

(1) The Branch or Head Office's R C L shall be submitted electronically to the Bangko Sentral in the email address to be provided by FSS within ten (10) calendar days from knowledge of the crime or incident through the Pawnshop's Head Office and shall be certified correct by the compliance officer or officer of equivalent rank and function. When the deadline falls on a non-business day, the report shall be submitted on the immediately following business day.

Supporting documents (e.g., (i) Notarized list of lost pawned articles, indicating the pawn ticket number, name of the pawner, date loan granted, brief description of pawn, and amount of loan; (ii) Police report on the investigation of the incident; (iii) Proof of notification in writing to all pawners concerned about the incident; and (iv) Proof of settlement of pawners' claim for lost pawned items due to the reported incident/crime) shall be made readily available by the pawnshop during Bangko Sentral examination or as requested by the Bangko Sentral.

(2) Where a thorough investigation and evaluation of facts is necessary to complete the report, an initial report electronically submitted in the email address to be provided by FSS within the said deadline of ten (10) calendar days may be accepted: *Provided*, That a complete report is electronically submitted in the email address to be provided by FSS not later than twenty (20) calendar days from termination of investigation.

Moreover, an RCL with incomplete information shall be considered as erroneous report, and the Pawnshop concerned shall be required to submit an amended report, subject to applicable sanctions.

(Circular Nos. 1104 dated 27 November 2020, 1040 dated 20 May 2019, 974 dated 29 September 2017, 961 dated 02 June 2017, M-2017-003 dated 27 January 2017, and Circular No. 938 dated 23 December 2016)

162-P AUDITED FINANCIAL STATEMENTS

The Bangko Sentral recognizes that external auditors play a vital role in contributing to the conduct of effective supervision and sustaining the confidence of the public in the financial system. In this light, the regulations on financial audit aim to enhance the quality of information channeled to the supervisory process and ultimately promote fairness, transparency and accuracy in financial reporting.

The following rules shall govern the submission of audited financial statements (AFS) of pawnshop operators.

For purposes of this Section, AFS shall include the balance sheets, income statements, statements of changes in equity, statements of cash flows, notes to financial statements, and the opinion of the external auditor. The AFS of pawnshop operators with subsidiaries shall be presented side by side on a solo basis (parent) and on a consolidated basis (parent and subsidiaries).

***Financial Audit*.** Pawnshop operators shall cause an annual financial audit by an external auditor, who will render an opinion on the fairness of the pawnshop operator's financial statements.

Financial audit of the following pawnshop operators shall be rendered by an external auditor included in the List of Selected External Auditors for BSFIs not later than thirty (30) calendar days after the close of the calendar year:

a. Pawnshop business with corollary remittance activity requiring Bangko Sentral Registration, with or without money changing/foreign exchange dealing (Type C License); and

b. Virtual pawnshop operators or those engaged in pawnshop business through electronic pawning (e-pawning) which refer to systems and processes that enable customers to pawn their personal property through electronic channels (Type D License).

The aforementioned pawnshop operators shall submit their AFS, accompanied by the documentary requirements as enumerated under *Appendix P-18*, to the appropriate supervising department of the Bangko Sentral, not later than 120 calendar days after the close of the calendar year.

The external auditor shall be required by the proprietor/partners/board of directors to submit a Letter of Comments (LOC) indicating any material weakness or breach in the institution's internal control and risk management systems not later than 120 calendar days after the close of the calendar year. If no material weakness or breach is noted to warrant the issuance of an LOC, a certification under oath stating that no material weakness or breach in the internal control and risk management system was noted in the course of the audit of the pawnshop shall be submitted in its stead, together with the AFS.

Material weakness shall be defined as a significant control deficiency, or combination of deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be detected or prevented by the institution's internal control. A material weakness does not mean that a material misstatement has occurred or will occur, but that it could occur. A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the institution's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles. The phrase "more than remote likelihood" shall mean that future events are likely to occur or are reasonably possible to occur.

The proprietor/partners/board of directors, in a regular or special meeting, shall consider and act on the AFS and the LOC and shall submit, not later than 120 calendar days after the close of the calendar year, a copy of its resolution[1] (containing the date of receipt of the AFS and LOC by the proprietor/partners/board of directors) to the appropriate supervising department of the Bangko Sentral. The resolution shall show the action(s) taken on the AFS and the findings and recommendations stated in the LOC, if any.

The AFS required to be submitted shall in all respect be Philippine Financial Reporting Standards (PFRS)/ Philippine Accounting Standards (PAS)compliant. The guidelines under Sec. 161-P *(Maintenance of records)* shall be adopted.

Pawnshop operators as well as external auditors shall strictly observe the requirements in the submission of the AFS and reports required to be submitted under *Appendix P-18*.

Pawnshop operators other than those listed in Items *"a"* and *"b"* above, however, are not required from submitting to the Bangko Sentral their AFS and the documentary requirements enumerated under *Appendix P-18,* and their annual financial audit may be conducted by external auditor other than those included in the List of Selected External Auditors for BSFIs; provided that the AFS and the aforementioned documentary requirements shall be made readily available to the Bangko Sentral during examination, or whenever requested.

Posting of audited financial statements. Pawnshop operators shall post in conspicuous places in their head offices, all their branches and other offices, as well as in their respective websites, their latest AFS.

Disclosure requirements to the audited financial statements. Pawnshop operators shall disclose the information prescribed under Annex B of *Appendix P-18* in the AFS.

(Circular No. 1075 dated 07 February 2020, 974 dated 29 September 2017, and M-2017-003 dated 27 January 2017)

H. SURRENDER/REVOCATION OF LICENSE

171-P SURRENDER OF PAWNSHOP OPERATOR LICENSE DUE TO CLOSURE OF BUSINESS

The surrender of pawnshop operator license may be effected only after the operator has complied with the requirements under Section 16 of P.D. No. 114 and the requirement in *Appendix P-3.*

(Circular Nos. 961 dated 02 June 2017 and 938 dated 23 December 2016)

[1] Proprietor may instead issue a certification or report on action taken.

172-P REVOCATION OF AUTHORITY TO OPERATE

In addition to Sec. 121-P (*Capital build-up program*), the Bangko Sentral may revoke an Authority to Operate if it is determined that:

a. The operator, in case of pawnshops organized as sole proprietorship, no longer complies with the minimum criteria of a "fit and proper" person;
b. The operator contravened any of the conditions of its authority;
c. The operator has ceased to carry on pawnshop business operations;
d. Chronic failure/refusal of the operator to address compliants from the customers/public;
e. Failure to pay the annual supervision fees for the three (3) consecutive years; and/or
f. Failure to submit required reports for three (3) consecutive years.

(Circular Nos. 961 dated 02 June 2017 and 938 dated 23 December 2016)

PART TWO

BORROWING OPERATIONS

201-P MAXIMUM BORROWINGS

The maximum borrowings of a pawnshop business, expressed as a percentage of total borrowings to pledge loans, shall not exceed fifty percent (50%): Provided, That borrowings shall not be from more than nineteen (19) creditors.

Borrowings for purposes of acquiring fixed assets used for business operations shall not be included in the abovementioned limit.

(Circular Nos. 961 dated 02 June 2017 and 938 dated 23 December 2016)

PART THREE

PAWNING OPERATIONS

A. GENERAL PROVISIONS ON LENDING OPERATIONS

301-P GRANT OF LOANS

The following regulations shall be observed in the grant of loans by pawnshops.

***General guidelines*.** A pawnshop shall extend a loan only if such is secured by personal property that could be physically delivered to the control and possession of the pawnshop.

Before accepting articles as pawn, the pawnshop must ascertain whether the pawner is the true and absolute owner of the article offered as pawn. In the conduct of business, a pawnshop shall be guided by the standard of diligence that is expected of "a good father of a family".

(Circular Nos. 961 dated 02 June 2017 and 938 dated 23 December 2016)

302-P LOAN LIMIT

Pawnshops may grant such amount of loans as may be agreed upon between the parties. The amount of loan shall in no case be less than thirty percent (30%) of the appraised value of the security offered, unless the pawner manifests in writing that he is applying for a lesser amount. Pawnshops shall not under-appraise the security offered for the loan to circumvent the restriction prescribed by this Section.

(Circular Nos. 961 dated 02 June 2017 and 938 dated 23 December 2016)

303-P INTEREST AND SURCHARGES

The rate of interest including surcharges on any loan or forbearance of money extended by a pawnshop shall be in accordance with market conditions. However, such interest rate should not be iniquitous, unconscionable, or contrary to morals, if not against the law as may be determined by the Court. These shall also be properly declared in accordance with the Truth in Lending Act.

No pawnshop shall collect interest on loans in advance for a period longer than the original term agreed upon as indicated in the pawn ticket.

In the absence of express contract as to such rate of interest, the rate of interest for the loan or forbearance of money or credit extended by a pawnshop shall be six percent (6%) per annum.

***Other charges*.** In addition to interest, pawnshops may impose a maximum service charge of five pesos (P5.00), but in no case to exceed one percent (1%) of the principal loan. Other charges may be imposed provided these are fair and reasonable and are properly disclosed.

***Dissemination of relevant information*.** Pawnshops shall ensure that all persons to whom credit is extended are well informed of the salient provisions of R.A. No. 3765, otherwise known as the "Truth in Lending Act" as contained in the revised format of disclosure statement in *Appendix P-12* through any acceptable medium of communication such as, but not limited to, posters, brochures, pamphlets, leaflets, educational videos, corporate websites, infographics and social media platforms. Said information must be conspicuously displayed and made available at all times, in physical or electronic format, to all persons to whom credit is extended by Pawnshops subject to the consumer protection standards and social media risk management guidelines. Such medium of communication shall include an explicit notification that the disclosure statement in writing is a required attachment to the credit transaction contract which Pawnshops shall provide all persons to whom credit is extended with a copy of said disclosure statement prior to the consummation of the credit transaction.

(Circular Nos. 1052 dated 2 October 2019, 961 dated 02 June 2017, and 938 dated 23 December 2016)

304-P PAST DUE ACCOUNTS; RENEWAL

A loan may be renewed for such amount and period as may be agreed upon between the pawnshop and the pawner, subject to the same conditions provided in this Part for new loans.

No loan shall be renewed or its maturity date extended unless a new pawn ticket as defined in Sec. 101-P (*Definition of terms*) shall be issued indicating the new term of the loan agreed upon by the pawnshop and the pawner.

Right of pawner to redeem pawn within ninety (90) days from maturity. A pawner who fails to pay or renew his loan with a pawnshop on the date it falls due shall have ninety (90) days from the date of maturity of the loan within which to redeem the pawn by paying the principal amount of the loan plus the amount of interest that shall have accrued thereon. The amount of interest due and payable after the maturity date of the loan shall be computed upon redemption based on the sum of the principal loan and interest earned as of the date of maturity.

In case of a pawned article that is subject to quick obsolescence, i.e., electronic gadgets, the pawner and the pawnee may agree on a shorter redemption period but the same shall not be less than thirty (30) days.

The following guidelines shall govern the redemption of pawns within ninety (90) days from maturity:

a. On or before the expiration of the maturity date, a pawnshop shall notify a pawner in writing that the pawn shall be sold or otherwise disposed of in the event the pawner fails to redeem the pawn within the ninety (90)-day grace period, specifying in the same notification the date, hour and place where the sale shall take place.

   The notice shall be sent through the mode of notification agreed upon by the pawner and the pawnshop as indicated at the back of the pawn ticket at the time the loan was granted which may be through text/SMS message, electronic mail, fax or by mail to the residential address. If sent through text/SMS, the pawnshop shall obtain a report from the appropriate Telecommunications Company (TELCO) indicating that a text/SMS message was sent to the mobile phone number given by the pawner. The report of the TELCO shall be made available to Bangko Sentral upon request. In case no specific mode of notification is agreed upon and indicated at the back of the pawn ticket, the mode of notification shall be by ordinary mail. Pawnshops shall exert reasonable effort to notify the pawner and put on record if it is unable to do so. Pawnshops shall maintain proof of the notice to pawner.

b. If upon the expiration of the ninety (90)-day grace period, the pawner fails to redeem his pawn, the pawnshop may sell or dispose of the pawn: *Provided, however,* That the pawnshop has published a notice of public auction of unredeemed articles held as security for loans in at least two (2) newspapers circulated in the city or municipality where the pawnshop has its place of business and such publication was done at least six (6) days prior to the date set for the public auction.

   The notice shall be in English, and in either Filipino or the local dialect and shall contain the following:

   (1) Name and address of the pawnshop; and
   (2) Date, hour and place of the auction sale.

   In remote areas where newspapers are neither published nor circulated, the publication requirement shall be complied with by posting notices at the city hall or municipal building of the city or municipality and in two (2) other conspicuous public places where the pawnshop has its place of business.

(Circular Nos. 974 dated 22 August 2017, 961 dated 02 June 2017, M-2017-003 dated 27 January 2017, and Circular No. 938 dated 23 December 2016)

B. LOAN COLLATERAL/SECURITY

311-P ACCEPTABLE SECURITY AND SAFEKEEPING OF PAWNS

Only personal property that is capable of being physically delivered to the control and possession of the pawnshop shall be accepted as security for loans. Certain specified chattels, such as guns, knives, or similar weapons, whose reception in pawn is expressly prohibited by other laws, decrees, or regulations, shall not be accepted by pawnshops as security for loans.

The pawnshop shall be liable for any pawned item lost or destroyed arising out of their negligence, fault, delay in delivery or willful violation of the loan agreement.

Prohibitions. Pawnshop operators shall not:

a. Use pawned articles for themselves or allow employees to use said articles for any purpose without the express consent or authority of the pawner unless continued use is necessary to preserve the pawn; or
b. Re-pledge/re-prawn the pawner article.

(Circular Nos. 961 dated 02 June 2017 and 938 dated 23 December 2016)

312-P REDEMPTION OF PAWNS

A pawnshop shall not release any pawn without first requiring the pawner to present and surrender the corresponding pawn ticket. If the pawn ticket was lost and could not be presented or surrendered, the pawnshop shall require the owner-pawner to execute and submit an affidavit of loss and shall ascertain the identity of the pawner, to ensure that the pawned item is released only to the owner-pawner.

The pawnshop shall return the pawn in the same condition when they were first pawned by pawner, upon full settlement of the loan.

(Circular No. 961 dated 02 June 2017, M-2017-003 dated 27 January 2017, and Circular No. 938 dated 23 December 2016)

313-P PAWN TICKET

Pawnshops shall, at the time of the loan, deliver to each pawner a pawn ticket which shall contain the following:

a. The business/registered name, address, telephone number, and tax identification number of the pawnshop. The business name indicated in the pawn ticket shall be in accordance with the provision of Sec. 105-P (*Registered/Business Name*);

b. Name and address of the pawner;

c. Date the loan was granted;

d. Amount of the principal loan and net proceeds;

e. Effective interest rate in percent, indicating if monthly or annually;

f. Service charge in amount;

g. Penalty interest in percent, if any;

h. Appraised value of pawn;

i. Maturity date;

j. Description of the pawn; and

k. Expiry date of the redemption period.

Aside from the memorandum book, or its equivalent, required under Section 11 of P.D. No. 114 and the pawn ticket, no other document or instrument shall be used/issued by a pawnshop for any loan granted by it to a pawner/borrower.

A pawn ticket shall be issued for each pawned article received from the pawner.

Stipulations in pawn ticket. The contents of the pawn ticket shall be in accordance to the requirements of Section 12 of P.D. 114, the standard format and terms and conditions of which are prescribed in *Appendix P-4*.

Pawnshops may incorporate additional stipulations/information in the pawn ticket (*Appendix P-4*) without prior approval of the Bangko Sentral.

(Circular Nos. 961 dated 02 June 2017, M-2017-003 dated 27 January 2017, and Circular Nos. 938 dated 23 December 2016)

C. PUBLIC AUCTIONS

321-P PUBLIC AUCTION OF PAWNS

No pawnshop shall sell or otherwise dispose of any article or thing received as security for a loan except by public auction at any of the following places:

a. Pawnshop's place of business; or
b. Any public place within the territorial limits of the municipality or city where the pawnshop conducts its business.

The auction shall be conducted under the control and direction of a duly licensed auctioneer. In cities and municipalities where there is no duly licensed auctioneer, the public auction may be conducted by a notary public of the city or province where the pawnshop has its place of business.

The Auction Sheet/Book containing entries of auctioned pawned articles duly signed by the auctioneer or notary public under oath shall be maintained by the pawnshop.

(Circular Nos. 961 dated 02 June 2017 and 938 dated 23 December 2016)

322-P SALE/TRANSFER TRANSACTIONS OF BSFIS PURSUANT TO R.A. NO. 11523, OTHERWISE KNOWN AS THE FINANCIAL INSTITUTIONS STRATEGIC TRANSFER (FIST) ACT

Policy Statement.

This Section sets forth the guidelines governing the sale/transfer, and investment transactions of banks and other institutions licensed by the Bangko Sentral to perform (i) quasi-banking functions and (ii) credit-granting activities, including but not limited to pawnshops, non-stock savings and loan associations, and non-bank credit card issuers pursuant to R.A. No. 11523, otherwise known as the FIST Act and its IRR. The implementation of the FIST Act reinforces the BSFIs' primary role of providing financial services and liquidity to support households, business enterprises and productive sectors of the economy by allowing BSFIs to dispose of their NPAs and increase their liquidity and risk-bearing capacity.

Sale/transfer transactions of non-performing assets (NPAs) by BSFIs for purposes of availing of the tax exemptions and incentives/privileges under the FIST Act shall comply with the provisions under this Section.

Definition of Terms.

For purposes of this Section, the following definitions shall apply:

a. **Certificate of Eligibility (COE)** refers to the certificate issued by the Bangko Sentral as to the eligibility of the non-performing loan (NPL) or real and other properties acquired (ROPA) for purposes of availing the tax exemptions and privileges pursuant to the provisions of the FIST Act.

b. **Data Package** refers to the set of documents prescribed by the SEC under Rule No. 5.1.j of the IRR and the additional documentation required under this Section (*Sale and Transfer of Assets*), which must be prepared and made available by the selling BSFI in respect of the sale/transfer of NPAs to FIST Corporations (FISTCs)/individuals. The Data Package should contain, among others, scanned copy of all pertinent documents and the particulars of each property or loan account being sold and should be made electronically available to potential bidders.

c. **FISTC** refers to a stock corporation organized in accordance with R.A. No. 11232, otherwise known as the "Revised Corporation Code of the Philippines," the provisions of Section 4 of the FIST Act and Rule 4 of the IRR. It is incorporated primarily to invest in or acquire NPAs of financial institutions under the FIST Act. With respect to foreign FISTCs, existing laws on ownership of real properties shall apply.

d. **Individual** refers to a natural person who, subject to certain conditions, is entitled to the tax exemptions, incentives, and fee privileges under the FIST Act.

e. **NPAs** refers to the NPLs and ROPA of BSFIs. NPAs are those NPLs and ROPA that are classified as such under the FIST Act on or before 31 December 2022.

f. **NPLs** refer to pledge loans that have not been paid or renewed by a pawner within the ninety (90) day grace period from date of maturity of the loans as provided under Sec. 305-P, including restructured pledge loans whose principal and/or interest have remained unpaid for at least ninety (90) days after they have become past due or any of the events of default under the restructuring agreement has occurred.

   NPLs shall also include loans that are classified as items in litigation on or before 31 December 2022 for which collection and foreclosure cases have been filed or are subject to pending cases that seek to restrain foreclosure or consolidation of title of foreclosed assets, or where a restraining order or injunction has been issued to prevent foreclosure of mortgage or consolidation of title of foreclosed assets.

g. **ROPAs** refer to real and other properties acquired by a BSFI in settlement of loans and receivables, including real properties, shares of stocks, and personal properties which have been acquired by way of dation in payment (dacion en pago) or judicial or extra-judicial foreclosure or execution of judgement or enforcement of security interest.

h. **SCRs** refer to the amortized cost of assets acquired in settlement of loans through foreclosure or dation in payment and subsequently sold on installment basis whereby the title to the said property is transferred to the buyers only upon full payment of the agreed selling price.

i. **Special Purposes Vehicles (SPVs)** refer to entities created under R.A. No. 9182, as amended, otherwise known as the "The Special Purpose Vehicle (SPV) Act of 2002," primarily incorporated to invest in or acquire NPAs of financial institutions under the SPV Act, whose application for reconfirmation has been approved by the SEC.

j. **True sale** refers to a sale wherein the selling BSFI transfers or sells its NPAs to an individual/FISTC, without recourse for cash or property in exchange for the transfer or sale, and without prejudice to the BSFI and the FISTC agreeing on sharing of profits and subject to the following results:

(1) The transferor transfers full legal and beneficial title to and relinquishes effective control over the transferred NPAs; and
(2) The transferred NPAs are legally isolated and put beyond the reach of the transferor and its creditors;

Provided, That the transferring BSFI shall not have direct or indirect control, of the transferee FISTC: *Provided, further,* That the selling BSFI does not have legal or beneficial ownership of more than ten percent (10%) of the (a) total number of outstanding shares of stock entitled to vote in the election of directors; and (b) the total number of outstanding shares of stock, whether or not entitled to vote, of the transferee FISTC.

For purposes of determining existence of control, the provisions of Sec. 131-Q shall apply.

All references to FISTCs in subsequent provisions of this Section shall also refer to SPVs as defined under this Section (*Definition of Terms*).

Issuance of COEs.

A BSFI which intends to avail of the tax exemptions and fee privileges under the FIST Act shall apply for a COE in accordance with the Bangko Sentral's guidelines for obtaining a COE under the FIST Act. The following transactions shall require a COE:

a. The sale/transfer of NPAs by a BSFI to a FISTC;

b. The dation in payment (dacion en pago) of NPL by a borrower or third party on behalf of the borrower to a BSFI; and

c. The sale/transfer of NPL (secured by a real estate mortgage on a residential unit or an empty lot) or ROPA (single family residential unit or an empty lot) by a BSFI to an individual: *Provided,* That an individual is limited to only one acquisition of NPA (either NPL or ROPA).

Notice, Manner and Nature of Sale/Transfer of NPAs

The following provisions on notice, manner and nature sale/transfer of NPAs under Sections 12 and 13 of the FIST Act and Rules 12 and 13 of the IRR shall apply:

a. ***Prior Notice.*** No transfer of NPLs to a FISTC/individual shall take effect unless the BSFI concerned gives prior notice to the borrowers of the NPLs and all persons actually or constructively known to the BSFI to be holding prior encumbrances upon the assets mortgaged or subject to security interest. The BSFI's notification to the borrower shall include a breakdown of his/her loan and related credit obligations that shall be the subject of the sale/transfer. Such notice shall be in writing and made in accordance with the 2019 Revised Rules of Civil Procedure, including Rule 13. Sections 5-15 and 17 on the modes and proof of service, Rule 14, Section 12 on the service upon domestic private juridical entity. The borrower shall be given a period of at most thirty (30) calendar days upon receipt of notice from the BSFI to restructure or renegotiate the loan under such terms and conditions as may be agreed upon by the borrower and the BSFI concerned.

   For purposes of implementing the requirements on prior notification, a pawnshop shall comply with the provision of Sec. 305-P. The pawner shall be given a period of at most thirty (30) calendar days upon receipt of notice to restructure or renegotiate the pledged loan under such terms and conditions as may be agreed upon by the pawner and the pawnshop.

b. ***Sale/Transfer of Assets***

   A selling BSFI shall provide prospective bidders, including individuals and FISTCs, with a data package as defined under this Section (*Definition of Terms*). At a minimum, the data package shall include the documents prescribed under Rule 5.1.j of the IRR and the following documents, if available:

   (1) For NPLs:

      (a) Promissory Note/Pawn ticket;
      (b) Restructuring Agreement, debt settlement agreement and other loan agreements of similar nature; and
      (c) Chattel Mortgage and Security Agreement, third-party financial guarantee or surety arrangement.

   (2) For ROPA:

      (a) Proof of property's ownership, e.g., Transfer Certificate of Title (TCT), with registered real estate mortgage (REM), tax declaration for unregistered land, Certificate of Stocks or other certificate/proof of participation in securities, Official Receipt/Certificate of Registration for motor vehicle;

(b) Certificate of Sale (COS) for Extra-judicial foreclosure/Notarized Deed of Dacion in case of dation in payment/judgment in case of judicial foreclosure for real estate ROPA with unconsolidated land title; and

(c) Latest Real Estate Tax Receipt.

(3) For SCRs:

(a) Notarized Sales Contract;

(b) Proof of property's ownership, e.g., TCT, with REM, tax declaration for unregistered land, Certificate of Stocks or other certificate/proof of participation in securities, Official Receipt/Certificate of Registration for motor vehicle;

(c) COS for Extra-judicial foreclosure/Notarized Deed of Dacion in case of dation in payment/judgment in case of judicial foreclosure for real estate ROPA with unconsolidated land title; and

(d) Latest Real Estate Tax Receipt.

All sales or transfers of NPAs by a BSFI shall meet the definition of a true sale under this Section (*Definition of Terms*) and shall be made in accordance with the provisions of Section 13 of the FIST Act and Rule 13 of the IRR. Sales/Transfers of NPAs shall be in the nature of a "true sale" after proper notice in accordance with the procedure provided under this Section (*Notice, Manner and Nature of Sale/Transfer of NPAs*), without need for the borrower's consent: *Provided,* That in the transfer of the NPLs, the provisions on the right of the debtor to reimburse the assignee or transferee under Article 1634 of the New Civil Code shall not apply: *Provided, further,* That after the sale, the FISTC/individual shall assume all legally transferrable rights and obligations of the transferring BSFI.

The Bangko Sentral shall not issue the COE to a BSFI in case of its non-compliance with the FIST Act, its IRR, and this Section, including, but not limited to, the following: (1) the asset subject of the sale/transfer transaction does not meet the definition of an NPA under this Section (*Definition of Terms*), or (2) the sale/transfer transaction (i) does not meet the definition of a "true sale", (ii) falls under the transactions not considered "true sale" under *Appendix P-19,* or (iii) is presumed to be not a "true sale" transaction under the same Appendix, based on documents submitted/presented relative to its COE application, without prejudice to submission by the BSFI of a new application/request with complete requirements and accurate documents.

Moreover, the Bangko Sentral reserves its authority to pass upon the "true sale" nature of the sale/transfer even after the issuance of the COE, and revoke a COE already issued upon finding of any violation of the "true sale" nature of the transaction.

The guidelines in determining whether the sale/transfer satisfies the requirements of a "true sale" is in *Appendix P-19.*

The sale/transfer of NPLs of a pawnshop to a FISTC shall be through public auction as required under Sec. 321-P.

c. ***Subsequent notice.***

Within fifteen (15) banking/business days after the execution of the NPL's sale or transfer documents, the transferring BSFI shall inform the borrower, in writing sent to the latter's last known address or email address, of the fact of the sale or transfer of the NPLs. Non-compliance with the post-notification requirements shall not invalidate the sale or transfer of NPLs but shall subject the erring BSFI to appropriate sanctions and penalties under the FIST Act and its IRR, as well as other pertinent laws, rules, and regulations.

d. ***Subsequent transfers.***

The re-acquisition of the NPA by the borrower or owner from the FISTC, individual, or subsequent transferee other than by the exercise of the right of redemption as provided for in Section 20 of the FIST Act and Rule 20 of the IRR shall be in accordance with the terms and conditions as may be agreed upon by them.

Prudential Relief Measures on the Sale/Transfer of NPAs

BSFIs may avail of the prudential relief measures that shall be granted by the Bangko Sentral in relation to their NPA sale/transfer transactions.

Limitations on Amount Available for Dividends

BSFIs may carry-over any loss incurred as a result of the result of the transfer of an NPA within a period of not more than two-years from the date of effectivity of the FIST Act (I.e. on 18 February 2021) for a period of five (5) consecutive taxable years immediately following the year of the transfer that resulted to such loss: *Provided,* That the loss meets the requirements under Section 17 of the FIST Act and Rule 17.1 of the IRR: *Provided, further,* That the tax savings derived by a BSFI from this net operating loss carry-over shall not be made available for dividend declaration under Sec. 123-Q but shall be retained as a form of capital build-up pursuant to Section 17 of the FIST Act and Rule 17.2 of the IRR.

Prudential Report

BSFIs that availed of the tax exemptions and incentives/privileges under the FIST Act shall submit a Monthly Report on the Sale/Transfer and Investment Transactions of BSFIs under the FIST Act to the Bangko Sentral. The report shall be considered a Category B report and shall be submitted within twenty (20) business days after end of reference month. The submission of the aforementioned report shall be subject to the guidelines provided under Sec. 161-P.

Penalties and Administrative Sanctions

A BSFI and/or its concerned directors, officers, and employees who violate any provision of the FIST Act, its IRR, and this Section, or who, in a notice or certification, makes any untruthful statement of a material fact or omits to state a material fact, or who violate the required "true sale" nature of the sale/transfer of NPAs shall be penalized pursuant to Sections 18 and 24 of the FIST Act, Rules 18 and 24 of the IRR; Section 37 of R.A. No. 7653, or "The New Central Bank Act", as amended, and other applicable laws, without prejudice to the enforcement actions that may be deployed by the Bangko Sentral consistent with Sec. 002-P (*Supervisory enforcement policy*).

(Circular No. 1117 dated 27 May 2021)

PART FOUR

REGULATIONS ON PAYMENT SYSTEMS

401-P NATIONAL RETAIL PAYMENT SYSTEM

Adoption of National Retail Payment System (NRPS) Framework. It is the policy of the Bangko Sentral to promote the establishment of a safe, efficient, and reliable retail payment system in the Philippines. Towards this end, the Bangko Sentral adopts the National Retail Payment System (NRPS) Framework consistent with Bangko Sentral regulations on risk management in light of the complex interplay of different types of risk arising from the rapid evolution of retail payment activities of Bangko Sentral supervised financial institutions (BSFIs). The NRPS vision will help achieve higher economic growth and enhance the overall competitiveness of our economy.

In carrying out retail payment-related activities, BSFIs shall adhere to the NRPS Framework as set forth in this Section and *Appendix P-9.* This framework requires BSFIs to ensure that the retail payment systems they participate in demonstrate sound risk management, and effective and efficient interoperability. BSFIs shall comply with Bangko Sentral rules and regulations, particularly on information technology, consumer protection, and anti-money laundering/combating the financing of terrorism (AML/CFT).

Definition of terms.

a. *Automated Clearing House (ACH)* – a multilateral agreement among ACH participants governing the clearing and settlement of payment orders for a specific payment stream.

b. *ACH Participant* – a financial institution duly licensed by the Bangko Sentral that is a PSMB member, and undertakes clearing in and is a signatory to at least one (1) ACH.

c. *ACH Participant Group (ACH-PG)* – a group organized by ACH participants for a payment stream or a group of similar payment streams for the purpose of approving and implementing the clearing rules and agreements applicable to a specific payment stream. It also liaises and consults with other parties in relation to clearing.

d. *Channel* – the means by which an electronic financial product or service is delivered, e.g., internet, phone, ATM.

e. *Clearing* – the process of transmitting, reconciling and, in some cases, confirming payment orders prior to settlement, and the establishment of the final obligations for settlement.

f. *Clearing Switch Operator (CSO)* – provides clearing switch services.

g. *Direct clearing participant* – a financial institution that is: (a) duly licensed by the Bangko Sentral and is authorized to provide electronic financial and payment services; (b) engaged in holding of funds of customers in the form of accounts (bank account or electronic money account); (c) clears transactions through an ACH and is the participant ultimately responsible for obligations generated from cleared transactions; and (d) has a demand deposit account with the Bangko Sentral and a PhilPaSS member, or is sponsored into settlement by a qualified sponsor which is a member of PhilPaSS and maintains a DDA with the Bangko Sentral, to settle its clearing obligations.

h. *Electronic payment* – synonymous to electronic fund transfer (EFT); refers to transfers of funds between two transaction accounts in the same or different BSFIs which are initiated and received using electronic devices and channels to transmit payment instructions. This excludes domestic remittance transaction under existing Bangko Sentral regulations.

i. *Fund* – any unit of value that forms the consideration or object of transactions.

j. *Interoperability* – enables financial products and services belonging to a particular scheme or business model to be used or interoperated between other schemes or business models usually of another institution. While interoperability often times require technical compatibility between systems, it can only take effect once commercial/business interconnectivity agreements have been completed.

k. *National Retail Payment System (NRPS)* – a policy and regulatory framework that aims to establish a safe, efficient, and reliable retail payment system in the Philippines.

l. *Payment instrument* – any instrument, whether tangible or intangible, that enables a person to transfer funds.

m. *Payment order* – an order or message requesting the transfer of funds to the order of the payee.

n. *Payment system* – the set of payment instruments, processes, procedures and participants that ensures the circulation of money or movement/transfer of funds.

o. *Payment System Management Body (PSMB)* – a private industry-led self-governing body that is duly recognized by the Bangko Sentral to develop and enforce rules and agreements pertaining to members' clearing and settlement activities in accordance with the NRPS Framework and applicable Bangko Sentral regulations. The body shall be comprised of retail payment industry participants which are direct clearing participants. This body shall be a juridical entity that is not-for-profit and with the power to set and implement rules pertaining to members' clearing activities.

p. *Point of Interaction (POI)* – a hardware and/or software whereby a customer or user is able to query or initiate a transaction from his account. Examples of POI include kiosk, smart device, etc.

q. *Retail payments* – payments that meet at least one of the following characteristics: (i) the payment is not directly related to a financial market transaction; (ii) the settlement is not time-critical; (iii) the payer, the payee, or both are individuals or non-financial organizations; and (iv) either the payer, the payee, or both are not direct participants in the payment system that is processing the payment. This definition of retail payment includes person-to-person, person-to-business, business-to-person, business-to-business, person/business-to-government, and government-to-person/ business payments.[1]

r. *Settlement* – an act that discharges obligations in respect of fund transfers between two (2) or more parties.

s. *Sponsored into Settlement Member* – PSMB members who undertake settlement in at least one (1) ACH by engaging the settlement services of an ACH participant that can directly settle transactions through PhilPaSS.

t. *Settlement sponsor bank or Sponsoring bank* – PSMB members who undertake settlement directly through PhilPaSS.

u. *Working Group* – In the context of an ACH, it is a group organized for a specific payment stream under an ACH Participant Group. The ACH Working Group is responsible for drawing up, reviewing or revising the rules and agreements applicable to a specific ACH.

Purpose and scope. The NRPS Framework shall apply to all BSFIs which meet regulatory requirements and the criteria set on a per Automated Clearing House (ACH) basis under the NRPS framework.

The NRPS framework covers all retail payment-related activities, mechanisms, institutions and users. It applies to all domestic payments which are denominated in Philippine Peso (Php), and which may be for payments of goods and services, domestic remittances or fund transfers.

Retail payments under the NRPS Framework are payments that meet at least one of the following characteristics:

a. the payment is not directly related to a financial market transaction;
b. the settlement is not time-critical;
c. the payer, the payee, or both are individuals or non-financial organizations; and
d. either the payer, the payee, or both are not direct participants in the payment system that is processing the payment.

NRPS key principles. Under the NRPS framework, sound governance shall be performed by a payment system management body (PSMB), an industry-led self-governing body that is duly recognized and overseen by the Bangko Sentral. In the absence of a PSMB which conforms to the NRPS principles in *Appendix P-9,* the functions of providing sound governance to the retail payment system participated in by BSFIs shall be discharged by the Bangko Sentral. Clearing switch operators shall not participate in the governance of the payment system.

All clearing shall be done within the NRPS governance structure, wherein exclusive bilateral clearing arrangements are not allowed.

Non-discriminatory participation shall be espoused in the retail payment system. Hence, all BSFIs are highly encouraged to join the NRPS governance structure provided they meet the qualification criteria.

A reasonable market-based and transparent pricing mechanism shall be adopted by all BSFIs participating in the NRPS governance structure.

Further details on the key principles are embodied in the NRPS Framework shown in *Appendix P-9.*

[1] Developing a comprehensive National Retail Payments Strategy, Financial Infrastructure Service line Payment Systems Policy and Research, World Bank, October 2012, available at http://siteresources.worldbank.org/FINANCIALSECTOR/Resources/Developing_a_comprehensive_national_retail_payments_strategy_for_GPW_10_20%28vl%29.pdf.

Specific rules applicable to transactions performed under the NRPS framework. The following rules shall apply to retail payment transactions which are cleared and settled in accordance with the NRPS Framework:

a. Minimum requirements to offer Electronic Payment and Financial Services (EPFS). EPFS shall require notification to or approval by the Bangko Sentral in accordance with Sec. 114-P. To offer EPFS, BSFIs shall conform to the following requirements:

   (1) BSFIs shall make electronic payments available in all its delivery channels whenever applicable;

   (2) BSFIs shall enable its clients to move/receive funds to/from accounts with other BSFIs, or, at a minimum, receive funds. Movement of funds between BSFIs shall be carried out through participation in an ACH;

   (3) BSFIs shall immediately credit the account of its clients after receipt of clearing advice; and

   (4) BSFIs shall conform to Sec. 114-P the IT Risk Management Standards and Guidelines on electronic banking, electronic payment, electronic money and other electronic products and services provided in *Appendix Q-66*.

b. Fees on transactions. The BSFI's board of directors shall adopt a policy on the imposition of any fee on electronic payment transactions. The policy shall include the basis and quantitative support for the setting of fees and rationalization of the fee structure or amount. Imposition of fees for transactions performed by BSFIs that meet the requirements in Item *"a"* of this Section shall be consistent with the following:

   (1) On consumer pricing-

      (a) BSFIs shall adopt reasonable and fair market-based pricing models, which do not arise from agreements with other BSFIs to fix the price of product or service delivery.

      (b) The service fees for electronic payments are expected to be lower than the fees collected from transactions made manually or over-the-counter (OTC) as electronic payments are considered to provide more efficient and cost- effective means of delivering service.

      (c) The recipient shall not pay for electronic crediting to recipient's account and the recipient shall receive the amount in full. Such account to account fund transfers shall not be considered as domestic remittance transactions under Sec. 251-Q.

   (2) The BSFI shall disclose to the Bangko Sentral the details of all fees that will be charged to the client. This will be posted in an electronic bulletin board of fees for transactions performed under the NRPS framework. The bulletin board shall be maintained by the Bangko Sentral in its website for enhanced transparency and competitiveness.

c. Anti-Money Laundering Requirements. All BSFIs shall observe applicable AML/CFT requirements under Part Five of P Regulations for all transactions performed under the NRPS framework. As part of on-going monitoring of customers and their transactions, the following rules shall apply to transactions performed under the NRPS framework by BSFIs that meet the requirements in Item *"a"* of this Section:

   (1) The *originating institution (OJ)* shall be responsible for monitoring, including appropriate watchlist screening or monitoring, its own client's transactions. It is the responsibility of the 0I to ensure that the account name of the source account and the amount are consistent with the Sender Name and the amount indicated in the Payment Instruction sent by the 0I.

   (2) The *receiving institution (RI)* shall be responsible for monitoring, including appropriate watchlist screening or monitoring, its own client's transactions. It is the responsibility of the RI to ensure that the actual account number credited and the amount are consistent with the Beneficiary Account Number and the amount indicated in the Payment Instruction received by the RI.

   (3) On the basis of the above, account number matching will suffice for domestic account-to-account electronic payments. OIs and RIs shall ensure that customers are informed that account number matching will suffice to implement a transaction, and OIs and RIs shall be held free and harmless from liability for their reliance on account number matching.

d. BSFIs participating in the NRPS governance structure are required to comply with existing regulations of the Bangko Sentral.

Reports. BSFIs participating in the NRPS governance structure shall comply with requirements, which will be covered by a separate issuance.

Examination of BSFIs. BSFIs shall make available all policies, procedures and other documents/information related to this Section during the on-site examination, as well as provide copies thereof when a written request is made by the Bangko Sentral.

Sanctions. Consistent with Sec. 002-P, the Bangko Sentral may deploy enforcement actions to promote adherence to the requirements set forth in this Section and bring about timely corrective actions. The Bangko Sentral may issue directives to enforce compliance with the NRPS Framework or impose sanctions to limit the level of or suspend any business activity that has adverse effects on the safety and soundness of the BSFI, among others.

Any violation of this Section shall subject the BSFI and/or its directors, officers and/or employees to the monetary and non-monetary sanctions under Section 37 of Republic Act (R.A.) No. 7653, including but not limited to the following depending on the gravity of the violation committed and the circumstances attendant thereto:

a. Suspension of offering new electronic financial products and services;
b. Suspension/revocation of authority to provide electronic financial products and services; and
c. Suspension/revocation of authority to settle through the Philippine Payments and Settlements System.

(Circular Nos. 1033 dated 22 February 2019, 1022 dated 26 November 2018, and 980 dated 6 November 2017)

402-P SETTLEMENT OF INSTANT RETAIL PAYMENTS

Policy Statement. It is the thrust of the Bangko Sentral to ensure efficiency of payment systems in the country. In line with this thrust, the Bangko Sentral requires BSP-Supervised Financial Institutions (BSFIs) participating in an automated clearing house (ACH) for instant retail payments to ensure that this ACH provides for certainty of settlement of the multilateral clearing obligations of the clearing participants. The settlement scheme agreed upon by the clearing participants shall form an integral part of the comprehensive credit risk management for instant retail payment services.

For the purpose of this Section, an instant retail payment, otherwise known as fast payment, is defined as an electronic payment in which the transmission of the payment message and the availability of "final" funds to the payee occur in real time or near-real time on as near to a 24-hour and seven-day (24/7) basis as possible[1]. Moreover, as used in this Section, clearing participants shall refer to direct clearing participants.

Minimum requirements for the operation of a settlement mechanism for instant retail payments. The settlement mechanism for instant payments shall meet the following minimum requirements:

a. A clearing participant or its settlement sponsor shall maintain with the Bangko Sentral a demand deposit account (DDA) which shall be used specifically for the settlement of the clearing participant's net clearing obligations arising from instant retail payments;

b. The clearing participant or its settlement sponsor shall prefund the settlement of its net clearing obligation through the DDA stated above, ensuring that such account can sufficiently cover said obligation at any point during a settlement cycle. When prefunding, the clearing participant/settlement sponsor shall consider increasing the fund in its account for longer settlement cycles such as during weekends and holidays;

c. The clearing participants shall agree on thresholds which shall be the bases of the Clearing Switch Operator (CSO) to execute a notification process that enables the clearing participants to efficiently monitor movements in their instant retail payment positions, and at the same time alerts them to place additional funds in their DDAs particularly when the ultimate threshold is breached;

d. The service contract between the clearing participants and the CSO shall include, at a minimum, the following provisions:

   (1) The CSO shall record the clearing participants' DDA balances obtained from the Bangko Sentral at the start of every settlement cycle and monitor the clearing participants' net clearing obligations against their respective account balances;

   (2) Should the instant retail payments position (Funds in the DDA minus net clearing obligation/withdrawal from the DDA) of any of the clearing participants breach their agreed-upon thresholds, the CSO shall immediately send an electronic notification to the concerned clearing participant; and

   (3) Any instant retail payment which is not fully covered by the corresponding DDA or which will result in a negative instant retail payments position shall be rejected by the CSO. A clearing participant with an instant retail payments position of zero shall be suspended from carrying out further outgoing instant payment transactions until said participant registers a positive position on account of its incoming payment transactions and/or subsequent deposits into its DDA;

[1] Based on the *paper "Fast payments – Enhancing the speed and availability of retail payments"* of the Committee on Payments and Market Infrastructures, Bank for International Settlements

e. Should the clearing participants determine that the funds in their DDAs for instant retail payments are excessive after taking into account their highest potential clearing obligations, the clearing participants shall be allowed to withdraw from their DDAs to enable them to make optimal use of their funds; and

f. The Bangko Sentral shall not be precluded from deploying applicable regulatory enforcement actions to concerned clearing participants notwithstanding the inclusion of sanctions in the ACH for non-compliance with the clearing participants' agreed-upon settlement mechanism.

Risk management. In view of the risks involved in the prescribed settlement mechanism for instant retail payments, including the possibility that a rejected payment transaction of a client due to prefunding issues may give rise to serious reputational damages to the concerned clearing participant, the BSFIs participating in the instant retail payment ACH shall ensure that they have the necessary operational and liquidity risk management measures in place. Such measures shall be designed in accordance with the guidelines provided under Sec. 146-Q on Operational Risk Management, and Sec. 145-Q on Liquidity Risk Management.

Demand deposits for instant payments as eligible reserves. The DDAs maintained with the Bangko Sentral for the settlement of net clearing obligations arising from instant retail payment transactions shall form part of the banks'/QBs' reserves against deposit and deposit substitute liabilities pursuant to Sec. 212-Q.

Supervisory enforcement action. Consistent with Sec. 002-P, the Bangko Sentral may deploy enforcement actions to promote compliance with the requirements set forth in this Section and ensure timely implementation of preventive or corrective measures as needed. As part of its enforcement actions, the Bangko Sentral may issue directives or impose sanctions which limit the level of or suspend any business activity that adversely affects the safety and soundness of a BSFI.

(Circular No. 1000 dated 23 April 2018)

403-P PARTICIPATION IN AUTOMATED CLEARING HOUSES (ACHs)

BSFIs that have been licensed to offer funds transfer services shall make these services interoperable by participating in an ACH. Prior to its participation, a BSFI shall observe the following guidelines:

a. Secure a Confirmation of Eligibility (COE) by submitting to the Bangko Sentral through the appropriate supervising department of the Bangko Sentral a letter of intent to participate in an identified ACH. This letter shall be accompanied by a certification (*Annex A of Appendix Q-89*) signed by the president (or any officer of equivalent rank and function) and chief compliance officer (CCO).

   If the BSFI is not yet a member of the Payment System Management Body (PSMB), it shall also indicate in its letter that it intends to become a member of this body;

b. Submit the following minimum documentary requirements to the PSMB duly recognized by the Bangko Sentral.

   (1) Valid COE. A COE shall be valid for a period of six (6) months from date of issuance;

   (2) Corporate Secretary's Certificate (or equivalent document in the case of foreign bank branches) on the approval of the board of directors (or equivalent management committee in the case of foreign bank branches) of the participation of the BSFI in the ACH; and

   (3) Copy of the agreement with the bank sponsoring the BSFI into settlement, if applicable; and

c. Comply with any other requirements set by the PSMB or provided in the ACH.

(Circular No. 1033 dated 22 February 2019)

PART FIVE

ANTI-MONEY LAUNDERING REGULATIONS

501-P ANTI-MONEY LAUNDERING REGULATIONS

Pawnshops, including their subsidiaries and affiliates, if any, shall comply with the provisions of Part 8 of Q-Regulations, R.A. No. 9160 (Anti-Money Laundering Act of 2001), as amended, and its Revised Implementing Rules and Regulations (RIRRs).

(Circular Nos. 1039 dated 3 May 2019, 961 dated 02 June 2017, and 938 dated 23 December 2016)

PART SIX

BANGKO SENTRAL REGULATIONS ON FINANCIAL CONSUMER PROTECTION

601-P BANGKO SENTRAL REGULATIONS ON FINANCIAL CONSUMER PROTECTION[1]

Pawnshops shall adopt a system for promptly addressing the complaints of their customers.

The Financial Consumer Protection Framework of the Bangko Sentral as stated under Part Ten of this Manual on Q-Regulations shall be adopted insofar as these are applicable to pawnshop operations.

Consistent with Sec. 002-Q, the Bangko Sentral may deploy enforcement action to promote adherence to the Bangko Sentral Regulations on Financial Consumer Protection.

(Circular Nos. 1048 dated 06 September 2019, 961 dated 02 June 2017, 938 dated 23 December 2016, 890 dated 02 November 2015, and 857 dated 21 November 2014)

602-P CONSUMER PROTECTION STANDARDS

Pawnshops shall post conspicuously at the pawnshop's premises an abstract containing the following:

Interest rates. The annual effective e interest rate in percent, specifying therein if such interest rate is yearly or monthly, as well as other charges, if any, to be paid by the pawner.

Ninety (90)-day grace period. A pawner has ninety (90) days from maturity date to redeem the pawn by paying the principal and interest.

Insurance. The pawnshop's policy regarding the insurance of pawned items.

(Circular Nos. 961 dated 02 June 2017, 938 dated 23 December 2016, and 857 dated 21 November 2014)

[1] BSFIs shall be given six (6) months from 26 September 2019 to: (1) perform a gap analysis of their current consumer protection practices vis-i-vis this Section and (2) propose an action plan duly approved by the Board of Directors to achieve full compliance within a reasonable period of time but in no case longer than one (1) year from 26 September 2019.

PART SEVEN

MISCELLANEOUS

701-P OTHER PAYMENTS OF PAWNSHOPS

Payments to the Bangko Sentral. Pawnshops shall make payments for transactions, including penalties and other charges, other than those required to be paid through the pawnshops' DDA, in accordance with the manner of payment provided in the billing notice, or through any such acceptable means of payment as may be provided in pertinent advisories issued by the Bangko Sentral. Such payments shall be accompanied by the appropriate form as shown in *Appendix Q-27*. Payments not accompanied by the required payment forms shall be presumed to be additions to reserves and shall be credited to the DDA of the paying pawnshop.

Check payments shall be value-dated when the check is cleared.

(Circular Nos. 1125 dated 20 August 2021, 961 dated 02 June 2017, and 938 dated 23 December 2016)

702-P ANNUAL SUPERVISION FEES

The annual supervision fees (ASF) of five hundred pesos (P500.00) per pawnshop office shall be paid by pawnshops not later than 31 March of every year.

Beginning year 2017, the total amount of ASF due from a pawnshop operator shall be based on the number of pawnshop offices as at the end of December of the immediately preceding year.

For purposes of this Section, the Bangko Sentral shall issue the guidelines in the collection of the annual supervision fees.

(Circular Nos. 961 dated 02 June 2017 and 938 dated 23 December 2016)

703-P PHILIPPINE AND FOREIGN CURRENCY NOTES AND COINS

The rules and regulations that shall govern the treatment and disposition of counterfeit Philippine and foreign currency notes and coins, the reproduction and/or use of facsimiles of legal tender Philippine currency notes and coins, the replacement and redemption of legal tender Philippine currency notes and coins considered mutilated or unfit for circulation, and the treatment and disposition of Philippine currency notes and coins called in for replacement are provided in Sec. 1111-Q.

(Circular Nos. 961 dated 02 June 2017 and 938 dated 23 December 2016)

LIST OF APPENDICES

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P-17	- Reserved -
P-18	Checklist of Bangko Sentral Requirements in the Submission of Audited Financial Statements
P-19	Guidelines in Determining a “True Sale” Transaction under the FIST Act

LIST OF DOCUMENTARY REQUIREMENTS TO ACCOMPANY AN APPLICATION FOR AN AUTHORITY TO OPERATE A PAWNSHOP BUSINESS

(Appendix to Sec. 103-P)

The notarized Application for an Authority to Operate a new pawnshop business shall be accompanied by the following documents:

1. Notarized Deed of Undertaking *(Appendix P-1-a)*;

2. Compliance with fitness and propriety requirements by the proprietor, partners, directors, president or officer of equivalent rank and function, and over-all head of the pawnshop operation and the head of the compliance unit, as the case maybe. For this purpose, applicants shall be required to submit the following:

    a. Personal Data and Authorization Form (*Appendix P-1-b)*;

    b. NBI Clearance, or its equivalent, if issued in foreign jurisdictions; and

    c. Proof of attendance to the mandatory training on anti-money laundering/ combating the financing of terrorism;

3. Business license/permit for the current period[1]; and

4. Proof of provisional registration with the Anti-Money Laundering Council Secretariat.

(Circular Nos. 1039 dated 3 May 2019 and 938 dated 23 December 2016)

[1] The entity name, business address and activity(ies) indicated therein should be consistent with the business registration with the DTI/SEC, as applicable. The details in said business permit shall be used as basis in the issuance of Certificate of Authority.

REPUBLIC OF THE PHILIPPINES)
_____ CITY) S.S.

DEED OF UNDERTAKING

I/We (the Proprietor/Partners/Members of the Board of Directors) and key executive officers of (Name of Institution), a legal entity duly authorized to operate under the laws of the Philippines, with principal place of business at _____, by these presents do hereby obligate ourselves, individually and collectively, to undertake and ensure:

1. Strict compliance with all the requirements, rules and regulations of the Bangko Sentral regarding the licensing and operations of pawnshop business as provided under Presidential Decree (P.D.) No. 114, Manual of Regulations for Non-Bank Financial Institutions (MORNBFI) – Pawnshop (P) Regulations and other applicable laws, rules and regulations;

2. Full compliance with the minimum capitalization and borrowing limits as prescribed under Secs. 121-P and 201-P of the MORNBFI;

3. Adequate compliance with the provisions of Republic Act (R.A.) No. 9160, as amended [The Anti-Money Laundering (AML) Act of 2001], R.A. 10168 (The Terrorism Financing Prevention and Suppression Act of 2012) and their implementing rules and regulations particularly in conducting customer due diligence procedures, covered and suspicious transaction reporting, and record keeping and retention;

4. Exclusive use of bank account/s in the name of the licensed entity/pawnshop in its official business transactions and to provide a certified list of all bank account/s supported by confirmation from depository bank/s which shall be subject to Bangko Sentral examination for AML/combating the financing of terrorism (CFT) purposes;

5. Compliance with the disclosure requirement on the entity/pawnshop beneficial owner/s;

6. Full responsibility over its offices'/branches' compliance with all the requirements, rules and regulations of the Bangko Sentral on matters relating to license, registration and notification requirements;

7. Submission of all documentary requirements and securing approval from the appropriate supervising department the Bangko Sentral before effecting the following: (a) transfer of ownership; (b) change of registered business name; and (c) surrender of pawnshop operator license due to closure of business;

8. Notification to the appropriate supervising department of the Bangko Sentral within the prescribed deadline of the following events: (a) commencement of pawnshop operations; (b) newly-established pawnshop office; (c) transfer/relocation of business; and (d) voluntary closure of pawnshop office;

9. Strict compliance with the requirements of maintenance of records and submission of required reports;

10. Maintenance of an internal control system commensurate to the nature, size and complexity of the business, and development of sound risk management policies and practices to ensure that risks associated with the operations of a pawnshop business are identified, assessed, monitored, mitigated and controlled;

11. Adoption of minimum standards of consumer protection in the areas of disclosure and transparency, protection of client information, fair treatment, effective recourse and financial education pursuant to Secs. 601-P, 602-P and 144-P (*Compliance with relevant regulations*) of the MORNBFI, as may be applicable;

12. Hiring, and/or engaging the services of external auditors/auditing firm, who will assist in the preparation, and/or rendering an opinion on the fairness of the pawnshop's financial statements, and that the external auditors/audit firm contracted are included in the Bangko Sentral List of Selected External Auditors for Supervised and/or Regulated Institutions, as may be applicable based on the type of pawnshop license granted;

13. Attendance of the proprietor, partners, directors, president or officer of equivalent rank and function and head of the pawnshop operation and the compliance unit to a seminar on AML/CFT laws, rules and regulations, before start of operations, conducted by the Bangko Sentral, AML Council Secretariat or any reputable training provider.

    For this purpose, [Name of Institution], shall be responsible in ascertaining whether the external training provider has an adequate track record of successfully conducting training programs preferably on financial institution-oriented courses including, but not limited to, AML/CFT training;

14. Timely renewal of the business permits of all of its offices, which indicate the line of business, from the city or municipality having territorial jurisdiction over the place of establishment and operation of the respective offices; and

15. Responsibility over violations of any of the aforementioned laws, rules and regulations, subject to the applicable sanctions prescribed under Sections 36 and 37 of R.A. No. 7653, as amended, in relation to Section 17 of P.D. No. 114.

Signature over Printed Name of the Proprietor/All Partners/All Members of the Board of Directors) and Key Executive Officers	Designation
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____

[*Insert additional rows, as applicable*]

SUBSCRIBED AND SWORN to before me this__day of _____ 20__, affiants exhibiting to me their government-issued identification cards, as follows:

Name	Gov't. ID No.	Valid Until
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

[*Insert additional rows, as applicable*]

Notary Public

ANNEX B

COMPANY NAME

BUSINESS ADDRESS

PERSONAL DATA and AUTHORIZATION FORM

NAME

POSITION

ID picture taken within the last 6 months
3.5 cm. x 4.5 cm. (passport size)

Computer generated or photocopy of picture is not acceptable

I, [Name], after being sworn in accordance with law, do hereby:

a. Certify that the information contained in this document and its supporting schedule of my own knowledge is true and correct.

b. Authorize the following, pursuant to the provisions of Sec. 103-P of the Manual of Regulations:

1. [Name of Institution] to conduct a background investigation on myself as [position] in [Name of Institution] which include, among others, inquiring from the Watchlist Files of the Bangko Sentral ng Pilipinas; and

2. The Bangko Sentral ng Pilipinas to disclose its findings pertinent to the aforementioned inquiry on the said Watchlist Files and other sources to [Name of Institution].

With the above authorization, I hereby waive my right to the confidentiality of the information that will be obtained as a result of the said inquiry, provided that disclosure of said information will be limited for the purpose of ascertaining my qualification or non-qualification for the said position.

Signature over Printed Name

SIGNED IN THE PRESENCE OF:

(Witness) (Witness)

SUBSCRIBED AND SWORN to before me this ____ day of_____20__, affiant exhibiting to me his/her _____ issued at _____ on _____.

Notary Public

BIOGRAPHICAL DATA

PERSONAL INFORMATION:

		SURNAME	GIVEN	MIDDLE	SUFFIX (*e.g. Jr.)*
1.	NAME:				

2. TIN: _____ 3. UPDATES AS OF: _____

4. OTHER NAMES USED, IF ANY: _____

5. MANAGEMENT LEVEL: ☐ Director ☐ Officer

6. DATE ELECTED/RE-ELECTED/APPOINTED/POSITION CHANGED: _____

7. RESIDENCE ADDRESS: _____

8. TELEPHONE NO.: _____ 9. E-MAIL ADD: _____

10. BUSINESS ADDRESS: _____

11. TEL. NO.: _____ 12. E-MAIL ADD: _____

13. CIVIL STATUS: ☐ Single ☐ Married ☐ Divorced/Separated ☐ Widow

14. SEX: ☐ Male ☐ Female 15. CITIZENSHIP: _____

16. DATE OF BIRTH: _____ 17. PLACE OF BIRTH: _____

FAMILY RELATIONS (Legitimate or Common-Law):

	SURNAME	GIVEN	MIDDLE	SUFFIX (*e.g. Jr*)
18. NAME OF SPOUSE				

	SURNAME	GIVEN	MIDDLE	SUFFIX (*e.g. Jr*)
19. NAME OF COMMON-LAW SPOUSE				

(Please indicate "N/A" for fields that are not applicable)

NAME	TIN	UPDATED AS OF

TRAINING/S:

20. Seminars/Training on Money Service Business, AML/CFT and other related fields

NATURE/TITLE	CONDUCTED BY	YEAR TAKEN

(*continue in separate sheet if necessary*)

WORK EXPERIENCE/S:

21. Present Position – Other Private Institution (Including Corporate Directorship)

NAME OF OFFICE	POSITION	DATE ASSUMED	INDICATE IF OWNER/PARTNER/STOCKHOLDER

(*continue in separate sheet if necessary*)

22. Present Position/s – Government (Including Directorships in Government Corporate Institutions)

NAME OF OFFICE	POSITION	DATE ASSUMED	INDICATE IF ELECTIVE OR APPOINTIVE AND PART/FULL-TIME

(*continue in separate sheet if necessary*)

23. Past Position/s – Other Private Institutions (Including Corporate Directorships)

NAME OF OFFICE	POSITION	DURATION (YEAR) FROM	TO

(*continue in separate sheet if necessary*)

24. Past Positions – Government (Including Directorship to Government Financial Institution)

NAME OF OFFICE	POSITION	DURATION (YEAR) FROM	TO

(*continue in separate sheet if necessary*)

(Please indicate "N/A" for fields that are not applicable)

DOCUMENTARY REQUIREMENTS FOR TRANSFER OF OWNERSHIP OF A PAWNSHOP BUSINESS OPERATED BY A SOLE PROPRIETOR
(Appendix to Sec. 122-P on Transfer of Ownership)

The transferor pawnshop operator shall file the following documents with the appropriate supervising department of the Bangko Sentral at least ten (10) working days before transferring the ownership of the pawnshop business:

a. Notarized statement by proprietor stating that:

   (1) The pawnshop's books of accounts, records and documents shall be preserved for five (5) years from the date of last entries before the transfer of ownership.

   (2) All unused accountable forms such as official receipts and pawn tickets have been destroyed to prevent their unauthorized use.

   (3) The transferor pawnshop operator shall be liable for all claims arising from transactions of the pawnshop prior to the effective date of transfer, unless the transferee pawnshop operator assumes such liability, in which case, such transferee pawnshop operator shall submit a notarized statement to that effect.

   (4) All outstanding pawns have been redeemed or sold at public auction, or otherwise disposed of in accordance with law; or the owners of outstanding pawns have been notified by registered mail on the transfer of ownership of the pawnshop.

b. Original Bangko Sentral Authority to Operate issued to the transferor pawnshop operator, or an affidavit in case of loss.

c. Payment of Bangko Sentral assessment on the pawnshop, if any, such as for non-submission or delayed submission of required reports and/or annual supervisory fees.

If the transferee shall continue the operation of the pawnshop, he shall comply with the provisions of Sec. 102-P (Form of organization) of these regulations. The transferee shall also submit a copy of the duly executed contract effecting the transfer of ownership.

(Circular No. 938 dated 23 December 2016)

DOCUMENTARY REQUIREMENTS FOR THE SURRENDER OF PAWNSHOP OPERATOR LICENSE

(Appendix to Sec. 172-P on Surrender of Pawnshop Operator License Due to Closure of Business)

The following requirements must be submitted to the appropriate supervising department of the Bangko Sentral for the surrender of the pawnshop operator license at least thirty (30) calendar days prior to the intended closure of business:

a. Notarized statement stating that:

   (1) The pawnshop's books of accounts, reports, records and documents shall be preserved for at least five (5) years from date of last entry;
   (2) All unused accountable forms have been destoyed to prevent their unauthorized use;
   (3) Pawnshop operator shall be held liable for present or future claims arising from its pawnbroking transactions; and
   (4) All outstanding pawns have been redeemed/sold at public auction, or otherwise disposed of, in accordance with law.

b. Original Bangko Sentral Authority to Operate issued to the pawnshop operator; and
c. The metal plate/s issued by the Bangko Sentral to the pawnshop.

Remittance of penalties or Bangko Sentral assessments on the pawnshop, if any, such as for non-submission/delayed submission of required reports.

(Circular No. 938 dated 23 December 2016)

STANDARD PAWN TICKET FORMAT
(Appendix to Sec. 313-P on Stipulations in Pawn Ticket)

A. Front of pawn ticket:

BUSINESS/REGISTERED NAME
Address
Telephone Number
Taxpayer Identification Number

Serial No. **Original**

Name of Pawner:		Amount of Loan:	
Address of Pawner:		Interest:	
		Service Charge (in amount):	
		Other Charges, if any:	
		Net Proceeds:	
Appraised Value of Pawn:		Effective Interest Rate in percent: _____	
Date Loan Granted:		Per annum ☐ Per Month ☐ (Others) ☐	
Maturity Date:			
Expiry Date of Redemption:		Penalty Interest, if any:	
Description of the Pawn:			

B. Back of pawn ticket:

TERMS AND CONDITIONS OF STANDARD PAWN TICKET

1. The pawner hereby accepts the pawnshop's appraisal as proper.

2. The pawnshop hereby agrees not to collect advance interest for a period of more than one (1) year.

3. This loan is renewable for such amount and period as may be agreed upon between the pawnshop and the pawner subject to the same requirements for a new loan.

4. Upon maturity of this loan, as indicated above, the pawner still has ninety (90) days from maturity date within which to redeem the pawn by paying the principal loan plus the interest that shall have accrued thereon.

5. The amount of interest due and payable after the maturity date of the loan up to the redemption period shall be computed upon redemption at the rate of interest provided above based on the sum of the principal loan and interest earned as of the date of maturity. Any additional penalty and/or interest shall also be computed in the same manner.

6. The pawnshop shall notify the pawner of any change in its business address/location.

7. The pawner shall advise the pawnshop of any change of address/contact number/e-mail address.

8. The pawnshop shall send a reminder to the pawner in the preferred mode of notification given above, or at the new address/mobile phone number or e-mail address, if such was provided by the pawner on or before the maturity date. The pawnshop shall have the right to sell dispose of the pawn if the pawner fails to redeem it within the ninety (90)-day grace period.

9. This ticket shall be surrendered at maturity date upon payment of the loan. In case of loss or destruction of this ticket, the pawner hereby undertakes to personally present an affidavit to the pawnshop before the redemption period expires. The pawnshop has two (2) days to decide whether to accept (1) the affidavit in place of the original pawn ticket; or (2) to issue a substitute pawn ticket, thereby cancelling the original.

10. The pawner shall not assign, sell or in any other way alienate the pawn securing this loan without prior written consent of the pawnshop. If the pawnshop agrees, the terms and conditions of this contract remain enforceable.

11. In case of pre-payment of this loan by pawner, the interest collected in advance shall accrue in full to the pawnshop.

12. The pawner shall not be entitled to the excess of the public auction sale price over the amount of principal, interest and service fee; neither shall the pawnshop be entitled to recover the deficiency from the pawner.

(Signature or Thumb mark) Pawner	(Signature) Pawnshop's Authorized Representative

(Circular Nos. 974 dated 29 September 2017 and M-2017-003 dated 27 January 2017)

GUIDELINES ON GRANTING OF A LICENSE/AUTHORITY
***(Appendix to Sec. 111-P on Licensing*)**

I. Guiding principle

The Bangko Sentral, the licensing authority, has the power to set criteria and reject applications that do not comply with the criteria/standards set. In this light, the Bangko Sentral is providing the following guidelines on its licensing process to establish accountability and promote transparency to banks and BSFIs wishing to apply for any licenses/authorities within the jurisdiction of the Bangko Sentral. These guidelines also aim to provide more consistency in how risk-focused supervision is applied to licensing process.

The Bangko Sentral will not restrict the scope of risk-taking activities of BSFIs consequent of the licenses and/or authorities granted: *Provided,* That these licenses and/ or authorities are in line with their business model and strategic direction: *Provided, further,* That BSFIs demonstrate the capacity and ability to implement these strategies.

As indicated in the new licensing policy, applications for licenses and/or authorities are categorized as follows:

a. *Type "A"* – applications for licenses and/or authorities where compliance with the defined prudential requirements/criteria described in Sec. 111-P (*Prudential criteria*) is a pre- condition for applicants to be considered eligible;

b. *Type "B"* – applications for licenses and/or authorities processed regardless of risk profile; and

c. *Type "C"* - activities which no longer require submission of applications and processing but shall be subject to submission of reports/certification/notification within stated deadlines. However, compliance with pre-qualification requirements is subject to post verification and any false information and/or misrepresentation may be a basis for the imposition of appropriate enforcement actions described in Sec. 111-P (*Enforcement actions*).

II. Guidelines and procedures

1. *Process flow.* The licensing application process involves four (4) stages, to wit:

   a. *Stage 1. Eligibility test and assessment.* The Bangko Sentral shall consider an applicant's eligibility for licenses/authorities categorized as *Type "A"* in accordance with the standards and/or prudential criteria described in Sec. 111-P (*Prudential criteria*); and whether approval thereof is consistent with applicable laws, rules, regulations, policies and safety and soundness considerations.

   In this regard, BSFIs shall signify to the appropriate supervising department of the Bangko Sentral its interest to apply for a license(s) or authority/ies. However, the Bangko Sentral expects each BSFI to have conducted self-assessment vis-à-vis prudential criteria and/or requirements to determine whether it is eligible and/or qualified to apply for any specific license/authority, prior to signifying its interest.

   BSFIs with CAMELS composite rating of below *"3"*, or under PCA or rehabilitation may still be considered eligible, on a case by case basis, upon showing valid justifications and/or verifiable evidence of significant compliance with the comprehensive PCA plan (PCAP)/rehabilitation plan approved by the Bangko Sentral and/or if licenses and/or authorities applied for are vital to the implementation of the PCAP/rehabilitation plan.

   b. *Stage 2. Application.* The BSFI upon receipt of notice and/or confirmation from the Bangko Sentral of its eligibility can now formally submit its application letter together with the documentary requirements, as applicable to the license/authority applied for. Applications with incomplete documentation will be returned without prejudice to re-submission of a complete application and collection of applicable fees.

   c. *Stage 3. Processing.* Upon receipt of a complete application, the appropriate supervising department of the Bangko Sentral shall proceed in preparing the memorandum elevating to the appropriate approving authority of the Bangko Sentral its recommended action/s.

   d. *Stage 4. Decision.* Within five (5) working days upon approval and/or confirmation from the appropriate authority of the Bangko Sentral, BSFIs shall expect to be notified of the decision on their request / application.

The Bangko Sentral may request information and/or documents aside from the minimum documentary requirements for each type of license/authority to arrive at an informed decision. It may also conduct limited inspection or validation, when warranted.

The Bangko Sentral may approve any application of an eligible applicant after evaluating the application and considering relevant factors. Likewise, the Bangko Sentral may deny applications if (a) significant supervisory or compliance concerns exist or (b) the applicants fail to provide material information necessary to make an informed decision.

2. *Responsibility*

The Bangko Sentral expects each applicant to prepare accurately and completely each application/certification/ reports submitted to the appropriate supervising department of the Bangko Sentral.

By virtue of the application, the applicant authorizes the Bangko Sentral to conduct an on-site evaluation or inspection for the purpose of ascertaining compliance with relevant laws, rules, regulations and/or directives, and/or applicant's risk management capabilities, when warranted.

For this purpose, the applicant shall include in its application letter the authorization in favor of the Bangko Sentral giving its consent to the conduct of on-site verification of the documents and/or representations stated in the application filed in connection with the license or authority applied for.

3. *Fees*

An applicant, depending on its classification and type of license/authority applied for, shall be assessed the following fees per application:

a. *Processing fee* - shall be charged upon filing of an application and is non-refundable. In case of re-submission of application that is returned for incomplete documentation, another processing fee shall be charged anew; and

b. *Licensing fee* - shall be charged to certain application upon approval. The licensing fee shall be net of the processing fee.

For banks, assessed fees shall be debited from the applicants' demand deposit account with the Bangko Sentral upon the lapse of fifteen (15) calendar days reckoned from receipt of Bangko Sentral's decision on its request/application. For this purpose, banks shall, upon filing of an application, state in its application letter the authority to debit their demand deposit account with the Bangko Sentral for the applicable fees to the license or authority applied for. Otherwise, assessed fees shall be paid to the Bangko Sentral.

4. *Post decision*

Unless otherwise prescribed by the Bangko Sentral, an applicant may file a new application for a denied and/or withdrawn application after the lapse of six (6) months reckoned from the date of denial/withdrawal: *Provided,* That any weaknesses, deficiencies and/or non-compliance with any laws, rules, regulations and/or directives that made the applicants ineligible have already been satisfactorily addressed.

(Circular No. 947 dated 15 February 2017)

CHART OF ACCOUNTS AND DESCRIPTION
OF LOAN REGISTER OF PAWNSHOPS
(Appendix to Sec. 161-P on Records and Reports)

A. *General Ledger.* The General Ledger is the controlling record of all subsidiary ledger accounts. The general ledger accounts shall be grouped as follows:

1. *Assets* - Asset accounts shall consist of the following:

    a. Cash on hand and in banks;
    b. Pledge loans;
    c. Land;
    d. Building;
    e. Furniture and fixtures;
    f. Office equipment;
    g. Leasehold improvements;
    h. Investment in securities; and
    i. Other assets.

    Other assets shall include all assets not included in any of the above classification, such as prepaid expenses, advances, accounts receivables.

2. *Liabilities* - Liabilities represent obligations of the pawnshop, such as:

    a. Loans payable;
    b. Accounts payable; and
    c. Other liabilities.

    Other liabilities are liabilities not included in the above classification, such as SSS premiums and medicare, tax withheld, accruals.

3. *Capital* - Capital at the end of the year is the excess of assets over liabilities, or the sum of paid-in capital, surplus or retained earnings accounts and net income for the year. The accounts under this group shall consist of the following:

    a. Capital/capital stock;
    b. Drawings;
    c. Retained earnings; and
    d. Net income for the year.

4. *Income* - This account represents the "general ledger control" account for all income of the pawnshop. An "Income Subsidiary Ledger" shall be maintained and the total of this ledger shall equal the balance of "Income Control" account of the general ledger at all times.

    The "Income Subsidiary Ledger" shall contain the following accounts:

    a. Interests - pledge loans;
    b. Service charges;
    c. Gain or loss at auction sale;
    d. Interests on securities; and
    e. Other income.

5. *Expenses* - The expenses account shall include the following:

    a. Salaries and allowances;
    b. Interest on borrowed money;
    c. Rental;
    d. Depreciation;
    e. Light and water;
    f. Taxes and licenses;
    g. SSS contribution;
    h. Costs of telephone, postage and/or telegram;
    i. Stationery and/or supplies; and

j. Miscellaneous expenses.

B. *Registers.* The following registers shall be maintained to trace loan transactions.

1. *Loans Extended Register* – Every pawnbroker shall keep a "Loans Extended Register" in which shall be entered in ink, at the time of each loan or pledge transaction, an accurate account and description in English, with corresponding translation in the local dialect, the following minimum data:

   a. Date of transaction;
   b. Number of pawn ticket;
   c. Amount of money loaned or principal;
   d. Rate of interest to be paid, in percent;
   e. Service charge collected;
   f. Description of pawn;
   g. Appraised value of pawn;
   h. Name of pawner;
   i. Address of pawner;
   j. Description of the pawner, including:

      (1) Nationality;
      (2) Sex; and
      (3) General appearance; and

   k. Signature or thumbmark of the pawner and the name of the pawner written by and signature of the witness to the thumbmarking.

2. *Loans Paid Register* - A "Loans Paid Register" shall be maintained in which shall be entered in ink, the principal and interest payments of loans. It shall contain the following minimum data:

   a. Date of payment;
   b. Number of pawn ticket;
   c. Name of pawner;
   d. Principal amount;
   e. Amount of interest paid; and
   f. Signature or thumbmark of the pawner and the name of the pawner written by and signature of the witness to the thumbmarking.

A pawnshop that uses a computerized system may record its loan transactions in individual loan extended vouchers which shall contain the same information enumerated above in lieu of the loan extended and loans paid registers. Such pawnshops shall periodically compile or bind the loan extended vouchers and shall be made available for Bangko Sentral examination upon request.

(Circular No. 974 dated 29 September 2017 and M-2017-003 dated 27 January 2017)

LIST OF REPORTS REQUIRED FROM PAWNSHOPS

(Appendix to Sec. 161-P)

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
A-2	BSP 7-26-02C	Sec. 161-P (*Cir. No. 974 dated 09.29.17 and M-003 dated 01.27.17*)	Statement of Condition (SOC) (Head office with no branch)	Annually	30-April	SDC
			Consolidated Statement of Condition (Head office and branches)	-do-	-do-	-do-
A-3	Unnumbered	Sec. 114-P (*Reportorial Requirements*) (*Cir. No. 1033 dated 02.22.19*)	EPFS Transactions and Indicators	Monthly	15 banking days after end of reference month	sdc-ccbar@bsp.gov.ph
A-3	Unnumbered	Sec. 114-P (*Reportorial Requirements*) (*Cir. No. 1033 dated 02.22.19*)	Changes and Enhancements in EPFS	Semi-annually	15 banking days after end of reference semester	sdc-ccbar@bsp.gov.ph
A-3	BSP 7-26-03C	Sec. 161-P (*Cir. No. 974 dated 09.29.17 and M-003 dated 01.27.17*)	Statement of Income and Expenses (Head office with no branch)	-do-	-do-	-do-
			Consolidated Statement of Income and Expenses (Head office and branches)	-do-	-do-	-do-

B	Unnumbered (no prescribed form)	Sec. 162-P *(Circular No. 1075 dated 7 February 2020, 974 dated 09.29.17 and M-003 dated 01.27.17)*	Audited Financial Statement (AFS) together with attachments listed in Appendix P-18	Annually	Not later than 120 calendar days after the close of the calendar year	Appropriate supervising department of the Bangko Sentral
B	Unnumbered	Sec. 161-P *(Reports on Crimes/Losses) (Circular No. 974 dated 09.29.17 and M-003 dated 01.27.17)*	Report on Crimes/Losses	As crime or incident occurs	5th business day from knowledge of crime/incident	-do-
B	Unnumbered	Sec. 161-P *(Cir. No. 1104 dated 27 November 2020)*	Report on Crimes/Losses	As crime/incident occurs		*Soft copy to the appropriate supervising department of the Bangko Sentral*
			- Initial		Within ten (10) calendar days from the knowledge of the crime/incident	
			- Final		Within twenty (20) calendar days from termination of investigation	
A-2	Unnumbered	Sec. 501-P *(Circular No. 974 dated 09.29.17 and M-003 dated 01.27.17)*	Report on Suspicious Transactions	As transaction occurs	5th business day from date of transaction/knowledge	Anti-Money Laundering Council
A-2	Unnumbered	Sec. 501-P *(Circular No. 974 dated 09.29.17 and M-003 dated 01.27.17)*	Report on Covered Transactions	-do-	5th business day from date of transaction/knowledge	Anti-Money Laundering Council

A-3	Unnumbered	Sec. 501-P *(Circular No. 974 dated 09.29.17 and M-003 dated 01.27.17)*	Report on Borrowings of Bangko Sentral Personnel	Quarterly	15th business days after end of reference quarter	SDC
B	Unnumbered	Sec. 142-P (*Cir. No. 1019 dated 31 October 2018*)	Reportable Major Cyber-Related Incidents	As incidents occur	Within two (2) hours upon discovery Within twenty-four (24) hours from discovery	citsg@bsp.gov.ph[1] citsg@bsp.gov.ph
B	Unnumbered	Sec. 142-P (*Cir. No. 1019 dated 31 October 2018*)	Disruptions of financial services and operations	As disruptions occur	Within two (2) hours upon discovery Within twenty-four (24) hours from discovery	citsg@bsp.gov.ph citsg@bsp.gov.ph
A-2	Unnumbered	Sec. 161-P (*Cir. No. 1075 dated 07 February 2020* and *Cir. No. 1039 dated 3 May 2019*)	List of operating and closed Pawnshop offices[2]	Semestral	10 business days after end of reference semester	Appropriate supervising department of the Bangko Sentral
B		*(Cir. No. 1117 dated 27 May 2021)*	Monthly Report on the Sale/Transfer and Investment Transactions of BSFIs under the Financial Institutions Strategic Transfer (FIST) Act		20 banking/business days after end of reference month	E-mail to the DSA

[1] For speedy identification, the email transmission should use the following required format as the subject:
<EDRN>underscore<eventtype>underscore<bank/NBQB name>underscore<reportstatus>underscore<yyyymmdd>
EDRN refers to event driven reporting and notification. The event type will either be "**Cyber**" for major cyber-related reportable incidents or "**Disruption**" for disruptions of financial services and operations. The report status refer to either "**IM-Notice**", for the immediate notification upon discovery of the incidents or "**Follow2**" for the follow-up report indicating the details as prescribed in the preceding section, e.g.,:
To: citsg@bsp.gov.ph
Subject: EDRN_Cyber_Bank A_IM-Notice_20180731

[2] The appropriate supervising department of the Bangko Sentral shall issue the submission guidelines and prescribed reporting template for this report.

REPORTING GUIDELINES ON CRIMES/LOSSES
(Appendix to Sec. 191-P on Records and Reports)

(As deleted by Circular No. 1104 dated 27 November 2020, and as amended by Circular No. 974 dated 29 September 2017 and M-2017-003 dated 27 January 2017)

NATIONAL RETAIL PAYMENT SYSTEM (NRPS) FRAMEWORK
(Appendix to Sec. 401-P)

A. NRPS Framework

The NRPS is a policy and regulatory framework that aims to establish a safe, efficient, and reliable electronic retail payment system in the Philippines. Given that retail payment systems contribute to the stability and efficiency of the financial system as a whole, the attainment of the NRPS vision will help achieve higher economic growth and enhance overall competitiveness of our economy.

With the rapid evolution of retail payments due to advancements in technology, retail payments related activities of BSFIs introduced a complex interplay of different types of risks. Thus, while the Bangko Sentral promotes the modernization of the country's retail payment system in accordance with the NRPS Framework, it is critical to ensure that enabling policies and a multifaceted approach to strengthening risk management are timely adopted, and greater attention is devoted to retail payments activities of BSFIs such as clearing and settlement.

In carrying out these activities, BSFIs are expected to adhere to the NRPS Framework and measures aimed at strengthening risk management as set forth in Sec. 803 and this Appendix. Hence, the retail payment system and activities that BSFIs participate in should establish the following:

1. Strengthened risk management through a better, holistic and multi-stakeholder approach to governance, and an enhanced transparency of clearing and settlement transactions classified according to risk profile.

2. Augmented efficiencies and effectiveness in the retail payment system by minimizing duplicative efforts, promoting interoperability among retail payment system participants, standardizing clearing and settlement rules, and harmonizing various initiatives towards the achievement of the shared goals of safe, reliable and efficient retail payment system.

3. Continued compliance with Bangko Sentral rules and regulations particularly on information technology, consumer protection, and AML/CFT.

Retail payments under the NRPS Framework are payments that meet at least one of the following characteristics: (i) the payment is not directly related to a financial market transaction; (ii) the settlement is not time-critical; (iii) the payer, the payee, or both are individuals or non-financial organizations; and (iv) either the payer, the payee, or both are not direct participants in the payment system that is processing the payment. This definition of retail payment includes person-to-person, person-to-business, business-to-person, business-to-business, person/business-to-government, and government-to-person/business payments.[1] On the other hand, large-value payments refer to payments, generally of very large amounts, which are mainly exchanged between banks or between participants of financial markets and that usually require urgent and timely settlement.

The Bangko Sentral, as a central bank, generally plays a variety of essential roles in the payment system by being an operator of the real-time gross settlement system (RTGS), an overseer in core payment arrangements, a user and participant of payment services, and, most critically, a catalyst for payment system reform. lt is through the performance of these roles that the Bangko Sentral seeks to acquire a broader and holistic perspective on the role and the status of the payment system in the financial system and the economy in accordance with one of the pillars of central banking of promoting safe and efficient payment systems in the country.

1. Key Principles

    a. Governance of the payment system shall be separate and distinct from the actual clearing operations to enable the retail payment system participants to effectively and efficiently deploy resources to focused and specialized activities. The governance of the payment system includes the establishment and implementation of standards and rules among payment system participants.

    b. Sound governance shall be performed by an industry-led self-governing body that is duly recognized and overseen by the Bangko Sentral.

    c. All qualified BSFIs may apply to be direct clearing participants and, as such, participate in the governance structure.

[1] Developing a comprehensive National Retail Payments Strategy, Financial Infrastructure Systems Policy and Research, World Bank, October 2012, available at http://siteresources.worldbank.org/FINANCIALSECTOR/Resources/Developing_a_ comprehensive_national_retail_payments_strategy_for_G PW _IO _20%2BvL%29.pdf.

d. All clearing participants shall subscribe to and comply with the PSMB-formulated principles, policies, and business rules that will govern the payments system.

e. All clearing shall be done within the NRPS governance structure. Bilateral clearing arrangements outside of the NRPS governance structure are considered as undertakings that carry risks that cannot be identified, measured, monitored and/or controlled, nor can said undertakings be properly considered in attaining a holistic perspective and improving governance of the retail payment system. Hence, bilateral arrangements outside of the NRPS governance structure shall not be allowed and failure to comply therewith shall result in deployment of appropriate supervisory actions from the Bangko Sentral.

f. All significant retail payment streams shall be covered by an ACH.

g. Non-discriminatory participation shall be espoused in the retail payment system by allowing all qualified direct clearing participants to participate in the formulation of standards and rules, as well as participate in business arrangements.

h. A reasonable market-based and transparent pricing mechanism shall be adopted by all BSFIs which are clearing participants. Reasonable service fees shall be allowed only for actual services rendered directly related to the delivery of electronic financial and payment services to clients of a BSFI.

i. Bangko Sentral policies and supervisory actions, not directly involving payments governance within the scope of the PSMB, shall be addressed directly to the individual payment system participants as BSFIs.

2. Objectives:

a. To enable effective and efficient interface and interoperability using shared and resilient infrastructure;
b. To foster innovation and new business models;
c. To promote fair access and competition amongst NRPS participants;
d. To facilitate the provision of a wide range of payment products and services with needed certainty, affordability (based on a reasonable market-based pricing methodology) and trust; and
e. To make relevant information on retail payment system available to concerned stakeholders.

The NRPS Framework espouses the cooperation of different competitors, or what is known as *"coopetition"*, in the domestic retail payments by delineating areas to be covered between the cooperative and the competitive spheres.

It is recognized that certain areas are dedicated for cooperation and collaboration among BSFIs participating in the retail payment system towards the common goals of safety, efficiency, reliability and resiliency. This cooperative sphere centers on the clearing and settlement activities of BSFIs which shall collaborate through the formulation and implementation of clearing and settlement standards, rules, and agreements under a formal governance structure that conforms to the NRPS principles.

To complement the cooperative sphere is the competitive sphere where the NRPS principles promote competition through innovation in the delivery of quality and cost-effective financial products and services, the creation of new business models customized to the needs of target consumers, and the development of services with a higher level of security, among others. The competitive sphere shall be governed by reasonable, transparent and effective consumer pricing mechanisms to allow BSFIs cost-recovery and fair financial returns. Each BSFI shall be responsible for prescribing its pricing mechanisms for its financial products and services taking into consideration, among others, the nature of the product or service, the market segment to be served and the costs incurred to provide such product or service.

B. Governance - Payment System Management Body (PSMB)

The PSMB is an industry-led self-governing body that is duly recognized and overseen by the Bangko Sentral.

To attain a holistic perspective and multi-stakeholder organized structure that would bring about good governance in the retail payment system, BSFIs shall adhere to the following key principles when engaging in clearing activities and must do so only within the NRPS governance structure.
Key Principles

a. The retail payment transactions covered under the NRPS governance structure shall be as follows:

i. For card-based instruments, the card shall be both issued and acquired locally; and
ii. For online, mobile, or other electronic payment instructions/instruments, the account of payer (sender) and account of payee (recipient) shall be both maintained with BSFIs that are licensed to offer EFPS.

b. The PSMB shall be a not-for-profit juridical entity.

c. The PSMB shall adopt a Charter in consultation with the Bangko Sentral.

d. The PSMB membership criteria shall, at all times, be consistent with the NRPS Framework and Bangko Sentral regulations, in addition to the following principles:
   i. All qualified direct clearing participants should be members of the PSMB.
   ii. To be a PSMB member, a BSFI shall be a participant in at least one (1) ACH and actively participate in an ACH within one (1) month of joining the PSMB.
   iii. Each PSMB member shall be entitled to only one (1) vote.

e. The PSMB shall be funded by the members on an agreed basis.

f. The PSMB shall be governed by a PSMB board which shall observe the following principles:

   i. The PSMB board shall have multi-stakeholder representation in accordance with the volume of the risk-taking activities, such as clearing volume, within a specified time frame [e.g., immediately preceding twenty four (24) months]. The basis for computing the clearing volume across all ACHs or payment streams shall include all payment streams with clearing activities as of the date when the election of the PSMB board is called, except if a valid reason is shown to limit the parameters.

   ii. The PSMB board shall also abide by sound corporate governance practices which may include, but is not limited to, allocating seat/s for independent board member/s or board member/s that represent/s the broader public interest and has/have competence and experience in the payments field.

   iii. The PSMB board members shall appoint as official representative their chief executive officer (CEO) and designate a formal alternate who can act with full authority (e.g., voting, approval, decision-making, and others).

   iv. Each PSMB board member shall have one (1) vote.

   v. No two (2) PSMB board members shall come from the same group of companies where one is majority-owned or controlled by the other company.

   vi. The Chairperson shall be elected among PSMB board members and shall not serve for two (2) successive terms.

g. The PSMB shall be independent from the clearing switch operator/s with respect to business operations.

h. All BSFIs that are part of the NRPS governance structure shall subscribe to and comply with the PSMB-formulated principles, policies, and business rules that will govern the payments system provided such PSMB-formulated principles, policies and business rules are in conformity with the NRPS Framework and principles as well as applicable laws and regulations.

1. Objectives

a. The PSMB will provide sound governance to the retail payment system and serve as a forum of collaboration for ensuring appropriate conditions for retail payments in the country. Towards this end, the PSMB will perform these functions with respect to its members:

   i. Ensure compliance by PSMB members with criteria, standards and rules promulgated and adopted by the PSMB's membership and PSMB board, as applicable.

   ii. Set policies and standards on clearing activities of PSMB members.

   iii. Standardize retail clearing agreements across payment streams, which may include minimum guideline on the content of service level agreements with CSOs.

   iv. Manage members' conformance to multilateral retail clearing agreements.

   v. Review applications for establishment of ACHs and to accordingly approve the formation thereof to ensure, among others, that the NRPS principle of a payment stream falling only under one (1) ACH is observed by PSMB members.

vi. Prescribe policies and rules to promote visibility of retail clearing and resulting settlement positions to manage risks resulting from or associated with clearing and settlement activities.

vii. Set forth policies, rules and/or standards to ensure that no anti-competitive activities occur in clearing operations of PSMB members.

viii. Promote fair access to the payment system amongst PSMB members.

ix. Enable effective and efficient interface and interoperability using shared and resilient infrastructure.

x. Establish a dispute resolution mechanism for PSMB members on matters not covered or cannot be resolved under the ACH dispute resolution framework.

xi. Provide a clearing environment that will support payments innovation and the adoption of new business models by the payment system participants.

C. Automated Clearing House (ACH)

The ACH is a multilateral legally binding agreement amongst clearing participants. The ACH shall govern clearing and settlement determination.

To promote interoperability and standardize clearing and settlement rules and procedures, BSFIs are expected to observe the following key principles in forming and participating in ACHs under the NRPS governance structure.

1. Key Principles

   a. ACHs shall be created and differentiated based on payment streams, which comprise of payment instruments or instructions, business rules, clearing activities and risk considerations which are of similar nature or which create similar risk profiles.

   b. A payment stream can fall under only one (1) ACH.

   c. The formation of and participation in an ACH shall be open to all qualified clearing participants.

   d. The formation of an ACH shall be considered a business arrangement to be agreed upon between participants of an ACH.

   e. An ACH shall engage the services of only one (1) clearing switch operator.

   f. PSMB members may be part of more than one (1) ACH Participant Group and/or participate in more than one (1) AcH, provided the PSMB member meets the requirements for participating in such ACH.

   g. At least two (2) direct clearing participants can initiate the creation of an ACH subject to the recognition of the PSMB Board, or in the absence of a PSMB, the Bangko Sentral.

2. Salient Features

   a. ACH participants shall elect representatives to an ACH Participant Group, which once recognized by the PSMB, shall draw up and implement ACH rules and agreements and contract a qualified clearing switch operator. To assist in drafting the ACH agreements, the Participant Group may nominate a Working Group to formulate draft agreements subject to the former's approval.

   b. The assignment of a new ACH to an existing or new ACH Participant Group shall be approved by the PSMB Board.

   c. Where a new ACH Participant Group has to be formed, it shall be recognized by the PSMB Board once its charter has been accepted by the ACH participants and meets the PSMB criteria for an ACH Participant Group.

D. Clearing Switch Operator (CSO)

The CSO provides clearing switch services.

To augment efficiencies in the retail payment system while ensuring a robust and resilient infrastructure underlying retail payment transactions of BSFIs, BSFIs should observe the following key principles in engaging the services of CSOs relative to the delivery of a retail payment product or service within the NRPS governance structure.

1. Key Principles

    a. The operations of the CSO that services an ACH shall be limited to the provision of clearing and other services that do not compete with services offered by BSFIs participating in the ACH.

    b. Clearing switch operations shall be conducted effectively and efficiently consistent with international standards as this is a critical prerequisite for the functioning of all the various systems supporting and underlying retail payment services.

    c. The CSO shall have a reliable, resilient, robust, and secure infrastructure to ensure consistency and continuity of services under different operating conditions.

    d. The CSO shall be a duly licensed entity in the Philippines. Entities organized under the laws of countries other than the Philippines shall secure a license to do business in the Philippines and comply with the Foreign Investments Act of 1991 as well as other applicable laws and regulations.

    e. A CSO can extend service to multiple ACHs.

    f. Each ACH, through their designated CSO, shall individually settle their clearing results through the RTGS system operated by the Bangko Sentral.

(Circular No. 980 dated 06 November 2017)

GUIDELINES ON EUROPAY, MASTERCARD AND VISA (EMV) IMPLEMENTATION
(Appendix to Sec. 142-P)

A. Background

In response to the increasing sophistication of frauds perpetrated through magnetic stripe (magstripe), international payment networks have orchestrated the shift towards EMV chip-enabled card. The EMV is an interoperability standard for chipbearing smart card technology defined by EMVCo in 1994, adoption of which has resulted to significant reduction in card frauds due to skimming[1] and counterfeiting.

To outpace and manage fraudsters' shift towards jurisdictions that are still using magstripe, Bangko Sentral supervised financial institutions (BSFIs) via Circular No. 808 dated 22 August 2013 were required to migrate their entire payment network to the more secure EMV chip-enabled cards.

B. Statement of Policy

It is the policy of the Bangko Sentral to foster the development of safe, secure, efficient, and reliable retail payment systems, protect the integrity and confidentiality of customer accounts and information and uphold consumer protection.

C. Scope

These guidelines shall govern the migration to and implementation of EMV of all BSFIs with debit card issuing and acquiring functions. For credit card, only cash advance transaction at Automated Teller Machines (ATMs) shall be covered since other credit card transactions are governed by the rules of the international payment networks.

It is incumbent upon all affected BSFIs to ensure that other key players in the domestic payment network comply with these guidelines.

For purposes of the subject guidelines, payment transactions covered are limited to card present and contact transactions in ATMs, POS terminals and other similar devices. Guidelines governing card-not-present as well as contactless transactions shall be issued separately.

D. Definition of Terms

1. *EMV,* which stands for Europay, MasterCard and Visa, is a global standard for credit, debit and prepaid payment cards based on chip card technology. EMV chip-based payment cards, also known as smart cards, contain an embedded microprocessor, a type of small computer. The microprocessor chip contains the information needed to use the card for payment, and is protected by various security features. Chip cards are a more secure alternative to traditional magstripe payment cards.

   lmplementing EMV shall address the deficiencies inherent in magstripe by reducing fraud arising from counterfeit, lost and stolen card information through the following features:

   a. Authentication of the chip card to ensure that the card is genuine so as to protect against counterfeit fraud for on line-authorized transactions;
   b. Digitally signing payment data for transaction integrity;
   c. More robust cardholder verification to protect against lost and stolen card fraud for EMV transactions in all acceptance environments.

2. *Acquiring institution (acquirer)* is a bank or financial institution that processes credit or debit card transactions via ATM or POS terminals.

3. *Bangko Sentrol Supervised Financial Institutions (BSFls)* include banks, non-banks with quasi-banking function (NBQB), non-bank electronic money issuers and other non-bank institutions which under existing Bangko Sentral rules and regulations and special laws are subject to Bangko Sentral ng Pilipinas supervision and/or regulation.

[1] Skimming is the illegal copying of information from the magnetic stripe of a payment card to gain access to accounts.

4. *Co-branded cards* are Philippine-issued cards affiliated with international payment networks.

5. *Debit cards* are payment cards linked to bank deposit or prepaid/electronic money (e-money) accounts.

6. *Domestic payment* network includes BSFIs as well as other key players such as merchants, providers of ATMs, point-of-sale (POS) terminals and similar devices, card vendors, card personalization bureaus and domestic switches responsible for processing and handling domestic transactions.

7. *Domestic switches* refer to BancNet and Megalink.

8. *EMV chip* liability shift means that the liability and responsibility for counterfeit or fraudulent transaction shall shift to the BSFI who is not EMV-compliant.

9. *EMVCo* is the governing body that manages the EMV specification.

10. *Hybrid cards* are payment cards that have both EMV chip and magstripe.

11. *International payment* networks refer to the payment networks that have global establishment. For purposes of subject guidelines, recognized international networks shall refer to Visa, Mastercard, UnionPay, Diners/Discover, American Express, and Japan Credit Bureau (JCB).

12. *Interoperability* refers to the ability of Philippine cardholders to transact at Philippine ATM and POS terminals, regardless of network affiliation or branding of the card.

13. *Issuing institution (issuer)* is a bank or non-bank financial institution that issues payment cards, whether proprietary or co-branded, to consumers.

14. *Payment cards* are cards that can be used by cardholders and accepted by terminals to withdraw cash and/or make payment for purchase of goods or services, fund transfer and other financial transactions. Typically, payment cards are electronically linked deposit, prepaid or loan/credit accounts.

15. *Philippine domestic EMV specification* refers to the specification or standards based on EMV that shall be adopted in the Philippine financial market for the proprietary or non-co-branded cards.

16. *Proprietary cords* are Philippine-issued cards without international payment network affiliation.

17. *Technical fallback* is a state in which a chip cannot be used and another type of entry, such as magstripe, is used to complete a transaction.

E. General Rule

In line with the declaration of policy, BSFIs, in migrating to EMV, shall consider the following:

1. BSFIs shall maintain interoperability of the domestic payment network;

2. The Philippine EMV implementation shall use established EMV specification as follows:

   a. lssuers of proprietary cards shall use the Philippine domestic EMV specification; and
   b. lssuers of co-branded cards shall use the EMV specification of their affiliated international payment network.

3. At a minimum, all debit accepting devices shall acquire/accept Philippine issued proprietary cards using the Philippine domestic EMV specification of members/participants of the domestic switches;

4. The domestic payment network shall ensure continued interoperability and acceptance of Philippine EMV issued cards using the Philippine domestic EMV specification on Philippine EMV deployed acceptance devices;[2] and

[2] lnclude EMV-compliant ATMs, POS terminals and other similar devices.

5. BSFIs shall strengthen consumer protection by adequately handling and containing consumer concerns and complaints arising from fraudulent schemes done electronically.

F. The Philippine Domestic EMV Specification

With the main objectives of maintaining interoperability and reducing card fraud, BSFIs shall adopt a Philippine domestic EMV specification for proprietary cards. The domestic EMV specification should:

- Adopt the EMV specification according to EMVCo;
- Apply to ATM and domestic debit POS transactions;
- Support contact transactions;
- Support online card authentication to ensure that transactions are made using a valid card;
- Support online authorization to enable issuer to manage fraud and credit risk at the transaction level;
- Support online PIN cardholder verification method;
- Support technical fallback to magstripe in the interim, as provided in Section I of these guidelines, without prejudice to the issuer's decision to process/approve fallback transactions.

G. Minimum Operational Requirements

1. Issuing institutions shall:

   a. Ensure that they have the technical systems and network necessary to process and handle EMV transactions;
   b. Support EMV data elements in authorization messages;
   c. Define chip cards feature, functionality and interface capability;
   d. Enhance risk management systems to leverage chip;
   e. Determine the card migration strategy Bangko Sentral
   f. Update customer support and operational systems to support chip cards;
   g. Be certified for network interfaces and card personalization by a certification body organized by BSFIs pursuant to these guidelines;
   h. Replace card base; and
   i. Educate the consumers.

2. Acquiring institutions shall:

   a. Ensure that card-accepting devices are EMV-certified to support the acquiring and routing of Philippine-issued debit cards using the Philippine domestic EMV specification;
   b. Ensure that P|N-entry devices are Payment Card Industry PIN Transaction Security (PC|-PTS)[3] compliant; and
   c. Enable a debit POS environment that supports online PIN for Philippine-issued debit cards.

3. Domestic switches shall:

   a. Establish infrastructure and systems that are EMV-compliant and able to support switched EMV transactions from domestic interconnected networks;
   b. Ensure continued support to existing transaction sets and functions provided to consumers;
   c. Enhance efforts to educate their members on EMV collaboration and seek effective alignment of strategy and design principles; and
   d. Ensure continued ability to support, in the interim, transactions in magstripe format subject to liability shift policies acceptable to Bangko Sentral, the standards of which shall be covered in subsequent guidelines.

H. Detailed Guidelines, Policies and Processes

BSFIs shall agree on and implement detailed technical and operational requirements, policies and procedures that are acceptable to the Bangko Sentral, the standards of which shall be covered in subsequent guidelines, and aligned with subject EMV Implementation Guidelines, covering but not limited to the following:

[3] A security requirement of the Payment Card Industry (PCi) regarding testing of PIN-entry devices using predefined standards to get certification.

1. Philippine Application Identifier (AID);
2. Single Common AID, Single Common Card Personalization Profile and Single Common Terminal Configuration for domestic transactions;
3. Transaction routing;
4. Testing and certification
5. Dispute and fraud risk management; and
6. Other processes affected by the EMV migration.

I. Hybrid Card, Fallback Function and EMV Liability Shift

While the EMV infrastructure and environment are in the process of achieving full stability, hybrid cards may still be acceptable as a fallback option in cases when the EMV chip or terminal is unable to process domestic chip transactions. In this regard, BSFIs shall formulate a liability shift framework that is acceptable to the Bangko Sentral.

J. Updated EMV Migration Plan

Any changes arising from the aforementioned guidelines shall be incorporated in the EMV Migration Plan and all affected BSFIs shall resubmit their updated plan to Bangko Sentral's Core Information Technology Specialist Group (CITSG) within sixty (60) calendar days from the date of the Circular.

All BSFIs shall support migration to EMV standards. Consequently, all cards issued and card-accepting devices should be EMV-compliant.

(Circular No. 1019 dated 31 October 2018)

EMV CARD FRAUD LIABILITY SHIFT FRAMEWORK (ECFLSF)
(Appendix to Sec. 142-P)

I. Introduction

This document outlines the Bangko Sentral's guidelines implementing the EMV Card Fraud Liability Shift Framework (ECFLSF). Pursuant to Sec. 148 (*IT Risk management systems*) and Appendix 108 of the Manual of Regulations for Banks (MORB), Bangko Sentral Supervised Financial Institutions (BSFIs) should shift from the magnetic stripe (magstripe) technology to EMV-compliant cards, POS terminals and ATMs. The immediate impact and benefit on the adoption of EMV technology is the reduction in card fraud resulting from counterfeit or skimming attacks.

While migration efforts to shift to EMV technology are ongoing, the use of magstripe in payment cards and/or card-accepting devices shall be allowed subject to card fraud liability shift. This means that the BSFIs which have not yet or have partially adopted the EMV technology shall be held responsible for losses associated with the use of a counterfeit card in a card-present environment.

II. Statement of Policy

It is the policy of the Bangko Sentral to foster the development of safe, secure, efficient and reliable retail payment systems, protect the integrity and confidentiality of customer accounts and information and uphold consumer protection.

Towards this end, the Bangko Sentral requires all concerned BSFIs to migrate to a more secure payment technology and sets forth subject principles for allocation of card fraud liability with the aim of ensuring compliance of the different retail payment system participants with the Bangko Sentral's EMV migration requirement. Pending full migration to the EMV technology, the ECFLSF shall likewise accelerate the dispute resolution and restitution process for customers who have valid claims arising from counterfeit fraud or skimming attacks.

III. Applicability and Scope

These guidelines shall apply to all BSFIs with debit and credit card issuing and acquiring functions and shall govern the allocation of liability associated with fraudulent transactions arising from counterfeit cards beginning 1 January 2OL7, subject to the conduct of proper investigation by the concerned participant/s of the payment card network. The coverage shall be limited to card-present and contact transactions of Philippine-issued payment cards used domestically in automated teller machines (ATMs), point-of-sale (POS) terminals, and other similar devices routed to either domestic or international payment networks.

Consequently, the ECFLSF shall not apply to card-not-present and contactless transactions. Furthermore, foreign-issued payment cards used domestically and Philippine-issued payment cards used abroad shall not be covered as these are already subject to the existing liability shift and chargeback rules of the international payment networks.

IV. Definition of Terms

For purpose of these guidelines, the following definitions shall apply:

1) *Acquiring institution (Acquirer),* is a bank or non-financial institution that processes credit or debit card transactions via ATMs, POS terminals, and other similar devices.

2) *EMV compliant device or terminal* is a device or terminal that has, or is connected to, a contact chip card reader, has an EMV application, certified, and is able to process EMV transactions.

3) *Co-branded cards* are Philippine-issued cards affiliated with international payment networks.

4) *Counterfeit card* is an imitation or falsification of a genuine magstripe card or EMV chip card with track data copied from a hybrid EMV card.

5) *Debit cards* are payment cards linked to bank deposit or prepaid/electronic money (e-money) accounts.

6) *Fallback to magstripe transaction occurs* when the chip on the card is not being read by a terminal. Thls is similar to technical fallback, which is defined in Appendix 108 of the MORB as a state in which the chip cannot be used and another type of entry, such as magstripe, is used to complete a transaction.

7) *Hybrid cards* are payment cards that have both EMV chip and magstripe.

8) *International payment networks* refer to the payment networks that have global establishment. For purposes of subject guidelines, recognized international networks shall refer to Visa, Mastercard, UnionPay, Diners/Discover, American Express, and Japan Credit Bureau (JCB).

9) *Issuing institution (Issuer)* is a bank or non-bank financial institution that issues payment cards, whether proprietary or co-branded, to consumers.

10) *Payment cards* are cards that can be used by cardholders and accepted by terminals to withdraw cash and/or make payment for purchase of goods or services, fund transfer and other financial transactions. Typically, payment cards are electronically-linked to deposit, prepaid or loan/credit accounts.

V. Guiding Principles

1) The adoption of EMV technology is designed to reduce and mitigate risks arising from counterfeit card fraud. While it remains virtually impossible to create a counterfeit EMV card that can be used to conduct an EMV payment transaction successfully, the presence of magstripe in a hybrid EMV card makes it still vulnerable to counterfeit attacks.

2) A BSFI that has enabled the most secure EMV options shall be protected from financial liability arising from losses on counterfeit card fraud. The liability for this type of fraud shall shift to the BSFI which is not or is partially compliant with the EMV migration requirement.

3) To resolve the issue on the allocation of card fraud liability using the guidelines described herein, the involved parties (such as issuer, acquirer, and payment network) should, first, characterize the fraud committed, and then, assess the technology being employed, in light of the applicable payment network rules. The party supporting EMV technology will prevail and in case of a technology-tie (neither or both parties are EMV compliant), the liability for fraudulent transactions generally remains with the lssuer.

VI. Allocation of Card Fraud Liability

Allocation of liability for counterfeit card fraud is summarized in the following table:

	Card Capabilities	Acceptance Device Support	Scenario	Liability
1	Magnetic stripe only	Magnetic stripe only	Magnetic card transaction was completed	Issuer
2	Magnetic stripe only	EMV compliant	Magnetic card transaction was completed	Issuer
3	EMV compliant hybrid card	Magnetic stripe only	Magnetic card transaction was completed	Acquirer[1]
4	EMV compliant hybrid card	EMV compliant	Fallback transaction; Magnetic card transaction was completed	Issuer

The information provided above shall be considered as a general guide as each fraudulent transaction shall be separately investigated on. Likewise, the domestic and international payment networks may come up with other scenarios and probable conditions that illustrate how liability is assigned on counterfeit card fraud using different combinations of card and acceptance device capabilities. However, the resolution of such scenarios/conditions should follow the principles espoused in these guidelines.

[1] When an Acquirer accepts a magstripe card that was counterfeited with track data copied from an EMV compliant hybrid card and the counterfeit card is used at a device/terminal that is not EMV-compliant, resulting in a transaction to be successfully processed, the Acquirer is liable for any chargeback resulting from such fraud.

VII. Consumer Protection and Complaints Handling and Resolution

1) The participants in the domestic payment network (such as issuer, acquirer, and payment network) should collaborate and devise detailed rules and procedures including arbitration mechanisms to operationalize the ECFLSF. Accordingly, a body responsible for strictly implementing the above-mentioned detailed rules and procedures on ECFLSF should be constituted.

2) Cardholders' complaints and/or requests for chargeback as a result of counterfeit card shall be considered as complex complaint/request defined in Appendix 110 of the MORB and hence, shall follow the standards provided in such regulations, except for the processing and resolution timeline which should be within 10 days instead of 45 days.

3) Issuers and Acquirers should ensure that affiliated international payment networks align their existing liability and chargeback rules with the ECFLSF insofar as Philippine-issued payment cards used in the domestic payment environment are concerned.

(Circular No. 1019 dated 31 October 2018)

FORMAT OF DISCLOSURE STATEMENT ON SMALL BUSINESS/RETAIL/CONSUMER CREDIT

(Appendix to Sec. 303-P)

_____
(Business Name of Creditor)

DISCLOSURE STATEMENT ON CREDIT TRANSACTION
(As Required under R.A. No. 3765, Truth in Lending Act)

NAME OF BORROWER _____
ADDRESS _____

1. CREDIT TRANSACTION AMOUNT	**₱ XXX**
2. OTHER BANK CHARGES/DEDUCTIONS COLLECTED[1]	**₱ XXX**

a. Documentary/Science Stamps ₱ _____
b. Mandatory Credit Insurance _____
c. Others (Specify) _____
_____

3. NET PROCEEDS OF CREDIT TRANSACTION (Item 1 less Item 2) **₱ XXX**

4. SCHEDULE OF PAYMENTS

a. Single payment due on | **date** | **₱ XXX**
b. Installment Payments

(Please see attached amortization schedule)

5. EFFECTIVE INTEREST RATE (Interest and Other Charges) **XXX%**

Explanation: The effective interest rate is higher than the contractual interest rate of _____% because of Item 2 deductions above.

6. CONDITIONAL CHARGES THAT MAY BE IMPOSED (if applicable). Please specify manner of imposition:

a. Late Charge ₱ _____
b. Prepayment (penalty/refund) _____
c. Others (Specify) _____
_____ _____

CERTIFIED CORRECT:

_____ _____
(Signature of Creditor/Authorized Representative Over Printed Name) Position

I ACKNOWLEDGE RECEIPT OF A COPY OF THIS STATEMENT PRIOR TO THE CONSUMMATION OF THE CREDIT TRANSACTION.

_____ _____
(Signature of Borrower over Printed Name) Date

[1] **Notes:**
- Small Business/Retail/Consumer loans include microfinance, auto (motor), salary, personal, educational, and other loans of similar nature.
- This document contains the minimum information required to be disclosed to the borrower/person to whom credit is extended and may be enhanced to improve client information.

Itemize all charges including advance deductions.

AMORTIZATION SCHEDULE
(Sample Only)

Installment (A)	Loan (B)	Principal (C)	Interest (D)	Total (E)	O/S Balance (F)
	xxx				*xxx*
1		xxx	xxx	xxx	xxx
2		*xxx*	*xxx*	*xxx*	*xxx*
3		*xxx*	*xxx*	*xxx*	*xxx*
4		*xxx*	*xxx*	*xxx*	*xxx*
5		*xxx*	*xxx*	*xxx*	*xxx*
6		*xxx*	*xxx*	*xxx*	*xxx*
7		*xxx*	*xxx*	*xxx*	*xxx*
8		*xxx*	*xxx*	*xxx*	*xxx*
9		*xxx*	*xxx*	*xxx*	*xxx*
10		*xxx*	*xxx*	*xxx*	*xxx*
11		*xxx*	*xxx*	*xxx*	*xxx*
12		*xxx*	*xxx*	*xxx*	*xxx*
	Total	*xxx*	*xxx*	*xxx*	

Legends:

A - Number of installment periods based on loan term
B - Gross amount of loan
C - Installment payment on the principal
D - Installment payment on the interest
E - Total amortization payment for the installment period
F - Outstanding principal balance of the loan

(Circular No. 1052 dated 2 October 2019)

Guidelines on the Suspension/Delisting of External Auditor in the List of Selected External Auditors for Bangko Sentral Supervised Financial Institutions (BSFIs) (Appendix to Sec. 152-P)

Section 1. Grounds for Delisting/Suspension of External Auditors

An external auditor included in the List of Selected External Auditors for BSFIs shall be suspended or delisted by the Bangko Sentral, without prejudice to the imposition of other sanctions by the Securities and Exchange Commission (SEC)[1], under any of the following grounds:

a. Gross negligence in the conduct of the audit or failure to comply with the Philippine Standards on Auditing and such other issuances of the Auditing and Assurance Standards Council;

b. Issuance of an unqualified opinion which is not supported by full compliance by the auditee with the applicable financial reporting framework due to material deficiencies or misstatements in the financial statements;

c. Conduct of an audit despite the lack or eventual loss of independence as provided for under the Code of Ethics for Professional Accountants in the Philippines;

d. Conduct of any non-audit services for his statutory audit clients, if he has not undertaken the safeguards to reduce the threat to his independence;

e. Any material misrepresentation in the reports submitted to the Bangko Sentral;

f. Failure to comply with the provisions set forth under Sec. 152-P;

g. Refusal for no valid reason, upon lawful order of the Bangko Sentral, to submit requested documents in connection with an ongoing investigation. The external auditor shall, however, be made aware of such investigation; and

h. Failure to obtain from the Securities and Exchange Commission an accreditation appropriate to the client's category provided under Sec. 152-P on the appointment of external auditor.

Section 2. Procedures and Effects of Delisting/Suspension

a. On the basis of the results of the assessment of the quality of audited financial statements and evidence on the existence of the grounds for suspension or delisting under Section 1 above, the external auditor shall be notified in writing by the appropriate supervising department of the Bangko Sentral of the existence of the ground for his/her suspension or delisting in the List of Selected External Auditors for BSFIs and shall be allowed to submit within fifteen (15) calendar days from receipt of such notice an explanation on why he/she should not be suspended/delisted, together with the evidence in support of his/her position.

   An external auditor shall only be suspended or delisted after due notice and opportunity to defend/clear himself.

b. Failure of the external auditor to reply within the period prescribed under Item *"a"* above, shall be considered a waiver on his/her part of the opportunity to defend/clear himself/herself. In this respect, the appropriate supervising department of the Bangko Sentral shall proceed with the evaluation of the case based on available records/evidence.

c. Upon approval by the Monetary Board, the external auditor concerned shall be informed by the appropriate department of the Bangko Sentral of his/her suspension or delisting in the List of Selected External Auditors for BSFIs.

d. Suspended or delisted external auditor shall be automatically included in the Bangko Sentral's Watchlist Disqualification File "B" (temporary).

[1] Accrediting Agency duly designated by the member-agency of the Financial Sector Forum, comprising of the Bangko Sentral ng Pilipinas, Insurance Commission, Philippine Deposit Insurance Corporation, and Securities and Exchange Commission.

e. The Securities and Exchange Commission shall be immediately informed of the suspension or delisting of the external auditor.

Suspended external auditors may re-apply for inclusion in the List of the Selected External Auditors for BSFIs after the lapse of five years from the date of effectivity of the suspension.

(Circular 1040 dated 20 May 2019)

RESERVED

GUIDELINES ON THE IMPOSITION OF MONETARY PENALTIES ON PAWNSHOPS, AND/OR THEIR TRUSTEES, OFFICERS AND/OR EMPLOYEES FOR VIOLATIONS OF BANKING AND OTHER APPLICABLE LAWS WITH SANCTIONS FALLING UNDER SECTION 37 OF REPUBLIC ACT NO. 7653 (THE NEW CENTRAL BANK ACT), AS AMENDED

(Appendix to Sec. 003-P on Monetary Penalties on Pawnshops, and/or their Trustees, Officers, and/or Employees)

The following are the guidelines on the imposition of monetary penalties on pawnshops, and/or their trustees, officers and/or employees.

I. *Definition of Terms*. For purposes of this Appendix, the following definitions shall apply:

a. *Transactional violation* refers to an act or omission constituting a violation of any applicable law or any order, instruction/directive or regulation issued by the Monetary Board, or any order, instruction/directive or ruling by the Governor which is consummated and concluded in a single instance/ occasion.

For licensing-related violations, transactional violation refers to the failure to obtain approval prior to engaging in an activity which the institution is qualified to undertake at the onset, based on eligibility test and assessment of compliance with the prudential criteria set forth under existing Bangko Sentral rules and regulations.

b. *Continuing violation* refers to an act or omission constituting a violation of any applicable law or any order, instruction/directive or regulation issued by the Monetary Board, or any order, instruction/directive or ruling by the Governor in which the violation persists or lingers over time from the instant the particular act was committed or omitted until the violation is stopped.

For licensing-related violations, continuing violation refers to an act which the institution is not qualified to undertake at the onset based on eligibility test and assessment of compliance with the prudential criteria set forth under existing Bangko Sentral rules and regulations.

II. Imposition and Payment of Monetary Penalties.

a. In accordance with Section 37 of R.A. No. 7653, as amended, monetary penalties may be imposed against pawnshops and/or their trustees, officers and/or employees for any willful violation of its charter or bylaws; willful delay in the submission of reports or publications thereof as required by law, rules and regulations; any refusal to permit examination into the affairs of the institution; any willful making of a false or misleading statement to the Monetary Board or the appropriate supervising and examining department or its examiners; any willful failure or refusal to comply with, or violation of, any banking law or any order, instruction or regulation issued by the Monetary Board, or any order, instruction or ruling by the Governor; or any commission of irregularities, and/or conducting business in an unsafe or unsound manner as may be determined by the Monetary Board.

In the absence of specific provision under other applicable laws or Bangko Sentral rules and regulations prescribing the imposable monetary penalty for the above-mentioned violations/offenses, pawnshops, and/or their trustees, officers and/or employees may be imposed a maximum monetary penalty of ₱1 million for each transactional violation or ₱100 thousand per calendar day for violations of a continuing nature as provided under Section 37 of R.A. No. 7653, as amended. Further, in case profit is gained or loss is avoided as a result of the violation, the Bangko Sentral may impose a fine of no more than three (3) times the profit gained or loss avoided on top of the aforementioned monetary penalty.

The Bangko Sentral considers the attendant circumstances of the case, including aggravating and mitigating factors, in the guided exercise of supervisory discretion to reach a reasonable and proportionate monetary penalty that best achieve the Bangko Sentral's supervisory objectives. These factors include the: (1) nature, gravity and seriousness of the violation or irregularity; (2) financial and/or non-financial impact of the violation or irregularity to the pawnshop, its industry and/or the financial system; (3) intentionality, frequency and duration of the violation or irregularity; and (4) measures undertaken to stop or correct the violation or irregularity.

The appropriate department of the Bangko Sentral shall notify the pawnshop, and/or trustee, officer and/or employee concerned of the violation, together with a directive for the pawnshop, and/or trustee, officer and/or employee concerned to show cause within fifteen (15) business days from receipt of the letter why no monetary penalty under Section 37 of R.A. No. 7653, as amended, should be imposed. The recommendation to impose monetary penalties shall be approved by the Governor or the Monetary Board, as the case may be, pursuant to Section 37 of R.A. No. 7653, as amended: *Provided*, That monetary penalties against trustees, officers and/or employees shall be approved only by the Monetary Board. The decision of

the Governor/Monetary Board shall be communicated to the pawnshop, and/or trustee, officer and/or employee concerned.

However, the Bangko Sentral is not precluded from imposing non-monetary sanctions along with monetary penalties if circumstances so warrant.

b. *Basis for the computation of the period or duration of penalty.* The computation of the period or duration of all penalties shall be based on calendar days. For this purpose the terms "per banking day", "per business day", "per day" and/or "a day" as used in this Manual, and other Bangko Sentral rules and regulations shall mean "per calendar day" and/or "calendar day" as the case may be.

c. *Payment of Monetary Penalties.* pawnshops, and/or their trustees, officers and/or employees shall pay the monetary penalties within fifteen (15) calendar days from receipt of the notice of the decision of the Governor imposing said monetary penalties, and payment thereof shall not be suspended by the filing of an appeal to the Monetary Board.

Monetary penalties imposed by original decisions of the Monetary Board shall be paid within fifteen (15) calendar days from the last day to file a motion for reconsideration where none has been filed or within fifteen (15) calendar days from receipt of the notice of the decision of the Monetary Board affirming the decision on motion for reconsideration, as the case may be.

For uniform implementation of the above regulations, the following procedural guidelines shall be observed:

(1) Upon approval of the fines/penalties by the Governor/Monetary Board, the Department/Office concerned shall send the Statement of Account (SOA)/billing letter to the pawnshop with an advice that the penalty should be paid in full within fifteen (15) calendar days from receipt of SOA/billing letter. For pawnshops which maintain a DDA with the Bangko Sentral, the amount of the penalty/ies that remain unpaid shall be automatically debited from their DDA after the lapse of the fifteen (15)-calendar day period within which to pay the monetary penalties. The pawnshop shall likewise be advised that penalty or portion thereof which remained unpaid after the lapse of said fifteen (15)-day period shall be subject to additional charge of six percent (6%) per annum reckoned from the business day immediately following the end of the fifteen (15)-day period up to the day of actual payment.

(2) On the business day immediately following the end of said fifteen (15)-day period, unpaid penalties shall be automatically debited, without additional charge, against the pawnshop's DDA with the Bangko Sentral by the Comptrollership Sub-sector (CoSS) based on the amount booked by the Department/Office concerned after first confirming with the CoSS the sufficiency of the pawnshop's DDA balance to cover the amount of the penalty.

(3) If, based on its confirmation with the CoSS, the Department/Office concerned received information that the pawnshop's DDA balance is insufficient to cover the amount of the penalty, it shall accordingly advise and request the pawnshop to immediately fund its DDA.

(4) As soon as it is funded, the pawnshop's DDA shall be debited by the CoSS for the amount of the penalty, plus the six percent (6%) additional charge for late payment of the penalty reckoned from the business day immediately following the end of the fifteen (15)-day period up to the day of actual payment, based on the amount booked by the Department/Office concerned.

(5) In the absence of DDA with the Bangko Sentral, penalties shall be paid through any acceptable means of payment and in accordance with the provisions of Sec. 701-P.

(6) In the case of penalty/ies imposed on pawnshop trustees, officers, and/or employees, the employer pawnshop and said trustees, officers, and/or employees shall be advised by the appropriate supervising department of the Bangko Sentral that the employer pawnshop's DDA with the Bangko Sentral shall be debited for the amount of the penalty as advance payment in behalf of the trustee, officer, and/or employee whose penalty/ies remain unpaid after the lapse of fifteen (15) calendar days within which to pay the monetary penalty. In case the trustee, officer, and/or employee is no longer connected with the pawnshop, payment thereof shall be for the account of the trustee, officer, and/or employee who shall pay directly to the Bangko Sentral through any such acceptable means of payment in accordance with the provisions of Sec. 701-P. The procedures under Items *"2", "3"* and *"4"* hereof shall likewise apply.

III. *Appeal or Motion for Reconsideration.*

The imposition of monetary penalties by the Governor shall be final and executory until reversed, modified or lifted by the Monetary Board on appeal. The appeal shall be filed within fifteen (15) calendar days from receipt of

the notice of the decision, copy furnished the appropriate department of the Bangko Sentral. No motion for reconsideration of the decision of the Governor or of the Monetary Board on appeal shall be allowed.

Original decisions of the Monetary Board imposing monetary penalties shall become final and executory after fifteen (15) calendar days from receipt of the Monetary Board decision, unless a motion for reconsideration is timely filed, copy furnished the appropriate department of the Bangko Sentral.

The appeal or the motion for reconsideration shall be in writing and shall specify the findings or conclusions in the decision which are not supported by the evidence or which are contrary to law, making express reference to the evidence or to the provisions of law alleged to be contrary to such findings or conclusions.

A *pro forma* appeal or motion for reconsideration shall be denied outright and shall not prevent the decision from attaining finality.

(Circular No. 1125 dated 20 August 2021)

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CHECKLIST OF BANGKO SENTRAL REQUIREMENTS IN THE SUBMISSION OF AUDITED FINANCIAL STATEMENTS
(Appendix to Sec. 162-P (Financial Audit))

	Information/Data Required	Deadline for submission
1.	AUDITED FINANCIAL STATEMENTS (AFS)	Not later than 120 calendar days after the close of the calendar year.
2.	Certification by the external auditor on compliance with Bangko Sentral requirements on a. Confidentiality clause pertinent to read-only access to the Report of Examination; and b. Disclosure under Sec. 162-P *(Disclosure requirements to the audited financial statements)* and other information that may be required.	For submission together with the AFS, not later than 120 calendar days after the close of the calendar year.
3.	Reconciliation statement, including copies of adjusting entries on the reconciling items, between the AFS and the prudential reports submitted to the Bangko Sentral (i.e. balance sheet and income statement for pawnshops) following the format in Annex A.	For submission together with the AFS, not later than 120 calendar days after the close of the calendar year.
4.	Letter of Comments (LOC)[1] indicating material weaknesses on internal control and risk management system as well as other issues, which may include findings on the quality of governance[2], that should be brought to the attention of the proprietor/partners/ board/management along with the recommendations for corrective action. Otherwise, a certification by the external auditor that there are no issues noted in the course of the audit to warrant the submission of an LOC.	For submission together with the AFS, not later than 120 calendar days after the close of the calendar year.
5.	Copy of the board resolution showing the actions on the AFS and the submitted LOC, if any. The proprietor may instead issue a certification or report on action taken.	For submission together with the AFS, not later than 120 calendar days after the close of the calendar year.
6.	The external auditor shall report directly to the Bangko Sentral the following: a. Any material finding involving fraud or error; b. Actual or potential losses the aggregate of which amounts to at least ten percent (10%) of the consolidated total assets of the pawnshop; c. Significant doubt as to the ability of the pawnshop to continue as a going concern; d. Material breach of laws or Bangko Sentral rules and regulations such as but not limited to prescribed capital and liquidity ratios, significant deficiency in allowance for credit losses, material weaknesses in fair value measurement methodology, significant vulnerabilities to money laundering and countering the financing of terrorism;	Within fifteen (15) calendar days from discovery.-

[1] LOC or equivalent letter to proprietor/partners/management/board of directors
[2] Reportable issues on the quality of governance shall only pertain to financial reporting matter.

e. Material internal control weaknesses which may lead to financial reporting problems; and	
f. Findings on matters of corporate governance that may require urgent action by the Bangko Sentral.	
In case there are no matters to report (e.g., fraud, dishonesty, breach of laws, etc.) a notarized certification that there is none to report.	Not later than 120 calendar days after the close of the calendar year.

(Circular No. 1075 dated 7 February 2020)

Name of Financial Institution

Comparison of Submitted Consolidated Balance Sheet and Income Statement and Audited Financial Statements (Parent and Subsidiaries)

As of (end of calendar or fiscal year)

(In Thousand Pesos)

	Submitted Report	Audited Report	Variance/ Discrepancy	Reasons for Discrepancy
Cash on hand and in banks				
Pledge loans				
Financial Assets Held for Trading (HFT)				
Held-to-Maturity (HTM) Financial Assets				
Available-for-Sale Financial Assets				
Equity Investments in Subsidiaries, Associates & Joint Ventures				
Pawnshop Premises, Furniture, Fixtures and Equipment, net				
Other Assets				
Due from Head Office/Branches/ Agencies Abroad				
Total Assets				
Loans Payable				
Accounts Payable				
Bonds Payable				
Unsecured Subordinated Debt (UnSD)				
Redeemable Preferred Shares				
Accrued Interest, Taxes and Other Expenses				
Other Liabilities				
Due to Head Office/Branches/ Agencies Abroad				
Total Liabilities				
Paid-in Capital Stock				
Additional Paid-In Capital				
Retained Earnings				
Assigned Capital				
Total Capital				
Total Liabilities and Capital				
Total Income				
Total Expenses				
Net Income before Income Tax				

DISCLOSURE REQUIREMENTS TO THE AUDITED FINANCIAL STATEMENTS (AFS)

[Appendix to Sec. 162-P (Disclosure requirements to the audited financial statements)]

Pawnshops shall include the following supplementary information at the end of the notes to the financial statements:

(a) Details of liabilities or borrowings, particularly: (1) number of creditors; and (2) portion, as of end of the reference calendar year, used for the purpose of acquiring fixed assets for business operations;

(b) If with corollary business, disclosure of total liabilities and income directly attributable to said business. Pawnshops with money service business operations shall also comply with disclosures required thereto under Sec. 901-N *(Reports)*; and

(c) Financial indicators, specifically return on average equity and average assets, and total borrowings to pledge loans ratio. For purposes of computing the financial indicators, the following formulas shall be used:

(1) Return on Average Equity (%) =

$$\frac{\text{Net Income (or Loss) after Income Tax x 100}}{\text{Average Total Capital Accounts}}$$

Where:

$$\text{Average Total Capital Accounts} = \frac{\text{Total Capital Accounts Current calendar year-end balance + Previous calendar year-end balance}}{2}$$

(2) Return on Average Assets (%) =

$$\frac{\text{Net Income (or Loss) after Income Tax x 100}}{\text{Average Total Assets}}$$

Where:

$$\text{Average Total Assets} = \frac{\text{Total Assets Current calendar year-end balance + Previous calendar year-end balance}}{2}$$

(3) Total Borrowings to Pledge Loans (%) =

$$\frac{\text{Total Borrowings}}{\text{Pledge Loans}}$$

Where:

Total borrowings refer to those for the pawnshop business, and exclude borrowings for purposes of acquiring fixed assets used for business operations and for utilization in corollary business, if any.

GUIDELINES IN DETERMINING A "TRUE SALE" TRANSACTION UNDER THE FIST ACT
(Appendix to Sec. 322-P)

The transfer by a BSFI of its NPAs to a FISTC or an individual shall be considered not a True Sale if the BSFI satisfies any of the enumerated below:

(a) Has direct or indirect management of the transferee FISTC;

(b) Has any of its directors, officers or employees on the board of the transferee FISTC;

(c) Is obligated to repurchase or substitute/exchange the NPA or any part of the pool of NPAs at any time, except in cases of a breach of representation or warranty of the BSFI;

(d) Is a Related Interest, as defined under Rule 11 of the FIST IRR, of the transferee FISTC;

(e) Has legal and beneficial ownership of more than ten percent (10%) of the (a) total number of outstanding shares of stock entitled to vote in the election of directors, and (b) the total number of outstanding shares of stock, whether or not entitled to vote, of the transferee FISTC; or

(f) Accepts the transferred NPAs as the FISTC's collateral for any unpaid balance of the consideration of the transfer of said NPAs.

Unless otherwise determined by the Bangko Sentral, the following shall be presumed not a True Sale, if the BSFI:

(a) Is made the beneficiary of a trust used as a vehicle for purchasing and securitizing the NPAs; or

(b) Pays further expenses in relation to the NPAs after said NPAs have been sold/transferred to the transferee FISTC/individual;

(c) Extends, directly or indirectly, any credit facility, guaranty or any similar financial transaction to the transferee FISTC; or

(d) Extends any credit facility, guaranty or any similar financial transaction to any party for the purpose of investing in the equity or IUIs of the FISTC, or for acquiring the NPAs from the FISTC; or

(e) Extends any credit facility, guaranty or any similar financial transaction to any party for the purpose of acquiring the NPAs from the transferring FI; or

(f) Acts as trustee (BSFI's trust department) or if the trust department of any of the BSFI's subsidiaries/Affiliates, Parent bank or Parent bank's Subsidiaries/Affiliates acting as trustee, under any circumstances, in the securitization of NPAs that it has transferred to the FISTC; or

(g) Accepts as collateral for a loan extended by said BSFI the equity shares and IUIs of the FISTC that acquired its NPAs; or

(h) Enters into buy-back and other similar arrangements, or financial derivative transactions with similar effect, involving the NPAs or the securities backed by such NPAs; or

(i) Enters into any other transaction where the BSFI retains effective control over the transferred NPAs or shares in the losses of the FISTC; or

(j) Enters into a profit-sharing arrangement with a FISTC in relation to the sale/transfer of NPAs that will result in a sale/transfer transaction that does not meet the derecognition criteria under PFRS 9.

Provided: That, the extension of credit to an individual for the purpose of acquiring a single-family residential unit or an empty lot or ROPA or NPL secured by real estate mortgage on a residential unit or an empty lot shall be allowed and not considered a violation of the required "true sale" transaction.

For purposes of the foregoing, the term "any party" includes proxies, nominees, and voting trustees.

(Circular No. 1117 dated 27 May 2021)

MANUAL OF REGULATIONS FOR NON-BANK FINANCIAL INSTITUTIONS

N - REGULATIONS
(Regulations Governing Other Non-Bank Financial Institutions)

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POWERS OF THE BANGKO SENTRAL

001-N SUPERVISORY ENFORCEMENT POLICY

The Policy sets forth guidance on the Bangko Sentral's supervision-by-risk framework. It also puts together in a holistic manner all the enforcement tools available to the Bangko Sentral as contained in various laws and rules and regulations[1] and communicates the deployment thereof in a consistent manner by the Bangko Sentral in the course of performing its supervisory function. It further sets out the guiding principles and objectives behind the deployment of such enforcement actions.

Nothing in this Section shall be construed as superseding enforcement actions previously imposed against Bangko Sentral-supervised FIs pursuant to existing laws, Bangko Sentral rules and regulations.

a. ***Policy statement and rationale***

The Bangko Sentral is issuing this Supervisory Enforcement Policy to provide guidance on its supervision-by-risk framework. The Bangko Sentral recognizes that risk-taking is integral to a financial institution's business. The existence of risk is not necessarily a reason for concern so long as Management exhibits the ability to effectively manage that level of risk and operates the financial institution (FI) in a safe and sound manner. Thus, when risk is not properly managed, the Bangko Sentral may deploy a wide range of enforcement actions provided under existing laws, Bangko Sentral rules and regulations, taking into consideration the nature and extent of the supervisory issues and concerns and the level of cooperation provided by Management.

The Bangko Sentral adopts a holistic approach to supervision with the objective of guiding FIs under its supervision to mitigate risk and achieve the desired changes.

Bangko Sentral's risk-based supervision, of which enforcement action is a key part, focuses on the safety and soundness of operations of the FIs. This policy sets forth the expectations of the Bangko Sentral when it deploys enforcement action and the consequences when expected actions are not performed within prescribed timelines.

Thus, this over-arching policy is needed - (a) as a collation of various enforcement actions already present in various laws, rules and regulations; (b) for better guidance of the FIs and the bank supervisors; and (c) as a means to broadcast to the banking/financial industry the consequences of failure to address the Bangko Sentral requirements and supervisory expectations.

b. ***Objectives of the enforcement policy***

The Bangko Sentral's Supervisory Enforcement Policy aims to achieve the following two (2) key objectives:

(1) Achieving the desired change. Effect a change in the overall condition and governance of Bangko Sentral-supervised FIs consistent with the expectations set under relevant laws and regulations; and
(2) Mitigating risk. Mitigate risks to the FIs and other stakeholders in order to maintain the stability of the financial system.

c. ***General principles***

The Bangko Sentral, in the deployment of enforcement actions, is guided by the following general principles:

(1) Root cause diagnosis. The enforcement action addresses the underlying cause of the supervisory issues and concerns.

(2) Consistently matching the severity of enforcement action to the supervisory issue. The deployment of appropriate enforcement action is commensurate to the severity of the supervisory issues and concerns. The severity of the supervisory issues and concerns is assessed in terms of *prevalence*[2] and *persistence.*

(3) Successive or simultaneous deployment of enforcement actions. Enforcement actions may be deployed successively or simultaneously taking into account the nature and seriousness of the difficulties encountered by the FIs and the ability and willingness of the FI's Management to address the supervisory issues and concerns.

(4) Monitorability and follow-through. The Bangko Sentral monitors the FI's progress/compliance with the expected actions to address the supervisory issues, concerns and problems.

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[1] Section 4 of R.A. No. 8791 (General Banking Law of 2000) defines the scope of Bangko Sentral's supervisory powers, which may be grouped into three categories: (i) issuance of rules; (ii) examination and investigation; and (iii) enforcement of Prompt Corrective Action (PCA)

[2] Prevalence pertains to the pervasiveness of the supervisory issues, concerns and problems in relation to their impact on the FI's solvency, asset quality, operating performance and liquidity, among others.

(5) Escalation of enforcement actions. Enforcement actions may be escalated if the desired change is not achieved and the root causes of the FI's issues, concerns and problems are not addressed by the FI within prescribed timelines.

d. ***Categories of enforcement actions***

The three (3) main categories of enforcement action are: (1) corrective actions, (2) sanctions and (3) other supervisory actions. These enforcement actions may be imposed singly or in combination with others.

(1) Corrective actions

Corrective actions are enforcement actions intended to require the FI to address the underlying cause of supervisory issues, concerns and problems. These include the following:

(a) Bangko Sentral Directives

Directives are basically orders and instructions communicated by the appropriate supervising department in Bangko Sentral requiring the FI to undertake a specific positive action or refrain from performing a particular activity within a prescribed timeline.

(b) Letter of Commitment (LOC)

The LOC is an enforcement action where the FI's Board of Directors (Board) is required, upon approval and/or confirmation by the Monetary Board, to make a written commitment to undertake a specific positive action or refrain from performing a particular activity with a given time period.

The LOC is generally used to arrest emerging supervisory concerns before these develop into serious weaknesses or problems, or to address remaining supervisory issues and concerns.

(2) Sanctions

Sanctions that may be imposed on an FI and/or its directors and officers, as provided under existing laws, Bangko Sentral rules and regulations, are subject to the prior approval and/or confirmation by the Monetary Board. Such sanctions include the following:

(a) FIs
- Restrictions on activities and privileges
- Suspension of authorities, privileges and other activities
- Divestment and/or Unwinding
- Monetary sanction - Penalties/Fines Against the FI

(b) Directors and officers
- Reprimand
- Restriction on compensation and benefits
- Divestment
- Suspension
- Disqualification
- Removal
- Monetary penalties/fines

The foregoing sanctions to individuals are without prejudice to the filing of separate civil or criminal actions against them, when appropriate.

(3) Other supervisory actions

Subject to prior Monetary Board approval, the Bangko Sentral, when warranted, may deploy other supervisory actions such as (a) Initiation into the PCA Framework; (b) Issuance of a cease and desist order (CDO) against the FI as well as its directors and officers; (c) Conservatorship; and (d) Placement under receivership.

e. ***Due process***

An integral part of the deployment of enforcement actions is the observance of due process in all cases.

The FI and/or its directors and officers are afforded fair and reasonable opportunity to explain their side and to submit evidence/s in support thereof, which are given due consideration in determining the appropriate enforcement action(s) to be imposed.

002-N PROMPT CORRECTIVE ACTION FRAMEWORK

The framework for the enforcement of PCA on banks which is in *Appendix Q-40,* shall govern the PCA taken on FIs to the extent applicable, or by analogy.

003-N MONETARY PENALTIES ON BSFIs, AND/OR THEIR DIRECTORS, OFFICERS AND/OR EMPLOYEES

The Bangko Sentral recognizes the need to impose monetary penalties as one of the possible administrative sanctions to hold BSFIs, and/or their directors, officers and/or employees accountable for their conduct, deter future commission of violations, and achieve the overarching supervisory objectives of changed behavior and mitigated risks.

Pursuant to Section 37 of R.A. No. 7653, as amended, BSFIs, and/or their directors, officers and/or employees may be imposed a maximum monetary penalty of P1 million for each transactional violation or P100 thousand per calendar day for violations of a continuing nature. In case profit is gained or loss is avoided as a result of the violation, the Bangko Sentral may also impose a fine of no more than three (3) times the profit gained or loss avoided.

To ensure fairness, consistency and reasonableness in the imposition of monetary penalties, the Bangko Sentral takes into consideration the attendant circumstances of each case, such as nature and gravity of the violation or irregularity and the size of the financial institution, including other aggravating and mitigating factors. Further, in accordance with Sec. 001-N, the Bangko Sentral may impose monetary penalties, singly or in combination with non-monetary sanctions, if appropriate.

The guidelines on the imposition of monetary penalties for violations in which sanctions fall under Section 37 of R.A. No. 7653 (The New Central Bank Act), as amended, and other applicable laws are in *Appendix N-20.*

(Circular No. 1125 dated 20 August 2021)

PART ONE

ORGANIZATION, MANAGEMENT AND ADMINISTRATION

A. SPECIAL AUTHORITIES

101-N GRANT OF LICENSES AND AUTHORITIES

Consistent with the mandate of the Bangko Sentral to promote a safe and sound banking system, the licensing process on permissible activities of Bangko Sentral-supervised financial institutions (BSFIs) is enhanced to align the process with international standards and best practices such as the "Core Principles for Effective Supervision" issued by the Basel Committee on Banking Supervision. The Bangko Sentral will not restrict the scope of risk-taking activities of BSFIs consequent of the licenses and/or authorities granted: *Provided,* That these licenses and/or authorities are in line with their business model and strategic direction: *Provided, further,* That these BSFIs demonstrate the capacity to implement these strategies and the ability to manage risks.

The enhanced policy guidelines set forth the expectations and criteria of the Bangko Sentral with respect to granting of licenses and authorities as well as its right to reject applications if the criteria set forth are not met by the applicant BSFIs ("applicants") or if the information provided is not adequate. The Bangko Sentral also reserves the right to withdraw or revoke the license and/or authority or enforce appropriate actions when an institution no longer meets the criteria or standards required to be met for the exercise of the license and/or authority.

These criteria are intended to incorporate the licensing process into Bangko Sentral's enforcement regime that is anchored on good governance, sound risk management system and effective control systems. Further, these criteria aim to provide more consistency on how the risk-focused supervision function is applied to the licensing process. This enhanced licensing policy aims to ensure that licenses and authorities are granted only to applicants that comply with the standards set.

It is also the thrust of these enhanced policy guidelines on granting licenses/authorities to establish Bangko Sentral's accountability and promote transparency on the licensing process which are consistent with its commitment to deliver prompt and efficient service.

Scope. Applications for licenses and/or authorities shall be categorized as follows:

a. *Type "A"* - applications for licenses and/or authorities where compliance with the defined prudential requirements/criteria described in Sec. 101-N is a pre-condition for applicants to be considered eligible;

b. *Type "B"* - applications for licenses and/or authorities processed regardless of risk profile; and

c. *Type "C"* - activities which no longer require submission of applications and processing but shall be subject to submission of reports/certification/notification within stated deadlines. However, compliance with pre-qualification requirements is subject to post verification and any false information and/or misrepresentation may be a basis for the imposition of appropriate enforcement actions described in Sec. 101-N. The Bangko Sentral shall use this information to continuously tailor its supervisory strategy for the supervised entities and to maintain and continuously update its institutional database.

Prudential criteria. The prudential criteria set forth in this Section shall be used in determining the eligibility of applicants to the licenses and/or authorities granted by the Bangko Sentral. Accordingly, the following minimum conditions must be met:

a. Applicant domestic banks must have a CAMELS composite rating of at least *"3"* and a *"Management"* rating of not lower than *"3"*, branches of foreign banks must have a ROCA rating of at least *"3"*, and BSFIs must have a RAS rating of at least *"Acceptable"*. Whenever applicable, ratings equivalent to cited minimum rating grade requirements under appropriate rating systems (i.e., IT Rating Systems, Trust Rating Systems, among others) shall apply for certain licenses and/or authorities;

b. Applicants have no major supervisory concerns in governance, risk management systems, and internal controls and compliance system, and characterize/demonstrate the following:

(1) Governance

Applicants must display a culture of good corporate governance appropriate to its size, risk profile and complexity of operations. Board of directors and management, in their respective roles, provide an appropriate level and quality of oversight and support to all of the institution's activities. Sound management practices are observed and demonstrated through (a) active oversight and satisfactory performance by the board of directors and senior management, (b) appropriate policies, processes, and controls relative to the

institution's size, complexity and risk profile, (c) maintenance of an independent and effective internal audit and compliance program as well as a sound internal control environment, and (d) effective risk monitoring and management information systems.

Applicants should not be found engaging in an activity which may be considered as conducting business in an unsafe or unsound manner. In cases where weaknesses, violations of law, policy and/or regulation exists, other than those considered unsafe or unsound activities, these should not be material to the safety and soundness of the institution, can be reasonably managed, and are being adequately addressed.

Quality of corporate governance shall be assessed based on the principles and framework set forth in the Guidelines in Assessing the Quality of Corporate Governance in BSFIs;

(2) Risk management system and internal controls

Applicants shall have a comprehensive risk management system approved by its board of directors (or equivalent management committee in the case of foreign bank branches) to identify, measure, evaluate, report and control or mitigate all material risks on a timely basis and to assess the adequacy of their capital in relation to their risk profile and market and macroeconomic conditions and whose sophistication are commensurate to the risks being monitored and controlled. The risk management system must be characterized by a clear delineation of responsibility for risk management, adequate risk measurement systems, appropriate risk limits structure, effective internal controls and complete, timely and efficient risk reporting systems.

Likewise, applicants shall have an effective and adequate system of internal controls for the conduct of their business taking into account their risk profile. These controls deal with organizational structure, accounting policies and processes, checks and balances, safeguarding of assets and investments and appropriate and effective internal audit and compliance functions. Standards and principles as well as the Bangko Sentral's expectations governing internal controls and audit under existing regulations shall apply in assessing the quality and effectiveness of the internal control systems of an applicant; and

(3) Compliance system

Applicants shall have a compliance system, appropriate to its size, risk profile and complexity of operations, designed to specifically identify and mitigate business risks[1] which may erode the franchise value of the institution. Compliance policies and procedures embodied in a Compliance Policy Manual should be sound and effectively implemented. Likewise, compliance monitoring and testing as well as review process should be robust to ensure BSFI conducts its business/operations in accordance with banking laws, rules and regulations and other laws relevant to banking such as securities laws and regulations. BSFIs should not have been found significantly non-compliant with prudential requirements such as Single Borrower's Limit, DOSRI limits, capital adequacy ratio requirements, among others.

Standards and principles set forth in the Compliance Rating System framework shall apply in assessing the quality of BSFI's compliance system; and

c. Applicants have complied with directives and/or are not subject of specific directives and/or enforcement actions by the Bangko Sentral.

Applicants shall have corrected any findings of unsafe or unsound activities and have addressed any outstanding explicit directives from the Bangko Sentral and/or other relevant regulatory bodies, prohibiting the conduct of activities related to the licenses and/or authorities being applied, as of the date of application. Applicants with specific prohibitions to conduct certain activities shall not be eligible to apply for that particular license and/or authority.

No application shall be accepted until such time that enforcement actions are formally lifted by the Bangko Sentral and/or other relevant regulatory bodies after applicants have demonstrated to the Bangko Sentral that safety and soundness concerns are satisfactorily addressed and/or until such time applicants become eligible.

Applications of BSFIs under rehabilitation and/or enhanced supervision status[2] shall be dealt with in accordance with the eligibility test described in Section II.1(a) of *Appendix N-14*.

[1] As defined under Sec. 161-Q *(Compliance Function)* business risk refers to conditions which may be detrimental to the institution's business model and its ability to generate returns from operations, which in turn erodes its franchise value. Business risk includes reputational, compliance, market conduct and legal risks.

[2] Rehabilitation includes BSFIs under the Prompt Corrective Action (PCA), Rehabilitation Program, Letter of Commitment and any other similar cases where BSFIs are expected to comply with specific terms and conditions to restore eligibility (safety and sound) status.

BSFIs granted with licenses/authorities shall continuously comply with the abovementioned standards and requirements even after the license/authority has been granted; otherwise, any deviation or non-compliance may be a basis for the imposition of appropriate enforcement actions described in Sec. 101-N.

The specific guidelines and procedures on the Bangko Sentral's licensing framework are shown in *Appendix N-14*.

Enforcement actions. In line with the thrust of the Bangko Sentral to incorporate the licensing process into its enforcement regime, the Bangko Sentral reserves the right to deploy, as may be warranted, an adequate range of supervisory tools to ensure that grantees of licenses/authorities are and remain qualified to possess the same, bring about timely corrective actions and compliance with Bangko Sentral directives, and provide safety to depositors, creditors, other stakeholders as well as the public in general.

Enforcement actions that may be imposed include, but are not limited to:

a. *Corrective action.* Corrective actions are measures intended to primarily require BSFIs with approved licenses/authorities to rectify any deviations from the standards, principles and conditions expected for the exercise of the license and/or authority. Corrective actions may include, but are not limited to, issuance of directives and warnings.

b. *Sanctions.* The Monetary Board may impose any of the sanctions enumerated hereunder or a combination thereof.

(1) Non-monetary

(a) *Suspension of activities.* The conduct of activities related to the licenses/authorities granted may be suspended if the Bangko Sentral determines that the concerned BSFI no longer meets the criteria or standards set; or

(b) *Revocation of licenses/authorities.* The license/authority granted may be revoked in cases where violation, non-compliance with criteria/standards and/or false information are noted which affects the safety and soundness of banks' operations; and/or

(c) *Administrative sanctions*. The responsible directors/officers who approve transactions and/or decisions that resulted in violations of laws, rules and regulations, orders, and directives issued by the Monetary Board or the Governor may be subject to reprimand, temporary suspension, and/or disqualification of directors/officers.

The Monetary Board is not precluded to impose non-monetary sanctions other than those identified from Items *"(a)"* to *"(c)"*; and/or

(2) Monetary

Monetary penalties may be imposed for any acts, omissions or transactions that are outside the permissible activities of the licenses/authorities granted or are in violation of laws, Bangko Sentral rules and regulations, orders and directives issued by the Bangko Sentral.

Type of license of permissible activities[1]. The type of license attached to permissible activities of Bangko Sentral supervised financial institutions (BSFIs) shall be as follows:

Type of License	Permissible Activity	Related Sections
A	Trust and Other Fiduciary Business	Sec. 1003-N
B		
C	Outsourcing/Insourcing of Banking Functions	Sec. 102-N
	Securities Custodianship Operations	Sec. 1002-N
	Securities Registry Operations	Sec. 1002-N

[1] Applications filed with the Bangko Sentral prior to 6 March 2019 shall not be charged with processing and licensing fees provided under Sec. 101-N- (*Processing and licensing fees*). For application related to branching activities covered under Sec. 101-N (*Processing and special licensing fees*), as amended, approved after 6 March 2019, the processing fees provided under the said Section, as amended, shall be collected upon approval of the application. Applications for Type C licenses received prior to 6 March 2019 shall be deemed to have complied with the notification/certification requirements if after thirty (30) banking days from 6 March 2019, the appropriate supervising department of the FSS does not advise the BSFI concerned of any deficiency on such application.

Processing and Licensing Fees. All applications shall be charged with the following processing fees pursuant to Section II.3.i of *Appendix N-14*:

Type of License/ Authority	Processing Fees for Non-Bank Financial Institutions
A	10,000
B	10,000

Certain Type A licenses shall be charged with the following licensing fees upon approval pursuant to Section II.3.ii of *Appendix N-14*:

Type of License/ Authority	Licensing Fees* for Non-Bank Financial Institutions
A	50,000

*Licensing fee shall be net of the processing fee.

The foregoing tables shall not apply to licensing applications with separate fee structure under specific sections of this Manual.

(Circular Nos. 1121 dated 8 June 2021, 1031 dated 07 February 2019 and 947 dated 15 February 2017)

102-N GUIDELINES ON OUTSOURCING

The rules on outsourcing of banking functions as shown under Sec. 112 (*Statement of Principle on Outsourcing*) of the MORB and *Appendix Q-36* shall likewise apply to NBFIs.

(Circular No. 1031 dated 07 February 2019 and 899 dated 18 January 2016)

B. CORPORATE GOVERNANCE

111-N DIRECTORS AND OFFICERS

a. FIs shall submit to the appropriate supervising department of the Bangko Sentral a bio-data with ID picture of their directors/officers with rank of senior vice president (SVP) and above (or equivalent ranks) upon every election/re-election/appointment/promotion in a prescribed form and for first-time directors/officers with rank of senior vice president and above (or equivalent ranks) within a particular FI, the duly notarized authorization form per *Appendix Q-44*, within twenty (20) business days from the date of election/re-election of the directors/meeting of the board of directors in which the officers are appointed/promoted, in accordance with *Appendix N-1*.

   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) business days from the date the change occurred.

   For other officers below the rank of SVP, the FI shall not be required to submit their bio-data to the Bangko Sentral.

b. The FI shall, however, keep a complete record of the bio-data of all its directors and officers and shall maintain a system of updating said records which shall be made available during on-site examination or when required by the Bangko Sentral for submission for off-site verification.

c. The FI shall also submit to the appropriate supervising department of the Bangko Sentral, a duly notarized list of the incumbent members of the board of directors and officers (President or equivalent rank, down the line), within twenty (20) business days from the annual election of the board of directors as provided in the FI's by-laws, in accordance with *Appendix N-1*.

(Circular Nos. 1003 dated 16 May 2018 and 887 dated 07 October 2015)

112-N INTERLOCKING DIRECTORSHIPS AND/OR OFFICERSHIPS

The Bangko Sentral recognizes that effective sharing of managerial and technical expertise across institutions promotes economies of scale and organizational synergies, as well as broadens perspectives in strategy formulation and risk management. In this regard, Bangko Sentral-supervised financial institutions (BSFIs) are expected to have an effective governance process in place to ensure that the benefits of having directors or officers with interlocking positions in other entities are optimized, that the concerned directors or officers devote sufficient time and attention necessary to effectively carry out their duties and responsibilities, and that excessive concentration of economic power, unfair competitive advantage, abusive practices, and conflict of interest situations are prevented.

a. Responsibilities of board of directors. Consistent with the standards and principles set forth in the corporate governance guidelines for BSFIs under Sec. 132-Q, the board of directors of BSFIs shall:

(1) Approve policy on having directors or officers with interlocking positions in other entities, which shall cover, among others, the following:

(a) Cases and the corresponding rationale when the BSFI shall allow/appoint directors or officers to have/with interlocking positions in other entities; the sectors or industries of the entities where the directors or officers may assume other positions; interlocking positions that may be held by directors or officers; and limit on the number of entities where the director or officer may hold interlocking positions. *Provided,* That the limit to be set shall be consistent with Item *"b"* of Qualifications of a director under Sec. 132-Q;

(b) Measures to avoid excessive concentration of economic power, unfair competitive advantage and abusive practices. The policy shall also include the measures in handling conflict of interest situations;

(c) Requirement to obtain approval from the board of directors or the appropriate authority designated in the BSFI prior to acceptance of interlocking directorship/officership positions in other entities;

(d) Requirement to obtain proof of disclosure to and consent from all the involved entities on interlocking officership positions held outside the banking group/conglomerate; and

(e) Courses of action in case conflict of interest arise or when the performance of the director or officer has been affected by the interlocking positions held.

(2) Ensure effective governance process on the selection and appointment of directors and/or officers who are holding interlocking positions in other entities and in approving the acceptance of directors/officers of interlocking positions in other entities. The governance process shall cover continuous assessment of potential conflict of interest in the entities involved as well as the interlocking positions held.

(3) Ensure that directors and/or officers holding interlocking positions in other entities effectively carry out their duties and responsibilities in the BSFI. It shall be the responsibility of the board of directors to conduct a periodic performance evaluation of the concerned directors and officers measured against agreed upon standards for the position. The board of directors shall immediately take appropriate action should the results of performance evaluation reflect that the performance of the function in the BSFI has been adversely affected by the interlocking positions held by the director and/or officer.

(4) Ensure that the control functions (i.e., risk management, compliance, and internal audit) cover the assessment of adherence to internal policies and regulatory expectations on interlocking positions held by the directors and/or officers. For the interlocking positions held by heads of control functions, the assessment shall be performed by the board of directors or board-level committee to whom they functionally report to.

b. Factors to Consider on Interlocking Positions. BSFIs shall observe the following rules for interlocking positions held by directors and/or officers:

(1) *Interlocking directorships.* Interlocking directorships in BSFIs are allowed except in cases involving banks belonging to the same category. In this respect, interlocking directorship in banks belonging to the same category shall only be allowed if the banks: (i) are part of the same banking group; or (ii) have different business models and are serving different markets or clients.

For purposes of determining interlocking directorship, a director and his/her spouse, whether legitimate or common-law, shall be considered as on (1) and the same person.

(2) *Interlocking directorships and officerships.* Interlocking directorships and officerships are allowed provided that the positions do not pose conflict of interests. For this purpose, the appointment should be consistent with the policy adopted by the BSFI.

(3) Interlocking officerships. As a general rule, interlocking officerships shall not be allowed except:

(a) Held in the same capacity within a banking group as (i) corporate secretary, (ii) security officer, (iii) Chief Risk Officer, Chief Compliance Officer, Head of Internal Audit, or (iv) other positions performing similar functions as those in (i) to (iii) hereof; *Provided*, That: The assumption of interlocking officerships is consistent with the enterprise risk management approach of the BSFI and the banking group where the concerned entities belong.

(b) As corporate secretary or assistant corporate secretary between/among entities, which are not part of the same banking group/conglomerate; *Provided*, That:

(i) Proof of disclosure to and consent from all of the involved entities on the interlocking officerships are obtained; and

(ii) The positions do not pose conflict of interest and that the officer holding interlocking positions will still be able to devote sufficient time and attention to effectively carry out his/her duties and responsibilities.

(4) Consistent with Section 6 of Presidential Decree No. 129, as amended by Batas Pambansa Blg. 66, entitled "Governing the Establishment, Operation and Regulation of Investment Houses," the Bangko Sentral hereby allows interlocking directorship and officership between a bank and an investment house subject to the requirements of this Section and other applicable laws and regulations: *Provided, however,* That interlocking officerships between a bank and an investment house may only be allowed where the majority or all of the equity of the investment house is owned by the bank.

c. Approval of interlocking positions. The board of directors or the appropriate authority designated in the BSFI shall approve the interlocking positions held by directors and officers of a BSFI. The documents supporting the approval shall reflect the assessment done by the approving authority consistent with the policy adopted in the BSFI and the expectations in this Section.

d. Transitory Provisions. BSFIs shall reassess existing interlocking positions held by directors and officers, including those previously approved by the Bangko Sentral, considering the principles set out in this Section and the internal policy adopted. BSFIs shall address issues noted in the assessment of interlocking positions in the election of directors and appointment of officers to fully comply with the provisions of this Section by 30 June 2022.

e. Reports. BSFIs shall submit an annual report of all interlocking positions of its directors and officers within twenty (20) banking days from the end of each reference year starting 31 December 2021.

BSFIs shall keep a complete record of all interlocking positions of its directors and officers, and documentation of the assessments conducted by the board of directors or appropriate authority designated in the BSFI on existing and new interlocking positions, and shall maintain a system of updating said records which shall be made available during examination by the Bangko Sentral or when required for submission for verification.

f. Enforcement Actions. The Bangko Sentral shall deploy enforcement actions to promote adherence to the requirements set forth in this Section and bring about timely corrective actions. The Bangko Sentral shall issue directives or sanctions on the BSFI and responsible persons which may include restrictions or prohibitions from certain authorities/activities; and warning, reprimand, suspension, removal and disqualification of concerned BSFI directors, and officers. The Bangko Sentral shall disallow interlocking directorships and officerships or direct the BSFI to amend its internal policy on interlocking positions if the Bangko Sentral deems that the interlocking positions if the Bangko Sentral deems that the interlocking positions pose conflict of interest which give rise to excessive concentration of economic power, unfair competitive advantage, and abusive practices.

g. 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 Bangko Sentral.

h. Representatives of government. The provisions of this Section shall apply to representatives of the government or government-owned or controlled entities appointed as directors or officers in BSFIs, unless otherwise covered under existing laws.

(Circular Nos. 1129 dated 12 November 2021 and 953 dated 27 March 2017)

113-N DISQUALIFICATION OF DIRECTORS AND OFFICERS

The following regulations shall govern the disqualification of directors and officers of institutions under the supervisory and regulatory powers of the Bangko Sentral other than banks, QBs, NSSLAs and pawnshops.

Persons disqualified to become directors. Without prejudice to specific provisions of law prescribing disqualifications for directors, the following are disqualified from becoming directors:

a. *Permanently disqualified*

Directors/trustees/officers/employees permanently disqualified by the Monetary Board from holding a director/trustee position:

(1) Persons who have been convicted by final judgment of the court for offenses involving dishonesty or breach of trust such as estafa, embezzlement, extortion, forgery, malversation, swindling and theft;

(2) Persons who have been convicted by final judgment of the court for violation of banking laws;

(3) Persons who have been judicially declared insolvent, spend thrift or incapacitated to contract; or

(4) Directors, trustees, officers or employees of closed institutions under the supervisory and regulatory powers of the Bangko Sentral who were responsible for such institutions' closure as determined by the Monetary Board.

b. *Temporarily disqualified*

Directors/trustees/officers/employees disqualified by the Monetary Board from holding a director/trustee position for a specific/indefinite period of time. Included are:

(1) Persons who refuse to fully disclose the extent of their business interest to the appropriate supervising department of the Bangko Sentral when required pursuant to a provision of law or of a circular, memorandum or rule or regulation of the Bangko Sentral. This disqualification shall be in effect as long as the refusal persists;

(2) Directors who have been absent or who have not participated for whatever reasons in more than fifty percent (50%) of all meetings, both regular and special, of the board of directors during their incumbency, or any twelve (12)-month period during said incumbency. This disqualification applies for purposes of the succeeding election;

(3) Persons who are delinquent in the payment of their obligations as defined hereunder:

(a) *Delinquency in the payment of obligations* means that an obligation of a person with the institution where he/she is a director or officer, or at least two (2) obligations with other FIs, under different credit lines or loan contracts, are past due pursuant to Sec. 304 of the MORB;

(b) *Obligations* shall include all borrowings from any FI obtained by:

(i) A director, trustee or officer for his own account or as the representative or agent of others or where he/she acts as a guarantor, endorser or surety for loans from such FIs;
(ii) The spouse or child under the parental authority of the director, trustee or officer;
(iii) Any person whose borrowings or loan proceeds were credited to the account of, or used for the benefit of a director, trustee or officer;
(iv) A partnership of which a director, trustee or officer, or his/her spouse is the managing partner or a general partner owning a controlling interest in the partnership; and
(v) A corporation, association or firm wholly-owned or majority of the capital of which is owned by any or a group of persons mentioned in the foregoing Items *"(i)", "(ii)"* and *"(iv)"*;

This disqualification shall be in effect as long as the delinquency persists.

(4) Persons convicted for offenses involving dishonesty, breach of trust or violation of banking laws but whose conviction has not yet become final and executory;

(5) Directors, trustees and officers of closed institutions under the supervisory and regulatory powers of the Bangko Sentral pending their clearance by the Monetary Board;

(6) Directors and trustees disqualified for failure to observe/discharge their duties and responsibilities prescribed under existing regulations. This disqualification applies until the lapse of the specific period of disqualification or upon approval by the Monetary Board on recommendation by the appropriate supervising department of the Bangko Sentral of such directors' election/re-election;

(7) Persons dismissed from employment for cause. This disqualification shall be in effect until they have cleared themselves of involvement in the alleged irregularity or upon clearance, on their request, from the Monetary Board after showing good and justifiable reasons, or after the lapse of five (5) years from the time they were officially advised by the appropriate supervising department of the Bangko Sentral of their disqualification;

(8) Those under preventive suspension; and

(9) Persons with derogatory records with the NBI, court, police, Interpol and monetary authority (central bank) of other countries (for foreign directors and officers) involving violation of any law, rule or regulation of the Government or any of its instrumentalities adversely affecting the integrity and/or ability to discharge the duties of a director/trustee/officer. This disqualification applies until they have cleared themselves of involvement in the alleged irregularity.

Persons disqualified to become officers.

a. The disqualifications for directors mentioned in Sec. 113-N shall likewise apply to officers, except those stated in Item *"b(2)"*.
b. The spouses or relatives within the second degree of consanguinity or affinity are prohibited from holding officership positions across the following functional categories within an NBFI:

(1) Decision making and senior management function, e.g., chairman, president, chief executive officer (CEO), chief operating officer (COO), general manager, and chief financial officer (CFO) other than the treasurer or controller;

(2) Treasury function, e.g., Treasurer and Vice President – Treasury;

(3) Recordkeeping and financial reporting functions, e.g., controller and chief accountant;

(4) Safekeeping of assets, e.g., chief cashier;

(5) Risk management function, e.g., chief risk officer;

(6) Compliance function, e.g., compliance officer; and

(7) Internal audit function, e.g., internal auditor.

The spouse or relative within the second degree of consanguinity or affinity of any person holding the position of manager, cashier, or accountant of a branch or extension office of an NBFI or their respective equivalent positions is disqualified from holding or being appointed to any of said positions in the same branch or extension office.

Disqualification procedures.

a. The board of directors and management of every institution shall be responsible for determining the existence of the ground for disqualification of the institution's director/officer or employee and for reporting the same to the Bangko Sentral. While the concerned institution may conduct its own investigation and impose appropriate sanction/s as are allowable, this shall be without prejudice to the authority of the Monetary Board to disqualify a director/officer/employee from being elected/appointed as director/officer in any FI under the supervision of the Bangko Sentral. Grounds for disqualification made known to the institution shall be reported to the appropriate supervising department of the Bangko Sentral within seventy-two (72) hours from knowledge thereof.

b. On the basis of knowledge and evidence on the existence of any of the grounds for disqualification mentioned in Sec. 113-N, the director or officer concerned shall be notified in writing either by personal service or through registered mail with registry return receipt card at his/her last known address by the appropriate supervising department of the Bangko Sentral of the existence of the ground for his/her disqualification and shall be allowed to submit within fifteen (15) calendar days from receipt of such notice an explanation on why he/she should not be disqualified and included in the watchlisted file, together with the evidence in support of his/her position. The head of said department may allow an extension on meritorious ground.

c. Upon receipt of the reply/explanation of the director/officer concerned, the appropriate supervising department of the Bangko Sentral shall proceed to evaluate the case. The director/officer concerned shall be afforded the opportunity to defend/clear himself/herself.

d. If no reply has been received from the director/officer concerned upon the expiration of the period prescribed under Item *"b"* above, said failure to reply shall be deemed a waiver and the appropriate supervising department of the Bangko Sentral shall proceed to evaluate the case based on available records/evidence.

e. If the ground for disqualification is delinquency in the payment of obligation, the concerned director or officer shall be given a period of thirty (30) calendar days within which to settle said obligation or, restore it to its current status or, to explain why he/she should not be disqualified and included in the watchlisted file, before the evaluation on his disqualification and watchlisting is elevated to the Monetary Board.

f. For directors/officers of closed banks, the appropriate supervising department of the Bangko Sentral shall make appropriate recommendation to the Monetary Board clearing said directors/officers when there is no pending case/complaint or evidence against them. When there is evidence that a director/officer has committed irregularity, the appropriate supervising department of the Bangko Sentral shall make recommendation to the Monetary Board that his/her case be referred to the OSI for further investigation and that he/she be included in the masterlist of temporarily disqualified persons until the final resolution of his/her case. Directors/officers with pending cases/complaints shall also be included in said masterlist of temporarily disqualified persons upon approval by the Monetary Board until the final resolution of their cases. If the director/officer is cleared from involvement in any irregularity, the appropriate supervising department of the Bangko Sentral shall recommend to the Monetary Board his/her delisting. On the other hand, if the director/officer concerned is found to be responsible for the closure of the institution, the appropriate supervising department of the Bangko Sentral shall recommend to the Monetary Board his/her delisting from the masterlist of temporarily disqualified persons and his/her inclusion in the masterlist of permanently disqualified persons.

g. If the disqualification is based on dismissal from employment for cause, the appropriate supervising department of the Bangko Sentral shall, as much as practicable, endeavor to establish the specific acts or omissions constituting the offense or the ultimate facts which resulted in the dismissal to be able to determine if the disqualification of the director/officer concerned is warranted or not. The evaluation of the case shall be made for the purpose of determining if disqualification would be appropriate and not for the purpose of passing judgment on the findings and decision of the entity concerned. The appropriate supervising department of the Bangko Sentral may decide to recommend to the Monetary Board a penalty lower than disqualification (e.g., reprimand, suspension, etc.) if, in its judgment the act committed or omitted by the director officer concerned does not warrant disqualification.

h. All other cases of disqualification, whether permanent or temporary shall be elevated to the Monetary Board for approval and shall be subject to the procedures provided in paragraphs *"a", "b", "c"* and *"d"* above.

i. Upon approval by the Monetary Board, the concerned director/officer shall be informed by the appropriate supervising department of the Bangko Sentral in writing either by personal service or through registered mail with registry return receipt card, at his/her last known address of his/her disqualification from being elected/appointed as director officer in any FI under the supervision of Bangko Sentral and/or of his/her inclusion in the masterlist of watchlisted persons so disqualified.

j. The board of directors of the concerned institution shall be immediately informed of cases of disqualification approved by the Monetary Board and shall be directed to act thereon not later than the following board meeting. Within seventy-two (72) hours thereafter, the corporate secretary shall report to the Governor of the Bangko Sentral through the appropriate supervising department of the Bangko Sentral the action taken by the board on the director/officer involved.

k. Persons who are elected or appointed as director or officer in any of the Bangko Sentral-supervised institutions for the first time but are subject to any of the grounds for disqualification provided for under Sec. 113-N, shall be afforded the procedural due process prescribed above.

l. Whenever a director/officer is cleared in the process mentioned under Item *"c"* above or, when the ground for disqualification ceases to exist, he/she would be eligible to become director or officer of any bank, QB, trust entity or any institution under the supervision of the Bangko Sentral only upon prior approval by the Monetary Board. It shall be the responsibility of the appropriate supervising department of the Bangko Sentral to elevate to the Monetary Board the lifting of the disqualification of the concerned director/officer and his/her delisting from the masterlist of watchlisted persons.

Effect of possession of disqualifications. Directors/officers elected or appointed possessing any of the disqualifications as enumerated herein, shall vacate their respective positions immediately.

Watchlisting. To provide the Bangko Sentral with a central information file to be used as reference in passing upon and reviewing the qualifications of persons elected or appointed as trustee or officer of an institution under the supervisory and regulatory powers of the Bangko Sentral, the appropriate supervising department of the Bangko Sentral shall maintain a watchlist of disqualified directors/trustees/officers under the following procedures:

a. *Watchlist categories*. Watchlisting shall be categorized as follows:

(1) Disqualification File "A" (Permanent) – Directors/trustees/officers/employees permanently disqualified by the Monetary Board from holding a director/trustee/officer position.
(2) Disqualification File "B" (Temporary) – Directors/trustees/officers/employees temporarily disqualified by the Monetary Board from holding a director/trustee/officer position.

b. *Inclusion of directors/trustees/officers/employees in the watchlist.* Upon recommendation by the appropriate supervising department of the Bangko Sentral, the inclusion of directors/trustees/officers/employees in watchlist disqualification files "A" and "B" on the basis of decisions, actions or reports of the courts, institutions under the supervisory and regulatory powers of the Bangko Sentral, NBI or any other administrative agencies shall first be approved by the Monetary Board.

c. *Notification of directors/trustees/officers/employees.* Upon approval by the Monetary Board, the concerned director/trustee/officer/employee shall be informed through registered mail, with registry return receipt card, at his last known address of his inclusion in the masterlist of watchlisted persons disqualified to be a director/trustee/officer in any institution under the supervisory and regulatory powers of the Bangko Sentral.

d. *Confidentiality*. Watchlist files shall be for internal use only of the Bangko Sentral and may not be accessed or queried upon by outside parties including QBs, NBFIs with trust authority, trust corporations and such institutions under the supervisory and regulatory powers of the Bangko Sentral, except with the authority of the person concerned (without prejudice to the authority of the Governor and the Monetary Board to authorize release of the information) and with the approval of the concerned supervising Department Head or supervising Subsector Head or the Deputy Governor, supervising or the Governor, or the Monetary Board.

The Bangko Sentral will disclose information on the person included in its watchlist files only upon submission of a duly notarized authorization from the concerned person and approval of such request by the concerned supervising Department Head or supervising Subsector Head or the Deputy Governor, supervising or the Governor or the Monetary Board. The prescribed authorization form to be submitted to the appropriate supervising department of the Bangko Sentral is in *Appendix Q-44.*

FIs can gain access to said information in the said watchlist for the sole purpose of screening their nominees/applicants for directors/officers and/or confirming their elected directors and appointed officers. FIs must obtain the said authorization on an individual basis.

e. *Delisting*. All delistings shall be approved by the Monetary Board upon recommendation of the appropriate supervising department of the Bangko Sentral except in cases of persons known to be dead where delisting shall be automatic upon proof of death and need not be elevated to the Monetary Board. Delisting may be approved by the Monetary Board in the following cases:

(1) Watchlist - Disqualification File "B" (Temporary) –

(a) After the lapse of the specific period of disqualification;

(b) When the conviction by the court for crimes involving dishonesty, breach of trust and/or violation of banking laws becomes final and executory, in which case the director/trustee/officer/employee is relisted to Watchlist – Disqualification File "A" (Permanent); or

(c) Upon favorable decision or clearance by the appropriate body, i.e., court, NBI, institutions under the supervisory and regulatory powers of the Bangko Sentral, or such other agency/body where the concerned individual had derogatory record.

Directors/trustees/officers/employees delisted from the Watchlist – Disqualification File "B" other than those upgraded to Watchlist – Disqualification File "A" shall be eligible for re-employment with any institution under the supervisory and regulatory powers of the Bangko Sentral.

C. RISK MANAGEMENT SYSTEM

121-N SUPERVISION BY RISKS

The guidelines on supervision by risk in *Appendix Q-41* which provide guidance on how QBs should identify, measure, monitor and control risks shall govern the supervision by risks of FIs to the extent applicable.

The guidelines set forth the expectations of the Bangko Sentral with respect to the management of risks and are intended to provide more consistency in how the risk-focused supervision function is applied to these risks. The Bangko Sentral will review the risks to ensure that an FI's internal risk management processes are integrated and comprehensive. All FIs should follow the guidance in risk management efforts.

122-N CREDIT RISK MANAGEMENT

It is the policy of the Bangko Sentral to ensure that BSFIs under its supervision have adequate and effective credit risk management systems commensurate to their credit risk-taking activities. Towards this end, the following guidelines on credit risk management set forth the expectations of the Bangko Sentral with respect to the comprehensive management

of credit risk. The guidelines further articulate sound principles and practices that shall be embedded in the credit risk management framework of BSFIs and shall cover the following areas: a) establishing an appropriate credit risk environment; b) operating under a sound credit granting process; and c) maintaining appropriate credit administration, measurement, monitoring and control processes over credit risk. While FIs may employ different approaches in the management of their credit risk, the Bangko Sentral expects that all these areas are effectively addressed.

For purposes of these guidelines, FIs refer to UBs, KBs, TBs, RB and Coop Banks and their respective credit-granting financial subsidiaries (if any) as well as stand-alone QBs.

Evaluation of credit risk management system. The Bangko Sentral shall evaluate the FI's credit risk management system not only at the level of individual legal entities but also across the subsidiaries within the consolidated banking organization. It will not restrict the scope of the credit risk-taking activities of an FI, so long as the FI is authorized to engage in such activities and:

a. Understands, measures, monitors and controls the risk assumed;
b. Adopts risk management practices whose sophistication and effectiveness are commensurate to the risk being taken; and
c. Maintains capital commensurate with the risk exposure assumed.

If the Bangko Sentral determines that an FI's risk exposures are excessive relative to the FI's capital, or that the risk assumed is not well-managed, the Bangko Sentral will direct the FI to reduce its exposure to an appropriate level and/or to strengthen its risk management systems. In evaluating the above parameters, the Bangko Sentral expects FIs to have sufficient knowledge, skills and appropriate system and technology necessary to understand and effectively manage their credit risk exposures.

The principles set forth in the credit risk management guidelines shall be used in determining the adequacy and effectiveness of an FI's credit risk management process and adequacy of capital relative to exposure. The Bangko Sentral shall consider the following factors:

a. The FI's business strategies, operating environment, and the competencies of its officers and personnel; and
b. The major sources of credit risk exposure and the complexity and level of risk posed by the assets, liabilities, and off-balance sheet activities.

I. Establishing an Appropriate Credit Risk Environment

Role of the board and senior management

a. *Board of directors.* The board of directors shall be responsible for the approval and regular review of credit risk strategy and credit policy, as well as the oversight of the implementation of a comprehensive and effective credit risk management system appropriate for the size, complexity and scope of operations of an FI. The board shall ensure that the system provides for adequate policies, procedures and processes to identify, measure, monitor and control all credit risks inherent in an FIs' products and activities, both at the individual and portfolio levels on a consistent and continuing basis; and that an independent assessment of the system is periodically performed, the results of which shall be reported to it or to a board-level committee for appropriate action.

b. *Senior management*. Senior management shall be responsible for ensuring that the credit risk-taking activities of an FI are aligned with the credit risk strategy approved by the board of directors. It shall also be responsible for developing and implementing an FI's credit policies and procedures that lay down the conditions and guidelines for an effective credit risk management process, as well as proper channels of communication to ensure that these policies are clearly communicated and adhered to by all levels of the organization.

Credit risk management structure

a. Senior management or an appropriate level of management shall implement a board-approved credit risk management structure that clearly delineates lines of authority, establish accountabilities and responsibilities of individuals involved in the different phases of the credit risk management process.

b. Depending on the size, complexity and scope of credit activities, and in addition to the roles and responsibilities of the board and senior management, an FI's credit risk management organization may be broadly classified into three (3) functional lines of activities: the front, back and middle offices, to properly segregate accountabilities, ensure that no individual is assigned conflicting responsibilities, and effectively monitor and control the risks being taken.

c. The front office function performs credit originating; recommends internal credit ratings, classifications and allowances for losses including changes thereon, when necessary; and the on-going monitoring of credit exposures of borrowers on a day-to-day basis.

d. The back office provides support in the overall credit administration, including, among others: ensuring complete documentation, credit disbursement and recording of payments received; maintenance of credit and collateral files; and compilation of management information reports.

e. The middle office performs risk management and control functions that are independent from the credit originating and administration functions. The risk management function provides meaningful inputs in policy formulation and limits setting; designs and implements the FI's internal credit risk rating system; and performs periodic exposure and exception monitoring. The risk management function shall report directly to the Risk Management Committee (RMC) or appropriate board-level committee or the board.

f. An independent credit review is a function within the middle office that performs an unbiased assessment of the quality of individual credits and the aggregate credit portfolio, including appropriateness of credit risk rating, classification and adequacy of allowance for loan losses. In the case of simple FIs, such independent credit review function may be concurrently performed by qualified personnel fulfilling other independent control oversight functions (e.g., compliance, internal audit).

g. The workout or problem loan management is another function within the middle office that is independent from the credit originating function to ensure that problem loans are managed effectively to minimize potential losses. For simple FIs, however, the function may still be performed by the credit originating function and/or unit responsible for monitoring the quality of such credit.

h. The structure shall likewise provide for independent audits, i.e., internal audit and compliance, to conduct independent credit and compliance audits of the credit risk management system of the FI. The scope of internal audit shall include the evaluation of the independence and overall effectiveness of the credit review function.

i. Regardless of the organizational structure that an FI adopts, the board shall ensure that the aforementioned key functions are considered and independence and control oversight functions are effective to avoid or address any potential conflict of interest.

j. Personnel or staff involved in all phases of the credit risk management process shall be qualified, competent and have the necessary training and experience to exercise prudent judgment in assessing, managing and/or controlling credit risk, and a solid understanding of an FI's strategic direction, policies, procedures, risk tolerance and limits. Their qualification standards, roles and responsibilities shall be clearly defined in the credit operating policies and procedures manual of the FI. The board and senior management shall ensure that adequate resources and appropriate level of staffing are allocated to execute all kinds of credit activities.

Credit risk strategy. The credit risk strategy must reflect the FI's profitability and portfolio growth targets, and must be consistent with the credit risk tolerance and overall corporate strategy and business goals of the FI.

a. In formulating the credit risk strategy, the FI shall articulate the desired market segments and types of credit exposures (e.g., commercial credits, retail credits, real estate, investments, trading products, credit commitments and/or guarantees); specific characteristics of clients, economic sector, geographical location; the portfolio mix that reflects the acceptable level of diversification and concentration; and consider the risk/reward trade-off by factoring in, to the greatest extent possible, price and non-price (e.g. collateral, restrictive covenants, etc.) terms as well as likely downside scenarios and their possible impact on the obligors.

   The FI shall likewise define acceptable and unacceptable types of credits, clients, activities, transactions and behaviors that could result or potentially result in conflict of interest, personal gain at the expense of the FI, or unethical conduct.

b. The credit risk strategy shall consider the cyclical aspects of the economy and the varying effects of the economic cycle on the credit portfolio of the FI.

Credit policies, processes and procedures. FIs shall have in place a sound, comprehensive and clearly defined credit policies, processes and procedures consistent with prudent standards, practices, and relevant regulatory requirements adequate for the size, complexity and scope of an FI's operations. The board-approved policies, processes and procedures shall cover all phases of the credit risk management system.

a. FIs shall establish appropriate processes and procedures to implement the credit policy and strategy. These processes and procedures, as well as the credit policy, shall be documented in sufficient detail, effectively communicated throughout the organization to provide guidance to staff, and periodically reviewed and updated to take into account new activities and products, as well as new lending approaches. Subsequent major changes must be approved by the board.

b. The credit policy shall likewise provide for the maintenance of an audit trail documenting that the credit risk management process was properly observed and identifying the unit, individual(s) and/or committee(s) providing input into the process.

c. The credit culture, which reflects the FI's credit values, beliefs and behaviors, shall likewise be articulated in the credit policy and communicated to credit officers and staff at all levels through the strategic plan. The credit practices shall be assessed periodically to ensure that the officers and staff conform to the desired standard and value.

II. Operating under a Sound Credit Granting Process

Credit approval process. The approval process for new credits as well as the amendment, renewal and refinancing of existing credit exposures shall be aligned with the credit risk management structure and clearly articulated in an FI's written credit policy. The process shall include the different levels of appropriate approving authority and the corresponding approving authority limits, which shall be commensurate with the risks of the credit exposures, as well as expertise of the approving individuals involved. It shall also include an escalation process where approval for restructuring of credits, policy exceptions or excesses in internal limits is escalated to units/officer with higher authorities. Further, there shall be proper coordination of relevant units and individuals and sufficient controls to ensure acceptable credit quality at origination.

Credit granting and loan evaluation/analysis process and underwriting standards. Consistent with safe and sound banking practice, an FI shall grant credits only in amounts and for the periods of time essential for the effective completion of the activity to be financed and after ascertaining that the obligor[1] is capable of fulfilling his commitments to the FI. Towards this end, an FI shall establish well-defined credit-granting criteria and underwriting standards, which shall include a clear indication of the FI's target market and a thorough understanding of the obligor or counterparty, as well as the purpose and structure of the credit and its source of repayment.

a. FIs shall conduct comprehensive assessments of the creditworthiness of their obligors, and shall not put undue reliance on external credit assessments. Credit shall be granted on the basis of the primary source of loan repayment or cash flow, integrity and reputation of the obligor or counterparty as well as their legal capacity to assume the liability.

b. Depending on the type of credit exposure and the nature of the credit relationship, the factors to be considered and documented in approving credits shall include, but are not limited to, the following:

(1) The purpose of the credit which shall be clearly stated in the credit application and in the contract between the FI and the obligor;

(2) The current risk profile (including the nature and aggregate amounts of risks, risk rating or credit score, pricing information) of the borrower, collateral, other credit enhancements and its sensitivity to economic and market developments;

(3) The sources of repayment, repayment history and current capacity to repay based on financial analysis from historical financial trends and indicators such as equity, profitability, turnover, leverage, and debt servicing ability via cash flow projections, under various scenarios;

(4) For commercial credits, the borrower's business expertise, its credit relationships including its shareholders and company directors, as applicable, and the status of the borrower's economic sector and its track record vis-à-vis industry peers;

(5) The proposed terms and conditions of the credit (i.e., type of financing, tenor, repayment structure, acceptable collateral) including covenants designed to limit changes in the future risk profile of the obligor;

(6) Use of credit reports; and

(7) Where applicable, the adequacy, valuation and enforceability of collateral or guarantees.

c. In performing the financial analysis, FIs shall use, to the extent available, credible audited financial statements and other relevant documents and sources. FIs may opt to use financial information/data from other sources provided that the process for arriving at such disposition and an evaluation of how much reliance or value was attached into the financial information used is clearly articulated and documented.

[1] Obligor refers to an individual or entity that owes another person or entity a certain debt or duty. For purposes of these guidelines, obligor can also be used interchangeably with borrower or debtor.

d. When participating in loan syndications, an FI shall not place undue reliance on the credit analysis done by the lead underwriter and shall perform its own analysis and review of syndicate terms. It shall analyze the risk and return on syndicated loans in the same manner as directly sourced loans and ensure that the loan is consistent with its credit risk strategy.

e. When an FI purchases securities issued by an obligor that is different from the counterparty (e.g. asset swaps), it shall also analyze issuer risk. For treasury and capital market activities, the structure of products and transactions shall be analyzed to determine the source and volatility of credit exposure.

f. When granting consumer credits, an FI shall conduct its credit assessment in a holistic and prudent manner, taking into account all relevant factors that could influence the prospect for the loan to be repaid according to its terms and conditions. This shall include an appropriate consideration of the potential obligor's other debt obligations and repayment history and an assessment of whether the loan can be expected to be repaid from the potential obligor's own resources without causing undue hardship and over-indebtedness. Adequate checkings, including with relevant credit bureaus, shall be made to verify the obligor's credit applications and repayment records.

g. FIs shall factor into their credit-granting decisions the likelihood of providing allowance for identified and expected losses and holding adequate capital to absorb unexpected losses for credits with apparent weaknesses.

h. FIs may utilize physical collateral (like real estate), financial guarantees and other instruments to help mitigate risk in credit exposures. However, these shall not substitute for a comprehensive assessment of the obligor or fully compensate for insufficient information.

i. FIs shall establish adequate policies in determining the acceptability of various forms of credit mitigants and appropriate collateral value limits; procedures for regularly assessing the value of physical collaterals and availability of financial guarantees; and a process to ensure that these are, and continue to be, enforceable, realizable and marketable. Finally, FIs need to consider that the realizable value of the physical collateral or the quality of financial guarantees and other credit mitigants may be impaired by the same factors that have led to the diminished recoverability of the credit.

In the case of guarantees, the level of coverage being provided in relation to the credit quality, financial and legal capacity of the guarantor shall be evaluated.

For credit exposures secured by deposits, FIs shall likewise require obligors to provide a written waiver of his rights under existing laws to the confidentiality of his deposits, and make this available for inspection and/or examination by the appropriate supervising department of the Bangko Sentral.

j. Netting arrangements also mitigate risks, especially in interbank and off-balance sheet transactions. In order to actually reduce risk, such agreements need to be sound and legally enforceable in all relevant jurisdictions.

k. For more complex credit risk exposures, (e.g., asset securitization, credit derivatives, credit-linked notes, credit granted internationally, etc.), a more sophisticated tool shall be used for identifying, measuring, monitoring and controlling credit, country and transfer risks. Each complex credit risk product or activity, especially those that are new to banking, shall be subject to a thorough analysis in addition to the regular assessment that is done with traditional credit-granting activities.

l. For new products and activities, the credit risk shall be appropriately identified and managed through a formal risk assessment program. FIs shall ensure that they fully understand the risk involved in new products and activities and put in place adequate policies, procedures and controls before being introduced or undertaken.

Renewal or extension of maturity date of credits. FIs shall adopt and adhere to the following explicit standards that control the use of renewals and extensions of maturity date of credits:

a. Credits and other accommodations shall only be renewed or its maturity date extended:

(1) Upon re-establishment of the creditworthiness of the obligor using the same credit-granting criteria for the evaluation and approval of new loans; and
(2) When the corresponding accrued interest receivable has been paid.

b. A policy on clean-up of principal, either partial or full, shall be established and appropriate controls put in place to prevent continuous renewal or extension over a long period of time without reduction in principal; otherwise, such credits and other accommodations shall be subject to classification and allowance for credit losses.

c. Specific and reasonable standards shall be provided for renewals or extensions of certain types of credit exposures that take into consideration the following factors:

(1) Borrower's normal operating, trade or production cycle, in the case of credit exposures for working capital, trade financing, production, and/or other similar purposes to ensure a realistic repayment schedule;

(2) Transaction history such as frequency of renewal or extension, rate of utilization of facilities granted, and business requirements;

(3) Status of collateral and other guarantees in the case of secured credit exposures, including requiring the FI to re-appraise the property especially when there is a material change in market conditions or in the physical aspects of the property that threatens the collateral protection; and

(4) Age of the account, utilization rate, average balance carried, delinquency status, payment history, and account profitability (if available) in the case of retail credits.

Credit limits, large exposures, and credit risk concentrations An FI is exposed to various forms of credit risk concentration which if not properly managed, monitored and controlled may cause significant losses that could threaten its financial strength and undermine public confidence in the FI. Concentration risk can arise from excessive exposures to individual obligors, groups of connected counterparties and groups of counterparties with similar characteristics (e.g., counterparties in specific geographical locations, economic or industry sectors) or entities in a foreign country or a group of countries with strongly interrelated economies.

While concentration of credit risks is inherent in banking and cannot be totally eliminated, this can be mitigated by adopting policies and processes that would limit and control credit exposures and employing portfolio diversification strategies. Policies and procedures may include, but are not limited to the following:

a. Policies and procedures for identifying, reviewing, managing and reporting large exposures and concentration risks of the FI.

b. Segmenting its portfolio into the following diverse categories or such other segmentations consistent with the FI's credit strategy:

(1) Various types of borrowers/counterparties or loan category (e.g., government, banks and other FIs, corporate and individual borrowers, including exchanges, electronic communication networks or ECNs and clearing houses);

(2) A group of connected borrowers/counterparties (includes aggregating exposures to groups of accounts exhibiting financial or economic interdependence, including corporate or non-corporate, where they are under common ownership or control or with strong connecting links, e.g. common management, familial ties);

(3) Individual industry sectors;

(4) Geographic regions or countries;

(5) Loan structure, collateral, and tenor; and

(6) Various types of investments, including other credit instruments in the trading books and off-balance sheet transactions.

c. Defining limit structure on each of the foregoing categories. Limits shall meaningfully aggregate credit exposures, both in the banking, trading book and on and off the balance sheet and shall be reasonable in relation to the FI's level of risk tolerance, historical loss experience, capital and resources. Such limits can be based in part on the internal risk rating assigned to the obligor or counterparty.

d. Procedures shall ensure that limits are not exceeded and are clearly communicated, periodically reviewed and modified, as appropriate. Should exceptions to policy be allowed, the circumstances under which limits may be exceeded and the party authorized to approve such excesses shall be clearly articulated in the credit policy.

Credits granted to related parties. Consistent with sound corporate governance practices, the board and senior management shall articulate and implement clear policies in handling transactions with directors, officers, stockholders, their related interests (DOSRI), the FI's subsidiaries and affiliates, and other related parties, ensuring that there is effective compliance with existing laws, rules, and regulations at all times and that no stakeholder is unduly disadvantaged.

a. All extensions of credit must be made on an arm's-length basis, in accordance with the FI's credit-granting criteria and in the regular course of business, and upon terms not less favorable to the FI than those offered to non-related borrowers.

b. FI policies shall cover standards that require directors and/or officers to avoid placing themselves in a position that creates conflict of interest or the appearance of conflict of interest. The board and management shall likewise establish and implement policies that require full disclosure of personal interests that they may have in credit transactions. Directors and officers with personal interest in a transaction shall not participate in any deliberation, approval, or voting on the matter.

III. Maintaining an Appropriate Credit Administration, Measurement, and Monitoring

Credit administration. FIs shall have in place a system for the ongoing administration of their various credit portfolios. *Credit administration* refers to the back office activities that support and control extension and maintenance of credit. FIs shall ensure the efficiency and effectiveness of the following credit administration functions:

a. Credit documentation. Procedures shall be put in place to ensure completeness of documentation in accordance with policy including a file documentation tickler system;

b. Disbursement. Proper approval shall be obtained and complete documentation ensured prior to disbursement. Exceptions, if any, shall be duly approved;

c. Billing and repayment. Payments received shall be properly recorded. Measures shall be in place to ensure that late payments are tracked and collected; and

d. Maintenance of credit files. Credit files shall include sufficient and updated information necessary to ascertain the financial condition of the obligor or counterparty and include documents covering the history of an FI's relationship with the obligor. All loan and collateral documents shall be kept in a secured area under joint custody.

Credit risk measurement, validation and stress testing. FIs shall adopt sound and appropriate risk measurement methodologies which shall provide a framework to control and monitor the quality of credit as well as total loan portfolio.

a. *Internal credit risk rating system* FIs shall develop and utilize an internal risk rating system appropriate to the nature, size and complexity of the FI's activities in order to help the board and senior management differentiate risks across the individual credits and groups and to facilitate informed decision making.

FIs shall have sophisticated rating systems involving sufficiently granular rating grades. Simple FIs may adopt simpler systems. In all cases, however, FIs shall demonstrate the influence of the internal risk rating system in the following important functions: i) credit approval and underwriting; ii) loan pricing; iii) relationship management and credit administration; iv) allowance for credit losses and capital adequacy; and v) portfolio management and board reporting.

Internal risk rating systems shall generally observe the following standards:

(1) It must be operationally integrated into the FI's internal credit risk management process. Its output shall accordingly be an integral part of the process of evaluation and review of prospective and existing exposures. Credit underwriting criteria shall become progressively more stringent as credit rating declines;

(2) It must be fully documented and shall address topics such as coverage, rating criteria, responsibilities of parties involved in the ratings process, definition of what constitutes a rating exception, parties that have authority to approve exceptions, frequency of rating reviews, and management oversight of the rating process. In addition, FIs must document the rationale for its choice of rating criteria and must be able to provide analyses demonstrating that the rating criteria and procedures are likely to result in ratings that meaningfully differentiate risk;

(3) All credit exposures shall be rated for risk. Where individual credit risk ratings are not assigned, e.g., small-denomination performing loans, FIs shall assign the portfolio of such exposures a composite credit risk rating that adequately defines its risk, i.e., repayment capacity and/or loss potential;

(4) The board shall receive sufficient information to oversee management's implementation of the process. Migration analysis/transition matrix of ratings shall be regularly reported to show the actual performance of the rating system over time;

(5) The risk rating system shall encompass an adequate number of ratings. FIs shall ensure that "pass" credits are sufficiently differentiated and more precisely defined. There shall be a proper process to map the internal rating system to regulatory classification. The FI shall readjust the mapping after every review of its internal risk rating methodology. For FIs whose internal rating systems have several pass grades, special mention loans may pertain to several risk ratings while substandard, doubtful and loss generally correspond to the lowest three risk ratings;

(6) Risk ratings must be reasonable, timely and dynamic. Ratings shall be reviewed at least annually and shall be modified whenever the borrower's creditworthiness changes;

(7) The rating criteria shall reflect an established blend of qualitative (e.g., the quality of management, willingness to repay, etc.) and quantitative (e.g., cash flow, profitability, and leverage) factors. The criteria for assigning each rating shall be clearly defined;

(8) The rating policy shall indicate a time horizon for the risk rating. Generally, the time horizon used for probability of default estimation is one year. However, FIs may use a different time horizon to cover one business cycle;

(9) Ratings shall reflect the risks posed by both the borrower's expected performance and the transaction's structure. The ratings output of internal credit risk rating systems must contain both a borrower and a facility dimension. The borrower dimension shall focus on factors that affect the inherent credit quality of each borrower. The facility dimension, on the other hand, shall focus on security/collateral arrangements and other similar risk influencing factors of each transaction;

(10) The rating assigned to a credit shall be well supported and documented in the credit file; and

(11) Rating histories on individual accounts shall be maintained, which shall include the ratings of the account, the dates the ratings were assigned, the methodology and key data used to derive the ratings and the analyst who gave the ratings. The identity of borrowers and facilities that default, and the timing and circumstances of such defaults, must be retained. FIs must also retain data on the realized default rates associated with rating grades and ratings migration in order to eventually track the predictive power of the risk rating system.

As used in these standards, a default is considered to have occurred in the following cases:

(a) If a credit obligation is considered non-performing under existing rules and regulations;

(b) If a borrower/obligor has sought or has been placed in bankruptcy, has been found insolvent, or has ceased operations in the case of businesses;

(c) If the bank sells a credit obligation at a material credit-related loss, i.e., excluding gains and losses due to interest rate movements. Banks' board-approved internal policies that govern the use of their internal rating systems must specifically define when a material credit-related loss[1] occurs; and

(d) If a credit obligation of a borrower/obligor is considered to be in default, all credit obligations of the borrower/obligor with the same bank shall also be considered to be in default.

b. *Credit scoring model*. FIs may use a credit scoring model in measuring credit risk for pools of loans that are similar in purpose, risk characteristics and/or general exposure to groups, industries or geographical locations granted in small denomination: *Provided,* That the FI ensures that the credit scoring model sufficiently captures the credit behavior and other characteristics of the targeted borrowers. These loans include retail loans, loans to micro and small enterprises, microfinance loans and unsecured small business loans, and consumer loans (i.e., housing loans, car or auto loans, loans for the purchase of appliance and furniture and fixtures, loans for payment of educational and hospital bills, salary loans and loans for personal consumption, including credit card loans). Risks for these types of portfolio are generally measured at portfolio level.

c. *Other credit risk measurement/methodologies*. FIs may likewise adopt other appropriate credit risk measurement methodologies/models to estimate expected losses from credit portfolio.

d. *Validation of internal rating systems.* Validation is a process to assess the performance of risk component measurement systems consistently and meaningfully, to ensure that the realized risk measures are within an expected range. It not only increases the reliability of a model, but also promotes improvements and a clearer understanding of a model's strengths and weaknesses among management and user groups.

FIs shall establish comprehensive policies and procedures on effective validation of the rating system (e.g. review of model design/developmental evidence, backtesting, benchmarking and assessment of the discriminatory power of the ratings) and rating process (e.g. review of data quality, internal reporting, problem handling and how the rating system is used by the credit officers). This shall be adequately documented and results reported to appropriate levels of the FI. The process shall likewise be subject to periodic review by qualified, independent individuals.

[1] This refers to economic loss, thus shall include discount effects, as well as direct and indirect costs associated with collecting on the credit obligation. The FIs' board-approved internal policies that govern the use of their internal rating systems must include specific policies and procedures that shall be followed in the determination of economic loss.

Moreover, FIs shall periodically conduct back-testing in evaluating the quality of their credit risk assessment models and establish internal tolerance limits for differences between expected and actual outcomes and processes for updating limits as conditions warrant. The policy shall also include remedial actions to be taken when risk tolerances are exceeded.

e. *Stress testing*. When appropriate, an FI shall conduct stress testing and scenario analysis of its credit portfolio including off-balance sheet exposures, both at an individual and group levels to assess the impact of market dislocations and changes in economic conditions or key risk factors on its profile and earnings.

(1) Whether stress tests are performed manually, or through automated modeling techniques, FIs shall ensure that:

(a) Policies and processes –

(i) Are adequate and clearly documented, rational, easily understood and approved by the board and senior management; and

(ii) Includes methodology for constructing appropriate and plausible single and multi-factor stress tests, and possible events, scenarios, or future changes in economic conditions that could have adverse impact on credit exposures, and assess the FI's ability to withstand such changes;

(b) The inputs are reliable and relate directly to the subject portfolios;

(c) The process includes frequency of test and procedures for convening periodic meetings to identify the principal risk factors affecting the portfolio, setting loss limits and the authority for setting these limits, and monitoring stress loss limits;

(d) Assumptions are well documented and conservative;

(e) Models (if any) are subject to a comprehensive validation process;

(f) Exceptions to limits and stress testing results are reported to the senior management and board of directors for appropriate remedial actions; and

(g) Results are discussed and actions and resolutions made arising from the discussion.

(2) The linkages between different categories of risk that are likely to emerge in times of crisis shall be fully identified. In case of adverse circumstances, there may be a substantial correlation of various risks, especially credit, liquidity, and market risk.

f. FIs shall develop a contingency plan for scenarios and outcomes that involve credit risk in excess of the FI's established risk tolerances. This plan may include increasing monitoring, limiting portfolio growth, and hedging or exit strategies for both significant individual transactions and key portfolio segments.

Credit risk management information and reporting systems. FIs shall render accurate, reliable and timely information and reports. Thus, adequate management information and reporting systems shall be in place to identify and measure credit risk inherent in all on- and off-balance sheet activities and ensure the overall effectiveness of the risk management process. The information generated from such systems shall enable the board and all levels of management to fulfill their respective oversight roles, including determining the level of capital commensurate to the credit risk exposure of the FI.

a. At a minimum, an effective management information system (MIS) shall enable FIs to:

(1) Provide adequate information on the quality and composition of the credit portfolio (including off-balance sheet accounts);

(2) Determine accurately the level of credit risk exposures of an FI through its various activities (e.g. renewal and extension of loans, collection process, status of delinquent accounts, write-offs, provisioning, among others);

(3) Timely identify and monitor credit risk concentrations, exposures approaching risk limits, exceptions to credit risk limits and overrides to ensure that policy and underwriting deviations as well as breaches and other potential problems are promptly reported to the board and management for appropriate corrective action;

(4) Aggregate credit exposures to individual borrowers and counterparties as well as to a group of accounts under common ownership or control;

(5) Permit additional analysis of the credit portfolio, including stress testing; and

(6) Maintain a database for research and use of analytical techniques, report exposures, track quality and account performances, and maintain limits.

b. The credit policy shall clearly define the types of information and reports to be generated, frequency of reporting, deadline of submission, and the users/recipients of and personnel responsible for the preparation of such information and reports.

c. FIs shall provide sufficient controls to ensure integrity of the MIS. Reports shall be periodically reviewed to ensure adequacy of scope and reliability and accuracy of the information generated. Internal audit shall also periodically assess the controls over MIS.

Credit monitoring. FIs shall develop and implement comprehensive processes, procedures and information systems to effectively monitor the condition and quality of individual credits and group of credits across the FIs' various portfolios. These shall include criteria that identify and report problem credits to reasonably assure that they are appropriately monitored as well as administered and provided for.

a. The system shall be able to, among others, provide measures to ensure that the board and management are kept informed of the current financial condition of the borrower and the various credit portfolios; loan covenants are consistently adhered to; cash flow projections meet repayment requirements; prudential and internal limits are not exceeded; portfolios are stress-tested; and potential problem credits and other transactions are identified. Exceptions, breaches and potential problems noted shall be promptly reported to management for corrective action, possible classification and/or provisioning and more frequent monitoring.

b. Personnel or unit assigned to monitor, on an ongoing basis, credit quality and underlying physical collateral and financial guarantees shall ensure that relevant information is communicated to those personnel or unit assigned to provide internal credit risk ratings.

c. FIs shall perform post-validation of the actual use of funds to determine that credits were drawn down for their intended purposes. Should funds be diverted for purposes other than what has been applied for and approved, the FI shall immediately re-evaluate its approval or if necessary, terminate the credit accommodation and demand immediate repayment of the obligation.

d. FIs shall monitor individual and aggregate exposures against prudential and internal limits on a regular basis. Large exposures shall be subject to more intensive monitoring.

e. FIs shall develop a system that allows monitoring of asset quality indicators (e.g. non-performing loans, collateral values, etc.) and trends in loan growth to identify potential weaknesses in the portfolio.

IV. Maintaining an Appropriate Credit Control Process

Credit review process

a. FIs shall implement an independent and objective credit review process to determine that credits are granted in accordance with the FI's policies; assess the overall asset quality, including appropriateness of classification and adequacy of loan-loss provisioning; determine trends; and identify problems (e.g., risk concentration, risk migration, deficiencies in credit administration and monitoring processes).

b. FIs may employ an appropriate sampling methodology to determine the scope of credit review. At a minimum, credit review shall be conducted on all individual obligors with substantial exposures, and on a consolidated group basis to factor in the business connections among related entities in a borrowing group. Credit review for credits that are similar in purpose or risk characteristics may be performed on a portfolio basis. The portfolio sample selected for review shall provide reasonable assurance that all major credit risk issues have been assessed and valid conclusions can be drawn. Moreover, sampling methodology shall be documented and periodically reviewed to ensure its quality and minimize bias.

c. Credit review shall also evaluate credit administration function and ensure that credit files are complete and updated, and all loan approvals and other necessary documents have been obtained.

d. Credit reviews shall be performed at least annually, and more frequently for substantial exposures, new accounts and classified accounts. Assessments shall be promptly discussed with the officers responsible for the credit activities and escalated to senior management.

e. Results of the credit review shall be promptly reported to the board of directors or the appropriate board-level committee for their appropriate action. The board shall mandate and track the implementation of corrective action in instances of unresolved deficiencies and breaches in policies and procedures. Deficiencies shall be addressed in a timely manner and monitored until resolved/corrected.

Credit classification and provisioning.

a. *Classification of loans and other credit accommodations*[1]. FIs shall have in place a reliable credit classification system to promptly identify deteriorating credit exposures and determine appropriate allowance for credit losses. Classification can be done on the basis of internal credit risk rating system, including payment delinquency status. All credit classifications, not only those reflecting severe credit deterioration, shall be considered in determining the appropriate allowance for credit losses.

(1) All FIs shall map their classification of loans and other credit accommodations against the regulatory classification criteria provided below. However, FIs are encouraged and not precluded from using additional criteria appropriate to their internal credit risk rating system provided they are consistent with the regulatory classification as follows:

(a) *Pass.* These are loans and other credit accommodations that do not have a greater-than-normal credit risk. The borrower has the apparent ability and willingness to satisfy his obligations in full and therefore no loss in ultimate collection is anticipated.

(b) *Especially mentioned (EM)*. These are loans and other credit accommodations that have potential weaknesses that deserve management's close attention. If left uncorrected, these weaknesses may affect the repayment of the loan. Some degree of structural weakness may be found in virtually any aspect of the loan arrangement or type of loan, and the presence of one (or more) need not be indicative of an overall credit weakness deserving criticism. Instead, the FI must evaluate the relative importance of such factors in the context of the borrower's overall financial strength, the condition of the borrower's industry or market, and the borrower's total relationship with the FI. Basic characteristics include, but are not limited to, any of the following:

(i) Deficiencies in underwriting, documentation, structure and/or credit administration that can compromise an FI's ability to control credit relationship if economic or other events adversely affect the borrower;

(ii) Continuous renewal/extension without reduction in principal, except when the capacity to pay of the borrower has been clearly re-established;

(iii) Adverse economic or market conditions, that in the future may affect the borrower's ability to meet scheduled repayments. Loans and other credit accommodations affected by these characteristics may retain the EM classification in the next examination should the same adverse conditions persist, provided that the loans remain current; or

(iv) Intermittent delays or inadequate repayment of principal, interest or periodic amortizations of loans and other credit accommodations granted by the FI or by other FIs, where such information is available.

(c) *Substandard***.** These are loans and other credit accommodations that have well-defined weakness/(es), that may jeopardize repayment/liquidation in full, either in respect of the business, cash flow or financial position, which may include adverse trends or developments that affect willingness or repayment ability of the borrower. Basic characteristics include any of the following:

(i) Weak financial condition and results of operation that leads to the borrower's inability to generate sufficient cash flow for debt servicing, except for start-up firms which shall be evaluated on a case-to-case basis;

(ii) Past due secured loans and other credit accommodations where properties offered as collateral have been found with defects as to ownership or with other adverse information;

(iii) Breach of any key financial covenants/agreements that will adversely affect the capacity to pay of the borrower; or

(iv) Classified *"Especially Mentioned"* as of the last credit review without adequate corrective action.

(d) *Doubtful.* These are loans and other credit accommodations that exhibit more severe weaknesses than those classified as *"Substandard"*, whose characteristics on the basis of currently known facts, conditions and values make collection or liquidation highly improbable, however, the exact amount remains undeterminable as yet. Classification as *"Loss"* is deferred because of specific pending factors which may strengthen the assets. Some basic characteristics include any of the following:

[1] Other credit accommodations include other credits such as accounts receivables, sales contract receivables, accrued interest receivables and advances.

(i) Secured loans and other credit accommodations where properties offered as collateral are either subject to an adverse claim rendering settlement of the loan through foreclosure doubtful or whose values have materially declined without the borrower offering additional collateral for the loan/s to cover the deficiency; or

(ii) Loans and other credit accommodations wherein the possibility of loss is extremely high but because of certain important and reasonable pending factors (i.e., merger, acquisition, or liquidation procedures, capital infusion, perfecting liens on additional collateral, and refinancing plans) that may work to the advantage and strengthening of the asset, its classification as an estimated loss is deferred until the next credit review.

(e) *Loss***.** These are loans and other credit accommodations which are considered uncollectible or worthless and of such little value that their continuance as bankable assets is not warranted although the loans may have some recovery or salvage value. This shall be viewed as a transitional category for loans and other credit accommodations which have been identified as requiring write-off during the current reporting period even though partial recovery may be obtained in the future. Their basic characteristics include any of the following:

(i) When the borrower's and co-makers'/guarantors' whereabouts are unknown, or they are insolvent, or their earning power is permanently impaired; or
(ii) Where the collaterals securing the loans are without recoverable values.

(2) Split classification may apply for non-performing secured loans and other credit accommodations, depending on the recoverability and liquidity of the collateral. The secured portion may be classified as *"Substandard"* or *"Doubtful",* as appropriate, while the unsecured portion shall be classified *"Loss"* if there is no other source of payment other than the collateral.

(3) In the case of syndicated loans, each participating FI shall maintain credit information on the borrower, and grade and make provision for its portion of the syndicated loan in accordance with the requirements of these guidelines. The lead FI shall provide participating FIs with the credit information on the borrower upon request by the participating FI and inform the latter if the loan will be classified so as to achieve uniform classification of the syndicated loan.

(4) FIs may upgrade a classified loan or restore it to a pass rating; *Provided,* That it does so on the basis of a written policy on the upgrading of classification or rating and the credit review function is reliable and effective. Such policy shall include a comprehensive analysis of the repayment capability/financial strength of the borrower and the corrective actions made on the weaknesses noted to support the upgrade in classification. Upgrading may be supported by the following developments:

(a) When all arrears or missed payments on principal and interests including penalties have been cleared rendering the account to be fully compliant with the original terms of the loan;

(b) Upon establishing that the weaknesses were substantially addressed and that the borrower has exhibited a sustained trend of improvement and willingness and capability to fully pay its loans and advances in a timely manner to justify the upgrade;

(c) Offering of new or additional collateral security; or

(d) In the case of restructured loans, the classification shall only be upgraded after establishing a satisfactory track record of at least six (6) consecutive payments of the required amortization of principal and interest, or until the borrower has sufficiently exhibited that the loan will be fully repaid (continued collection in accordance with the terms of the loans is expected) and the loan meets the criteria of lower loan classification.

b. *Loan loss estimation methodology, provisioning and allowance for credit losses*

(1) All FIs shall develop and document a sound loan loss methodology that can reasonably estimate provisions for loans and other credit accommodations and risk assets in a timely manner, using their experience and research and this guidance to ensure that the specific and collective allowance for credit losses[1] (ACL) are adequate and approximates the expected losses in their credit portfolio.

[1] ACL represents the aggregate amount of individual and collectively assessed probable credit losses.

An FI's loan loss methodology shall consider the following:

(a) Written policies and procedures for the credit risk systems and controls inherent in the methodology, including roles and responsibilities of the FI's board of directors and senior management;

(b) A detailed analysis of the entire loan portfolio, including off-balance sheet facilities, performed on a regular basis;

(c) A realistic view of its lending activities and adequately consider uncertainty and risks inherent in those activities in preparing accounting information. Loan accounting policies and practices shall be selected and applied in a consistent way that reasonably assures that loan and loan loss provision information is reliable and verifiable;

(d) Identification of loans to be evaluated individually and segmentation of the remaining portfolio into groups of loans with similar credit risk characteristics for collective assessment.

(i) *Individually assessed loans*. FIs shall establish a materiality threshold for significant credit exposures that will warrant an individual assessment, which threshold shall be regularly reviewed.

The loan loss estimates shall reflect consideration of the facts and circumstances that affect the repayment of each individual loan as of the evaluation date. The following factors are relevant in estimating loan losses for individually assessed loans:

(aa) Significant financial difficulty of the borrower;
(bb) Probable bankruptcy or other financial reorganization of the borrower;
(cc) Breach of contract, such as a default or delinquency in interest or principal payments; or
(dd) Concession granted by the FI, for economic or legal reasons relating to the borrower's financial difficulty, which would not otherwise be considered.

The methodology shall include procedures describing the determination and measurement of the amount of any impairment, the impairment measurement techniques available and steps performed to determine which technique is most appropriate in a given situation.

(ii) *Collectively assessed loans*. FIs may use different methods to group loans for the purpose of assessing credit risk and valuation. More sophisticated credit risk assessment models or methodologies for estimating expected future cash flows, including credit risk grading processes, may combine several of the following characteristics: loan type, product type, market segment, estimated default probabilities or credit risk grading and classification, collateral type, geographical location and past-due status.

Estimated credit losses shall reflect consideration of the FI's historical net charge-off rate[1] of the groups, adjusted for changes in trends, conditions and other relevant factors that affect repayment of the loans in these groups as of the evaluation date, and applied consistently over time;

(e) Methods used to determine whether and how loans individually evaluated, but not considered to be individually impaired, shall be grouped with other loan (excluding individually assessed loans that are impaired) that share similar credit risk characteristics for collective impairment evaluation;

(f) The quality and net realizable values of physical collateral and other financial guarantees and credit risk mitigants incorporated in the loan agreement, where applicable;

(g) Address the methods used to validate models for credit risk assessment;

(h) The analyses, estimates, reviews and other provisioning methodology functions shall be performed by competent and well-trained personnel and be well documented, with clear explanations of the supporting analyses and rationale; and

(i) *Use experienced credit judgment*. Assessment of expected losses shall not be based solely on prescriptive rules or formula but must be enhanced with experienced credit judgment by the appropriate levels of management[2] inasmuch as historical loss experience or observable data may be limited or not fully relevant to current circumstances. However, the scope for actual discretion shall be prudently within the following constraints:

[1] The historical net charge-off rate is generally based on the annualized historical gross loan charge-offs, less recoveries, recorded by the FI.
[2] There may be instances when no adjustments are needed to the data in the recognition and measurement of loan losses because the data are consistent with current conditions.

(i) Experienced credit judgments shall be subject to established policies and procedures;
(ii) With approved and documented analytical framework for assessing loan quality applied consistently over time;
(iii) Estimates shall be based on reasonable and verifiable assumptions and supported by adequate documentation; and
(iv) Assumptions concerning the impact on borrowers of changes in general economic activity, both favorable and unfavorable, shall be made with sufficient prudence.

The method of determining loan loss provisions shall reasonably assure the timely recognition of loan losses. While historical loss experience and recent economic conditions are a reasonable starting point for the institution's analysis, these factors are not, by themselves, sufficient basis to determine the appropriate level of aggregate loan loss provisions. Management shall also consider any current factors that are likely to cause loan losses to differ from historical loss experience, including changes in the following:

- Lending policies and procedures, including underwriting standards and collection, charge-off, and recovery practices;

- International, national and local economic and business conditions and developments, including the condition of various market segments;

- Trend, volume and severity of past due loans and loans graded as low quality, as well as trends in the volume of impaired loans, troubled debt restructurings and other loan modifications;

- The experience, ability, and depth of lending management and staff;

- Changes related to new market segments and products;

- Quality of the FI's loan review system and the degree of oversight by senior management and board of directors;

- The existence and effect of any concentrations of credit, and changes in the level of such concentrations; and

- Credit risk profile of the loan portfolio as a whole as well as the effect of external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the FI's current portfolio.

Experienced credit judgment shall also be used to determine an acceptable period that will yield reliable historical loss rates as loss rate periods shall not be restricted to a fixed time period to determine the average historical loss experience for any group of loans with similar credit risk characteristics. An FI shall maintain sufficient historical loss data over a full credit cycle to provide robust and meaningful statistical loan loss estimates for establishing the level of collective impairment losses for each group of loans with similar credit risk characteristics. When applying experienced credit judgment, an FI shall provide a sound rationale for excluding any historical loss data that is deemed not representative of the performance of the portfolio.

(2) FIs with credit operations that may not economically justify a more sophisticated loan loss estimation methodology or whose practices fell short of expected standards shall, at a minimum, be subject to the regulatory guidelines in setting up allowance for credit losses prescribed in *Appendix N-11*: *Provided,* That the FIs notify the appropriate supervising department of the Bangko Sentral of this preference. Nevertheless, such FIs shall still use experienced credit judgment, subject to the criteria prescribed in this Section, in determining the ACL.

(3) FIs shall set up general loan loss provision equivalent to one percent (1%) of the outstanding balance of individually and collectively assessed loans for which no specific provisions are made and/or for which the estimated loan losses are less than one percent (<1%), less loans which are considered non-risk under existing laws, rules and regulations.

(4) FIs shall ensure the adequacy of the individual and collective ACL for the entire loan portfolio. They shall have a policy for the regular review of the ACL, which shall be conducted at least semi-annually after considering results of the credit review, level of classified loans, delinquency reports, historical losses and market conditions. Failure to make adequate provisions for estimated future losses results in material misrepresentation of an FI's financial condition.

Credit workout and remedial management of problem credits FIs shall develop and maintain a disciplined and vigorous process for the early identification and intervention for potential or existing problem credits. The process shall ensure that timely and adequate management action is taken to maintain the quality of the credit portfolio, prevent further deterioration, and minimize the likelihood of future losses.

a. *Problem credits* refer to credits that display signs of potential problems and/or well-defined weaknesses such as those not performing according to the terms of the contract, or with credit quality impairment, or deficiencies relating to their approval and/or conduct that are not in keeping with sound and prudent credit policies. These shall include past due loans, non-performing loans and restructured loans.

b. FIs shall adopt appropriate and cost effective workout, restructuring or remedial management policies, processes and strategies to revive and recover problem credits. The strategies shall take into account the specific condition of the obligor and the FI's interest, and shall be approved by the board of directors or management, in accordance with internal policy.

c. At a minimum, the policies and strategies shall cover the following areas:

(1) authority and responsibilities of officers and staff in managing problem credits;
(2) collection strategy to be adopted for different types of loans;
(3) restructuring and handling of restructured accounts and/or loans for workout;
(4) supervision and monitoring of loan recovery performance;
(5) management and disposal of ROPA, including appraisal process;
(6) management information system to support the reporting, monitoring and decision making processes;
(7) defined timelines and provision for regular monitoring; and
(8) other strategies, such as the use of collection agencies, and criteria for hiring a consultant on problem credits.

d. Restructuring strategies

(1) Restructuring may be resorted to for the purpose of lessening the financial difficulty of the obligor towards full settlement of his obligation, and restructuring agreements shall always take into account the borrower's capacity to pay his obligation and available credit enhancements such as financial guarantees and physical collateral. Thus, except in special cases which also require approval by the Monetary Board, such as loans funded by foreign currency obligations, FIs shall have full discretion on whether to restructure loans in order to provide flexibility in arranging the repayment of such loans without impairing or endangering the FI's interest.

(2) Accounts shall not be restructured unless the financial capacity of the obligor to repay has been re-established, the events or crises that triggered the financial stress had been identified, and the nature and extent of protection of the FI's exposure had been determined, to justify the need for restructuring.

(3) At a minimum, the classification and provisioning of a loan, prior to the execution of the restructuring agreement shall be retained until the borrower has sufficiently exhibited that the loan will be fully repaid.

(4) A second restructuring of a loan shall be allowed only if there are reasonable justifications: *Provided,* That it shall be considered a non-performing loan and classified, at least, *"Substandard".* The restoration to a performing loan status and/or upgrading of loan classification, e.g., from *"Substandard"* to *"Especially Mentioned",* may be allowed if circumstances warrant an upgrading in accordance with this Section.

(5) When restructuring of exposures to DOSRI and other related parties is pursued, this shall be upon terms not less favorable to the FI than those offered to others and shall be approved by the board, excluding the concerned director.

(6) Physical collaterals offered, such as real estate, shall be appraised by an independent appraisal company (not a subsidiary or an affiliate of the FI) acceptable to the Bangko Sentral at the time of restructuring and every year thereafter to ensure that current market values are being used. A credit exposure benchmark of P1.0 million for simple FIs and P5.0 million for all other FIs shall be observed, such that physical collaterals for credit exposures beyond this amount will require an independent appraisal.

e. Problem credits, including restructured accounts, shall be subjected to more frequent review and monitoring. Regular reports on the status of loan accounts and progress of any remedial plan shall be submitted to senior management to facilitate an informed decision whether escalated remedial actions are called for.

Writing off problem credits. Policies for writing off problem credits must be approved by the board of directors in accordance with defined policies, and shall incorporate, at a minimum, well-defined criteria (i.e., circumstances, conditions and historical write-off experience) under which credit exposures may be written off. Procedures shall explicitly narrate and document the necessary operational steps and processes to execute the policies.

Policies and procedures shall be periodically reviewed and if necessary, revised in a timely manner to address material internal changes (e.g., change in business focus) or external circumstances (e.g., changes in economic conditions).

FIs shall write off problem credits, regardless of amount, against ACL or current operations within a reasonable period as soon as such problem credits are determined to be worthless as defined in the FIs' written policies. However, problem credits to DOSRI shall be written off only upon prior approval of the Monetary Board.

Policies shall define and establish the reasonable period of time within which to write off loans already classified as *"Loss".* There shall be no undue delay in implementing write-offs. Notice of write-off of problem credits shall be submitted in the prescribed form to the appropriate supervising department of the Bangko Sentral within thirty (30) business days after every write-off with a sworn statement signed by the President of the FI or officer of equivalent rank that write-off did not include transactions with DOSRI and was undertaken in accordance with board-approved internal credit policy.

An effective monitoring and reporting system shall be in place to monitor debts written off and future recoveries. Progress on recovery shall be periodically reported to the board and senior management. A database of loan accounts written off shall be maintained and must be periodically reviewed for updates on individual loan obligor's information.

Enforcement actions. The Bangko Sentral reserves the right to deploy its range of supervisory tools to promote adherence to standards and principles set forth in these guidelines, bring about timely corrective actions and compliance with Bangko Sentral directives and ensure that FIs continuously observe the said standards. Persistent non-observance of the provisions of Sec. 122-N, which may lead to material misstatement of the financial condition or illiquidity of the FI, may be a ground for declaration of unsafe or unsound activities under Section 56 of R. A. No. 8791 and subject the FI to appropriate sanctions.

Enforcement actions shall be based on a holistic assessment to determine if FIs adopt appropriate risk management practices and maintain capital commensurate with the risk assumed based on existing rules and regulations. These may include, but are not limited to, the following:

a. *Corrective actions.* These are measures intended to primarily require FIs to rectify any deviations from the standards and principles expected in the conduct of its credit risk-taking activities to address the negative impact of such deviation. Corrective actions generally include issuance of specific directives to address supervisory concerns within a reasonable timeframe.

b. *Sanctions.* The Monetary Board may impose sanctions on an FI and/or its Board, directors and officers, as provided under existing laws, Bangko Sentral rules and regulations proportionate to the gravity/seriousness of offense.

c. *Other enforcement actions.* Subject to prior Monetary Board approval, the Bangko Sentral, when warranted, may deploy other enforcement actions such as:

   (1) Initiation into the prompt corrective action (PCA) framework whenever grounds for PCA exist;

   (2) Issuance of cease and desist order (CDO) in case of persistence of unsafe/unsound banking and/or violation of any banking law or any order, instruction or regulation issued by the Monetary Board or any order, instruction or ruling issued by the Governor;

   (3) Additional capital infusion in case hazardous lending practices resulted in excessive provisions for credit losses leading to capital deficiency;

   (4) Requiring the FI to gross up the amount of required allowance for credit losses based on the examination of a representative sample of loans, if in the course of the Bangko Sentral examination, a high incidence of non-reporting/concealment of past due and/or problem loans is noted; or

   (5) Other appropriate non-monetary enforcement actions that the Monetary Board may impose.

123-N MARKET RISK MANAGEMENT

The guidelines on market risk management for QBs as shown in *Appendix Q-43* shall govern the market risk management of FIs to the extent applicable.

The guidelines set forth the expectations of the Bangko Sentral with respect to the management of market risk and are intended to provide more consistency in how the risk-focused supervision is applied to this risk. FIs are expected to have an integrated approach to risk management to identify, measure, monitor and control risks. Market risk should be reviewed together with other risks to determine overall risk profile.

The Bangko Sentral is aware of the increasing diversity of financial products and that industry techniques for measuring and managing market risk are continuously evolving. As such, the guidelines are intended for general application; specific application will depend to some extent on the size, complexity and range of activities undertaken by individual FIs.

124-N LIQUIDITY RISK MANAGEMENT

The guidelines on liquidity risk management for QBs as shown in *Appendix Q-44* shall govern the liquidity risk management of BSFIs to the extent applicable.

The guidelines set forth the expectations of the Bangko Sentral with respect to the management of liquidity risk and are intended to provide more consistency in how the risk-focused supervision function is applied to this risk. BSFIs are expected to have an integrated approach to risk management to identify, measure, monitor and control risks. Liquidity risk should be reviewed together with other risks to determine overall risk profile.

These guidelines are intended for general application; specific application will depend on the size and sophistication of a particular BSFI and the nature and complexity of its activities.

125-N OPERATIONAL RISK MANAGEMENT[1]

It is the thrust of the Bangko Sentral to promote the adoption of effective risk management systems to sustain the safe and sound operations of its supervised financial institutions (BSFIs). Cognizant that operational risk is inherent in all activities, products and services, and is closely tied in with other types of risks (e.g., credit, liquidity and market risks), the Bangko Sentral is issuing these guidelines to clearly set out its expectations and define the minimum prudential requirements on operational risk management. These guidelines align existing regulations to the extent possible, with international standards[2] and best practices. Bangko Sentral expects its BSFIs to adopt an operational risk management framework, as part of the enterprise-wide risk management system, that is suited to their size, complexity of operations, and risk profile.

Definition of operational risk. *Operational risk* refers to the risk of loss resulting from inadequate or failed internal processes, people and systems; or from external events. This definition includes legal risk, but excludes strategic and reputational risk. Operational risk is inherent in all activities, products and services, and cuts across multiple activities and business lines within the financial institution and across the different entities in a banking group or conglomerate where the financial institution belongs.

Duties and responsibilities.

a. *Board of directors.* Consistent with the principles embodied under Sec. 132, the duties and responsibilities of the board of directors in relation to the effective management of risk include the establishment of a comprehensive and effective operational risk management framework as part of the enterprise-wide risk management system. In this regard, the board of directors shall:

(1) Ensure that it is aware of and understands the nature and complexity of the major operational risks in the BSFI's business and operating environment, including risks arising from transactions or relationships with third parties, vendors, suppliers including outsourced service providers, and clients of services provided. This should include understanding of both the financial and non-financial impact of operational risk to which the BSFI is exposed to;

(2) Approve the operational risk management framework which shall form part of the BSFI's enterprise-wide risk management system and shall cover all business lines and functions of the BSFI, including outsourced services and services provided to external parties. The operational risk management framework should include an enterprise-wide definition of operational risk, which should be consistent with the definition under Sec. 125-N, governance, and reporting structures including the roles and responsibilities of all personnel, feedback mechanism, as well as standards and tools for operational risk management. In this respect, the board shall:

(a) Define the operational risk management strategy and ensure that it is aligned with the BSFI's overall business objectives. Relative to this, the board should set and provide clear guidance on the BSFI's operational risk appetite (i.e., the level of operational risk the BSFI is willing to take and able to manage in pursuit of its business objectives as well as the type of risks that are not acceptable to the board and management), which should consider all material risk exposures as well as the BSFI's financial condition and strategic direction;

[1] BSFIs shall comply with the foregoing standards on operational risk management within a period of two (2) years from 05 February 2016. In this regard, a BSFI should be able to show its plan of actions with specific timelines, as well as the status of initiatives being undertaken to fully comply with the provisions of Sec. 125-N.

[2] Embodied in the relevant documents issued by the Basel Committee on Banking Supervision.

(b) Approve appropriate thresholds or limits to ensure that the level of operational risk is maintained within tolerance and at prudent levels and supported by adequate capital. Relative to this, the board shall approve policy on resolving limit breaches which should cover escalation procedures for approving or investigating breaches, approving authorities, and requirements in reporting to the appropriate level of management or the board;

(c) Ensure that operational risk is appropriately considered in the capital adequacy assessment process;

(d) Ensure that it receives adequate information on material developments in the operational risk profile of the BSFI, including pertinent information on the current and emerging operational risk exposures and vulnerabilities as well as information on the effectiveness of the operational risk management framework. The board must challenge the quality and comprehensiveness of the operational risk information it receives. It should also be satisfied with the reliability of the said information and the monitoring system for operational risk;

(e) Ensure that business objectives, risk appetite, the operational risk management framework, and the respective roles and responsibilities of personnel and officers at all levels in terms of implementing the operational risk management framework, are properly disseminated, clearly communicated/discussed, and understood by personnel concerned;

(f) Provide senior management with clear guidance and direction regarding the principles underlying the operational risk management framework. The board shall ensure that senior management appropriately implements policies, processes and procedures, and provides feedback on the operational risk management process. In this regard, the board shall establish a feedback and reporting system that will allow employees to raise their concerns without fear of negative consequences; and

(g) Ensure that the operational risk management framework is subject to effective and comprehensive independent review, on a periodic basis, by operationally independent, appropriately trained, and competent staff to ensure that it remains commensurate with the BSFI's risk profile and continues to be adequate and effective in managing operational risk. The review should take into account the changes in business and operating environment, material changes in systems, business activity or volume of transactions, quality of control environment, effectiveness of risk management or mitigation strategies, loss experience, and the frequency, volume or nature of breaches in limits or any policy.

(3) Provide adequate oversight on all outsourcing activities and ensure effective management of risks arising from these activities. In this regard, the board of directors shall approve a framework governing outsourcing activities, which includes a system to evaluate the risk and materiality of all existing and prospective outsourcing engagements and the policies that apply to such arrangements;

(4) Ensure observance of expectations and requirements prescribed under relevant laws, rules and regulations, industry-set standards, and policies on internal control, internal audit, and disclosure;

(5) Promote a culture of high standards of ethical behavior. The board shall adopt a code of conduct of ethical behaviors with corresponding disciplinary actions for non- compliance, which should cover, among others, guidance and protocols on conflicts of interest situations, safeguarding of confidential information, and use of sensitive information. The board should likewise institute tools, methodologies, and practices in order to ensure compliance and adherence to the standards by all employees including the senior officers and the board itself. In this regard, employees should be required to acknowledge in writing that they have read, understood, and will observe the code of conduct;

(6) Ensure that business and risk management activities, including the operational risk management function, are carried out by adequate and qualified staff with the necessary experience, technical capabilities, and competence. Moreover, the board shall ensure that employees and officers in all areas of operations have a high degree of integrity.

For this purpose, the board shall approve appropriate hiring and selection policies and processes, adopt a continuing professional development program, and institutionalize a framework for continuing assessment of fitness and propriety of employees. These policies, processes and programs should reinforce the conduct and values being promoted in the organization.

Further, the board shall oversee the design and implementation of remuneration policies. It shall ensure that the remuneration policies do not encourage excessive risk-taking or provide incentives to people to perform contrary to the desired risk management values. It shall also ensure that remuneration policies are appropriate and aligned with the BSFI's long-term strategic direction and risk appetite, as well as with relevant legal or regulatory requirements;

(7) Ensure that all units in the organization have adequate resources, including personnel complement, and are supported by appropriate technological systems. The use of technological systems must be commensurate to the activities being undertaken; and

(8) Oversee implementation of a sound business continuity management framework. The board should create and promote an organizational culture that places high priority on business continuity. This shall include providing sufficient financial and human resources associated with the BSFI's business continuity initiatives.

b. *Senior management.* Senior management shall be responsible for the implementation and consistent adherence by all personnel to the operational risk management framework approved by the board of directors. In this respect, senior management shall:

(1) Translate the approved operational risk management framework into specific policies and processes covering all businesses and functions of the BSFI, including outsourced services and services provided to external parties. Said policies should be clearly documented, approved by the board of directors and communicated to personnel at all levels. Policies should include, among others:

(a) Definition of operational risk and operational risk loss. This should be supported by common operational risk taxonomy that includes the operational risk event type and causes of losses to facilitate the consistent identification of operational risks across the BSFI as well as the management of operational risk in an integrated manner;

(b) Appropriate governance and oversight structures, reporting lines, and accountabilities for managing operational risks;

(c) Clear description of risk limits and thresholds that correspond to the BSFI's approved operational risk appetite and tolerance;

(d) Risk mitigation strategies and tools for maintaining risks within the thresholds and limits set;

(e) Approach to operational risk identification, assessment, monitoring and reporting that utilizes appropriate operational risk management tools. This should include an outline of the reporting framework and types of data/information to be included in the risk management reports; and

(f) Requirement for the conduct of independent review of the framework as well as its implementation, on a periodic basis, and whenever there are material changes in the BSFI's operational risk profile.

(2) Communicate individual roles and responsibilities of personnel. It is important that personnel at all levels understand their respective roles in the operational risk management process. In this regard, senior management should clearly assign authority, responsibility, and reporting relationships to encourage and maintain accountability, and ensure that the necessary resources are available to manage operational risk effectively;

(3) Establish systems to report, track, escalate, and resolve issues; and set the frequency of operational risk management reporting considering the level and type of risks involved as well as the pace and nature of the operating environment of the BSFI;

(4) Assess the appropriateness of the operational risk management process in light of the changing business environment and nature of risks arising from business activities or functions;

(5) Ensure that sufficient number of personnel, technical support, and other resources are devoted for operational risk management such that the BSFI's activities are conducted by qualified personnel with the necessary experience and technical capabilities. It shall also ensure that personnel responsible for monitoring and enforcing compliance with the BSFI's operational risk policy as well as the compliance and internal audit units have authority independent from the units they review and are knowledgeable about the different areas of operations; and

(6) Establish policies, standards and processes for an effective business continuity management.

c. *Business units.* Business line management and personnel, as the first line of defense, are responsible on a day-to-day basis for identifying, managing and reporting operational risks inherent in the products, activities, processes and systems for which they are accountable. In this regard, business line management shall ensure that:

(1) Internal controls and practices within their business lines are consistent with the enterprise-wide policies and procedures to support the management of operational risk;

(2) Business line specific policies, processes, and procedures are adequate and effectively implemented, and personnel are adequate and competent to manage operational risk for all material products, activities, and processes;

(3) Operational risk management framework within each business line reflects the scope of that business line and its inherent operational complexity and operational risk profile;

(4) Risk mitigation strategies and processes as approved by the board and senior management are established and executed;

(5) Internal controls, and operational risk mitigation strategies and processes are periodically reviewed within the business units to effectively manage operational risks within approved risk tolerance, and consistent with enterprise-wide policies and procedures established. There must be clear expectations and processes established to ensure prompt escalation and actions to address any gap or issue identified; and

(6) Operational risk-related information (e.g., loss events, incidents, et. al.) are adequately and timely communicated/coordinated to Operational Risk Management Function (ORMF) for risk monitoring and reporting, in addition to the usual reporting to senior management and/or board.

Roles and Functions.

a. *Operational Risk Management Function.* BSFIs are not required to create an ORMF. However, the board of directors is expected to discuss operational risk issues during its board meetings with discussions adequately documented in the minutes of meetings. The board of directors of NBFIs and trust corporations may, at its own discretion, or as directed by the appropriate supervising department of the Bangko Sentral, create a Risk Management Unit (RMU) or assign specific personnel under said unit to handle operational risk concerns. The specific personnel or RMU shall directly report to the head of the RMU or to the board-level Risk Oversight Committee (ROC), as appropriate. The ROC or the board shall be responsible for assessing the annual performance of the unit taking into account how said unit carried out its duties and responsibilities. The ORMF shall be supported by a board-approved charter that defines its stature, authority, and independence.

The ORMF shall primarily assist management in meeting its responsibility to understand and manage operational risk exposures and ensure the development and consistent implementation of operational risk policies, processes, and procedures throughout the institution. In this regard, the ORMF shall:

(1) Recommend to the board of directors and senior management appropriate policies and procedures relating to operational risk management and controls;
(2) Design and implement the operational risk assessment methodology tools and risk reporting system of the institution;
(3) Coordinate risk management activities across the institution;
(4) Consolidate all relevant operational risk information/reports to be elevated/presented to the board and senior management;
(5) Provide operational risk management training and advice to business units on operational risk management issues; and
(6) Coordinate with compliance function, internal audit, and external audit on operational risk matters.

ORMF personnel should have technical proficiency, appropriate educational background, and exposure to enable them to effectively perform the unit's mandate. BSFIs shall have in place a training program to keep its personnel up-to-date on different operational risk issues and challenges.

b. *Compliance function.* The compliance function shall conduct an independent assessment of the compliance with relevant laws, rules and regulations, as well as internal policies of the institution, and determine areas that may potentially result in risk of loss due to inadequate or failed internal processes, systems, and people. The latter includes inappropriate conduct/behavior of personnel, officers, and the board, that may lead to fraud or any form of business disruption. The compliance function shall assess whether the identified operational risk exposure by the business units or by the function itself shall affect the franchise value of the institution. In this regard, it shall advise and assist management in establishing guidance on the appropriate implementation of relevant laws, rules and regulations, and internal policies.

c. *Internal audit.* Internal audit shall conduct an independent assessment of the operational risk management framework, including the implementation of operational risk management policies and procedures. The board of directors, either directly or indirectly through the board-level Audit Committee shall ensure that the scope and frequency of audit is appropriate to the risk exposures. Any operational risk issue identified and reported in the audit process should be addressed by senior management in a timely and effective manner, or raised to the attention of the board as appropriate.

Operational risk management framework. BSFIs shall have in place an appropriate operational risk management framework, as part of the enterprise-wide risk management system, that is effective and efficient in identifying, assessing, monitoring and controlling/mitigating operational risk. They shall ensure that their operational risk management framework is commensurate with the complexity of their operations, range of products and services, organizational structure, and risk profile.

a. *Risk identification and assessment.* Risk identification and assessment are fundamental elements of an effective operational risk management system. Effective risk identification shall consider both internal factors (such as BSFI structure, nature of activities, the quality of human resources, organizational changes and employee turnover, among others) and external factors (such as changes in the broader environment and the industry, advances in technology, and developments in political, legal, and economic factors, among others). Risk identification and assessment allow the BSFI to better understand its risk profile and allocate risk management resources and strategies more effectively. Since the business lines are expected to have the best knowledge of their risk exposures and processes, these units should play a major role in the identification and assessment of operational risk.

(1) BSFIs shall consider the following loss event-type categories as part of their risk identification and assessment processes:

(a) Internal fraud, e.g., intentional misreporting of positions, employee theft, and insider trading on an employee's own account;

(b) External fraud, e.g., robbery, forgery, check kiting, and damage from computer hacking;

(c) Employment practices and workplace safety, e.g., workers compensation claims, violation of health and safety rules, organized labor activities, discrimination claims, and general liability;

(d) Clients, products and business practices, e.g., fiduciary breaches, misuse of confidential customer information, improper trading activities on the BSFI's account, money laundering, and sale of unauthorized products;

(e) Damage to physical assets, e.g., terrorism, vandalism, earthquakes, fires and floods;

(f) Business disruption and system failures, e.g., hardware and software failures, telecommunication problems, and utility outages; and

(g) Execution, delivery, and process management, e.g., data entry errors, collateral management failures, incomplete legal documentation, unapproved access given to client accounts, non-client counterparty misperformance, and vendor disputes.

(2) BSFIs shall adopt tools and mechanisms that are appropriate to their size, complexity of operations and risk profile to properly identify and assess operational risk. The tools that may be used for identifying and assessing operational risk may include, but not limited to:

(i) *Results of internal/external audit and supervisory issues raised in the Bangko Sentral Report of Examination (ROE)* – Internal audit surfaces issues on effectiveness of internal control, risk management, and governance systems and processes of an organization, while external audit focuses on control weaknesses and susceptibility of the BSFI to material misstatements in the financial statements. On the other hand, the Bangko Sentral ROE highlights deficiencies in the risk management systems and governance processes as well as issues on compliance with relevant laws, rules and regulations, which could have adverse effects on the safety and soundness of the BSFI;

(ii) *Internal loss data collection and analysis* – Internal operational loss data provides meaningful information for assessing BSFI's exposure to operational risk and the effectiveness of internal controls. Analysis of loss events can provide insights into the causes of large losses and information on whether control failures are isolated or pervasive. BSFIs may consider mapping internal loss data to the following business lines:

(i) Corporate finance;
(ii) Trading and sales;
(iii) Retail banking;
(iv) Commercial banking;
(v) Payment and settlement;
(vi) Agency services;
(vii) Asset management; and
(viii) Retail brokerage.

Loss events linked to credit and market risk may also relate to operational issues and should be segmented in order to obtain a more comprehensive view of the BSFI's operational risk exposure;

(iii) *Risk Self Assessments (RSA)/Risk Control Self Assessments (RCSA)* – RSA is a tool to assess processes underlying BSFI's operations against a library of potential threats and vulnerabilities including their potential impact. A similar approach, RCSA, typically evaluates inherent risk (the risk before controls are considered), the effectiveness of the control environment, and residual risk (the risk exposure after controls are considered). Scorecards on RCSAs may be developed by allocating weights to residual risks to provide a means of translating the RCSA output into metrics that will give a relative ranking of the control environment;

(iv) *Business process mappings* – These help identify key steps in business processes, activities, and organizational functions as well as the key risk points in the BSFI's overall business process. Process maps can reveal individual risks, risk interdependencies, and areas of control or risk management weakness. They can also help prioritize subsequent management action;

(v) *Risk and performance indicators* – Risk and performance indicators, such as Key Risk Indicators (KRIs) and Key Performance Indicators (KPIs), provide an insight into a BSFI's emerging risk exposure. KRIs are used to monitor the main drivers of exposure associated with key risks that contribute to early detection of heightened risk, ongoing monitoring of their movements, and preemptive reactions as necessary. KPIs, on the other hand, provide insight into the status of operational processes, which may in turn provide insights into operational weaknesses, failures, and potential loss. Risk and performance indicators are often used with escalation triggers to warn when risk levels approach or exceed acceptable ranges and prompt mitigation plans;

(vi) *Scenario analysis* – This refers to the process of obtaining expert opinion of business line and risk managers to identify potential operational risk events and assess the potential outcome. Scenario analysis is an effective tool when considering potential sources of significant operational risk and the need for additional risk management controls or mitigation solutions. Given the subjectivity of the scenario process, a robust governance framework is essential to ensure the integrity and consistency of the process;

(vii) *Model measurement* – Larger BSFIs may deem it useful to quantify their operational risk exposures by using the output of the risk assessment tools as inputs into a model that estimates operational risk exposure. The results of the model can be used in an economic capital process and can be allocated to business lines to link risk and return; and

(viii) *Comparative analysis* – Comparative analysis consists of comparing the results of the various assessment tools to provide a more comprehensive view of the BSFI's operational risk profile.

Comparison of external loss data, if available, such as industry experiences, vis-à-vis BSFI's internal loss data can also be made to explore possible weaknesses in the financial institution's control environment and enable it to consider previously unidentified risk exposures.

In choosing among these tools, each BSFI must carefully consider what is proportionate to its size, risk profile, and complexity of operations. Data/information gathered from these tools should enable BSFIs to make a thorough causal analysis, identify control gaps, and consequently adopt appropriate corrective actions.

BSFIs are expected to adopt at the minimum, the (i) results of internal/external audit and supervisory issues raised in the Bangko Sentral ROE; and (ii) internal loss data collection and analysis.

(3) BSFIs shall develop databases to accumulate at least a five (5)-year history of operational risk losses which can be fed back into the operational risk management process. Apart from capturing events that resulted to actual loss, BSFIs shall also gather potential loss or near-misses[1]. Said database of loss events provides basis for analysis which can help direct corrective action to improve the control environment, as well as determine risk mitigating actions. BSFIs should assess the depth of its data collection which is vital in understanding the risk environment. The loss event database shall at a minimum disclose the following:

(a) Short description of the event;
(b) Loss event type category;
(c) Department/Unit/Branch sustaining the loss;
(d) Business line classification;
(e) Date of occurrence;
(f) Date of discovery;

[1] *Potential loss* is an initial estimate of the loss that the bank may have sustained at the time of discovery of the event. *Near miss* is an adverse operational risk event which was not prevented by internal controls but did not result in an actual adverse impact (financial or reputational) due to chance, recovery or other external factors.

(g) Date of booking of actual losses;
(h) Actual loss amount or potential loss amount, if a near-miss event;
(i) Amount recovered and date of recovery;
(j) Causes of the event (e.g., control weaknesses identified)
(k) Consequence of the loss event (e.g., market loss, fees paid to a counterparty, a lawsuit or damage to the BSFI's reputation); and
(l) Action(s) taken.

BSFIs shall define appropriate thresholds for internal loss data collection and must be able to justify the same. Thresholds should be reasonable and should not omit any operational loss event data that is material for operational risk exposure and for effective risk management. BSFIs shall ensure that the choice of threshold should not adversely impact the credibility and accuracy of operational risk measurement.

(4) BSFIs shall determine based on the results of the risk assessment process whether the risks are within the scope of its operational risk management strategy and policies. It shall identify the risk exposures that are unacceptable or are outside its risk appetite and/or risk management capacity, and design and prioritize appropriate risk mitigation and corrective actions with clear accountabilities, roles and responsibilities for implementation within reasonable timelines.

(5) BSFIs shall continually assess its operational risk exposures in order to gain broader recognition and understanding of their effects. It shall consider the following factors in the assessment:

(a) Expected and unexpected changes to the BSFI's operating environment;
(b) Actual operational loss events that could have resulted in substantial losses/damage but were avoided (e.g., near misses) or recovered;
(c) Reported external operational losses and incidents which have damaged investor confidence and caused serious reputational harm;
(d) Areas of concern or unusual volumes or high number of exceptions; and
(e) Results of internal assessment of risks and controls.

(6) BSFIs shall ensure that their risk management and control infrastructure keep pace with the growth of or changes in their business activities, i.e., when they engage in any new activity; introduce a new product; enter new or unfamiliar markets; implement new business processes or technology systems; establish subsidiaries/branches that are geographically remote from the head office; and/or embark on an aggressive growth strategy by acquiring problem BSFIs to rapidly increase branch network during a short period of time. BSFIs should have relevant policies and procedures that address the process for review and approval of new products, activities, processes and systems. The review and approval process shall consider the following:

(a) Inherent risks in the new product, service, or activity;
(b) Changes to the BSFI's operational risk profile, appetite and tolerance, including the impact on existing products or activities;
(c) Necessary controls, risk management processes, and risk mitigation strategies;
(d) Any residual risk; and
(e) Procedures and metrics to measure, monitor, and manage the risk of the new product or activity.

b. *Risk monitoring and reporting.* BSFIs shall implement a process to regularly monitor their operational risk profiles and material exposures to losses on a continuing basis. The process shall take into account both qualitative and quantitative assessment of exposure to all types of operational risk, assess the quality and appropriateness of corrective or mitigating actions, and ensure that adequate controls and systems are in place to identify and address problems before they become major concerns.

(1) Risk monitoring should be an integral part of a BSFI's activities, the frequency of which should reflect the risks involved in these activities as well as the frequency and nature of changes in the operating environment. The results of the monitoring activities, findings of compliance, internal audit and risk management functions, management letters issued by external auditors, and reports generated by supervisory authorities, as appropriate, should be included in regular reports to the board and the senior management to ensure that timely and appropriate measures are undertaken to address the issues/findings.

(2) Management shall ensure that regular reports on operational risk are received on a timely basis and in a form and format that will aid in the monitoring and control of their business areas. The board should receive sufficient high-level information to enable it to understand the BSFI's overall operational risk profile and focus on the material and strategic implications for the business.

(3) Management reports should contain relevant internal financial, operational, and compliance data, as well as external market information about events and conditions that are relevant to decision making. They should aim to provide information such as:

(a) The critical operational risks facing, or potentially facing, the BSFI (e.g., as shown in KRIs and their trend data, changes in risk and control self-assessments, comments in audit/compliance review reports, etc.);

(b) Major risk events/loss experience, issues identified and intended remedial actions;

(c) The status and/or effectiveness of actions taken; and

(d) Exception reporting (covering among others authorized and unauthorized deviations from the BSFI's operational risk policy and likely or actual breaches in pre-defined thresholds for operational exposures and losses).

(4) Reports should be analyzed with a view to improving existing management performance as well as developing new risk management policies, procedures and practices. Moreover, to ensure the usefulness and reliability of the reports received, management should regularly verify the timeliness, accuracy, and relevance of reporting systems and internal controls in general.

(5) Management should keep track of the information provided in the reports, particularly the loss data, to establish a framework for systematically tracking and recording the frequency, severity and other relevant information on loss events.

c. *Risk control and mitigation.* Strong control environment is key to effective risk control and mitigation. In this respect, BSFIs are expected to adhere to the standards set forth under pertinent provisions of Secs. 131-N and 132-N on Internal Control and Internal Audit.

BSFIs shall decide whether to use appropriate procedures to control and/or mitigate the risks, or bear the significant risks that have been identified. In those instances where internal controls do not adequately address risk and accepting the risk is not a reasonable option, BSFIs may seek to transfer the risk to another party such as through insurance. Relative thereto, the board shall determine the maximum loss exposure the BSFI is willing to take and has the capacity to assume, and should perform an annual review of the BSFI's risk and insurance management program.

BSFIs, however, should not consider risk transfer tools as substitute but as complementary tools to sound controls and risk management system. Management shall also assess the extent to which risk mitigation tools such as insurance reduces risk, transfer the risk to another business sector or area, or create a new risk (e.g., counterparty risk).

Management of human resource-related risk. One of the major sources of operational risk is "people risk". In this regard, BSFIs shall embed in their enterprise-wide risk management framework measures to identify, measure, monitor, and control human resource related risks. BSFIs shall ensure that there are adequate policies and risk management and control measures in the following areas:

a. *Recruitment and selection.* The board shall establish efficient process that will facilitate timely recruitment and selection of personnel from a broad pool of candidates with appropriate educational background, skills, experience, character, integrity and competencies to fulfill the duties and responsibilities of the function. This process shall include:

(1) *Adoption of a risk-focused screening process.* Management shall develop a risk-focused approach for its pre-employment background screening where an appropriate level of screening is employed based on factors like the position, reputational risk implication, and responsibilities associated with a particular position. The sensitivity of the position and authorities given to certain positions, including those in the branches, or the access level of an individual employee may warrant additional background screening procedures. These shall include, among others, verification of character references, criminal records, psychological evaluation, past employment, credentials, and professional qualifications. Information gathered shall enable BSFIs to have sufficient understanding of the applicant's personal background and character, conflict of interest, and susceptibility to collusion, fraud, or illegal activities.

BSFIs shall likewise adopt a policy that sets out the expected actions from Management when pre-employment screening processes detect that the applicant has provided inaccurate or false information.

(2) *Screening the applicants against the Bangko Sentral records.* As part of the background screening procedures, the Human Resource Department of the BSFI shall require all those who passed the initial stages of pre-employment screening to accomplish the Authorization Form for Querying (AFQ) the Bangko Sentral Records

shown in *Appendix Q-44.* Any information gathered from the Bangko Sentral records shall be considered in the decision to consider the fitness and propriety of the applicant for the position.

Screening the applicants against the records of the Bangko Sentral shall only be part of and shall not be the sole source of information for pre-employment screening.

(3) *Alignment with organization culture.* Management shall also ensure that the BSFI's culture, values and expectations on behavior are compatible with those of its employees so that there is unity of direction and purpose.

b. *Performance management*. The board shall establish effective performance management framework that will ensure that personnel's performance is at par with the standards set by the board/senior management. Results of performance evaluation should be linked to other human resource activities such as training and development, remuneration, and succession planning. These should likewise form part of the assessment of the continuing fitness and propriety of personnel in carrying out their respective duties and responsibilities.

The board shall likewise establish effective mechanism that leverages on existing controls or reports to facilitate assessment of continuing fitness and propriety of personnel, taking into account factors that may affect the performance of an individual. For instance, the financial circumstances of an employee who will be responsible for the custody of, or handling cash related transactions, shall be taken into consideration in the evaluation of his continuing qualification. This mechanism shall enable the BSFI to detect suspicious behaviors of personnel such as reluctance or refusal to take vacation leaves; involvement of personnel in cases with frequent overrides of internal controls, established limits or approving authorities, and high incidence of circumventions of policy; changes in employees' conduct; unusual activities in operations; and sudden or significant changes in lifestyle, standard of living, and spending habits that are inconsistent with the salary, financial position, and level of indebtedness of the personnel concerned.

The assessment of continuing fitness and propriety of personnel should take into account factors that may affect the performance of an individual. For instance, the financial circumstances of an employee who will be responsible for the custody of, or handling of cash related transactions, shall be taken into consideration in the evaluation of his continuing qualification.

c. *Training and development.* The board shall establish training and development programs that will ensure continuing development of employees' knowledge, competence, and skill. Results of gaps assessment in the performance evaluation/appraisal process can be used in the creation of training and development programs for employees.

d. *Remuneration and compensation.* The board shall establish sound remuneration and compensation policies that can be used by the institution to attract/recruit and retain highly qualified workplace. Said policies should appropriately motivate personnel and discourage excessive risk taking. This can be achieved through timely assessment of performance and competencies based on set standards. Results of performance assessment/appraisal can be used in the organization's remuneration decisions.

e. *Succession planning.* The board shall establish an effective succession planning program. The program should include a system for identifying and developing potential successors for key and/or critical positions in an organization, through systematic evaluation process and training. This will require identifying critical skills and competencies; assessing gaps; and designing developing, and delivering training and development programs to build or improve critical skills and competencies. The program should be adequately documented to facilitate monitoring and assessment of its implementation.

f. *Adequacy of complement.* The board shall establish effective strategic manpower planning to ensure that there is adequate and right manpower complement to meet the strategic goals and operational plans of the organization.

g. *Disciplinary actions.* The board, officers and all employees are expected to conform to prescribed ethical culture and guidelines, meet performance standards, and to behave ethically/appropriately in the workplace. Disciplinary or corrective actions may be taken to improve/arrest unacceptable behavior or performance. Disciplinary action must be in accordance with the laws and the applicable rules.

h. *Separation from service.* The board shall establish policies and procedures governing the separation of employees from service (e.g., termination, dismissal, retrenchment, retirement, or resignation), which should include transfer of accountabilities and/or salient information (e.g., client data, business strategies and formula, other trade secrets, etc.) to the successor, and clearance requirements. Policies may also include "non-compete" clauses, in accordance with existing laws.

The Human Resource Department shall assist the board in fulfilling its oversight responsibilities in the areas of recruitment, manpower planning, personnel development, performance appraisal, remuneration, termination, retrenchment and other key human resource issues.

Management of information technology-related risk. BSFIs shall refer to Sec. 126-N for the management of information technology-related risk.

Management of integrity of prudential reports or reports submitted to Bangko Sentral. BSFI shall adopt a prudential reporting framework that ensures the integrity of information submitted to the Bangko Sentral. They shall establish a system for ensuring effective compliance with the standards prescribed by the Bangko Sentral on acceptable reporting quality. BSFIs shall likewise maintain adequate documentation of the processes and procedures covering the prudential reporting framework and conduct a periodic review of their continuing relevance.

Management should be cognizant of relevant guidelines that may be issued by the Bangko Sentral relative to issues on the integrity and accuracy of prudential reports. Persistent concerns on the integrity and accuracy of prudential reports including failure to comply with the directives of the Bangko Sentral in this respect may be considered by the Bangko Sentral as conducting business in an unsafe or unsound manner, subject to applicable provision of laws and regulations.

Management of legal risk exposures. BSFIs shall adopt a system for identifying and assessing legal risks related to business line functions as well as products and services offered. This shall include a process for assessing the BSFI's rights and obligations in contractual relationships and in ensuring that all agreements/contracts entered into by the BSFI conform with legal and regulatory requirements and that no party is unduly disadvantaged. This shall also include the assessment of trends of customer complaints to determine potential legal risk exposures.

There should be a system in place to manage outstanding legal cases involving the BSFI or any of its directors and officers, with respect to suits filed in line with the performance of their duties. Said system should cover a periodic review of the status of cases, an assessment of potential outcome including probable liability or receivable, and regular reporting of the same to the appropriate level of management and the board.

Management of operational risk arising from financial inclusion initiatives. BSFIs that provide financial services to the unserved and underserved sector generally handle small and voluminous transactions, which have inherently high operational risk. Incremental operational risk also comes from the higher number of personnel or from the use of technology-based platform to effectively and efficiently deliver financial services. BSFIs are expected to identify and understand the distinct operational risk arising from the products and services they offer or innovative delivery channels they use. They should also be cognizant of potential transformation or transfer or risk exposures. In this regard, BSFIs shall adopt an operational risk management framework appropriate to the nature and scale of their operations. Said framework shall consider the principles embodied in this Section designed to suit the BSFI's business model and ensure sustained delivery of financial services to the unserved and underserved sector.

Notification/Reporting to Bangko Sentral. BSFIs shall notify the appropriate supervising department of the Bangko Sentral, within ten (10) calendar days from the date of discovery, of any operational risk event[1] that may result in any of the following:

a. Significant operational losses or exposures;
b. Activation of business continuity plan; or
c. Any material change in business and operating environment.

Upon receipt of notification, the Bangko Sentral may require, if warranted, the reporting BSFI to submit a report detailing the causes and impact of such events and an acceptable action plan to address the issue and any other weakness identified.

Supervisory Enforcement Actions. Consistent with Sec. 002-Q, the Bangko Sentral may deploy enforcement actions to promote adherence with the requirements set forth in this Section and bring about timely corrective actions. The Bangko Sentral may issue directives to improve the operational risk management system, or impose sanctions to limit the level of or suspend any business activity that has adverse effects on the safety or soundness of the BSFI, among others. Sanctions may likewise be imposed on a BSFI and/or its directors, officers and/or employees.

(Circular Nos. 1112 dated 8 April 2021, 930 dated 18 November 2016, and 900 dated 18 January 2016)

126-N INFORMATION TECHNOLOGY RISK MANAGEMENT[2]

The enhanced guidelines on ITRM keep abreast with the aggressive and widespread adoption of technology in the financial service industry and consequently strengthen existing Bangko Sentral framework for IT risk supervision. ITRM should be considered a component and integrated with the institutions' risk management program. The guidelines likewise provide practical plans to address risks associated with emerging trends in technology and growing concerns on cyber security.

[1] As enumerated under item *"a.(1)"* of Sec. 125-N on Operational risk management framework.

[2] BSFIs shall comply with the enhanced Guidelines on Information Security Management within a period of one (1) year from the effectivity date of Circular No. 982 Series of 2017. In this regard, a BSFI should be able to show its plan of actions with specific timelines, as well as the status of initiatives being undertaken to fully comply with the provision of this circular, upon request of the Bangko Sentral starting December 2017.

Policy statement. The rapid pace of digital innovation has significantly reshaped the financial services landscape. BSFIs employ advances in technology to sharpen business insights, enhance operational efficiencies, and deliver innovative financial products and services in line with emerging market trends and evolving client needs. Technological developments also enable greater access to financial services that promote an inclusive and responsive digital financial ecosystem. As technological innovations become more deeply entrenched in business models, infrastructure, and delivery channels, system-related failures and malfunctions can create major operational disruptions in BSFIs. Social media platforms may further complicate matters as news of disruptions as well as customer complaints can spread at unprecedented speeds. Further, cyber-threats and attacks confronting the financial services industry pose added risks that can undermine public trust and confidence in the financial system.

In line with their growing technology usage and dependence at the back of a dynamic operating and cyber-threat environment, BSFIs should establish robust and effective technology risk management processes, governance structures, and cybersecurity controls. This is to ensure that the benefits derived from technological innovations can be fully optimized without compromising financial stability, operational resilience, and consumer protection.

Purpose and scope. The enhanced guidelines aim to provide guidance in managing risks associated with use of technology. The guidelines outlined are based on international standards and recognized principles of international practice for ITRM and shall serve as Bangko Sentral's baseline requirement for all BSFIs.

The guidelines shall apply to BSFIs which include banks, non-banks with quasi-banking function (NBQB), non-bank electronic money issuers and other non-bank institutions which under existing Bangko Sentral rules and regulations and special laws are subject to Bangko Sentral supervision and/or regulation. Moreover, subject guidelines shall also apply to BSFIs with offshore data processing as may be appropriate to their situation. The framework covers different facets of ITRM, some of which are supplemented with detailed guidelines in *Appendices Q-61, Q-62, Q-63, Q-64, Q-65 and Q-66.* The Bangko Sentral shall keep the Appendices updated and, in the future, issue additional regulations on new and emerging products, services, delivery channels, and other significant applications of technology.

Subject guidelines, including the *Appendices Q-61, Q-62, Q-63, Q-64, Q-65 and Q-66*, are not "one-size-fits-all" and implementation of these need to be risk-based and commensurate with the size, nature and types of products and services and complexity of IT operations of the individual BSFIs. BSFIs shall exercise sound judgment in determining applicable provisions relevant to their risk profile.

IT Profile Classification. To ensure that IT risk management system, governance structure and processes are commensurate with the attendant IT risks, the Bangko Sentral shall determine the IT profile of all BSFIs and classify them as "Complex", "Moderate" or "Simple". The IT profile refers to the inherent risk of a BSFI before application of any mitigating controls, and is assessed taking into consideration the following factors:

a. *IT infrastructure and operations.* Inherent IT risks of a BSFI largely depend on the degree of automation of core processes and applications, the size of branch networks, and the characteristics of its IT organization. BSFIs with larger branch networks and more complex organizational structures usually require a higher degree of reliance on IT systems/infrastructure, which in turn, carry higher levels of inherent IT risks. Interconnectivity risks also play a factor in determining IT risk levels since added connections to third party networks increase complexity as well as exposure to potential information security/cybersecurity risks. These include participation in electronic payment systems and interconnections with other financial institutions, business partners, customers, and third party service providers, among others.

b. *Digital/Electronic financial products and services.* Digital/electronic financial products and services provided to the BSFI's corporate and retail clients, by their very nature, can have a direct impact on IT risks, including information security/cybersecurity risks. This is because these products and services are normally provided via the internet or public networks which are inherently risky. Digital/electronic financial products and services include ATM debit, prepaid and credit cards and e-channels such as ATM terminals, point-of-sale (POS) terminals, internet banking and mobile banking facilities, among others. BSFIs that are more aggressive in providing such services are expected to have greater IT risks.

c. *IT projects and initiatives.* The extent and nature of the BSFI's IT projects prospectively impact IT risk exposure and complexity. For instance, developing or acquiring a new core banking system is considered a major project that if not adequately managed and overseen, may heighten inherent IT risks. Also, IT projects and initiatives entail the use of current resources in terms of funding and manpower that might affect existing IT operations and risk profile.

d. *Outsourced services.* While outsourcing in general does not diminish the BSFI's responsibility over the function/service outsourced, outsourcing poses an added dimension to IT and information security risks. For this reason, outsourcing arrangements require a higher degree of oversight, due diligence, and risk management controls. Outsourcing core IT services and functions via cloud computing platforms may further intensify IT and information security risks.

e. *Systemic importance.* The systemic importance of a BSFI is a critical determinant in assessing inherent IT and information security/cybersecurity risks since BSFIs identified as "Domestic Systemically Important Banks" or D-SIBs are essentially larger in size and have more complex operations and product offerings. Moreover, cyber-attacks against D-SIBs can have serious implications to financial and economic stability that may undermine public trust and confidence in the financial system.

f. *Threats.* The volume, type, and severity of cyber-attacks and fraud targeting a specific BSFI affects IT and cybersecurity risk profiles. Some BSFIs may be more prone to attacks compared to others by virtue of their asset size, customer base, systemic importance, and other factors. Thus, BSFIs that are likely targets of these types of threats should have greater degree of cyber-preparedness and resilience.

A general description for each IT profile classification is outlined as follows:

IT Profile Classification	General Description/Attributes
Complex	A BSFI with highly complex IT profile uses technology extensively in supporting mission-critical business processes and delivering financial products and services. It has ubiquitous branch network in the country and offers a wide array of digital/electronic financial products and services to a large number of corporate and retail clients. It is highly interconnected with external third party stakeholders and actively participates in electronic payment systems and networks, usually involving large-value transfers. Business strategies and objectives are largely anchored on IT platforms, digital innovation, and technology-based solutions. It is also aggressively utilizing/exploring emerging technologies such as cloud computing, social media and big data technologies.
Moderate	A BSFI classified as moderately complex uses technology to some extent, but not as aggressively as those classified as highly complex. Its branch network, IT organization and structure, and extent of IT projects are also relatively less significant than those of highly complex BSFIs. IT applications and systems are integrated but primarily support traditional banking products and services. It may offer basic digital/electronic products and services, such as ATM terminals/card-based products, to a limited number of clients.
Simple	A BSFI classified as simple generally has very limited use of technology with minimal interconnectivity to its clients and other institutions. Likewise, branch network or geographic presence is confined to a specific locality. IT applications and systems are stand-alone or are not fully integrated and e-banking products and services are rarely offered. A simple BSFI also has few IT personnel and customer base

The IT profile of rural banks, cooperative banks, NBFIs, and non-bank institutions shall be classified as “Simple”, unless notified by the Bangko Sentral of a higher classification. For other BSFIs, the Bangko Sentral shall notify in writing their assigned classification within a reasonable timeline from the effectivity of this Circular. The Bangko Sentral-assigned classification shall remain effective until such time that the Bangko Sentral informs the concerned BSFI of a change in classification.

The Bangko Sentral assessment and classification process should not preclude BSFIs from assessing their own IT profile classification on an ongoing basis. All BSFIs are required to have periodic and rigorous self-assessment exercises using more robust data sets and variables as part of their information security risk management system.

IT Rating System. The Bangko Sentral, in the course of its on-site examination activities, shall evaluate BSFIs’ ITRM system and measure the results based on Bangko Sentral’s IT rating system. A composite rating is assigned based on a “1” to “4” numerical scale, as follows:

4	BSFIs with this rating exhibit strong performance in every respect. Noted weaknesses in IT are minor in nature and can be easily corrected during the normal course of business.
3	BSFIs with this rating exhibit satisfactory performance but may demonstrate modest weaknesses in operating performance, monitoring, management processes or system development.
2	BSFIs with this rating exhibit less than satisfactory performance and require considerable degree of supervision due to a combination of weaknesses that may range from moderate to severe.
1	BSFIs with this rating exhibit deficient IT environment that may impair the future viability of the entity, thereby requiring immediate remedial action.

Definition of terms. In these guidelines, terms are used with the following meanings:

a. *Advanced persistent threat or APT* shall refer to a sophisticated form of attack that involves coordinating multiple methods of identifying and exploiting a target's vulnerabilities over an extended period to do harm.

b. *Card skimming* shall refer to the illegal copying of information from the magnetic stripe of a credit or ATM card to gain access to accounts.

c. *Cloud computing* shall refer to a model for enabling ubiquitous, convenient, and on-demand network access to a shared pool of configurable computing resources that can be rapidly provisioned and released with minimal management effort or service provider interaction.

d. *Compromised State* A state wherein someone or something has maliciously broken into networks, systems and computers which raises doubt as to the integrity of information assets, such as, but not limited to, program files, image files, and operating system files.

e. *Cyber-threat* shall refer to a deliberate act of omission or commission by any person carried out using the internet and/or other electronic channels, in order to communicate false or fraudulent representations to prospective victims, to conduct fraudulent transactions, or to illegally obtain proprietary data or information related to the institution, their customers and other stakeholders. Cyber-threat can be used synonymously with cyber-fraud, cyber-attack or cyber--related incidents.

f. *Cybersecurity* shall refer to technologies, processes, and practices designed to protect a BSFI's information assets and consumers by preventing, detecting, and responding to cyber-attacks.

g. *Data Breach* An incident in which sensitive, protected or confidential data or information has potentially been viewed, stolen, leaked, used, or destroyed by unauthorized persons.

h. *Defense-in-depth* shall refer to a security strategy or design of deploying security controls over multiple or various layers across the network, systems, and applications such that a failure in one control would be compensated by another control in the next layer. This approach effectively delays or disrupts an attacker's ability to progress within the attack sequence.

i. *Distributed denial of Service (DDoS)* shall refer to a type of attack which makes use of the capacity limitation of enterprise networks, systems or ingress with extreme traffic loads.

j. *Hacking* Unauthorized access into or interference in networks, systems and computers without the knowledge and consent of the system/information owner.

k. *Information security program (ISP)* shall refer to information security policies, standards and procedures, security operations, technologies, organizational structures, and information security awareness and training programs aimed at protecting a BSFI's information assets and supporting infrastructure from internal and external threats.

l. *Information security strategic plan (ISSP)* shall refer to the roadmap to guide a BSFI in transforming the current state of security to the desired state taking into account business goals and strategies.

m. *Information security risk management (ISRM)* shall refer to the process of identifying, assessing, mitigating, managing, and monitoring information security risks, including cyber-risk, to ensure these are within acceptable levels. It should be integrated into the BSFI's ISP and enterprise-wide risk management system.

n. *Malware* shall refer to malicious software that compromises the confidentiality, availability or integrity of information systems, networks or data. Examples of malware include ransomware, trojans, adware, botnets, bugs, and spyware, among others.

o. *Pharming* A form of cyber-attack that redirects a website traffic to another fake website to obtain user credentials and information.

p. *Phishing* shall refer to the use of electronic communications such as e-mail to masquerade with trusted identity to capture sensitive information to gain access to accounts. It involves tricking customers into giving sensitive information through fraudulent emails or websites.

q. *Reportable Major Cyber-related Incidents* Any cyber-related incidents that meet the criteria for reporting/notification to the Bangko Sentral as laid out in Item a(2)(a)of the Reports under Sec 126-N.

r. *Security operations center (SOC)* shall refer to a unit or function that provides centralized visibility, continuous monitoring, and rapid response and recovery procedures on security incidents and events.

s. *Spearphishing* A more advanced type of phishing attack which is customized to a particular target (e.g., executives, privileged users, etc.).

t. *Threat Actor* A person, group or nation/state/government that carries out or intends to carry out damaging acts against another party. An advanced threat actor shall refer to a person, organized group, or nation/state/government that (a) possesses superior capabilities, resources and skills to launch sophisticated cyber-attacks; or (b) seeks military and/or intelligence information for cyber-espionage purposes.

u. Threat intelligence shall refer to the process of gathering and analyzing information about the proficiencies, tactics, and motives of malicious actors/attackers that enables a BSFI to institute appropriate countermeasures quickly.

Description of IT-related risks. As BSFIs increase their reliance on IT to deliver products and services, inappropriate usage of IT resources may have significant risk exposures. While IT does not trigger new types of risks, it brings in new dimensions to traditional banking risks (i.e., strategic risk, credit risk, market risk, liquidity risk and operational risk) that require new or enhanced control activities (e.g., a failure of a credit risk measurement application is an IT failure and, therefore, a systems failure in the sense of operational risk). Moreover, IT is an implied part of any system of internal controls, regardless of the type of risk and, consequently, forms an important element in organization-wide risk management. Among the risks associated with the use of IT are the following:

a. *Operational risk* is the risk to earnings and capital arising from problems with service or product delivery. This risk is a function of internal controls, IT systems, employee integrity and operating processes. Operational risk exists in all products and services;

b. *Strategic risk* is the risk to earnings and capital arising from adverse business decisions on IT-related investments or improper implementation of those decisions. The risk is a function of the compatibility of an organization's strategic goals, the business strategies developed to achieve those goals, the resources deployed against these goals and the quality of implementation. The resources needed to carry out business strategies are both tangible and intangible which include communication channels, operating systems, delivery networks and managerial capacities and capabilities;

c. *Reputational risk* is the risk to earnings and capital arising from negative public opinion. This affects the institution's ability to establish new relationships or services or continue servicing existing relationships. The risk can expose the institution to litigation, financial loss or damage to its reputation; and

d. *Compliance risk* is the risk to earnings and capital arising from the violations of, or non-conformance with laws, rules and regulations, prescribed practices or ethical standards. Compliance risk also arises in situations where the laws and rules governing certain products activities of the BSFI's clients may be ambiguous or untested. Compliance risk exposes the institution to monetary penalties, non-monetary sanctions and possibility of contracts being annulled or declared unenforceable.

IT Risk Management System (ITRMS). As BSFIs become more dependent on IT systems and processes, technology risks and information security issues have become progressively more complex and pressing in recent years. Information security is just as important as the new technologies being installed by BSFIs. As progress in technology shifts to higher gear, the trend in cyber-attacks, intrusions, and other form of incidents on computer systems shows that it will not only persist but will continue to increase in frequency and spread in magnitude.

Management of IT risks and information security issues becomes a necessity and an important part of BSFIs' risk management system. BSFIs are therefore required to establish a robust ITRM system covering four (4) key components: 1) IT governance, 2) risk identification and assessment 3) IT controls implementation, and 4) risk measurement and monitoring.

a. *IT Governance.* This is an integral part of BSFIs' governance framework and consists of the leadership and organizational structures and processes that ensure the alignment of IT strategic plan with BSFIs' business strategy, optimization of resources management, IT value delivery, performance measurement and the effective and efficient use of IT to achieve business objectives and effective IT risk management implementation. BSFIs must establish an effective IT governance framework covering the following:

(1) *Oversight and organization of IT functions.* Accountability is a key concern of IT governance and this can be obtained with an organizational structure that has well-defined roles for the responsibility of information, business processes, applications, IT infrastructure, etc.

The Board of Directors is ultimately responsible for understanding the IT risks confronted by a BSFI and ensuring that they are properly managed, whereas the Senior Management is accountable for designing and implementing the ITRMS approved by the Board. For Complex BSFIs, the Board may delegate to an IT Steering Committee (ITSC) or its equivalent IT oversight function to cohesively monitor IT performance and institute appropriate actions to ensure achievement of desired results. The ITSC, at a minimum, should have as members a non-executive Board director who oversees the institution's IT function, the head of IT group/department, and the highest rank officer who oversees the business user groups. The head of control groups should participate in ITSC meetings in advisory capacity only.

A charter should be ratified by the Board to clearly define the roles and responsibilities of the ITSC. Formal minutes of meeting should be maintained to document its discussions and decisions. The ITSC should regularly provide adequate information to the Board regarding IT performance, status of major IT projects or other significant issues to enable the Board to make well-informed decisions about the BSFIs' IT operations.

BSFIs should develop an IT strategic plan that is aligned with the institution's business strategy. This should be undertaken to manage and direct all IT resources in line with the business strategy and priorities. IT strategic plan should focus on long term goals covering three (3)- to five (5)-year horizon and should be sufficiently supplemented by tactical IT plans which specify concise objectives, action plans and tasks that are understood and accepted by both business and IT. The IT strategic plan should be formally documented, endorsed by the Board and communicated to all stakeholders. It should be reviewed and updated regularly for new risks or opportunities to maximize the value of IT to the institution.

BSFIs should also create an organization of IT functions that will effectively deliver IT services to business units. For "Complex" BSFIs, a full-time IT Head or equivalent rank should be designated to take the lead in key IT initiatives and oversee the effectiveness of the IT organization. In addition to managing the delivery of day-to-day IT services, the IT Head should also oversee the IT budget and maintain responsibility for performance management, IT acquisition oversight, professional development and training. The IT Head should be a member of executive management with direct involvement in key decisions for the BSFI and usually reports directly to the President or Chief Executive Officer.

A clear description of roles and responsibilities for individual IT functions should be documented and approved by the Board. Proper segregation of duties within and among the various IT functions should be implemented to reduce the possibility for an individual to compromise a critical process. A mechanism should be in place to ensure that personnel are performing only the functions relevant to their respective jobs and positions. In the event that an institution finds it difficult to segregate certain IT control responsibilities, it should put in place adequate compensating controls (e.g. peer reviews) to mitigate the associated risks.

(2) *IT policies, procedures and standards.* IT controls, policies, and procedures are the foundation of IT governance structure. It helps articulate the rules and procedures for making IT decisions, and helps to set, attain, and monitor IT objectives.

BSFIs should adopt and enforce IT-related policies and procedures that are well-defined and frequently communicated to establish and delineate duties and responsibilities of personnel for better coordination, effective and consistent performance of tasks, and quicker training of new employees. Management should ensure that policies, procedures, and systems are current and well-documented. The ITSC should review IT policies, procedures, and standards at least on an annual basis. Any updates and changes should be clearly documented and properly approved. IT policies and procedures should include at least the following areas:

- IT Governance/Management;
- Development and Acquisition;
- IT Operations;
- Communication networks;
- Information security;
- Electronic Banking/Electronic Products and Services; and
- IT Outsourcing/Vendor Management.

For simple BSFIs, some of the above areas (i.e., development, electronic banking, etc.) may not be applicable, thus sound judgment should be employed to ensure that the BSFI's IT policies and procedures have adequately covered all applicable areas.

(3) *IT audit.* Audit plays a key role in assisting the Board in the discharge of its corporate governance responsibilities by performing an independent assessment of technology risk management process and IT controls.

Auditors provide an assurance that important control mechanisms are in place for detecting deficiencies and managing risks in the implementation of IT. They should be qualified to assess the specific risks that arise from specific uses of IT. BSFIs should establish effective audit programs that cover IT risk exposures throughout the organization, risk-focused, promote sound IT controls, ensure the timely resolution of audit deficiencies and periodic reporting to the Board on the effectiveness of the institution's IT risk management, internal controls, and IT governance. Regardless of size and complexity, the IT audit program should cover the following:

- Independence of the IT audit function and its reporting relationship to the Board or its Audit Committee;
- Expertise and size of the audit staff relative to the IT environment;

- Identification of the IT audit universe, risk assessment, scope, and frequency of IT audits;
- Processes in place to ensure timely tracking and resolution of reported weaknesses; and
- Documentation of IT audits, including work papers, audit reports, and follow-up.

In case in-house IT audit expertise is not available, such as for a simple BSFI, the IT audit support may be performed by external specialists and auditors of other institutions consistent with existing Bangko Sentral rules and regulations on outsourcing. (Detailed guidelines/standards on IT Audit are shown in *Appendix Q-61*).

(4) *Staff competence and training.* The rapid development in technology demands appropriate, skilled personnel to remain competent and meet the required level of expertise on an ongoing basis.

BSFIs should have an effective IT human resources management plan that meets the requirements for IT and the business lines it supports. Management should allocate sufficient resources to hire and train employees to ensure that they have the expertise necessary to perform their job and achieve organizational goals and objectives.

Management needs to ensure that staffing levels are sufficient to handle present and expected work demands, and to cater reasonably for staff turnover. Appropriate succession and transition strategies for key officers and personnel should be in place to provide for a smooth transition in the event of turnover in vital IT management or operations functions.

(5) *Management Information Systems (MIS).* The BSFIs' IT organization often provides an important support role for their MIS. Accurate and timely MIS reports are an essential component of prudent and reasonable business decisions. At the most senior levels, MIS provides the data and information to help the Board and management make strategic decisions. At other levels, MIS allows management to monitor the institution's activities and distribute information to other employees, customers, and members of management.

Advances in technology have increased the volume of information available to management and directors for planning and decision-making. However, if technology is not properly managed, the potential for inaccurate reporting and flawed decision making increases. Because report generation systems can rely on manual data entry or extract data from many different financial and transaction systems, management should establish appropriate control procedures to ensure information is correct, relevant, and adequately protected. Since MIS can originate from multiple equipment platforms and systems, the controls should ensure all information systems have sufficient and appropriate controls to maintain the integrity of the information and the processing environment. Sound fundamental principles for MIS review include proper internal controls, operating procedures, safeguards, and audit coverage.

(6) *IT risk management function.* Management of risk is a cornerstone of IT Governance. BSFIs should have a policy requiring the conduct of identification, measurement, monitoring and controlling of IT risks for each business function/service on a periodic basis. BSFIs should define and assign these critical roles to a risk management unit or to a group of persons from different units collectively performing the tasks defined for this function.

The function should have a formal technology risk acknowledgement and acceptance process by the owner of risk to help facilitate the process of reviewing, evaluating and approving any major incidents of non-compliance with IT control policies. The process can be supported by the following:

- a description of risk being considered for acknowledgement by owner of risk and an assessment of the risk that is being accepted;
- identification of mitigating controls;
- formulation of a remedial plan to reduce risk; and
- approval of risk acknowledgement from the owner of the risk and senior management.

ITRM processes should be integrated into the enterprise-wide risk management processes to allow BSFIs to make well-informed decisions involving business plans and strategies, risk responses, risk tolerance levels and capital management, among others.

b. *Risk identification and assessment.* BSFIs should maintain a risk assessment process that drives response selection and controls implementation. An effective IT assessment process begins with the identification of the current and prospective IT risk exposures arising from the institution's IT environment and related processes. The assessments should identify all information assets, any foreseeable internal and external threats to these assets, the likelihood of the threats, and the adequacy of existing controls to mitigate the identified risks. Management should continually compare its risk exposure to the value of its business activities to determine acceptable risk levels. Once management understands the institution's IT environment and analyzes the risk, it should rank the risks and prioritize its response. The probability of occurrence and the magnitude of impact provide the foundation for reducing risk exposures or establishing mitigating controls for safe, sound, and efficient IT operations appropriate to the complexity of the

organization. Periodic risk assessment process should be done at the enterprise-wide level and an effective monitoring program for the risk mitigation activities should be manifested through mitigation or corrective action plans, assignment of responsibilities and accountability and management reporting.

c. *IT controls implementation.* Controls comprise of policies, procedures, practices and organizational structures designed to provide reasonable assurance that business objectives will be achieved and undesired events will be mitigated. Management should establish an adequate and effective system of internal controls based on the degree of exposure and the potential risk of loss arising from the use of IT. Controls for IT environment generally should address the overall integrity of the environment and should include clear and measurable performance goals, the allocation of specific responsibilities for key project implementation, and independent mechanisms that will both measure risks and minimize excessive risk-taking. BSFI Management should implement satisfactory control practices that address the following as part of its overall IT risk mitigation strategy: 1) Information security; 2) Project management/development and acquisition and change management; 3) IT operations; 4) IT outsourcing/Vendor management; and 5) Electronic banking, Electronic payments, Electronic money and other Electronic products and services.

(1) *Information security.* Information is a vital asset of a BSFI that must be adequately protected and managed to preserve its confidentiality, integrity and availability. Considering the crucial role information plays in supporting business goals and objectives, driving core operations and critical decision-making, information security is intrinsically linked to the overall safety and soundness of BSFIs. Thus, the BSFI needs to put in place a robust, resilient and enterprise- wide framework for ISRM supported by effective information security governance and oversight mechanisms. Information security risk exposures must be managed to within acceptable levels through a dynamic interplay of people, policies and processes, and technologies and must be integrated with the enterprise-wide risk management system.

Management should adopt a holistic, integrated and cyclical approach to managing information security risks. An ISRM framework should be in place encompassing key elements and phases with effective governance mechanisms to oversee the entire process. The framework represents a continuing cycle that should evolve over time taking into account changes in the operating and business environment as well as the overall cyber-threat landscape.



Figure 1. Information Security Risk Management Framework

The ISRM framework is based upon the following underlying fundamental principles and concepts:

(a) *Strong leadership and effective Information Security (IS) governance and oversight.* The BSFI's Board and Senior Management set the overall tone and strategic direction for information security by providing strong leadership, effective information security governance and oversight. They should take the lead in establishing an information security culture that regards security as an intrinsic part of the BSFI's core business and operations. Instilling a strong security culture ensures that security controls, processes, and measures are deeply embedded into the institution's lines of business, products, services and processes, including its employees and external relationships. The Board and Senior Management should adopt the right mindset and understand the crucial role of information security in supporting/achieving business goals and objectives. Towards this end, they should oversee the development of an information security strategic plan (ISSP) to clearly articulate security strategies and objectives aligned with business plans.

The BSFI should maintain a comprehensive, well-designed and effective information security program (ISP) that is commensurate with its operational and IT profile complexity. To ensure its effectiveness and sustainability, the ISP should have strong support from the Board and Senior Management as well as cooperation of all concerned stakeholders. Management should see to it that adequate resources, organizational functions/capabilities, policies, standards, and procedures as well as the supporting infrastructure commensurate with the BSFI's IT risk complexity and appetite are available and optimized to effectively implement the ISSP and ISP. Lastly, the Board and Senior Management should appoint a Chief Information Security Officer (CISO), a senior level executive with sufficient authority within the institution, who will be responsible and accountable for the organization-wide ISP.

(b) *Integrated, holistic and risk-based approach.* The ISRM should form an integral part of the BSFI's ISP and enterprise risk management system. It encompasses the people, policies and processes, and technology elements in the organization that should be harmonized to support information security goals and objectives. Information security is not achieved by merely focusing on technology or one aspect and no one element is superior over the other. Each of these elements must work together to achieve the desired security posture and manage information security risks to acceptable levels. In line with the increasing interconnectivity of BSFIs and other industry players, the ISRM should also consider security controls and requirements over third party service providers, customers, banks, and other third party stakeholders which are linked or have access to the BSFI's network and systems. This is because threat actors may launch their attacks on the BSFI through these third party networks.

Likewise, the ISRM including cyber-risk management programs should be commensurate with the inherent risks involved. This means that the BSFI's information security controls and maturity levels should be commensurate with its operations and complexity of IT profile. In this regard, in determining whether a certain control requirement is applicable to the BSFI, it shall first assess the complexity of its IT profile pursuant to Sec. 126-N. BSFIs with complex IT profile are expected to implement the more advanced security control measures and be at the higher levels of the information security/cyber-maturity curve. BSFIs may also refer to leading standards and frameworks issued by standard-setting bodies[1] on information security and cybersecurity in designing their ISRM.

(c) *Continuing cycle.* The ISRM involves a continuing cycle consisting of the following six (6) major phases:

(i) *Identify*. The starting point of the cycle is the identification of the BSFI's information security as well as cyber-related risks. Under this phase, management needs to identify its business processes and functions, information assets classified as to sensitivity and criticality, threats and vulnerabilities, interconnections, and security architecture. Identification of these factors facilitates BSFI's understanding and assessment of its inherent information security and cyber risks which are key inputs in determining, designing, and implementing the appropriate risk treatment options.

(ii) *Prevent.* After identifying these key factors and assessing the information security and cyber risks, the prevent phase comes into play where adequate protection mechanisms and controls are designed and implemented. These include measures ranging from baseline to advanced tools and approaches such as defense-in-depth, malware prevention, access controls and cybersecurity awareness programs, among others. These preventive controls are generally categorized into three (3) types, as follows:

(aa) *Administrative controls* – refer to the policies, standards, and procedures in place which articulate Management's intent, expectations, and direction on information security. It also includes security practices designed to prevent unwarranted employee behavior.

(bb) *Physical and environmental controls* – pertains to the security controls and measures implemented to protect physical infrastructure such as data centers, computer facilities, and equipment from damage, unauthorized access or environmental hazards.

(cc) *Technical controls* - refer to the logical security controls, security tools, and technologies to ensure that the confidentiality, integrity, and availability objectives for information assets are achieved.

(iii) *Detect*. Detection capabilities should also be in place as prevention alone is not sufficient. As demonstrated in recent cyber-attacks, the ability of an institution to quickly detect anomalous activities and evaluate the scope of an attack is an important aspect in significantly reducing negative impacts. Management should design and implement effective detection controls over the BSFI's networks, critical systems and applications, access points, and confidential information.

[1] US National Institute of Standards and Technology (NIST), ISO/IEC, ISACA and Committee on Payments and Market Infrastructures (CPMI), among others.

(iv) *Respond.* The response phase is triggered upon confirmation of an occurrence of a cyber-attack or security incident affecting the BSFI and its customers. With the growing incidence of sophisticated cybercrimes and threats, the BSFI should be prepared to respond quickly considering that cyber-attacks are no longer a remote possibility. Therefore, it should develop comprehensive, updated, and tested incident response plans supported by well-trained incident responders, investigators, and forensic data collectors. Through adequate response capabilities, the BSFI should be able to minimize and contain the damage and impact arising from security incidents, immediately restore critical systems and services, and facilitate investigation to determine root causes.

(v) *Recover.* This phase encompasses both the resumption of activities at a level which is considered "good enough for a certain period of time" and full recovery, i.e., an eventual return to full service. Management should be able to establish back-up facilities and recovery strategies to ensure the continuity of critical operations. During the recovery phase, it should ensure that information processed using back-up facilities and alternate sites still meet acceptable levels of security. To achieve cyber resilience, the BSFI should consider information security incidents and cyber-related attack scenarios in its business continuity management and recovery processes.

(vi) *Test.* The BSFI needs to continually assess and test controls and security measures implemented under the prevent, detect, respond, and recover phases to ensure that these are effective and working as intended. Likewise, a comprehensive, systematic and layered testing and assurance program covering security processes and technologies should be in place. This is to ensure that the ISRM is on track in providing appropriate level of information security commensurate to the BSFIs' IT profile complexity. This phase also ensures that both the ISSP and ISP remain effective vis-a-vis the fast-evolving cyber-threat landscape.

(d) *Cyber threat intelligence and collaboration.* In response *to* the growing cyber-threat landscape, BSFIs need to step up their information security posture and resilience beyond their respective networks. Likewise, BSFIs need to enhance situational awareness that would provide a keen sense of the threat landscape as it relates to their IT risk and cyber-risk profiles, operating complexities, and business models. Further, BSFIs need to collaborate with each other, including regulators, law enforcement agencies, and other third party stakeholders for a collective, coordinated, and strategic response through information sharing and collaboration. Information sharing allows BSFIs to enhance threat intelligence that enables quick identification, prevention and response to emerging and persistent threats. (Detailed guidelines/standards on information security are shown in *Appendix Q-62*).

(2) *Project management/development and acquisition and change management.* BSFIs should establish a framework for management of IT-related projects. The framework should clearly specify the appropriate project management methodology that will govern the process of developing, implementing and maintaining major IT systems. The methodology, on the other hand, should cover allocation of responsibilities, activity breakdown, budgeting of time and resources, milestones, checkpoints, key dependencies, quality assurance, risk assessment and approvals, among others. In the acquisition and/or development of IT solutions, BSFIs should ensure that business and regulatory requirements are satisfied. (Detailed guidelines/standards on Project Management/Development and Acquisition and Change Management are shown in *Appendix Q-63*).

(3) *IT operations.* IT has become an integral part of the day-to-day business operation, automating and providing support to nearly all of the business processes and functions within the institution. Therefore, the IT systems should be reliable, secure and available when needed which translates to high levels of service and dependency on IT to operate.

One of the primary responsibilities of IT operations management is to ensure the institution’s current and planned infrastructure is sufficient to accomplish its strategic plans. BSFI management should ensure that IT operates in a safe, sound, and efficient manner throughout the institution. Given that most IT systems are interconnected and interdependent, failure to adequately supervise any part of the IT environment can heighten potential risks for all elements of IT operations and the performance of the critical business lines of the BSFIs. Such scenario necessitates the coordination of IT controls throughout the institution’s operating environment. (Detailed guidelines/standards on IT Operations are shown in *Appendix Q-64*)

(4) *IT outsourcing/vendor management program.* IT outsourcing refers to any contractual agreement between a BSFI and a service provider or vendor for the latter to create, maintain, or reengineer the institution’s IT architecture, systems and related processes on a continuing basis. A BSFI may outsource IT systems and processes except those functions expressly prohibited by existing regulations. The decision to outsource should fit into the institution’s overall strategic plan and corporate objectives and said arrangement should comply with the provisions of existing Bangko Sentral rules and regulations on outsourcing. Although the technology needed to support business objectives is often a critical factor in deciding to outsource, managing such relationships should be viewed as an enterprise-wide corporate management issue, rather than a mere IT issue.

While IT outsourcing transfers operational responsibility to the service provider, the BSFIs retain ultimate responsibility for the outsourced activity. Moreover, the risks associated with the outsourced activity may be realized in a different manner than if the functions were inside the institution resulting in the need for controls designed to monitor such risks. BSFI management should implement an effective outsourcing oversight program that provides the framework for management to understand, monitor, measure, and control the risks associated with outsourcing. BSFIs outsourcing IT services should have a comprehensive outsourcing risk management process which provides guidance on the following areas: 1) risk assessment; 2) selection of service providers; 3) contract review; and 4) monitoring of service providers. Detailed guidelines/standards on IT Outsourcing/Vendor Management and on the adoption of outsourced cloud computing model are shown in *Appendix Q-65*.

(5) *Electronic products and services.* The evolution in technology revolutionized the way banking and financial products and services are delivered. Physical barriers were brought down enabling clients to access their accounts, make transactions or gather information on financial products and services anywhere they are, at any time of the day and at their own convenience. As development in technology continues to accelerate, innovative electronic products and services are foreseen to bring more accessibility and efficiency. However, BSFIs may be confronted with challenges relating to capacity, availability and reliability of the electronic services. Likewise, fraudulent activities via electronic channels are also rising in number.

BSFIs should protect customers from fraudulent schemes done electronically. Otherwise, consumer confidence to use electronic channels as safe and reliable method of making transactions will be eroded. To mitigate the impact of cyber fraud, BSFIs should adopt aggressive security posture such as the following:

(a) The entire ATM system shall be upgraded/converted to allow adoption of end-to-end Triple DES (3DES) encryption standards by 01 January 2015. The 3DES encryption standards shall cover the whole ATM network which consists of the host processors, switches, host security module (HSM), automated teller machines (ATMs), point-of-sale (POS) terminals and all communication links connected to the network; and

(b) ATMs to be installed after 14 September 2013 should be 3DES compliant; and

(c) ATMs, POS terminals and payment cards are also vulnerable to skimming attacks due to the lack of deployment of globally recognized EMV enabled technology by BSFIs. Magnetic stripe only ATMs, POS Terminals and cards are largely defenseless against modern fraud techniques. Therefore, all concerned BSFIs should shift from magnetic stripe technology to EMV chip-enabled cards, POS Terminals and ATMs. The entire payment card network should be migrated to EMV by 01 January 2017. This requirement shall cover both issuing and acquiring programs of concerned BSFIs. A written and Board- approved EMV migration plan should be submitted to Bangko Sentral within six (6) months from 22 August 2013. The guidelines on EMV Implementation are shown in *Appendix N-17*. The guidelines on EMV Card Fraud Liability Shift Framework (ECFLSF) are in *Appendix N-18*.

The guidelines on EMV implementation are shown in Appendix N-17. The guidelines on EMV Card Fraud Liability Shift Framework (ECFLSF) are shown in Appendix N-18. Detailed guidelines/standards on Electronic Products and Services are shown in *Appendix Q-66.*

d. *Risk measurement and monitoring.* BSFI Management should monitor IT risks and the effectiveness of established controls through periodic measurement of IT activities based on internally established standards and industry benchmarks to assess the effectiveness and efficiency of existing operations. Timely, accurate, and complete risk monitoring and assessment reports should be submitted to management to provide assurance that established controls are functioning effectively, resources are operating properly and used efficiently and IT operations are performing within established parameters. Any deviation noted in the process should be evaluated and management should initiate remedial action to address underlying causes. The scope and frequency of these performance measurement activities will depend on the complexity of the BSFI's IT risk profile and should cover, among others, the following:

(1) *Performance vis-à-vis approved IT strategic plan.* As part of both planning and monitoring mechanisms, BSFI management should periodically assess its uses of IT as part of overall business planning. Such an enterprise-wide and ongoing approach helps to ensure that all major IT projects are consistent with the BSFI's overall strategic goals. Periodic monitoring of IT performance against established plans shall confirm whether IT strategic plans remain in alignment with the business strategy and the IT performance supports the planned strategy.

(2) *Performance benchmarks/service levels***.** BSFIs should establish performance benchmarks or standards for IT functions and monitor them on a regular basis. Such monitoring can identify potential problem areas and provide assurance that IT functions are meeting the objectives. Areas to consider include system and network availability, data center availability, system reruns, out of balance conditions, response time, error rates, data entry volumes, special requests, and problem reports.

Management should properly define services and service level agreements (SLA) that must be monitored and measured in terms understandable to the business units. SLA with business units and IT department should be established to provide a baseline to measure IT performance.

(3) *Quality assurance/quality control*. BSFI should establish quality assurance (QA) and quality control (QC) procedures for all significant activities, both internal and external, to ensure that IT is delivering value to business in a cost effective manner and promotes continuous improvement through ongoing monitoring. QA activities ensure that product conforms to specification and is fit for use while QC procedures identify weaknesses in work products and to avoid the resource drain and expense of redoing a task. The personnel performing QA and QC reviews should be independent of the product/process being reviewed and use quantifiable indicators to ensure objective assessment of the effectiveness of IT activities in delivering IT capabilities and services.

(4) *Policy compliance.* BSFIs should develop, implement, and monitor processes to measure IT compliance with their established policies and standards as well as regulatory requirements. In addition to the traditional reliance on internal and third party audit functions, BSFIs should perform self-assessments on a periodic basis to gauge performance which often lead to early identification of emerging or changing risks requiring policy changes and updates.

(5) *External assessment program.* Complex BSFIs may also seek regular assurance that IT assets are appropriately secured and that their IT security risk management framework is effective. This may be executed through a formal external assessment program that facilitates a systematic assessment of the IT security risk and control environment over time.

Reporting and notification standards. In line with the increased reliance on and adoption of technology by BSFIs, along with growing concerns on cybersecurity, BSFIs should submit regular and event-driven reports covering technology-related information as well as incidence of major cyber-attacks and operational disruptions. This will enable the Bangko Sentral to have an enhanced visibility on the changing IT risk landscape and to proactively ensure that the impact and risks arising from cyber-related incidents and operational disruptions are minimized and contained to avert potential systemic risks to the financial system.

a. Reporting requirement. BSFIs are required to submit to the Bangko Sentral the following reports/information:

(1) Periodic reports. BSFIs shall submit an Annual IT Profile, as listed in *Appendix 7*, electronically to the appropriate supervising department of the Bangko Sentral within twenty-five (25) calendar days from the end of reference year.

(2) Event-driven reports. BSFIs shall notify the Bangko Sentral upon discovery of any of the following:

(a) Reportable Major Cyber-related Incidents. These cover all events which may seriously jeopardize the confidentiality, integrity or availability of critical information, data or systems of BSFIs, including their customers and other stakeholders. Reporting of such incidents to the Bangko Sentral should form part of the incident management plan of BSFIs.

An incident is considered a reportable major cyber-related incident, if after assessing the nature of the incident or attack, the BSFI has determined that the same:

(i) resulted in an unauthorized access and infiltration into the BSFI's internal network (i.e., hacking, advanced persistent threats, presence of malware);
(ii) involved a system-level compromise (i.e., attacks on BSFI's core systems, as opposed to phishing attempts of individual clients);
(iii) affected a significant number of customer accounts simultaneously;
(iv) involved significant data loss or massive data breach;
(v) indicated spearphishing attacks targeting the BSFIs' directors, senior executives, officers, or privileged users;
(vi) resulted in the unavailability of critical systems/services (e.g., Distributed Denial of Service (DDoS) attack resulting in service outage);
(vii) inflicted material financial losses to the BSFIs, their customers and other stakeholders; or
(viii) has been suspected to be perpetrated by an advanced threat actor.

(b) Disruptions of financial services and operations. These include disruption of critical operations which lasts for more than two (2) hours due to internal and external threats, which may be natural, man-made or technical in origin. Such scenarios usually involve loss of personnel, technology, alternate site, and service providers. Causes of such interruptions include, but are not limited to, fire, earthquakes, flood, typhoon, long-term power outage, technical malfunctions, pandemics and other threats.

Security events/attacks which are normally prevented by security systems/devices need not be reported to the Bangko Sentral, except if the same involve significant financial value and/or multitude of customer accounts beyond BSFI's reasonable threshold levels. For instance, an attempt to fraudulently transfer funds involving large sums of money requires immediate notification to the Bangko Sentral as this can be a signal of impending attacks to other BSFIs.

b. Procedure for event-driven reporting. The following procedures shall be followed by BSFIs in reporting reportable major cyber-related incidents and/or disruptions of financial services and operations stated in Item "*a(2)"* of this Section:

(1) The BSFIs' Compliance Officer and/or BSFI-designated Officer shall notify the appropriate supervising department of the Bangko Sentral within two (2) hours from discovery of the reportable major cyber-related incidents and/or disruptions of financial services and operations stated in Item "*a(2)*" of this Section, in accordance with *Appendix N-1*.

(2) The BSFIs shall disclose, at the minimum, the nature of the incident and the specific system or business function involved.

(3) Within twenty-four (24) hours from the time of the discovery of the reportable major cyber-related incident and/or disruption, a follow-up report should be sent to the appropriate supervising department of the Bangko Sentral through e-mail indicating the following, as applicable:

(a) nature of the incident;
(b) manner and time of initial detection;
(c) impact of the incident based on initial assessment (e.g., length of downtime, number of affected customers/accounts, number of complaints received, value of transactions involved);
(d) initial response or actions taken/to be taken (e.g., conduct of root cause analysis) with respect to the incident; and
(e) information if the incident resulted in activation of the Business Continuity Plan (BCP) and/or Crisis Management Plan (CMP).

c. Verification of root cause. Depending on the nature and severity of the reported incident/disruption, the Bangko Sentral may require BSFIs to provide additional information or updates until the matter is satisfactorily resolved. Likewise, the Bangko Sentral may conduct special examination or overseeing inspection, if necessary, to verify root cause of the incident, assess the impact to the BSFI and the financial system as a whole, identify areas for improvement to prevent recurrence of the incident, and promote enterprise and industry-wide operational resilience.

d. Compliance with reporting of crimes and losses. Compliance with event-driven report requirement shall not excuse BSFIs from complying with the existing rules on the reporting of crimes and losses under Sec. 173 and *Appendix Q-5/S-3*. Likewise, any cyber-related incident which does not qualify as a reportable major cyber-related incident and other disruptions arising from crimes and losses must be reported to the Bangko Sentral in accordance with the aforesaid regulations. Operational risk events which are covered under Item a(2) on the event-driven reporting and notification requirements shall no longer require separate reporting and notification pursuant to Sec. 125-N (*Notification/reporting to Bangko Sentral*).

Information gathering. Should the conduct of in-depth studies and research on certain technology development or key area of concern relating to technology risk and cybersecurity be warranted, the Bangko Sentral, from time to time, may request BSFIs to submit specific data and information thereon through surveys, questionnaires or other means.

Sanctions and penalties. BSFIs should make available all policies and procedures and other documents/requirements related to the foregoing during on-site examination as well as provide copies thereof to the Bangko Sentral when a written request is made to determine their compliance with this Section.

Consistent with Sec. 002-Q, the Bangko Sentral may deploy enforcement actions to promote adherence with the requirements set forth in Sec. 126-N and bring about timely corrective actions. Any violation of the provisions of this Section, its appendices and annexes, shall subject the BSFI and/or its directors, officers, and/or employees to the monetary and non-monetary sanctions, as provided under existing laws, Bangko Sentral rules and regulations. Enforcement actions shall be imposed on the basis of the overall assessment of BSFIs' ITRMS. Whenever a BSFI's ITRMS is rated "1" pursuant to Sec. 126-N, the following additional sanctions may be imposed:

a. Non-compliance with the requirements in Item b of Reports of Sec. 126-N will be subject to "High" penalty level monetary sanctions pursuant to Sec. 126-N. Consistent with Sec. 002-Q, the Bangko Sentral may deploy applicable enforcement actions on the BSFI and/or its directors, officers, and/or employees for violations on this requirement.

b. Annual IT Profile and other periodic reports which have been considered as erroneous, delayed or unsubmitted shall be subject to the penalties for *Category B* reports under Sec. 171 (*Sanctions on Reports for Non-compliance with the Reporting Standards*) of the MORB.

On the requirement to adopt multi-factor authentication techniques for sensitive communications and/or high risk transactions pursuant to Item *"4.1.2"* of *Appendix Q-66*, the Bangko Sentral may issue directives to improve authentication and authorization procedures for sensitive communications and/or high risk transactions, or impose sanctions to limit the level of or suspend any electronic products and services that are not compliant with such requirements.

(Circular Nos. 1051 dated 27 September 2019, 1019 dated 31 October 2018, 982 dated 09 November 2017, and 958 dated 25 April 2017)

127-N BUSINESS CONTINUITY MANAGEMENT[1]

BSFIs can be adversely affected by disruption of critical operations due to internal and external threats, which may be natural, man-made or technical in origin. Extreme events may cause major disruptions whose impact are very broad in scope, duration or both and can pose a substantial risk to the continued operation of BSFIs. Because BSFIs play a crucial role in the financial system and economy as a whole, it is important to ensure that their operations can withstand the effects of major disruptions. Thus, BSFIs need to have a comprehensive business continuity management (BCM) process as an integral part of their operational risk management system. A well-designed BCM process enables BSFIs to resume critical operations swiftly and minimize operational, financial, legal, reputational, and other material risks arising from a disruption. This also helps mitigate systemic risks as well as maintain public trust and confidence in the financial system.

Purpose, applicability, and scope. The guidelines aim to promote sound management of business continuity risks. These align existing regulations, to the extent possible, with leading standards and recognized principles on BCM, and shall serve as the Bangko Sentral's baseline requirement for all BSFIs.

The guidelines shall apply to BSFIs which include banks, NBQB, non-bank electronic money issuers and other non-bank institutions which under existing Bangko Sentral rules and regulations and special laws are subject to Bangko Sentral supervision and/or regulation. Moreover, subject guidelines shall also apply to BSFIs with offshore data processing as may be appropriate to their situation.

Definition of terms. In these guidelines, terms are used with the following meanings:

a. *Alternate and business recovery sites* shall refer to standby facilities for use during disruption of critical operations to ensure business continuity. These provide work space and/or the necessary technology environment needed to process business-critical information. Organizations may have more than one (1) alternate site. In some cases, alternate sites may involve facilities that are used for normal day-to-day operations but which are able to accommodate additional business processes when a primary location becomes inoperable. Examples of alternate sites include relocation and disaster recovery sites, whether managed directly or maintained by a third party for a BSFI or for use by multiple organizations.

b. *Business continuity* shall refer to a state of continued, uninterrupted operation of a business.

c. *BCM* shall refer to an enterprise-wide framework encompassing policies, standards, facilities, personnel and practices that provides for continuous functioning of the institution during disruptions. It is proportionate to the BSFI's internal and external risk exposures and tailored to the nature, scale, and complexity of its business.

d. *Business continuity plan (BCP)/Plan* shall refer to a documented plan detailing the orderly and expeditious process of recovery, resumption, and restoration of business functions in the event of disruptions. It should be able to cover and establish linkages among its multiple components, such as communication plan, crisis management plan, contingency funding plan, and technology recovery plan.

e. *Business impact analysis (BIA)* shall refer to the process of identifying and measuring (quantitatively and qualitatively) the business impact or loss of business processes in the event of a disruption. It is used to identify recovery priorities, recovery resource requirements, essential staff, and dependencies (internal and external) to be incorporated in the plan.

f. *Crisis* shall refer to a situation that requires urgent action due to its disruptive impact on the BSFI's core activities or business and operating environment.

g. *Crisis management plan (CMP)* shall refer to a documented plan detailing the actions to be taken when a crisis strikes a BSFI and designed to maintain order amidst the confusion surrounding such situations. During and immediately after a crisis, the members of the crisis management team will convene and activate the plan to attain control over the crisis and minimize its impact to operations.

[1] BSFIs shall comply with the foregoing standards on BCM within a period of one (1) year from 11 April 2017. In this regard, a BSFI should be able to show its plan of actions with specific timelines, as well as the status of initiatives being undertaken to fully comply with the provisions of Sec. 127-N starting July 2017, upon request of the Bangko Sentral.

h. *Critical process* shall refer to any activity, function or service, which when lost would materially affect the continued operation of the BSFI.

i. *Cyber resilience* shall refer to an organization's ability to anticipate, handle, adapt to, and/or recover from evolving cyber threats.

j. *Events* shall refer to disruption scenarios such as loss of people, technology, alternate site, and service providers.

k. *Pandemic* shall refer to epidemics or outbreaks in humans of infectious diseases that have the ability to spread rapidly over large areas, possibly worldwide.

l. *Recovery point objective (RPO)* shall refer to acceptable amount of data loss should a disruption occur without severe impact on the recovery of operations.

m. *Recovery time objective (RTO)* shall refer to the period of time following an incident within which a product, system or business process must be resumed or resources must be recovered.

n. *Resilience* shall refer to the ability of an organization to anticipate, handle, adapt to and/or recover from a disruption and resume operations.

o. *Risk assessment* shall refer to the process involving the identification and assessment of potential threats and vulnerabilities that could severely interrupt a BSFI's business activities and the corresponding likelihood and magnitude of impact on business processes.

p. *Technology recovery plan (TRP)/disaster recovery plan (DRP)* shall refer to a documented plan detailing the technology strategy and requirements during recovery for business and support functions. The relevant regulations are in Item *"3.3.2.13"* of *Appendix Q-64*.

Roles and responsibilities.

a. *Board of directors and senior management.* The BSFI's board and senior management are responsible for overseeing the implementation of a sound BCM process, which involves the creation and promotion of an organizational culture that places high priority on business continuity. This should be reinforced by providing sufficient financial and human resources associated with the BSFI's business continuity initiatives. Senior management should establish BCM policies, standards, and processes, which must be duly endorsed to and approved by the board.

Awareness training and periodic reporting to board and senior management on matters related to business continuity are equally important to ensure their continuing commitment and support. At a minimum, periodic management reports should include the following: (1) implementation status of the BCP; (2) incident reports; (3) plan test results; (4) changes to the plan; and (5) related action items to strengthen the BSFI's ability to recover during disruptions.

b. *BCM coordinator/unit.* Coordination and supervision of all business continuity activities should be assigned to a competent individual and/or unit with technical knowledge and experience consistent with the nature and complexity of the BSFI's business activities. A complex[1] BSFI may need a BCM unit with a team of departmental liaisons throughout the organization. For a simple BSFI, an individual BCM coordinator may suffice. While the BCM coordinator/unit may recommend initiatives or activities to be prioritized, the board and senior management are ultimately responsible for understanding the critical business processes and subsequently establishing plans to meet business process requirements in a safe and sound manner.

c. *BSFI personnel.* BSFI personnel should understand their roles and responsibilities on the prevention of crisis and recovery of business operations during disruptions. Business and support functions should allocate responsibilities for managing disruptions and provide clear guidance regarding the succession of authority to account for unavailability of key personnel in the event of a disruption.

d. *Audit.* An independent review of the BSFI's BCM framework and corresponding plans should be periodically performed with frequency based on a sound risk assessment process. This is to ensure that significant policy revisions resulting from changes in the operating environment, lessons learned from plan tests, and internal and regulatory audit recommendations have been considered. Moreover, plan testing exercises should be independently observed, verified, and evaluated to ensure reasonableness and validity of the testing process and the accuracy of test results.

[1] Pursuant to Sec. 147-Q on IT profile classification, BSFIs are classified as *"simple"* but maybe re-classified as "*complex*" depending on extent or degree of reliance of core business function to technology.

Business continuity management framework. BSFIs should adopt a cyclical, process-oriented BCM framework, which, at a minimum, should include five (5) phases, namely: BIA and risk assessment, strategy formulation, plan development, plan testing, and personnel training and plan maintenance. This framework represents a continuous cycle that should evolve over time based on changes in business and operating environment, audit recommendations, and test results. This framework should cover each business function and the technology that supports it. Other related policies, standards, and processes should also be integrated in the overall BCM framework.

Figure 1. Business Continuity Management Process



a. *Business impact analysis and risk assessment.* A comprehensive BIA and risk assessment should be undertaken to serve as the foundation in the development of the plan. The BIA entails determining and assessing the potential impact of disruptions to critical business functions, processes, and their interdependencies through work-flow analyses, enterprise-wide interviews, and/or inventory questions. Accordingly, the BSFI should determine the recovery priority, RTO, RPO, and the minimum level of resources required to ensure continuity of its operations consistent with the criticality of business function and technology that supports it. The BSFI should then conduct risk assessment incorporating the results of the BIA and evaluating the probability and severity of a wide-range of plausible threat scenarios in order to come up with recovery strategies that are commensurate with the nature, scale, and complexity of its business functions.

Domestic systemically important banks (D-SIBs). To minimize the extent or impact of a D-SIB's failure in the financial system, BSFIs identified as D-SIBs by the Bangko Sentral, pursuant to Sec. 126-Q, should set the RTO for each of their critical processes to a maximum of four (4) hours from the point of disruption. For non-D-SIB BSFIs, the RTO of critical processes should be primarily driven by their BIA and risk assessment.

b. *Strategy formulation.* Recovery and resumption strategies to achieve the agreed time-frame and deliver the minimum required services as identified in the BIA should be defined, approved, and tested. The minimum requirements for the provision of essential business and technology service levels during disruptions should be established by concerned business and support functions.

(1) *Recovery strategy.* As business resumption relies primarily on the recovery of technology resources, adequate provisions should be in place to ensure systems availability and recoverability during disruptions as prescribed under *Appendix Q-64*. Recovery strategies should be able to meet the agreed requirements between business units and support functions for the provision of essential business and technology service levels.

(2) *Continuity of operations/business resumption strategy.* The business continuity models adopted by the BSFI to handle prolonged disruptions should be based on the risk assessment of its business environment and the characteristics of its operations. The resumption strategies and resource requirements should be approved by the board as recommended by senior management or the relevant board committees to ensure alignment with corporate goals and business objectives.

c. *Plan development.* Plans are an important, tangible evidence of the BSFI's business continuity initiatives. The objective of the plan is to provide detailed guidelines and procedures on response and management of a crisis, recovery of critical business services and functions and to ultimately resume to normal operations. The plan should be formulated on an enterprise-wide basis, reviewed and approved by the board and senior management at least annually and disseminated to all concerned employees. The plan should include provisions for both short-term and prolonged disruptions.

A well-written plan should describe the various types of events or scenarios that could prompt BCP activation. It should include, at a minimum, the following components:

(1) Escalation, declaration and notification procedures;

(2) Responsibilities and procedures to be followed by each continuity or recovery teams and their members. The procedures should enable the BSFI to respond swiftly to a crisis (i.e., a crisis management plan) and to recover and resume the critical processes outlined in the plan within the stipulated time frame during disruptions;

(3) A list of resources required to recover critical processes in the event of a major disruption. This would include, but not limited to: (a) key recovery personnel; (b) computer hardware and software; (c) communication systems; (d) office equipment; and € vital records and data;

(4) Relevant information about the alternate and recovery sites; and

(5) Procedures for restoring normal business operations. This should include the orderly entry of all business transactions and records during disruption into the relevant systems up to completion of all verification and reconciliation procedures.

Communication is a critical aspect of a BCP. In this respect, the BSFI should include a communication plan for notifying all relevant internal and external stakeholders (e.g., employees, customers, vendors, regulators, counterparties, and key service providers, media and the public) following a disruption. The BSFI should maintain an up-to-date call tree and contact list of key personnel and service providers, including communication flow and channels for internal and external stakeholders. Clear and effective communication will facilitate escalation for appropriate management action and instruction to all concerned and help manage reputational risks. The BSFI should consider alternate methods of communication and preparation of pre-determined messages tailored to a number of plausible disruption scenarios to ensure various stakeholders are timely, consistently, and effectively informed.

A crisis management plan should be included in the BCP to assist senior management in dealing with and containing an emergency and avoid spillover effects to the business. Senior management should identify potential crisis scenarios and develop corresponding crisis management procedures. This includes identifying a mix of individuals from various departments who are authorized to make instantaneous decisions during crisis situations. This team shall be responsible for the actual declaration of an event, activation of the plan, and internal and external communication process.

When outsourcing plan development, management should ensure that the chosen service provider has the expertise required to analyze the business needs of the BSFI and that the arrangement conforms with legal and regulatory requirements. The service provider should be able to design executable strategies relevant to the BSFI's risk environment and design education and training programs necessary to achieve successful BCP deployment.

d. *Plan testing*

(1) *Types of testing methods.* Plan testing is a vital element of the BCM. It ensures that the plan remains accurate, relevant, and operable. Tests should be conducted periodically, with the nature, scope, and frequency determined by the criticality of the applications, business processes, and support functions. In some cases, plan tests may be warranted due to changes in BSFI's business, responsibilities, systems, software, hardware, personnel, facilities, or the external environment.

Testing methods can vary from simple to complex each bearing its own characteristics, objectives, and benefits. Types of testing methods in order of increasing complexity include:

(a) *Tabletop exercise/structured walk-through test* – the primary objective is to ensure that critical personnel from all areas are familiar with the plan and that it accurately reflects the BSFI's ability to recover from a disruption.

(b) *Walk-through drill/simulation test* – similar to a tabletop exercise but with a more focused application. During this test, participants choose a specific scenario to which relevant plan provisions shall be applied.

(c) *Communication/Call tree test* – an exercise that validates the capability of crisis management teams to respond to specific events and the effectiveness of the call tree notification process in disseminating information to employees, vendors, and key clients.

(d) *Alternate site test/exercise* - tests the capability of staff, systems, and facilities located at alternate sites to effectively support production processing and workloads.

(e) *Component test/exercise* - A testing activity designed to validate the continuity of individual systems, processes, or functions, in isolation.

(f) *Functional drill/parallel test* – test to determine capability of alternate site and BSFI employees to support strategy as defined in the plan, which involves actual mobilization of personnel, establishing communications, and recovery processing.

(g) *Enterprise-wide full-interruption/full-scale test* – the most comprehensive type of test encompassing the entire organization and requires activation of all the components of the plan at the same time to simulate a real-life emergency and processing data and transactions using back-up media at the recovery site.

(2) *Test policy/plan.* Testing should be viewed as a continuously evolving cycle. The BSFI should incorporate the results of BIA and risk assessment and work towards a testing strategy that increases in scope and complexity to address a variety of threat scenarios. Test scenarios should vary from isolated system failures to wide-scale disruptions and promote testing its primary and alternate facilities, as well as with key counterparties and third-party service providers.

A testing policy should define roles and responsibilities for the implementation and evaluation of the testing program. Test plans with pre-determined goals and test criteria should be developed for each testing activity. It should clearly define the objectives of testing, identify the functions, systems, or processes to be tested and the criteria for assessing what constitutes a successful test. Formal testing documentation (i.e., test plans, test scenarios, test procedures, test results) should be prepared to ensure thoroughness and effectiveness of testing and properly maintained for audit and review purposes.

(3) *Annual enterprise-wide business continuity testing.* The BSFI must conduct an enterprise-wide business continuity test at least annually, or more frequently depending on changes in the operating environment, to ensure its plan's relevance, effectiveness, and operational viability. The scope of testing should be comprehensive to cover the major components of the plan as well as coordination and interfaces among important parties.

(4) *Analysis and report of test result.* Plan tests, including successes, failures, and lessons learned, should be thoroughly analyzed to promote continuous BCM improvement. Exceptions noted should be documented and corrective actions should be closely monitored to ensure that they are implemented in a timely manner by concerned parties, including the board of directors and senior management, business line management, risk management, IT management, and other internal stakeholders.

e. *Personnel training and plan maintenance.*

(1) *Training program.* A business continuity training program should be provided to all concerned employees to promote awareness, familiarity, and understanding of their roles and responsibilities in the event of a disruption. The training program should be offered on a continuing basis for existing and new employees and should be updated to address changes to the plan.

(2) *Plan maintenance.* Plans and results of BIA and risk assessment should be reviewed and updated on an ongoing basis (at least annually or when necessary) so that they remain consistent with the BSFI's current operations and business strategies. BCM-related documents (i.e., BCP, test program, policy guidelines, and program requirements) should be subject to change management process to ensure these are updated with proper approval and documentation with respect to any significant changes in the business environment or as a result of audit findings.

Other policies, standards and processes. The following policies, standards and processes should be integrated into the BCM process:

a. *Pandemic planning.* Similar to natural disasters or technical disruptions, pandemics may also interrupt a BSFI's business activities. However, the difficulty in determining a pandemic's scope and duration present additional challenges in ensuring resilience and continuity of a BSFI's operations.

Generally, pandemic plans are integrated in the BSFI's BCP and follow the same BCM process with additional considerations, such as:

(1) *Business impact analysis and risk assessment.* The BCM process should consider pandemics as early as the BIA and risk assessment phase. The BIA and risk assessment should be updated to incorporate complexities that may arise from pandemics, such as (a) increasing level of absenteeism based on a pandemic's severity; and (b) the need for another layer of contingency plans as regular disaster or emergency response methods are no longer feasible.

(2) *Strategy formulation.* To complement strategies for natural and technical disruptions, the following should be given due consideration when planning for pandemics:

(a) *Trigger events* – Trigger events and strategies should be defined depending on the nature of a pandemic. Pandemic planning should have the flexibility to accommodate varying degrees of epidemic or outbreak as pandemics normally occur in waves or phases and of varying severity.

(b) *Remote access capability* – In the event of a pandemic, enabling remote access may be one of the primary strategies available to a BSFI. To support a telecommuting strategy, the BSFI should ensure adequate capacity, bandwidth and authentication mechanisms in its technological infrastructure against expected network traffic or volume of transactions.

(c) *External parties* – With pandemics not limited to the BSFI, establishing working relationships with external parties is an essential component. In addition to the communication plan for all relevant internal and external stakeholders, the BSFI should establish open relationships and communication channels with local public health and emergency response teams or other government authorities. The BSFI should inform concerned parties of any potential outbreaks and, at the same time, be aware of any developments in the expected scope and duration of a pandemic.

(d) *Employee awareness* – As information becomes available from reputable sources or local agencies, the BSFI should ensure that steps to limit or reduce the risk of being affected by the pandemic are cascaded to its employees.

(3) *Plan development.* Pandemic plans should be commensurate to the nature, size and complexity of a BSFI's business activities and have sufficient flexibility to address the various scenarios that may arise. At a minimum, the pandemic plan should include:

(a) Strategy that is scalable dependent on the extent and depth of the outbreak;
(b) Preventive measures, including monitoring of current environment and hygiene tools available to employees;
(c) Communication plan with internal and external stakeholders, including concerned local public health teams and government agencies; and
(d) Tools, systems and procedures available to ensure continuity of its critical operations even with the unavailability of BSFI's staff for prolonged periods.

(4) *Plan testing.* Test policy/plan should include strategies to assess capability to continue critical operations, systems and applications even in the event of a severe pandemic. When regular tests are unable to cover pandemic scenarios, separate pandemic plan tests should be carried out.

(5) *Personnel training and plan maintenance.* The plan should be updated as developments and information become available. As needed, employee training programs should cover pandemic risks, including the roles and responsibilities of each employee during pandemic situations.

b. *Cyber resilience.* Cyber-threats and attacks against the financial services industry have become increasingly widespread, sophisticated and coordinated. Recent cyber-attacks worldwide highlight, not only the degree of disruption to a BSFI's operations, but also the extent of reputational damage which could undermine public trust and confidence. As such, the BSFI should consider the potential impact of these cyber events into its BCM process and institute adequate cyber resilience capabilities.

Given the unique characteristics of cyber-threats and attacks, traditional back-up and recovery arrangements adopted by the BSFI may no longer be sufficient and even increase the damage to the BSFIs' network, operations and critical information assets. In worst case scenarios, back-up systems and alternate recovery sites are likewise affected rendering both sites inoperable. To ensure cyber resilience, the BSFI should take into consideration a wide-range of cyber-threat scenarios perpetrated from diverse threat sources (e.g., skilled hackers, insiders, state-sponsored groups) which seek to compromise the confidentiality, availability and integrity of its information assets and networks. Defensive strategies and innovative recovery arrangements should be explored that are commensurate with the BSFI's cyber-security risk exposures and aligned with its information security program in accordance with *Appendix Q-62*.

c. *Information security.* Mitigation strategies should consider security controls to manage risks that may arise once an event triggers plan activation. Security during disasters and disruptions is an important consideration to manage risks arising from the change in working environment. The relevant guidelines/standards on information security that may be considered in strategy formulation and/or in choosing alternate sites are in *Appendix Q-62*.

d. *Interdependencies.* An effective plan coordinates across its many internal and external components, identifies potential process or system dependencies, and mitigates risks from interdependencies. The BSFI may have very complex operating and recovery environment wherein interdependencies need to be duly considered, such as telecommunications, third party service providers, and recovery site. Given the critical resources and services that are being shared with the BSFI or other entities, additional mitigating controls and recovery strategies need to be integrated in the plan.

e. *Liquidity risk management.* Sound liquidity risk management practices enable a BSFI to maintain availability of funds even in times of financial stress or adverse changes in market conditions. In the event of a business disruption, sound liquidity risk management practices should similarly apply. The BSFI should ensure it has sufficient liquidity to support its recovery strategies and continue supporting the delivery of basic banking services to the clients pending full business resumption. Guidelines on liquidity risk management are in *Appendix Q-43*.

f. *Project management.* Senior management should ensure that availability and business continuity requirements are considered at the planning and development stages of new business products and services and other critical technology processes, such as systems development and acquisition, and change management.

g. *Event/problem management.* Operations personnel should be properly trained to recognize events that could trigger implementation of the plan. Although an event may not initially activate the plan, it may become necessary as conditions and circumstances change. Management should train and test BSFI personnel to implement and perform appropriate business continuity procedures within the timeframes of the plan.

h. *Outsourcing.* When a BSFI enters into an outsourcing arrangement, it should put due consideration on the business continuity and disaster recovery arrangements of the service provider to ensure continuity of operations. Detailed guidelines/standards on business continuity considerations for outsourcing arrangements are in *Appendix Q-65*.

i. *Insurance.* Insurance is an option available to a BSFI for recovery of losses that cannot be completely prevented and the expenses related to recovering from a disruption. The BSFI should regularly review the adequacy and coverage of its insurance policies in reducing any foreseeable risks caused by disruptive events, such as loss of offices, critical facilities and equipment, and casualty. Insurance policies may also need to address the BSFI's legal responsibilities for failing to deliver services to its customers and counterparties. To facilitate the claims process, the BSFI should create and retain a comprehensive hardware and software inventory list in a secure off-site location and detailed expenses should be documented to support insurance claims**.**

Supervisory enforcement actions. BSFIs should make available all policies and procedures and other documents/information related to the foregoing during on-site examination as well as provide copies thereof to the regulator when a written request is made to determine compliance.

Consistent with Sec. 002-Q, the Bangko Sentral may deploy enforcement actions to promote adherence with the requirements set forth in Sec. 127-N and bring about timely corrective actions. The Bangko Sentral may issue directives to improve the BCM process, or impose sanctions to limit the level of or suspend any business activity that has adverse effects on the safety and soundness of the BSFI, among others. Monetary and non-monetary sanctions, as provided under existing laws, Bangko Sentral rules and regulations, may likewise be imposed on a BSFI and/or its directors, officers and/or employees for violation of subject Sec. 127-N.

(Circular No. 951 dated 20 March 2017)

128-N SOCIAL MEDIA RISK MANAGEMENT[1]

Social media, a low-cost solution capable of disseminating real-time information via the internet, presents vast opportunities for growth, customer engagement and business benefits as usage, customer reach and adoption scale up and become widespread and ubiquitous. Considering these potential benefits alongside exponential growth in the number of social media users and its massive reach, BSFIs have started to leverage on social media platform/s to promote their business and improve customer interaction experience to help drive business objectives/strategies.

Similar to any new technology, however, social media introduces a new attack vector which may expose BSFIs to compliance, legal, reputational, strategic, and operational risks. Risks in social media include susceptibility to account take-over, malware distribution, brand bashing, inadvertent disclosure of sensitive information and privacy violation, among other possible threats. As such, BSFIs should adopt an appropriate risk management system, commensurate to the extent and degree of their social media usage, to effectively identify, measure, manage and monitor risks arising from the use of social media platforms. This should form an integral part of their operational risk management system.

[1] BSFIs shall comply with the foregoing standards on social media risk management within a period of six (6) months from 04 April 2017. In this regard, a BSFI should be able to show, upon request of the Bangko Sentral, its plan of actions with specific timelines, as well as the status of initiatives being undertaken to fully comply with the provisions of this Section.

***Applicability and scope*.** The guidelines underscore the importance of having a well-defined social media risk management strategy in supporting BSFI's overall business goals and objectives. These guidelines align existing regulations, to the extent possible, with leading standards and recognized principles. They outline the minimum standards/basic principles that shall govern the BSFI's framework to aid in the sound management of risks associated with the use of social media for official purpose or employees' personal use, within and outside the organization.

It is not intended to provide procedural specifics or a "one-size-fits-all" solution for carrying out compliance and risk management responsibilities. Each BSFI is therefore expected to establish its own risk management strategy; suitable to its size, risk tolerance level, and the nature and scope of social media activities engaged in.

The guidelines shall apply to all BSFIs which include banks, NBQB, non-bank electronic money issuers, and other non-bank institutions which under existing Bangko Sentral rules and regulations and special laws are subject to Bangko Sentral supervision and/or regulation.

Definition of terms. In these guidelines, terms are used with the following meanings:

a. *Attack vector* shall refer to the path or means by which an attacker can gain access to a computer system in order to deliver a malicious code (e.g., virus, worms, trojans).

b. *Non-technical controls* shall refer to management, administration, and operational controls employed that are manual and procedural in nature (e.g., security-related policies and procedures; operational procedures; personnel, physical, and environmental security controls; performance management and measurement).

c. *Risk assessment* shall refer to the process involving the identification and assessment of potential threats and vulnerabilities related to the use of social media and determination of the likelihood that the threat will occur as well as the corresponding impact to the business should the threat occur.

d. *Social media* shall refer to online communication channels dedicated to community-based content generation and sharing, interaction, and collaboration.

e. *Social media platform* shall refer to any form of interactive communication medium wherein users can generate and disseminate content (e.g., text, images, audio, video) through social networks using the internet. Examples of popular social media platform categories include the following:

   (1) Social networking (e.g., Facebook, Linkedln)
   (2) Micro-blogging (e.g., Twitter, Tumblr)
   (3) Blogging (e.g., Wordpress, Blogger)
   (4) Photo Sharing (e.g., Flicker, Instagram, Pinterest)
   (5) Video Sharing (e.g., Youtube, Vimeo, Vine)
   (6) Crowdsourcing (e.g., Ushahidi, Inc.)

f. *Technical controls* shall refer to the controls incorporated into the computer hardware, software, or firmware to aid in the effective implementation of policies and standards (e.g., access control, authentication, web scanner/crawler).

Social media risk management system. BSFIs should establish an appropriate framework that will result in sound social media governance and risk management. At a minimum, the framework shall include the following elements:

a. Clearly defined governance structure indicating the roles and responsibilities of the board of directors and senior management in setting the direction on the BSFI's use of social media, including its alignment to the BSFI's strategic goals/plans; establishing adequate standards, policies, procedures, and controls; and implementing ongoing risk assessment of social media-related activities.

   The board of directors shall be primarily responsible for defining the BSFI's risk tolerance level, understanding the nature and degree of risks the BSFI will be exposed to, and ensuring that these risks are properly addressed. Moreover, the board of directors, as part of its duties, shall approve and oversee the design and implementation of the social media strategy; related standards, policies and procedures; and means to ensure compliance with said standards and/or policies as well as applicable laws and regulations. Senior management, on the other hand, shall be responsible for the implementation of the social media risk management system approved by the board of directors.

   The governance process should also include reporting mechanisms to the board of directors and/or senior management to enable periodic evaluation of the effectiveness of the BSFI's social media strategy/program, in terms of achieving its stated objectives, and measures put in place to manage the risks related to its use.

b. Policies and procedures governing the following, among others:

(1) Scope and definition of social media;

(2) Social media regulatory landscape reflecting applicable laws, rules and regulations for compliance;

(3) Individuals and/or composition of the team/s who will be responsible for the creation, maintenance, and monitoring of the BSFI's proprietary social media sites/pages. Their corresponding roles and accountabilities should also be clearly defined;

(4) Content management and approval process;

(5) Ongoing assessment, management, and monitoring of risks associated with social media-related activities;

(6) Acceptable use as well as prohibitions/restrictions on the business/official use of social media platforms. These guidelines shall likewise apply to the employees'[1] personal use of social media, insofar as it may impact the BSFI's operations, reputation and/or compliance with applicable laws and regulations. These should cover matters such as, but not limited to, expectations, ethical behavior, types/nature and extent of BSFI and/or customer-related information that can be posted, statements that can or cannot be made about or in behalf of the institution, comments that should not be made about a competitor, and corresponding sanctions/penalties for inappropriate use of social media and committing non-permissible activities;

(7) Use and monitoring of the BSFI's proprietary social media sites/pages to ensure compliance with applicable laws, regulations and internal policies;

(8) Monitoring and recording of suspicious transactions and customer activities on the BSFI's proprietary social media sites/pages;

(9) Adoption of technical and non-technical controls to address risks associated with the use of social media platform/s including methodologies to manage risks from online postings, edits, replies and retention;

(10) Due diligence process for selecting, managing and continuous monitoring of third-party service providers (TSP) that administer the BSFI's social media site(s)/page(s). In addition, the specific roles and responsibilities of the TSP, including liabilities and accountabilities for errors, omissions, fraud, and other instances, resulting from the TSP's actions, which may adversely affect the BSFI, should also be defined;

(11) Social media crisis management plan and escalation procedures;

(12) Enterprise-wide employee training and awareness programs covering relevant topics such as the BSFI's social media use policies, employee roles and responsibilities and non-permissible activities;

(13) Records retention of social media data; and

(14) Communication of the BSFI's official social media sites/pages to its customers to avoid confusion and being misled to unofficial sites.

c. Specific roles and responsibilities of the risk management, consumer protection, audit and compliance functions to ensure that social media risks are adequately managed and integrated in the BSFI's enterprise-wide risk management systems.

BSFIs that do not utilize social media should nevertheless have clear policies and measures in place to address the potential reputational risks that may arise within the various social media platforms and provide guidance on employee use of social media.

Compliance with relevant regulations. BSFIs, in formulating and implementing their social media policies, should ensure compliance with the applicable requirements of Bangko Sentral rules and regulations on financial consumer protection, especially those relating to disclosures and transparency in advertising and promotional materials, protection of client information, effective recourse, and financial education and awareness. They should likewise conform with the relevant provisions of Bangko Sentral outsourcing framework should they decide to outsource the conduct of social media-related activities to a service provider.

[1] Include the BSFI's employees, contractual employees and/or project hires, and third-party service providers.

The use of social media platforms, including information gathered therein, for the conduct of account origination activities should comply with applicable rules and regulations, especially on the provisions relating to customer identification procedures under the existing anti-money laundering rules and regulations. In the event that BSFIs opt to use social media for processing financial transactions, the applicable Bangko Sentral rules and regulations on electronic payment and financial services and technology risk management should likewise be observed to ensure security, reliability and authenticity of such transactions.

The regulations mentioned herein are not exhaustive. It is the BSFI's responsibility to ensure that all applicable laws and regulations relevant to the activities it will choose to engage in using social media will be adequately complied with. Moreover, the BSFI is expected to stay abreast of and continuously adapt to changes in the regulatory requirements.

Supervisory enforcement actions. BSFIs should make available all policies and procedures and other documents/information related to the foregoing during the on-site examination as well as provide copies thereof when a written request is made to determine compliance.

Consistent with Sec. 002-Q, the Bangko Sentral may deploy enforcement actions to promote adherence with the requirements set forth in Sec. 128-N and bring about timely corrective actions. The Bangko Sentral may issue directives to improve the social media risk management system or impose monetary and non-monetary sanctions on a BSFI and/or its directors, officers and/or employees.

(Circular No. 1033 dated 22 February 2019 and 949 dated 15 March 2017)

129-N REPUTATIONAL RISK MANAGEMENT

The guidelines on reputational risk management for QBs under Sec. 151-Q shall govern the reputational risk management of BSFIs to the extent applicable.

The guidelines set out the supervisory expectations and the minimum prudential requirements in managing reputational risk. A BSFI is expected to adopt a reputational risk management framework that is commensurate to its size, nature and complexity of operations, overall risk profile, and systemic importance.

(Circular No. 1114 dated 16 April 2021)

130-N GUIDELINES FOR THE ADOPTION OF OPEN FINANCE FRAMEWORK[1]

Policy Statement. It is the thrust of the Bangko Sentral to promote an enabling environment that fosters innovation, encourages competition, and advances financial inclusion while safeguarding the integrity and stability of the financial system. In line with this, the Bangko Sentral is introducing the Open Finance Framework that aims to empower customers by giving them better control over their personal and financial data catalyzing the development of products and services that are responsive to their needs.

The Open Finance Framework espouses consent-driven data portability, interoperability, and collaborative partnerships among financial institutions and third-party providers (TPPs). Under the framework, financial institutions and TPPs can leverage on permissioned-access customer financial information to develop bespoke financial products and services for customers. The Open Finance Framework subscribes to the principle that "customers are the owners of personal and transaction data" hence, information shall only be shared with the consent of the customers.

Coverage. The Open Finance Framework covers technology, products, services, information, and policies that enable customers to securely share their financial data with qualified parties, either BSP-supervised financial institutions (BSFIs) or TPPs.

Definition of Terms. The terms used in this Section shall be defined as follows:

a. *Account Information Service Provider (AISP)* refers to an information technology service and/or software solution provider that processes data and provides an alternative access point to multiple sources of data other than payment transactions;

b. *Application Programming Interfaces (APIs)* refer to a set of rules and specifications for software programs to communicate with each other, forming an interface between different programs to facilitate interaction;

c. *Customer-permissioned data* refers to data held by Participants (e.g., customer transactions, personal identification data, and customer financial history) that are permissioned by the Participants' customer to be accessed by a third party (and possibly shared onwards with fourth parties if covered by the customer's consent);

[1] All existing API arrangements prior to the issuance of Circular No. 1122 dated 17 June 2021, they shall comply with the applicable requirements prescribed herein within one (1) year from 13 July 2022. In cases awaiting policy-setting or further clarifications, compliance timetable shall be further determined by the OFOC.

d. *Open Finance* refers to leveraging on and sharing of customer-permissioned data among banks, other financial institutions, and TPPs to develop innovative financial solutions, such as among others, those that provide real-time payments, promote greater transparency to account holders, and provide marketing and cross-selling opportunities to banks, other financial institutions, and TPPs;

e. *Open Finance Standards* refer to the recommended standards in implementing the Open Finance Framework that takes into account various factors, including the financial industry's level of readiness to adopt such standards and the overall benefits arising from such standardization;

f. *Open API*, also known as external or public API, refers to a software technology interface that provides a means of accessing data based on a public standard;

g. *Open Data* refers to publicly obtainable data that is published by Participants, including, but not limited to financial products, service information, and other public information;

h. *Open Access* refers to allowing authorized third parties to access consented data without needing to establish a business relationship with the Open API publisher;

i. *Payment Initiation Service Provider (PISP)* refers to a registered operator of payment systems (OPS), as defined under Republic Act (R.A.) No. 11127 – The National Payments Systems Act and clarified in Part 1, Section 101 of the Manual of Regulations for Payment Systems (MORPS), that carries out payment orders at the request of payment service users in connection with payment accounts held at other payment service providers;

j. *Third party providers* or TPPs refers to any external legal entity such as service providers, integrators, solutions vendors, and/or infrastructure support that interact with BSFIs to provide services to customers. They are classified as either AISP and/or PISP, however, other TPP classification may be created by the Open Finance Oversight Committee (OFOC), as deemed applicable;

k. *Participant* refers to the entities covered by the Open Finance Framework such as the BSFIs and TPPs;

l. *Open API publisher* refers to the Participant that keeps/is the custodian of customer data;

m. *Third party* refers to the Participant who has open access to customer-permissioned data residing in another Participant (publisher) through the Open API; and

n. *Fourth party* refers to an outsourcing partner or a service provider of a third party.

Governance Framework. The Bangko Sentral shall recognize an Open Finance Oversight Committee (OFOC), an industry-led self-governing body, that shall exercise governance over the activities and Participants of the Open Finance Ecosystem. The OFOC shall be subject to the regulation and supervision of the Bangko Sentral.

The Bangko Sentral shall facilitate the establishment of the OFOC in coordination with industry stakeholders. For this purpose, the initial set of members of the OFOC shall be comprised of representatives from each bank classification, non-bank financial institutions, electronic money issuers, operators of payment systems, TPPs, and other relevant sectors, as determined by the Bangko Sentral. The OFOC shall:

a. Adopt membership and participation rules that are non-discriminatory to ensure that key areas of interest of the financial industry are adequately represented and that all members and applicants for membership are treated fairly and consistently.

b. Define the functions, roles, and responsibilities of the Committee and the Participants. It shall adopt policies in monitoring Participants' compliance with the established policies and in handling non-compliance thereto including the corresponding sanctions or penalties for non-compliance.

c. Adopt standards, agreements, policies, and guidelines (Conventions) governing the Open Finance Framework which shall be consistent with relevant laws, rules and regulations and regional/global standards. At the minimum, these shall cover the following:

   (1) Registration/On-boarding of non-BSFI Participants;
   (2) API standards reference or other equivalent documentation;
   (3) Authorization, authentication, and encryption requirements for each product/service tier;
   (4) Disclosure and transparency requirements as prescribed under Sec. 702-N of the MORNBFI;
   (5) Consent management;
   (6) Protection of client information including responsible data handling as well as data privacy and protection;
   (7) Reciprocity arrangement among Participants;
   (8) Economic model; and

(9) Consumer protection and effective recourse as prescribed under Part Seven (7) of the N-Regulations of the MORNBFI.

d. Cooperate with and extend fullest assistance permissible to the Bangko Sentral and other regulators in enforcing applicable laws and regulations, in promoting adherence to this Framework.

Consistent with the provisions of Sec. 001-N, the Bangko Sentral reserves the right to deploy its range of supervisory tools to promote adherence to the requirements and expectation set forth in this Framework. In this regard, the Bangko Sentral may issue directives to or impose sanctions against the OFOC, such as suspension or revocation of any authority of the OFOC (including any or all of its generally authorized activities), without prior notice, to promote the safety and soundness of the financial system and/or to protect Participants, its customers, or the general public.

Registration Standards. BSFIs with a composite rating of at least "3" under the Supervisory Assessment Framework (SAFr), or its equivalent, are automatically eligible to become Participants of the Open Finance Ecosystem. On the other hand, those that do not meet the minimum rating must secure prior Bangko Sentral approval to participate in the Open Finance Ecosystem. Participants which are not under the regulation and supervision of the Bangko Sentral shall comply with the applicable registration requirements set by the OFOC, pursuant to pertinent laws, rules and regulations of the Bangko Sentral and other relevant authorities. Participants shall be responsible for ensuring fourth party compliance with applicable laws, rules and regulations.

Open Finance Standards. The OFOC shall issue guidelines aimed at ensuring that:

a. access to and participation in the standard-setting process, including any planning and consultation activities, is non-discriminatory;
b. the standards development process is transparent; and
c. the Open Finance Standards will be accessible to all qualified parties.

The API standards reference or other equivalent documentation that shall be developed by the OFOC shall meet the recommended technical standards to facilitate industry-wide adoption, and shall cover, at a minimum, the following:

(1) *API Architecture Standards.* These shall comprise, among others, reference for Open API specifications, including communication protocols, and architecture types. Participants are encouraged to adopt recognized industry-wide architectural styles such as Representational State Transfer (REST) and Simple Object Access Protocol (SOAP);

Data Standards. These shall include data formats, data structures, and related data protection and privacy rules to enable Participants to share data and information accurately and efficiently. Participants shall adopt data formats which are recognized by the industry such as, but not limited to, JavaScript Object Notation (JSON), Extensible Markup Language (XML), Comma Separated Values (CSV), and Structured Query Language (SQL). The "data dictionary" shall be published online, with sufficient level of detail to facilitate third party understanding and adoption;

(2) *Security Standards.* These shall cover minimum security compliance requirements, guidelines, and specifications that must be met by Participants, including authentication, authorization, and encryption. Participants should always refer to industry sound practices, relevant regulatory, and internal requirements, and apply holistic controls on information and cybersecurity based on a risk- and principles-based approach to protect their systems as well as financial and consumer data. At a minimum, Participants shall adopt the latest and robust authorization and authentication protocols that are adequate for the risks presented by Open Access, such as, but not limited to, multi-factor authentication, Transport Layer Security (TLS)/Advanced Encryption Standard (AES)/Hashed Message Authentication Code (HMAC) encryption standards and OAuth 2.0 authentication standard. Participants should use more secure methods for sharing data, such as token-based authentication through APIs. The API must be designed in such a way that the end-user access shall be limited to data that the end-user has permission to see or process. These access rights must be appropriately recorded, verified, measured, and audited. In terms of secure hosting, PCI DSS and ISO 27001 are most desired; and

(3) *Outsourcing Standards.* These shall refer to the management of risks arising from outsourcing activities particularly those involving data disclosure and confidentiality, data privacy and protection, data management such as procedures for accessing and processing data, obtaining consent, contract management, security, performance monitoring and business continuity, among others.

Adoption of Open Finance Standards and Publication of Open APIs. All Participants that intend to provide Open Access shall adopt the Open Finance Standards and shall comply with relevant laws and pertinent BSP regulations particularly on Outsourcing, Operational Risk Management, IT Risk Management, Internal Control, Anti-Money Laundering/Countering the Financing of Terrorism, Financial Consumer Protection, and sound corporate governance principles, among others.

Open Finance Standards may be revised periodically to address emerging issues or to improve the Open API functionalities. To facilitate third party adoption, Participants shall publish detailed Open API documentation and ensure consistency with the latest version of Open Finance Standards.

Tiered Approach towards Open Finance Standards Adoption. Open Finance Standards shall be classified into five (5) tiers based on data sensitivity, data type, and data holder type. The tiers are not necessarily sequential, and multiple implementations may occur simultaneously.

a. *Tier 1* – Product and Service Information. Refers to "read-only" information on financial data and other details of financial products/services that is readily accessible online and can be freely used, reused, and redistributed by any entity such as deposit/lending rates, credit card offerings, service charges and other public data.

b. *Tier 2* – Subscription and New Account Applications. Includes customer acquisition and account opening processes, along with facilitating digital application and submission of supporting documents. Applications for deposits, loans, debit/credit cards, and other financial products are covered under this category.

c. *Tier 3* – Account Information. Refers to personal (e.g., name, registered address, phone numbers, etc.) and financial information provided by a customer at any given time or other details pertaining to the account of authenticated customers for stand-alone or aggregated views. This consists of, but are not limited to, data types such as account balance, credit card outstanding balance, transaction records, credit limit change, and credit score.

d. *Tier 4* – Transactions. Covers payments and other financial transactions such as scheduled payments and transfers initiated by customers.

e. *Tier 5* – Others. Covers other more complex financial products or use cases and those that are not covered by tiers 1-4.

Cooperative Regulatory Oversight. The Bangko Sentral duly recognizes that other regulatory/supervisory authorities may be involved in the Open Finance Framework as this would involve other Participants that are not under the supervisory ambit of the Bangko Sentral. In this regard, the Bangko Sentral shall coordinate with the concerned regulatory authority with respect to the implementation of the Open Finance Framework.

Regulatory Sandbox

The Bangko Sentral seeks to provide a regulatory environment that is conducive for the deployment of innovative financial services, including the development of standards for Open Finance. In line with this, the Bangko Sentral will permit innovation in Open Finance, such as but not limited to, the development of an industry API sandbox, in which Open APIs can be deployed and tested in a live environment and within specified parameters and timeframes.

Recommendation to Build a Central API Sandbox. While API providers will be encouraged to develop local sandboxes, it is recognized that costs may present a barrier and further incentives may be required. Thus, the Bangko Sentral encourages the OFOC to establish a central sandbox for testing developers and for other purposes related to local sandbox development (e.g., outsourcing sandbox development to trusted parties). The OFOC shall ensure that the central sandbox (i) implements all levels of security for APIs and (ii) contains a set of executable tests that API developers can use to validate compliance. The OFOC shall provide the executable tests to developers free of charge so that barriers to entry are avoided.

The OFOC shall maintain a list of approved Use Case API Services[1] with defined technical and security standards. This list shall include clear mechanisms and guidelines for providing the API services (e.g., basic APIs such as Authentication, Account Information, Transfers, etc.). The Use Case list per API service is a list that will be regularly updated based on new API innovations that have been reviewed by the Bangko Sentral or other relevant governing body.

Consumer Protection. Participants shall adopt customer awareness measures to, at the minimum, educate their customers on the following: (i) safeguarding of information; (ii) use of the Open API; (iii) actual fees and charges related to the access of information and performance of transactions; (iv) fair and equitable terms and conditions; (v) products and services appropriate to the capacity and risk appetite of the consumer; and (vi) problem resolution procedures. Participants shall disclose, prior to entering an initial transaction and on an ongoing basis, all material risks to their clients in a manner that is clear, fair and not misleading. Participants shall carry out initiatives to give consumers the knowledge, skills, and confidence to understand and evaluate the information they receive and empower them to make informed financial decisions.

[1] All existing API arrangements prior to the issuance of Circular No. 1122 dated 17 June 2021, they shall comply with the applicable requirements prescribed herein within one (1) year from 13 July 2022. In cases awaiting policy-setting or further clarifications, compliance timetable shall be further determined by the OFOC.

Data Privacy and Data Protection. Each contract relating to the implementation or use of Open API shall contain a clause for the recognition by each party that the customers have ownership over their data being collected and processed through the transaction, and that they have all the rights enumerated under R.A. No. 10173 (Data Privacy Act of 2012). This views that while customer and transaction data are in the custody of the Open API publisher, their rights to control the use of such data is limited to the boundaries of the consent the customer provided. All Participants shall comply with relevant requirements of the Data Privacy Act of 2012, its Implementing Rules and Regulations, and other National Privacy Commission issuances.

Dispute Mechanism*.* Participants shall have an adequate, prompt, and effective mechanism or procedure for handling and resolving disputes covering Open Finance issues aligned with agreed Conventions, as applicable.

User Consent and access to opt-in and opt-out mechanisms*.* Proper mechanisms shall be in place to ensure customers' private information is not used for purposes that are against their interests. The customers should, at all times, not only be educated and informed but they must also consent to how their data is being used and be provided with opt-in and opt-out mechanisms if and when they want to withdraw or modify the scope of their consent. Customers must be periodically informed as to how the Participants have utilized their permissioned data within a given period. Proper mechanisms based on industry standards shall be in place in providing a consent management portal/service that is interoperable, open, and has extensible information structure for recording obtained consents, consent duration, timestamp and opted-in/opted-out services, among others.

(Circular No. 1122 dated 17 June 2021)

D. INTERNAL CONTROL AND AUDIT

131-N INTERNAL CONTROL FRAMEWORK

Internal control is a process designed and effected by the board of directors, senior management, and all levels of personnel to provide reasonable assurance on the achievement of objectives through efficient and effective operations; reliable, complete and timely financial and management information; and compliance with applicable laws, regulations, supervisory requirements, and the organization's policies and procedures.

FIs shall have in place adequate and effective internal control framework for the conduct of their business taking into account their size, risk profile and complexity of operations. The internal control framework shall embody management oversight and control culture; risk recognition and assessment; control activities; information and communication; and monitoring activities and correcting deficiencies.

Management oversight and control culture. Consistent with the principles provided under Sec. 132 of the MORB, the board of directors and senior management shall be responsible for promoting high ethical and integrity standards; establishing the appropriate culture that emphasizes, demonstrates and promotes the importance of internal control; and designing and implementing processes for the prevention and detection of fraud.

a. The board of directors shall be ultimately responsible for ensuring that senior management establishes and maintains an adequate, effective and efficient internal control framework commensurate with the size, risk profile and complexity of operations of the FI. The board of directors shall also ensure that the internal audit function has an appropriate stature and authority within the FI and is provided with adequate resources to enable it to effectively carry-out its assignments with objectivity.

   Further, the board of directors shall, on a periodic basis:

   (1) conduct discussions with management on the effectiveness of the internal control system;

   (2) review evaluations made by the audit committee on the assessment of effectiveness of internal control made by management, internal auditors and external auditors;

   (3) ensure that management has promptly followed up on recommendations and concerns expressed by auditors and supervisory authorities on internal control weaknesses; and

   (4) review and approve the remuneration of the head and personnel of the internal audit function. Said remuneration shall be in accordance with the FI's remuneration policies and practices and shall be structured in such a way that these do not create conflicts of interest or compromise independence and objectivity.

b. The audit committee shall be responsible for overseeing senior management in establishing and maintaining an adequate, effective and efficient internal control framework. It shall ensure that systems and processes are designed to provide assurance in areas including reporting, monitoring compliance with laws, regulations and internal policies, efficiency and effectiveness of operations and safeguarding of assets.

The audit committee shall oversee the internal audit function and shall be responsible for:

(1) monitoring and reviewing the effectiveness of the internal audit function;

(2) approving the internal audit plan, scope and budget;

(3) reviewing the internal audit reports and the corresponding recommendations to address the weaknesses noted, discussing the same with the head of the internal audit function and reporting significant matters to the board of directors;

(4) ensuring that the internal audit function maintains an open communication with senior management, the audit committee, external auditors, and the supervisory authority;

(5) reviewing discoveries of fraud and violations of laws and regulations as raised by the internal audit function;

(6) reporting to the board of directors the annual performance appraisal of the head of the internal audit function;

(7) recommending for approval of the board of directors the annual remuneration of the head of the internal audit function and key internal auditors;

(8) appointing, reappointing or removing the head of the internal audit function and key internal auditors; and

(9) selecting and overseeing the performance of the internal audit service providers.

In particular, the audit committee shall be responsible for:

(1) ensuring the independence of the internal audit service provider;

(2) reporting to the board of directors on the status of accomplishments of the outsourced internal audit activities, including significant findings noted during the conduct of the internal audit;

(3) ensuring that the internal audit service provider comply with sound internal auditing standards such as the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing* and other supplemental standards issued by regulatory authorities/government agencies, as well as with relevant code of ethics;

(4) ensuring that the audit plan is aligned with the overall plan strategy and budget of the FI and is based on robust risk assessment; and

(5) ensuring that the internal audit service provider has adequate human resources with sufficient qualifications and skills necessary to accomplish the internal audit activities.

c. Senior management shall be responsible for maintaining, monitoring and evaluating the adequacy and effectiveness of the internal control system on an ongoing basis, and for reporting on the effectiveness of internal controls on a periodic basis. Management shall develop a process that identifies, measures, monitors and controls risks that are inherent to the operations of the FI; maintain an organizational structure that clearly assigns responsibility, authority and reporting relationships; ensure that delegated responsibilities are effectively carried out; implement internal control policies and ensure that activities are conducted by qualified personnel with the necessary experience and competence. Management shall ensure that FI personnel undertake continuing professional development and that there is an appropriate balance in the skills and resources of the front office, back office, and control functions. Moreover, Management shall promptly inform the internal audit function of the significant changes in the FI's risk management systems, policies and processes.

d. All personnel need to understand their roles and responsibilities in the internal control process. They should be fully accountable in carrying out their responsibilities effectively and they should communicate to the appropriate level of management any problem in operations, action or behavior that is inconsistent with documented internal control processes and code of ethics.

Risk recognition and assessment. An effective internal control system shall identify, evaluate and continually assess all material risks that could affect the achievement of the FI's performance, information and compliance objectives. The potential for fraud shall be considered in assessing the risks to the achievement of said objectives. Further, the risk assessment shall cover all risks facing the FI, which include, among others, credit; country and transfer; market; interest rate; liquidity; operational; compliance; legal; and reputational risks.

Effective risk assessment identifies and considers both internal (e.g., complexity of the organization's structure, nature of the FI's activities and personnel profile) and external (e.g., economic conditions, technological developments and changes in the industry) factors that could affect the internal control framework. The risk assessment shall be conducted at the level of individual business units and across all FI activities/groups/units and subsidiaries, in the case of a parent FI. Internal controls shall be revised to address any new or previously uncontrolled or unidentified risks.

Control activities. Control activities shall form part of the daily activities of the FI and all levels of personnel in the FI. Control activities are designed and implemented to address the risks identified in the risk assessment process. These involve the establishment of control policies and procedures, and verification that these are being complied with.

FIs shall have in place control activities defined at every business level, which shall include a system that provides for top and functional level reviews; checking compliance with exposure limits and follow-up on noncompliance; a system of approvals and authorizations, which shall include the approval process for new products and services; and a system of verification and reconciliation.

Control activities complement existing policies, procedures and other control systems in place such as, among others, having clearly defined organizational structure and reporting lines, and arrangements for delegating authority; adequate accounting policies, records and processes; robust physical and environmental controls for tangible assets and access controls to information assets; and appropriate segregation of conflicting functions.

a. *Clear arrangements for delegating authority.* The functions and scope of authority and responsibility of each personnel should be adequately defined, documented and clearly communicated. The extent to which authorities may be delegated and the corresponding accountabilities of the personnel involved shall be approved by the appropriate level of management or the board of directors.

b. *Adequate accounting policies, records and processes.* FIs shall maintain adequate financial policies, records and processes. These records shall be kept up-to-date and contain sufficient detail to establish an audit trail. Further, FIs shall conduct independent balancing and reconciliation of records and reports to ensure the integrity of the reported data and balances. FIs shall also put in place a reliable information system that covers all of its significant activities which shall allow the board of directors and management access to data and information relevant to decision making such as, among others, financial, operations, risk management, compliance and market information. Moreover, these systems shall be secured, monitored independently and supported by adequate contingency arrangements.

c. *Robust physical and environmental controls to tangible assets and access controls to information assets.* FIs shall adopt policies and practices to safeguard their tangible and information assets. These shall include, but shall not be limited to:

    (1) identifying officers with authorities to sign for and on behalf of the FI. Signing authorities shall be approved by the board of directors and the extent of authority at each level shall be clearly defined;

    (2) implementing joint custody on certain assets. Joint custody shall mean the processing of transactions in the presence, and under the direct observation of a second person. Both persons shall be equally accountable for the physical protection of the items and records involved: *Provided*, That persons who are related to each other within the third degree of consanguinity or affinity shall not be made joint custodians;

    (3) adopting dual control wherein the work of one (1) person is to be verified by a second person to ensure that the transaction is properly authorized, recorded and settled;

    (4) incorporating sequence number control in the accounting system which shall also be used in promissory notes, checks and other similar instruments. Management shall also put in place appropriate controls to monitor the usage, safekeeping and recording of accountable forms;

    (5) restricting access to information assets by classifying information as to degree of sensitivity and criticality and identifying information owners or personnel with authorities to access particular classifications based on job responsibilities and the necessity to fulfill one's duties; and

    (6) implementing authentication and access controls prior to granting access to information such as, among others, implementing password rules. This shall be supplemented by appropriate monitoring mechanisms that will allow audit of use of information assets.

d. Segregation of conflicting functions. FIs shall ensure that areas of potential conflicts of interest shall be identified, minimized and subjected to independent monitoring. Further, appropriate segregation of functions shall be observed in identified areas that may pose potential conflict of interest. Moreover, periodic reviews of responsibilities and functions shall be conducted to ensure that personnel are not in a position to conceal inappropriate actions.

Examples of internal control measures are in *Appendix Q-72*.

Information and communication. An effective internal control system requires that there are adequate and comprehensive internal financial, operational and compliance data, as well as external information about events and conditions that are relevant to decision making. Information shall be reliable, timely, accessible, and provided in a consistent format. FIs shall have in place a reliable management information system that covers significant activities of the FI and has the capability to generate relevant and quality information to support the functioning of internal control.

FIs shall also establish effective channels of communication to ensure that all personnel fully understand and adhere to policies and procedures and control measures relevant to their duties and responsibilities and that relevant information is reaching the appropriate personnel. Management shall also ensure that all personnel are cognizant of their duty to promptly report any deficiency to appropriate levels of management or to the board of directors, where required. These shall enable them to quickly respond to changing conditions and avoid unnecessary costs.

Monitoring activities and correcting deficiencies. The overall effectiveness of the internal controls shall be monitored on an ongoing basis. Monitoring functions and activities shall be adequately defined by management, integrated in the operating environment and should produce regular reports for review. In this regard, all levels of review shall be adequately documented and results thereof reported on a timely basis to the appropriate level of management.

Evaluations of the effectiveness of the internal control system and the corresponding monitoring activities may be done by personnel from the same operational area in the form of self- assessment or from other areas such as internal audit: *Provided*, That, self-assessment done by business units shall be subject to independent validation.

Evaluations done shall be adequately documented and internal control deficiencies and weaknesses identified shall be reported on a timely basis to the appropriate level of management or the board of directors, where necessary, and addressed promptly.

132-N INTERNAL AUDIT FUNCTION

Internal audit is an independent, objective assurance and consulting function established to examine, evaluate and improve the effectiveness of internal control, risk management and governance systems and processes of an organization, which helps management and the board of directors in protecting the FI and its reputation. The internal audit function shall both assess and complement operational management, risk management, compliance and other control functions. In this respect, internal audit shall be conducted in frequencies commensurate with the assessed levels of risk in specific FI areas.

a. *Permanency of the internal audit function*. Each FI shall have a permanent internal audit function. In the case of group structures involving a parent bank and subsidiary or affiliate BSFI, the internal audit function shall either be established in each of the BSFI or centrally by the parent bank.

b. *Internal audit function in group structures.* In case each Bangko Sentral- supervised financial institution belonging to group structures has its own internal audit function, said internal audit function shall be accountable to the financial institution's own board of directors and shall likewise report to the head of the internal audit function of the parent bank within a reasonable period and frequency prescribed by the board of directors of the parent bank.

   On the other hand, in case the parent bank's internal audit function shall cover the internal audit activities in the subsidiary or affiliate BSFI institution, the board of directors of the parent bank shall ensure that the scope of internal audit activities is adequate considering the size, risk profile and complexity of operations of the subsidiary or affiliate concerned.

   The establishment of internal audit function centrally by the parent bank in group structures shall not fall under the outsourcing framework as provided under Sec. 112 of the MORB. In this respect, the head of the internal audit function of the parent bank shall define the internal audit strategies, methodology, scope and quality assurance measures for the entire group: *Provided,* That this shall be done in consultation and coordination with the respective board of directors and of the subsidiary or affiliate BSFI: *Provided, further,* That the board of directors of the subsidiary or affiliate BSFI shall remain ultimately responsible for the performance of the internal audit activities.

c. *Outsourcing of internal audit activities.* FIs may outsource, in accordance with the Bangko Sentral regulations on outsourcing, internal audit activities covering all areas of its operations: *Provided*, That the board of directors of the FI shall remain ultimately responsible for the conduct of effective internal audit: *Provided, further,* That the internal audit activity shall not be outsourced to the FI's own external auditor/audit firm nor to internal audit service provider that was previously engaged by the FI in the same area intended to be covered by the internal audit activity that will be outsourced, without a one-year "cooling off" period.

Qualifications of the head of the internal audit function. The head of the internal audit function must have an unassailable integrity, relevant education/experience/training, and has an understanding of the risk exposures of the FI, as well as competence to audit all areas of its operations. He must also possess the following qualifications:

a. The head of the internal audit function of a UB or a KB must be a Certified Public Accountant (CPA) or a Certified Internal Auditor (CIA) and must have at least five (5) years experience in the regular audit (internal or external) of a UB or KB as auditor-in-charge, senior auditor or audit manager. He must possess the knowledge, skills, and other competencies to examine all areas in which the institution operates. Professional competence as well as continuing training and education shall be required to face up to the increasing complexity and diversity of the institution's operations.

b. The head of the internal audit function of a complex TB, RB and Coop Bank; QB and trust entity must be a graduate of any accounting, business, finance or economics course with technical proficiency on the conduct of internal audit and must have at least five (5) years experience in the regular audit (internal or external) of a TB, national Coop Bank, QB or trust entity or, at least three (3) years experience in the regular audit (internal or external) of a UB or KB.

c. The head of the internal audit function of a simple or non-complex TB, RB and Coop Bank; and NSSLA must be a graduate of any accounting, business, finance or economics course with technical proficiency on the conduct of internal audit and must have at least two (2) years experience in the regular audit (internal or external) of a UB, KB, TB, RB, Coop Bank, QB or NSSLA.

A qualified head of the internal audit function of a UB or a KB shall be qualified to audit TBs, RB, Coop Banks, QBs, trust entities, NSSLAs, subsidiaries and affiliates engaged in allied activities, and other financial institutions under Bangko Sentral supervision. A qualified internal auditor of a complex TB, RB, and Coop Bank; QB and trust entity shall likewise be qualified to audit non-complex TB, RB and Coop Bank and NSSLA.

The head of the internal audit function shall be appointed/reappointed or replaced with prior approval of the audit committee. In cases, when the head of the internal audit function will be replaced, the FI shall report the same and the corresponding reason for replacement, to the appropriate supervising department of the Bangko Sentral within five (5) days from the time it has been approved by the board of directors.

Duties and responsibilities of the head of the internal audit function or the chief audit executive.

a. To demonstrate appropriate leadership and have the necessary skills to fulfill his responsibilities for maintaining the unit's independence and objectivity;

b. To be accountable to the board of directors or audit committee on all matters related to the performance of its mandate as provided in the internal audit charter. The head of the internal audit function shall submit a report to the audit committee or board of directors on the status of accomplishments of the internal audit unit, including findings noted during the conduct of the internal audit as well as status of compliance of concerned departments/units;

c. To ensure that the internal audit function complies with sound internal auditing standards such as the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing* and other supplemental standards issued by regulatory authorities/government agencies, as well as with relevant code of ethics;

d. To develop an audit plan based on robust risk assessment, including inputs from the board of directors, audit committee and senior management and ensure that such plan is comprehensive and adequately covers regulatory matters. The head of the internal audit function shall also ensure that the audit plan, including any revisions thereto, shall be approved by the audit committee; and

e. To ensure that the internal audit function has adequate human resources with sufficient qualifications and skills necessary to accomplish its mandate. In this regard, the head of the internal audit function shall periodically assess and monitor the skill-set of the internal audit function and ensure that there is an adequate development program for the internal audit staff that shall enable them to meet the growing technical complexity of FI's operations.

Professional competence and ethics of the internal audit function. The internal audit function shall be comprised of professional and competent individuals who collectively have the knowledge and experience necessary in the conduct of an effective internal audit on all areas of FI's operations. The skill set of the internal audit staff shall be complemented with appropriate audit methodologies and tools as well as sufficient knowledge of auditing techniques in the conduct of audit activities.

All internal audit personnel shall act with integrity in carrying-out their duties and responsibilities. They should respect the confidentiality of information acquired in the course of the performance of their duties and should not use it for personal gain or malicious actions. Moreover, internal audit personnel shall avoid conflicts of interest. Internally-recruited internal auditors shall not engage in auditing activities for which they have had previous responsibility before a one-year "cooling off" period has elapsed. The internal audit personnel shall adhere at all times to the FI's Code of Ethics as well as to an established code of ethics for internal auditors such as that of the Institute of Internal Auditors.

***Independence and objectivity of the internal audit function*.** The internal audit function must be independent of the activities audited and from day-to-day internal control process. It must be free to report audit results, findings, opinions, appraisals and other information through clear reporting line to the board of directors or audit committee. It shall have authority to directly access and communicate with any officer or employee, to examine any activity or entity of the bank, as well as to access any records, files or data whenever relevant to the exercise of its assignment.

If independence or objectivity of internal audit function is impaired, in fact or appearance, the details of the impairment must be disclosed to the audit committee. Impairment to organizational independence and individual objectivity may include, but is not limited to, personal conflict of interest, scope limitations, restrictions on access to records, personnel, and properties, and resource limitations, such as funding.

The internal audit function shall inform senior management of the results of its audits and assessment. Senior management may consult the internal auditor on matters related to risks and internal controls without tainting the latter's independence: *Provided*, That the internal auditor shall not be involved in the development or implementation of policies and procedures, preparation of reports or execution of activities that fall within the scope of his review.

Staff of the internal audit function shall be periodically rotated, whenever practicable, and without jeopardizing competence and expertise to avoid unwarranted effects of continuously performing similar tasks or routine jobs that may affect the internal auditor's judgment and objectivity.

Internal audit charter. FIs shall have an internal audit charter approved by the board of directors. The internal audit charter shall be periodically reviewed by the head of the internal audit function and any changes thereto shall be approved by the board of directors. The internal audit charter shall establish, among others, the following:

a. Purpose, stature and authority, and responsibilities of the internal audit function as well as its relations with other control functions in the FI. The charter shall recognize the authority of the internal audit function, to initiate direct communication with any FI personnel; to examine any activity or entity; and to access any records, files, data and physical properties of the FI, in performing its duties and responsibilities;

b. Standards of independence, objectivity, professional competence and due professional care, and professional ethics;

c. Guidelines or criteria for outsourcing internal audit activities to external experts;

d. Guidelines for consulting or advisory services that may be provided by the internal audit function;

e. Responsibilities and accountabilities of the head of the internal audit function;

f. Requirement to comply with sound internal auditing standards such as the Institute of Internal Auditor's *International Standards for the Professional Practice of Internal Auditing* and other supplemental standards issued by regulatory authorities/government agencies, as well as with relevant code of ethics; and

g. Guidelines for coordination with the external auditor and supervisory authority.

***Scope*.** All processes, systems, units, and activities, including outsourced services, shall fall within the overall scope of the internal audit function. The scope of internal audit shall cover, among others, the following:

a. Evaluation of the adequacy, efficiency and effectiveness of internal control, risk management and governance systems in the context of current and potential future risks;

b. Review of the reliability, effectiveness and integrity of management and financial information systems, including the electronic information system and electronic banking services;

c. Review of the systems and procedures of safeguarding the bank's physical and information assets;

d. Review of compliance of trading activities with relevant laws, rules and regulations;

e. Review of the compliance system and the implementation of established policies and procedures; and

f. Review of areas of interest to regulators such as, among others monitoring of compliance with relevant laws, rules and regulations, including but not limited to the assessment of the adequacy of capital and provisions; liquidity level; regulatory and internal reporting.

133-N FRAMEWORK ON THE SELECTION OF EXTERNAL AUDITORS

Policy Statement. The Bangko Sentral considers the external auditing profession as a partner in promoting the integrity of financial reports and transparency in the financial system. In this light, the Bangko Sentral is issuing this framework on the selection of external auditors (individual practitioners and audit firms) for Bangko Sentral Supervised Financial Institutions (BSFIs) in line with its cooperative arrangements with the Securities and Exchange Commission (SEC), Insurance Commission (IC), and Philippine Deposit Insurance Corporation (PDIC), under the auspices of the Financial Sector Forum (FSF).

Appointment of External Auditors of BSFIs

a. BSFIs shall engage the services of an external auditor included in the List of Selected External Auditors for BSFIs. In this respect, a BSFI shall only appoint an external auditor belonging to the same category or from categories higher than the category of the BSFI concerned as provided in this section: *Provided*, That the Monetary Board may require the BSFI to appoint an external auditor from higher categories as part of the Bangko Sentral's supervisory action on the BSFI. The external auditor appointed by the BSFI shall likewise audit the BSFI's trust department as well as its subsidiaries and affiliates engaged in allied activities, as applicable.

b. External Auditors shall be classified into three categories and shall extend their services to BSFIs belonging to the same category or from categories lower than the category of the external auditor, as follows:

(1) Group A

(a) UBs/KBs
(b) Foreign banks and branches or subsidiaries of foreign banks
(c) Banks, trust departments and trust corporations with additional derivatives authority, pursuant to Sec. 613 of the MORB

(2) Group B

(a) TBs
(b) NBFIs with quasi-banking license
(c) Trust departments and trust corporations

(3) Group C

(a) RBs and Coop Banks
(b) Non-stock Savings and Loan Associations
(c) Pawnshops
(d) Remittance and Transfer Companies (RTCs)/Money Changers/Foreign Exchange Dealers (MCs/FXDs), including Virtual Currency Exchanges and Electronic Money Issuers
(e) Credit Card Issuers/Acquirers

The above categories shall include their subsidiaries and affiliates engaged in allied activities and other financial institutions subject to Bangko Sentral's consolidated supervision.

c. External auditors applying for first time inclusion or renewal of inclusion in the List of Selected External Auditors for BSFIs shall submit their application to the SEC. The application shall be subject to the requirements set out by the SEC as agreed upon by the Bangko Sentral, SEC, IC and PDIC.

d. The inclusion in the List of Selected External Auditors for BSFIs shall be valid for five (5) years or for a shorter period prescribed by the financial sector supervisors.

e. The Bangko Sentral shall periodically evaluate the performance of the external auditor through an assessment of the quality of the BSFI's audited financial statements and its compliance with the requirements provided under this Section. The results of assessment shall serve as basis for the continuing inclusion of external auditors in the List of Selected External Auditors for BSFIs.

f. The external auditor, including the engagement and quality control partners of the audit firm, of the BSFI shall be rotated in accordance with the relevant provisions of the Code of Ethics for Professional Accountants in the Philippines as adopted by the Philippine Board of Accountancy.

Audit Engagement and Reportorial Requirements

a. The BSFI's Audit Committee/board of directors/board of trustees shall ensure that the scope of external audit work appropriately covers areas relevant to BSFI's operations and risk exposures. These include the following:

(1) Review of the adoption of applicable reporting framework as well as the assessment of the accuracy, adequacy, and reliability of accounting records and financial reports;
(2) Assessment of the propriety and adequacy of disclosures in the financial statements;
(3) Assessment of the adequacy and effectiveness of internal controls and risk management systems;
(4) Assessment of the quality of capital in relation to risk exposures; and
(5) Evaluation of the quality of corporate governance.

b. The engagement contract of BSFIs with the external auditor shall include, at a minimum, the following provisions:

(1) That disclosure of information, such as those enumerated under Item *"c"* of this Section (*Audit engagement and reportorial requirements*), by the external auditor to the Bangko Sentral and/or other financial sector supervisors shall not constitute a breach of confidentiality on the part of the external auditor nor shall it be a ground for civil, criminal, or disciplinary proceedings against the external auditor;

(2) That the external auditor shall be allowed read-only access to the Bangko Sentral's Report of Examination on the BSFI and that the external auditor shall appropriately consider the contents thereof and maintain its confidentiality; and

(3) That the BSFI concerned and external auditor shall comply with all the requirements under this Section.

The engagement contract shall be made available by the BSFI to the Bangko Sentral upon request.

c. The external auditor shall report to the appropriate supervising department of the Bangko Sentral within fifteen (15) calendar days upon discovery of any matter adversely affecting the condition or soundness of the BSFI, such as, but not limited to the following cases:

(1) Any material finding involving fraud or error;

(2) Actual or potential losses, the aggregate of which amounts to at least ten percent (10%) of the consolidated total assets of the BSFI;

(3) Significant doubt as to the ability of the BSFI to continue as a going concern;

(4) Material breach of laws or Bangko Sentral rules and regulations such as but not limited to prescribed capital and liquidity ratios, significant deficiency in allowance for credit losses, material weaknesses in fair value measurement methodology, and significant vulnerabilities to money laundering and combating the financing of terrorism;

(5) Material internal control weaknesses which may lead to financial reporting problems; and

(6) Findings on matters of corporate governance that may require urgent action by the Bangko Sentral.

Where a thorough investigation or evaluation of facts is necessary on the noted case, an initial report shall be submitted within the prescribed timeline: *Provided*, That a complete report is submitted not later than fifteen (15) calendar days from completion of investigation or evaluation.

In case there are no matters to report, the external auditor shall submit to the appropriate supervising department of the Bangko Sentral, not later than 120 calendar days after the close of the calendar year or the fiscal year adopted by the BSFI, a certification that there is none to report.

d. The board of directors and management of the BSFI shall be primarily responsible for the financial statements submitted to the Bangko Sentral. External auditors are expected to conduct the audit of financial statements in accordance with the provisions of the Philippine Standards on Auditing.

e. The external auditor shall directly inform the appropriate supervising department of the Bangko Sentral of the pre-termination of the engagement contract or his/her resignation/replacements as external auditor as well as the reasons thereto, within fifteen (15) calendar days of the pre-termination of the contract or his/her resignation/replacement.

Supervisory Enforcement Action

The Bangko Sentral reserves the right to deploy its range of supervisory enforcement actions to promote adherence with the requirements set forth in this Section and bring about timely corrective actions. For this purpose, the Bangko Sentral may issue directives or impose sanctions on BSFIs and/or its directors/trustees who approved the appointment of the external auditor, who/which are not in the List of Selected External Auditors for BSFIs, and/or for non-compliance with the provisions of this Section. The Bangko Sentral may likewise shorten the period of validity of inclusion of an external auditor in the List of Selected External Auditors for BSFIs, suspend, or delist external auditors from its List of Selected External Auditors for BSFIs based on the results of assessment of the quality of audited financial statements (AFS) as well as non-compliance with the provisions of this Section. The guidelines on the supervision/delisting of external auditor in the list of selected external auditors for BSFIs is prescribed in *Appendix N-5.*

Transitory provisions

a. External auditors whose inclusion in the List of Selected External Auditors for BSFIs is valid to cover the audit of 2018 financial statements are hereby given one (1) year extension on their inclusion in the List of Selected External Auditors for BSFIs allowing them to engage in the audit of the 2019 financial statements.

b. All applications (new and renewal) for inclusion in the List of Selected External Auditors for BSFIs to cover in the audit of 2020 financial statements and thereafter shall be filed with the SEC starting June 2019.

(Circular No. 1040 dated 20 May 2019)

134-N AUDITED FINANCIAL STATEMENTS

The Bangko Sentral recognizes that external auditors play a vital role in contributing to the conduct of effective supervision and sustaining the confidence of the public in the financial system. In this light, the regulations on financial audit aim to enhance the quality of information channeled to the supervisory process and ultimately promote fairness, transparency and accuracy in financial reporting.

The following rules shall govern the submission of audited financial statements (AFS) of NBFIs.

For purposes of this Section, AFS shall include the balance sheets, income statements, statements of changes in equity, statements of cash flows, notes to financial statements, and the opinion of the external auditor.

Financial Audit. NBFIs shall cause an annual financial audit by an external auditor included in the List of Selected External Auditors for BSFIs not later than thirty (30) calendar days after the close of the calendar year or the fiscal year adopted by the NBFI. The AFS shall be submitted by the NBFI, to the appropriate supervising department of the Bangko Sentral, not later than 120 calendar days after the close of the calendar year or the fiscal year adopted by the NBFI, accompanied by the documentary requirements as enumerated under *Appendix N-21*.

In addition, the external auditor shall be required by the NBFI to submit to the proprietor/partners/board of directors a Letter of Comments (LOC) indicating any material weakness or breach in the institution's internal control and risk management systems not later than 120 calendar days after the close of the calendar year or fiscal year adopted by the NBFI. If no material weakness or breach is noted to warrant the issuance of an LOC, a certification under oath stating that no material weakness or breach in the internal control and risk management systems was noted in the course of the audit of the NBFI shall be submitted in its stead, together with the AFS.

Material weakness shall be defined as a significant control deficiency, or combination of deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be detected or prevented by the institution's internal control. A material weakness does not mean that a material misstatement has occurred or will occur, but that it could occur. A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the institution's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles. The phrase "more than remote likelihood" shall mean that future events are likely to occur or are reasonably possible to occur.

The proprietor/partners/board of directors, in a regular or special meeting, shall consider and act on the AFS and the LOC and shall submit, not later than 120 calendar days after the close of the calendar year or fiscal year adopted by the NBFI, a copy of its resolution (containing the date of receipt of the AFS and LOC by the proprietor/partners/board of directors) to the appropriate supervising department of the Bangko Sentral. The resolution shall show the action(s) taken on the AFS and the findings and recommendations stated in the LOC, if any.

Government-owned or -controlled NBFIs including their subsidiaries and affiliates under Bangko Sentral supervision, which are under the concurrent jurisdiction of the Commision on Audit (COA) shall be exempt from the aforementioned annual financial audit by an external auditor included in the List of Selected External Auditors for BSFIs: *Provided*, That, when warranted by supervisory concern such as material weakness/breach in internal control and/or risk management systems, the Monetary Board may, upon recommendation of the appropriate supervising department of the Bangko Sentral, require the financial audit to be conducted by an external auditor included in the List of Selected External Auditors for BSFIs, at the expense of the NBFI: *Provided, further*, That when circumstances such as, but not limited to loans from multilateral FIs, privatization, or public listing warrant, the financial audit of the institution concerned by an external auditor included in the List of Selected External Auditors for BSFIs may also be allowed.

NBFIs under the concurrent jurisdiction of the Bangko Sentral and COA shall, however, submit a copy of the annual audit report (AAR) of the COA to the appropriate supervising department of the Bangko Sentral within forty (40) calendar days after receipt of the AAR by the board of directors. The AAR shall be accompanied by the: (a) certification by the institution concerned on the date of receipt of the AAR by the board of directors; (b) reconciliation statement between the AFS in the AAR and the balance sheet and income statement of QB and trust department submitted to the Bangko Sentral, including copies of adjusting entries on the reconciling items; and (c) other information that may be required by the Bangko Sentral. The board of directors of said institutions, in a regular or special meeting, shall consider and act on the AAR, as well as on the comments and observations and shall submit, within thirty (30) banking days after receipt of the report, a copy of its resolution to the appropriate supervising department of the Bangko Sentral. The resolution shall show the action(s) taken on the report, including on the comments and observations and the names of the directors present and absent, among other things.

The AFS required to be submitted shall in all respect be Philippine Financial Reporting Standards (PFRS)/PAS-compliant. The guidelines under Sec. 141-N shall be adopted.

NBFIs as well as external auditors shall strictly observe the requirements in the submission of the AFS and reports required to be submitted under *Appendix N-21.*

The reports and certifications of institutions concerned, schedules and attachments required under this Section (*Financial Audit*) shall be considered as Category *B* reports, delayed submission of which shall be subject to the penalties under Item *"b.ii"* of Sec. 143-N *(Sanctions in case of willful delay in the submission of reports).*

Posting of audited financial statements. NBFIs shall post in conspicuous places in their head offices, all their branches and other offices, as well as in their respective websites, their latest AFS.

(Circular Nos. 1075 dated 07 February 2019 and 911 dated 02 May 2016)

E. REPORTING GOVERNANCE

141-N PHILIPPINE FINANCIAL REPORTING STANDARDS

Statement of Policy. It is the thrust of the Bangko Sentral to align its financial reporting requirements with standards and practices that are widely accepted internationally to promote fairness, transparency, and accountability in the financial industry. In this light, the Bangko Sentral is issuing guidelines governing the adoption of the PFRS, aimed at ensuring consistency of application and comparability of financial reports across the industry.

a. *Adoption of PFRS.* Bangko Sentral Supervised Financial Institutions (BSFIs) shall adopt PFRS in recording transactions and in the preparation of financial statements and reports to the Bangko Sentral. However, in cases where there are differences between Bangko Sentral regulations and PFRS as when more than one (1) option are allowed or certain maximum or minimum limits are prescribed by PFRS, the option or limit prescribed by the Bangko Sentral shall be adopted by BSFIs. These include the accounting treatment of "Government Grants".

   Government grants extended in the form of loans bearing nil or below-market rate of interest shall be measured upon initial recognition at its fair value (i.e. the present value of the future cash flows of the financial instrument discounted using the market interest rate). The difference between the fair value and the net proceeds of the loan shall be recorded under "Unearned Income-Others", and shall be recognized as income on a systematic basis over the period of the loan necessary to match with the related cost for which the grants are intended to compensate.

b. *Preparation of prudential reports.* For prudential reporting, BSFIs shall adopt in all respect the PFRS except in the following cases:

   (1) In preparing consolidated financial statements, only investments in financial allied subsidiaries except insurance subsidiaries shall be consolidated with the financial statements of the parent bank on a line-by-line basis; while insurance and non-financial allied subsidiaries shall be accounted for using the equity method. Investments in financial/non-financial allied/non-allied associates and joint ventures shall be accounted for

using the equity method in accordance with the provisions of Philippine Accounting Standards (PAS) 28 "Investments in Associates and Joint Ventures".

In preparing solo/separate financial statements, investments in financial/non-financial allied/non-allied subsidiaries/associates, including insurance subsidiaries/associates, shall be accounted for using the equity method as described in PAS 28.

(2) BSFIs shall recognize adequate and timely allowance for credit losses at all times. In this respect, BSFIs shall adopt the principles provided under the Enhanced Standards on Credit Risk Management under Sec. 122-N as well as the provisions of *Appendix N-16* in measuring credit losses.

c. *Preparation of Audited Financial Statements (AFS).* AFS shall in all respect be PFRS compliant and shall be submitted to the Bangko Sentral in accordance with the provisions of Sec. 134-N.

BSFIs shall submit to the Bangko Sentral adjusting entries reconciling the balances in the financial statements for prudential reporting with those in the AFS.

d. *Guidelines on the adoption of PFRS 9 Financial Instruments.* BSFIs shall adopt, as part of the PFRS framework, PFRS 9: Financial Instruments upon its mandatory effectivity date of 01 January 2018.

For this purpose, BSFIs shall be governed by the following:

(1) Consistent with the duties and responsibilities of the board of directors provided under Sec. 132-Q, the board of directors or any equivalent governing body in the case of branches of foreign banks, shall ensure that the BSFI appropriately and consistently adopts PFRS 9 as part of its reporting governance process. In this respect, the board shall assess the impact of PFRS 9 on business strategies and risk management systems and ensure availability of sufficient resources, including capacity building initiatives, in adopting the standard.

The board shall approve policies and guidelines relative to the adoption of PFRS 9, which shall cover responsibilities of the different units in the BSFI (e.g., Treasury, Risk Management, Financial Controllership) as well as the extent of participation or involvement of third parties in the adoption process. The board shall likewise ensure that adequate control measures are in place to ensure the integrity of reports.

(2) Management shall implement the policies set by the board related to the adoption of PFRS 9 and ensure that sound professional judgment is exercised in implementing the provisions of the standard. Management shall provide feedback to the board on the effectiveness of implementation of PFRS 9.

(3) BSFIs shall be guided by the provisions of Appendix 27/Appendix Q-22 on "Guidelines on the Adoption of Philippine Financial Reporting Standards 9 (PFRS 9) – Classification and Measurement" and Appendix N-16 on "Impairment" in implementing the provisions of PFRS 9.

e. *Enforcement Actions*. Consistent with Sec. 127-N, the Bangko Sentral reserves the right to deploy its range of supervisory tools and enforcement actions to promote adherence with the requirements set out in this Section and bring about timely corrective actions to ensure appropriate and consistent adoption of PFRS. In this respect, the Bangko Sentral may issue directives or impose sanctions on the BSFI and/or its directors, officers and/or employees concerned for noted supervisory issues on the adoption of PFRS 9.

Prudential reports affected by non-adherence to the provisions of this Section shall be subject to penalties/sanctions provided under Sec. 143-N.

f. *Transitory Provisions*. BSFIs shall observe the following transition rules:

(1) BSFIs shall apply PFRS 9, retrospectively, in accordance with the transition requirements and guidance provided under PFRS 9 and PAS 8 "*Changes in Accounting Policies, Changes in Accounting Estimates and Errors".* BSFIs shall be guided by the provisions of PAS 8 if the retrospective application is impracticable.

(2) A BSFI that applied the earlier versions of PFRS 9 (2009), PFRS 9 (2010) or PFRS 9 (2013) shall be allowed to reclassify its financial assets provided that the reclassification requirements under the standard are met.

(3) A BSFI is expected to comply with the reportorial and disclosure requirements of the Securities and Exchange Commission on the adoption of PFRS 9.

(Circular Nos. 1023 dated 4 December 2018, 1011 dated 14 August 2018, 915 dated 05 July 2016, and 912 dated 27 May 2016)

142-N ACCOUNTING FOR FINANCIAL INSTITUTION PREMISES; OTHER FIXED ASSETS

FI premises, furniture, fixture and equipment shall be accounted for using the cost model under PAS 16 "Property, Plant and Equipment."

143-N REPORTS

NBFIs without quasi-banking functions but are subsidiaries/affiliates of banks and QBs and investment houses without quasi-banking functions but with trust operations shall submit to the appropriate supervising department of the Bangko Sentral the reports listed in *Appendix N-1* in the forms as may be prescribed by the Deputy Governor of the appropriate sector of the Bangko Sentral.

Any change in, or amendment to, the articles of incorporation, by-laws or material documents required to be submitted to the Bangko Sentral shall be reported by submitting copies of the amended articles of incorporation, by-laws, or material documents to the appropriate supervising department of the Bangko Sentral within fifteen (15) days following such change.

Categories and signatories of reports. Reports required to be submitted to the Bangko Sentral are classified into *Categories A-2* and *B* reports as indicated in the list of reports required to be submitted to the Bangko Sentral in *Appendix N-1.*

Appendix N-2 prescribes the signatories for each report category and the requirements on signatory authorization. Reports submitted by NBFIs in computer media shall be subject to the same requirements.

A report submitted to the Bangko Sentral under the signature of an officer who is not authorized in accordance with the requirements in this Section shall be considered as not having been submitted.

Manner of filing. The submission of the reports shall be effected by filing them personally with the appropriate supervising department of the Bangko Sentral or with the Bangko Sentral Regional Offices/Units, or by sending them by registered mail or special delivery through private couriers unless otherwise specified in the circular or memorandum of the Bangko Sentral.

Sanctions in case of willful delay in the submission of reports.

a. *Definition of terms.* For purposes of this Section, the following definitions shall apply:

   (1) *Report* shall refer to any report or statement required of an NBFI to be submitted to the Bangko Sentral periodically or within a specified period.

   (2) *Willful delay in the submission of reports* shall refer to the failure of an NBFI to submit a report on time. Failure to submit a report on time due to fortuitous events, such as fire and other natural calamities and public disorders, including strike or lockout affecting an NBFI as defined in the Labor Code or national emergency affecting operations of NBFIs, shall not be considered as willful delay.

b. *Fines for willful delay in submission of reports.* NBFIs incurring willful delay in the submission of required reports shall pay a fine in accordance with the following schedule:

I. For Categories A-2 reports Per day of default until the report is filed	P300
II. For Category B reports Per day of default until the report is filed	P 60

Delay or default shall start to run on the day following the last day required for the submission of reports. However, should the last day of filing fall on a non-working day in the locality where the reporting FI is situated, delay or default shall start to run on the day following the next working day. The due date/deadline for submission of reports to Bangko Sentral as prescribed under Sec. 143-N governing the frequency and deadlines indicated in *Appendix N-1* shall be automatically moved to the next business day whenever a half-day suspension of business operations in government offices is declared due to an emergency such as typhoon, floods, etc.

For purposes of establishing delay or default, the date of acknowledgment by the appropriate supervising department of the Bangko Sentral or the Bangko Sentral Regional Offices/Units appearing on the copies of such reports filed or submitted, or the date of mailing postmarked on the envelope/the date of registry/special delivery receipt, as the case may be, shall be considered as the date of filing by the NBFI.

c. *Manner of payment or collection of fines* – NBFIs shall, within fifteen (15) calendar days from receipt of the statement of account from the appropriate department of the Bangko Sentral, pay the fines imposed thereon for willful delay on the submission of reports.

144-N PUBLICATION REQUIREMENTS

The quarterly CSOC of a trust entity and its subsidiaries and affiliates shall be published side by side with the statement of condition of its head office and its branches/other offices as of such dates as the Bangko Sentral may require within twenty (20) working days from receipt of call letter, in any newspaper of general circulation in the country in the prescribed format.

The CSOC of a QB/trust entity and its subsidiaries and associates shall conform with the guidelines of PAS 27 "Consolidated and Separate Financial Statements", except that for purposes of consolidated financial statements, only investments in financial allied subsidiaries except insurance subsidiaries shall be consolidated on a line-by-line basis; while insurance and non-financial allied subsidiaries shall be accounted for using the equity method. Financial/non-financial allied/non-allied associates shall be accounted for using the equity method in accordance with the provisions of PAS 28 "Investments in Associates". For purposes of separate financial statements, investments in financial/non-financial allied/non-allied subsidiaries/associates, including insurance subsidiaries/associates, shall be accounted for using the equity method.

PART TWO

BORROWING OPERATIONS

201-N WITHOUT RECOURSE TRANSACTIONS

Borrowing by NBFIs from twenty (20) or more lenders for the purpose of relending or purchase of receivables or other obligations, which constitutes quasi-banking functions, shall be subject to prior Bangko Sentral authority on performance of quasi-banking functions under Bangko Sentral regulations.

Quasi-banking functions. *Quasi-banking functions* shall consist of the following:

a. Borrowing funds for the borrower's own account;
b. Twenty (20) or more lenders at any one (1) time;
c. Methods of borrowing: issuance, endorsement, or acceptance of debt instruments of any kind, other than deposits, such as:

   (1) acceptances;
   (2) promissory notes;
   (3) participations;
   (4) certificates of assignment or similar instruments with recourse;
   (5) trust certificates;
   (6) repurchase agreements; and
   (7) such other instruments as the Monetary Board may determine; and

d. Purpose:

   (1) relending, or
   (2) purchasing receivables or other obligations.

As used in the definition of *quasi-banking functions,* the following terms and phrases shall be understood, as follows:

Borrowing shall refer to all forms of obtaining or raising funds through any of the methods and for any of the purposes provided in Item *"c"* and *"d"* above whether the borrower's liability thereby is treated as real or contingent.

For the borrower's own account shall refer to the assumption of liability in one's own capacity and not in representation, or as an agent or trustee, of another.

Lenders shall refer to individuals and corporate entities that are not banks, quasi-banks or other financial intermediaries as provided under Sec. 101-Q (*Financial intermediaries*).

Purchasing of receivables or other obligations shall refer to the acquisition of claims collectible in money or securities of any amount and maturity from domestic or foreign sources.

Relending shall refer to the extension of loans by an institution with antecedent borrowing transactions. Relending shall be presumed in the absence of express stipulation, when the institution is regularly engaged in lending.

Regularly engaged in lending shall refer to the practice of extending loans, advances, discounts or rediscounts as a matter of business, i.e., continuous or consistent lending as distinguished from isolated lending transactions.

The following guidelines shall govern lender count on borrowings or funds mobilized by NBFIs not performing quasi-banking functions:

a. For purposes of ascertaining the number of lenders/placers to determine whether or not an NBFI is engaged in quasi-banking functions, the names of payees on the face of each debt instrument shall serve as the primary basis for counting the lenders/placers except when proof to the contrary is adduced such as the official receipts or documents other than the debt instrument itself. In such case the actual/real lenders/placers as appearing in such proof, shall be the basis for counting the number of lenders/placers.

   In a debt instrument issued to two (2) or more named payees under an *and/or* and *or* arrangement, the number of payees appearing on the instrument shall be the basis for counting the number of lenders/placers: *Provided, however,* That a debt instrument issued in the name of a husband and wife followed by the word *spouses*, whether under an *and, and/or* or *or* arrangement or in the name of a designated payee under an *in trust for* (ITF) arrangement shall be counted as one borrowing/placement.

b. Each debt instrument payable to bearer shall be counted as one (1) lender/placer, except when the NBFI can prove that there is only one (1) owner for several debt instruments so payable.

c. Two (2) or more debt instruments issued to the same payee, irrespective of the date and amount shall be counted as one (1) borrowing or placement.

d. Debt instruments underwritten by investment houses or traded by securities dealers/brokers whether on a firm, standby or best efforts basis shall be counted on the basis of the number or purchasers thereof and shall not be treated as having been issued solely to the underwriter or trader: *Provided, however,* That in case of unsold debt instruments in a firm commitment underwriting, the underwriter shall be counted as a lender.

e. Each buyer, assignee, and/or indorsee shall be counted in determining the number of lenders/placers of funds mobilized through sale, assignment, and/or indorsement of securities or receivables on a without recourse basis whenever the terms and/or attendant documentation, practice, or circumstances indicate that the sale, assignment, and/or indorsement thereof legally obligates the NBFI not performing quasi-banking functions to repurchase or reacquire the securities/receivables sold, assigned, indorsed or to pay the buyer, assignee, or indorsee at some subsequent time.

f. Funds obtained by way of advances from stockholders, directors, or officers, regardless of nature, shall be considered borrowed funds or funds mobilized and such stockholders, directors or officers shall be counted in determining the number of lenders/placers.

***Transactions not considered quasi-banking*.** The following shall not constitute quasi-banking:

a. Borrowing by commercial, industrial and other non-financial companies, through the means listed in Sec. 201-N for the limited purpose of financing their own needs or the needs of their agents or dealers; and

b. The mere buying and selling without recourse of instruments mentioned in Sec. 201-N: *Provided,* That:

(1) The institution selling without recourse shall indicate or stamp in conspicuous print on the instrument/s, as well as on the confirmation of sale, the phrase *without recourse* or *sans recourse* and the following statement:

(Name of non-bank) assumes no liability for the payment,
directly or indirectly, of this instrument.

(2) In the absence of the phrase *without recourse* or sans *recourse* and the above-required accompanying statement, the instrument so issued, endorsed or accepted shall automatically be considered as falling within the purview of the rules on quasi-banking:

Provided, further, That any of the following practices or practices similar and/or tantamount thereto in connection with a without recourse transaction renders such transaction as with recourse and within the purview of the rules on quasi-banking.

(a) Issuance of postdated checks by a financial intermediary, whether for its own account or as an agent of the debt instrument issuer, in payment of the debt instrument sold, assigned or transferred without recourse;

(b) Issuance by a financial intermediary of any form of guaranty on sale transactions or on negotiations or assignment of debt instruments without recourse; or

(c) Payment with the funds of the financial intermediary which assigned, sold or transferred the debt instrument without recourse, unless the financial intermediary can show that the issuer has with the said financial intermediary funds corresponding to the amount of the obligation.

Any investment house violating the provisions of this Section shall be subject to the sanctions provided in Sections 12 and 16 of P.D. No. 129, as amended.

Delivery of securities.

a. Securities sold on a without recourse basis under this Section shall be delivered to a Bangko Sentral - accredited securities custodian or an SEC-authorized central securities depository in accordance with the following guidelines:

(1) The securities shall be delivered by the seller directly to the purchaser or to the purchaser's designated BSP-accredited securities custodian or SEC-authorized central securities depository.

(2) If the securities sold are certificated, delivery shall be effected physically to the purchaser, or to the purchaser's designated Bangko Sentral-accredited custodian. The certificate must be transferred to and registered under the name of the purchaser and properly recorded in the registry book.

The securities custodian shall hold the securities in the name of the buyer: *Provided*, That a bank authorized by the Bangko Sentral to perform securities custodianship function or a SEC-authorized central securities depository may not be allowed to be securities custodian/depository of securities issued by said securities custodian or central securities depository or of securities in bearer form.

b. The guidelines on the delivery of government securities to the investor's principal securities account with the National Registry of Scripless Securities (NRoSS) are in *Appendix Q-38*.

(Circular Nos. 1121 dated 08 June 2021 and 1061 dated 25 November 2019)

202-N DISCLOSURE OF REMITTANCE CHARGES AND OTHER RELEVANT INFORMATION[1]

It is the policy of the Bangko Sental to promote the efficient delivery of competitively-priced remittance services by banks and other remittance service providers by promoting competition and the use of innovative payment systems, strengthening the financial infrastructure, enhancing access to formal remittance channels in the source and destination countries, deepening the financial literacy of consumers, and improving transparency in remittance transactions, consistent with sound practices.

Towards this end, NBFIs under Bangko Sentral supervision, including FXDs/MCs and RAs, providing overseas remittance services shall disclose to the remittance sender and to the recipient/beneficiary, the following minimum items of information regarding remittance transactions, as defined herein:

a. *Transfer/remittance fee*-charge for processing/sending the remittance from the country of origin to the country of destination and/or charge for receiving the remittance at the country of destination;
b. *Exchange rate*-rate of conversion from foreign currency to local currency, e.g., peso-dollar rate;
c. *Exchange rate differential/spread*-foreign exchange mark-up or the difference between the prevailing Bangko Sentral reference/guiding rate and the exchange conversion rate;
d. *Other currency conversion charges*-commissions or service fees, if any;
e. *Other related charges*-e.g., surcharges, postage, text message or telegram;
f. *Amount/currency paid out in the recipient country*-exact amount of money the recipient should receive in local currency or foreign currency; and
g. *Delivery time to recipients/beneficiaries*-delivery period of remittance to beneficiary stated in number of days, hours or minutes.

Non-bank remittance service providers shall likewise post said information in their respective websites and display them prominently in conspicuous places within their premises and/or remittance/service centers.

In case of domestic remittance transactions, all fees to the transactions shall be charged upfront by all NBFIs under Bangko Sentral supervision from the sender/remitter's end, with appropriate disclosure to the sender/remitter of the components of the fees being charged. This does not preclude the Bangko Sentral-supervised NBFI and/or other participants to the domestic remittance transaction from charging service fees. Domestic remittance transaction, for this purpose, is a transfer of funds between a sender/remitter and a beneficiary who are both within the Philippines, and is not covered by electronic payment transaction as defined under the NRPS Framework.

(Circular Nos. 980 dated 6 November 2017 and 952 dated 22 March 2017)

[1] The NBFIs shall have until 27 April 2017 to comply with the provision of this Section.

PART THREE

LOANS, INVESTMENTS AND SPECIAL CREDITS

301-N GRANT OF LOANS AND OTHER CREDIT ACCOMMODATIONS

In addition to the principles and standards provided under Sec. 122-N, the following regulations shall be observed in the grant of loans and other credit accommodations.

Additional requirements. FIs shall require submission and maintain on file updated ITRs of the borrower, and his co-maker, if applicable, duly stamped as received by the BIR together with supporting financial statements, as applicable. FIs shall likewise require borrowers to execute a waiver of confidentiality of client information and/or an authority of the FI to conduct random verification with the BIR in order to establish authenticity of these documents.

Should the document(s) submitted prove to be spurious or incorrect in material detail, the FI may terminate any loan or other credit accommodation granted on the basis of said document(s) and shall have the right to demand immediate repayment or liquidation of the obligation.

The required submission of such documents shall not cover the following credit exposures:

a. *Microfinance loans* as defined under Sec. 314 of the MORB;

b. Loans to registered BMBEs;

c. Interbank loans;

d. Loans secured by hold-outs on or assignment of deposits or other assets considered non-risk by the Monetary Board;

e. Loans to individuals who are not required to file ITRs under BIR regulations, as follows:

   (1) Individuals whose gross compensation income does not exceed their total personal and additional exemptions, or whose compensation income derived from one (1) employer does not exceed P60,000 and the income tax on which has been correctly withheld;

   (2) Those whose income has been subjected to final withholding tax;

   (3) Senior citizens not required to file a return pursuant to R.A. No. 7432, as amended by R.A. No. 9257, in relation to the provisions of the NIRC or the Tax Reform Act of 1997; and

   (4) An individual who is exempt from income tax pursuant to the provisions of the NIRC and other laws, general or special;

f. Loans to borrowers, whose only source of income is compensation and the corresponding taxes on which has been withheld at source: *Provided*, That the borrowers submitted, in lieu of the ITR, a copy of their Employer's Certificate of Compensation Payment/Tax Withheld (BIR Form 2316) or their payslips for at least three (3) months immediately preceding the date of loan application;

g. Loans and other credit accommodations not exceeding P3.0 million; or

h. Loans to start up enterprise borrowers during the first three (3) years of their operations or banking relationship.

Prohibited use of loan proceeds. NBFIs are prohibited from requiring their borrowers to acquire shares of stock of the lending NBFI out of the loan or other credit accommodation proceeds from the same NBFI.

Signatories. NBFIs shall require that loans and other credit accommodations be made under the signature of the principal borrower and, in the case of unsecured loans and other credit accommodations to an individual borrower, at least one (1) co-maker, except that a co-maker is not required when the principal borrower has the financial capacity and a good track record of paying his obligations.

Accrual of interest earned on loans and other credit accommodations. Accrual of interest earned on non-performing loans and other credit accommodations shall not be allowed.

Accrued interest receivable shall be classified in accordance with their respective loan accounts and provided with *Allowance for Uncollected Interest on Loans.*

Minimum required disclosure. NBFIs shall provide a table of the applicable fees, penalties and interest rates on loan transactions, including the period covered by and the manner of and reason for the imposition of such penalties, fees and interest, fees and applicable conversion reference rates for third currency transactions, in plain sight and language, on materials for marketing loans such as brochures, flyers, primers and advertising materials, on loan application forms, and on billing statements: *Provided,* That these disclosures are in addition to the full disclosure of the fees, charges and interest rates in the terms and conditions of the loan agreement found elsewhere on the application form and billing statement: *Provided, further,* That such table of fees, penalties and interest rates shall be printed in plain language and in bold black letters against a light or white background, and using the minimum Arial 12 theme font and size, or its equivalent in readability, and on the first page, if the applicable document has more than one (1) page.

Unfair collection practices. NBFIs, collection agencies, counsels and other agents may resort to all reasonable and legally permissible means to collect amounts due them under the loan agreement: *Provided,* That in the exercise of their rights and performance of duties, they must observe good faith and reasonable conduct and refrain from engaging in unscrupulous or untoward acts. Without limiting the general application of the foregoing, the following conduct is a violation of this Section:

a. the use or threat of violence or other criminal means to harm the physical person, reputation, or property of any person;

b. the use of obscenities, insults, or profane language which amount to a criminal act or offense under applicable laws;

c. disclosure of the names of borrowers who allegedly refuse to pay debts, except as allowed under Sec. 301-N on Confidentiality of Information;

d. threat to take any action that cannot legally be taken;

e. communicating or threat to communicate to any person credit information which is known to be false, including failure to communicate that a debt is being disputed;

f. any false representation or deceptive means to collect or attempt to collect any debt or to obtain information concerning a borrower; and

g. making contact at unreasonable/inconvenient times or hours which shall be defined as contact before 6:00 A.M. or after 10:00 P.M., unless the account is past due for more than sixty (60) days or the borrower has given express permission or said times are the only reasonable or convenient opportunities for contact.

NBFIs shall inform their borrowers in writing of the endorsement of the collection of their account to a collection agency/agent, or the endorsement of their account from one (1) collection agency/agent to another, at least seven (7) days prior to the actual endorsement. The notification shall include the full name of the collection agency and its contact details: *Provided*, That the required notification in writing shall be included in the terms and conditions of the loan agreement. NBFIs shall adopt policies and procedures to ensure that personnel handling the collection of accounts, whether these are in-house collectors, or third-party collection agents, shall disclose his/her full name/true identity to the borrower.

Confidentiality of Information. NBFIs shall keep strictly confidential the data on the borrower or consumer, except under the following circumstances:

a. disclosure of information is with the consent of the borrower or consumer;
b. release, submission or exchange of customer information with other financial institutions, credit information bureaus, lenders, their subsidiaries and affiliates;
c. upon orders of court of competent jurisdiction or any government office or agency authorized by law, or under such conditions as may be prescribed by the Monetary Board;
d. disclosure to collection agencies, counsels and other agents of the NBFIs to enforce its rights against the borrower;
e. disclosure to third party service providers solely for the purpose of assisting or rendering services to the NBFI in the administration of its lending business; and
f. disclosure to third parties such as insurance companies, solely for the purpose of insuring the NBFI from borrower default or other credit loss, and the borrower from fraud or unauthorized charges.

Dissemination of Relevant Information. FIs shall ensure that all persons to whom credit is extended are well informed of the salient provisions of R.A. No. 3765, otherwise known as the "Truth in Lending Act" as contained in the revised format of disclosure statement in *Appendix N-19* through any acceptable medium of communication such as, but not limited to, posters, brochures, pamphlets, leaflets, educational videos, corporate websites, infographics and social media platforms. Said information must be conspicuously displayed and made available at all times, in physical or electronic format, to all persons to whom credit is extended by FIs subject to the consumer protection standards and social media risk management guidelines. Such medium of communication shall include an explicit notification that the disclosure statement in writing is a required attachment to the credit transaction contract which FIs shall provide all persons to whom credit is extended with a copy of said disclosure statement prior to the consummation of the credit transaction.

Sanctions. Any violation of the provisions of Sec. 301-N on Additional Requirements, Prohibited Use of Loan Proceeds and Signatories shall be subject to the sanctions provided under Sections 36 and 37 of R.A. No. 7653.

Violation of the provisions of Sec. 301-N on Minimum Required Disclosure, Unfair Collection Practices and Confidentiality of Information shall be subject to any or all of the following sanctions depending upon their severity:

a. *First offense.* Reprimand for the directors/officers responsible for the violation;
b. *Second offense.* Disqualification of the NBFI concerned from the credit facilities of the Bangko Sentral except as may be allowed under Section 84 of R. A. No. 7653;

c. *Subsequent offense/s:*

   (1) Prohibition on the NBFI concerned from the extension of additional credit accommodation against personal security; and
   (2) Penalties and sanctions provided under Sections 36 and 37 of R. A. No. 7653.

(Circular Nos. 1052 dated 2 October 2019 and 1011 dated 14 August 2018)

302-N UPDATING OF INFORMATION PROVIDED TO CREDIT INFORMATION BUREAUS

FIs which have provided adverse information, such as the past due or litigation status of loan accounts, to credit information bureaus, or any organization performing similar functions, shall submit monthly reports to these bureaus or organizations on the full payment or settlement of the previously reported accounts within five (5) business days from the end of the month when such full payment was received. For this purpose, it shall be the responsibility of the reporting FIs to ensure that their disclosure of any information about their borrowers/clients is with the consent of borrowers/clients concerned.

303-N PAST DUE ACCOUNTS AND NON-PERFORMING LOANS[1]

The following regulations shall guide BSFIs in determining their past due accounts and non-performing loans.

Definition of terms. For purposes of this Section, the following definitions shall apply:

a. *Restructured loans* shall refer to loans and other credit accommodations the original contractual terms and conditions of which have been modified in accordance with a formal restructuring agreement that sets forth a revised schedule of payments for the purpose of lessening the financial difficulty of the borrower and maximizing collection and realizable economic value on an obligation within a reasonable period of time. The modification may include, but is not limited to, change in principal due, maturity, interest rate and other charges, collateral, or other terms and conditions.

b. *Items in litigation* shall refer to loans or other credit accommodations for which cases, such as collection or foreclosure, have been filed in court or sheriff's office, as the case may be. The loan or other credit accommodation shall remain in this account during the pendency of the proceedings, until full payment, restructuring of the obligation, foreclosure of the collateral, or such other disposition is made as would cause such proceedings to cease.

Accounts considered past due. As a general rule, loans, investments, receivables, or any financial asset, including restructured loans, shall be considered past due when any principal and/or interest or installment due, or portions thereof, are not paid at their contractual due date, in which case, the total outstanding balance thereof shall be considered as past due. However, BSFIs may provide a cure period on a credit product-specific basis, not to exceed thirty (30) days within which to allow the obligors or borrowers to catch up on their late payment without being considered as past due: *Provided,* That any cure period policy shall be based on verifiable collection experience and reasonable judgment that support tolerance of occasional payment delays: *Provided, further,* That the observance of a cure period policy shall not preclude the timely adverse classification of an account that has developed material credit weakness/es, and that BSFIs shall regularly review the reasonableness of its cure period policy. For microfinance and other small loans that feature high frequency payments, the cure period allowable by policy shall not exceed ten (10) days.

[1] Effective from 10 February 2017 up to 31 December 2017, BSFIs shall make the necessary revisions in their management information and reporting systems relating to past due and non-performing loans. Effective 01 January 2018, past due and NPLs shall be mandatorily reported in accordance with the requirements of this Section.

Non-performing loans. Loans, investments, receivables, or any financial asset shall be considered non-performing, even without any missed contractual payments, when it is considered impaired under existing accounting standards[1] , classified as doubtful or loss, in litigation, and/or there is evidence that full repayment of principal and interest is unlikely without foreclosure of collateral, if any. All other loans, even if not considered impaired, shall be considered non-performing if any principal and/or interest are unpaid for more than ninety (90) days from contractual due date, or accrued interests for more than ninety (90) days have been capitalized, refinanced, or delayed by agreement.

Microfinance and other small loans with similar credit characteristics shall be considered non-performing after contractual due date or after it has become past due.

Restructured loans shall be considered non-performing. However, if prior to restructuring, the loans were categorized as performing, such classification shall be retained.

Non-performing loans, investments, receivables, or any financial asset (and/or any replacement loan) shall remain classified as such until (a) there is sufficient evidence to support that full collection of principal and interests is probable and payments of interest and/or principal are received for at least six (6) months; or (b) written-off.

(Circular No. 941 dated 20 January 2017)

304-N SECURED LOANS AND OTHER CREDIT ACCOMMODATIONS

A loan may be considered secured by collateral to the extent the estimated value of net proceeds at disposition of such collateral can be used without legal impediment to settle the principal and accrued interest of such loan: *Provided,* That such collateral must have an established market and the valuation methodology used is sound, and *Provided, further,* That in the case of real estate collateral, the maximum collateral value shall be sixty percent (60%) of its value as appraised by an appraiser acceptable to the Bangko Sentral.

A loan may also be considered as secured to the extent covered by a third party financial guarantee or surety arrangement where the credit enhancement provider is itself considered to be of high credit quality (credit rating of at least AA or equivalent) or is recognized by the Bangko Sentral as eligible guarantor under existing regulations.

Finally, a loan may be secured by a combination of acceptable collateral and guarantee arrangements as defined above, provided such arrangements are independent of one another for credit enhancement purposes.

(Circular No. 914 dated 23 June 2016)

305-N AGRICULTURAL VALUE CHAIN FINANCING FRAMEWORK[2]

The Bangko Sentral supports the promotion of agricultural value chain financing as an effective and organized approach to channel financing to the agriculture and fisheries sectors and promote financial inclusion. By encouraging the linking of various actors/players in an agricultural value chain, credit risk of participating smallholder farmers/fisherfolks can be reduced. As a result, this type of financing would facilitate and allow small farmers/fisherfolks to have, if not more, access to credit. This is expected to further improve productivity in the agriculture and fisheries sectors and at the same time uplift the lives of these marginalized farmers/fisherfolks.

The provisions covering the agricultural value chain financing framework shall be implemented in consonance with Sec. 122-N.

Definition of terms. For purposes of this Section, the following definitions shall apply:

a. *Value chain* - refers to a set of actors/players, e.g., producers (farmers/fisherfolks), traders, suppliers, processors, aggregators, who conduct linked sequence of value-adding activities involved in bringing a product from its raw material stage to the final consumers;

b. *Value chain finance* - refers to the financial flows to those actors/players from both within the value chain and financial flows to those actors/players from the outside as a result of their being linked within a value chain;

[1] Applicable accounting standard is PAS 39 until 31 December 2017 and International Financial Reporting Standards (IFRS) 9 starting 01 January 2018. A financial asset or a group of financial assets is impaired when there is objective evidence that its recoverable value is less than its carrying amount, as a result of one or more loss events that occurred after the initial recognition of the asset and that the loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. It may not be possible to identify a single, discrete event that caused the impairment. Rather, the combined effect of several events may have caused the impairment.

[2] The following provisions in Sec. 305-N on Definition of Terms, Features of Agricultural Value Chain Financing Program and Regulatory Incentives covering the agricultural value chain financing framework shall be implemented in consonance with Sec. 122-N.

c. *Agricultural value chain analysis* - refers to the assessment of actors/players, e.g., from input suppliers to producers to processors and to traders, their interests and the factors influencing the performance of a particular value chain, e.g., palay, corn, livestock, marine products, as a whole, as opposed to only examining targeted sections of the chain; it also includes understanding the nature of the chain, identifying the weakest and strongest links along the chain and the business models as shown in *Appendix N-13*; and

d. *Value chain aggregator* - refers to any value chain actor/player or any entity outside the value chain which initiates the formalization and/or organization of a value chain and/or which offers services that aim to strengthen existing value chains.

Features of agricultural value chain financing program. Consistent with existing provisions on sound credit risk management practices, the Bangko Sentral hereby recognizes agricultural value chain financing programs that have the following features:

a. *Agricultural value chain policy and procedures.* The BSFIs shall put in place adequate policies and procedures which cover the identification of value chains, comprehensive value chain analysis, and the design of appropriate financial products and services, among others;

b. *Types of credit products.* BSFIs can design and/or offer appropriate financial products either to a specific actor/player or to various actors/players of the value chain model simultaneously. In addition to the traditional loans and discounts that BSFIs are currently offering, the following products and financial services may also be made available to agricultural value chain actors/players:

(1) *Trade-receivables finance* - a BSFI advances working capital to agribusiness (supplier, processor, marketing and export) companies against accounts receivable or confirmed orders to producers. Receivables financing takes into account the strength of the buyer's purchases and repayment history;

(2) *Factoring* - a financial transaction whereby a business sell its accounts receivable or contracts of sales of goods at a discount to an appropriate BSFI, called a factor, who pays the business minus a factor discount and collects the receivables when due; and

(3) *Warehouse receipts* - farmers and other value chain enterprises receive a receipt from a certified warehouse that can be used as collateral to access a loan from an appropriate BSFI against the security of goods in an independently controlled warehouse.

c. *Loan disbursement.* Loan releases may take the following forms depending on the role that the borrower takes in the value chain and the risks to be addressed by the BSFI:

(1) *Cash disbursements* - the most common practice which may be completed in one transaction or in installments;

(2) *Loan proceeds transfer to suppliers* - under this scheme the BSFI prefers to deal with the supplier directly to control loan utilization and, therefore, prefer to transfer the loan proceeds straight to the supplier upon full acceptance of the buyer (borrower). In case the supplier is a related party, the BSFI shall ensure that the term and conditions of the loan are not less favorable to the borrower than those offered by other lenders; and

(3) *Anchor firm (institutional buyer) triggered loan release* - loan release to the borrower will be endorsed by the anchor firm to ensure the adoption of the technology protocol required by the buyer (anchor firm). This would optimize productivity by the farmer-borrower and the technology adopted conforms with the requirements of the buyer; thus, reduce rejects on the deliveries of the produce.

d. *Disaster contingency mechanism.* In light of the vulnerability of the agriculture and fisheries sectors which could result to significant credit losses to financial institutions, if not managed well, the BSFI may put in place a disaster contingency mechanism that anticipates such events and provides response mechanisms to mitigate the impact of such inherent risks. The disaster contingency mechanism can provide timely relief to a borrower to facilitate recovery. This mechanism shall be adequately documented with clear policies and guidelines.

Provided such built-in contingency mechanism is prudently designed, its activation shall not automatically trigger adverse loan classification and past due loan recognition so as to manage credit losses to the BSFI and minimize burden on the client. Any new financing granted under such schemes will also not be adversely classified. However, such credit should be closely monitored and appropriate corrective measure should be taken once it becomes clear that recoverability is impaired.

e. *Other features.* The following activities may also be allowed:

(1) Director/s, officer/s and/or stockholder/s of BSFIs engaged in agricultural value chain financing may own and/or control: (i) private entities that would act as aggregators to facilitate the formation of value chains, and (ii) economically-linked entities that are also actors/players in the value chain: *Provided*, That all transactions with such entities shall be in the ordinary course of business and not undertaken on more favorable economic terms to such related parties than similar transactions with non-related parties under similar circumstances. These transactions shall comply and adhere to existing regulations pertaining to DOSRI loans and/or related-party transactions; and

(2) The BSFI, if necessary, may initiate the formulation of formal agreement(s) with qualified value chain actors/players to protect the interests of all parties involved.

Regulatory incentives. To encourage BSFIs to engage in agricultural value chain financing, the following incentives shall apply; provided in, Sec. 305-N on the Features of Agricultural Value Chain Financing Program is complied with:

a. Loans granted to agricultural value chain actor(s)/player(s), who are qualified borrowers under Sec. 331 of the MORB, shall be considered as either direct or allowable alternative compliance to the mandatory agriculture and agrarian reform credit allocation; and

b. Increase in SBL for an additional twenty-five percent (25%) for loans, other credit accommodations and guarantees granted to entities, which act as value chain aggregators of the lending banks' clients, and/or economically-linked entities that are also actors/players in the value chain; *Provided*, That the additional twenty-five percent (25%) will apply only to non-director/s, officer/s, stockholder/s, and related interest/s (DOSRI)/related party transaction (RPT) loans: *Provided*, *further,* That such increase in the SBL for an additional twenty-five percent (25%) shall only be a period of three (3) years starting 02 April 2016[1], subject to review after said period.

(Circular No. 908 dated 14 March 2016)

306-N INVESTMENTS IN DEBT AND MARKETABLE EQUITY SECURITIES

The classification, accounting procedures, valuation, sales and transfers of investments in debt securities and marketable equity securities shall be in accordance with the guidelines in *Appendices Q-22* and *Q-23.*

Penalties and sanctions. The following penalties and sanctions shall be imposed on FIs and concerned officers found to violate the provisions of these regulations:

a. Fines of P2,000/day to be imposed on NBFIs for each violation, reckoned from the date the violation was committed up to the date it was corrected; and
b. Sanctions to be imposed on concerned officers:

(1) First offense – reprimand the officers responsible for the violation; and
(2) Subsequent offenses – suspension of ninety (90) days without pay for officers responsible for the violation.

Marking to market of financial instruments. Financial instruments that are required to be classified and measured at fair value, within the scope of Philippine Financial Reporting Standards (PFRS) 9 under *Appendix Q-23*, shall be marked-to-market in accordance with the provisions of PFRS 13 on Fair Value Measurement and the related rules and regulations issued by the Securities and Exchange Commission. The marked-to-market guidelines for debt and equity securities are set out in *Appendix Q-23*.

BSFIs and the concerned officers found to have violated the provisions of these regulations shall be subject to the enforcement actions under Sec. 141-N.

(Circular No. 1021 dated 15 November 2018)

307-N SALE/TRANSFER AND INVESTMENT TRANSACTIONS OF BSFIs PURSUANT TO R.A. NO. 11523, OTHERWISE KNOWN AS THE FINANCIAL INSTITUTIONS STRATEGIC TRANSFER (FIST) ACT

Policy Statement.

This Section sets forth the guidelines governing the sale/transfer and investment transactions of banks, and other institutions licensed by the Bangko Sentral to perform (i) quasi-banking functions and (ii) credit-granting activities, including but not limited to pawnshops, non-stock savings and loan associations, and non-bank credit card issuers pursuant to R.A. No. 11523, otherwise known as the FIST Act and its IRR. The implementation of the FIST Act reinforces the BSFIs' primary role of providing financial services and liquidity to support households, business enterprises and productive sectors of the

[1] Effectivity 4 April 2016.

economy by allowing BSFIs to dispose of their NPAs and increase their liquidity and risk-bearing capacity.

Sale/transfer transactions of non-performing assets (NPAs) by BSFIs for purposes of availing of the tax exemptions and incentives/privileges under the FIST Act shall comply with the provisions under this Section.

Definition of Terms.

For purposes of this Section, the following definitions shall apply:

a. **Certificate of Eligibility (COE)** refers to the certificate issued by the Bangko Sentral as to the eligibility of the non-performing loan (NPL) or real and other properties acquired (ROPA) for purposes of availing the tax exemptions and privileges pursuant to the provisions of the FIST Act.

b. **Data Package** refers to the set of documents prescribed by the Securities and Exchange Commission (SEC) under Rule No. 5.1.j of the IRR and the additional documentation required under this Section (*Sale and Transfer of Assets*), which must be prepared and made available by the selling BSFI in respect of the sale/transfer of NPAs to FIST Corporations (FISTCs)/individuals. The Data Package should contain, among others, scanned copy of all pertinent documents and the particulars of each property or loan account being sold and should be made electronically available to potential bidders.

c. **FISTC** refers to a stock corporation organized in accordance with R.A. No. 11232, otherwise known as the "Revised Corporation Code of the Philippines", the provisions of Section 4 of the FIST Act and Rule 4 of the IRR. It is incorporated primarily to invest in or acquire NPAs of financial institutions under the FIST Act. With respect to foreign FISTCs, existing laws on ownership of real properties shall apply.

d. **Individual** refers to a natural person who, subject to certain conditions, is entitled to the tax exemptions, incentives, and fee privileges under the FIST Act.

e. **NPAs** refers to the NPLs and ROPA of BSFIs. NPAs are those NPLs and ROPA that are classified as such under the FIST Act on or before 31 December 2022.

f. **NPLs** refer to secured or unsecured loans and other receivables, including restructured loans and sales contracts receivables (SCRs), whose principal and/or interest have remained unpaid for at least ninety (90) days after they have become past due or any of the events of default under the loan agreement/restructuring agreement/sales contract, as applicable, has occurred.

   NPLs shall also include loans that are classified as items in litigation on or before 31 December 2022 for which collection and foreclosure cases have been filed or are subject to pending cases that seek to restrain foreclosure or consolidation of title of foreclosure assets, or where a restraining order or injunction has been issued to prevent foreclosure of mortgage or consolidation of title of foreclosed assets.

g. **ROPAs** refer to real and other properties acquired by a BSFI in settlement of loans and receivables, including real properties, shares of stocks, and personal properties which have been acquired by way of dation in payment (dacion en pago) or judicial or extra-judicial foreclosure or execution of judgment or enforcement of security interest.

h. **SCRs** refer to the amortized cost of assets acquired in settlement of loans through foreclosure or dation in payment and subsequently sold on installment basis whereby the title to the said property is transferred to the buyers only upon full payment of the agreed selling price.

i. **Special Purpose Vehicles (SPVs)** refers to entities created under R.A. No. 9182, as amended, otherwise known as "The Special Purpose Vehicle (SPV) Act of 2002", primarily incorporated to invest in or acquire NPAs of financial institutions under the SPV Act, whose application for reconfirmation has been approved by the SEC.

j. **True sale** refers to a sale wherein the selling BSFI transfers or sells its NPAs to an individual/FISTC, without recourse for cash or property in exchange for the transferee or sale, and without prejudice to the BSFI and the FISTC agreeing on sharing of profits and subject to the following results:

   (1) The transferor transfers full legal and beneficial title to and relinquishes effective control over the transferred NPAs; and
   (2) The transferred NPAs are legally isolated and put beyond the reach of the transferor and its creditors;

   Provided, That the transferring BSFI shall not have direct or indirect control, of the transferring FISTC: *Provided, further,* That the selling BSFI does not have legal or beneficial ownership of more than ten percent (10%) of the (a) total number of outstanding shares of stock entitled to vote in the election of directors; and (b) the total number of outstanding shares of stock, whether or not entitled to vote, of the transferee FISTC.

For purposes of determining existence of control, the provisions of Sec. 131-Q shall apply.

All references to FISTCs in subsequent provisions of this Section shall also refer to SPVs as defined under this Section (*Definition of Terms*).

Issuance of COEs.

A BSFI which intends to avail of the tax exemptions and fee privileges under the FIST Act shall apply for a COE in accordance with the Bangko Sentral's guidelines for obtaining a COE[1] under the FIST Act. The following transactions shall require a COE:

a. The sale/transfer of NPAs by a BSFI to a FISTC;

b. The dation in payment (dacion en pago) of NPL by a borrower or third party on behalf of the borrower to a BSFI; and

c. The sale/transfer of NPL (secured by a real estate mortgage on a residential unit or an empty lot) or ROPA (single family residential unit or an empty lot) by a BSFI to an individual: *Provided,* That an individual is limited to only one acquisition of NPA (either NPL or ROPA).

Notice, Manner and Nature of Sale/Transfer of NPAs

The following provisions on notice, manner and nature of sale/transfer of NPAs under Sections 12 and 13 of the FIST Act and Rules 12 and 13 of the IRR shall apply:

a. *Prior Notice.* No transfer of NPLs to a FISTC/individual shall take effect unless the BSFI concerned gives prior notice to the borrowers of the NPLs and all persons actually or constructively known to the BSFI to be holding prior encumbrances upon the assets mortgaged or subject to security interest. The BSFI's notification to the borrower shall include a breakdown of his/her loan and related credit obligations that shall be the subject of the sale/transfer. Such notice shall be in writing and made in accordance with the 2019 Revised Rules of Civil Procedure, including Rule 13, Sections 5-15 and 17 on the modes and proof of service, Rule 14, Section 12 on the service upon domestic private juridical entity. The borrower shall be given a period of almost thirty (30) calendar days upon receipt of notice from the BSFI to restructure or renegotiate the loan under such terms and conditions as may be agreed upon by the borrower and the BSFI concerned.

b. *Sale/Transfer of Assets*

A selling BSFI shall provide prospective bidders, including individuals and FISTCs, with a data package as defined under this Section (*Definition of Terms*). At a minimum, the data package shall include the documents prescribed under Rule 5.1.j of the IRR and the following documents, if available:

(1) For NPLs:

(a) Promissory Note/Pawn ticket;
(b) Restructuring Agreement, debt settlement agreement and other loan agreements of similar nature; and
(c) Chattel Mortgage and Security Agreement, third-party financial guarantee or surety arrangement.

(2) For ROPA:

(a) Proof of property's ownership, e.g., Transfer Certificate of Title (TCT), with registered real estate mortgage (REM), tax declaration for unregistered land, Certificate of Stocks or other certificate/proof of participation in securities, Official Receipt/Certificate of Registration for motor vehicle;

(b) Certificate of Sale (COS) for Extra-judicial foreclosure/Notarized Deed of Dacion in case of dation in payment/judgment in case of judicial foreclosure for real estate ROPA with unconsolidated land title; and

(c) Latest Real Estate Tax Receipt.

(3) For SCRs:

(a) Notarized Sales Contract;

(b) Proof of property's ownership, e.g., TCT, with REM, tax declaration for unregistered land, Certificate of Stocks or other certificate/proof of participation in securities, Official Receipt/Certificate of Registration for motor vehicle;

[1] Issued under Memorandum No. M-2021-034 dated 4 June 2021 *(Guidelines for Obtaining a Certificate of Eligibility (COE) under Republic Act (R.A.) No. 11523, otherwise known as the Financial Institutions Strategic Transfer (FIST) Act).*

(c) COS for Extra-judicial foreclosure/Notarized Deed of Dacion in case of dation in payment/judgment in case of judicial foreclosure for real estate ROPA with unconsolidated land title; and

(d) Latest Real Estate Tax Receipt.

All sales or transfers of NPAs by a BSFI shall meet the definition of a true sale under this Section (*Definition of Terms*) and shall be made in accordance with the provisions of Section 13 of the FIST Act and Rule 13 of the IRR. Sales/Transfers of NPAs shall be in the nature of a "true sale" after proper notice in accordance with the procedure provided under this Section (*Notice, Manner and Nature of Sale/Transfer of NPAs*), without need for the borrower's consent: *Provided,* That in the transfer of the NPLs, the provisions on the right of the debtor to reimburse the assignee or transferee under Article 1634 of the New Civil Code shall not apply: *Provided, further,* That after the sale, the FISTC/individual shall assume all legally transferrable rights and obligations of the transferring BSFI.

The Bangko Sentral shall not issue the COE to a BSFI in case of its non-compliance with the FIST Act, its IRR, and this Section, including, but not limited to, the following: (1) the asset subject of the sale/transfer transaction does not meet the definition of an NPA under this Section (*Definition of Terms*), or (2) the sale/transfer transaction (i) does not meet the definition of a "true sale", (ii) falls under the transactions not considered "true sale" under *Appendix N-26,* or (iii) is presumed to be not a "true sale" transaction under the same Appendix, based on documents submitted/presented relative to its COE application, without prejudice to the submission by the BSFI of a new application/request with complete requirements and accurate documents.

Moreover, the Bangko Sentral reserves its authority to pass upon the "true sale" nature of the sale/transfer even after the issuance of the COE, and revoke a COE already issued upon finding of any violation of the "true sale" nature of the transaction.

The guidelines in determining whether the sale/transfer satisfies the requirements of a "true sale" is in *Appendix N-26.*

b. *Subsequent notice.*

Within fifteen (15) business days after the execution of the NPL's sale or transfer documents, the transferring BSFI shall inform the borrower, in writing sent to the latter's last known address or email address, of the fact of the sale or transfer of the NPLs. Non-compliance with the post-notification requirements shall not invalidate the sale or transfer of NPLs but shall subject the erring BSFI to appropriate sanctions and penalties under the FIST Act and its IRR, as well as other pertinent laws, rules, and regulations.

c. *Subsequent transfers.*

The re-acquisition of the NPA by the borrower or owner from the FISTC, individual, or subsequent transferee other than by the exercise of the right of redemption as provided for in Section 20 of the FIST Act and Rule 20 of the IRR shall be in accordance with the terms and conditions as may be agreed upon by them.

Investment Transactions of a BSFI.

A BSFI may subscribe to, acquire or hold Investment Unit Instruments (IUIs) issued by a FISTC in accordance with Section 11 of the FIST Act, Rule 11 of the IRR, and other applicable Bangko Sentral rules and regulations: *Provided,* That a transferor-BSFI cannot acquire the IUIs of the transferee-FISTC: *Provided, further,* That the parent, subsidiaries, affiliates or stockholders, directors, officers, or any related interest of the selling BSFI or the parent's subsidiaries, affiliates or stockholders, directors, officers, or any related interest shall not acquire or hold, directly or indirectly, the IUIs of the FISTC that acquired the NPAs of the BSFI.

The definition of the parties mentioned under this Section (*Investment Transactions of a BSFI*) is in *Appendix N-27.*

A BSFI may acquire or hold IUIs issued by a FISTC in the minimum amount of ₱10 million. A BSFI may also subscribe to, acquire, or hold shares and other securities that are not considered as IUIs and are issued by a FISTC, subject to the provisions of the FIST Act, its IRR and other applicable Bangko Sentral regulations.

A bank's equity investment in a FISTC shall be considered an investment in a non-financial allied undertaking and shall be subject to the provisions of Sec. 375 and the prudential limits and restrictions under Sec. 378 of the MORB.

Prudential Relief Measures on the Sale/Transfer of NPAs

BSFIs may avail of the prudential relief measures that shall be granted by the Bangko Sentral in relation to their NPA sale/transfer transactions.

Limitations on Amount Available for Dividends

BSFIs may carry-over any loss incurred as a result of the result of the transfer of an NPA within a period of not more than two-years from the date of effectivity of the FIST Act (i.e., on 18 February 2021) for a period of five (5) consecutive taxable years immediately following the year of the transfer that resulted to such loss: *Provided,* That the loss meets the requirements under Section 17 of the FIST Act and Rule 17.1 of the IRR: *Provided, further,* That the tax savings derived by a BSFI from this net operating loss carry-over shall not be made available for dividend declaration under Sec. 123-Q but shall be retained as a form of capital build-up pursuant to Section 17 of the FIST Act and Rule 17.2 of the IRR.

Prudential Report

BSFIs that avail of the tax exemptions and incentives/privileges under the FIST Act shall submit a Monthly Report on the Sale/Transfer and Investment Transactions of BSFIs under the FIST Act to the Bangko Sentral. The report shall be considered a Category B report and shall be submitted within twenty (20) business days after end of reference month. The submission of the aforementioned report shall be subject to the guidelines provided under Sec. 143-N.

Penalties and Administrative Sanctions

A BSFI and/or its concerned directors, officers, and employees who violate any provision of the FIST Act, its IRR, and this Section, or who, in a notice or certification, makes any untruthful statement of a material fact or omits to state a material fact, or who violate the required "true sale" nature of the sale/transfer of NPAs shall be penalized pursuant to Sections 18 and 24 of the FIST Act, Rules 18 and 24 of the IRR; Section 37 of R.A. No. 7653, or "The New Central Bank Act", as amended, and other applicable laws, without prejudice to the enforcement actions that may be deployed by the Bangko Sentral consistent with Sec. 001-N (*Supervisory enforcement policy*).

(Circular No. 1117 dated 27 May 2021)

PART FOUR

ELECTRONIC SERVICES AND OPERATIONS

401-N ELECTRONIC PAYMENT AND FINANCIAL SERVICES

The guidelines concerning electronic activities, as may be applicable, are found in Sec. 701-Q.

Requirements for the grant of authority to offer EPFS. Pursuant to Sec. 101-N on the Bangko Sentral Policy and Regulations on Licensing, BSFIs that intend to offer EPFS shall obtain the appropriate authority/license, as follows:

Classification	Category of License/Authority
Advanced EPFS	Type A[1]/B[2]
Basic EPFS	Type C

BSFIs shall observe the "Guidelines on Licensing of Electronic Payment and Financial Services" shown in *Appendix Q-89*.

Reportorial requirements. BSFIs shall provide the Bangko Sentral with the required data and updates on their EPFS.

a. *Required Reports.* The following reports shall be submitted to the appropriate supervising department of the Bangko Sentral in the manner prescribed under *Appendix N-1*:

   (1) EPFS Transactions and Indicators; and
   (2) Changes and Enhancements in EPFS

b. *Sanctions*. Failure to comply with the reportorial requirements shall subject the concerned BSFI to applicable sanctions for "Erroneous/Delayed/Erroneous and Delayed/Unsubmitted reports" as prescribed under Sec. 143-N.

Enforcement action. Failure to comply with the provisions of this Section shall cause the concerned BSFI to be subject to enforcement action in accordance with Sec. 002-Q and Sec. 101-N (*Enforcement actions*).

(Circular No. 1033 dated 22 February 2019)

402-N ISSUANCE AND OPERATIONS OF ELECTRONIC MONEY

The following guidelines shall govern the issuance of electronic money (e-money) and the operations of electronic money issuers (EMIs).

Policy statement. It is the policy of the Bangko Sentral to foster the development of efficient and convenient retail payment and fund transfer mechanisms in the Philippines. The availability and acceptance of e-money as a retail payment medium will be promoted by providing the necessary safeguards and controls to mitigate the risks associated in an e-money business.

Definitions.

E-money shall mean monetary value as represented by a claim on its issuer, that is –

a. electronically stored in an instrument or device;
b. issued against receipt of funds of an amount not lesser in value than the monetary value issued;
c. accepted as a means of payment by persons or entities other than the issuer;
d. withdrawable in cash or cash equivalent; and
e. issued in accordance with this Section.

Electronic money issuer shall be classified as follows:

a. Banks (hereinafter called EMI-Bank);
b. NBFI supervised by the Bangko Sentral (hereinafter called EMI-NBFI); and
c. Non-bank institutions registered with the Bangko Sentral as a money transfer agent under Sec. 901-N (hereinafter called EMI-Others).

[1] This applies to BSFIs that *can* be assessed against the prudential criteria provided in the Policy and Regulations on Licensing. These applicants must have been examined by the Bangko Sentral.

[2] This applies to proponents that *cannot* be assessed against the prudential criteria provided in the Policy and Regulations on Licensing. These include newly-established BSFIs and new applicants for an authority to operate as "Electronic Money Issuer-Others".

For purposes of this Section:

a. *Electronic instruments or devices* shall mean cash cards e-wallets accessible via mobile phones or other access device, stored value cards, and other similar products.
b. E-money issued by NBFIs shall not be considered as deposits.

Prior Bangko Sentral approval. NBFIs planning to be an EMI-NBFI shall comply with the requirements of Sec. 401-N and Sec. 102-N, when applicable.

NBFIs planning to be an EMI-Others shall register with the Bangko Sentral as a money transfer agent in accordance with the provisions of Sec. 901-N. To qualify for registration, they have to comply with the following requirements:

a. They must be a stock corporation with a minimum paid-up capital of P100 million;

b. They shall engage only in the business of e-money and other activities related or incidental to the business of e-money, such as money transfer/remittance. An existing entity engaged in activities not related to the business of e-money but wishing to act as EMI-Others must do so through a separate entity duly incorporated exclusively for such purpose;

c. They shall not engage in the extension of credit, unless they comply with the provisions of this Section (*Quasi-bank license requirement*);

d. To further protect the e-money holders and ensure that e-money redemptions are adequately met at all times, the entity should have sufficient liquid assets equal to the amount of outstanding e-money issued. The liquid assets should remain unencumbered and may take any of the following forms:

   (1) bank deposits separately maintained for liquidity purposes;
   (2) government securities set aside for the purpose; and
   (3) such other liquid assets as the Bangko Sentral may allow.

   Records pertaining to the above liquid assets shall be made available for inspection by Bangko Sentral at any time and the confidentiality of bank deposits and government securities shall be waived.

e. The Bangko Sentral shall be allowed access to review the e-money systems and databases of the entity. Whenever the circumstances warrant, such access shall extend to the agents, partners, service providers or outsourced entities of the EMI-Others in view of their participation in the e-money business; and

f. EMI-Others shall submit to the SDC, its AFS within thirty (30) days from date of report of its external auditors.

In case the NBFI is already registered with the Bangko Sentral as a money transfer agent, it is required to meet the additional requirements mentioned above to qualify as EMI-Others.

Common provisions. In addition to the provisions under Sec. 701-Q (*Compliance with relevant regulations*), EMIs shall comply with the following requirements:

a. E-money instrument issued shall be subject to aggregate monthly load limit of P100,000 unless a higher amount has been approved by Bangko Sentral. In case an EMI issues several e-money instruments to a person (e-money holder), the total amount loaded in all the e-money instruments shall be consolidated in determining compliance with the aggregate monthly load limit;

b. EMIs shall put in place a system to maintain accurate and complete record of e-money instruments issued, the identity of e-money holders, and the individual and consolidated balances thereof. The system must have the capability to monitor the movement of e-money transactions and link e-money instruments issued to common e-money holders. The susceptibility of a system to intentional or unintentional misreporting of transaction and balances shall be sufficient ground for imposition by the Bangko Sentral of sanctions, as may be applicable.

c. E-money may only be redeemed at face value. It shall not earn interest nor rewards and other similar incentives convertible to cash, nor be purchased at a discount. E-money is not considered a deposit hence it is not insured with the PDIC.

d. EMIs shall ensure that e-money instruments clearly identify the issuer who is ultimately responsible to the e-money holders. This shall be communicated to the client who shall acknowledge the same in writing.

e. It is the responsibility of EMIs to ensure that their distributors/e-money agents comply with all applicable requirements of the Anti-Money Laundering laws, rules and regulations.

f. EMIs shall provide an acceptable redress mechanism to address the complaints of its customers.

g. EMIs shall disclose in writing and its customers shall signify agreement to the information embodied in Item "c" above upon their participation in the e-money system. In addition, it shall provide clear guidance in English and Filipino on consumers' right of redemption, including conditions and fees for redemption, if any. Information on available redress procedures for complaints together with the address and contact information of the issuer shall also be provided.

h. Prior to the issuance of e-money, EMIs should ensure that the following minimum systems and controls are in place:

(1) Sound and prudent management, administrative and accounting procedures and adequate internal control mechanisms;
(2) Properly-designed computer systems which are thoroughly tested prior to implementation;
(3) Appropriate security policies and measures intended to safeguard the integrity, authenticity and confidentiality of data and operating processes;
(4) Adequate business continuity and disaster recovery plan; and
(5) Effective audit function to provide periodic review of the security control environment and critical systems.

i. EMIs shall provide the SDC quarterly statements containing, among others, information on investments, volume of transactions, total outstanding e-money balances, and liquid assets in such forms as may be prescribed later on.

j. EMIs shall notify Bangko Sentral in writing of any change or enhancement in the e-money facility thirty (30) days prior to implementation. If said change or enhancement requires prior Bangko Sentral approval, the same shall be evaluated accordingly. Any change or enhancement that shall expand the scope or change the nature of the e-money instrument shall be subject to prior approval of the Deputy Governor of the appropriate supervising department of the Bangko Sentral. These changes or enhancements may include the following:

(1) Additional capabilities of the e-money instrument/s, like access to new channels (e.g., inclusion of internet channel in addition to merchant Point of Sale terminals);
(2) Change in technology service providers and other major partners in the e-money business (excluding partner merchants), if any; and
(3) Other changes or enhancements.

Quasi-bank license requirement. EMI-NBFIs and EMI-Others that engage in lending activities must secure a quasi-banking license from the Bangko Sentral.

Sanctions. Monetary penalties and other sanctions for the following violations committed by EMI-NBFIs shall be imposed:

Nature of Violation/Exception	Sanction/Penalties
1. Issuing e-money without prior Bangko Sentral approval	Applicable penalties under Sections 36 & 37 of R.A. No. 7653; Watchlisting of owners/partners/ principal officers
2. Violation of any of the provisions of R.A. No. 9160 (Anti-Money Laundering Law of 2001 as amended by R.A. No. 9194) and its implementing rules and regulations	Applicable penalties prescribed under the Act
3. Violation/s of this Section	Penalties and sanctions under the abovementioned laws and other applicable laws, rules and regulations

In addition, the susceptibility of a system to intentional or unintentional misreporting of transactions and balances shall be sufficient ground for appropriate Bangko Sentral action or imposition of sanctions, whenever applicable.

Outsourcing of services by Electronic Money Issuers (EMIs) to Electronic Money Network Service Providers (EMNSP). The guidelines on outsourcing of services by EMIs to EMNSP are shown in *Appendix Q-56.*

Sanctions. Violations committed by EMIs pertaining to outsourcing activities to EMNSP shall be subject to appropriate monetary penalties under Sec. 1102-Q and/or other non-monetary sanction under Section 37 of R.A. No. 7653.

(Circular Nos. 1033 dated 22 February 2019 and 988 dated 20 December 2017)

PART FIVE

REGULATIONS ON PAYMENT SYSTEMS

501-N NATIONAL RETAIL PAYMENT SYSTEM

Adoption of NRPS Framework. It is the policy of the Bangko Sentral to promote the establishment of a safe, efficient, and reliable retail payment system in the Philippines. Towards this end, the Bangko Sentral adopts the National Retail Payment System (NRPS) Framework consistent with Bangko Sentral regulations on risk management in light of the complex interplay of different types of risk arising from the rapid evolution of retail payment activities of Bangko Sentral supervised financial institutions (BSFIs). The NRPS vision will help achieve higher economic growth and enhance the overall competitiveness of our economy.

In carrying out retail payment-related activities, BSFIs shall adhere to the NRPS Framework as set forth in this Section and *Appendix N-15.* This framework requires BSFIs to ensure that the retail payment systems they participate in demonstrate sound risk management, and effective and efficient interoperability. BSFIs shall comply with Bangko Sentral rules and regulations, particularly on information technology, consumer protection, and anti-money laundering/combating the financing of terrorism (AML/CFT).

Definition of terms.

a. *Automated Clearing House (ACH)* – a multilateral agreement among ACH participants governing the clearing and settlement of payment orders for a specific payment stream.

b. *ACH Participant* – a financial institution duly licensed by the Bangko Sentral that is a PSMB member, and undertakes clearing in and is a signatory to at least one (1) ACH.

c. *ACH Participant Group (ACH-PG)* – a group organized by ACH participants for a payment stream or a group of similar payment streams for the purpose of approving and implementing the clearing rules and agreements applicable to a specific payment stream. It also liaises and consults with other parties in relation to clearing.

d. *Channel* – the means by which an electronic financial product or service is delivered. *E.g.,* internet, phone, ATM.

e. *Clearing* – the process of transmitting, reconciling and, in some cases, confirming payment orders prior to settlement, and the establishment of the final obligations for settlement.

f. *Clearing Switch Operator (CSO)* – provides clearing switch services.

g. *Direct clearing participant* – a financial institution that is: (a) duly licensed by the Bangko Sentral and is authorized to provide electronic financial and payment services; (b) engaged in holding of funds of customers in the form of accounts (bank account or electronic money account); (c) clears transactions through an ACH and is the participant ultimately responsible for obligations generated from cleared transactions; and (d) has a demand deposit account with the Bangko Sentral and a PhilPaSS member, or is sponsored into settlement by a qualified sponsor which is a member of PhilPaSS and maintains a DDA with the Bangko Sentral, to settle its clearing obligations.

h. *Electronic payment* – synonymous to electronic fund transfer (EFT); refers to transfers of funds between two transaction accounts in the same or different BSFIs which are initiated and received using electronic devices and channels to transmit payment instructions. This excludes domestic remittance transaction under existing Bangko Sentral regulations.

i. *Fund* – any unit of value that forms the consideration or object of transactions.

j. *Interoperability* – enables financial products and services belonging to a particular scheme or business model to be used or interoperated between other schemes or business models usually of another institution. While interoperability often times require technical compatibility between systems, it can only take effect once commercial/business interconnectivity agreements have been completed.

k. *National Retail Payment System (NRPS)* – a policy and regulatory framework that aims to establish a safe, efficient, and reliable retail payment system in the Philippines.

l. *Payment instrument* – any instrument, whether tangible or intangible, that enables a person to transfer funds.

m. *Payment order* – an order or message requesting the transfer of funds to the order of the payee.

n. *Payment system* – the set of payment instruments, processes, procedures and participants that ensures the circulation of money or movement/transfer of funds.

o. *Payment System Management Body (PSMB)* – a private industry-led self-governing body that is duly recognized by the Bangko Sentral to develop and enforce rules and agreements pertaining to members' clearing and settlement activities in accordance with the NRPS Framework and applicable Bangko Sentral regulations. The body shall be comprised of retail payment industry participants which are direct clearing participants. This body shall be a juridical entity that is not-for-profit and with the power to set and implement rules pertaining to members' clearing activities.

p. *Point of Interaction (POI)* – a hardware and/or software whereby a customer or user is able to query or initiate a transaction from his account. Examples of POI include kiosk, smart device, etc.

q. *Retail payments* – payments that meet at least one of the following characteristics: (i) the payment is not directly related to a financial market transaction; (ii) the settlement is not time-critical; (iii) the payer, the payee, or both are individuals or non-financial organizations; and (iv) either the payer, the payee, or both are not direct participants in the payment system that is processing the payment. This definition of retail payment includes person-to-person, person-to-business, business-to-person, business-to-business, person/business-to-government, and government-to-person/business payments.[1]

r. *Settlement* – an act that discharges obligations in respect of fund transfers between two (2) or more parties.

s. *Sponsored into Settlement Member* – PSMB members who undertake settlement in at least one (1) ACH by engaging the settlement services of an ACH participant that can directly settle transactions through PhilPaSS.

t. *Settlement sponsor bank or Sponsoring bank* – PSMB members who undertake settlement directly through PhilPaSS.

u. *Working Group*-In the context of an ACH, it is a group organized for a specific payment stream under an ACH Participant Group. The ACH Working Group is responsible for drawing up, reviewing or revising the rules and agreements applicable to a specific ACH.

Purpose and scope. The NRPS Framework shall apply to all BSFIs which meet regulatory requirements and the criteria set on a per Automated Clearing House (ACH) basis under the NRPS framework.

The NRPS framework covers all retail payment-related activities, mechanisms, institutions and users. It applies to all domestic payments which are denominated in Philippine Peso (Php), and which may be for payments of goods and services, domestic remittances or fund transfers.

Retail payments under the NRPS Framework are payments that meet at least one of the following characteristics:

a. the payment is not directly related to a financial market transaction;
b. the settlement is not time-critical;
c. the payer, the payee, or both are individuals or non-financial organizations; and
d. either the payer, the payee, or both are not direct participants in the payment system that is processing the payment.

NRPS key principles. Under the NRPS framework, sound governance shall be performed by a payment system management body (PSMB), an industry-led self-governing body that is duly recognized and overseen by the Bangko Sentral. In the absence of a PSMB which conforms to the NRPS principles in *Appendix N-15,* the functions of providing sound governance to the retail payment system participated in by BSFIs shall be discharged by the Bangko Sentral. Clearing switch operators shall not participate in the governance of the payment system.

All clearing shall be done within the NRPS governance structure, wherein exclusive bilateral clearing arrangements are not allowed.

Non-discriminatory participation shall be espoused in the retail payment system. Hence, all BSFIs are highly encouraged to join the NRPS governance structure provided they meet the qualification criteria.

A reasonable market-based and transparent pricing mechanism shall be adopted by all BSFIs participating in the NRPS governance structure.

Further details on the key principles are embodied in the NRPS Framework shown in *Appendix N-15*.

[1] Developing a comprehensive National Retail Payments Strategy, Financial Infrastructure Service Line Payment Systems Policy and Research, World Bank, October 2012, available at http:/siteresources.worldbank.org/FINANCIALSECTOR/Resources/Developing_a_comprehensive_national_retail_payments_strategy_for_GPW_10_20%28vl%29.pdf.

Specific rules applicable to transactions performed under the NRPS framework. The following rules shall apply to retail payment transactions which are cleared and settled in accordance with the NRPS Framework:

a. Minimum requirements to offer Electronic Payment and Financial Services (EPFS). EPFS shall require notification to or approval by the Bangko Sentral in accordance with Sec. 401-N. To offer EPFS, BSFIs shall conform to the following requirements:

   (1) BSFIs shall make electronic payments available in all its delivery channels whenever applicable;

   (2) BSFIs shall enable its clients to move/receive funds to/from accounts with other BSFIs, or, at a minimum, receive funds. Movement of funds between BSFIs shall be carried out through participation in an ACH;

   (3) BSFIs shall immediately credit the account of its clients after receipt of clearing advice; and

   (4) BSFIs shall conform to Sec. 401-N, the IT Risk Management Standards and Guidelines on electronic banking, electronic payment, electronic money and other electronic products and services provided in *Appendix Q-66*.

b. Fees on transactions. The BSFI's board of directors shall adopt a policy on the imposition of any fee on electronic payment transactions. The policy shall include the basis and quantitative support for the setting of fees and rationalization of the fee structure or amount. Imposition of fees for transactions performed by BSFIs that meet the requirements in Item "*a*" of this Section shall be consistent with the following:

   (1) On consumer pricing-

      (a) BSFIs shall adopt reasonable and fair market-based pricing models, which do not arise from agreements with other BSFIs to fix the price of product or service delivery.

      (b) The service fees for electronic payments are expected to be lower than the fees collected from transactions made manually or over-the-counter (OTC) as electronic payments are considered to provide more efficient and cost--effective means of delivering service.

      (c) The recipient shall not pay for electronic crediting to recipient's account and the recipient shall receive the amount in full. Such account to account fund transfers shall not be considered as domestic remittance transactions under Sec. 202-N.

   (2) The BSFI shall disclose to the Bangko Sentral the details of all fees that will be charged to the client. This will be posted in an electronic bulletin board of fees for transactions performed under the NRPS framework. The bulletin board shall be maintained by the Bangko Sentral in its website for enhanced transparency and competitiveness.

c. Anti-Money Laundering Requirements. All BSFIs shall observe applicable AML/CFT requirements under Part Six of the MORNBFI for all transactions performed under the NRPS framework. As part of on-going monitoring of customers and their transactions, the following rules shall apply to transactions performed under the NRPS framework by BSFIs that meet the requirements in Item "*a*" above:

   (1) The *originating institution (OI)* shall be responsible for monitoring, including appropriate watchlist screening or monitoring, its own client's transactions. It is the responsibility of the OI to ensure that the account name of the source account and the amount are consistent with the Sender Name and the amount indicated in the Payment Instruction sent by the OI.

   (2) The *receiving institution (RI)* shall be responsible for monitoring, including appropriate watchlist screening or monitoring, its own client's transactions. It is the responsibility of the RI to ensure that the actual account number credited and the amount are consistent with the Beneficiary Account Number and the amount indicated in the Payment Instruction received by the RI.

   (3) On the basis of the above, account number matching will suffice for domestic account-to-account electronic payments. OIs and RIs shall ensure that customers are informed that account number matching will suffice to implement a transaction, and OIs and RIs shall be held free and harmless from liability for their reliance on account number matching.

d. BSFIs participating in the NRPS governance structure are required to comply with existing regulations of the Bangko Sentral.

Reports. BSFIs participating in the NRPS governance structure shall comply with requirements, which will be covered by a separate issuance.

Examination of BSFIs. BSFIs shall make available all policies, procedures and other documents/information related to this Section during the on-site examination, as well as provide copies thereof when a written request is made by the Bangko Sentral.

Sanctions. Consistent with Sec. 002-Q, the Bangko Sentral may deploy enforcement actions to promote adherence to the requirements set forth in Sec. 501-N and bring about timely corrective actions. The Bangko Sentral may issue directives to enforce compliance with the NRPS Framework or impose sanctions to limit the level of or suspend any business activity that has adverse effects on the safety and soundness of the BSFI, among others.

Any violation of this Section shall subject the BSFI and/or its directors, officers and/or employees to the monetary and non-monetary sanctions under Section 37 of Republic Act (R.A.) No. 7653, including but not limited to the following depending on the gravity of the violation committed and the circumstances attendant thereto:

a. Suspension of offering new electronic financial products and services;
b. Suspension/revocation of authority to provide electronic financial products and services; and
c. Suspension/revocation of authority to settle through the Philippine Payments and Settlements System.

(Circular Nos. 1033 dated 22 February 2019, 1022 dated 26 November 2018, and 980 dated 6 November 2017)

502-N SETTLEMENT OF INSTANT RETAIL PAYMENT

Policy Statement. It is the thrust of the Bangko Sentral to ensure efficiency of payment systems in the country. In line with this thrust, the Bangko Sentral requires Bangko Sentral-Supervised Financial Institutions (BSFIs) participating in an automated clearing house (ACH) for instant retail payments to ensure that this ACH provides for certainty of settlement of the multilateral clearing obligations of the clearing participants. The settlement scheme agreed upon by the clearing participants shall form an integral part of the comprehensive credit risk management for instant retail payment services.

For the purpose of this Section, an instant retail payment, otherwise known as fast payment, is defined as an electronic payment in which the transmission of the payment message and the availability of "final" funds to the payee occur in real time or near-real time on as near to a 24-hour and seven-day (24/7) basis as possible[1]. Moreover, as used in this Section, clearing participants shall refer to direct clearing participants.

Minimum requirements for the operation of a settlement mechanism for instant retail payments. The settlement mechanism for instant payments shall meet the following minimum requirements:

a. A clearing participant or its settlement sponsor shall maintain with the Bangko Sentral a demand deposit account (DDA) which shall be used specifically for the settlement of the clearing participant's net clearing obligations arising from instant retail payments;

b. The clearing participant or its settlement sponsor shall prefund the settlement of its net clearing obligation through the DDA stated above, ensuring that such account can sufficiently cover said obligation at any point during a settlement cycle. When prefunding, the clearing participant/settlement sponsor shall consider increasing the fund in its account for longer settlement cycles such as during weekends and holidays;

c. The clearing participants shall agree on thresholds which shall be the bases of the Clearing Switch Operator (CSO) to execute a notification process that enables the clearing participants to efficiently monitor movements in their instant retail payment positions, and at the same time alerts them to place additional funds in their DDAs particularly when the ultimate threshold is breached;

d. The service contract between the clearing participants and the CSO shall include, at a minimum, the following provisions:

   (1) The CSO shall record the clearing participants' DDA balances obtained from the Bangko Sentral at the start of every settlement cycle and monitor the clearing participants' net clearing obligations against their respective account balances;

   (2) Should the instant retail payments position (Funds in the DDA minus net clearing obligation/withdrawal from the DDA) of any of the clearing participants breach their agreed-upon thresholds, the CSO shall immediately send an electronic notification to the concerned clearing participant; and

[1] Based on the paper "Fast payments-Enhancing the speed and availability of retail payments" of the Committee on Payments and Market Infrastructures, Bank for International Settlements

(3) Any instant retail payment which is not fully covered by the corresponding DDA or which will result in a negative instant retail payments position shall be rejected by the CSO. A clearing participant with an instant retail payments position of zero shall be suspended from carrying out further outgoing instant payment transactions until said participant registers a positive position on account of its incoming payment transactions and/or subsequent deposits into its DDA;

e. Should the clearing participants determine that the funds in their DDAs for instant retail payments are excessive after taking into account their highest potential clearing obligations, the clearing participants shall be allowed to withdraw from their DDAs to enable them to make optimal use of their funds; and

f. The Bangko Sentral shall not be precluded from deploying applicable regulatory enforcement actions to concerned clearing participants notwithstanding the inclusion of sanctions in the ACH for non-compliance with the clearing participants' agreed-upon settlement mechanism.

Risk management. In view of the risks involved in the prescribed settlement mechanism for instant retail payments, including the possibility that a rejected payment transaction of a client due to prefunding issues may give rise to serious reputational damages to the concerned clearing participant, the BSFIs participating in the instant retail payment ACH shall ensure that they have the necessary operational and liquidity risk management measures in place. Such measures shall be designed in accordance with the guidelines provided under Sec. 125-N on Operational Risk Management, and Sec. 124-N on Liquidity Risk Management.

Supervisory enforcement action. Consistent with Section 002-Q, the Bangko Sentral may deploy enforcement actions to promote compliance with the requirements set forth in this Section and ensure timely implementation of preventive or corrective measures as needed. As part of its enforcement actions, the Bangko Sentral may issue directives or impose sanctions which limit the level of or suspend any business activity that adversely affects the safety and soundness of a BSFI.

(Circular No. 1000 dated 23 April 2018)

503-N PARTICIPATION IN AUTOMATED CLEARING HOUSES (ACHS)

BSFIs that have been licensed to offer funds transfer services shall make these services interoperable by participating in an ACH. Prior to its participation, a BSFI shall observe the following guidelines:

a. Secure a Confirmation of Eligibility (COE) by submitting to the Bangko Sentral through the appropriate supervising department of the Bangko Sentral a letter of intent to participate in an identified ACH. This letter shall be accompanied by a certification (*Annex A of Appendix Q-89*) signed by the president (or any officer of equivalent rank and function) and chief compliance officer (CCO).

If the BSFI is not yet a member of the Payment System Management Body (PSMB), it shall also indicate in its letter that it intends to become a member of this body;

b. Submit the following minimum documentary requirements to the PSMB duly recognized by the Bangko Sentral.

(1) Valid COE. A COE shall be valid for a period of six (6) months from date of issuance;

(2) Corporate Secretary's Certificate (or equivalent document in the case of foreign bank branches) on the approval of the board of directors (or equivalent management committee in the case of foreign bank branches) of the participation of the BSFI in the ACH; and

(3) Copy of the agreement with the bank sponsoring the BSFI into settlement, if applicable; and

c. Comply with any other requirements set by the PSMB or provided in the ACH.

(Circular No. 1033 dated 22 February 2019)

PART SIX

ANTI-MONEY LAUNDERING REGULATIONS

601-N ANTI-MONEY LAUNDERING REGULATIONS

Covered persons, including their subsidiaries and affiliates, shall comply with the provisions of Part 9 of Q-Regulations, R.A. No. 9160 [Anti-Money Laundering Act (AMLA) of 2001], as amended, and its Implementing Rules and Regulations (IRR).

Sanctions and penalties. The provisions of Part 9 of the Q-Regulations on sanctions and penalties are applicable for violation of the provisions of the AMLA.

(Circular No. 950 dated 15 March 2017)

602-N VALID IDENTIFICATION CARDS FOR FINANCIAL TRANSACTIONS

The provisions of Part 9 of the Q-Regulations on valid identification documents shall apply to all types of financial transactions by NBFIs, including financial transactions involving OFWs.

PART SEVEN

FINANCIAL CONSUMER PROTECTION

701-N FINANCIAL CONSUMER PROTECTION FRAMEWORK[1]

Policy Statement. The Framework is in line with the responsibility of the Bangko Sentral under Section 3 of R.A. No. 7653, as amended by R.A. No. 11211, to promote broad and convenient access to high quality financial services and consider the interest of the general public. Bangko Sentral aims to ensure that financial service providers conduct ethical business practices and do not engage in practices that may cause harm to the consumer as well as consider consumer outcomes in the conduct of their business. Practices that harm consumers introduce risks not only at the level of the financial institution but also to the overall health of the financial sector particularly through decreased public trust and confidence. A well-informed and protected consumer can better benefit from the financial services received and be a more responsible client.

The Framework establishes the guidelines and expectations from Bangko Sentral supervised financial institutions (BSFIs) to institutionalize consumer protection as an integral component of corporate governance and culture as well as risk management. The objective of the Framework is for BSFIs to manage the risks of financial loss that are detrimental to the financial consumers or consumer protection risks inherent to the BSFIs' operations that, if not properly managed, would affect other relevant risks, such as compliance, reputational, legal, operational and credit risks.

***Scope and Applicability*.** The Framework applies to all BSFIs in the conduct of their business. The BSFIs' adoption of the Framework shall be proportionate to their asset size, structure, nature of products and services, and complexity of operations.

***Consumer protection risk management system* (CPRMS).** A BSFI should have a CPRMS that is integrated into the BSFI's enterprise-wide risk management processes and risk governance framework. The CPRMS includes the governance structure, policies, processes, measurement and control procedures to ensure that consumer protection risks are identified, measured, monitored, and mitigated. A carefully devised, implemented, and monitored CPRMS provides the foundation for ensuring the BSFI's adherence to consumer protection standards of conduct and compliance with consumer protection laws, rules and regulations, thereby, ensuring that identified risks to the BSFI and associated risk of financial harm or loss to consumers are properly managed.

Consumer Protection Oversight.

a. *Responsibilities of the Board of Director (Board).* The Board shall be primarily responsible for approving and overseeing the implementation of the BSFI's CPRMS. The Board's responsibilities shall include the following:

   (1) Approve the CPRMS and consumer assistance mechanism (CAM) that takes into consideration the BSFI's business model, market, product lines, and relationships with third parties that may give rise to consumer protection risks;

   (2) Promote a culture of ethical behavior and adherence to the highest standards of fair and responsible dealing with consumers;

   (3) Ensure that adequate information and actions taken are reported on a regular basis in terms of the measurement of consumer protection related risks, reports from the CAM as well as other material consumer related developments that will impact the BSFI;

   (4) Ensure the adequate provision of resources and effective implementation of personnel training and competency requirements;

   (5) Approve remuneration and compensation packages structured to encourage responsible business conduct, fair treatment and avoidance/mitigation of conflicts of interest; and

   (6) Review periodically the implementation and effectiveness of the CPRMS including how findings are reported and whether the audit mechanisms are in place to enable adequate oversight, and put in place a regular mechanism to review the relevance of the CPRMS in case of changes in the BSFI business model and/or operating environment.

[1] BSFIs shall be given six (6) months from 26 September 2019 to: (1) perform a gap analysis of their current consumer protection practices vis-i-vis this Section and (2) propose an action plan duly approved by the Board of Directors to achieve full compliance within a reasonable period of time but in no case longer than one (1) year from 26 September 2019.

b. *Responsibilities of Senior Management.* The Senior Management shall be responsible for ensuring that the practices of the BSFIs are aligned with the approved consumer protection policies and risk management system and consistently displayed throughout the BSFI's place of business particularly across all business units that deal directly with consumers. In this regard, the Senior Management shall:

(1) Ensure that approved CPRMS and CAM policies and procedures are clearly documented, properly understood and appropriately implemented across all levels and business units.

(2) Establish an effective monitoring and management information system to regularly measure, aggregate, and analyze consumer related issues to determine the level of consumer protection risk. An appropriate and clear reporting and escalation mechanism should also be integrated in the risk governance framework. The management information system shall be able to:

(a) Provide adequate information on the performance and quality of the BSFI's CAM that allows for identification of emerging consumer issues and root cause analysis;

(b) Determine the level of consumer protection risk exposure through assessment of its implementation of the Consumer Protection Standards of Conduct (i.e. transparency and disclosure, protection of client information, fair treatment, effective recourse and financial learning and awareness);

(c) Identify and monitor, in a timely manner, consumer protection risk exposures approaching risks of loss to financial consumers, legal and reputational risk as well as other related risks; and

(d) Identify and assess emerging or increasing consumer risks that affect the BSFI such as through social media monitoring and market monitoring.

(3) Ensure that adequate systems and controls are in place to promptly identify issues that affect the consumer across all phases of the relationship with the consumer;

(4) Ascertain that weaknesses in the consumer protection practices or consumer protection emerging risks are addressed and corrective actions are taken in a timely manner; and

(5) Ensure observance of expectations and requirements prescribed under relevant regulations on compliance and internal audit.

(Circular Nos. 1048 dated 6 September 2019, 972 dated 22 August 2017, 890 dated 02 November 2015, and 857 dated 21 November 2014)

702-N POLICIES AND PROCEDURES, CONSUMER PROTECTION STANDARDS OF CONDUCT

The CPRMS and CAM should ensure systematic application of policies and procedures, including the Consumer Protection Standards of Conduct (Standards). The Standards should reflect the core principles, which BSFIs must observe at all times in their dealings with financial consumers: *Provided, further*, That these Standards should be embedded into the corporate culture of the BSFI, enhancing further its defined governance framework while addressing conflicts that are inimical to the interests of the financial consumer.

Disclosure and transparency.[1] BSFIs must ensure that their consumers have a reasonable holistic understanding of the products and services, which they may be acquiring or availing. In this context, full disclosure and utmost transparency, to the extent allowed under applicable laws and regulations, are the critical elements that empower the consumer to make comparison and informed financial decisions. This is made possible by providing the consumer with ready access to information that accurately represents the nature and structure of the product or service, its terms and conditions, as well as its fundamental benefits and risks.

The BSFI demonstrates adherence to appropriate and adequate disclosure and transparency when:

a. The manner of disclosure, whether in advertising materials, terms and conditions, and other forms of communication, are clear, concise, accurate, understandable and not misleading.

b. Information are disclosed before, during and after a sale of a financial product or service and during key stages of the relationship with the consumer; especially if there are any changes in the terms and conditions.

c. Terms and Conditions contain all significant provisions of the financial product or service giving prominence to key features/facts. It includes the following with specific details relating to the type of product or service being offered:

[1] This Section should be read in conjunction with existing regulations related to disclosure and transparency of key information on loan and investment products and services, regulations on the conduct of treasury and trust activities of BSFIs and regulations governing fees on retail bank product/services and dormant deposit accounts.

(1) Information on risks, return, possible warnings, any waiver of rights and limitations of liabilities, consumer's rights and responsibilities, consequences of failure to meet obligations, rights and responsibilities of the BSFI, involvement of authorized agents, any conflict of interest by BSFI staff, cancellation and product portability, among others;

(2) The full price or cost to the consumer including all interest, fees, charges, and penalties. The terms and conditions must clearly state whether interest, fees, charges, and penalties can change over time. The method for computing said interest, fees, charges, and penalties shall be disclosed consistent with existing regulations; and

(3) For more complex products, such as investment products, the key features as well as costs and risks shall be highlighted in a key facts statement or Product Highlight Sheet (PHS). The PHS shall enable comparison with other products and shall be provided at no additional cost. Before the consumer signs any contract, the BSFI should ensure that the consumer has freely signed a statement to the effect that the consumer has duly received, read, and understood the PHS.

d. Advertising materials are not false, misleading, or contain deceptive statements or omit key information that may materially and/or adversely affect the decision of the consumer to avail of a service or acquire a product. BSFIs are responsible for all the statements made in said advertising materials.

e. The terms and conditions, advertising materials and other communications contain the following:

(1) Contact and information of the BSFI's internal complaints handling unit; and
(2) Statement that the BSFI is a regulated entity and contact information of the regulator.

f. Communication of the BSFI staff is conducted in such a manner that clients can understand the terms of the contract and their rights and obligations, taking into consideration client segments that may have financial literacy limitations.

g. Adequate time is given to consumers to review, ask questions and receive information to fully understand the terms and conditions prior to signing the contract or executing the transaction. BSFI should ensure that documents signed by the consumer are completely filled out and have no blank terms. The consumer should be given a copy of each of the documents he/she signed (including, but not limited to the contract) with all terms and conditions. The consumer should also be provided with proof of the transaction, whether printed or in electronic copy at the option of the consumer, immediately after the transaction has been completed.

h. Statements of Account or Billing Statements are provided regularly in a convenient manner to the consumer, or through the channel through which the product was sold, commensurate to the type of product and terms.

i. Notifications in writing (or electronic form) and through other channels are provided to the consumer with regard to any of the key features and terms of the product, the nature and extent of the change and its potential impact on the consumer. This notification requirement also apply to similar changes to any condition/s specified in the contract. Nonetheless, this does not cover financial products that have been identified at the inception to be subject to floating interest rate all throughout their life cycle as long as basis has not changed.

The principles of the above standards for disclosure and transparency shall be applicable even to products and services offered electronically as well as to products catering to different market segments with particular consideration for segments that may have limited financial literacy.

Protection of client Information.[1] Financial consumers have the right to expect that their financial transactions, as well as relevant personal information disclosed in the course of a transaction, are kept confidential and are secured. Towards this end, BSFIs must ensure that they have well-articulated information security guidelines, well-defined protocols, a secure database, and periodically re-validated procedures in handling the personal information of their financial consumers. This should be an end-to-end process that should cover, among others, the array of information that will be pre-identified and collected, the purpose and manner of gathering each information, the Information Technology (IT)-security infrastructure of the BSFI, and the protocols for disclosure, both within the BSFI and especially to third parties.

The BSFI demonstrates the ability to protect client information if it is able to:

a. Have a written privacy policy to safeguard its customers' personal information. This policy should govern the gathering, processing, use, distribution, storage, and eventual disposal of client information and the identification of levels of permissible access to consumer's data for employees. The BSFI should ensure that privacy policies and sanctions for violations are implemented and strictly enforced.

b. Ensure that privacy policies are regularly communicated throughout the organization.

[1] This Section should be read in conjunction with existing regulations on IT Risk Management System and laws and regulations on data privacy.

c. Have appropriate systems in place to protect the confidentiality and security of the personal data of its consumers against any threat or hazard to the security or integrity of the information and against unauthorized access. This includes a written information security plan that describes its program to protect consumer personal information. The plan must be appropriate to its size and complexity, nature and scope of its activities, and the sensitivity of customer information it handles.

d. Have a strong IT System in place to protect the confidentiality, security, accuracy, and integrity of customer's personal information. This includes network and software design, as well as information processing, database storage, transmission, retrieval, and disposal. Security must be maintained throughout the life-cycle of consumer information, from data entry to disposal, and provide clear policies and procedures on data breaches including mechanisms to compensate consumers.

e. Subject to the provisions of existing laws and regulations on data privacy, send written communication to its consumers informing and explaining how it will use and share the consumer's personal information.

f. Obtain the consumers' written consent, unless in situations allowed as an exception by law or Bangko Sentral-issued regulations on confidentiality of consumer's information, before sharing consumers' personal information with third parties such as credit bureau, collection agencies, marketing and promotional partners, financial technologies that use a varied range of consumer data and other relevant external parties.

g. Provide access to consumers to the information shared and allow consumers to challenge the accuracy and completeness of the information and have these amended as appropriate.

Fair treatment. This principle ensures that financial consumers are treated fairly, honestly, and professionally at all stages of its relationship with the BSFI. BSFIs shall adopt mechanisms to safeguard the interest of their consumers which shall include rules regarding ethical staff behavior, acceptable selling practices, fair and equitable terms and conditions, provision of products and services appropriate to the capacity and risk appetite of the consumers, among others, and incorporate the same in their policies and procedures, control functions and agreements with outsourced third parties.

The BSFI demonstrates the principle of fair treatment towards financial consumers if the policies and practices observe the following:

a. Terms and conditions are not unfair in that there is significant imbalance in the parties' rights and obligations arising under the contract, to the detriment of the consumer.

b. Product and services are offered with skill, due care and diligence and shall consider the consumers' financial situation, needs, capabilities and overall risk profile. Adequate product suitability and affordability mechanisms shall be in place subject to existing rules and regulations. lf the requested products are of higher risk rating than a consumer's risk tolerance assessment results, the BSFI should draw the consumer's attention to the risk mismatch and provide a written disclosure of consequences which is accepted by the client. Product bundling should also take into consideration the product suitability and should not unduly limit consumer choice.

c. Adequate product approval are in place to ensure that products and services are fit for the targeted consumer. Product development, review, distribution and after sales process shall take into consideration the risks to consumers.

d. BSFIs do not unduly limit a consumer's ability to cancel or transfer the product to another provider as disclosed in the terms and conditions. As may be appropriate, BSFIs shall provide the consumer who is a natural person with a cooling off period subject to the following conditions:

   (1) The "cooling-off' period shall be for a reasonable number of days, of at least two (2) banking days, immediately following the submission of any agreement or contract, particularly for financial instruments with a remaining term of at least one (1) year: *Provided,* That consumers with aggregate investment size of P500 thousand and above are excluded from invoking the cooling off period: *Provided, further*, That securities "traded" or "to be traded" are exempt from the coverage of the cooling-off period.

   (2) Consumers may be permitted to cancel the agreement without penalty of any kind upon his or her written notice to the BSFI during the cooling-off period. The BSFI may however collect or recover reasonable amount of processing fees. Conditions and fees for products with automatic right to cooling off must be appropriately determined, discussed and explained to consumers.

e. BSFI staff treats consumers with professional competence and in a manner that is fair and responsible. The BSFI shall:

   (1) Incorporate in its Code of Conduct (Code) the values and standards that uphold protection of consumers and embed the Consumer Protection Standards of Conduct; and have process in place to detect, respond to and enforce sanctions on violations thereof.

(2) Align its recruitment and training policies around professional, fair and responsible treatment of clients, for instance:

(a) BSFI staff receives adequate training suitable for the complexity of the products or services they sell and are able to explain the key features of the product, including statutory and regulatory requirements.

(b) BSFI staff does not use deceptive or high pressure/aggressive sales techniques and should not force clients to sign contracts or rush into a financial deal without the benefit of shopping around.

(c) BSFI staff involved in collections, as well as agents contracted for the purpose, receives training in acceptable debt collection practices and loan recovery procedures consistent with existing relevant regulations.

(d) BSFI staff does not employ practices that discriminate or take advantage of difficulties faced by, vulnerable groups such as the low-income earners, and persons with disability.

(e) Establish policies and procedures that aim to protect consumers' deposits and other assets against internal or external fraud or misuse and have mechanisms in place to manage and resolve actual conflicts of interest with respect to compensation policies that arise in the interaction between their staff and agents and their consumers and potential consumers.

(3) Include ethical behavior, professional conduct, and quality of interaction with consumers as part of staff performance evaluations.

(4) Ensure that the remuneration structure for staff of BSFI and authorized agent is in a manner that encourages responsible business conduct, fair treatment and avoidance/mitigation of conflicts of interest.

(5) Perform appropriate due diligence before selecting the authorized agents/outsourced parties taking into account the agents' integrity, professionalism, financial soundness, operational capability and capacity, and compatibility with the FI's corporate culture and implement controls to monitor the agents' performance on a continuous basis.

Effective recourse. Financial consumers should be provided with accessible, affordable, independent, fair, accountable, timely, and efficient means for resolving complaints with their financial transactions. BSFIs should have in place mechanisms for complaint handling and redress, and may employ various modalities or technological innovations.

The BSFI demonstrates the ability to provide effective recourse if it is able to:

a. Establish an effective Consumer Assistance Management System (CAMS) designed to receive, record, evaluate, resolve, monitor and report consumer complaints, concerns, inquiries or requests to be implemented by a designated officer, unit, group or department commensurate to the size, structure, nature of products and services, and complexity of operations, ensuring that there is no conflict of interest.

b. Establish, maintain and implement internal policies and practices for a reasonable and prompt handling of consumer concern.

c. Make available a wide range of channels in which consumers can conveniently lodge their complaints, inquiries and requests; and put in place a dedicated helpdesk or hotline for the said purpose.

d. Maintain a management information system for the complaints from consumers that allows for consolidation, comparison and analysis on a regular basis including investigating whether complaints indicate an isolated issue or a more widespread issue for consumers. This analysis and reports of consumer complaints must have clear reporting and escalation structure within the BSFI's risk governance framework. The complaints reports shall be submitted in accordance with the existing regulations.

e. Establish clear policies on investigation, resolution and restitution of complaints and making the process clear to the consumer.

f. Ensure that information on the consumer assistance channels and applicable timelines for handling concerns are published in the following:

(1) Terms and Conditions of a BSFIs product or service;
(2) Various channels of service delivery; and
(3) Conspicuous places within the premises of BSFIs and their branches/other offices.

g. Provide for adequate resources to handle financial consumer complaints efficiently and effectively. Staff handling complaints should have appropriate experience, knowledge, and expertise. Depending on the BSFI's size and complexity of operation, a Senior staff member should be appointed to be in charge of the complaint handling process.

Financial education and awareness. Financial education initiatives give consumers the knowledge, skills, and confidence to understand and evaluate the information they receive and empower them to make informed financial decisions.

Because BSFIs deal directly with financial consumers, they have the reach, expertise, and established relationships ideal to deliver financial education, distinct and separate from information about their products. BSFIs should provide basic information on consumers' and the BSFI's rights and responsibilities.

BSFIs should demonstrate efforts at financial education, which may include digital literacy for products offered electronically, with the presence of programs whether as specific initiatives or as aspects embedded in their regular interface with consumers.

(Circular Nos. 1048 dated 06 September 2019, 1003 dated 16 May 2018, 930 dated 18 November 2016, 898 dated 14 January 2016, 890 dated 02 November 2015, and 857 dated 21 November 2014)

703-N ENFORCEMENT ACTIONS

Consistent with Sec. 002-Q, the Bangko Sentral may deploy enforcement actions to promote adherence to the Bangko Sentral Regulations on Financial Consumer Protection.

(Circular Nos. 1048 dated 06 September 2019, 890 dated 02 November 2015, and 857 dated 21 November 2014)

PART EIGHT

OTHER REGULATIONS

801-N FORWARD AND SWAP TRANSACTIONS

(Deleted by Circular No. 1119 dated 07 June 2021)

802-N PHILIPPINE AND FOREIGN CURRENCY NOTES AND COINS

The rules and regulations that shall govern the treatment and disposition of counterfeit Philippine and foreign currency notes and coins, the reproduction and/or use of facsimiles of legal tender Philippine currency notes and coins, the replacement and redemption of legal tender Philippine currency notes and coins considered mutilated or unfit for circulation, and the treatment and disposition of Philippine currency notes and coins called in for replacement are provided in Sec. 1111-Q.

803-N PERSONAL EQUITY AND RETIREMENT ACCOUNT (PERA) MARKET PARTICIPANTS AND PERA INVESTMENT PRODUCTS

The guidelines on the qualification/accreditation of PERA Market Participants and PERA Investment Products which are being issued pursuant to R.A. No. 9505, also known as the PERA Act of 2008 (PERA Act), and its implementing Rules and Regulations (the PERA Rules) are provided in Sec. 1121-Q.

804-N BATAS PAMBANSA BLG. 344 – AN ACT TO ENHANCE THE MOBILITY OF DISABLED PERSONS BY REQUIRING CERTAIN BUILDINGS, INSTITUTIONS, ESTABLISHMENTS AND PUBLIC UTILITIES TO INSTALL FACILITIES AND OTHER DEVICES

In order to promote the realization of the rights of disabled persons to participate fully in the social life and the development of the societies in which they live and the enjoyment of the opportunities available to other citizens, no license or permit for the construction, repair or renovation of public and private buildings for public use, educational institutions, airports, sports and recreation centers and complexes, shopping centers or establishments, public parking places, workplaces, public utilities, shall be granted or issued unless the owner or operator thereof shall install and incorporate in such building, establishment or public utility, such architectural facilities or structural features as shall reasonably enhance the mobility of disabled persons such as sidewalks, ramps, railings and the like. If feasible, all such existing buildings, institutions, establishments, or public utilities may be renovated or altered to enable the disabled persons to have access to them.

805-N REPUBLIC ACT NO. 9994 – AN ACT GRANTING ADDITIONAL BENEFITS AND PRIVILEGES TO SENIOR CITIZENS, FURTHER AMENDING REPUBLIC ACT NO. 7432 OF 1992, AS AMENDED BY REPUBLIC ACT NO. 9257 OF 2003

To be able to give full support to the improvement of the total well-being of the elderly and their full participation in society, and to motivate and encourage them to contribute to nation building, senior citizens shall be provided with express lanes in all branches and offices of NBFIs. If the provision of express lanes is logistically impossible in any particular branch or office of any NBFI, said branch or office shall ensure that senior citizens are accorded priority service. The provision of express lanes and/or priority service shall be made known to the general public through a clearly written notice prominently displayed in the transaction counters of all NBFI branches and/or offices.

806-N OTHER PAYMENTS ON NBFIs

Payments to the Bangko Sentral. NBFIs shall make payments for transactions, including penalties and other charges, other than those required to be paid through the NBFIs' DDA, in accordance with the manner of payment provided in the billing notice, or through any such acceptable means of payment as may be provided in pertinent advisories issued by the Bangko Sentral. Such payments shall be accompanied by the appropriate form as shown in *Appendix Q-26.*

(Circular No. 1125 dated 20 August 2021)

PART NINE

REGULATIONS SPECIFIC TO MONEY SERVICE BUSINESS OPERATIONS

901-N MONEY SERVICE BUSINESS OPERATIONS

The following rules and regulations shall govern the operations and reporting obligations of non-bank entities engaged in remittance, money changing, and/or foreign exchange dealing, pursuant to Section 3 in relation to Section 11 of R.A. No. 9160 [The Anti-Money Laundering Act (AMLA) of 2001], Section 3(c) of R.A. No. 10168 (The Terrorism Financing Prevention and Suppression Act of 2012), and their Implementing Rules and Regulations, and Section 80 of R.A. No. 7653 , as amended (The New Central Bank Act).

***Definition of terms*.**

a. *Remittance and Transfer Company (RTC)* – refers to any entity that provides Money or Value Transfer Service (MVTS). *MVTS* refers to financial services that involve the acceptance of cash, cheques, other monetary instruments or other stores of value and the payment of a corresponding sum in cash or other form to a beneficiary by means of a communication, message, transfer, or through a clearing network. This includes the following:

   (1) *Remittance Agent (RA)* – refers to any entity that operates a remittance business network which includes any or combination of the following:

      (a) *Remittance Direct Agent (RDA)* - refers to any entity that is covered by a direct contracted remittance agreement or similar agreement to act in behalf of a third party engaged in remittance business.
      (b) *Remittance Network Provider (RNP)* – refers to any entity that provides a network of Remittance Sub-Agents to perform remittance services to RTC.
      (c) Such other similar entities as may be determined by the Monetary Board.

      For the purpose of this Section, entities functioning as an RA as herein defined shall be registered as such, notwithstanding whether they are also acting as Remittance Sub-Agent (RSA).

   (2) *Remittance Platform Provider (RPP)* – refers to any entity that provides a shared or common platform/IT infrastructure and maintains settlement accounts in order to provide funds for remittance transactions within its network.

      Foreign RPP shall do business in the Philippines through its locally incorporated subsidiary: *Provided*, That an existing foreign RPP doing business in the Philippines shall have two (2) years within which to incorporate a local subsidiary: *Provided, further,* That in the meantime that the foreign RPP does not have a locally incorporated subsidiary, it shall constitute a resident agent which shall, among others, be liable for all its obligations in the Philippines.

   (3) *E-Money Issuer (EMI)* – refers to any entity authorized by the Bangko Sentral under Sec. 702 of the MORB which provides money transfer or remittance services using electronic stored money value system and similar digital financial services.

b. *Remittance Sub-Agent (RSA)* – refers to any person authorized by the RTC to perform certain relevant undertakings in the remittance business. This includes any person that is allowed by an RDA, RANP, and/or EMI to do any part of the remittance business in their behalf.

   An RSA shall no longer be required to register with the Bangko Sentral. However, the RTC shall comply with the notification requirements as provided in Sec. 901-N (*Notification requirements*, Item "*(b)*")

c. *Money Changer (MC)/Foreign Exchange Dealer (FXD)* – refers to any entity who engages in money changing/foreign exchange dealing business. This includes authorized agent banks' subsidiary/affiliate forex corporations (AAB-forex corps), among others.

d. *Remittance business* – refers to the transferring of funds or facilitating the movement of funds or monetary instruments from the sender or originator to a receiver or beneficiary locally and/or internationally and undertaken by any financial institution.

e. *Money changing/Foreign exchange dealing* – refers to the buying or selling of currencies in exchange for another currency.

f. *Monetary instrument* – refers to:

(1) Coins or currency of legal tender of the Philippines, or of any other country;
(2) Drafts, checks, and notes; and
(3) Other similar instruments where title thereto passes to another by endorsement, assignment or delivery.

g. *Head office* – refers to the principal or main place of business of an RTC/MC/FXD.

h. *Branch* – refers to any company-owned office or place of business other than the Head Office of an RTC/MC/FXD.

i. *RSA office* – for purposes of this Section, it shall be considered as an extension office of an RTC. It includes the head office and branches of an RSA.

j. *Offices* – refer collectively to the head office, branches and RSA office where money changing/foreign exchange dealing and/or remittance transactions shall be conducted.

Requirements for registration. RTCs/MCs/FXDs shall be registered with the Bangko Sentral before they can operate. All existing RTCs/MCs/FXDs shall apply/re-apply for registration.

a. *Registration of RTCs/MCs/FXDs*. For registration purposes, RTCs/MCs/FXDs shall be classified into six (6) categories with the following criteria:

Type	Classification	Benchmark Capital
A	Large-Scale Operator - Remittance Agent with or without money changing/foreign exchange dealing operations with average monthly network volume of transactions of at least P75.00 million	At least P50.00 million
B	Small-Scale Operator - Remittance Agent with or without money changing/foreign exchange dealing operations with average monthly network volume of transactions of less than P75.00 million	Less than P50.00 million
C	E-Money Issuer as authorized under Sec. 702 of MORB	P100.00 million
D	Remittance Platform Provider	P10.00 million
E	Large-Scale Operator - Money Changer/Foreign Exchange Dealer with average monthly network volume of transactions of at least P50.00 million	At least P10.00 million
F	Small-Scale Operator – Money Changer/Foreign Exchange Dealer with average monthly network volume of transactions of less than P50.00 million	Less than P10.00 million

RTCs/MCs/FXDs shall submit the Application for Registration and Notarized Deed of Undertaking *(Appendix N-8)* to the appropriate supervising department of the Bangko Sentral.

RTCs/MCs/FXDs shall adhere to the registration procedures contained in *Appendix N-7.*

b. *Issuance of Bangko Sentral Certificate of Registration (COR) and Metal Plate.* RTCs/MCs/FXDs shall be issued with the corresponding COR upon fulfillment of the registration requirements. Within three (3) months from the date of issuance of the COR, a Bangko Sentral-registered RTC/MC/FXD shall commence operations.

However, the Bangko Sentral shall not issue a COR in cases of the following:

(1) Failure to provide the complete required documents; and
(2) Any of the RTC/MC/FXD's proprietors, or any of its partners, directors, or principal officers, as applicable, is not fit and proper.

In considering the application for COR, the Bangko Sentral shall take into account the fitness and propriety of the proprietor, partner, directors, or principal officers. In determining whether a person is fit and proper, regard shall be given to the following: integrity/probity, market reputation, competence, and financial capacity.

A metal plate bearing the unique registration number of the RTC/MC/FXD shall be issued to each RTC/MC/FXD head office. The Bangko Sentral reserves the right to collect reasonable amount to cover the cost of production/issuance of the metal plate.

c. *Accreditation of RSA.* Duly registered RTCs may accredit their own RSAs: *Provided,* That: (i) the engagement of RSA's remittance services is directly related to the accomplishment of RTC's business plan/strategy; and (ii) appropriate risk management policies and procedures pertaining to the aforementioned engagement are in place.

The RSA shall be considered as part of the network of its accrediting RTC. RSAs are also subject to effective continuing oversight of their RTCs. RTC shall conduct appropriate due diligence in the accreditation of its RSAs and shall be responsible for the RSAs' compliance with all applicable anti-money laundering (AML)/combating the financing of terrorism (CFT) rules and regulations.

Relative to the engagement of RSA, the policies and procedures, at a minimum, shall contain the following:

(1) Selection criteria and process in the accreditation of an RSA. The selection criteria shall take into account, among others, the necessary permits/authorization to perform the remittance business, and the fitness and propriety of the proprietor, partners, directors, or principal officers of an RSA. In determining whether a person is fit and proper, regard shall be given to the following: integrity/probity, market reputation, competence, and financial capacity;

(2) Regular operational review on RSA's compliance with applicable laws, rules and regulations, especially on compliance with AML/CFT and consumer protection requirements and performance in carrying out remittance activities; and

(3) Delisting of an RSA or termination of a remittance contract.

A relationship or remittance arrangement with an RSA shall be supported by a notarized remittance agreement. The contract shall clearly identify the roles and duties of each party including, among others, the responsibilities to comply with relevant Bangko Sentral rules and regulations particularly on AML/CFT and consumer protection requirements. It should also stipulate therein that the RSA shall allow the Bangko Sentral to have access on the remittance system, records and other relevant information.

The RTC shall ensure that its RSA offices shall maintain a signage posted conspicuously in their premises, indicating that the RSA is an accredited agent of the RTC.

d. *Mandatory training requirement.* The proprietors[1], partners, directors, president or officer of equivalent rank and function, over-all head of the money service business operation and the head of the compliance unit shall attend a seminar on AML/CFT laws, rules and regulations, before start of operations, conducted by the Bangko Sentral, Anti-Money Laundering Council (AMLC), or any reputable training provider[2].

Notification requirements. RTCs/MCs/FXDs shall inform the appropriate supervising department of the Bangko Sentral of the following events:

a. *Commencement of operations.* RTC/MC/FXD shall notify within five (5) business days from the start of operations of its head office.

b. *New offices*. RTC shall submit a list of all its new branches and accredited RSAs on a monthly basis within five (5) business days from end of the reference month.

c. *New/Terminated tie-up partner/s.* RTC shall submit a list of all its new and terminated local/foreign remittance tie-up partners during the month within five (5) business days from the end of the reference month.

The relationship or remittance arrangement with the tie-up partner/s shall be supported by remittance agreement/s which shall be notarized or consularized if originated/signed abroad. RTC shall ascertain that its tie-up partner is authorized to engage in remittance business by the appropriate supervising/ licensing authority and is compliant with the AML/CFT laws of the country where it operates. All remittance agreements shall be made readily available during examination or upon request of the Bangko Sentral without delay.

d. *Change of tie-up partner/s.* RTC shall notify within five (5) business days from the addition and/or termination of tie-up partner/s and shall submit the following documents, if applicable:

[1] Refer to owner of single proprietorship MSBs

[2] Refers to an entity which has an adequate track record of successfully conducting training programs preferably on financial institution-oriented courses, including AML/CFT training. For this purpose, the RTC/MC/FXD shall be responsible in ascertaining whether the training provider is reputable as herein defined.

(1) Notarized tie-up agreement/s which shall be consularized if originated/signed abroad; and
(2) Proof that the RTC or counterparty is authorized to engage in the remittance business and is subject to the anti-money laundering laws of the country where it operates.

e. *Transfer of location.* RTC/MC/FXD shall notify within five (5) business days from actual date of transfer.

f. *Closure of office.* RTC/MC/FXD shall notify within five (5) business days from the actual date of closure.

g. *Closure of business.* RTC/MC/FXD shall notify within five (5) business days from the actual date of closure and shall submit the following documents:

(1) Certification by the owner or partnership/board resolution, as the case may be, authorizing/attesting the closure of RTC/MC/FXD; and
(2) Original copy of Bangko Sentral COR issued to RTC/MC/FXD.

Change of registered/business name. RTC/MC/FXD shall not change its registered/business name without submitting to the appropriate supervising department of the Bangko Sentral the following documents:

a. COR from the Department of Trade and Industry (DTI), Securities and Exchange Commission (SEC) or Cooperative Development Authority (CDA), as the case may be, indicating the new business/registered name; and
b. Original copy of Bangko Sentral COR issued under the old name.

The Bangko Sentral shall issue a new COR indicating the new registered/business name of the RTC/MC/FXD.

Change of ownership or control. RTC/MC/FXD shall obtain prior approval from the Bangko Sentral for any change in: ownership of a sole proprietorship or partnership; or control of a corporation. *Control* shall refer to any transaction involving voting shares of stock of an RTC/MC/FXD that will result in ownership or control of at least twenty percent (20%) of voting shares of stock of RTC/MC/FXD by any person, whether natural or juridical, or which will enable such person to elect, or be elected as, a director of such RTC/MC/FXD. RTC/MC/FXD shall submit the names of its proposed new owner/s or controlling shareholder for evaluation. Failure to seek prior approval may result in cancellation of registration.

Reports.

a. *Required reports.* RTCs/MCs/FXDs shall maintain records and submit the following required reports, duly certified by the proprietor/managing partner/president or any officer of equivalent rank, to the appropriate supervising department of the Bangko Sentral:

(1) Semestral report of operating, and closed/delisted RTC/MC/FXD offices which shall be submitted within ten (10) business days from the end of the reference semester;

(2) Audited financial statements (AFS), accompanied by the documentary requirements as enumerated under *Appendix N-21*, which shall be submitted not later than 120 calendar days after the close of the reference calendar/fiscal year adopted by the RTC/MC/FXD. However, RTCs/MCs/FXDs classified as type "F" (small-scale operator-money changer/foreign exchange dealer with average monthly network volume of transactions of less than P50 million and with less than P10 million capital) are not required to submit AFS to the Bangko Sentral and its annual financial audit may be conducted by external auditor other than those included in the List of Selected External Auditors for BSFIs: *Provided,* That the AFS shall be made readily available to the Bangko Sentral during examination, or whenever requested. Financial audit of RTCs/MCs/FXDs, except those with type "F" license, shall be rendered by an external auditor included in the List of Selected External Auditors for BSFIs. RTCs/MCs/FXDs as well as external auditors shall strictly observe the requirements in the submission of the AFS and reports under Secs. 134-N, 133-N and *Appendix N-21*.

In addition, RTCs/MCs/FXDs shall include supplementary information at the end of the notes to the financial statements as prescribed under Annex C of *Appendix N-21*.

(3) Quarterly reports on the total value of money changing/foreign exchange transactions which shall be submitted within ten (10) business days from the end of the reference quarter; and

(4) Quarterly reports on the total value of foreign and domestic remittance transactions which shall be submitted within ten (10) business days from the end of the reference quarter.

(5) Report on Crimes/Losses (RCL) which shall be electronically submitted within ten (10) calendar days from knowledge of the crime/incident.

Reporting and Notification Guidelines on Crime/Losses

a. MSBs shall report on the following matters to the Bangko Sentral:

(1) Crimes whether consummated, frustrated or attempted against property/facilities (such as robbery, theft, swindling or estafa, forgery and other deceits) and other crimes involving loss/ destruction of property of the MSB when the amount involved in each crime is P20,000 or more.

Crimes involving MSB personnel, regardless of amount and whether or not such crimes resulted in the loss/destruction of property of the MSB, shall likewise be reported to the Bangko Sentral.

(2) Incidents involving material loss, destruction or damage to the MSB's property/facilities, other than arising from a crime, where the amount involved per incident is P20,000 or more.

(3) *Definition of terms*. For the purpose of this regulation, the following definitions shall apply:

(a) Swindling (*Estafa*) - a crime committed by a person who defrauds another causing the latter to suffer damage by any of the following means:

(i) with unfaithfulness or abuse of confidence;
(ii) by false pretense or fraudulent acts executed prior to or simultaneously with the commission of the fraud; or
(iii) through other fraudulent means and other forms of swindling, under Articles 315 to 317 of the Revised Penal Code, as amended.

(b) *Theft* - a crime committed by a person who, with intent to gain but without violence against or intimidation of persons nor force upon things, shall take personal property of another without the latter's consent pursuant to Article 308 and other pertinent provisions of Chapter III, Title X of the Revised Penal Code, as amended.

(c) *Robbery* - a crime committed by a person who, with intent to gain, shall take any personal property belonging to another, by means of violence against or intimidation of any person, or using force upon anything pursuant to Article 295 and other pertinent provisions of Chapter 1, Title X of the Revised Penal Code, as amended.

(d) *Falsification* - a crime committed by a person who falsifies a document by

(i) Counterfeiting or imitating any handwriting, signature or rubric;

(ii) Causing it to appear that persons have participated in any act or proceeding when they did not in fact so participate;

(ii) Attributing to persons who have participated in an act or proceeding statements other than those in fact made by them;

(iii) Making untruthful statements in a narration of facts;

(iv) Altering true dates;

(v) Making any alteration or intercalation in a genuine document which changes its meaning;

(vi) Issuing in an authenticated form a document purporting to be a copy of an original document when no such original exists, or including in such a copy a statement contrary to, or different from, that of the genuine original; or

(vii) Intercalating any instrument or note relative to the issuance thereof in a protocol, registry, or official book and other acts falling under Articles 169, 171, 172 and 178 of the Revised Penal Code, as amended.

(e) *Credit-card related crimes* – crimes arising through the use of credit cards.

(f) *Other crimes that may cause loss to the MSB* - crimes committed that cannot be appropriately classified under any of the above classifications.

(g) *Negligence* - the failure to exercise the care which an ordinarily prudent person would use under the circumstances in the discharge of the duty then resting upon him.

(h) *Non-crime related loss* – Incidents that may cause the MSB to suffer a loss arising from fortuitous events.

(i) *Insider* - person involved include proprietor/partners/directors/ principal officers and other personnel directly involved in Money Service Business Operations.

(j) *Outsider* - persons involved other than an insider.

(k) *Perpetrator* - a person, whether an insider or outsider, who is responsible for the commission of crime either by direct participation, inducement or cooperation, including accomplices and accessories as defined under Articles 18 and 19 of the Revised Penal Code, as amended.

(l) *Victim* - an insider or outsider other than the perpetrator, who is the aggrieved party to the crime and may as a result of the incident, suffered the loss.

(m) *Attempted crime* - a crime is attempted when the perpetrator commences the commission of the crime directly by overt acts and does not perform all of the acts of execution which should produce the crime by reason of some cause or accident other than his own desistance under Article 6 of the Revised Penal Code, as amended.

(n) *Frustrated crime* - a crime is classified as frustrated, when the perpetrator performs all the acts of execution which would produce the crime as a consequence but which, nevertheless, do not produce it by reason of causes independent of the will of the perpetrator under Article 6 of the Revised Penal Code, as amended.

(o) *Consummated crime* - a crime is consummated when all the acts necessary for the execution and accomplishment of the crime was performed. As a result, the MSB may have suffered a loss, the recoverable portion of which should be deducted to arrive at the probable loss incurred by the MSB.

(p) *Termination of the investigation* – an investigation is said to be terminated when all the material facts/information which are sufficient to support a conclusion relative to the matters involved have already been gathered and a finding/conclusion may be made based on the gathered information.

b. The following guidelines shall be observed in the preparation and submission of the report.

(1) The Branch or Head Office's R C L shall be submitted electronically to the Bangko Sentral in the email address to be provided by FSS within ten (10) calendar days from knowledge of the crime or incident through the MSB's Head Office and shall be certified correct by the compliance officer or officer of equivalent rank and function. When the deadline falls on a non-business day, the report shall be submitted on the immediately following business day.

Supporting documents (e.g., police report on the investigation of the incident) shall be made readily available by the MSB during Bangko Sentral examination or as requested by the Bangko Sentral.

(b) Where a thorough investigation and evaluation of facts is necessary to complete the report, an initial report electronically submitted in the email address to be provided by FSS within the said deadline of ten (10) calendar days may be accepted: *Provided*, That a complete report is electronically submitted in the email address to be provided by FSS not later than twenty (20) calendar days from termination of investigation.

Moreover, an RCL with incomplete information shall be considered as erroneous report, and the MSB concerned shall be required to submit an amended report subject to penalties on late reporting for Category B reports under Sec. 901-N.

b. *Delayed/erroneous/unsubmitted report.* Violation of the foregoing reporting requirements consisting of erroneous, delayed or unsubmitted reports, shall subject the RTC/MC/FXD concerned to the appropriate penalties after observance of due process.

A submitted report that, upon validation by the Bangko Sentral, is found to be non-compliant with the reporting requirements prescribed herein or in subsequent guidelines shall be considered as willful failure or refusal to comply with a regulation and shall be classified as "*Erroneous*". On the other hand, a report that was able to comply with the reporting requirements or guidelines of this regulation after the submission deadline for said report may be considered as willful delay and shall be classified as "*Delayed*". Finally, a report that was not able to comply with the reporting requirements or guidelines of this regulation by the time the next report becomes due or upon the lapse of thirty (30) business days from the report's submission deadline, whichever comes first, may be considered as willful failure or refusal to comply with a regulation and shall be classified as "*Unsubmitted*".

The reports required under this Section shall be considered *Unsubmitted* after the lapse of thirty (30) business days from the submission deadline.

Internal control. RTCs/MCs/FXDs shall maintain an internal control system commensurate to the nature, size and complexity of their respective businesses.

Fees. Registration and annual service fees shall be paid by RTCs/MCs/FXDs to the Bangko Sentral.

a. *Registration fee.* The one-time, non-refundable registration fee for RTCs/MCs/FXDs shall be as follows:

Type	Registration Fee
A	P100,000
B	P20,000
C	P100,000
D	P100,000
E	P100,000
F	P20,000

Further, except for EMIs, a non-refundable supplemental registration fee of P1,000 shall be paid for each office other than the head office.

b. *Annual service fee.* RTCs/MCs/FXDs shall pay, not later than March of every year, commencing in 2018 the following as annual service fee for continued registration:

Type	Annual Service Fee
A	P100,000
B	P20,000
C	P300,000 and/or as determined by the Monetary Board
D	P100,000
E	P100,000
F	P20,000

c. *Processing fee for replacement of Bangko Sentral COR*. A non-refundable processing fee of P1,000 shall be assessed for replacement of Bangko Sentral COR for whatever reason.

Transactional requirements for RTCs/MCs/FXDs.

a. *Regulation on large value pay-outs.* Large value pay-outs of more than P500,000 or its foreign currency equivalent, in any single transaction with customers or counterparties, shall only be made via check payment or direct credit to deposit accounts.

b. *Sale of foreign currencies.* MCs/FXDs, except AAB-forex corps, shall be allowed to sell foreign currencies in an amount not exceeding USD10,000 or its equivalent and not to exceed USD50,000 or its equivalent per month per customer. Exemption or higher limits may be granted by the appropriate supervising department of the Bangko Sentral if justified by the business model of the MC/FXD. The MCs/FXDs shall also require an accomplished application form and submission/presentation of supporting documents listed in Item "*A*" of *Appendix N-10* for the sale of foreign exchange in the amount exceeding USD10,000 or its equivalent for non-trade current account purposes. For sale of foreign exchange for all other purposes, FXDs/MCs shall require submission of an accomplished application form and supporting documents listed in Items *"B to D*" of *Appendix N-10,* regardless of the amount involved.

***Sanctions*.** Monetary penalties and other sanctions committed by erring RTCs/MCs/FXDs shall be imposed for the following violations:

Nature of Violation/Exception	Possible Sanctions/Penalties
a. Operating without prior Bangko Sentral registration	• Applicable penalty prescribed under Section 36 of R.A. No. 7653 (New Central Bank Act) • Disqualification from registration
b. Violation of any of the provisions of R.A. No. 9160 (Anti-Money Laundering Act of 2001, as amended) and its revised implementing rules and regulations	• Written reprimand • Disqualification from holding any position in any Bangko Sentral supervised or regulated institution • Applicable penalty prescribed under the Act • Cancellation of registration
c. Violation of any provisions/requirements of this Section	• Penalties and sanctions under applicable laws, rules, and regulations • Cancellation of registration
d. Erroneous/delayed/unsubmitted report	• Monetary penalty of P60 for each occurence (in case of Erroneous report) or for each day (in case of Delayed or Unsubmitted reports) which will accummulate until such time the report has been

Nature of Violation/Exception	Possible Sanctions/Penalties
	determined compliant with the reporting requirements prescribed herein or in subsequent guidelines

For a report initially considered *Erroneous* but subsequently complied with the reporting requirements or guidelines within the prescribed deadline, the penalty shall be derived by multiplying the penalty of ₱60 against the number of times the subject report was submitted before being considered compliant.

For *Delayed reports*, the penalty of ₱60 shall be multiplied by the number of calendar days delayed. If the report is initially considered *Erroneous* but was able to comply with the reporting requirements or guidelines but after the prescribed deadline (i.e., *Delayed*), the penalty shall be the sum of the penalty for being *Erroneous* before deadline and the penalty for being *Delayed* as previously described.

For *Unsubmitted* reports, computation of the penalty shall be based on three times (3x) the number of days applied for determining a report to be unsubmitted [i.e., Thirty (30) days].

Transitory provisions. All Bangko Sentral Certificate of Registration (CORs) issued prior to 10 February 2017, to Remittance and Transfer Companies (RTCs)/Money Changers(MCs)/Foreign Exchange Dealers (FXDs) shall remain effective until 30 April 2018. Thereafter, they shall be considered automatically cancelled.

(Circular Nos. 1104 dated 27 November 2020, 1075 dated 07 February 2020, 1039 dated 3 May 2019, 991 dated 26 January 2018, 968 dated 10 August 2017, and 942 dated 20 January 2017)

902-N VIRTUAL ASSET SERVICE PROVIDERS (VASP)[1]

Policy Statement. It is the policy of the Bangko Sentral to provide an environment that encourages financial innovation while safeguarding the integrity and stability of the financial system. The Bangko Sentral recognizes that virtual asset (VA) systems have the potential to revolutionize the delivery of financial services by providing faster and more economical means to transfer funds, both domestic and international, and may further support financial inclusion. These benefits, however, should be considered along with the attendant risks in VAs considering the higher degree of anonymity involved, the velocity of transactions, volatility of prices, and global accessibility. It is for these reasons that the Bangko Sentral shall ensure that the VA systems shall not be misused and that the Philippines shall not be used for money laundering (ML), terrorist financing (TF) and proliferation financing (PF) activities. In addition, VA transactions also pose other risks, such as information technology (IT) risks, consumer protection, and financial stability concerns, among others.

Furthermore, the Bangko Sentral recognizes that once fiat currency is exchanged or converted into VA, it becomes easily transferrable, facilitating expedient movement or transfer of funds and payment services, among others. In this manner, VASPs, are considered as money service businesses that are subject to the regulatory authority and examination powers of the Bangko Sentral under R.A. No. 7653, as amended by R.A. No. 11211.

This Section shall govern the operations and reporting obligations of VASPs in the Philippines.

Scope. These guidelines shall cover VASPs, as defined in this Section, that offer their services or engage in VASP activities in the Philippines. These guidelines do not cover business involved in the participation and provision of financial services related to an issuer's offer and/or sale of a VA, which fall within the jurisdiction of Securities and Exchange Commission (SEC), and entities solely acting on their own behalf (i.e., not engaged in the business of actively facilitating VA-related activities for the account of others).

The guidelines outlined in this Section are based on leading standards such as the Financial Action Task Force Recommendations on anti-money laundering and counter-terrorist financial standards, as well as other recognized risk management principles, and shall serve as Bangko Sentral's baseline requirement for all VASPs.

Definition of terms. The terms as used in this Section shall be defined, as follows:

a. *Virtual asset* refers to any type of digital unit that can be digitally traded, or transferred, and can be used for payment or investment purposes. It can be defined as a "property", "proceeds", "funds", "funds or other assets", and other "corresponding value". It is used as a medium of exchange or a form of digitally stored value created by agreement within the community of VA users. VAs shall be broadly construed to include digital units of exchange that (i) have a centralized repository or administrator; (ii) are decentralized and have no centralized repository or

[1] Bangko Sentral-registered Virtual Currency Exchanges, as well as VASPs currently operating without Bangko Sentral approval, shall apply for a Certificate of Authority not later than three months from 10 February 2021. Upon submission of the application, said entities may continue to operate their business unless instructed otherwise.

All VASPs must also comply with the applicable requirements prescribed in this Section within six (6) months from 10 February 2021. Failure to comply with these requirements shall subject the entity to the appropriate enforcement action provided under Sec. 001-N.

administrator; or (iii) may be created or obtained by computing or manufacturing effort. VAs are not issued nor guaranteed by any jurisdiction and do not have legal tender status.

For purposes of these guidelines, digital units of exchange that is used for (i) the payment of goods and services solely provided by its issuer or a limited set of merchants specified by its issuer (e.g., gift checks); or (ii) the payment of virtual goods and services within an online game (e.g., gaming tokens) shall not be considered as VAs. Also, virtual currencies as previously defined in Bangko Sentral Circular No. 944 *(Guidelines for Virtual Currency Exchanges)* shall now be referred to as VAs.

b. *Virtual Asset Service Provider (VASP)* refers to any entity that offers services or engages in activities that provide facility for the transfer or exchange of VA, which involve conduct of one or more of the following activities:

(1) exchange between VAs and fiat currencies;
(2) exchange between one or more forms of VAs;
(3) transfer of VAs; and
(4) safekeeping and/or administration of VAs or instruments enabling control over VAs.

Virtual Currency Exchange as previously defined in Bangko Sentral Circular No. 944 *(Guidelines for Virtual Currency Exchanges)* shall now be referred to as VASPs.

c. *VA Custodians* refers to a VASP performing the act of Item "b(4)" above.

d. *Fiat currency* refers to government-issued currency that is designated as legal tender in its country of issuance through government decree, regulation, or law.

e. *Money Service Business (MSB)* refers to financial services that involve the acceptance of cash, checks, other monetary instruments or other stores of value, and the payment of a corresponding sum in cash or other form to a beneficiary by means of a communication, message, transfer, or through a clearing network to which the service provider belongs.

Requirements for the issuance of a Certificate of Authority (COA). A VASP shall secure a COA to operate as an MSB, pursuant to and upon compliance with the requirements under Sec. 901-N. In the course of COA application, the Bangko Sentral shall take into account and extend its evaluation over the fitness and propriety of the VASP's beneficial owners.

A VASP shall also adhere to the registration procedures under *Appendix N-7* and submit the Application for Registration and Notarized Deeds of Undertaking (*Appendices N-8 and N-9*) to the Bangko Sentral through the appropriate supervising department of the Bangko Sentral.

The VASP shall comply with pertinent Bangko Sentral rules and regulations on Outsourcing (Sec. 102-N), Liquidity Risk Management (Sec. 124-N), Operational Risk Management (Sec. 125-N), IT Risk Management including the area of IT Outsourcing/Vendor Management Program (Sec. 126-N), Business Continuity Management (Sec. 127-N), Internal Control (Sec. 131-N), Anti-Money Laundering (Secs. 601-N and 602-N), Financial Consumer Protection (Secs 701-N, 702-N, and 703-N), and sound corporate governance principles, among others.

Capitalization. VASPs shall have a minimum paid-in capital as follows:

Category	Minimum Required Capital
VASP with safekeeping and/or administration services for VAs (i.e., VA Custodian) as defined in this Section.	₱50.0 million
VASP without safekeeping and/or administration services for VAs	₱10.0 million

Registration and Annual Service Fees. A VASP shall pay the registration and annual service fees as provided under Sec. 901-N***.***

Wallet Security. VASPs providing wallet services for holding and storing VAs must establish an adequate cybersecurity framework and adopt appropriate security measures/controls in their VA platform to ensure confidentiality, integrity and availability of data/information uploaded, stored, processed and transmitted into and out of the system and protect the infrastructure from malware, cyber-attacks and other evolving and emerging threats. Likewise, the framework shall cover provisions on the protection of fiat currency, if any, and VA wallets against cyberthreats and other technology risks.

Technology Outsourcing. VASPs shall adopt a sound risk management system to mitigate risks arising from outsourcing (i.e., confidentiality of information, data privacy, data management, contract management, security, performance monitoring and business continuity, among others). The VASP shall be responsible for the performance of the service in the same manner and to the same extent as if it were directly performing the said activity.

Internal Control. All VASPs shall maintain an internal control system commensurate to the nature, size and complexity of their respective businesses. Critical control functions such as risk management, audit, compliance, anti-money laundering, information security and other essential roles must be performed by competent officers. The suitability of the board of directors and management must also be assessed in adherence to sound corporate governance procedures (e.g., fitness and propriety tests).

Financial Consumer Protection. VASPs shall adopt customer awareness measures to educate their customers which includes, among others: (i) safeguarding of VA and/or fiat currency wallets as well as protection of client information such as log-in credentials; (ii) use of the mobile platform and wallets; (iii) actual fees and charges related to the use of the mobile platform and withdrawal transactions; and (iv) problem resolution procedures.

VASPs shall clearly communicate and explain to their customers the terms of conditions prescribing the manner on how the losses and liabilities from security breachers, system failure, or human error will be settled between the VASP and its customers.

VASPs shall disclose, prior to entering into an initial transaction and on an ongoing basis, all material risks to their clients in a manner that is clear, fair and not misleading. Disclosure shall provide information regarding the risks associated with the acquisition, possession, and trading of VAs. VASPs shall also disclose whether they are holding VAs in custody and the attendant risks or whether the customers have full control and responsibility of protecting and safeguarding their VAs. Lastly, VASPs shall adopt a mechanism in handling customer complaints and ensure that effective controls are in place for timely resolution thereof.

Customer due diligence. VASPs shall conduct customer due diligence when (1) it establishes business relations with any customer; (2) undertakes any occasional but relevant business transaction for any customer who has not otherwise established business relation with the VASP; (3) where there is suspicion of money laundering or terrorist financing; or (4) where there is doubt about the veracity or adequacy of previously obtained customer identification data.

Relevant business transaction shall mean any single transaction amounting to ₱5,000 or more, or two or more transactions believed to be linked and with an aggregate value of ₱5,000 or more. For this purpose, the VASP should have appropriate system to identify and determine occasional customer or transaction.

Additional Requirements. A VASP shall only engage with other VASPs, financial institutions, and/or remittance and transfer companies that are duly authorized and licensed by the appropriate regulatory authorities. VASPs shall establish a robust due diligence and accreditation process in selecting the VAs that will be listed or traded in their platform. In addition, VASPs shall adopt a fraud risk management system which sophistication and effectiveness are commensurate to the risks associated with particular VA types or specific VA activities. VASPs shall also comply with the requirements, rules and regulations of the Bangko Sentral regarding the application for registration and activities requiring prior Bangko Sentral approval or notification.

Clearing and settlement of transactions of VASP, as well as other activities inherent to their business models, shall only be undertaken with regulated VASPs and platforms to ensure that all VASP activities are executed within an unbroken chain of regulated entities.

A VASP that created and maintains fiat wallets to facilitate the conversion or exchange of fiat currency to VA or vice versa shall maintain sufficient unencumbered liquid assets to ensure that VA redemptions are adequately met at all times. The VASP shall have in place control mechanisms to ensure prompt recording of receipt of fiat money.

VA Custodians wholly responsible for custody of customers' VAs, either through proprietary or outsource arrangements, shall adopt measures to ensure adequate reserves for the VAs held in custody. Said VA Custodians shall adopt effective mechanism to properly record and segregate customers' VAs from their proprietary VAs.

In cases when the conduct of in-depth studies and further data collection pursuant to the Bangko Sentral's mandates be warranted, VASPs shall comply with additional requests to submit specific data and information thereon through surveys, questionnaires or other means.

VASPs shall also comply with applicable rules that may be issued by other regulatory authorities.

Transactional Requirements for VASPs. VASPs and other BSFIs that engage in or facilitate VA transfers shall consider all VA transfer transactions as cross-border wire transfers and shall comply with pertinent rules on wire transfers as stated in Part Six (AML Regulations) of this Manual.

For VA transfers amount to ₱50,000.00 or more, or its equivalent in foreign currency, the originating institution in a VA transfer must obtain and hold the required and accurate originator information as well as the required beneficiary information, and transmit said information to the beneficiary institution. Beneficiary institutions must obtain and hold required originator information as well as required and accurate beneficiary information. All the information gathered shall be made available on request to competent authorities.

The required information for VA transfers, including transactions associated with a VA transfer, includes the following:

a. originator's name (i.e., the sending customer);
b. originator's account number used to process the transaction (e.g., the VA wallet);

c. originator's physical (geographical) address, or national identity number, or customer identification number (i.e., not a transaction number) that uniquely identifies the originator to the ordering institution, or date and place of birth;
d. beneficiary's name; and
e. beneficiary account number where such an account is used to process the transaction (e.g., the VA wallet).

The required information must be transmitted immediately and in a secure manner. VASPs shall uphold the confidentiality, integrity and availability of the required information to facilitate recordkeeping and use of such information by receiving VASPs or other covered entities, as well as to prevent unauthorized disclosure. Entities should also submit the required information simultaneously or concurrently with the transfer itself.

For large value pay-outs of more than P500,000 or its equivalent in foreign currency, in any single transaction with customers or counterparties, enhanced due diligence shall be conducted and said pay-outs shall only be made via check payment or direct credit to deposit accounts or account to account transfer using electronic fund transfer facilities.

Notification and Reporting Requirements. A VASP shall comply with the notification and reporting requirements as prescribed under Sec. 901-N.

In addition, a VASP shall maintain records and submit the following reports to the appropriate supervising department of the Bangko Sentral:

Nature of Report	Frequency	Due Date
1. AFS (audited by an external auditor included in the List of Selected External Auditors for BSFIs)	Annually	Not later than 120 calendar days after the close of the reference calendar or fiscal year subject to the provisions under Sec. 901-N (*Reports*)
2. Quarterly Report on Total Volume and Value of VCs transacted*	Quarterly	Ten (10) business days from end of reference quarter
3. List of operating offices and websites*	Quarterly	Ten (10) business days from end of reference quarter

**Duly certified by the Proprietor/Managing Partner/President or any officer of equivalent rank*

A VASP shall ensure that transaction and due diligence records are maintained for a period of at least five (5) years and adhere to other guidelines issued by the Bangko Sentral on the maintenance of records.

Sanctions. Appropriate monetary penalties, sanctions and other enforcement action/s specified under Sec. 901-N shall be imposed on the VASP, their directors and/or officers for the noted violations.

(Circular No. 1108 dated 26 January 2021, M-2019-006 dated 14 March 2019, Circular Nos. 1075 dated 7 February 2020, 1039 dated 3 May 2019 and 944 dated 06 February 2017)

PART TEN

OTHER REGULATIONS APPLICABLE TO SPECIFIC TYPES OF NON-BANK FINANCIAL INSTITUTIONS

1001-N MINIMUM CAPITAL FOR INVESTMENT HOUSES

Investment houses not performing quasi-banking functions shall also be subject to the minimum capital requirement in Sec. 121-Q.

1002-N SECURITIES CUSTODIANSHIP AND SECURITIES REGISTRY OPERATIONS

Policy statement. It is the policy of the Bangko Sentral to promote the protection of investors in order to gain their confidence and encourage their participation in the development of the domestic capital market. Therefore, the following rules and regulations are promulgated to enhance transparency of securities transactions with the end in view of protecting investors.

Definition of Terms. The following definitions shall apply:

a. *Securities custodian* is a financial institution accredited by the Bangko Sentral that is designated by investor to perform the functions of safekeeping, holding title to the securities in a nominee capacity, reports rendition, mark-to-market valuation, collection and payment of dividends, interest earnings or proceeds from the sale/redemption/maturity of securities held under custodianship, and representation of the client in corporate actions. It may also perform the value-added service as a securities lending agent, subject to the conditions specified under this Section.

b. *Securities registry* is a financial institution duly authorized by the Bangko Sentral and the Securities and Exchange Commission (SEC) that is designated or appointed by an issuer of securities to maintain the securities registry book either in electronic or in printed form. It records the initial issuance of the securities and subsequent transfers of ownership and issues registry confirmations to the buyers/holders.

c. *Self-managed custodianship arrangement* refers to an arrangement where securities sold to or managed on behalf of a BSFI's clients are maintained under a BSFI's own unit performing securities custodian services.

d. *Central securities depository (CSD)* is an entity duly-authorized by the SEC that provides securities accounts, central safekeeping services, and asset services, which may include the administration of corporate actions and redemptions, and helps ensure the integrity of securities issues.

e. *International Central Securities Depository (ICSD)* refers to a central securities depository (CSD) such as Clearstream and Euroclear, where foreign currency denominated Philippine securities, such as the Republic of the Philippines and US dollar denominated bonds, are held under custody. Dealers and banks in the Philippines usually maintain accounts with the ICSDs that will facilitate settlement and safekeeping of the covered securities under this regulation.

f. *Omnibus securities custodianship account* is an account structure where securities or collateral belonging to some or all customers of a securities custodian is commingled and held in a single account that is segregated from the account that holds the assets of the BSFI acting as custodian. The ultimate ownership of all the assets in the account is maintained by the custodian in its books of records.

Applicability of this regulation. This regulation shall govern securities custodianship and securities registry operations of non-bank financial institutions (NBFIs) under Bangko Sentral supervision. It shall cover all their transactions in securities as defined in Section 3 of the Securities Regulation Code (SRC), whether exempt or required to be registered with the SEC, that are sold, borrowed, purchased, traded, held under custody or otherwise transacted in the Philippines where at least one (1) of the parties is a NBFI under Bangko Sentral supervision. However, this regulation shall not cover the operations of stock and transfer agents duly registered with the SEC pursuant to the provisions of SRC Rule 36-4.1 and whose only function is to maintain the stock and transfer book for shares of stock.

Application for authority. A NBFI applying for authority engage in securities custodianship and/or securities registry operations shall submit the following documents to the appropriate supervising department of the Bangko Sentral:

a. Notification letter signed by the president or officer of equivalent rank that the BSFI will engage in securities custodianship operations. For this purpose, the notification letter shall describe the unit that will handle the securities custodianship operations and how the BSFI complies with Item *"b"* of the prequalification requirements;

b. Corporate secretary's certificate on the approval of the board of directors (or equivalent management committee in the case of foreign bank branches) to engage in securities custodianship operations; and

c. Certification signed by the president or officer of equivalent rank and the chief compliance officer (CCO) certifying that the institution has complied with all the:

(1) prudential criteria prescribed under Sec. 101-N; and
(2) pre-qualification requirements for a securities custodian and securities registry under this Section.

The Bangko Sentral reserves the right to issue a notice of objection, within 30 calendar days from receipt of the notification letter and other required documents from the NBFI, to the application for authority to engage in securities custodianship operations and/or securities registry operations. In this regard, the NBFI that did not receive any notice of objection from the Bangko Sentral within the said 30-day period may proceed with the securities custodianship and/or securities registry operations.

Pre-qualification requirements for a securities custodian/registry.

a. The securities custodian/registry must be a universal/commercial bank (U/KB), an investment house with quasi-banking authority (IHQB), or a non-bank financial institution (NBFI) under the Bangko Sentral supervision with a trust authority, or a stand-alone trust corporation. A U/KB or an IHQB may propose to offer securities custodianship services either through the bank/investment house (IH) proper or its trust department;

b. The securities custodianship operations shall be conducted in a unit that is separate from the securities underwriting, dealing, or brokering operations of the BSFI;

c. The securities custodian must have adequate information technology (IT) infrastructure to ensure the protection, safety and integrity of client assets;

(1) It can maintain an electronic registry dedicated to recording of accountabilities to its clients; and
(2) It must also have an updated, comprehensive and secured IT security system network and telecommunication facilities that will:

(a) Limit access only to authorized users;
(b) Preserve data integrity; and
(c) Provide for audit trail of transactions.

d. At the minimum, it maintains the following documents/information which shall be made available upon request by the appropriate supervising department of the Bangko Sentral:

(1) relevant standard custody/registry agreement and other documents. In the case of self-managed securities custodianship arrangements, these shall include the written consent of the owner of securities to said arrangement;

(2) policies, procedures, and organizational structure related to the custody/registry business; and

(3) transaction records

e. It shall be headed by a qualified person with at least two (2) years of experience in treasury, trust, or custody/registry operations;

f. Its system can interface with the: (1) clearing and settlement system of any recognized exchange in the country that settles securities transactions on a Delivery-versus-Payment (DvP) basis, and (2) with a payment system that facilitates real time gross settlement of securities transactions; and

g. A securities custodian which offers the value-added service of lending securities that are sold, offered for sale or distributed within the Philippines, must be a duly-licensed lending agent registered with the SEC.

Functions and responsibilities of a securities custodian. A securities custodian shall have the following basic functions and responsibilities:

a. Safekeeps the securities of the client;

b. Holds title to the securities in a nominee capacity;

c. Executes purchase, sale and other related instructions;

d. Conducts at least a monthly reconciliation for securities custodians and an end-of-day reconciliation in the case of self-managed securities custodians to ensure that all securities custodianship positions are properly recorded and accounted for;

e. Confirms tax withheld;

f. Represents clients in corporate actions in accordance with the direction provided by the securities owner;

g. Conducts mark-to-market valuation and statement rendition;

h. Does earmarking of encumbrances or liens such as, but not limited to, Deeds of Assignment and court orders; and

i. Acts as a collecting and paying agent in respect of dividends, interest earnings or proceeds from the sale/redemption/maturity of securities held under custodianship: *Provided*, That the custodian shall immediately make known to the securities owner all collections received and payments made with respect to the securities under custody.

j. In addition to the above basic functions, it may perform the value-added service as a securities lending agent: *Provided*, That it complies with the Item *"(g)"* of the prequalification requirements for a securities custodian/registry under this Section: *Provided*, *further,* That the securities custodian complies with the SEC regulations governing securities lending transactions and with the guidelines of the organized market in which the deal is transacted; *Provided finally*, That the service shall be covered by a Securities Lending Authorization Agreement (SLAA) which shall be attached to the custody contract.

Functions and responsibilities of a securities registry.

a. Maintains an electronic registry book;
b. Delivers confirmation of transactions and other documents within agreed trading periods;
c. Issues registry confirmations for transfers of ownership as it occurs;
d. Prepares regular statement of securities balances at such frequency as may be required by the owner on record but not less frequent than every quarter; and
e. Follows appropriate legal documentation to govern its relationship with the Issuer.

***Protection of securities of the customer*.** A custodian must incorporate the following procedures in the discharge of its functions in order to protect the securities of the customer:

a. *Full disclosure to clients.* Selling or dealing banks or other BSFIs authorized to transact in securities with clients shall inform their clients of the arrangements for the custody of their securities. The selling or dealing bank or BSFI must inform their clients that the choice of securities custodian or CSD is the sole prerogative of the securities purchaser or investor. It shall also provide the complete list of all Bangko Sentral-accredited custodians or SEC-authorized central securities depositories to its clients. The transacting bank or BSFI may, however, indicate to their clients their preferred arrangements.

The securities custodian shall ensure that its clients are informed of the relevant laws and regulations that are applicable to the securities custodianship arrangement as well as the client's rights over the securities held in custody by the NBFI.

b. *Accounting and recording for securities*. Custodians must employ accounting and safekeeping procedures that fully protect customer securities. It is essential that custodians segregate customer securities from one another and from its proprietary holdings to protect the same from the claims of its general creditors.

The securities account in the registry shall be recorded at the nominal amount of Php1.00. Such securities account shall reflect the name and relevant customer information of the individual clients.

For securities held at CSDs/ICSDs on behalf of clients, the account in the CSD/ICSD shall reflect the name and relevant customer information of individual clients to the extent practicable. An omnibus account for clients that is segregated from that of the custodian's proprietary assets, shall be allowed provided that the name and relevant customer information of the individual clients are reflected in the records of the custodian that maintains the account in the CSD/ICSD.

c. *Documentation*. The appropriate documentation for securities custodianship shall be made and it shall clearly define, among others, the authority, role, responsibilities, fees and provision for succession in the event the securities custodian can no longer discharge its functions. It shall be accepted in writing by the counterparties.

The governing securities custodianship agreement shall be pre-numbered and this number shall be referred to in all amendments and supplements thereto. The securities custodianship agreement shall contain at the minimum the; (a) rights and obligations of the parties; (b) fees for the services offered by the custodian/depository; and (c) scope and term/period of the Agreement.

The securities purchasers/owners may, designate/appoint a representative or agent for the purpose of opening of the custodianship/securities deposit account and the execution of trade transactions (i.e., buying and selling instructions including relaying of instructions to the custodian/CSD to receive or deliver securities in order to consummate the buy/sell transactions).

In addition, a BSFI offering self-managed securities custodianship arrangement shall: (i) secure a written consent from the client designating the BSFI as the custodian for securities bought; (ii) tag the securities as non-tradeable unless with prior consent of the clients; and (iii) subject the arrangement to periodic review or audit by a third party.

d. Confirmation of custody. The securities custodian shall issue a custody confirmation to the purchaser or borrower of securities to evidence receipt or transfer of securities as they occur. It shall contain, as a minimum, the following information on the securities under custody:

(1) Owner of securities;
(2) Issuer;
(3) Securities type and type of transactions (free deliver/free receipt, receive vs. payment/deliver vs. payment);
(4) Identification or serial numbers;
(5) Quantity;
(6) Face value;
(7) Settlement Amount;
(8) Trade Date;
(9) Counterparty; and
(10) Other information, which may be requested by the parties.

e. *Periodic reporting.* The client statements of accounts (SOA) shall be prepared either in print or electronic form on a quarterly basis. In the case of self-managed securities custodians, it shall be prepared at least on a monthly basis. The SOA shall also be prepared at such interval as the owner of securities will require; *Provided*, that it shall not be less frequent than the quarterly or monthly reporting requirement. The SOA shall be delivered to the registered owner's home/email address on record. Said statement shall present detailed information such as, but not limited to, inventory of securities of the client held under custody, outstanding, and market values.

Independence of the securities custodian and securities registry. A BSFI authorized to offer securities custodianship/securities registry services are prohibited from performing the said services for its own securities issued. A BSFI performing custodianship/securities registry services for a related party shall ensure that appropriate safeguards and controls as provided under Section 136 on related party transactions shall be instituted to prevent conflict of interest on the said arrangement.

National Registry of Scripless Securities of the Bureau of the Treasury. The National Registry of Scripless Securities (NRoSS), operated by the Bureau of the Treasury which is acting as a registry for government securities is deemed to be automatically accredited for purposes of this Section and is likewise exempted from the independence requirement under this Section (Independence of the securities custodian and securities registry). Securities registered under the NRoSS shall be delivered in accordance with the guidelines set forth in *Appendix Q-38.*

Confidentiality. A Bangko Sentral-accredited securities custodian/registry shall not disclose to any unauthorized person any information relative to the securities under its custodianship/registry. The management shall likewise ensure the confidentiality of client accounts of the custody or registry unit from other units within the same organization.

Compliance with Anti-Money Laundering laws/regulations. Compliance with the requirements on Republic Act (R.A) No. 9160, otherwise known as the "Anti-Money Laundering (AML) Act of 2001", as amended, by Bangko Sentral -accredited securities custodians/securities registries or SEC-authorized central securities depositories shall be governed by AML rules and regulations issued by their supervising authorities, such as the Bangko Sentral or the SEC.

For purposes of compliance with the customer identification, record keeping, and reporting of covered and suspicious transactions, a Bangko Sentral - accredited custodian may rely on referral by the seller issuer of securities: *Provided*, That it maintains a record of such referral together with the minimum identification, information/documents required under the law and its implementing rules and regulations; *Provided, further*, That, the ultimate responsibility for customer due diligence (CDD) and record-keeping remains with such Bangko Sentral-accredited securities custodian.

Securities subject to pledge and/or deed of assignment as of 14 October 2004 (date of Circular 457), may be held by a lending NBFI up to the original maturity of the loan or full payment thereof, whichever comes earlier.

Additionally, a Bangko Sentral-accredited securities custodian/securities registry or SEC-authorized central securities depository may rely on the customer identification process undertaken by a third party pursuant to existing AML rules and regulations. Notwithstanding the above, the custodian, registry or CSD is not precluded from conducting its own Know-Your-Customer (KYC) activities and maintaining direct holding of the KYC information/documents of its clients.

Basic security deposit. Securities held under custodianship whether booked in the Trust Department or carried in the regular books of the NBFI shall be subject to a security deposit for faithful performance of duties at the rate of 1/25 of one percent (1%) of the total face value or P500,000 whichever is higher.

However, securities held under custodianship where the custodian also performs securities lending as agent shall be subject to a higher basic security deposit of one percent (1%) of the total face value of securities held under custodianship.

Compliance shall be in the form of eligible government securities deposited with the Bangko Sentral, pursuant to existing regulations governing security for the faithful performance of trust and other fiduciary business under Sec. 416-Q.

Required Reports. An accredited securities custodian shall comply with reportorial requirements, prescribed under Item *"b"* of Sec. 416-Q *(Compliance with the basic security deposit requirement)*

Supervisory enforcement action. Consistent with Sec. 001-N, the Bangko Sentral reserves the right to deploy a range of supervisory tools to ensure compliance with the requirements set forth in these guidelines. Non-compliance with, and any other violations of these guidelines shall constitute reasonable grounds for the Bangko Sentral to deploy its enforcement tools, including but not limited to, citing a BSFI for conducting business in an unsafe or unsound manner should its activities result in abnormal risk to the institution. A BSFI may likewise be directed to refrain from engaging in or be suspended from securities custodianship and/or securities registry operations if there are serious supervisory issues. Sanctions may be imposed on the BSFI and responsible persons, including monetary sanctions against the BSFI and/or erring directors, officers, and employees under Sec. 806-N.

(Circular Nos. 1121 dated 8 June 2021, 1032 dated 15 February 2019, 998 dated 1 March 2018, and 873 dated 25 March 2015)

1003-N TRUST AND OTHER FIDUCIARY ACTIVITIES

Trust operations and investment management activities of NBFIs not performing quasi-banking functions shall be subject to the applicable regulations on such activities of NBFIs performing quasi-banking functions in Part IV of the *Q*-Regulations, to the regulations in the other parts of the Q-Regulations addressed also to trust entities and to the regulations implementing the Truth in Lending Act in Sec. 305-Q.

Sanctions. Pursuant to Section 91 of R.A. No. 8791, the Monetary Board may impose sanctions and monetary penalty for any violation of the provisions of the Q-Regulations pertaining to trust entities and the regulations implementing the Truth in Lending Act in 305-Q. This is without prejudice to the imposition of other sanctions as the Monetary Board may consider warranted that may include the suspension or revocation of an institution's authority to engage in trust and other fiduciary business or in investment management activities, and such other sanctions as may be provided by law. If the offender is a director or officer of the trust entity, the Monetary Board may also suspend or remove such director or officer. If the violation is committed by a corporation, such corporation may be dissolved by *quo warranto* proceedings instituted by the Solicitor General.

The guidelines for the imposition of monetary penalty shown under Sec. 1102-Q shall govern the imposition of monetary penalty for violations/offenses with administrative sanctions falling under Section 37 of R.A. No. 7653 on NBFIs not performing quasi-banking functions, their directors and/or officers.

(Circular Nos. 1031 dated 7 February 2019 and 988 dated 20 December 2017)

1004-N RULES OF PROCEDURE ON ADMINISTRATIVE CASES INVOLVING DIRECTORS AND OFFICERS OF TRUST ENTITIES

The rules of procedure on administrative cases involving directors and officers of QBs in Sec. 137-Q shall apply to directors and officers of trust entities.

1005-N ACTING AS TRUSTEE ON ANY MORTGAGE OR BOND ISSUANCE BY ANY MUNICIPALITY, GOCC, OR ANY BODY POLITIC

a. *Applicability*. NBFIs duly accredited by the Bangko Sentral may act as trustee on any mortgage or bond issued by any municipality, GOCC, or any body politic.

b. *Application for accreditation*. An NBFI desiring to act as trustee on any mortgage or bond issued by any municipality, GOCC, or any body politic shall file an application for accreditation with the appropriate supervising department of the Bangko Sentral. The application shall be signed by the president or officer of equivalent rank of the NBFI and shall be accompanied by the following documents:

   (1) certified true copy of the resolution of the institution's board of directors authorizing the application; and
   (2) a certification signed by the president or officer of equivalent rank that the institution has complied with all the qualification requirements for accreditation.

c. *Qualification requirements*. An NBFI applying for accreditation to act as trustee on any mortgage or bond issued by any municipality, GOCC, or any body politic must comply with the requirements in *Appendix N-6*.

d. *Independence of the trustee.* An NBFI is prohibited from acting as trustee of a mortgage or bond issuance if any elective or appointive official of the LGU, GOCC, or body politic which issued said mortgage or bond and/or his related interests own such number of shares of the NBFI that will allow him or his related interests to elect at least one (1) member of the board of directors of such NBFI or is directly or indirectly the registered or beneficial owner of more than ten percent (10%) of any class of its equity security.

e. *Investment and management of the funds.* A domestic NBFI designated as trustee of a mortgage or bond issuance may hold and manage, in accordance with the provisions of the trust indenture or agreement, the proceeds of the mortgage or bond issuance and such assets and funds of the issuing municipality, GOCC, or body politic as may be required to be delivered to the trustee under the trust indenture/agreement, subject to the following conditions/restrictions:

(1) Pending the utilization of such funds pursuant to the provisions of the trust indenture/agreement, the same shall only be (i) deposited in any bank authorized to accept deposits from the Government or government entities: *Provided*, That the depository bank is not a subsidiary or affiliate of the trustee NBFI, or (ii) invested in peso-denominated treasury bills acquired/purchased from any securities dealer/entity, other than the trustee or any of its unit/department, its subsidiary or affiliate.

(2) Investments of funds constituting or forming part of the sinking fund created as the primary source for the payment of the principal and interests due the mortgage or bonds shall also be limited to deposits in any bank authorized to accept deposits from the Government or government entities and investments in government securities that are consistent with such purpose which must be acquired/purchased from any securities dealer/entity, other than the trustee or any of its unit/department, its subsidiary or affiliate.

f. *Waiver of confidentiality*. An NBFI designated as trustee of any mortgage or bond issued by any municipality, GOCC, or any body politic shall submit to the appropriate supervising department of the Bangko Sentral a waiver of the confidentiality of information under Sections 2 and 3 of R.A. No. 1405, as amended, duly executed by the issuer of the mortgage or bond in favor of the Bangko Sentral.

g. *Reportorial requirements*. An NBFI authorized by the Bangko Sentral to act as trustee of the proceeds of mortgage or bond issuance of a municipality, GOCC, or body politic shall comply with reportorial requirements that may be prescribed by the Bangko Sentral.

h. *Applicability of the rules and regulations on trust, other fiduciary business and investment management activities*. The provisions of the Rules and Regulations on Trust, Other Fiduciary Business and Investment Management Activities not inconsistent with the provisions of this Section shall form part of these rules.

i. *Sanctions*. Without prejudice to the penal and administrative sanctions provided for under Sections 36 and 37, respectively, of R.A. No. 7653, violation of any provision of this Section shall be subject to the following sanctions/penalties depending on the gravity of the offense:

(1) *First offense* –

(a) Fine of up to P10,000 a day for the institution for each violation reckoned from the date the violation was committed up to the date it was corrected; and
(b) Reprimand for the directors/officers responsible for the violation.

(2) *Second offense* –

(a) Fine of up to P20,000 a day for the institution for each violation reckoned from the date the violation was committed up to the date it was corrected;
(b) Suspension for ninety (90) days without pay for directors/officers responsible for the violation; and
(c) Revocation of the authority to act as trustee on any mortgage or bond issuance by any municipality, GOCC, or body politic.

(3) *Subsequent offense* –

(a) Fine of up to P30,000 a day for the institution for each violation reckoned from the date the violation was committed up to the date it was corrected;
(b) Suspension or revocation of the trust license;
(c) Suspension for 120 days without pay of the directors/officers responsible for the violation.

1006-N BANK DOSRI RULES AND REGULATIONS APPLICABLE TO GOVERNMENT BORROWINGS IN GOVERNMENT-OWNED OR -CONTROLLED FINANCIAL INSTITUTIONS

The provisions of Secs. 341 to 349 of the MORB, to the extent applicable, shall also apply to loans, other credit accommodations, and guarantees granted to the National Government or Republic of the Philippines, its political subdivisions and instrumentalities as well as GOCCs, subject to the following clarifications:

a. Loans, other credit accommodations, and guarantees to the Republic of the Philippines and/or its agencies/departments/bureaus shall be considered: (1) non-risk; and (2) not subject to any ceiling;

b. Loans, other credit accommodations, and/or guarantees to: (1) GOCCs; and (2) corporations where the Republic of the Philippines, its agencies/departments/bureaus, and/or GOCCs own at least twenty percent (20%) of the subscribed capital stock shall be considered indirect borrowings of the Republic of the Philippines and shall form part of the individual ceiling as well as the aggregate ceiling: *Provided*, That the following loans, other credit accommodations, and/or guarantees to GOCCs and corporations where the Republic of the Philippines, its agencies/departments/bureaus, and/or GOCCs own at least twenty percent (20%) of the subscribed capital stock, shall be excluded from the thirty percent (30%) ceiling on unsecured loans under Secs. 344 and 345 of the MORB:

   (1) Loans, other credit accommodations, and/or guarantees for the purpose of undertaking priority infrastructure projects consistent with the Medium-Term Development Plan/Medium-Term Public Investment Program of the National Government, duly certified as such by the Secretary of Socio-Economic Planning;

   (2) Loans, other credit accommodations, and/or guarantees granted to participating financial institutions (PFIs) in the lending programs of the government wherein the funds borrowed are intended for relending to other PFIs or end-user borrowers; and

   (3) Loans, other credit accommodations, and/or guarantees granted for the purpose of providing (i) wholesale and retail loans to the agricultural sector and MSMEs; and/or (ii) rediscounting and guarantee facilities for loans granted to the said sector or enterprises;

c. Loans, other credit accommodations, and/or guarantees granted to state universities and colleges (SUCs) shall be excluded from the thirty percent (30%) ceiling on unsecured loans under Secs. 344 and 345 of the MORB;

d. In view of the fiscal autonomy granted under R.A. No. 7653 and the independence prescribed under the Constitution, the Bangko Sentral shall be considered an independent entity, hence, not a related interest of the Republic of the Philippines and/or its agencies/departments/bureaus. Loans, other credit accommodations and guarantees of the Bangko Sentral shall be considered: (1) non-risk; and (2) not subject to any ceiling;

e. LGUs shall be considered separate from the Republic of the Philippines, other government entities, and from one another due to the full autonomy in the exercise of their proprietary functions and in the management of their economic enterprises granted to them under the Local Government Code of the Philippines, subject to certain limitations provided by law, hence, not a related interest of the Republic of the Philippines and/or its agencies/departments/bureaus;

f. Local Water Districts (LWDs), although GOCCs shall be considered separate from the Republic of the Philippines, other government entities, and from one another due to their fiscal independence from the National Government, hence, not related interests of the Republic of the Philippines and/or its agencies/department/bureaus, for purposes of these regulations;

g. A director who acts as a government representative in the lending institution shall not be excluded in the deliberation as well as in the determination of majority of the directors in cases of loans, other credit accommodations, and guarantees to the Republic of the Philippines and/or its agencies/departments/bureaus; and

h. A director of the lending institution shall be excluded in the deliberation as well as in the determination of majority of the directors in cases of loans, other credit accommodations, and guarantees to the borrowing government entity other than the Republic of the Philippines, its agencies, departments or bureaus where said director is also a director, officer or stockholder under existing DOSRI regulations.

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LIST OF REPORTS REQUIRED FROM NON-BANK FINANCIAL INSTITUTIONS

(*Appendix to Sec. 143-N*)

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadlin	Submission Procedure
A-1		Sec. 143-N	Report on Financial Assets Designated/Mandatorily Measures at fair Value Through Profit or Loss	Monthly	15 business days after end of reference month	SDC
A-1		Sec. 143-N	Reports Relative to the Initial Adoption of PFRS 9	One-time	15 business days after end of calendar/fiscal year from the date of initial application of PFRS 9	-do-
			Supplementary Report on Early Adoption of PFRS 9	Monthly	15 business days after end of reference month	
A-2	BSP-7-26-02-A	Sec. 143-N	Consolidated Statement of Condition (CSOC)	-do-	15 business days after end of reference month	E-mail to SDC @ sdcnbfi@bsp.gov.ph
	BSP 7-26-03B		Consolidated Statement of Income and Expenses (CSIE)	-do-	-do-	-do-
			Control Prooflist	-do-	-do-	SDC
A-2	BSP-7-26-02 Schedule 1 (His only)	Sec. 143-N	Schedule of Loans/Receivables, Trading Account Securities (TAS) - Loans and Underwritten Debt Securities	-do-	-do-	Original - Appropriate department of the Bangko Sentral Duplicate to SDC or e-mail
						Separate report for Head Office and each Branch; and a Consolidated report for Head Office and Branches

A-2	BSP-7-26-02 Schedule 1	Sec. 143-N	Schedule of Loan/Receivables and Trading Account Securities - Loans	Monthly	15th business days from end of reference month	Original - Appropriate department of the Bangko Sentral Duplicate to SDC or e-mail
						Separate report for Head Office and each Branch; and a Consolidated report for Head Office and Branches
A-2	BSP-7-26-02 Schedule 2 (FCs only)	Sec. 143-N	Schedule of Trading Account Securiries - Investments, Available for Sale Securities and Investment in Bonds and Other Debt Instruments (IBODI)	-do-	-do-	-do-
A-2	BSP-7-26-02 Schedule 3	Sec. 143-N	Interest Rates and Maturities Matching	-do-	-do-	-do-
A-2	BSP-7-26-02 Schedule 4	Sec. 143-N	Remaining Maturities of Selected Accounts	-do-	-do-	Original - Appropriate department of the Bangko Sentral Duplicate to SDC or e-mail
A-2	BSP-7-26-02 Schedule 5	Sec. 143-N	Schedule of Bills Payables and Bonds	-do-	-do-	Original - Appropriate department of the Bangko Sentral Duplicate to SDC or e-mail
A-2	BSP-7-26-02 Schedule 6 (FCs only)	Sec. 143-N	Data on Firm's Businesses	-do-	-do-	Original - Appropriate department of the Bangko Sentral Duplicate to SDC or e-mail
A-2	BSP-7-26-03	Sec. 143-N	Statement of Income and Expenses	-do-	-do-	-do-
A-2	BSP-7-26-24	Sec. 143-N	Credit and Equity Exposures to Individuals/Companies/Groups Aggregating P 1.0 Million and above	Quarterly	15th business days from end of reference quarter	Electronic submission/diskette - SDC
						Fax to SDC

A-2	Unnumbered (no prescribed form) (Entities with Trust/Fund Management Only)	Sec. 1003-N	Report on required and available reserves on Peso-denominated Common Trust Funds (CTFs), such other managed peso funds and TOFA-Others		Weekly	3rd business days from end of reference week	Original - Appropriate department of the Bangko Sentral Duplicate to SDC or e-mail
A-2	Unnumbered	Sec. 1003-N	Report on Suspicious Transactions		As transaction occurs	10th business day from date of transaction/knowledge	Original and duplicate - Anti-Money Laundering Council (AMLC)
			Report on Covered Transactions		As transaction occurs	10th business day from date of transaction/knowledge	-do-
A-2	Unnumbered	Sec. 143-N	Financial Reporting Package for Trust Institutions Schedules		Quarterly	20th business day from end of reference quarter	SDC sdcnbfi-frpti@bsp.gov.ph
A-2	Unnumbered		- Balance Sheet				
			- A1 to A2	Main Report			
			- B to B2	Details of Investments in Debt and Equity Securities			
			- C to C2	Details of Loans and Receivables			
			- D to D2	Wealth/Assets/Fund Management – UITF			
			- E	Fiduciary Accounts			
			- E1 to E1b	Other Fiduciary Services – UITF			
			- Income Statement		Quarterly	20th business day from end of reference quarter	SDC sdcnbfi-frpti@bsp.gov.ph

			- Control Prooflist			
			- E2, E2a, E2b - report by the PERA Administrator on Personal Equity and Retirement Account	Quarterly	20th business day from end of reference quarter	SDC sdcnbfi-frpti@bsp.gov.ph
		Sec. 1005-N (*Qualification and accreditation of non-bank financial institutions acting as trustee on any mortgage or bond issuance by any municipality, GOCC, or any body politic*)	Waiver of Confidentiality of Information under Sections 2 and 3 of R.A. No. 1405, as amended	As transaction occurs		
A-2		Sec. 901-N *(Cir. No. 1039 dated 3 May 2019, and 942 dated 01.20.17)*	List of operating, accredited and closed/delisted RTC/MC/FXD offices	Semestral	10 business day after end of reference semester	Appropriate supervising department of the Bangko Sentral
A-2		Sec. 901-N *(Cir. Nos. 1075 dated 7 February 2020 and 942 dated 01.20.17)*	Audited Financial Statements	Annually	Not later than 120 calendar days after the close of the calendar or fiscal year	-do-
	Unnumbered	Sec. 902-N *(Cir. No. 1075 dated 7 February 2020)*	Audited Financial Statements of VCs (audited by an external auditor included in the List of Selected External Auditors for BSFIs) together with attachments listed in *Appendix N-21*	Annually	Not later than 120 calendar days after the close of the calendar or fiscal year	Appropriate supervising department of the Bangko Sentral

A-2		Sec. 901-N *(Cir. No. 1039 dated 3 May 2019, and 942 dated 01.20.17)*	Reports on the total value of money changing/foreign exchange transaction	Annually	10 business days after end of reference quarter	Appropriate supervising department of the Bangko Sentral
A-2		Sec. 901-N *(Cir. No. 942 dated 01.20.17)*	Reports on the total value of foreign remittance transactions	-do-	10 business days after end of reference quarter	-do-
B	Unnumbered	Sec. 901-N *(Cir. No. 1104 dated 27 November 2020)*	Report on Crimes/Losses	As crime/incident occurs		*Soft copy to the appropriate supervising department of the Bangko Sentral*
			- Initial		Within ten (10) calendar days from the knowledge of the crime/incident	
			- Final		Within twenty (20) calendar days from termination of investigation	
A-3	Unnumbered	Sec. 143-N	Report on Borrowings of Bangko Sentral Personnel	-do-	15th business days after end of reference quarter	Original to SDC
A-3	Unnumbered	Sec. 401-N (*Reportorial Requirements*) (*Cir. No. 1033 dated 02.22.19*)	EPFS Transactions and Indicators	Monthly	15 banking days after end of reference month	sdc-ccbar@bsp.gov.ph
A-3	Unnumbered	Sec. 401-N (*Reportorial Requirements*) (*Cir. No. 1033 dated 02.22.19*)	Changes and Enhancements in EPFS	Semi-annually	15 banking days after end of reference semester	sdc-ccbar@bsp.gov.ph
B	SES II Form 15 (NP08-TB)	Sec. 111-N	Biographical data of Directors/Officers with ID picture	Upon every election/re-election or appointment/ promotion or if change in name or residential address occurs	20th business day from date of election of the directors/meeting of the board of directors in which the officers are appointed/promoted	Hard copy to appropriate department of the Bangko Sentral
			- If submitted in CD form - Notarized first page of each of the directors'/officers' Biographical Data saved in CD and control prooflist			

			- If sent by electronic mail - Notarized first page of Biographical or Notarized list of names of Directors/Officers whose Biographical data were submitted thru electronic mail to be faxed to SDC		20th business day from date the change of name or residential address occurred	
B		Sec. 111-N	Duly accomplished and notarized authorizarion form for querying the Bangko Sentral watchlist files	Upon election or appointment/ promotion as first time director/officer within an FI	20th business day from date of election of the directors/meeting of the board of directors in which the officers are appointed/promoted	Hard copy to appropriate department of the Bangko Sentral
B	Unnumbered	Sec. 111-N	List of Members of the Board of Directors and Officers	Annually	20th business day from annual election of the board of directors	Appropriate department of the Bangko Sentral
B	Unnumbered	Sec. 143-N	Board Resolution on NBFIs signatories of reports submitted to Bangko Sentral	As authorized	3rd business day from date of resolution	
B	Forms I and II Schedules 1 to 3		Report on Electronic Money Transactions	Quarterly	15th business day after end of reference quarter	e-mail - sdcothersemoney@bsp.gov.ph hard copy – SDC
			Quarterly Statement of E-Money Balances and Activity - Volume and Amount of E-Money Transactions Quarterly Statement of Liquidity Cover			
			Schedules 1 - E-Money Balances 2 - Bank Deposits 3 - Government Securities and Others			
	Unnumbered	Sec. 126-N (*Reports*)	IT Risk Profile Report	Annually	25 calendar days after end of reference year	e-mail at sdcnbfiitprofile@bsp.gov.ph

	Unnumbered	Sec. 902-N (*Notification and reporting requirements*) *(Cir. No. 944 dated 02.06.17)*	Audited financial statements of VCs (audited by any of the Bangko Sentral-selected external auditors)	Annually	Not later than 30 June following the reference calendar year	As required by the appropriate department of the Bangko Sentral
	Unnumbered	Sec. 902-N (*Notification and reporting requirements*) (*Cir. No. 944 dated 02.06.17*)	Quarterly Report on Total Volume and Value of VCs transacted	Quarterly	Ten (10) business days from end of reference quarter	-do-
	Unnumbered	Sec. 902-N (*Notification and reporting requirements*) *(Cir. No. 944 dated 02.06.17)*	List of operating offices and websites of VCs	-do-	Ten (10) business days from end of reference quarter	-do-
B	Unnumbered	Sec. 126-N (*Reports*) (*Cir. No. 1019 dated 31 October 2018*)	Reportable Major Cyber-Related Incidents	As incidents occur	Within two (2) hours upon discovery Within twenty-four (24) hours from discovery	citsg@bsp.gov.ph[1] citsg@bsp.gov.ph
B	BSD-Form-1;	Sec. 416-Q (*Compliance with the basic security deposit requirement)* *(Cir. 1032 dated 15 February 2019)*	Quarterly Report on Compliance with the Basic Security Deposit Requirement (with certification from Trust Officer in the case of trust entities, and designated/authorized officer)	Quarterly	20 banking days after end of every quarter	e-mail to BSD-Quarterly@bsp.gov.ph DSA e-mail and to appropriate supervising department
	BSD-PERA-Form-1	Sec. 1121-Q (*Security for the faithful performance of administrators)*				

[1] For speedy identification, the email transmission should use the following required format as the subject
<EDRN>underscore<eventtype>underscrore<bank/NBQB name>underscore<reportstatus>underscore<yyyymmdd>
EDRN refers to event driven reporting and notification. The event type will either be "**Cyber**" for major cyber-related reportable incidents or "**Disruption**" for disruptions of financial services and operation. The report status refer to either "**IM-Notice**", for the immediate notification upon discovery of the incident or "**Follow2**" for the follow-up report indicating the details as prescribed in the preceding section, e.g.,:
To: citsg@bsp.gov.ph0058 Subject: EDRN_Cyber_Bank A_IM-Notice_20180731

		(Cir. 1032 dated 15 February 2019)				
B	BSD-PERA-Form-2	Sec. 416-Q (*Compliance with the basic security deposit requirement)* *(Cir. 1032 dated 15 February 2019)*	Report on Basic Security Deposit Transactions with certification from designated/authorized officer	On every deposit, withdrawal, replacement or redemption of securities	3 banking/business days prior to date of securities of transfer	e-mail to BSD-Transactional@bsp.gov.ph DSA e-mail and to appropriate supervising department
		Sec. 1121-Q (S*ecurity for the faithful performance of administrators)* *(Cir. 1032 dated 15 February 2019)*				
B	Unnumbered	Sec. 126-N (*Reports*) (*Cir. No. 1019 dated 31 October 2018*)	Disruptions of financial services and operations	As disruptions occur	Within two (2) hours upon discovery Within twenty-four (24) hours from discovery	citsg@bsp.gov.ph citsg@bsp.gov.ph
B		Sec. 134-N *(Cir. No. 1075 dated 7 February 2020)*	Audited Financial Statements	Annually	Not later than 120 calendar days after the close of the calendar or fiscal year	-do-
B		*(Cir. No. 1117 dated 27 May 2021)*	Monthly Report on the Sale/Transfer and Investment Transactions of BSFIs under the Financial Institutions Strategic Transfer (FIST) Act	Monthly	20 banking/business days after end of reference month	E-mail to the DSA

GUIDELINES ON PRESCRIBED REPORTS SIGNATORIES AND SIGNATORY AUTHORIZATION
***(Appendix to Sec. 143-N on Reports*)**

Category A-2 reports of head offices shall be signed by the president, executive vice-presidents, vice-presidents or officers holding equivalent positions. Such reports of other offices/units (such as branches) shall be signed by their respective managers/officers in-charge. Likewise, the signing authority in this category shall be contained in a resolution approved by the board of directors in the format prescribed in *Appendix N-3.*

Category B reports shall be signed by officers or their alternates, who shall be duly designated in a resolution approved by the board of directors in the format as prescribed in *Appendix N-4.*

Copies of the board resolutions on the report signatory designations shall be submitted to the appropriate supervising department of the Bangko Sentral within three (3) days from the date of resolution.

FORMAT OF RESOLUTION FOR SIGNATORIES OF CATEGORY A-2 REPORTS
***(Appendix to Sec. 143-N on Categories and signatories of reports*)**

Resolution No. _____

Whereas, it is required under Sec. 143-N (*Categories and signatories of reports)* that Category A-2 reports of head offices be signed by the president, executive vice-presidents, vice-presidents or officers holding equivalent positions, and that such reports of other offices be signed by the respective managers/officers-in-charge;

Whereas, it is also required that aforesaid officers of the institution be authorized under a resolution duly approved by the institution's Board of Directors;

Whereas, we, the members of the Board of Directors of (Name of Institution), are conscious that, in designating the officials who would sign said Category A-2 reports, we are actually empowering and authorizing said officers to represent and act for or in behalf of the Board of Directors in particular and (Name of Institution) in general;

Whereas, this Board has full faith and confidence in the institution's President (and/or the Executive Vice-President, etc., as the case may be) and, therefore, assumes responsibility for all the acts which may be performed by aforesaid officers under their delegated authority;

Now, therefore, we, the members of the Board of Directors, resolve, as it is hereby resolved that:

Name of Officer	Specimen Signature	Position Title	Report No.

are hereby authorized to sign the Category A-2 reports of _____
(Name of Institution)

Done in the City of_____, Philippines, this____day of_____, 20____.

CHAIRMAN OF THE BOARD

DIRECTOR	DIRECTOR
DIRECTOR	DIRECTOR
DIRECTOR	DIRECTOR

ATTESTED BY:

_____
CORPORATE SECRETARY

FORMAT OF RESOLUTION FOR SIGNATORIES OF CATEGORY B REPORTS
***(Appendix to Sec. 143-N on Reports*)**

Resolution No. _____

Whereas, it is required under Sec. 143-N (*Categories and signatories of reports*) that Category B reports be signed by officers or their alternates;

Whereas, it is also required that aforesaid officers of the institution be authorized under a resolution duly approved by the institution's Board of Directors;

Whereas, we the members of the Board of Directors of (Name of Institution) are conscious that, in designating the officials who would sign said Category B reports, we are actually empowering and authorizing said officers to represent and act for or in behalf of the Board of Directors in particular and (Name of Institution) in general;

Whereas, this Board has full faith and confidence in the institution's authorized signatories and, therefore, assumes responsibility for all the acts which may be performed by aforesaid officers under their delegated authority;

Now, therefore, we, the members of the Board of Directors, resolve, as it is hereby resolved that:

	Name of Authorized Signatory/Alternate	Specimen Signature	Position Title	Report No.
1.	Authorized _____	_____	_____	_____
	(Alternate) _____	_____	_____	_____
2.	Authorized _____	_____	_____	_____
	(Alternate) _____	_____	_____	_____
	etc.			

are hereby authorized to sign the Category B reports of_____.
(Name of Institution)

Done in the City of_____, Philippines, this_____day of_____, 20_____.

CHAIRMAN OF THE BOARD

_____ DIRECTOR
_____ DIRECTOR
_____ DIRECTOR
_____ DIRECTOR
_____ DIRECTOR
_____ DIRECTOR

ATTESTED BY:

_____
CORPORATE SECRETARY

GUIDELINES ON THE SUSPENSION/DELISTING OF EXTERNAL AUDITOR IN THE LIST OF SELECTED EXTERNAL AUDITORS FOR BANGKO SENTRAL SUPERVISED FINANCIAL INSTITUTIONS (BSFIs)

(Appendix to Sec. 133-N on Framework on the Selection of External Auditors)

Section 1. Grounds for Suspension/Delisting of External Auditors

An external auditor included in the List of Selected Auditors for BSFIs shall be suspended or delisted by the Bangko Sentral, without prejudice to the imposition of other sanctions by the Securities and Exchange Commission (SEC)[1], under any of the following grounds:

a. Gross negligence in the conduct of the audit or failure to comply with the Philippine Standards on Auditing and such other issuances of the Auditing and Assurance Standards Council;

b. Issuance of an unqualified opinion which is not supported by full compliance by the auditee with the applicable financial reporting framework due to material deficiencies or misstatements in the financial statements;

c. Conduct of an audit despite the lack or eventual loss of independence as provided for under the Code of Ethics for Professional Accountants in the Philippines;

d. Conduct of any non-audit services for his statutory audit clients, if he has not undertaken the safeguards to reduce the threat to his independence;

e. Any material misrepresentation in the reports submitted to the Bangko Sentral;

f. Failure to comply with the provisions set forth under Sec. 133-N;

g. Refusal for no valid reason, upon lawful order of the Bangko Sentral, to submit requested documents in connection with an ongoing investigation. The external auditor shall, however, be made aware of such investigation; and

h. Failure to obtain from the Securities and Exchange Commission an accreditation appropriate to the client's category provided under Sec. 133-N on the appointment of external auditor.

Section 2. Procedures and Effects of Delisting/Suspension

a. On the basis of the results of the assessment of the quality of audited financial statements and evidence on the existence of the grounds for suspension or delisting under Section 1 above, the external auditor shall be notified in writing by the appropriate supervising department of the Bangko Sentral of the existence of the ground for his/her suspension or delisting in the List of Selected External Auditors for BSFIs and shall be allowed to submit within fifteen (15) calendar days from receipt of such notice an explanation on why he/she should not be suspended/delisted, together with the evidence in support of his/her position.

   An external auditor shall only be suspended or delisted after due notice and opportunity to defend/clear himself/herself.

b. Failure of the external auditor concerned to reply within the period prescribed under Item "a" above, shall be considered as a waiver on his/her part of the opportunity to defend/clear himself/herself. In this respect, the appropriate supervising department of the Bangko Sentral shall proceed with the evaluation of the case based on available records/evidence.

c. Upon approval by the Monetary Board, the external auditor concerned shall be informed in writing by the appropriate supervising department of the Bangko Sentral of his/her suspension or delisting in the List of Selected External Auditors for BSFIs.

d. A suspended or delisted external auditor shall be automatically included in the Bangko Sentral's Watchlist Disqualification File "B" (temporary).

e. The Securities and Exchange Commission shall be immediately informed of the suspension or delisting of the external auditor.

f. Suspended external auditors may re-apply for inclusion in the List of the Selected External Auditors for BSFIs after the lapse of five (5) years from the date of effectivity of the suspension.

(Circular No. 1040 dated 20 May 2019)

[1] Accrediting Agency duly designated by the member-agency of the Financial Sector Forum, comprising of the Bangko Sentral ng Pilipinas, Securities and Exchange Commission, Insurance Commission, and Philippine Deposit Insurance Corporation.

QUALIFICATION REQUIREMENTS
FOR A BANK/NON-BANK FINANCIAL INSTITUTION APPLYING FOR
ACCREDITATION TO ACT AS TRUSTEE ON ANY MORTGAGE OR BOND
ISSUED BY ANY MUNICIPALITY, GOVERNMENT-OWNED OR
CONTROLLED CORPORATION, OR ANY BODY POLITIC
***(Appendix to Sec. 1005-N*)**

A bank/NBFI applying for accreditation to act as trustee on any mortgage or bond issued by any municipality, government- owned or controlled corporation, or any body politic must comply with the following requirements:

a. It must be a bank or NBFI under Bangko Sentral supervision;

b. It must have a license to engage in trust and other fiduciary business;

c. It must have complied with the minimum capital accounts required under existing regulations, as follows:

UBs and KBs	The amount required under existing regulations or such amount as may be required by the Monetary Board in the future.
Branches of Foreign Banks	The amount required under Foreign Banks existing regulations.
Thrift Banks	₱650.0 million or such amounts as may be required by the Monetary Board in the future.
NBFIs	Adjusted capital of at least ₱300.0 million or such amount as may be required by the Monetary Board in the future.

d. Its risk-based capital adequacy ratio is not lower than twelve percent (12%) at the time of filing the application;

e. The articles of incorporation or governing charter of the institution shall include among its powers or purposes, acting as trustee or administering any trust or holding property in trust or on deposit for the use, or in behalf of others;

f. The by-laws of the institution shall include among others, provisions on the following:

(1) The organization plan or structure of the department, office or unit which shall conduct the trust and other fiduciary business of the institution;
(2) The creation of a trust committee, the appointment of a trust officer and subordinate officers of the trust department; and
(3) A clear definition of the duties and responsibilities as well as the line and staff functional relationships of the various units, officers and staff within the organization.

g. The bank's operation during the preceding calendar year and for the period immediately preceding the date of application has been profitable;

h. It has not incurred net weekly reserve deficiencies during the eight (8) weeks period immediately preceding the date of application;

i. It has generally complied with banking laws, rules and regulations, orders or instructions of the Monetary Board and/or Bangko Sentral Management in the last two preceding examinations prior to the date of application, particularly on the following:

(1) election of at least two (2) independent director;
(2) attendance by every member of the board of directors in a special seminar for board of directors conducted or accredited by the Bangko Sentral;
(3) the ceilings on credit accommodations to DOSRI;
(4) liquidity floor requirements for government deposits;
(5) single borrower's loan limit; and
(6) investment in bank premises and other fixed assets.

j. It maintains adequate provisions for probable losses commensurate to the quality of its assets portfolio but not lower than the required allowance for credit losses as determined by the Bangko Sentral;

k. It does not have float items outstanding for more than sixty (60) calendar days in the “Due From/To Head Office/Branches/Other Offices” accounts and the “Due from Bangko Sentral” account exceeding one percent (1%) of the total resources as of date of application;

l. It has established a risk management system appropriate to its operations characterized by clear delineation of responsibility for risk management, adequate risk measurement systems, appropriately structured risk limits, effective internal controls and complete, timely and efficient risk reporting system;

m. It has a CAMELS Composite Rating of at least "3" in the last regular examination with management rating of not lower than "3"; and

n. It is a member of the PDIC in good standing (for banks only).

Compliance with the foregoing as well as with other requirements under existing regulations shall be maintained up to the time the trust license is granted. A bank that fails in this respect shall be required to show compliance for another test period of the same duration.

REGISTRATION PROCEDURES FOR RTC/MC/FXD

***(Appendix to Sec. 901-N on Money Service Business Operations and Sec. 902-N on Virtual Asset Service Providers*)**

Registration constitutes a two-stage process. Stage 1 is a preliminary screening process for Bangko Sentral to determine if applicant is eligible for registration. In Stage 2, the eligible applicant is invited to submit supporting documents to complete the registration process.

A. First Stage

The new applicant shall submit the following for evaluation:

1. Application letter;
2. Business plan including target markets; and
3. List of owners/controlling shareholders, directors, and principal officers, as applicable.

B. Second Stage

If the applicant is deemed eligible in Stage 1, the applicant shall be invited to submit a notarized Application for Registration to Operate a Money Service Business, accompanied by the following documents:

1. Notarized Deed of Undertaking (*Appendix N-8*);

2. Compliance with fitness and propriety requirements by the proprietor, partners, directors, president or officer of equivalent rank and function, and over-all head of the money service business operation and the head of the compliance unit, as the case maybe. For this purpose, applicants shall be required to submit the following:

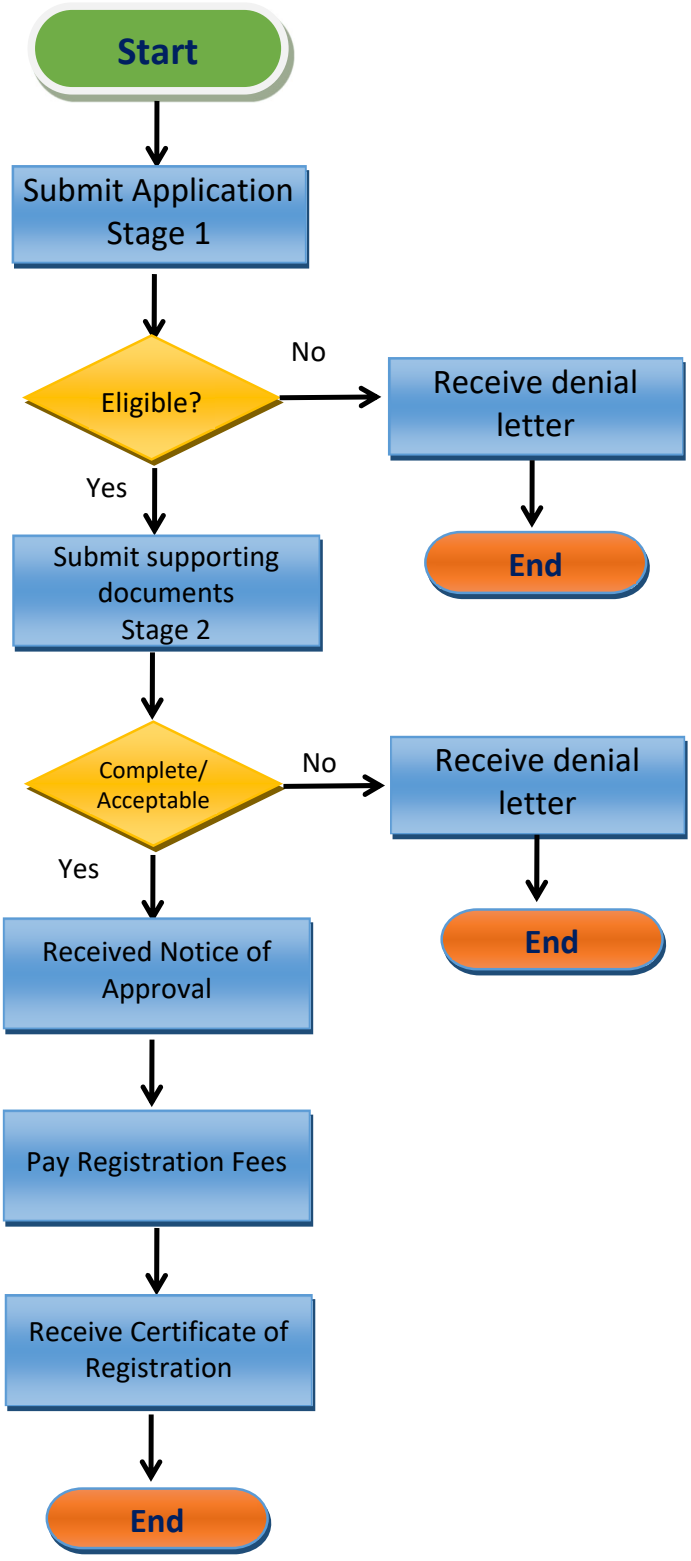
    a. Personal Data and Authorization Form *(Appendix N-9)*;
    b. NBI Clearance, or its equivalent, if issued in foreign jurisdiction; and
    c. Proof of attendance to the mandatory training on anti-money laundering/combating the financing of terrorism;

3. Business license/permit for the current period[1]; and

4. Proof of provisional registration with the Anti-Money Laundering Council Secretariat.

(Circular Nos. 1108 dated 26 January 2021, 1039 dated 3 May 2019, and 942 dated 20 January 2017)

[1] The entity name, business address and activity(ies) indicated therein should be consistent with the business registration with the DTI/SEC/CDA, as applicable. The details in said business permit shall be used as basis in the issuance of Certificate of Registration.


Start
Submit Application Stage 1
Eligible?
No
Receive denial letter
End
Yes
Submit supporting documents Stage 2
Complete/ Acceptable
No
Receive denial letter
End
Yes
Received Notice of Approval
Pay Registration Fees
Receive Certificate of Registration
End

REPUBLIC OF THE PHILIPPINES)
_____ CITY) S.S.

DEED OF UNDERTAKING

(Appendix to Sec. 901-N on Money Service Business Operations and Sec. 902-N on Virtual Asset Service Providers)

I/We (the Proprietor/Partners/Members of the Board of Directors) and key executive officers of (Name of Institution), a legal entity duly authorized to operate under the laws of the Philippines, with principal place of business at_____, by these presents, do hereby obligate ourselves, individually and collectively, to undertake and ensure:

1. Strict compliance with all the requirements, rules and regulations of the Bangko Sentral regarding the registration and operations of money service business, as well as the provisions of Republic Act (R.A.) No. 9160 [The Anti-Money Laundering Act (AMLA) of 2001], as amended, R.A. No. 10168 (The Terrorism Financing Prevention and Suppression Act of 2012) and their implementing rules and regulations;

2. Responsibility for any violation of the provisions of R.A. No. 9160 (The AMLA of 2001), as amended, R.A. No. 10168 (The Terrorism Financing Prevention and Suppression Act of 2012), and their implementing rules and regulations, and for possible sanctions prescribed under Section 36 of R.A. No. 7653, as amended, (The New Central Bank Act) and other applicable laws, rules and regulations;

3. Financial capacity to organize and operate a money service business and full compliance with the minimum capitalization prescribed under Sec. 901-N (*Requirements for registration*);

4. Compliance with the requirements on customer due diligence, covered and suspicious transaction reporting, and record keeping and retention;

5. Development, adoption and dissemination to all employees concerned of a Money Laundering and Terrorist Financing Prevention Program (MTPP);

6. Exclusive use of bank account/s in the name of the registered entity in its official business transactions and to provide a certified list of all bank account/s supported by confirmation from depository bank/s which shall be subject to Bangko Sentral inspection/ examination for anti-money laundering (AML)/combating the financing of terrorism (CFT) purposes;

7. Notification of the appropriate supervising department of the Bangko Sentral within the prescribed deadline of the following events: (a) commencement of operations; (b) change of registered/business name; (c) new office/s; (d) new/terminated tie-up partner/s; (e) transfer of location of office/s; (f) additional money service business; (g) closure of office/s; and (h) closure of business;

8. Prior approval from the appropriate supervising department of the Bangko Sentral for any change in ownership or control;

9. Strict compliance with the requirements of maintenance of records and submission of required reports;

10. Maintenance of an internal control system commensurate to the nature, size and complexity of the business;

11. Adoption of minimum standards of consumer protection in the areas of disclosure and transparency, protection of client information, fair treatment, effective recourse and financial education pursuant to the MORNBFI - N Regulations;

12. Compliance with the applicable provisions of the Information Technology Risk Management Framework of the MORNBFI - N Regulations;

13. Payment to the Bangko Sentral of the following fees: (a) registration fee; (b) annual service fee; (c) metal plate; and (d) processing fee for the replacement of Bangko Sentral Certificate of Registration;

14. Strict compliance with the transactional requirements on the large value pay-outs and the sale of foreign currencies, and obtaining prior approval from the appropriate supervising department of the Bangko Sentral before transacting higher limits on the sale of foreign currencies;

15. Strict compliance with possible monetary sanctions/penalties and other sanctions as imposed by the Bangko Sentral;

16. Submission of the complete list of our foreign or local counterparties, including their contact details (i.e., business address, contact person and its numbers) *(this provision is applicable to Remittance and Transfer Company [RTC] only);*

17. Contracting with counterparty(ies) that is/are licensed/authorized/ registered to engage in remittance business and is/are subject to the AML/CFT laws of the country where it operates *(this provision is applicable to RTC only);*

18. Responsibility for the Remittance Sub-Agent's compliance with all applicable AML/CFT laws, rules and regulations (this provision is applicable to RTC only);

19. Timely renewal of the business permits of all of its offices, which indicate the line of business, from the city or municipality having territorial jurisdiction over the place of establishment and operation of the respective offices; and

20. Attendance of the proprietor, partners, directors, president or officer of equivalent rank and function and head of the money service business operation and the compliance unit to a seminar on AML/CFT laws, rules and regulations, before start of operations, conducted by the Bangko Sentral, AML Council Secretariat, or any reputable training provider.

For this purpose, [Name of Institution] shall be responsible in ascertaining whether the external training provider has an adequate track record of successfully conducting training programs preferably on financial institution-oriented courses including, but not limited to, AML/CFT training.

Signature over Printed Name of the Proprietor/All Partners/All Members of the Board of Directors) and Key Executive Officers	Designation
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____

[*Insert additional rows, as applicable*]

SUBSCRIBED AND SWORN to before me this__day of _____ 20__, affiants exhibiting to me their government-issued identification cards, as follows:

Name	Gov't. ID No.	Valid Until
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

[*Insert additional rows, as applicable*]

Notary Public

(Circular Nos. 1108 dated 26 January 2021, 1039 dated 3 May 2019 and 942 dated 20 January 2017)

Appendix to Sec. 901-N on Money Service Business Operations and Sec. 902-N on Virtual Asset Service Providers

COMPANY NAME

BUSINESS ADDRESS

ID picture taken within the last 6 months
3.5 cm. x 4.5 cm. (passport size)

Computer generated or photocopy of picture is not acceptable

PERSONAL DATA and AUTHORIZATION FORM

NAME

POSITION

I, [Name], after being sworn in accordance with law, do hereby:

a. Certify that the information contained in this document and its supporting schedule of my own knowledge is true and correct.

b. Authorize the following, pursuant to the provisions of Sec. 901-N (*Requirements for regulation*):

   1. [Name of Institution] to conduct a background investigation on myself as [position] in [Name of Institution] which include, among others, inquiring from the Watchlist Files of the Bangko Sentral ng Pilipinas; and

   2. The Bangko Sentral ng Pilipinas to disclose its findings pertinent to the aforementioned inquiry on the said Watchlist Files and other sources to [Name of Institution].

With the above authorization, I hereby waive my right to the confidentiality of the information that will be obtained as a result of the said inquiry, provided that disclosure of said information will be limited for the purpose of ascertaining my qualification or non-qualification for the said position.

Signature over Printed Name

SIGNED IN THE PRESENCE OF:

(Witness) (Witness)

SUBSCRIBED AND SWORN to before me this ____ day of_____20__, affiant exhibiting to me his/her _____ issued at _____ on _____.

Notary Public

BIOGRAPHICAL DATA

PERSONAL INFORMATION:

		SURNAME	GIVEN	MIDDLE	SUFFIX (*e.g. Jr.)*
1.	NAME:				

2. TIN: _____ 3. UPDATES AS OF: _____

4. OTHER NAMES USED, IF ANY: _____

5. MANAGEMENT LEVEL: ☐ Director ☐ Officer

6. DATE ELECTED/RE-ELECTED/APPOINTED/POSITION CHANGED: _____

7. RESIDENCE ADDRESS: _____

8. TELEPHONE NO.: _____ 9. E-MAIL ADD: _____

10. BUSINESS ADDRESS: _____

11. TEL. NO.: _____ 12. E-MAIL ADD: _____

13. CIVIL STATUS: ☐ Single ☐ Married ☐ Divorced/Separated ☐ Widow

14. SEX: ☐ Male ☐ Female 15. CITIZENSHIP: _____

16. DATE OF BIRTH: _____ 17. PLACE OF BIRTH: _____

FAMILY RELATIONS (Legitimate or Common-Law):

	SURNAME	GIVEN	MIDDLE	SUFFIX (*e.g. Jr*)
18. NAME OF SPOUSE				

	SURNAME	GIVEN	MIDDLE	SUFFIX (*e.g. Jr*)
19. NAME OF COMMON-LAW SPOUSE				

(Please indicate "N/A" for fields that are not applicable)

NAME	TIN	UPDATED AS OF

TRAINING/S:

20. Seminars/Training on Money Service Business, AML/CFT and other related fields

NATURE/TITLE	CONDUCTED BY	YEAR TAKEN

(*continue in separate sheet if necessary*)

WORK EXPERIENCE/S:

21. Present Position – Other Private Institution (Including Corporate Directorship)

NAME OF OFFICE	POSITION	DATE ASSUMED	INDICATE IF OWNER/PARTNER/STOCKHOLDER

(*continue in separate sheet if necessary*)

22. Present Position/s – Government (Including Directorships in Government Corporate Institutions)

NAME OF OFFICE	POSITION	DATE ASSUMED	INDICATE IF ELECTIVE OR APPOINTIVE AND PART/FULL-TIME

(*continue in separate sheet if necessary*)

23. Past Position/s – Other Private Institutions (Including Corporate Directorships)

NAME OF OFFICE	POSITION	DURATION (YEAR) FROM	TO

(*continue in separate sheet if necessary*)

24. Past Position/s – Other Private Institutions (Including Corporate Directorships)

NAME OF OFFICE	POSITION	DURATION (YEAR) FROM	TO

(*continue in separate sheet if necessary*)

(Please indicate "N/A" for fields that are not applicable)

(Circular Nos. 1108 dated 26 January 2021 and 1039 dated 3 May 2019)

MINIMUM DOCUMENTARY REQUIREMENTS
FOR THE SALE OF FOREIGN CURRENCIES
(Appendix to Sec. 901-N on Money Service Business Operations)

A. Sale of foreign exchange for non-trade current account purposes exceeding USD10,000	
Purposes	**Documents Required (All originals except as indicated)**
1. Foreign travel funds	Applicant's passport and passenger ticket
2. Educational expenses/student maintenance abroad	Photocopy of proof of enrollment with, or billing statement from, school abroad
3. Correspondence studies	Photocopy of proof of enrollment with, or billing statement from, school abroad
4. Medical expenses	Photocopy of billing statement (for services treatment to be administered) certification issued by doctor/hospital endered/expenses incurred abroad) or broad indicating cost estimate (on the treatment to be administered)
5. Emigrants' assets (including inheritance legacies, and income from properties)	a. Photocopies of: i. Emigrant's visa or proof of residence of emigrant abroad; ii. Notarized Deed of Sale covering assets (e.g., real estate, vehicles, machineries/equipment, etc.); and iii. Proof of income received from properties in the Philippines. b. In the absence of the emigrant, a notarized Special Power of Attorney (SPA) for emigrant's representative/agent. If SPA was executed abroad, original of SPA authenticated by Philippine consulate abroad.
6. Salary/bonus/dividend/other benefits of foreign expatriates (including peso savings)	a. Employment contract/certification of employer on the amount of compensation paid to the foreign national during the validity of the contract stating whether the same had been paid in foreign exchange or in pesos, and if in foreign exchange, proof that the foreign exchange was previously sold for pesos to AABs; b. ACR I-Card and DOLE Alien Employment Permit of the foreign national; c. Applicant's notarized certification that the FX remitted is net of local expenses incurred or net of previous transfers abroad; and d. If amount to be remitted comes from sources other than salaries, information regarding the sources supported by appropriate documents should be submitted.
7. Foreign nationals' income taxes due to foreign governments	a. ACR-I Card and DOLE Alien Employment foreign governments Permit; and b. Photocopy of income tax return covering the income tax payment sought to be remitted.

8. Sales proceeds of domestic assets by foreign expatriates	a. ACR I-Card; and b. Photocopy of proof of sale of asset/s.
9. Producers' share in movie revenue/TV film rentals	a. Statement of remittance share rental or rental; and b. Copy of contract/agreement
10. Commissions on exports due foreign agents	a. Billing statement from non-resident agent; and b. Photocopy of contract/agreement
11. Freight charges on exports/imports	a. Billing statement; and b. Photocopy of contract/agreement
12. Charters and leases of vessels/aircraft	a. Billing statement from non-resident lessor/owner of vessel/aircraft; and b. Photocopy of contract/agreement
13. Port of disbursements abroad for aircraft and vessels of Philippine registry chartered by domestic operators and salvage fees	a. Billing statement; and b. Photocopy of contract/agreement
14. Satellite and other telecommunication services	a. Billing statement; and b. Photocopy of contract/agreement
15. Other services such as advertising, consultancy, IT, fees for other professional services	a. Billing statement; and b. Photocopy of contract/agreement
16. Share in head office expenses (including reimbursements)	a. Audited schedules of allocation of expenses for the periods covered; b. Certification from the head office that the share in head office expenses remain unpaid and outstanding; and c. Audited financial statements of the Philippine branch
17. Insurance/Reinsurance premium due to foreign insurance companies	Billings/invoices of insurance companies/ brokers abroad.
18. Claims against domestic insurance companies by brokers abroad	Billings/invoices from foreign insurer/ reinsurer
19. Net Peso revenues of foreign airlines/shipping companies	a. Statement of Net Peso Revenues (Peso revenues less expenses) certified by authorized officer b. Photocopy of contract/agreement
20. Royalty/Copyright/Franchise/Patent/Licensing fees	a. Statement/Computation of the royalty/copyright/franchise/patent/licensing fee; and b. Photocopy of contract/agreement
21. Net peso revenues of embassies/consulates of foreign countries	Statement of net peso revenues (Peso revenues less expenses) certified by the Embassy's/Consulate's authorized officer
22. FX obligations of Philippine credit card companies to international credit card companies/non-resident merchants	Summary billings
23. Support of dependents abroad	a. Consular certificate or its equivalent documents to prove that the dependent is permanently residing abroad not earlier than one (1) year from FX application date; and b. Certified true copy of birth certificate, marriage contract, adoption papers, whichever is applicable.

24. Subscriptions to foreign magazines or periodicals	Billing statement
25. Membership dues and registration fees to associations abroad	a. Proof of membership; and b. Billing statement
26. Mail fees	a. Copy of contract or agreement; and b. Billing statement

B. Sale of foreign exchange for payment of foreign/foreign currency loans, regardless of amount	
Purposes	**Documents Required (All originals except as indicated)**
Foreign/foreign currency loan payments Payments related to guarantees and similar arrangements including Risk Take Over Arrangements (RTO)	Billing statement from creditor. Amounts that may be purchased shall be limited to maturing amounts on scheduled due dates. Remittance of FX purchased shall coincide with the due dates of the obligations to be serviced. FX-selling entity shall stamp "FX SOLD", date of sale and the amount/s sold on the original billing statement.
Resulting FX liabilities arising from guarantees and similar arrangements including RTO not involving foreign/FCDU loans.	Copies of: a. Arrangements guarantee/similar arrangement; b. Stand by Letter of Credit (SLC) or guarantee contract or agreement; c. Proof/notice of original obligor's default and creditor's call on the guarantee; and d. Billing statement from the non-resident or local bank guarantor
Payments related to Build-Operate-Transfer and similar financing schemes with transfer arrangements Regular Fees	Copies of: a. Covering arrangements/contracts; and b. Billing statement from private sector project company/proponent.

C. Sale of foreign exchange for capital repatriation/remittance of dividends/profits/earnings, outward investments and residents' investments in foreign currency-denominated bonds/notes issued by the Republic of the Philippines and other Philippine entities, regardless of amount	
Purposes	**Documents Required (All originals except as indicated)**
1. Capital repatriation of: a. Portfolio investments in: i. PSE-listed securities; ii. Peso government securities; iii. Money market instruments (MMI); iv. Peso bank deposits	 Broker's sales invoice Confirmation of purchase for peso government securities Matured contract for MMI Proof of withdrawal of deposit or matured certificate of deposit, as applicable.

b. Foreign direct equity investment	a. Photocopy of proof of sale or relevant documents showing the amount to be repatriated; in case of dissolution/capital reduction, proof of distribution of funds/assets such as statement of net assets in liquidation; b. Detailed computation of the amount applied for in the attached format (Attachment 1) prepared by the selling stockholder's representative; and c. Photocopy of pertinent audited financial statements
2. Remittance of dividends/profits/ earnings/interests	a. Photocopy of PSE-cash dividends notice interests and Philippine Central Depository (PCD) printout of cash dividend payment or computation of interest earned issued by MMI issuer or bank; b. Photocopy of secretary's sworn statement on the board resolution covering the dividend declaration; c. Photocopy of latest audited financial statements or interim financial statements covering the dividend declaration period (for direct foreign equity investments)
3. Resident's outward investment	
a. Direct equity investments	a. Photocopy of investment proposal/agreement, or subscription agreement; and b. Photocopy of deed of sale or assignment of the investments
b. Portfolio investments	a. Photocopy of subscription agreement, or bond/stock offering; b. Swift payment order instruction from the counterparty/broker/trader indicating the name of payee and type/kind of investment authenticated by the broker/trader; and c. Photocopy of investor's order to broke/trader to buy the securities
4. Residents' investments in FX-denominated bonds/notes issued by the Republic of the Philippines and other Philippine entities	a. Photocopy of subscription agreement or bond offering; b. Swift payment order instruction from the counterparty/broker/trader indicating the name of payee and type/kind of investment authenticated by the broker/ trader; and c. Photocopy of investor's order to broker/trader to buy the securities.

D. Sale of foreign exchange for payment of importations, regardless of amount.	
Purposes	**Documents Required (All originals except as indicated)**
Payment of merchandise import	a. Bill of lading or airway bill covering the merchandise imports; and b. Commercial invoice

(Circular No. 942 dated 20 January 2017, as amended by Circular No. 974 dated 29 September 2017)

Attachment 1

COMPUTATION SHEET

Name of FX FXD/MC:_____ Date of FX Sale: _____

TYPE OF OUTWARD REMITTANCE FOR INWARD FOREIGN INVESTMENT TRANSACTION

☐ Remittance of Cash Dividends/Profits

☐ Repatriation of Capital

Name of Investee Firm: _____

_____

Name of Investor: _____

_____

A. REMITTANCE OF CASH DIVIDENDS/PROFITS

Record Date (DDMMYYYY): _____

Payment Date (DDMMYYYY): _____

☐ Dividends

Total Amount in Php (A): _____

No. of Shares[1] (B): _____

Rate per share in Php (A/B): _____

☐ Amount of Profits/Earnings due to investor: _____

Base Shares (Php)[2]	Dividends per Share	Total Amount (Php)

A.	Gross Peso Amount Remittable	
B.	Less: Taxes/Charges	
C.	Net Peso Amount Remittable (A-B)	
D.	Foreign Exchange Applied for Remittance (C/FX rate[3])	

[1] Refers to shares issues and outstanding as of record date
[2] Out of total number of shares issued and outstanding as of record date (in footnote 1)
[3] To be supplied by FX FXD/MC

B. REPATRIATION OF CAPITAL

Total Amount/No. of Shares[1]	Outstanding Balance Before This Repatriation	Amount/No. of Shares Applied for Repatriation
	A. Total No. of Shares/Amount Applied For Repatriation	
	B. Selling Price/Share (if applicable)	
	C. Gross Peso Amount Repatriable (A x B)	
	D. Less: Taxes/Charges	
	E. Net Peso Amount Repatriable (C - D)	
	F. Foreign Exchange Applied for Repatriation (E/FX rate[2])	

Prepared by:

Signature over Printed Name of Authorized Representative of Applicant	Company Affiliation of Investor's Representative

Date

[1] Refers to number of shares (for stock corporations) or amount (e.g., assigned capital, contributed capital)
[2] To be supplied by FX FXD/MC

BASIC GUIDELINES IN SETTING UP OF ALLOWANCE FOR CREDIT LOSSES
(Appendix to Sec. 122-N (Credit classification and provisioning))

BSFIs with credit operations that may not economically justify a more sophisticated loan loss estimation methodology or where practices fall short of expected standards shall, at a minimum, be subject to the following guidelines:

As a general rule, Especially Mentioned and Substandard – Underperforming [e.g., substandard accounts that are unpaid or with missed payment of less than ninety (90) days] shall be considered as Stage 2 accounts, while Substandard Non-performing, Doubtful, and Loss accounts shall be considered as Stage 3 accounts.

I. Individually Assessed Credit Exposures[1]

1. Loans and other credit exposures with unpaid principal and/or interest shall be classified and provided with allowance for credit losses (ACL) based on the number of days of missed payments as follows:

   For unsecured loans and other credit exposures:

No. of Days Unpaid/with Missed Payment	Classification	Minimum ACL	Stage
31 – 90 days	Substandard (underperforming)	10%	2
91 – 120 days	Substandard (non-performing)	25%	3
121 – 180 days	Doubtful	50%	3
181 days and over	Loss	100%	3

   For secured loans and other credit exposures:

No. of Days Unpaid/with Missed Payment	Classification	Minimum ACL	Stage
31 – 90 days*	Substandard (underperforming)	10%	2
91 – 180 days*	Substandard (non-performing)	10%	3
181 – 365 days	Substandard (non-performing)	25%	3
Over a year – 5 years	Doubtful	50%	3
Over 5 years	Loss	100%	3
** When there is imminent possibility of foreclosure and expectation of loss, ACL shall be increased to 25%.*			

   Provided, That where the quality of physical collaterals or financial guarantees securing the loans and advances are determined to be insufficient, weak or without recoverable values, such loans and advances shall be treated as if these are unsecured.

2. Loans and other credit exposures that exhibit the characteristics for classified accounts described under Sec. 122-N *(Credit classification and provisioning)* shall be provided with ACL as follows:

Classification	Minimum ACL	Stage
Especially Mentioned	5%	2
Substandard – Secured	10%	2 or 3[2]
Substandard – Unsecured	25%	2 or 3[2]
Doubtful	50%	3
Loss	100%	3

3. Unsecured loans and other credit accommodations classified as "Substandard" in the last two (2) internal credit reviews which have been continuously renewed/extended without reduction in principal and is not in process of

[1] Other credit exposures include exposures under the scope of PFRS 9, such as investments in debt securities measured at fair value through other comprehensive income and amortized cost, loan commitments, sales contract receivables, accounts receivables, accrued interest receivables, and advances.
[2] The stage depends on whether the accounts are classified as non-performing (Stage 3) or underperforming (Stage 2).

collection, shall be downgraded to "Doubtful" classification and provided with a fifty percent (50%) allowance for credit losses;

4. Loans and other credit accommodations under litigation which have been classified as "Pass" prior to the litigation process shall be classified as "Substandard" and provided with twenty percent (25%) allowance for credit losses.

5. Loans and other credit accommodations that were previously classified as "Pass" but were subsequently restructured shall have a minimum classification of EM and provided with a five percent (5%) allowance for credit losses, except for loans which are considered non- risk under existing laws, rules and regulations.

6. Classified loans and other credit accommodations that were subsequently restructured shall retain their classification and provisioning until the borrower has sufficiently exhibited that the loan will be fully repaid.

II. Collectively Assessed Loans[1] and Other Credit Exposures

1. Current "Pass" loans and other credit accommodations should be provided with a reasonable level of collective allowance, using historical loss experience adjusted for current conditions.

2. Loans and other credit exposures with unpaid principal and/or interest shall be classified and provided with ACL based on the number of days of missed payments as follows:

<u>For unsecured loans and other credit exposures:</u>

No. of Days Unpaid/with Missed Payment*	Classification	Minimum ACL	Stage
1 – 30 days	Especially Mentioned	2%	2
31 – 60 days / 1st restructuring	Substandard	25%	2 or 3[2]
61 – 90 days	Doubtful	50%	3[3]
91 days and over / 2nd restructuring	Loss	100%	3

** Par for microfinance loans*

<u>For secured and other credit exposures:</u>

No. of Days Unpaid/with Missed Payment	Classification	ACL %		Stage
		Other types of collateral	Secured by real estate	
31 – 90 days	Substandard (underperforming)	10	10	2
91 – 120 days	Substandard (non-performing)	25	15	3
121 – 360 days	Doubtful	50	25	3
361 days – 5 years	Loss	100	50	3
Over 5 years	Loss	100	100	3

Provided, That where the quality of physical collaterals or financial guarantees securing the loans and advances are determined to be insufficient, weak or without recoverable values, such loans and advances shall be treated as if these are unsecured.

[1] This includes microfinance loans, micro enterprises and small business loans and consumer loans such as salary loans, credit card receivables, auto loans, housing loans and other consumption loans, and other loan types which fall below the FI's materiality threshold for individual assessment

[2] The stage depends on whether the accounts are classified as non-performing (Stage 3) or underperforming (Stage 2).

[3] Sec. 304*(Accounts considered non-performing)*/303-Q/303-N*(Non-performing loans)* provides that doubtful accounts are considered as non-performing hence, shall be classified under Stage 3 notwithstanding the number of missed amortizations.

GUIDELINES AND PROCEDURES GOVERNING THE CONSUMER ASSISTANCE MANAGEMENT SYSTEM (CAMS) OF BSP-SUPERVISED FINANCIAL INSTITUTIONS

(Appendix to Sec. 702-N on Consumer Protection Standards)

(Deleted by Circular No. 1048 dated 06 September 2019 and amended by Circular No. 857 dated 21 November 2014)

AGRICULTURE VALUE CHAIN - BUSINESS MODELS
***(Appendix to Sec. 305-N on Agricultural Value Chain Financing Framework*)**

The agriculture value chain business models are characterized by the main driver of the value chain, and its rationale or objectives. The following are the typical organizational models for smallholder production:

Model	Driver of organization	Rationale
Producer-driven (Association)	- small-scale producers, especially when formed into groups such as associations or cooperatives;	- access to new markets; - obtain higher market price; - stabilize and secure market position
Buyer-driven	- processors; - exporters; - retailers; - traders, wholesalers and other traditional market actors	- assure supply; - increase supply volumes; - supply more discerning customers - meeting market niches and interests
Facilitator-driven	- NGOs and other support agencies; - National and local governments	- 'make markets work for the poor'; - Regional and local development
Integrated	- lead firms; - supermarkets; - multi-nationals	- new and higher value markets; - low prices for good quality; - market monopolies

Reference:
Miller, C. and Jones, L. 'Agricultural Value Chain Finance, Tools and Lessons'. Published by FAO and Practical Action Publishing, 2010.

(Circular No. 908 dated 14 March 2016)

GUIDELINES ON GRANTING OF A LICENSE/AUTHORITY
(Appendix to Sec. 101-N)

I. Guiding principle

The Bangko Sentral, the licensing authority, has the power to set criteria and reject applications that do not comply with the criteria/standards set. In this light, the Bangko Sentral is providing the following guidelines on its licensing process to establish accountability and promote transparency to banks and BSFIs wishing to apply for any licenses/authorities within the jurisdiction of the Bangko Sentral. These guidelines also aim to provide more consistency in how risk-focused supervision is applied to licensing process.

The Bangko Sentral will not restrict the scope of risk-taking activities of BSFIs consequent of the licenses and/or authorities granted: *Provided,* That these licenses and/or authorities are in line with their business model and strategic direction: *Provided, further,* That BSFIs demonstrate the capacity and ability to implement these strategies.

As indicated in the new licensing policy, applications for licenses and/or authorities are categorized as follows:

a. *Type "A"* – applications for licenses and/or authorities where compliance with the defined prudential requirements/criteria described in Sec. 101-N is a pre-condition for applicants to be considered eligible;

b. *Type "B"* – applications for licenses and/or authorities processed regardless of risk profile; and

c. *Type "C"* -activities which no longer require submission of applications and processing but shall be subject to submission of reports/certification/notification within stated deadlines. However, compliance with pre-qualification requirements is subject to post verification and any false information and/or mispresentation may be a basis for the imposition of appropriate enforcement actions described in Sec. 101-N.

II. Guidelines and procedures

1. *Process flow*. The licensing application process involves four (4) stages, to wit:

a. *Stage 1. Eligibility test and assessment.* The Bangko Sentral shall consider an applicant's eligibility for licenses/authorities categorized as *Type "A"* in accordance with the standards and/or prudential criteria described in Sec. 101-N *(Prudential criteria)*; and whether approval thereof is consistent with applicable laws, rules, regulations, policies and safety and soundness considerations.

In this regard, BSFIs shall signify to the appropriate supervising department of the Bangko Sentral its interest to apply for a license(s) or authority/ies. However, the Bangko Sentral expects each BSFI to have conducted self-assessment vis-à-vis prudential criteria and/or requirements to determine whether it is eligible and/or qualified to apply for any specific license/authority, prior to signifying its interest.

BSFIs with CAMELS composite rating of below "3", or under PCA or rehabilitation may still be considered eligible, on a case by case basis, upon showing valid justifications and/or verifiable evidence of significant compliance with the comprehensive PCA plan (PCAP)/rehabilitation plan approved by the Bangko Sentral and/or if licenses and/or authorities applied for are vital to the implementation of the PCAP/rehabilitation plan.

b. *Stage 2. Application.* The BSFI upon receipt of notice and/or confirmation from the Bangko Sentral of its eligibility can now formally submit its application letter together with the documentary requirements, as applicable to the license/authority applied for. Applications with incomplete documentation will be returned without prejudice to re-submission of a complete application and collection of applicable fees.

c. *Stage 3. Processing.* Upon receipt of a complete application, the appropriate supervising department of the Bangko Sentral shall proceed in preparing the memorandum elevating to the appropriate approving authority of the Bangko Sentral its recommended action/s.

d. *Stage 4. Decision.* Within five (5) working days upon approval and/or confirmation from the appropriate authority of the Bangko Sentral, BSFIs shall expect to be notified of the decision on their request/application.

The Bangko Sentral may request information and/or documents aside from the minimum documentary requirements for each type of license/authority to arrive at an informed decision. It may also conduct limited inspection or validation, when warranted.

The Bangko Sentral may approve any application of an eligible applicant after evaluating the application and considering relevant factors. Likewise, the Bangko Sentral may deny applications if (a) significant supervisory or compliance concerns exist or (b) the applicants fail to provide material information necessary to make an informed decision.

2. *Responsibility*

The Bangko Sentral expects each applicant to prepare accurately and completely each application/certification/reports submitted to the appropriate supervising department of the Bangko Sentral.

By virtue of the application, the applicant authorizes the Bangko Sentral to conduct an on-site evaluation or inspection for the purpose of ascertaining compliance with relevant laws, rules, regulations and/or directives, and/or applicant's risk management capabilities, when warranted.

For this purpose, the applicant shall include in its application letter the authorization in favor of the Bangko Sentral giving its consent to the conduct of on-site verification of the documents and/or representations stated in the application filed in connection with the license or authority applied for.

3. *Fees*

An applicant, depending on its classification and type of license/authority applied for, shall be assessed the following fees per application:

i. *Processing fee* -shall be charged upon filing of an application and is non-refundable. In case of re-submission of application that is returned for incomplete documentation, another processing fee shall be charged anew; and

ii. *Licensing fee* -shall be charged to certain application upon approval.

The licensing fee shall be net of the processing fee.

For banks, assessed fees shall be debited from the applicants' demand deposit account with the Bangko Sentral upon the lapse of fifteen (15) calendar days reckoned from receipt of Bangko Sentral's decision on its request/application. For this purpose, banks shall, upon filing of an application, state in its application letter the authority to debit their demand deposit account with the Bangko Sentral for the applicable fees to the license or authority applied for. Otherwise, assessed fees shall be paid to the Bangko Sentral.

4. Post decision

Unless otherwise prescribed by the Bangko Sentral, an applicant may file a new application for a denied and/or withdrawn application after the lapse of six (6) months reckoned from the date of denial/withdrawal: *Provided*, That any weaknesses, deficiencies and/or non-compliance with any laws, rules, regulations and/or directives that made the applicants ineligible have already been satisfactorily addressed.

(Circular No. 947 dated 15 February 2017)

NATIONAL RETAIL PAYMENT SYSTEM (NRPS) FRAMEWORK
[Appendix to Sec. 501-N (Adoption of NPRD Framework)]

A. NRPS Framework

The NRPS is a policy and regulatory framework that aims to establish a safe, efficient, and reliable electronic retail payment system in the Philippines. Given that retail payment systems contribute to the stability and efficiency of the financial system as a whole, the attainment of the NRPS vision will help achieve higher economic growth and enhance overall competitiveness of our economy.

With the rapid evolution of retail payments due to advancements in technology, retail payments related activities of BSFIs introduced a complex interplay of different types of risks. Thus, while the Bangko Sentral promotes the modernization of the country's retail payment system in accordance with the NRPS Framework, it is critical to ensure that enabling policies and a multifaceted approach to strengthening risk management are timely adopted, and greater attention is devoted to retail payments activities of BSFIs such as clearing and settlement.

In carrying out these activities, BSFIs are expected to adhere to the NRPS Framework and measures aimed at strengthening risk management as set forth in Sec. 803 and this Appendix. Hence, the retail payment system and activities that BSFIs participate in should establish the following:

1. Strengthened risk management through a better, holistic and multi-stakeholder approach to governance, and an enhanced transparency of clearing and settlement transactions classified according to risk profile.

2. Augmented efficiencies and effectiveness in the retail payment system by minimizing duplicative efforts, promoting interoperability among retail payment system participants, standardizing clearing and settlement rules, and harmonizing various initiatives towards the achievement of the shared goals of safe, reliable and efficient retail payment system.

3. Continued compliance with Bangko Sentral rules and regulations particularly on information technology, consumer protection, and AML/CFT.

Retail payments under the NRPS Framework are payments that meet at least one of the following characteristics: (i) the payment is not directly related to a financial market transaction; (ii) the settlement is not time-critical; (iii) the payer, the payee, or both are individuals or non-financial organizations; and (iv) either the payer, the payee, or both are not direct participants in the payment system that is processing the payment. This definition of retail payment includes person-to-person, person-to-business, business-to-person, business-to-business, person/business-to-government, and government-to-person/business payments.[1] On the other hand, large-value payments refer to payments, generally of very large amounts, which are mainly exchanged between banks or between participants of financial markets and that usually require urgent and timely settlement.

The Bangko Sentral, as a central bank, generally plays a variety of essential roles in the payment system by being an operator of the real-time gross settlement system (RTGS), an overseer in core payment arrangements, a user and participant of payment services, and, most critically, a catalyst for payment system reform. lt is through the performance of these roles that the Bangko Sentral seeks to acquire a broader and holistic perspective on the role and the status of the payment system in the financial system and the economy in accordance with one of the pillars of central banking of promoting safe and efficient payment systems in the country.

1. Key Principles

    a. Governance of the payment system shall be separate and distinct from the actual clearing operations to enable the retail payment system participants to effectively and efficiently deploy resources to focused and specialized activities. The governance of the payment system includes the establishment and implementation of standards and rules among payment system participants.

    b. Sound governance shall be performed by an industry-led self-governing body that is duly recognized and overseen by the Bangko Sentral.

    c. All qualified BSFIs may apply to be direct clearing participants and, as such, participate in the governance structure.

[1] Developing a comprehensive National Retail Payments Strategy, Financial Infrastructure Systems Policy and Research, World Bank, October 2012, available at http://siteresources.worldbank.org/FINANCIALSECTOR/Resources/Developing_a_ comprehensive_national_retail_payments_strategy_for_G PW _IO _20%2BvL%29.pdf.

d. All clearing participants shall subscribe to and comply with the PSMB-formulated principles, policies, and business rules that will govern the payments system.

e. All clearing shall be done within the NRPS governance structure. Bilateral clearing arrangements outside of the NRPS governance structure are considered as undertakings that carry risks that cannot be identified, measured, monitored and/or controlled, nor can said undertakings be properly considered in attaining a holistic perspective and improving governance of the retail payment system. Hence, bilateral arrangements outside of the NRPS governance structure shall not be allowed and failure to comply therewith shall result in deployment of appropriate supervisory actions from the Bangko Sentral.

f. All significant retail payment streams shall be covered by an ACH.

g. Non-discriminatory participation shall be espoused in the retail payment system by allowing all qualified direct clearing participants to participate in the formulation of standards and rules, as well as participate in business arrangements.

h. A reasonable market-based and transparent pricing mechanism shall be adopted by all BSFIs which are clearing participants. Reasonable service fees shall be allowed only for actual services rendered directly related to the delivery of electronic financial and payment services to clients of a BSFI.

i. Bangko Sentral policies and supervisory actions, not directly involving payments governance within the scope of the PSMB, shall be addressed directly to the individual payment system participants as BSFIs.

2. Objectives:

a. To enable effective and efficient interface and interoperability using shared and resilient infrastructure;
b. To foster innovation and new business models;
c. To promote fair access and competition amongst NRPS participants;
d. To facilitate the provision of a wide range of payment products and services with needed certainty, affordability (based on a reasonable market-based pricing methodology) and trust; and
e. To make relevant information on retail payment system available to concerned stakeholders.

The NRPS Framework espouses the cooperation of different competitors, or what is known as *"coopetition"*, in the domestic retail payments by delineating areas to be covered between the cooperative and the competitive spheres.

It is recognized that certain areas are dedicated for cooperation and collaboration among BSFIs participating in the retail payment system towards the common goals of safety, efficiency, reliability and resiliency. This cooperative sphere centers on the clearing and settlement activities of BSFIs which shall collaborate through the formulation and implementation of clearing and settlement standards, rules, and agreements under a formal governance structure that conforms to the NRPS principles.

To complement the cooperative sphere is the competitive sphere where the NRPS principles promote competition through innovation in the delivery of quality and cost-effective financial products and services, the creation of new business models customized to the needs of target consumers, and the development of services with a higher level of security, among others. The competitive sphere shall be governed by reasonable, transparent and effective consumer pricing mechanisms to allow BSFIs cost-recovery and fair financial returns. Each BSFI shall be responsible for prescribing its pricing mechanisms for its financial products and services taking into consideration, among others, the nature of the product or service, the market segment to be served and the costs incurred to provide such product or service.

B. Governance - PSMB

The PSMB is an industry-led self-governing body that is duly recognized and overseen by the Bangko Sentral.

To attain a holistic perspective and multi-stakeholder organized structure that would bring about good governance in the retail payment system, BSFIs shall adhere to the following key principles when engaging in clearing activities and must do so only within the NRPS governance structure.

1. Key Principles

a. The retail payment transactions covered under the NRPS governance structure shall be as follows:

i. For card-based instruments, the card shall be both issued and acquired locally; and
ii. For online, mobile, or other electronic payment instructions/instruments, the account of payer (sender) and account of payee (recipient) shall be both maintained with BSFIs that are licensed to offer EFPS.

b. The PSMB shall be a not-for-profit juridical entity.

c. The PSMB shall adopt a Charter in consultation with the Bangko Sentral.

d. The PSMB membership criteria shall, at all times, be consistent with the NRPS Framework and Bangko Sentral regulations, in addition to the following principles:

   i. All qualified direct clearing participants should be members of the PSMB.
   ii. To be a PSMB member, a BSFI shall be a participant in at least one (1) ACH and actively participate in an ACH within one (1) month of joining the PSMB.
   iii. Each PSMB member shall be entitled to only one (1) vote.

e. The PSMB shall be funded by the members on an agreed basis.

f. The PSMB shall be governed by a PSMB board which shall observe the following principles:

   i. The PSMB board shall have multi-stakeholder representation in accordance with the volume of the risk-taking activities, such as clearing volume, within a specified time frame [e.g., immediately preceding twenty-four (24) months]. The basis for computing the clearing volume across all ACHs or payment streams shall include all payment streams with clearing activities as of the date when the election of the PSMB board is called, except if a valid reason is shown to limit the parameters.

   ii. The PSMB board shall also abide by sound corporate governance practices which may include, but is not limited to, allocating seat/s for independent board member/s or board member/s that represent/s the broader public interest and has/have competence and experience in the payments field.

   iii. The PSMB board members shall appoint as official representative their chief executive officer (CEO) and designate a formal alternate who can act with full authority (e.g., voting, approval, decision-making, and others).

   iv. Each PSMB board member shall have one (1) vote.

   v. No two (2) PSMB board members shall come from the same group of companies where one is majority-owned or controlled by the other company.

   vi. The Chairperson shall be elected among PSMB board members and shall not serve for two (2) successive terms.

g. The PSMB shall be independent from the clearing switch operator/s with respect to business operations.

h. All BSFIs that are part of the NRPS governance structure shall subscribe to and comply with the PSMB-formulated principles, policies, and business rules that will govern the payments system provided such PSMB-formulated principles, policies and business rules are in conformity with the NRPS Framework and principles as well as applicable laws and regulations.

2. Objectives

a. The PSMB will provide sound governance to the retail payment system and serve as a forum of collaboration for ensuring appropriate conditions for retail payments in the country. Towards this end, the PSMB will perform these functions with respect to its members:

   i. Ensure compliance by PSMB members with criteria, standards and rules promulgated and adopted by the PSMB's membership and PSMB board, as applicable.

   ii. Set policies and standards on clearing activities of PSMB members.

   iii. Standardize retail clearing agreements across payment streams, which may include minimum guideline on the content of service level agreements with CSOs.

   iv. Manage members' conformance to multilateral retail clearing agreements.

   v. Review applications for establishment of ACHs and to accordingly approve the formation thereof to ensure, among others, that the NRPS principle of a payment stream falling only under one (1) ACH is observed by PSMB members.

vi. Prescribe policies and rules to promote visibility of retail clearing and resulting settlement positions to manage risks resulting from or associated with clearing and settlement activities.

vii. Set forth policies, rules and/or standards to ensure that no anti-competitive activities occur in clearing operations of PSMB members.

viii. Promote fair access to the payment system amongst PSMB members.

ix. Enable effective and efficient interface and interoperability using shared and resilient infrastructure.

x. Establish a dispute resolution mechanism for PSMB members on matters not covered or cannot be resolved under the ACH dispute resolution framework.

xi. Provide a clearing environment that will support payments innovation and the adoption of new business models by the payment system participants.

C. Automated Clearing House (ACH)

The ACH is a multilateral legally binding agreement amongst clearing participants. The ACH shall govern clearing and settlement determination.

To promote interoperability and standardize clearing and settlement rules and procedures, BSFIs are expected to observe the following key principles in forming and participating in ACHs under the NRPS governance structure.

1. Key Principles

   a. ACHs shall be created and differentiated based on payment streams, which comprise of payment instruments or instructions, business rules, clearing activities and risk considerations which are of similar nature or which create similar risk profiles.

   b. A payment stream can fall under only one (1) ACH.

   c. The formation of and participation in an ACH shall be open to all qualified clearing participants.

   d. The formation of an ACH shall be considered a business arrangement to be agreed upon between participants of an ACH.

   e. An ACH shall engage the services of only one (1) clearing switch operator.

   f. PSMB members may be part of more than one (1) ACH Participant Group and/or participate in more than one (1) AcH, provided the PSMB member meets the requirements for participating in such ACH.

   g. At least two (2) direct clearing participants can initiate the creation of an ACH subject to the recognition of the PSMB Board, or in the absence of a PSMB, the Bangko Sentral.

2. Salient Features

   a. ACH participants shall elect representatives to an ACH Participant Group, which once recognized by the PSMB, shall draw up and implement ACH rules and agreements and contract a qualified clearing switch operator. To assist in drafting the ACH agreements, the Participant Group may nominate a Working Group to formulate draft agreements subject to the former's approval.

   b. The assignment of a new ACH to an existing or new ACH Participant Group shall be approved by the PSMB Board.

   c. Where a new ACH Participant Group has to be formed, it shall be recognized by the PSMB Board once its charter has been accepted by the ACH participants and meets the PSMB criteria for an ACH Participant Group.

D. Clearing Switch Operator (CSO)

The CSO provides clearing switch services.

To augment efficiencies in the retail payment system while ensuring a robust and resilient infrastructure underlying retail payment transactions of BSFIs, BSFIs should observe the following key principles in engaging the services of CSOs relative to the delivery of a retail payment product or service within the NRPS governance structure.

1. Key Principles

    a. The operations of the CSO that services an ACH shall be limited to the provision of clearing and other services that do not compete with services offered by BSFIs participating in the ACH.

    b. Clearing switch operations shall be conducted effectively and efficiently consistent with international standards as this is a critical prerequisite for the functioning of all the various systems supporting and underlying retail payment services.

    c. The CSO shall have a reliable, resilient, robust, and secure infrastructure to ensure consistency and continuity of services under different operating conditions.

    d. The CSO shall be a duly licensed entity in the Philippines. Entities organized under the laws of countries other than the Philippines shall secure a license to do business in the Philippines and comply with the Foreign Investments Act of 1991 as well as other applicable laws and regulations.

    e. A CSO can extend service to multiple ACHs.

    f. Each ACH, through their designated CSO, shall individually settle their clearing results through the RTGS system operated by the Bangko Sentral.

(Circular No. 980 dated 06 November 2017)

GUIDELINES ON THE ADOPTION OF PHILIPPINE FINANCIAL REPORTING STANDARDS 9 (PFRS 9) FINANCIAL INSTRUMENTS – IMPAIRMENT

Section 1. Expected Credit Loss Model

Bangko Sentral supervised financial institutions (BSFIs) shall adopt the expected credit loss (ECL) model in measuring credit impairment, in accordance with the provisions of PFRS 9. In this respect, BSFIs shall recognize credit impairment/allowance for credit losses even before an objective evidence of impairment becomes apparent. BSFIs shall consider past events, current conditions, and forecasts of future economic conditions in assessing impairment.

a) BSFIs shall apply the ECL model on credit exposures covered by PFRS 9, which include the following:

- loans and receivables that are measured at amortized cost;
- investments in debt instruments that are measured at amortized cost or at fair value through other comprehensive income (FVOCI); and
- credit commitments and financial guarantee contracts that are not measured at fair value through profit or loss (FVTPL).

b) Credit exposures shall be classified into three stages using the following time horizons in measuring ECL:

Stage of credit impairment	Characteristics	Time horizon in measuring ECL
Stage 1	- Credit exposures that are considered "performing" and with no significant increase in credit risk since initial recognition or with low credit risk	Twelve (12) months
Stage 2	- Credit exposures that are considered "under-performing" or not yet non-performing but with significant increase in credit risk since initial recognition	Lifetime
Stage 3	- Credit exposures with objective evidence of impairment, thus, considered as "non-performing"	Lifetime

c) BSFIs shall promptly recognize and maintain adequate allowance for credit losses at all times. It shall adopt the principles provided under the Enhanced Standards on Credit Risk Management[1] in implementing sound and robust credit risk measurement methodologies that adequately considers ECL. In this respect, the ECL methodology shall not be considered as a separate and distinct process but as an important element of the entire credit risk management process.

Section 2. Twelve (12)-Month ECL

a) BSFIs shall consider reasonable and supportable information, including forward-looking information that affect credit risk in estimating the 12-month ECL. BSFIs shall exercise experienced credit judgment and consider both qualitative and quantitative information that may affect the assessment.

b) Zero allowance for exposures under Stage 1 shall be rare. It shall be expected only for exposures with zero percent (0%) credit risk-weight under the Risk-Based Capital Adequacy Framework, such as Philippine peso-denominated exposures to the Philippine National Government and the Bangko Sentral.

Section 3. Lifetime ECL

a) BSFIs shall evaluate the change in the risk of default occurring over the expected life of the exposures in assessing whether these shall be moved to a lifetime ECL measure.[2] Although collateral will be used to measure the loss given a default, this should not be primarily used in measuring risk of a default or in transferring to different stages.

[1] Section X178 and Section 4178Q/4197N of the Manual of Regulations for Banks (MORB) and the Manual of Regulations for Non-Bank Financial Institutions (MORNBFI), respectively.

[2] PFRS 9 paragraph 5.5.9 provides that the assessment should be made in terms of the risk of a default and not on the expected credit loss (i.e., before consideration of the effects of credit risk mitigants such as collaterals or guarantees).

b) BSFIs shall measure lifetime ECL of the following:

- exposures that have significantly increased their credit risk from origination (Stage 2); and
- non-performing exposures (Stage 3).

Section 4. Assessment of forward-looking information

BSFIs shall clearly demonstrate how forward-looking information, including macroeconomic factors, have been reflected in the ECL assessment and how these are linked to the credit risk drivers of the exposures. Experienced credit judgment is essential in assessing the soundness of forward-looking information and in ensuring that these are adequately supported.

Section 5. Transfers from Stage 1 to Stage 2 – Assessment of significant increase in credit risk

BSFIs shall transfer credit exposures from Stage 1 to Stage 2 if there is significant increase in credit risk from initial recognition.

a) BSFIs shall establish well-defined criteria on what constitutes significant increase in credit risk. BSFIs shall consider a wide range of information, which includes among others, information on macroeconomic conditions, economic sector and the geographical region relevant to the borrower, and other factors that are borrower-specific. The criteria on what constitutes significant increase in credit risk shall consider, at a minimum, the list provided in PFRS 9.

b) BSFIs shall classify exposures to Stage 2 if the exposures have potential weaknesses, based on current and/or forward-looking information, that warrant management's close attention. Said weaknesses, if left uncorrected, may affect the repayment of these exposures. BSFIs shall also classify exposures to Stage 2 if there are adverse or foreseen adverse economic or market conditions that may affect the counterparty's ability to meet the scheduled repayments in the future.

c) The Bangko Sentral shall apply the following indicators of significant increase in credit risk in BSFIs noted to have weak credit loss methodologies:

- exposures considered especially mentioned under Sec 122-N (*Credit classification and provisioning*);
- exposures with missed payment for more than thirty (30) days; and
- exposures with risk ratings downgraded by at least two (2) grades (e.g., exposure with risk rating of "3" on the origination date was downgraded to risk rating of "5" on the reporting date) for BSFIs with below fifteen (15)-risk rating grades, and three (3) grades for BSFIs with fifteen (15) or above risk rating grades.

Section 6. Transfers from Lifetime ECL to Twelve (12)-month ECL

BSFIs shall transfer the exposures from Stage 3 (non-performing) to Stage 1 (performing) when there is sufficient evidence to support their full collection. Exposures should exhibit both the quantitative and qualitative indicators of probable collection prior their transfer. The quantitative indicator is characterized by payments made within an observation period (e.g., regularly pays during the minimum observation period). The qualitative indicator pertains to the results of assessment of the borrower's financial capacity (e.g., improvement in counterparty's situation).

As a general rule, full collection is probable when payments of interest and/or principal are received for at least six (6) months.

BSFIs shall observe the following guidelines for exposures that were restructured:

a) Non-performing restructured exposures that have exhibited improvement in creditworthiness of the counterparty may only be transferred from Stage 3 to Stage 1 after a total of one (1) year probation period [i.e., six (6) months in Stage 3 before transferring to Stage 2, and another six (6) months in Stage 2 before transferring to Stage 1; or directly from Stage 3 to Stage 1, without passing through Stage 2, after twelve (12) months]; and

b) Restructured accounts classified as "performing" prior to restructuring shall be initially classified under Stage 2. The transfer from Stage 2 to Stage 1 will follow the six (6)-month rule mentioned in Item "a" of this Section.

Section 7. Multiple exposures to specific counterparties

In measuring the ECL of multiple exposures to a single counterparty or multiple exposures to counterparties belonging to a group of related entities, the following shall apply:

a) *Exposures to non-retail counterparties*. BSFIs with multiple exposures to a non-retail counterparty shall measure ECL at the counterparty level. In particular, the BSFI shall consider all exposures to a counterparty as subject to lifetime ECL when any of its material exposure is subjected to lifetime ECL;

b) *Exposures to a retail counterparty*. BSFIs with multiple exposures to a retail counterparty shall measure ECL at the transaction level. In particular, the BSFI may classify one transaction under Stage 1 and another transaction under Stage 3. However, BSFIs are not precluded from taking into account the potential of cross default, such that if one exposure is classified under Stage 3 all the other exposures may be classified under Stage 3; and

c) *Exposures to counterparties belonging to a group of related entities.* BSFIs with multiple exposures to counterparties that belong to the same group of related entities shall measure ECL at the counterparty level (per entity). BSFIs shall likewise consider the status of the other counterparties belonging to the same group in determining the stage under which the exposures shall be classified.

Section 8. Recognition of Income

For purposes of preparing the prudential reports (e.g., Financial Reporting Package and Capital Adequacy Ratio report), BSFIs shall not recognize interest income on non-performing exposures, except when payment is received.

On the other hand, interest income recognized on non-performing exposures (Stage 3 accounts) for purposes of preparing the audited financial statements (AFS) shall be disclosed in the AFS. This shall likewise be included in the list of reconciling items between the prudential reports and the AFS that is being submitted to the Bangko Sentral.

Section 9. Off-balance sheet financial items

As a general rule, BSFIs shall recognize the ECLs on off-balance sheet exposures as a liability and booked as "Provisions - Others".

On credit facilities with partial drawdown (e.g., with loan balance and an undrawn commitment), BSFIs shall observe the following rules in accordance with PFRS 7 (Financial Instruments: Disclosures):

a) If the BSFI cannot separately identify the ECL attributable to the drawn and undrawn commitment, the provision for ECL on the off-balance sheet accounts shall be presented together with the allowance for the financial asset (contra-asset); and

b) If the combined ECL exceeds the gross carrying amount of the financial asset, the ECL should be recognized as "Provisions - Others" (liability).

BSFIs shall look beyond the contractual date when estimating the expected losses of facilities with both loan and undrawn commitment components such as the credit card portfolio.

Section 10. Application to simple BSFIs

BSFIs with simple operations shall adopt simple loan loss methodologies fundamentally anchored on the principle of recognizing ECL. In this respect, BSFIs shall look beyond the past due/missed amortizations in classifying exposures and in providing allowance for credit losses. On the other hand, BSFIs with credit operations that may not economically justify adoption of said simple loan loss estimation methodology that is compliant with PFRS 9 shall, at a minimum, be subject to the regulatory guidelines in setting up allowance for credit losses prescribed under the Appendix N-11.

Section 11. General and Specific Provisions for Loan Accounts

a) BSFIs shall treat Stage 1 provisions for loan accounts as General Provision (GP), while Stages 2 and 3 provisions shall be treated as Specific Provisions (SP).

b) BSFIs shall set up general loan loss provision (GLLP) equivalent to 1 percent (1%) of all outstanding Stage 1 on-balance sheet loans, except for accounts considered as credit risk-free under existing regulations. BSFIs are not required to provide a 1 percent (1%) GP on other credit exposures covered by PFRS 9 such as off-balance sheet accounts and investments.

c) Allowance for credit losses for Stages 1, 2, and 3 accounts shall be recognized in the profit or loss statement. In cases when the computed allowance for credit losses on Stage 1 accounts is less than the 1 percent GP required, the deficiency shall be recognized by appropriating the Retained Earnings (RE)[3] account. GP recognized in profit or loss as allowance for credit losses for Stage 1 accounts and the amount appropriated in RE shall be considered as Tier 2 capital subject to the limit provided under the Capital Adequacy Ratio (CAR) framework[4].

d) BSFIs that use the guidelines provided under Appendix N-11 in determining allowance for credit losses shall book the entire amount of GP in profit or loss.

[3] BSFIs shall use Retained Earnings Reserve – Others as temporary account of Retained Earnings- General Provision (RE-GP).

[4] As a temporary presentation in CAR reports, the Retained Earnings (RE) included in Common Equity Tier (CET)/Core Tier 1 shall be net of RE-GP. In computing Tier 2 Capital, the General Loan Loss Provision (GLLP) shall include the RE-GP. However, the GLLP added back to on-balance sheet assets subject to risk-weight shall not include the RE-GP since when appropriating the RE, total assets is not affected.

e) BSFIs shall charge against RE the increase in ECL – SP as of 01 January 2018 as a result of the change in accounting policy.

Section 12. Expectations from Trust Entities

Consistent with the expectations from BSFIs on the adoption of PFRS 9, as provided under item "d" of Sec 172 (*Philippine Financial Reporting Standards/Philippine Accounting Standards)* of the MORB, Sec. 171-Q 172 (*Philippine Financial Reporting Standards/ Philippine Accounting Standards)* and Sec. 141-N, the board of directors of a trust entity (TE) shall ensure that the TE appropriately and consistently adopts PFRS 9 as part of its reporting governance process.

In this respect, the board of directors shall approve policies and guidelines relative to the impairment of financial assets under management of the TE.

The TE shall adhere to the requirements of PFRS 9 on impairment and the guidelines provided herein, to the extent applicable to the trust operations. Pursuant to item c of Section 1 of these guidelines (Expected Credit Loss Model), a TE shall promptly recognize and maintain adequate allowance for credit losses at all times.

Consistent with the provisions under Section 10 of these guidelines (Application to simple BSFIs), the following provisions shall apply to TEs:

a) A TE with simple operations shall adopt simple loan loss methodologies fundamentally anchored on the principle of recognizing ECL. In this respect, the TE shall look beyond the past due/missed amortizations in classifying exposures and in providing allowance for credit losses.

b) A TE with credit operations that may not economically justify adoption of said simple loan loss estimation methodology that is compliant with PFRS 9 shall, at a minimum, be subject to the regulatory guidelines in setting up allowance for credit losses prescribed under the revised Appendix N-11.

GUIDELINES ON EUROPAY, MASTERCARD AND VISA (EMV) IMPLEMENTATION

(Appendix to Sec. 126-N [IT Risk Management System])

A. Background

In response to the increasing sophistication of frauds perpetrated through magnetic stripe (magstripe), international payment networks have orchestrated the shift towards EMV chip-enabled card. The EMV is an interoperability standard for chipbearing smart card technology defined by EMVCo in 1994, adoption of which has resulted to significant reduction in card frauds due to skimming[1] and counterfeiting.

To outpace and manage fraudsters' shift towards jurisdictions that are still using magstripe, Bangko Sentral supervised financial institutions (BSFIs) via Circular No. 808 dated 22 August 2013 were required to migrate their entire payment network to the more secure EMV chip-enabled cards

B. Statement of Policy

It is the policy of the BSP to foster the development of safe, secure, efficient, and reliable retail payment systems, protect the integrity and confidentiality of customer accounts and information and uphold consumer protection.

C. Scope

These guidelines shall govern the migration to and implementation of EMV of all BSFIs with debit card issuing and acquiring functions. For credit card, only cash advance transaction at Automated Teller Machines (ATMs) shall be covered since other credit card transactions are governed by the rules of the international payment networks.

It is incumbent upon all affected BSFIs to ensure that other key players in the domestic payment network comply with these guidelines.

For purposes of the subject guidelines, payment transactions covered are limited to card present and contact transactions in ATMs, POS terminals and other similar devices. Guidelines governing card-not-present as well as contactless transactions shall be issued separately.

D. Definition of Terms

1. *EMV,* which stands for Europay, MasterCard and Visa, is a global standard for credit, debit and prepaid payment cards based on chip card technology. EMV chip-based payment cards, also known as smart cards, contain an embedded microprocessor, a type of small computer. The microprocessor chip contains the information needed to use the card for payment, and is protected by various security features. Chip cards are a more secure alternative to traditional magstripe payment cards.

   lmplementing EMV shall address the deficiencies inherent in magstripe by reducing fraud arising from counterfeit, lost and stolen card information through the following features:

   a. Authentication of the chip card to ensure that the card is genuine so as to protect against counterfeit fraud for on line-authorized transactions;
   b. Digitally signing payment data for transaction integrity;
   c. More robust cardholder verification to protect against lost and stolen card fraud for EMV transactions in all acceptance environments.

2. *Acquiring institution (acquirer)* is a bank or financial institution that processes credit or debit card transactions via ATM or POS terminals.

3. *Bangko Sentrol Supervised Financial Institutions (BSFIs)* include banks, non-banks with quasi-banking function (NBQB), non-bank electronic money issuers and other non-bank institutions which under existing Bangko Sentral rules and regulations and special laws are subject to Bangko Sentral supervision and/or regulation.

4. *Co-branded cards* are Philippine-issued cards affiliated with international payment networks.

5. *Debit cards* are payment cards linked to bank deposit or prepaid/electronic money (e-money) accounts.

[1] Skimming is the illegal copying of information from the magnetic stripe of a payment card to gain access to accounts.

6. *Domestic payment* network includes BSFIs as well as other key players such as merchants, providers of ATMs, point-of-sale (POS) terminals and similar devices, card vendors, card personalization bureaus and domestic switches responsible for processing and handling domestic transactions.

7. *Domestic switches* refer to BancNet and Megalink.

8. *EMV chip* liability shift means that the liability and responsibility for counterfeit or fraudulent transaction shall shift to the BSFI who is not EMV-compliant.

9. *EMVCo* is the governing body that manages the EMV specification.

10. *Hybrid cards* are payment cards that have both EMV chip and magstripe.

11. *International payment* networks refer to the payment networks that have global establishment. For purposes of subject guidelines, recognized international networks shall refer to Visa, Mastercard, UnionPay, Diners/Discover, American Express, and Japan Credit Bureau (JCB).

12. *Interoperability* refers to the ability of Philippine cardholders to transact at Philippine ATM and POS terminals, regardless of network affiliation or branding of the card.

13. *Issuing institution (issuer)* is a bank or non-bank financial institution that issues payment cards, whether proprietary or co-branded, to consumers.

14. *Payment cards* are cards that can be used by cardholders and accepted by terminals to withdraw cash and/or make payment for purchase of goods or services, fund transfer and other financial transactions. Typically, payment cards are electronically linked deposit, prepaid or loan/credit accounts.

15. *Philippine domestic EMV specification* refers to the specification or standards based on EMV that shall be adopted in the Philippine financial market for the proprietary or non-co-branded cards.

16. *Proprietary cords* are Philippine-issued cards without international payment network affiliation.

17. *Technical fallback* is a state in which a chip cannot be used and another type of entry, such as magstripe, is used to complete a transaction.

E. General Rule

In line with the declaration of policy, BSFIs, in migrating to EMV, shall consider the following:

1. BSFIs shall maintain interoperability of the domestic payment network;

2. The Philippine EMV implementation shall use established EMV specification as follows:

   a. Issuers of proprietary cards shall use the Philippine domestic EMV specification; and
   b. Issuers of co-branded cards shall use the EMV specification of their affiliated international payment network.

3. At a minimum, all debit accepting devices shall acquire/accept Philippine issued proprietary cards using the Philippine domestic EMV specification of members/participants of the domestic switches;

4. The domestic payment network shall ensure continued interoperability and acceptance of Philippine EMV cards using the Philippine domestic EMV specification on Philippine EMV deployed acceptance devices;[1] and

5. BSFIs shall strengthen consumer protection by adequately handling and containing consumer concerns and complaints arising from fraudulent schemes done electronically.

F. The Philippine Domestic EMV Specification

With the main objectives of maintaining interoperability and reducing card fraud, BSFIs shall adopt a Philippine domestic EMV specification for proprietary cards. The domestic EMV specification should:

- Adopt the EMV specification according to EMVCo;
- Apply to ATM and domestic debit POS transactions;

[1] Include EMV-compliant ATMs, POS terminals and other similar devices.

- Support contact transactions;
- Support online card authentication to ensure that transactions are made using a valid card;
- Support online authorization to enable issuer to manage fraud and credit risk at the transaction level;
- Support online PIN cardholder verification method;
- Support technical fallback to magstripe in the interim, as provided in Section I of these guidelines, without prejudice to the issuer's decision to process/approve fallback transactions.

G. Minimum Operational Requirements

1. Issuing institutions shall:

   a. Ensure that they have the technical systems and network necessary to process and handle EMV transactions;
   b. Support EMV data elements in authorization messages;
   c. Define chip cards feature, functionality and interface capability;
   d. Enhance risk management systems to leverage chip;
   e. Determine the card migration strategy;
   f. Update customer support and operational systems to support chip cards;
   g. Be certified for network interfaces and card personalization by a certification body organized by BSFIs pursuant to these guidelines;
   h. Replace card base; and
   i. Educate the consumers.

2. Acquiring institutions shall:

   a. Ensure that card-accepting devices are EMV-certified to support the acquiring and routing of Philippine-issued debit cards using the Philippine domestic EMV specification;
   b. Ensure that P|N-entry devices are Payment Card Industry PIN Transaction Security (PC|-PTS)[1] compliant; and
   c. Enable a debit POS environment that supports online PIN for Philippine-issued debit cards.

3. Domestic switches shall:

   a. Establish infrastructure and systems that are EMV-compliant and able to support switched EMV transactions from domestic interconnected networks;
   b. Ensure continued support to existing transaction sets and functions provided to consumers;
   c. Enhance efforts to educate their members on EMV collaboration and seek effective alignment of strategy and design principles; and
   d. Ensure continued ability to support, in the interim, transactions in magstripe format subject to liability shift policies acceptable to Bangko Sentral, the standards of which shall be covered in subsequent guidelines.

H. Detailed Guidelines, Policies and Processes

BSFIs shall agree on and implement detailed technical and operational requirements, policies and procedures that are acceptable to the BSP, the standards of which shall be covered in subsequent guidelines, and aligned with subject EMV Implementation Guidelines, covering but not limited to the following:

1. Philippine Application ldentifier (AlD);
2. Single Common AlD, Single Common Card Personalization Profile and Single Common Terminal Configuration for domestic transactions;
3. Transaction routing;
4. Testing and certification
5. Dispute and fraud risk management; and
6. Other processes affected by the EMV migration.

I. Hybrid Card, Fallback Function and EMV Liability Shift

While the EMV infrastructure and environment are in the process of achieving full stability, hybrid cards may still be acceptable as a fallback option in cases when the EMV chip or terminal is unable to process domestic chip transactions. In this regard, BSFIs shall formulate a liability shift framework that is acceptable to the Bangko Sentral.

[1] A security requirement of the Payment Card Industry (PCl) regarding testing of PIN-entry devices using predefined standards to get certification.

J. Updated EMV Migration Plan

Any changes arising from the aforementioned guidelines shall be incorporated in the EMV Migration Plan and all affected BSFIs shall resubmit their updated plan to Bangko Sentral's Core Information Technology Specialist Group (CITSG) within sixty (60) calendar days from the date of the Circular.

All BSFIs shall support migration to EMV standards. Consequently, all cards issued and card-accepting devices should be EMV-compliant.

EMV CARD FRAUD LIABILITY SHIFT FRAMEWORK (ECFLSF)

I. Introduction

This document outlines the Bangko Sentral's guidelines implementing the EMV Card Fraud Liability Shift Framework (ECFLSF). Pursuant to Sec. 126-N and *Appendix N-17*, Bangko Sentral Supervised Financial Institutions (BSFIs) should shift from the magnetic stripe (magstripe) technology to EMV-compliant cards, POS terminals and ATMs. The immediate impact and benefit on the adoption of EMV technology is the reduction in card fraud resulting from counterfeit or skimming attacks.

While migration efforts to shift to EMV technology are ongoing, the use of magstripe in payment cards and/or card-accepting devices shall be allowed subject to card fraud liability shift. This means that the BSFIs which have not yet or have partially adopted the EMV technology shall be held responsible for losses associated with the use of a counterfeit card in a card-present environment.

II. Statement of Policy

It is the policy of the Bangko Sentral to foster the development of safe, secure, efficient and reliable retail payment systems, protect the integrity and confidentiality of customer accounts and information and uphold consumer protection.

Towards this end, the Bangko Sentral requires all concerned BSFIs to migrate to a more secure payment technology and sets forth subject principles for allocation of card fraud liability with the aim of ensuring compliance of the different retail payment system participants with the Bangko Sentral's EMV migration requirement. Pending full migration to the EMV technology, the ECFLSF shall likewise accelerate the dispute resolution and restitution process for customers who have valid claims arising from counterfeit fraud or skimming attacks.

III. Applicability and Scope

These guidelines shall apply to all BSFIs with debit and credit card issuing and acquiring functions and shall govern the allocation of liability associated with fraudulent transactions arising from counterfeit cards beginning 1 January 2O17, subject to the conduct of proper investigation by the concerned participant/s of the payment card network. The coverage shall be limited to card-present and contact transactions of Philippine-issued payment cards used domestically in automated teller machines (ATMs), point-of-sale (POS) terminals, and other similar devices routed to either domestic or international payment networks.

Consequently, the ECFLSF shall not apply to card-not-present and contactless transactions. Furthermore, foreign-issued payment cards used domestically and Philippine-issued payment cards used abroad shall not be covered as these are already subject to the existing liability shift and chargeback rules of the international payment networks.

IV. Definition of Terms

For purpose of these guidelines, the following definitions shall apply:

1) *Acquiring institution (Acquirer),* is a bank or non-financial institution that processes credit or debit card transactions via ATMs, POS terminals, and other similar devices.

2) *EMV compliant device or terminal* is a device or terminal that has, or is connected to, a contact chip card reader, has an EMV application, certified, and is able to process EMV transactions.

3) *Co-branded cards* are Philippine-issued cards affiliated with international payment networks.

4) *Counterfeit card* is an imitation or falsification of a genuine magstripe card or EMV chip card with track data copied from a hybrid EMV card.

5) *Debit cards* are payment cards linked to bank deposit or prepaid/electronic money (e-money) accounts.

6) *Fallback to magstripe transaction occurs* when the chip on the card is not being read by a terminal. Thls is similar to technical fallback, which is defined in *Appendix N-17* as a state in which the chip cannot be used and another type of entry, such as magstripe, is used to complete a transaction.

7) *Hybrid cards* are payment cards that have both EMV chip and magstripe.

8) *International payment networks* refer to the payment networks that have global establishment. For purposes of subject guidelines, recognized international networks shall refer to Visa, Mastercard, UnionPay, Diners/Discover, American Express, and Japan Credit Bureau (JCB).

9) *Issuing institution (Issuer)* is a bank or non-bank financial institution that issues payment cards, whether proprietary or co-branded, to consumers.

10) *Payment cards* are cards that can be used by cardholders and accepted by terminals to withdraw cash and/or make payment for purchase of goods or services, fund transfer and other financial transactions. Typically, payment cards are electronically-linked to deposit, prepaid or loan/credit accounts.

V. Guiding Principles

1) The adoption of EMV technology is designed to reduce and mitigate risks arising from counterfeit card fraud. While it remains virtually impossible to create a counterfeit EMV card that can be used to conduct an EMV payment transaction successfully, the presence of magstripe in a hybrid EMV card makes it still vulnerable to counterfeit attacks.

2) A BSFI that has enabled the most secure EMV options shall be protected from financial liability arising from losses on counterfeit card fraud. The liability for this type of fraud shall shift to the BSFI which is not or is partially compliant with the EMV migration requirement.

3) To resolve the issue on the allocation of card fraud liability using the guidelines described herein, the involved parties (such as issuer, acquirer, and payment network) should, first, characterize the fraud committed, and then, assess the technology being employed, in light of the applicable payment network rules. The party supporting EMV technology will prevail and in case of a technology-tie (neither or both parties are EMV compliant), the liability for fraudulent transactions generally remains with the Issuer.

VI. Allocation of Card Fraud Liability

Allocation of liability for counterfeit card fraud is summarized in the following table:

	Card Capabilities	Acceptance Device Support	Scenario	Liability
1	Magnetic stripe only	Magnetic stripe only	Magnetic card transaction was completed	Issuer
2	Magnetic stripe only	EMV compliant	Magnetic card transaction was completed	Issuer
3	EMV compliant hybrid card	Magnetic stripe only	Magnetic card transaction was completed	Acquirer[1]
4	EMV compliant hybrid card	EMV compliant	Fallback transaction; Magnetic card transaction was completed	Issuer

The information provided above shall be considered as a general guide as each fraudulent transaction shall be separately investigated on. Likewise, the domestic and international payment networks may come up with other scenarios and probable conditions that illustrate how liability is assigned on counterfeit card fraud using different combinations of card and acceptance device capabilities. However, the resolution of such scenarios/conditions should follow the principles espoused in these guidelines.

VII. Consumer Protection and Complaints Handling and Resolution

1) The participants in the domestic payment network (such as issuer, acquirer, and payment network) should collaborate and devise detailed rules and procedures including arbitration mechanisms to operationalize the ECFLSF. Accordingly, a body responsible for strictly implementing the above-mentioned detailed rules and procedures on ECFLSF should be constituted.

[1] When an Acquirer accepts a magstripe card that was counterfeited with track data copied from an EMV compliant hybrid card and the counterfeit card is used at a device/terminal that is not EMV-compliant, resulting in a transaction to be successfully processed, the Acquirer is liable for any chargeback resulting from such fraud.

2) Cardholders' complaints and/or requests for chargeback as a result of counterfeit card shall be considered as complex complaint/request defined in *Appendix N-12* and hence, shall follow the standards provided in such regulations, except for the processing and resolution timeline which should be within 10 days instead of 45 days.

3) Issuers and Acquirers should ensure that affiliated international payment networks align their existing liability and chargeback rules with the ECFLSF insofar as Philippine-issued payment cards used in the domestic payment environment are concerned.

Guidelines on Submission of Information Technology (IT) Profile Report

In order to build the baseline information of IT systems of Philippine banks and to risk profile the complexity of IT operations based on technology-related products and services offered, delivery channels, and processes involved, all banks are required to accomplish and submit annually an IT Profile Report as of 31 December of the reference year.

In accordance with Sec. 148 of the MORB on Technology Risk Management, the following shall be observed in the submission of the IT Profile Report:

1. The IT Profile reporting template can be accessed at http://www.bsp.gov.ph/frp/templates. Reports shall be submitted on an annual basis within twenty-five (25) calendar days from the end of reference year. (Attached as Annex A is sample format of IT Profile Report.)

2. The IT Profile report shall be submitted electronically to the following e-mail addresses:

E-mail Address	Type of Reporting Institution
sdckb-itprofile@bsp.gov.ph	Universal/Commercial Banks (U/KBs)
sdctb-itprofile@bsp.gov.ph	Thrift Banks (TBs)
sdcrb-itprofile@bsp.gov.ph	Rural/Cooperative Banks (R/CBs)

3. The following format shall be used for the subject of the e-mail: "ITPROFILE <bankname>, <reference period>", e.g.:

To	: sdctb-itprofile@bsp.gov.ph
cc	:
Subject	: ITPROFILE <bankname>, 31 December 20yy

4. The certification, duly notarized and signed by the authorized official of the reporting institution, shall be sent within the prescribed submission deadline to the Director of the Department of Supervisory Analytics (DSA) via facsimile at (632) 708-7554 or 708-7558.

5. Within the same period prescribed in Item 1, Institutions that are unable to transmit their IT Profile Report electronically may submit the same report in compact disc (CD), together with the aforementioned certification through messengerial or postal services. Said report shall be submitted to the following:

   The Director
   Department of Supervisory Analytics
   Bangko Sentral ng Pilipinas
   11th Floor, Multi-Storey Building
   BSP Complex, A. Mabini Street
   Malate, Manila 1004

6. The IT Profile Report template and other relevant attachments are also available upon request at the Bangko Sentral Department of Supervisory Analytics through the above-mentioned e-mail addressed and/or postal address.

Guidelines on the Electronic Submission of the Report on Crimes and/or Losses (RCL)

Pursuant to existing regulations prescribing the reporting of cyber related fraud as well as other crime related incidents to the BSP and in line with on-going initiatives of maximizing available Information Technology infrastructure for regulatory reporting, the following guidelines shall be observed in submitting the RCL:

1. Reportable incidents shall be transmitted electronically using the data entry template (DET) prescribed for the updated RCL. The prescribed DET and its supporting Control Prooflist (CP) for the Initial Report and Final Report, respectively, and the User Guide as relevant reference for accomplishing the DET can be downloaded from http://www.bsp.gov.ph/ses/reporting_templates or requested directly from the Department of Supervisory Analytics (DSA). The Control Prooflist for the initial and final RCL need not be notarized.

2. The updated RCL reporting structure and its corresponding DET considered the reportable cyber fraud incidents as well as other incidents required under Secs. 148 *(Reports)* and 173 *(Report on crimes/losses)*.

3. The DET for the RCL (DET-RCL) together with the corresponding scanned CP in Portable Document Format (PDF) duly notarized and signed by the authorized official of the reporting bank shall be electronically transmitted within the existing deadline prescribed for Initial Report and Final Report, as the case may be, to the following prescribed e-mail addresses:

Type of Institution	E-mail Address
Universal and Commercial Banks	sdckb-rcl@bsp.gov.ph
Thrift Banks	sdctb-rcl@bsp.gov.ph
Rural and Cooperative Banks	sdcrb-rcl@bsp.gov.ph

4. The following format shall be used for the subject of the e-mail:

   <report name>space<bank name>space<control no.>space<report status>, e.g.:

   To : sdctb-rcl@bsp.gov.ph (example for thrift banks)
   Subject : RCL <Bank A> 102016-0001 INITIAL

   using the following required format for the filenames:
   <reference no.>_<report status>.<file extension>, e.g.:

   - RCL_000250_102016-0001_INITIAL.xls and
   - RCL_000250_102016-0001_INITIAL.pdf

5. Each email transmission shall correspond to only one (1) DET-RCL file as multiple RCL cases in a single email transmission will be automatically rejected, thus considered unsubmitted. Each DET-RCL transmission shall be accompanied by its corresponding CP as described in item 3. DET-RCL files which are transmitted without the required CP shall be deemed unsubmitted.

6. Hard copy submission of the RCL shall no longer be accepted. Nevertheless, within the same prescribed period, banks that are unable to transmit electronically may submit their DET-RCL and its accompanying CP in compact discs (CD) through messengerial or postal services. The DET-RCL and its accompanying CP shall be submitted to:

   The Director
   Department of Supervisory Analytics
   Bangko Sentral ng Pilipinas
   11th Floor, Multi-Storey Building
   BSP Complex, A. Mabini Street
   Malate, Manila 1004

7. Report submissions that do not conform to the above prescribed procedures shall not be accepted and will be considered non-compliant with the Bangko Sentral reporting standards as provided under Sec. 171. It likewise follows that only files prescribed by the Bangko Sentral for the RCL shall be accepted as compliant with the existing reportorial requirements subject to validation and applicable penalties for erroneous, delayed, or unsubmitted reporting.

FORMAT OF DISCLOSURE STATEMENT ON SMALL BUSINESS/RETAIL/CONSUMER CREDIT

(Appendix to Sec. 301-N)

_____
(Business Name of Creditor)

DISCLOSURE STATEMENT ON CREDIT TRANSACTION
(As Required under R.A. No. 3765, Truth in Lending Act)

NAME OF BORROWER_____
ADDRESS _____

1. CREDIT TRANSACTION AMOUNT	**₱ XXX**
2. OTHER BANK CHARGES/DEDUCTIONS COLLECTED[1]	**₱ XXX**

a. Documentary/Science Stamps ₱ _____
b. Mandatory Credit Insurance _____
c. Others (Specify) _____

3. NET PROCEEDS OF CREDIT TRANSACTION (Item 1 less Item 2) **₱ XXX**

4. SCHEDULE OF PAYMENTS

a. Single payment due on — **date** | **₱ XXX**
b. Installment Payments

(Please see attached amortization schedule)

5. EFFECTIVE INTEREST RATE (Interest and Other Charges) **XXX%**

Explanation: The effective interest rate is higher than the contractual interest rate of _____% because of Item 2 deductions above.

6. CONDITIONAL CHARGES THAT MAY BE IMPOSED (if applicable). Please specify manner of imposition:

a. Late Charge ₱ _____
b. Prepayment (penalty/refund) _____
c. Others (Specify) _____ _____
_____ _____

CERTIFIED CORRECT:

_____ _____
(Signature of Creditor/Authorized Representative Over Printed Name) Position

I ACKNOWLEDGE RECEIPT OF A COPY OF THIS STATEMENT PRIOR TO THE CONSUMMATION OF THE CREDIT TRANSACTION.

_____ _____
(Signature of Borrower over Printed Name) Date

[1] **Notes:**
Itemize all charges including advance deductions.
- Small Business/Retail/Consumer loans include microfinance, auto (motor), salary, personal, educational, and other loans of similar nature.
- This document contains the minimum information required to be disclosed to the borrower/person to whom credit is extended and may be enhanced to improve client information.

AMORTIZATION SCHEDULE
(Sample Only)

Installment (A)	Loan (B)	Principal (C)	Interest (D)	Total (E)	O/S Balance (F)
	xxx				*xxx*
1		xxx	xxx	xxx	xxx
2		*xxx*	*xxx*	*xxx*	*xxx*
3		*xxx*	*xxx*	*xxx*	*xxx*
4		*xxx*	*xxx*	*xxx*	*xxx*
5		*xxx*	*xxx*	*xxx*	*xxx*
6		*xxx*	*xxx*	*xxx*	*xxx*
7		*xxx*	*xxx*	*xxx*	*xxx*
8		*xxx*	*xxx*	*xxx*	*xxx*
9		*xxx*	*xxx*	*xxx*	*xxx*
10		*xxx*	*xxx*	*xxx*	*xxx*
11		*xxx*	*xxx*	*xxx*	*xxx*
12		*xxx*	*xxx*	*xxx*	*xxx*
	Total	*xxx*	*xxx*	*xxx*	

Legends:

A - Number of installment periods based on loan term
B - Gross amount of loan
C - Installment payment on the principal
D - Installment payment on the interest
E - Total amortization payment for the installment period
F - Outstanding principal balance of the loan

(Circular No. 1052 dated 2 October 2019)

GUIDELINES ON THE IMPOSITION OF MONETARY PENALTIES ON NBFIs, AND/OR THEIR DIRECTORS, OFFICERS AND/OR EMPLOYEES FOR VIOLATIONS OF BANKING AND OTHER APPLICABLE LAWS WITH SANCTIONS FALLING UNDER SECTION 37 OF REPUBLIC ACT NO. 7653 (THE NEW CENTRAL BANK ACT), AS AMENDED

(Appendix to Sec. 003-N on Monetary Penalties on NBFIs, and/or their Directors, Officers, and/or Employees)

The following are the guidelines on the imposition of monetary penalties on NBFIs, and/or their directors, officers and/or employees.

I. *Definition of Terms*. For purposes of this Appendix, the following definitions shall apply:

a. *Transactional violation* refers to an act or omission constituting a violation of any applicable law or any order, instruction/directive or regulation issued by the Monetary Board, or any order, instruction/directive or ruling by the Governor which is consummated and concluded in a single instance/occasion.

For licensing-related violations, transactional violation refers to the failure to obtain approval prior to engaging in an activity which the institution is qualified to undertake at the onset, based on eligibility test and assessment of compliance with the prudential criteria set forth under existing Bangko Sentral rules and regulations.

b. *Continuing violation* refers to an act or omission constituting a violation of any applicable law or any order, instruction/directive or regulation issued by the Monetary Board, or any order, instruction/directive or ruling by the Governor in which the violation persists or lingers over time from the instant the particular act was committed or omitted until the violation is stopped.

For licensing-related violations, continuing violation refers to an act which the institution is not qualified to undertake at the onset based on eligibility test and assessment of compliance with the prudential criteria set forth under existing Bangko Sentral rules and regulations.

II. Imposition and Payment of Monetary Penalties.

a. In accordance with Section 37 of R.A. No. 7653, as amended, monetary penalties may be imposed against NBFIs and/or their directors, officers and/or employees for any willful violation of its charter or bylaws; willful delay in the submission of reports or publications thereof as required by law, rules and regulations; any refusal to permit examination into the affairs of the institution; any willful making of a false or misleading statement to the Monetary Board or the appropriate supervising and examining department or its examiners; any willful failure or refusal to comply with, or violation of, any banking law or any order, instruction or regulation issued by the Monetary Board, or any order, instruction or ruling by the Governor; or any commission of irregularities, and/or conducting business in an unsafe or unsound manner as may be determined by the Monetary Board.

In the absence of specific provision under other applicable laws or Bangko Sentral rules and regulations prescribing the imposable monetary penalty for the above-mentioned violations/offenses, NBFIs, and/or their directors, officers and/or employees may be imposed a maximum monetary penalty of P1 million for each transactional violation or P100 thousand per calendar day for violations of a continuing nature as provided under Section 37 of R.A. No. 7653, as amended. Further, in case profit is gained or loss is avoided as a result of the violation, the Bangko Sentral may impose a fine of no more than three (3) times the profit gained or loss avoided on top of the aforementioned monetary penalty.

The Bangko Sentral considers the attendant circumstances of the case, including aggravating and mitigating factors, in the guided exercise of supervisory discretion to reach a reasonable and proportionate monetary penalty that best achieve the Bangko Sentral's supervisory objectives. These factors include the: (1) nature, gravity and seriousness of the violation or irregularity; (2) financial and/or non-financial impact of the violation or irregularity to the NBFI, its industry and/or the financial system; (3) intentionality, frequency and duration of the violation or irregularity; and (4) measures undertaken to stop or correct the violation or irregularity.

The appropriate department of the Bangko Sentral shall notify the NBFI, and/or director, officer and/or employee concerned of the violation, together with a directive for the NBFI, and/or director, officer and/or employee concerned to show cause within fifteen (15) business days from receipt of the letter why no monetary penalty under Section 37 of R.A. No. 7653, as amended, should be imposed. The recommendation to impose monetary penalties shall be approved by the Governor or the Monetary Board, as the case may be, pursuant to Section 37 of R.A. No. 7653, as amended: *Provided*, That monetary penalties against directors, officers and/or employees shall be approved only by the Monetary Board. The decision of the Governor/Monetary Board shall be communicated to the NBFI, and/or director, officer and/or employee concerned.

However, the Bangko Sentral is not precluded from imposing non-monetary sanctions along with monetary penalties if circumstances so warrant.

b. *Basis for the computation of the period or duration of penalty.* The computation of the period or duration of all penalties shall be based on calendar days. For this purpose the terms "per banking day", "per business day", "per day" and/or "a day" as used in this Manual, and other Bangko Sentral rules and regulations shall mean "per calendar day" and/or "calendar day" as the case may be.

c. *Payment of Monetary Penalties.* NBFIs, and/or their directors, officers and/or employees shall pay the monetary penalties within fifteen (15) calendar days from receipt of the notice of the decision of the Governor imposing said monetary penalties, and payment thereof shall not be suspended by the filing of an appeal to the Monetary Board.

Monetary penalties imposed by original decisions of the Monetary Board shall be paid within fifteen (15) calendar days from the last day to file a motion for reconsideration where none has been filed or within fifteen (15) calendar days from receipt of the notice of the decision of the Monetary Board affirming the decision on motion for reconsideration, as the case may be.

For uniform implementation of the above regulations, the following procedural guidelines shall be observed:

(1) Upon approval of the fines/penalties by the Governor/Monetary Board, the Department/Office concerned shall send the Statement of Account (SOA)/billing letter to the NBFI with an advice that the penalty should be paid in full within fifteen (15) calendar days from receipt of SOA/billing letter. For NBFIs which maintain a DDA with the Bangko Sentral, the amount of the penalty/ies that remain unpaid shall be automatically debited from their DDA after the lapse of the fifteen (15)-calendar day period within which to pay the monetary penalties. The NBFI shall likewise be advised that penalty or portion thereof which remained unpaid after the lapse of said fifteen (15)-day period shall be subject to additional charge of six percent (6%) per annum reckoned from the business day immediately following the end of the fifteen (15)-day period up to the day of actual payment.

(2) On the business day immediately following the end of said fifteen (15)-day period, unpaid penalties shall be automatically debited, without additional charge, against the NBFI's DDA with the Bangko Sentral by the Comptrollership Sub-sector (CoSS) based on the amount booked by the Department/Office concerned after first confirming with the CoSS the sufficiency of the NBFI's DDA balance to cover the amount of the penalty.

(3) If, based on its confirmation with the CoSS, the Department/Office concerned received information that the NBFI's DDA balance is insufficient to cover the amount of the penalty, it shall accordingly advise and request the NBFI to immediately fund its DDA.

(4) As soon as it is funded, the NBFI's DDA shall be debited by the CoSS for the amount of the penalty, plus the six percent (6%) additional charge for late payment of the penalty reckoned from the business day immediately following the end of the fifteen (15)-day period up to the day of actual payment, based on the amount booked by the Department/Office concerned.

(5) In the absence of DDA with the Bangko Sentral, penalties shall be paid through any acceptable means of payment and in accordance with the provisions of Sec. 806-N.

(6) In the case of penalty/ies imposed on NBFI directors, officers, and/or employees, the employer NBFI and said directors, officers, and/or employees shall be advised by the appropriate supervising department of the Bangko Sentral that the employer NBFI's DDA with the Bangko Sentral shall be debited for the amount of the penalty as advance payment in behalf of the director, officer, and/or employee whose penalty/ies remain unpaid after the lapse of fifteen (15) calendar days within which to pay the monetary penalty. In case the director, officer, and/or employee is no longer connected with the NBFI, payment thereof shall be for the account of the director, officer, and/or employee who shall pay directly to the Bangko Sentral through any such acceptable means of payment in accordance with the provisions of Sec. 806-N. The procedures under Items *"2", "3"* and *"4"* hereof shall likewise apply.

III. *Appeal or Motion for Reconsideration.*

The imposition of monetary penalties by the Governor shall be final and executory until reversed, modified or lifted by the Monetary Board on appeal. The appeal shall be filed within fifteen (15) calendar days from receipt of the notice of the decision, copy furnished the appropriate department of the Bangko Sentral. No motion for reconsideration of the decision of the Governor or of the Monetary Board on appeal shall be allowed.

Original decisions of the Monetary Board imposing monetary penalties shall become final and executory after fifteen (15) calendar days from receipt of the Monetary Board decision, unless a motion for reconsideration is timely filed, copy furnished the appropriate department of the Bangko Sentral.

The appeal or the motion for reconsideration shall be in writing and shall specify the findings or conclusions in the decision which are not supported by the evidence or which are contrary to law, making express reference to the evidence or to the provisions of law alleged to be contrary to such findings or conclusions.

A *pro forma* appeal or motion for reconsideration shall be denied outright and shall not prevent the decision from attaining finality.

(Circular No. 1125 dated 20 August 2021)

CHECKLIST OF BANGKO SENTRAL REQUIREMENTS IN THE SUBMISSION OF AUDITED FINANCIAL STATEMENTS AND ANNUAL AUDIT REPORT

(Appendix to Sec. 134-N (Financial Audit) and Sec. 901-N (Reports))

Information/Data Required	Deadline for submission
A. Audited Financial Statements (AFS)	
1. AFS	Not later than 120 calendar days after the close of the calendar year or fiscal year adopted by the NBFIs/RTCs/MCs/FXDs.
2. Certification by the external auditor on compliance with Bangko Sentral requirements on a. Confidentiality clause pertinent to read-only access to the Report of Examination; and b. Disclosure under *Sec. 901-N (Reports)* and other information that may be required. This requirement shall only apply to RTC/MC/FXD.	For submission together with the AFS, not later than 120 calendar days after the close of the calendar year or fiscal year adopted by NBFIs/RTCs/MCs/FXDs.
3. Reconciliation statement, including copies of adjusting entries on the reconciling items, between the AFS and the prudential reports submitted to the Bangko Sentral (i.e., balance sheet and income statement for NBFI) following the format in Annexes A and B. This requirement shall not apply to RTC/MC/FXD.	For submission together with the AFS, not later than 120 calendar days after the close of the calendar year or fiscal year adopted by NBFI.
4. Letter of Comments (LOC)[1] indicating material weaknesses on internal control and risk management system as well as other issues, which may include findings on the quality of governance[2], that should be brought to the attention of the proprietor/partners/ management/board of directors along with the recommendations for corrective action. Otherwise, a certification by the external auditor that there are no issues noted in the course of the audit to warrant the submission of an LOC.	For submission together with the AFS, not later than 120 calendar days after the close of the calendar year or fiscal year adopted by the NBFIs/RTCs/MCs/FXDs.
5. Copy of the board resolution showing the actions on the AFS and the submitted LOC, if any. In the case of a single proprietorship RTCs/MCs/FXDs, the proprietor may instead issue a certification or report on action taken.	For submission together with the AFS, not later than 120 calendar days after the close of the calendar year or fiscal year adopted by the NBFIs/RTCs/MCs/FXDs.
6. The external auditor shall report directly to the Bangko Sentral the following: a. Any material finding involving fraud or error; b. Actual or potential losses the aggregate of which amounts to at least ten percent (10%) of the consolidated total assets of the NBFI; c. Significant doubt as to the ability of the NBFI to continue as a going concern; d. Material breach of laws or Bangko Sentral rules and regulations such as but not limited to prescribed capital and liquidity ratios, significant deficiency in allowance for credit losses, material weaknesses in fair value measurement	Within fifteen (15) calendar days from discovery.

[1] LOC or equivalent letter to proprietor/partners/management/board of directors

[2] Reportable issues on the quality of governance shall only pertain to financial reporting matter.

methodology, significant vulnerabilities to money laundering and countering the financing of terrorism; e. Material internal control weaknesses which may lead to financial reporting problems; and f. Findings on matters of corporate governance that may require urgent action by the Bangko Sentral.	
In case there are no matters to report (e.g., fraud, dishonesty, breach of laws, etc.) a notarized certification that there is none to report.	Not later than 120 calendar days after the close of the calendar year or fiscal year adopted by the NBFIs/RTCs/MCs/FXDs.
B. Annual Audit Report (AAR) - For NBFIs under the concurrent jurisdiction of the Bangko Sentral and COA	
1. AAR accompanied by: a. Certification by the institution concerned on the date of receipt of the AAR by the board of directors; b. Reconciliation statement between the AFS in the AAR and the Balance Sheet and Income Statement of NBFI and trust department submitted to the Bangko Sentral, including copies of adjusting entries on the reconciling items. c. Other information that may be required by the Bangko Sentral.	Within forty (40) calendar days after receipt of the AAR by the board of directors.
2. Copy of the board resolution showing the action taken on the AAR, as well as on the comments and observations, including the names of the directors present and absent, among other things.	Within 30 banking days after receipt of the AAR by the board of directors.

(Circular No. 1075 dated 7 February 2020)

Name of Non-Bank Financial Institution
Comparison of Submitted Balance Sheet and Income Statement
and Audited Financial Statements
As of (end of calendar or fiscal year)
(In Thousand Pesos)

	Submitted Report	Audited Report	Variance/ Discrepancy	Reasons for Discrepancy
Cash and Other Cash Items				
Due from BSP				
Deposit in Banks				
Financial Assets Designated at Fair Value through Profit or Loss (DFVPL)				
Available-for-Sale (AFS) Financial Assets				
Held-to-Maturity (HTM) Financial Assets				
Loans and Receivables, *net*				
Loans and Receivable Arising from Repurchase Agreements, Certificates of Assignment/Participation with Recourse Transactions				
Accrued Interest Income from Financial Assets				
NBFIs Premises, Furniture, Fixtures and Equipment, *net*				
Other Assets				
Due from Head Office/Branches/Agencies Abroad				
Total Assets				
Financial Liabilities Designated at Fair Value through Profit or Loss (DFVPL)				
Bonds Payable				
Redeemable Preferred Shares				
Financial Liabilities Associated with Transferred Assets				
Finance Lease Payment Payable				
Accrued Interest, Taxes and Other Expenses				
Other Liabilities				
Paid-in Capital Stock				
Additional Paid-in Capital				
Retained Earnings				
Other Comprehensive Income				
Total Capital				
Total Liabilities and Capital				
Total Income				
Total Expenses				
Net Income Before Income Tax				

Name of Non-Bank Financial Institution
Trust Department
(Contractual Relationship of TE, e.g., Institutional-Trust, etc.)
Comparison of Submitted FRPTI Balance Sheet and
Audited Financial Statements
As of (end of calendar or fiscal year)
(In Thousand Pesos)

Accounts	FRPTI	AFS	Discrepancy	Explanation for Discrepancy
Assets (net)				
Cash on Hand, Checks and Other Cash Items				
Due from BSP				
Deposit in Banks				
Financial Assets Designated at Fair Value through Profit or Loss (DFVPL)				
Available-for-Sale (AFS) Financial Assets				
Held-to-Maturity (HTM) Financial Assets				
Unquoted Debt Securities Classified as Loans				
Investments in Non-Marketable Equity Securities				
Loans and Receivables and Loans Arising from Repurchase Agreements and Securities Lending and Borrowing Transactions				
Other Financial Assets				
Investment Properties and Real and Other Properties Acquired				
Other Assets				
Due from Head Office/Branches/Agencies Abroad				
Total Assets				
Accountabilities				
Principal				
Accumulated Income				
Net Unrealized Gains/(Losses) on AFS Financial Assets				
Other Accountabilities				
Total Accountabilities				

DISCLOSURE REQUIREMENTS TO THE AUDITED FINANCIAL STATEMENTS (AFS)
[(Appendix to Sec. 901-N (Reports)]

I. RTCs/MCs/FXDs/VC Exchange

RTCs/MCs/FXDs/VC Exchange shall include the following supplementary information at the end of the notes to the financial statements:

(a) Total volume/value of remittance and/or money changing/foreign exchange transactions (absolute amount) for the reference year with breakdown as to: (1) domestic and/or foreign; and (2) transactions facilitated through VC, using the following template:

Type of Transactions	No. of transactions	Amount in USD	Amount in PHP
A. International Inward (Payout) Remittance Transactions			
B. International Outward (Send Out) Remittance Transactions			
C. Domestic Inward (Payout) Remittance Transactions			
D. Domestic Outward (Send Out) Remittance Transactions			
E. Foreign Currencies Bought			
F. Foreign Currencies Sold			
G. International Inward (Payout) Remittance Facilitated Through VC			
H. International Outward (Send Out) Remittance Facilitated Through VC			
I. Exchange of VC to Philippine Peso/Other Currency			
J. Exchange of Philippine Peso/Other Currency to VC			
K. Other VC Transactions (please specify)			

(b) Basic quantitative indicators of financial performance such as return on average equity and return on average assets, using the following formulas:

(1) Return on Average Equity (%) =

$$\frac{\text{Net Income (or Loss) after Income Tax} \times 100}{\text{Average Total Capital Accounts}}$$

Where:

$$\text{Average Total Capital Accounts} = \frac{\text{Total Capital Accounts Current calendar/fiscal year-end balance + Previous calendar/fiscal year-end balance}}{2}$$

(2) Return on Average Assets (%) =

$$\frac{\text{Net Income (or Loss) after Income Tax} \times 100}{\text{Average Total Assets}}$$

Where:

$$\text{Average Total Assets} = \frac{\text{Total Assets Current calendar/fiscal year-end balance + Previous calendar/fiscal year-end balance}}{2}$$

II. EMIs

EMIs shall include the following supplementary information at the end of the notes to the financial statements:

(a) Details of liabilities or borrowings, particularly on the number of creditors[1];

(b) If with corollary business, disclosure of total liabilities and income directly attributable to said business. EMIs with money service business operations shall also comply with disclosures required thereto under Sec. 901-N (*Reports*);

[1] Creditors except e-money holders

(c) Financial indicators, specifically return on average equity and average assets. For purposes of computing the financial indicators, refer to Item "*I.b"* above;

(d) Liquidity cover for the reference year using the following template:

Particulars	Amount in USD	Amount in PHP
A. Deposits and Investments		
1. Bank Deposits		
2. Government Securities		
3. Others (please specify)		
B. E-Money Balances		
Types of E-money cards/Instruments		
1. E-money in PhP		
2. E-money in other currencies (please specify)		
C. Excess (Deficiency) of Liquidity Cover		

(e) Total volume/value of e-money transactions (absolute amount) for the reference year using the following template:

Type of Transactions	No. of transactions	Amount in USD	Amount in PHP
A. E-Money Beginning Balance			
B. INFLOWS			
Conversion to E-Money			
1. Conversion from cash centers (OTC/Outlets/Local Partners)			
2. ATM/Mobile Banking/Internet Banking			
3. Remco Partners Abroad			
4. Pre-funding from local partners			
5. Others (please specify)			
C. OUTFLOWS			
Conversion to Currency			
1. Conversion from cash centers (OTC/Outlets/Local Partners)			
2. ATM/POS Withdrawals			
3. Sweeping of E-Money Wallet/Account			
4. Fund transfer from E-Wallet to Deposit Account			
5. Others (please specify)			
D. NET INFLOW/(OUTFLOW)			
E. End of reference year E-Money Balances			
F. Additional Information			
Usage			
1. Payments to Merchants			
2. Bills Payments			
3. Transfers to Other Subscribers (P2P/W2W)			
4. Others (please specify)			

GUIDELINES IN DETERMINING A "TRUE SALE" TRANSACTION UNDER THE FIST ACT

(Appendix to Sec. 307-N)

The transfer by a BSFI of its NPAs to a FISTC or an individual shall be considered not a True Sale if the BSFI satisfies any of the enumerated below:

(a) Has direct or indirect management of the transferee FISTC;

(b) Has any of its directors, officers or employees on the board of the transferee FISTC;

(c) Is obligated to repurchase or substitute/exchange the NPA or any part of the pool of NPAs at any time, except in cases of a breach of representation or warranty of the BSFI;

(d) Is a Related Interest, as defined under Rule 11 of the FIST IRR, of the transferee FISTC;

(e) Has legal and beneficial ownership of more than ten percent (10%) of the (a) total number of outstanding shares of stock entitled to vote in the election of directors, and (b) the total number of outstanding shares of stock, whether or not entitled to vote, of the transferee FISTC; or

(f) Accepts the transferred NPAs as the FISTC's collateral for any unpaid balance of the consideration of the transfer of said NPAs.

Unless otherwise determined by the Bangko Sentral, the following shall be presumed not a True Sale, if the BSFI:

(a) Is made the beneficiary of a trust used as a vehicle for purchasing and securitizing the NPAs; or

(b) Pays further expenses in relation to the NPAs after said NPAs have been sold/transferred to the transferee FISTC/individual; or

(c) Extends, directly or indirectly, any credit facility, guaranty or any similar financial transaction to the transferee FISTC; or

(d) Extends any credit facility, guaranty or any similar financial transaction to any party for the purpose of investing in the equity or IUIs of the FISTC, or for acquiring the NPAs from the FISTC; or

(e) Extends any credit facility, guaranty or any similar financial transaction to any party for the purpose of acquiring the NPAs from the transferring FI; or

(f) Acts as trustee (BSFI's trust department) or if the trust department of any of the BSFI's subsidiaries/Affiliates, Parent bank or Parent bank's Subsidiaries/Affiliates acting as trustee, under any circumstances, in the securitization of NPAs that it has transferred to the FISTC; or

(g) Accepts as collateral for a loan extended by said BSFI the equity shares and IUIs of the FISTC that acquired its NPAs; or

(h) Enters into buy-back and other similar arrangements, or financial derivative transactions with similar effect, involving the NPAs or the securities backed by such NPAs; or

(i) Enters into any other transaction where the BSFI retains effective control over the transferred NPAs or shares in the losses of the FISTC; or

(j) Enters into a profit-sharing arrangement with a FISTC in relation to the sale/transfer of NPAs that will result in a sale/transfer transaction that does not meet the derecognition criteria under PFRS 9.

Provided: That, the extension of credit to an individual for the purpose of acquiring a single-family residential unit or an empty lot or ROPA or NPL secured by real estate mortgage on a residential unit or an empty lot shall be allowed and not considered a violation of the required "true sale" transaction.

For purposes of the foregoing, the term "any party" includes proxies, nominees, and voting trustees.

(Circular No. 1117 dated 27 May 2021)

DEFINITION OF TERMS IN RELATION TO A BSFI'S INVESTMENTS IN THE IUIS OF A FISTC

(Appendix to Sec. 307-N)

The following definition of terms shall apply in relation to a BSFI's investments in the IUIs of a FISTC:

1. *Affiliate* shall refer to an entity linked directly or indirectly, to a reporting entity through any one or a combination of any of the following:

   (a) Ownership, control or power to vote, whether by permanent or temporary proxy or voting trust, or other similar contracts, by a company of at least ten percent (10%) or more of the outstanding voting stock of the reporting entity or vice-versa;

   (b) Interlocking directorship or officerships, except in cases involving independent directors as defined under existing regulations;

   (c) Common stockholders owning at least ten percent (10%) of the outstanding voting stock of the reporting entity or vice-versa;

   (d) Management contract or any arrangement granting power to the reporting entity to direct or cause the direction of management and policies of the entity, or vice-versa.

2. *Control* exists if and only if the investor has all of the following:

   (a) Power to direct the relevant activities of the investee, which significantly affect the investee's returns;
   (b) Exposure, or rights, to variable returns from its involvement with the investee; and
   (c) The ability to use its power over the investee to affect the amount of the investor's returns.

3. *Related interest* shall refer to any of the following:

   (a) Spouse or relative within the first degree of consanguinity or affinity, or relative by legal adoption, of a director, officer or stockholder of the selling BSFI (or its parent);

   (b) Partnership of which a director, officer, or stockholder of a selling BSFI (or its parent) or his spouse or relative within the first degree of consanguinity or affinity, or relative by legal adoption, is a general partner;

   (c) 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;

   (d) Corporation, association or firm of which any or a group of directors, officers, stockholders of the selling 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; Provided, an entity may still be considered a related interest under this Rule notwithstanding ownership of less than 20% if such entity clearly demonstrates control in the operating and financial policy decisions of the selling Fl as provided in Rule 11.1.1.2 of the FIST IRR;

   (e) Corporation, association or firm wholly or majority-owned or controlled by any related entity or a group of related entities mentioned in 3(2) and 3(4) above;

   (f) Corporation, association or firm which owns or controls, directly or indirectly, whether singly or as part of a group of related interests at least twenty percent (20%) of the subscribed capital of a substantial stockholder of the selling BSFI (or its parent), or which controls majority interest of the selling BSFI (or its parent);

   (g) Corporation, association or firm which has an existing management contract or any similar arrangement with the parent of the selling BSFI (or its parent); and

   (h) 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 to the selling BSFI (or its parent).

4. *Subsidiary* refers to an entity that is controlled by another entity.

(*Circular No. 1117 dated 27 May 2021*)

MANUAL OF REGULATIONS FOR NON-BANK FINANCIAL INSTITUTIONS

***T* REGULATIONS**
(Regulations Governing Trust Corporations)

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POWERS OF THE BANGKO SENTRAL

001 - T EXAMINATION BY THE BANGKO SENTRAL

The Bangko Sentral shall have supervision over, and conduct periodic or special examinations of trust corporations (TC).

The head and examiners of the appropriate supervising department of the Bangko Sentral are authorized to administer oaths to any director, officer or employee of TCs, and to compel the presentation of all books, documents, papers or records necessary in their judgment to ascertain the facts relative to the true condition of the institution as well as the books and records of persons and entities relative to or in connection with the operations, activities or transactions of the institution under examination, subject to the provision of existing laws and regulations.

The term "examination" shall refer to an investigation of an institution under the supervisory authority of the Bangko Sentral to determine whether the institution is operating on a safe and sound basis, inquire into its solvency and liquidity, and assess the effectiveness of its compliance function to ascertain that it is conducting business in accordance with laws and regulations. Consistent with a risk-based approach to supervision, the scope of examination may include but need not be limited to the following:

a. Appraisal of the overall quality of corporate governance;

b. Assessment of risk management system, which shall include the evaluation of the effectiveness of management oversight and self-assessment functions (e.g., internal audit, risk management and compliance), adequacy of policies, procedures, and limits, effectiveness of risk measurement, monitoring and management information system, and robustness of internal control;

c. Review of the institution's operations and overall risk profile;

d. Evaluation of financial performance, capital adequacy, asset quality and liquidity; and

e. Any other activity relevant to the above.

Regular or periodic examination shall be done once a year, with an interval of twelve (12) months from the last date thereof. Special examination may be conducted earlier, or at a shorter interval, when authorized by the Monetary Board by an affirmative vote of five (5) members.

In the full exercise of the supervisory powers of the Bangko Sentral, examination by the Bangko Sentral of institutions shall be complemented by overseeing thereof. In this regard, the term Overseeing shall refer to a limited investigation of an institution, or any investigation/s that is limited in scope, conducted to inquire into a particular area/aspect of an institution's operations, for the purpose of overseeing that laws and regulations are complied with, inquiring into the solvency and liquidity of the institution, enforcing prompt corrective action, or such other matters requiring immediate investigation: *Provided,* That (i) specific authorizations be issued by the Deputy Governor of the appropriate sector of the Bangko Sentral, and (ii) periodic summary reports on overseeings made be submitted by the Monetary Board.

(Circular Nos. 1066 dated 04 December 2019 and 903 dated 29 February 2016)

002 - T SUPERVISORY ENFORCEMENT POLICY

The Policy sets forth guidance on the Bangko Sentral's supervision-by-risk framework. It also puts together in a holistic manner all the enforcement tools available to the Bangko Sentral as contained in various laws and rules and regulations[1] and communicates the deployment thereof in a consistent manner by the Bangko Sentral in the course of performing its supervisory function. It further sets out the guiding principles and objectives behind the deployment of such enforcement actions.

Nothing in this Section shall be construed as superseding enforcement actions previously imposed against BSFIs pursuant to existing laws, Bangko Sentral rules and regulations.

a. Statement of Policy and Rationale. The Bangko Sentral is issuing this Supervisory Enforcement Policy to provide guidance on its supervision-by-risk framework. The Bangko Sentral recognizes that risk-taking is integral to a financial institution's business. The existence of risk is not necessarily a reason for concern so long as Management exhibits the ability to effectively manage that level of risk and operates the financial institution (FI) in a safe and sound manner. Thus, when risk is not properly managed, the Bangko Sentral may deploy a wide range of enforcement actions provided under existing laws, Bangko Sentral rules and regulations, taking into consideration the nature and extent of the supervisory issues and concerns and the level of cooperation provided by Management.

[1] Section 4 of R.A. No. 8791 (General Banking Law of 2000) defines the scope of Bangko Sentral's supervisory powers, which may be grouped into three categories; (i) issuance of rules; (ii) examination and investigation; and (iii) enforcement of Prompt Corrective Action (PCA).

The Bangko Sentral adopts a holistic approach to supervision with the objective of guiding FIs under its supervision to mitigate risk and achieve the desired changes.

Bangko Sentral's risk-based supervision, of which enforcement action is a key part, focuses on the safety and soundness of operations of the FIs. This policy sets forth the expectations of the Bangko Sentral when it deploys enforcement action and the consequences when expected actions are not performed within prescribed timelines.

Thus, this over-arching policy is needed - (a) as a collation of various enforcement actions already present in various laws, rules and regulations; (b) for better guidance of the FIs and the bank supervisors; and (c) as a means to broadcast to the banking/financial industry the consequences of failure to address the Bangko Sentral requirements and supervisory expectations.

b. Objectives of the Enforcement Policy. The Bangko Sentral's Supervisory Enforcement Policy aims to achieve the following two (2) key objectives:

(1) *Achieving the desired change*.

Effect a change in the overall condition and governance of Bangko Sentral-supervised FIs consistent with the expectations set under relevant laws and regulations; and

(2) *Mitigating Risk*.

Mitigate risks to the FIs and other stakeholders in order to maintain the stability of the financial system.

c. General Principles. The Bangko Sentral, in the deployment of enforcement actions, is guided by the following general principles:

(1) *Root cause diagnosis*. The enforcement action addresses the underlying cause of the supervisory issues and concerns.

(2) *Consistently matching the severity of enforcement action to the supervisory issue*. The deployment of appropriate enforcement action is commensurate to the severity of the supervisory issues and concerns. The severity of the supervisory issues and concerns is assessed in terms of prevalence[1] and persistence.

(3) *Successive or simultaneous deployment of enforcement actions*. Enforcement actions may be deployed successively or simultaneously taking into account the nature and seriousness of the difficulties encountered by the FIs and the ability and willingness of the FI's Management to address the supervisory issues and concerns.

(4) *Monitorability and follow-through*. The Bangko Sentral monitors the FI's progress/compliance with the expected actions to address the supervisory issues, concerns and problems.

(5) *Escalation of enforcement actions*. Enforcement actions may be escalated if the desired change is not achieved and the root causes of the FI's issues, concerns and problems are not addressed by the FI within prescribed timelines.

d. Categories of Enforcement Actions The three main categories of enforcement action are: (1) corrective actions, (2) sanctions and (3) other supervisory actions. These enforcement actions may be imposed singly or in combination with others.

(1) Corrective Actions. Corrective actions are enforcement actions intended to require the FI to address the underlying cause of supervisory issues, concerns and problems. These include the following:

(a) Bangko Sentral Directives Directives are basically orders and instructions communicated by the appropriate supervising department in Bangko Sentral requiring the FI to undertake a specific positive action or refrain from performing a particular activity within a prescribed timeline.

(b) Letter of Commitment (LOC). The LOC is an enforcement action where the FI's Board of Directors (Board) is required, upon approval and/or confirmation by the Monetary Board (MB), to make a written commitment to undertake a specific positive action or refrain from performing a particular activity within a given time period.

[1] Prevalence pertains to the pervasiveness of the supervisory issues, concerns and problems in relation to their impact on the FI's solvency, asset quality, operating performance and liquidity, among others.

The LOC is generally used to arrest emerging supervisory concerns before these develop into serious weaknesses or problems, or to address remaining supervisory issues and concerns.

(2) Sanctions. Sanctions that may be imposed on an FI and/or its directors and officers, as provided under existing laws, Bangko Sentral rules and regulations, are subject to the prior approval and/or confirmation by the MB. Such sanctions include the following:

(a) FIs

(i) Restrictions on Activities and Privileges
(ii) Suspension of Authorities, Privileges and Other Activities
(iii) Divestment and/or Unwinding
(iv) Monetary Sanction - Penalties/Fines Against the FI

(b) Directors and officers

(i) Reprimand
(ii) Restriction on Compensation and Benefits
(iii) Divestment
(iv) Suspension
(v) Disqualification
(vi) Removal
(vii) Monetary Penalties/Fines

The foregoing sanctions to individuals are without prejudice to the filing of separate civil or criminal actions against them, when appropriate.

(3) Other Supervisory Actions. Subject to prior MB approval, the Bangko Sentral, when warranted, may deploy other supervisory actions such as:

(a) Initiation into the PCA Framework;
(b) Issuance of a cease and desist order (CDO) against the FI as well as its directors and officers;
(c) Conservatorship; and
(d) Placement under Receivership.

e. Due Process. An integral part of the deployment of enforcement actions is the observance of due process in all cases.

The FI and/or its directors and officers are afforded fair and reasonable opportunity to explain their side and to submit evidence/s in support thereof, which are given due consideration in determining the appropriate enforcement action(s) to be imposed.

(Circular Nos. 1066 dated 04 December 2019 and 903 dated 29 February 2016)

003 - T PROMPT CORRECTIVE ACTION FRAMEWORK

The framework for the enforcement of prompt corrective action (PCA) on banks which is in *Appendix 68* of the MORB, shall govern the PCA taken on TCs to the extent applicable, or by analogy.

(Circular No. 1066 dated 04 December 2019)

004-T MONETARY PENALTIES ON BSFIs, AND/OR THEIR DIRECTORS, OFFICERS AND/OR EMPLOYEES

The Bangko Sentral recognizes the need to impose monetary penalties as one of the possible administrative sanctions to hold BSFIs, and/or their directors, officers and/or employees accountable for their conduct, deter future commission of violations, and achieve the overarching supervisory objectives of changed behavior and mitigated risks.

Pursuant to Section 37 of R.A. No. 7653, as amended, BSFIs, and/or their directors, officers and/or employees may be imposed a maximum monetary penalty of ₱1 million for each transactional violation or ₱100 thousand per calendar day for violations of a continuing nature. In case profit is gained or loss is avoided as a result of the violation, the Bangko Sentral may also impose a fine of no more than three (3) times the profit gained or loss avoided.

To ensure fairness, consistency and reasonableness in the imposition of monetary penalties, the Bangko Sentral takes into consideration the attendant circumstances of each case, such as the nature and gravity of the violation or irregularly and the size of the financial institution, including other aggravating and mitigation factors. Further, in accordance with Sec. 002-T, the Bangko Sentral may impose monetary penalties, singly or in combination with non-monetary sanctions, if appropriate.

The guidelines on the imposition of monetary penalties for violations in which sanctions fall under Section 37 of R.A. No. 7653 (The New Central Bank Act), as amended, and other applicable laws are in *Appendix T-7.*

(Circular No. 1125 dated 20 August 2021)

PART ONE

ORGANIZATION, MANAGEMENT, AND ADMINISTRATION

A. ESTABLISHMENT, POWERS, AND OPERATIONS OF TRUST CORPORATIONS

101 - T APPLICABLE REGULATIONS ON TRUST CORPORATIONS

Trust operations and investment management activities of trust corporations shall be subject to the applicable regulations in Parts Five 9Foreign Exchange Operations) , Six (Treasury and Money Market Operations), Seven (Electronic Payment and Financial Services), Eight (Anti-Money Laundering Operations) and ten (Financial Consumer Protections Framework) including the provisions of Sec. 002-Q (Supervisory Enforcement Policy) MORNBFI, unless otherwise provided in this Manual

(Circular No. 1048 dated 6 September 2019)

102 - T POLICY STATEMENT; DEFINITION OF TERMS

Policy Statement. It is the policy of the Bangko Sentral to promulgate rules and regulations necessary for the proper conduct and development of trust, other fiduciary business and investment management activities. Towards this end, authority to engage in trust, other fiduciary business and investment management activities shall be granted to all qualified trust corporations which meet the requirements provided herewith.

Definitions. For purposes of regulating the operations of a trust corporation, unless the context clearly connotes otherwise, the following shall have the meaning indicated:

a. *Trust entity* shall refer to a: (a) bank or non-bank financial institution (NBFI), through its specifically designated business unit to perform trust functions, or (b) trust corporation, authorized by the Bangko Sentral to engage in trust and other fiduciary business under Section 79 of Republic Act (R.A.) No. 8791 (The General Banking Law of 2000) or to perform investment management services under Section 53 of R.A. No. 8791.

b. A *trust corporation (TC)* shall be a stock corporation created, and duly authorized by the Monetary Board, to engage primarily in trust, other fiduciary business and investment management activities, which shall act as trustee or administer any trust or hold property in trust or on deposit for the use and benefit of others, and/or as financial consultant, investment adviser or portfolio manager.

   A TC may be a subsidiary or an affiliate of a bank and/or an NBFI: *Provided,* That the investing bank and/or NBFI cannot engage in trust, other fiduciary business and investment management activities through its separate and distinct department or other similar unit in the bank or NBFI and through a TC.

c. *Trust business* shall refer to any activity resulting from a trustor-trustee relationship (trusteeship) involving the appointment of a trustee by the trustor for the administration, holding, management of funds and/or properties of the trustor by the trustee for the use, benefit or advantage of the trustor or of others called beneficiaries.

d. *Other fiduciary business* shall refer to any activity resulting from a contract or agreement whereby the TC binds itself to render services or to act in a representative capacity such as in an agency, guardianship, administratorship of wills, properties and estates, executorship, receivership and other similar services which do not create or result in a trusteeship. Investment management activities, which are considered as among other fiduciary business, shall be separately defined in the succeeding item to highlight its being a major source of fiduciary business.

e. *Investment management activity* shall refer to any activity resulting from a contract or agreement primarily for financial return whereby the institution (the investment manager) binds itself to handle or manage investible funds or any investment portfolio in a representative capacity as financial or managing agent, adviser, consultant or administrator of financial or investment management, advisory, consultancy or any similar arrangement which does not create or result in a trusteeship.

f. *Investment management account* shall refer to an account where transactions arising from investment management activities are kept and recorded.

g. *Trust* is a relationship or an arrangement whereby a person called a trustee is appointed by a person called a trustor to administer, hold and manage funds and/or property of the trust or for the benefit of a beneficiary.

h. *Trust agreement* is an instrument in writing covering the terms and conditions of the trust.

i. *Trustee* is any person who holds legal title to the funds and/or property of a trust.

j. *Trustor* is any person who creates a trust.

k. *Beneficiary* is any person for whose benefit a trust is created.

l. *Fiduciary* shall refer to any person or entity engaged in any of the other fiduciary business as herein defined where no trustor-trustee relation exists.

m. *Agency* shall refer to a contract whereby a person binds himself to render some service or to do something in representation or on behalf of another, with the consent or authority of the latter.

n. *Principal* shall refer to the person who grants authority to another person called an agent, under a contract to enter into transactions in his behalf.

o. *Agent* shall refer to a person who acts in representation or on behalf of another person with the latter's authority.

p. *President* shall refer to the chief executive officer of the TC or to any other position of equivalent rank or position.

q. *Unit Investment Trust Fund (UITF)* shall refer to an open-ended pooled trust fund denominated in pesos or any acceptable currency, which are operated and administered by a trust entity and made available by participation. The term *Unit Investment Trust Funds* is synonymous to common trust funds. As an open-ended fund, participation or redemption is allowed as often as stated in its plan rules.

r. *Assets under management (AUM)* shall represent all funds, properties and securities, denominated in peso and other foreign currency, which the TC, acting as trustee, fiduciary and agent, shall manage, administer, hold, and/or take custody, for the use and/or benefit of persons other than the TC. In the performance of its trust, other fiduciary business and investment management activities (IMA), the assets under management of the TC shall be kept separate and distinct from the proprietary assets of the TC as well as from the general or other business owned and operated by its parent company, subsidiaries and related interest including all other funds, properties, and assets owned by such TC.

s. *Proprietary assets* shall refer to all assets, excluding assets under management, owned by the TC for the purpose of engaging in the business of trust, other fiduciary and investment management activities and maintaining the minimum capital requirement.

(Circular No. 1066 dated 04 December 2019)

103 - T ESTABLISHMENT, ORGANIZATION AND POWERS

A TC shall administer the funds or property under its custody with the diligence that a prudent man would exercise in the conduct of an enterprise of a like character with similar aims.

The TC must have suitable shareholders, adequate financial strength, a legal structure in line with its operations, and a management that is fit and proper to operate the corporation. Where the proposed owner or parent organization is a foreign-regulated financial institution, the prior consent of its home country supervisor should be obtained.

The incorporators/subscriber must be persons of integrity and of good credit reputation in the business community. The subscribers must have adequate and legitimate financial capacity to pay for their proposed subscriptions in the TC.

In addition, the incorporators/subscribers must not have been convicted of any crime involving moral turpitude, and unless otherwise allowed under the provisions of existing laws, are not officers or employees of a government agency, instrumentality, department or office charged with the supervision of, or the granting of credit to trust entities.

A TC shall ensure that it upholds consumer protection practices that adhere to the highest level of service standards, and observes fair and responsible dealings in the conduct of its trust business. In this regard, a TC shall adopt a board-approved consumer protection framework that is appropriate to its corporate structure, operations and risk profile.

Basic guidelines in establishing TCs. No person or entity shall be allowed to operate as a TC without prior authority from the Bangko Sentral.

a. *Organizational requirements*

(1) Articles of incorporation and by-laws. The articles of incorporation and by-laws of any TC, or any amendment thereto, shall not be registered with the Securities and Exchange Commission (SEC) unless accompanied by a certificate of authority to register issued by the Monetary Board.

(2) Application for authority to establish the TC. The incorporators/directors of the proposed TC shall file and submit to the Monetary Board through the appropriate supervising department of the Bangko Sentral an application for authority to establish a TC to primarily engage in trust, other fiduciary business and investment management activities, which shall be duly signed by all incorporators/directors, together with the following documents:

(a) Accomplished biographical data of each incorporator, subscriber, proposed director and officer;

(b) Certificate of net worth as of a date not earlier than ninety (90) days prior to the filing of the application of each of the subscriber. Such certificate shall indicate a minimum net worth that will demonstrate the certifying person's financial capacity to invest in the TC. A waiver of rights under R.A. No. 1405, as amended, shall also be submitted for purposes of verification of the declared net worth;

(c) Certified photocopies of Income Tax Returns (ITRs) for the last two (2) calendar years of each incorporator, subscriber, proposed director and officer or similar document from the home country in the case of non-Filipino citizens;

(d) Clearance from the National Bureau of Investigation (NBI) of each of the incorporator, subscriber, proposed director and officer or similar document from the home country in the case of non-Filipino citizens;

(e) For corporate subscribers, the following additional documents shall be submitted:

(i) Copy of the board resolution authorizing the corporation to invest in such TC and designating the person who will represent the corporation in connection therewith;

(ii) Copy of the latest articles of incorporation and by-laws duly stamped received by the SEC;

(iii) Updated list of directors and principal officers;

(iv) Current list of substantial or major shareholders, indicating the citizenship and the number, amount and percentage of the voting and non-voting shares held by them. For this purpose, substantial or major shareholder shall mean a person, whether natural or juridical, owning such number of shares that will allow him to elect at least one (1) member of the board of directors of a TC, 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) A copy each of the corporation's audited financial statements for the last two (2) years prior to the filing of the application;

(vi) A copy of the corporation's annual report to the stockholders for the year immediately preceding the date of filing of the application;

(vii) Certified photocopies of the corporation's ITRs and BIR clearance for the last two (2) calendar years; and

(viii) For foreign corporations, in addition to Items "(e)i" to "(e)vi", it shall also submit (1) a certification from its home country's supervisory authority that it has no objection to the investment of such company in a TC in the Philippines and that adequate information on such foreign corporation shall be provided to the Bangko Sentral to the extent allowed under existing laws; (2) certification from the foreign bank/entity applicant's Corporate Secretary or any officer holding equivalent position that the bank/entity is established, reputable and financially sound; and (3) if the proposed ownership represents controlling interest[1] in the TC, certification from the foreign bank/entity applicant's Corporate Secretary or any officer holding equivalent position containing the information that the bank/entity is widely-owned and publicly-listed, duly authenticated by the Philippine Consulate;

[1] Control exists when the parent owns directly or indirectly through subsidiaries more than one-half (1/2) of the voting power of an enterprise unless, in exceptional circumstance, it can be clearly demonstrated that such ownership does not constitute control. Control may also exist even when ownership is one-half (1/2) or less of the voting power of an enterprise when there is: (i) power over more than one-half (1/2) of the voting rights by virtue of an agreement with other stockholders; or (ii) power to govern the financial and operating policies of the enterprise under a statute or an agreement; or (iii) power to appoint or remove the majority of the members of the board of directors or equivalent governing body; or (iv) power to cast the majority votes at meetings of the board of directors or equivalent governing body; or (v) any other arrangement similar to any of the above.

(f) Detailed plan of operation and economic justification for establishing a TC. The plan should describe and analyze the industry and the market area from which the TC expects to draw majority of its trust business and establish a strategy for its ongoing operation. It should also describe how the TC will be organized and controlled internally. Further, the plan should cover the marketing and distribution arrangements to be adopted by the TC which shall comply with Secs. 109-T and 110-T;

(g) Projected financial statements for the first five (5) years together with assumptions. These should be consistent with its proposed plan of operation and would show sufficient capital to support its strategy and operations;

(h) Detailed plan on how the subscribers would put up the required capitalization for the proposed TC; and

(i) Such other information that the Bangko Sentral may require.

In case of banks and NBFIs that decide to spin-off their trust department to a TC, in addition to the articles of incorporation, by-laws and the application for establishment of the proposed TC, the documentary requirements are as follows:

(a) Updated biographical data of each incorporator, subscriber, proposed director and officer;

(b) Certificate of net worth as of a date not earlier than ninety (90) days prior to the filing of the application of each of the subscriber. Such certificate shall indicate a minimum net worth that will demonstrate the certifying person's financial capacity to invest in the TC. A waiver of rights under R. A. No. 1405, as amended, shall also be submitted for purposes of verification of the declared net worth;

(c) Certified photocopies of ITRs for the last two (2) calendar years of each incorporator, subscriber, proposed director and officer or similar document from the home country in the case of non-Filipino citizens;

(d) Clearance from the NBI of each of the incorporator, subscriber, proposed director and officer or similar document from the home country in the case of non-Filipino citizens. However, the applicant may instead submit a certification that the incorporator, subscriber, proposed director and officer concerned has already undergone prior approval/confirmation by the Bangko Sentral as director and/or officer of a Bangko Sentral-supervised entity;

(e) Copy of the board resolution authorizing the trust department to spin-off into a TC and designating the person who will represent the corporation in connection therewith;

(f) In addition to the detailed plan of operation and economic justification for establishing a TC required under Item "*(2)(f)*", the plan shall include specific actions and timelines for the smooth transition of its operations including timelines for ample notification to clients;

(g) Detailed plan on how the bank/NBFI would put up the required capitalization for the proposed TC;

(h) For trust departments of foreign banks/foreign bank branches, it shall also submit a certification from its home country's supervisory authority that it has no objection to the spin-off of the trust department of said bank/foreign branches into a TC and that adequate information shall likewise be provided to the Bangko Sentral to the extent allowed under existing laws; and

(i) Such other information that the Bangko Sentral may require.

Application for establishment of a TC shall be subject to the following fees:

(a) Filing fee - A filing fee of P25,000.00 shall be charged upon filing of the application and is non-refundable;
(b) Processing fee - A processing fee of P100,000.00 shall be charged for accepted applications regardless whether the application is approved or denied. Processing fee shall be inclusive of the filing fee; and
(c) Licensing fee - A licensing fee of P500,000.00 shall be charged upon approval of the application. Licensing fee shall be inclusive of the processing fee.

In submitting its application, the applicant shall include a written authorization in favor of the Bangko Sentral giving consent to the conduct of verification/validation of the documents or representations stated in the application for the establishment of a TC.

The application shall be considered filed and submitted on a first-come, first-served basis: *Provided,* That all required documents are complete and properly accomplished. Otherwise, the application shall be returned unacted.

b. *Grounds for disapproval of application*. The Monetary Board may deny the application to organize a TC on the basis of any of the findings that:

(1) The TC is being organized for any purpose other than to engage in the business of a legitimate TC;
(2) The TC's detailed plan of operations is against the law, Bangko Sentral rules and regulations, and public policy; and
(3) There exist other reasons, which the Monetary Board may consider as sufficient ground for such disapproval.

c. *Requirements for the issuance of the certificates of authority to register and to operate.*

(1) Within thirty (30) days from receipt of advice of approval by the Monetary Board of its application for authority to establish a TC, the applicant shall pay a non-refundable license fee, as stated above, to the Bangko Sentral.

(2) Within sixty (60) days from receipt of advice of approval by the Monetary Board of their application for authority to establish a TC, the incorporators shall:

(a) Submit seven (7) copies of the articles of incorporation, treasurer's sworn statement and by-laws which shall include provisions on the appointment of a president, equivalent position/officer, and other subordinate officers, and a clear definition of their duties and responsibilities; and

(b) Deposit with any universal/commercial bank the initial paid-up capital of the proposed TC.

(3) Within thirty (30) days after the articles of incorporation and by-laws had been cleared by the Bangko Sentral, and the corresponding certificate of authority to register had been issued, the incorporators shall effect the filing and registration of said documents with the SEC.

(4) Within six (6) months from receipt of advice of approval by the Monetary Board/Governor of their application for authority to establish a TC, the incorporators shall secure the certificate of authority to operate the trust, other fiduciary business and investment management activities and submit to the appropriate supervising department of the Bangko Sentral the following:

(a) Proof of registration of articles of incorporation and by-laws;

(b) Certification of compliance with the conditions of approval duly signed by the incorporators, including the set-up of the required basic security deposit;

(c) Names and positions of individuals designated as chairman and members of the board of directors, president and other subordinate officers of the TC with their respective bio-data and statement of duties and responsibilities;

(d) Organizational chart which shows the names of departments/units with respective functions and responsibilities and designations of officers/employees including responsibilities of personnel within the said departments/units. The organizational chart should show clear accountability of the management structure and should provide for independent check and balance by the board of directors;

(e) Risk Management Manual, Manual on Consumer Protection Framework and Operations Manual embodying the policies, systems, and operating procedures of each department/unit in the organization, together with the certification of the president of the TC that the manuals were prepared and aligned with existing Bangko Sentral rules and regulations on risk management, consumer protection and trust, other fiduciary and investment management activities, and that the policies, systems and operating procedures in the manuals shall be implemented. A TC is expected to have in place, a risk management system that is appropriate to the nature and complexity of the TC's fiduciary activities and to ensure that the policies, systems and operating procedures in the manuals shall be implemented;

(f) Excerpts of the minutes of the organizational/director's meetings confirming all organizational and pre-opening transactions relative to activities undertaken by the TC to operate the trust, other fiduciary business and investment management activities (e.g., appointment of officers, and approval of authorized signatories);

(g) Alphabetical list of all stockholders with the number and percentage of voting stocks owned/held;

(h) List of natural persons/stockholders certified by the corporate secretary, owning voting stocks in the TC and are related to other identified stockholders within the first degree of consanguinity or affinity, indicating the combined percentage of voting stocks held by these persons in the particular TC, as well as juridical persons, including corporations that are wholly-owned or a majority of the stock of which is owned by any of such persons, including their wholly- or majority-owned subsidiaries;

(i) Certification by the president that no person who is the spouse or relative within the second degree of consanguinity or affinity of any person holding the position of chairman, president, chief executive officer, chief operating officer, executive vice-president, senior vice president or any position of equivalent rank, general manager treasurer, chief cashier, or chief accountant will be appointed to any of said positions in the TC; and

(j) Other documents/papers which may be required.

Commencement of trust, other fiduciary business and investment management activities. The authority to establish a TC shall be automatically revoked if the TC is not organized and opened for business within one (1) year from date of approval by the Monetary Board of their application for authority to operate a TC. A final extension may be granted upon presentation of justifiable reason for failure to open the TC within the prescribed period, and proof that the TC can be opened within the extension period.

In the case of spun-off trust departments of banks/NBFIs, it is understood that upon receipt of the certificate of authority to operate a TC, the trust license of the trust department shall be automatically revoked.

The TC shall submit a written notice to the appropriate supervising department of the Bangko Sentral of the actual date of commencement of trust, other fiduciary and investment management operations not later than ten (10) days from such operation.

Powers and scope of authority. A TC, with prior approval of the Monetary Board, shall engage in trust and other fiduciary business under Chapter IX of R.A. No. 8791 (The General Banking Law of 2000).

A TC may accept peso and foreign currency denominated accounts: *Provided,* That in the case of foreign currency denominated accounts, all relevant laws, rules and regulations issued by local regulatory agencies on such are complied with.

Limitations. Except for escrow services, property administratorship, safekeeping, collection and payment services, and other similar legitimate activities, a TC shall not accept and administer funds or property of any bank and/or quasi-bank, and/or act as trustee, fiduciary, financial consultant, investment adviser, or portfolio manager of such funds or property. It shall not, in any manner, allow itself to be a party to any transaction by which a bank or quasi-bank circumvent laws, rules and regulations. Moreover, a TC cannot engage in quasi-banking functions, particularly the borrowing of funds from the public for the purpose of relending the said funds. The TC, however, retains the right to borrow as is inherent to any duly registered corporate entity: *Provided, however*, That borrowing of a TC from its managed or trusteed accounts shall be prohibited.

(Circular Nos. 1066 dated 04 December 2019 and 903 dated 29 February 2016)

104 - T AUTHORITY RESULTING FROM MERGER OR CONSOLIDATION

In the merger of financial institutions (FI), one of which is a TC, the authority to engage in trust, other fiduciary business and investment management activities shall continue to be in effect if the surviving institution has such authority and the same has not been withdrawn or revoked by the Bangko Sentral. In case the surviving institution does not have previous authority, it shall secure the prior approval of the Monetary Board to engage in trust business as part of its application for merger to enable it to incorporate such among its powers or purpose clause in its articles of incorporation, articles of merger, by-laws and such other pertinent documents. In the consolidation of TCs where the resulting entity is an entirely new one, it shall secure from the Monetary Board an authority to engage in trust, other fiduciary business and investment management activities before it may engage in such business.

Mergers and consolidations including the terms and conditions thereof shall comply with the provisions of applicable law and are subject to approval by the Bangko Sentral.

The guidelines and procedures in the application for merger/consolidation as shown in *Appendix Q -52* of the MORNBFI shall be observed by TCs.

Rules on exchange of shares. As a general rule, the ratio of exchange of shares between or among the participants in a FI merger or consolidation shall be based on mutual agreement of the parties concerned. However, any appraisal increment reserve (revaluation reserve) arising from the revaluation of the fixed assets, as may be agreed upon by the parties shall be limited to premises, improvement, and equipment which are necessary for its immediate accommodation in the transaction of the FI's business. Such revaluation should be based on fair valuation of the property which shall be subject to review and approval by the Bangko Sentral.

(Circular No. 1066 dated 04 December 2019)

105 - T ESTABLISHMENT OF BRANCHES AND MARKETING OFFICES

A TC shall carry out its trust and other fiduciary business only at the place of business specified in its articles of incorporation. It may establish branch/es or marketing office/s in order to maximize the delivery of its products and services.

A branch shall refer to any permanent office or place of business in the Philippines other than the head office where a TC may perform activities and provide products and services that are within the scope of its authority and licenses. In this respect, a complete set of books and records shall be maintained in each branch.

A marketing office shall refer to any permanent office or place of business of a TC that is annexed to the head office or to a branch. It records its transactions in the books of the head office or the branch to which it is annexed.

Allowable activities of a marketing office. A marketing office may engage only in the following activities:

a. marketing, defined as the promotion and presentation of the TC's products and services to clients or prospective clients;
b. client profiling; and
c. preparation and receipt of documents for the opening and establishment of an account.

In addition, a marketing office may receive client funds and/or the corresponding instructions for subscription to and/or redemption/withdrawal of UITFs: *Provided,* That client funds may only be received once the client account has been created and approved.

Consistent with the expectation for the board and senior management to maintain an effective and efficient internal control framework, the TC shall adopt appropriate control mechanisms to ensure the protection of client funds. At a minimum, the TC shall ensure the segregation of functions of personnel handling funds and personnel handling client instructions. The TC shall likewise adopt policies and procedures for the handling of funds, including, but not limited to, accounting, periodic reconciliation, and reporting.

The board of directors of the TC shall approve the defined range of activities and services that shall be carried out in a marketing office: *Provided*, That the same shall not include the approval and opening of trust/fiduciary accounts: *Provided, further*, That the Management shall ensure that the accounting and reporting of activities and transactions of the marketing office to the head office/branch to which it is annexed is performed at least on a daily basis.

The TC shall likewise ensure that the activities of a marketing office are strictly undertaken in accordance with the Basic Standards set forth in *Appendix Q-49.*

Prerequisites for the grant of authority to establish a branch/marketing office. A TC may establish a branch/marketing office: *Provided*, That it meets the prudential criteria under Sec. 111-T.

No TC operating in the Philippines shall establish branches without the prior approval of the Monetary Board.

A TC may establish a marketing office/s upon giving prior notice to the Bangko Sentral. Such notification shall be transmitted to the appropriate supervising department of the Bangko Sentral not later than ten (10) banking days after the TC's Board of Directors has approved the TC's proposal to open a marketing office/s.

Prohibition. No application for establishment of new branch(es) shall be accepted if the TC has approved but unopened branch(es).

Documentary requirements. A TC seeking to establish a branch shall submit the following documents to the appropriate supervising department of the Bangko Sentral.

a. Application letter signed by the President of the TC, which shall indicate the number of branches to be established and the proposed location/s;
b. Corporate Secretary's Certificate attesting to the approval by the board of directors of the TC of the establishment of a branch/es; and
c. Certification/Undertaking signed by President that the TC is compliant with the prudential criteria under Sec. 111-T.

A TC seeking to open a marketing office/s shall support its letter of notification to the Bangko Sentral with Items *"b"* and *"c"* above: *Provided*, That the Corporate Secretary's Certificate referred to in Item "b" shall pertain to the approval by the board of directors of the establishment of a marketing office/s.

Filing/processing fee. A non-refundable filing fee of P2,000.00 shall be paid for each branch application. Moreover, a processing fee of P25,000.00 shall be paid for each branch application processed, regardless of the final decision of the Bangko Sentral.

Date of opening. Approved branch(es) shall be opened within six (6) months from the date of approval thereof and shall not be subject to any extension.

Requirement for opening branch(es)/marketing office(s). Not later than five (5) banking days from date of opening, the TC shall notify the appropriate supervising department of the Bangko Sentral of the actual date of opening of its branch/marketing office.

Relocation/closure of branch(es)/marketing office(s). Relocation/closure of branch(es)/marketing office/s may be effected only with prior notification to the Bangko Sentral in accordance with the following procedures:

a. Notice of the relocation/closure of the branch/marketing office signed by the president of the TC, together with a certified true copy of the resolution of the TC's board of directors authorizing said relocation/closure and stating the justifications/reasons thereof, shall be submitted by the TC to the appropriate supervising department of the Bangko Sentral;

b. Upon receipt of "no objection notice" from the Bangko Sentral but at least forty-five (45) calendar days prior to the closure, notice of relocation/closure shall be sent by the TC to the trustors' and other creditors' last known addresses by registered mail service of the Philippine Postal Corporation (Philpost) or delivery service of other mail couriers or electronic mail, and posters shall also be displayed in conspicuous places in the premises of the branch to be closed. Proofs of receipt of notice by the trustors and other creditors shall be kept on file and made available upon request of the Bangko Sentral; and

c. Within five (5) banking days from the date of relocation/closure of the branch/marketing office, a notice of such relocation/closure signed by the compliance officer with the rank of a vice president or equivalent rank, or by a higher ranking officer, together with a certification that the notification requirement in Item "*2*" above has been complied with, shall be submitted to the appropriate supervising department of the Bangko Sentral.

Sanctions. Any violation of the provisions of Sec. 105-T depending on the materiality or seriousness of the violation, may constitute a ground for considering the same as unsafe and unsound practice and may be a ground for cancellation of the franchise and closure of said branch/marketing office established herein without prejudice to the imposition of applicable criminal and administrative sanctions prescribed under Sections 36 and 37, respectively of R.A. No. 7653; and if any part of any certification submitted by the TC as required in this Section is found to be false, the following sanctions shall be imposed:

a. *On the trust corporation.* Suspension for one (1) year of the privilege to establish and/or open approved branches/marketing office, and/or relocate branches/marketing office.

b. *On the certifying officer.* A fine of P5,000 per day from the time the certification was made up to the time the certification was found to be false for each branch/marketing office opened, relocated, or closed without prejudice to the sanctions under Section 35 of R.A. No. 7653.

Enforcement actions. Consistent with Sec. 002-T, the Bangko Sentral reserves the right to deploy any of its supervisory tools to promote adherence to the requirements set forth in the foregoing rules and bring about timely corrective actions and compliance with Bangko Sentral directives. For this purpose, the Bangko Sentral may limit the activities and services offered by a branch/marketing office or revoke the franchise and close any branch/marketing office. If any part of the certification submitted by the TC, as required in this Section, is found to be false, the Bangko Sentral may also suspend the privilege of such TC to establish and/or open approved branches/marketing offices and/or relocate branches/marketing offices and impose sanctions on the certifying officers concerned, without prejudice to the sanctions under Section 35 of R.A. No.7653, as amended.

(Circular Nos. 1097 dated 21 September 2020 and 1066 dated 04 December 2019)

106 - T UNAUTHORIZED CONDUCT OF TRUST AND OTHER FIDUCIARY BUSINESS

If an entity is found to be engaged in unauthorized trust and other fiduciary business and/or investment management activities, whether as its primary, secondary or incidental business, the Monetary Board may proceed against such entity and/or its board of directors, and/or principal officers and/or majority stockholders in accordance with law.

The Monetary Board may take such action as it may deem proper such as, but may not be limited to, requiring the transfer or turnover of any trust and other fiduciary and/or investment management accounts to duly incorporated and licensed entities of choice by the trustor, beneficiary or client, as the case may be.

No entity shall advertise or represent itself as being engaged in trust and other fiduciary business or in investment management activities or represent itself as trustee or investment manager or use words of similar import and/or use in connection with its business title, the words trust, trust corporation, trust company, trust plan or words of similar import, without having obtained the required authority to do so.

TCs may be allowed to adopt any name that is not offensive or confusing to the public: *Provided,* That the words trust, trust corporation, trust company or words of similar import, is affixed in its business name.

(Circular No. 1066 dated 04 December 2019)

107 - T BUSINESS DAYS AND HOURS

Trust corporations may adopt such business days and hours as the y deem proper in the conduct of their operations: *Provided,* That such business days and hours are properly disclosed to clients/investor: *Provided, further,* That trust corporations shall post conspicuously at all times in their place of business their schedule of regular business days and hours.

(Circular No. 1066 dated 04 December 2019)

108 - T TRUST CORPORATION PREMISES; OTHER FIXED ASSETS

The regulations under Sec. 105-Q (except *Reclassification of real and other properties acquired to QB premises, furniture, fixture and equipment; Sanction*) shall be adopted for the premises and other fixed assets of the TC.

(Circular No. 1066 dated 04 December 2019)

109 - T MARKETING

General Policy. TC shall put in place sound policies and procedures covering its marketing arrangement giving primary consideration in upholding consumer protection in accordance with the Consumer Protection Framework of the Bangko Sentral. Such policies and procedures shall be embodied in a marketing plan and in case of significant changes to be made thereon, Trust Corporations shall notify the appropriate supervising department of the Bangko Sentral within thirty (30) calendar days prior to the implementation of such change.

Governance in marketing. In marketing its trust products, TC shall:

a. Establish policies and procedures covering the marketing of its trust products such as, but not limited to, verification and handling of client information, disclosures of key features of trust products, extent of authority of marketing personnel, and risk disclosures;

b. Be responsible for the conduct and regular training of its marketing personnel. For purposes of this Section, marketing Personnel shall mean any person performing marketing functions for the trust corporation;

c. Establish proper customer feedback and complaint-handling mechanisms; and

d. Comply with all laws and regulations applicable in the Philippines including labor laws, anti-money laundering rules, outsourcing and those governing the trust activities/services performed by the marketing personnel on the TC's behalf.

Marketing personnel. TC shall ensure that its marketing personnel are fit and proper, act within the bounds of their functions, and adhere to the Code of Ethics and Professional Standards required under Sec. 301-T. Accordingly, TC shall establish policies and procedures covering the following:

a. Duties and responsibilities of its marketing personnel;
b. Conduct of due diligence check on the fitness and propriety of its marketing personnel which includes monitoring and reviewing on an ongoing basis their performance; and
c. Conduct of continuing training and education especially on updates relative to the TC's trust products.

With respect to the marketing personnel themselves, they shall be required to:

(1) Undergo training program on trust, other fiduciary and investment management activities. This training program may be conducted by their respective trust entities or by the Trust Officers Association of the Philippines (TOAP) or any training provider acceptable to the Bangko Sentral. However, if the training is conducted by the trust entities, such training program shall be regularly reviewed/validated by TOAP. It is understood that all training materials shall be made available for review and/or validation, whenever necessary;

(2) Continuously update themselves on the features and characteristics of the trust products they are selling; and

(3) Conduct themselves with integrity, honesty and with proper representation to the clients of the TC.

In the case of UITF Marketing Personnel, the regulations provided under Sec. 414-Q shall apply.

Marketing materials. TC shall ensure that its marketing materials give a fair and balanced view of the trust product being offered. Marketing materials may be considered fair and balanced when they are clear and easily understood; highlight the purpose and risks of the product; and do not omit any material information that would cause the marketing materials to be misleading. All marketing materials should specify (a) that the same is a trust product and therefore not insured nor governed by the Philippine Deposit Insurance Corporation (PDIC); (b) that any loss/income is for the account of the client/investor; and (c) that the TC is not liable for losses unless upon willful default, bad faith or gross negligence.

Sec. 414-Q (*Minimum disclosure requirements*), on the minimum disclosure requirements shall be adopted by the TC, in so far as applicable to the trust product.

Complaints resolution. TCs, in the marketing and distribution of its products, shall establish systems and controls regarding the recording and handling of complaints. The provisions on Consumer Protection Framework of the Bangko Sentral shall apply.

Reports. TCs shall submit on an annual basis a certification signed by the president and the compliance officer that:

a. The appointed marketing personnel are fit and proper and has undergone the requisite training; and
b. The trust corporation has a policy on handling and ensuring the accountability, as well as a system of monitoring the activities and performance of its marketing personnel.

Said certification shall be submitted on or before 30 January of the following year and shall be considered a Category A-2 report.

(Circular Nos. 1066 dated 04 December 2019 and 1018 dated 26 October 2018)

110 - T DISTRIBUTION OF TRUST PRODUCTS

The trust products of a TC shall only be distributed by the TC itself, except for UITFs, which may be distributed as provided under this Section. The TC shall adopt a distribution arrangement that is consistent with its strategic plan of operation. Such arrangement shall be conducted in a manner that is not prohibited by laws, rules and regulations.

Regardless of the arrangements that the TC chooses to adopt, the TC should be able to demonstrate that the arrangement is properly managed. The arrangement should be properly documented and the related documentation shall be made available to the Bangko Sentral.

Third-party Distributors of UITFs. A TC may engage the following third parties to distribute its UITFs:

a. individual agents; and
b. institutional agents.

The distribution of UITFs through a bank shall be governed by the provisions on cross-selling under Sec. 113 of the MORB.

The use of a service provider, such as an electronic platform, to offer UITFs shall not be considered as a distribution arrangement. It shall be subject to the outsourcing framework provided under Sec. 112-T.

a. *Qualification Requirements.* The TC shall exercise prudence in the selection of third-party distributors. It shall ensure that a distributor meets the qualification requirements set out in this Section and that the distributor complies with such requirements on a continuing basis.

    (1) Individual agent. An individual agent must meet the qualifications for UITF marketing personnel as prescribed under Sec. 109-T.

    (2) Institutional agent. An institutional agent must be duly registered as a corporation with the SEC and actively operating. It must have the necessary authority from the appropriate regulatory agency to distribute financial products, must be in good financial standing, and must have the appropriate structure and adequate facilities to engage in the distribution of UITFs. All personnel of institutional agents involved in the distribution of UITFs must likewise meet the requirements prescribed under Sec. 109-T.

b. *Authority to engage third-party UITF distributors.* The engagement of a third-party distributor by a TC is considered a Type "C" activity under Sec. 111-T.

    A TC may engage a third-party distributor subject to notification to the Bangko Sentral and compliance with the prudential criteria prescribed under Sec. 111-T. For this purpose, the TC shall submit the following documents to the appropriate supervising department of the Bangko Sentral not later than ten (10) banking days after the TC's board of directors has approved the TC's proposal to distribute UITFs through a third-party:

(1) Notification letter signed by the president of the TC stating the intended mode of distribution;
(2) Corporate Secretary's certificate on the approval of the board of directors of the engagement of third-party distributors; and
(3) Certification signed by the president that the TC complies with the prudential criteria under Sec. 111-T, as well as pertinent laws, rules and regulations.

c. *Scope of activities and functions*. A distributor shall only perform activities allowed for a marketing office of a TC as provided under Sec. 105-T (*Allowable activities of a marketing office)*.

d. *Agreement*. The distribution activity shall be covered by a formal agreement between the TC and the third-party distributor. At a minimum, the following shall be set out in the agreement:

(1) Complete description of the activities to be performed;

(2) Distribution fee arrangement;

(3) Any restriction or prohibition regarding the performance by the distributor of its functions;

(4) Responsibility and accountability of the distributor for errors, omissions or fraud, and any fine or penalty related thereto;

(5) Delineation of responsibilities on the handling of customer complaints pertaining to, at a minimum, the products covered under the agreement (i.e., the UITFs) and the services performed by the distributor, and on the establishment of a redress mechanism;

(6) Ownership of, and access to, the relevant documents maintained by the distributor;

(7) The protection of confidentiality of all data and information related to the distribution activity, the liability/ies of the TC and the distributor, and the actions that the TC may take against the distributor for breach of confidentiality or any form of disclosure of confidential information;

(8) Amendment, pre-termination and cancellation of the agreement; and

(9) An undertaking to comply with the requirements under this Section.

e. *On-boarding process and maintenance of client information and records.* The on-boarding of clients through third-party distributors and the maintenance of client information and records shall be in accordance with the Basic Standards provided in *Appendix Q-49*. In addition, the following requirements shall apply.

(1) Individual agent - The individual agent shall conduct the client suitability assessment (CSA) process on behalf of the TC. The TC shall maintain and be responsible for the information gathered by the individual agent through the CSA and any related documents. The individual agent may likewise conduct the customer identification and verification process, including the gathering of the minimum information and performing face-to-face contact on behalf of the TC, subject to the rules on outsourcing under existing anti-money laundering and combating the financing of terrorism (AML/CFT) laws, rules and regulations: *Provided*, That the ultimate responsibility for knowing the customer still lies with the TC.

(2) Institutional agent - The institutional agent may adopt its own CSA process or that of the TC. The TC shall maintain and be responsible for the information gathered by the institutional agent through the CSA and any related documents.

A TC may rely on the institutional agent for the conduct of customer identification and verification, subject to the requirements provided under existing laws and regulations on AML/CFT: *Provided*, That the ultimate responsibility for knowing the customer still lies with the TC.

(3) General provisions - The TC shall adopt control mechanisms to ensure that the distributors observe the requirements under relevant laws, rules and regulations, including those governing securities activities, confidentiality of information, as well as the relevant requirements under the Basic Standards provided in *Appendix Q-49*, and the regulations on Financial Consumer Protection set out in Part Ten of the MORB.

The TC shall be responsible for the practices and activities of its distributors with respect to its UITFs. In cases where clients are prejudiced due to errors, omissions and fraud by the distributor, the TC shall provide the appropriate remedies or remuneration to clients as may be allowed under existing laws or regulations, without prejudice to the TC's right of recourse to the distributor regardless of the type of arrangement.

The TC shall ensure that the distributor/s adequately discloses to the public that he/it is authorized by the TC to distribute its UITF/s. Such disclosure shall remain in effect as long as the arrangement between the TC and the distributor remains active.

In addition to the requirements under this Section, the TC that enters into distribution arrangement shall be subject to the provisions on governance and the conduct of due diligence and periodic monitoring under Sec. 112-T and Sec. 147-Q, as applicable.

Enforcement actions. Consistent with Sec. 002-T, the Bangko Sentral reserves the right to deploy its range of supervisory tools and enforcement actions to promote adherence with the requirements set out in this Section and bring about timely corrective actions. In this respect, the Bangko Sentral may issue directives to improve the management of the distribution activity or impose sanctions to limit the level of or suspend any distribution activity. Sanctions may likewise be imposed on the TC and/or its directors, officers and/or employees.

(Circular Nos. 1097 dated 21 September 2020 and 1066 dated 04 December 2019)

B. SPECIAL AUTHORITIES

111 - T LICENSING

Statement of policy and objectives. Consistent with the mandate of the Bangko Sentral to promote a safe and sound banking system, the licensing process on permissible activities of BSFI is enhanced to align the process with international standards and best practices such as the "Core Principles for Effective Supervision" issued by the Basel Committee on Banking Supervision. The Bangko Sentral will not restrict the scope of risk-taking activities of BSFIs consequent of the licenses and/or authorities granted: *Provided,* That these licenses and/or authorities are in line with their business model and strategic direction: *Provided, further*, That these BSFIs demonstrate the capacity to implement these strategies and the ability to manage risks.

The enhanced policy guidelines set forth the expectations and criteria of the Bangko Sentral with respect to granting of licenses and authorities as well as its right to reject applications if the criteria set forth are not met by the applicant BSFIs ("applicants") or if the information provided is not adequate. The Bangko Sentral also reserves the right to withdraw or revoke the license and/or authority or enforce appropriate actions when an institution no longer meets the criteria or standards required to be met for the exercise of the license and/or authority.

These criteria are intended to incorporate the licensing process into Bangko Sentral's enforcement regime that is anchored on good governance, sound risk management system and effective control systems. Further, these criteria aim to provide more consistency on how the risk-focused supervision function is applied to the licensing process. This enhanced licensing policy aims to ensure that licenses and authorities are granted only to applicants that comply with the standards set.

It is also the thrust of these enhanced policy guidelines on granting licenses/authorities to establish Bangko Sentral's accountability and promote transparency on the licensing process which are consistent with its commitment to deliver prompt and efficient service.

Scope. Applications for licenses and/or authorities shall be categorized as follows:

a. *Type "A"* - applications for licenses and/or authorities where compliance with the defined prudential requirements/criteria described in Prudential Criteria Sec. 111-T (*Prudential Criteria*) is a pre-condition for applicants to be considered eligible;

b. *Type "B"* - applications for licenses and/or authorities processed regardless of risk profile; and

c. *Type "C"* - activities which no longer require submission of applications and processing but shall be subject to submission of reports/certification/notification within stated deadlines. However, compliance with pre-qualification requirements is subject to post verification and any false information and/or misrepresentation may be a basis for the imposition of appropriate enforcement actions described in Enforcement Actions Sec. 111-T (*Enforcement actions*). The Bangko Sentral shall use this information to continuously tailor its supervisory strategy for the supervised entities and to maintain and continuously update its institutional database.

Prudential criteria. The prudential criteria set forth in this Section shall be used in determining the eligibility of applicants to the licenses and/or authorities granted by the Bangko Sentral. Accordingly, the following minimum conditions must be met:

a. Applicant domestic banks must have a CAMELS composite rating of at least "*3*" and a "*Management*" rating of not lower than "*3*", branches of foreign banks must have a ROCA rating of at least "*3*", and BSFIs must have a RAS rating of at least "Acceptable". Whenever applicable, ratings equivalent to cited minimum rating grade requirements under appropriate rating systems (i.e., IT Rating Systems, Trust Rating Systems, among others) shall apply for certain licenses and/or authorities;

b. Applicants have no major supervisory concerns in governance, risk management systems, and internal controls and compliance system, and characterize/demonstrate the following:

(1) Governance

Applicants must display a culture of good corporate governance appropriate to its size, risk profile and complexity of operations. Board of directors and management, in their respective roles, provide an appropriate level and quality of oversight and support to all of the institution's activities. Sound management practices are observed and demonstrated through (a) active oversight and satisfactory performance by the board of directors and senior management, (b) appropriate policies, processes, and controls relative to the institution's size, complexity and risk profile, (c) maintenance of an independent and effective internal audit and compliance program as well as a sound internal control environment, and (d) effective risk monitoring and management information systems.

Applicants should not be found engaging in an activity which may be considered as conducting business in an unsafe and unsound manner. In cases where weaknesses, violations of law, policy and/or regulation exists, other than those considered unsafe or unsound practices, these should not be material to the safety and soundness of the institution, can be reasonably managed, and are being adequately addressed.

Quality of corporate governance shall be assessed based on the principles and framework set forth in the Guidelines in Assessing the Quality of Corporate Governance in BSFIs;

(2) Risk management system and internal controls

Applicants shall have a comprehensive risk management system approved by its board of directors (or equivalent management committee in the case of foreign bank branches) to identify, measure, evaluate, report and control or mitigate all material risks on a timely basis and to assess the adequacy of their capital in relation to their risk profile and market and macroeconomic conditions and whose sophistication are commensurate to the risks being monitored and controlled. The risk management system must be characterized by a clear delineation of responsibility for risk management, adequate risk measurement systems, appropriate risk limits structure, effective internal controls and complete, timely and efficient risk reporting systems.

Likewise, applicants shall have an effective and adequate system of internal controls for the conduct of their business taking into account their risk profile. These controls deal with organizational structure, accounting policies and processes, checks and balances, safeguarding of assets and investments and appropriate and effective internal audit and compliance functions. Standards and principles as well as the Bangko Sentral's expectations governing internal controls and audit under existing regulations shall apply in assessing the quality and effectiveness of the internal control systems of an applicant; and

(3) Compliance system

Applicants shall have a compliance system, appropriate to its size, risk profile and complexity of operations, designed to specifically identify and mitigate business risks[1] which may erode the franchise value of the institution. Compliance policies and procedures embodied in a Compliance Policy Manual should be sound and effectively implemented. Likewise, compliance monitoring and testing as well as review process should be robust to ensure BSFI conducts its business/operations in accordance with banking laws, rules and regulation and other laws relevant to banking such as securities laws and regulations. BSFI's should not have found significantly non-compliant with prudential requirements such as SBL, DOSRI limits, capital adequacy ratio requirements, among others.

Standards and principles set forth in the Compliance Rating System framework shall apply in assessing the quality of BSFI's compliance system; and

c. Applicants have complied with directives and/or not subject of specific directives and/or enforcement actions by the Bangko Sentral.

Applicants shall have corrected any findings of unsafe or unsound practices and have addressed any outstanding explicit directives from the Bangko Sentral and/or other relevant regulatory bodies, prohibiting the conduct of activities related to the licenses and/or authorities being applied, as of the date of application. Applicants with specific prohibitions to conduct certain activities shall not be eligible to apply for that particular license and/or authority.

[1] As defined under Sec. 161-Q (*Compliance function*), *business risk* refers to conditions which may be detrimental to the institution's business model and its ability to generate returns from operations, which in turn erodes its franchise value. Business risk includes reputation, compliance, market conduct and legal risks.

No application shall be accepted until such time that enforcement actions are formally lifted by the Bangko Sentral and/or other relevant regulatory bodies after applicants have demonstrated to the Bangko Sentral that safety and soundness concerns are satisfactorily addressed and/or until such time applicants become eligible.

Applications of BSFIs under rehabilitation and/or enhanced supervision status[1] shall be dealt with in accordance with the eligibility test described in *Section II.1(a) of Appendix T-5.*

BSFIs granted with licenses/authorities shall continuously comply with the abovementioned standards and requirements even after the license/authority has been granted; otherwise, any deviation or non-compliance may be a basis for the imposition of appropriate enforcement actions described in Sec. 111-T (*Enforcement Actions*).

The specific guidelines and procedures on the Bangko Sentral's licensing framework are shown in *Appendix T-5.*

Enforcement Actions. In line with the thrust of the Bangko Sentral to incorporate the licensing process into its enforcement regime, the Bangko Sentral reserves the right to deploy, as may be warranted, an adequate range of supervisory tools to ensure that grantees of licenses/authorities are and remain qualified to possess the same, bring about timely corrective actions and compliance with Bangko Sentral directives, and provide safety to depositors, creditors, other stakeholders as well as the public in general.

Enforcement actions that may be imposed include, but are not limited to:

a. Corrective action

Corrective actions are measures intended to primarily require BSFIs with approved licenses/authorities to rectify any deviations from the standards, principles and conditions expected for the exercise of the license and/or authority. Corrective actions may include, but are not limited to, issuance of directives and warnings.

b. Sanctions.

The Monetary Board may impose any of the sanctions enumerated hereunder or a combination thereof.

(1) Non-monetary

(a) *Suspension of activities.* The conduct of activities related to the licenses/authorities granted may be suspended if the Bangko Sentral determines that the concerned BSFI no longer meets the criteria or standards set; or

(b) *Revocation of licenses/authorities*. The license/authority granted may be revoked in cases where violation, non-compliance with criteria/standards and/or false information are noted which affects the safety and soundness of BSFIs' operations; and/or

(c) *Administrative sanctions*. The responsible directors/officers who approve transactions and/or decisions that resulted in violations of laws, rules and regulations, orders, and directives issued by the Monetary Board or the Governor may be subject to reprimand, temporary suspension, and/or disqualification of directors/officers.

The Monetary Board is not precluded to impose non-monetary sanctions other than those identified from Items "(a)" to "(c)"; and/or

(2) Monetary.

Monetary penalties may be imposed for any acts, omissions or transactions that are outside the permissible activities of the licenses/authorities granted or are in violation of laws, Bangko Sentral rules and regulations, orders and directives issued by the Bangko Sentral.

Type of license of permissible activities[2]. The type of license attached to permissible activities of Bangko Sentral supervised financial institutions (BSFIs) shall be as follows:

[1] Rehabilitation includes BSFIs under the Prompt Corrective Action (PCA), Rehabilitation Program, Letter of Commitment and any other similar cases where BSFIs are expected to comply specific terms and conditions to restore eligibility (safety and sound) status.

[2] **Transitory Provisions.** Applications filed with the Bangko Sentral prior to 6 March 2019 shall not be charged with processing and licensing fees provided under Sec. 111-Q (*Processing and licensing fees*). For application related to branching activities covered under Sec. 105 (*Processing and special licensing fees*), as amended, approved after 6 March 2019, the processing fees provided under the said Section, as amended, shall be collected upon approval of the application. Applications for Type C licenses received prior to 6 March 2019 shall be deemed to have complied with the notification/certification requirements if after thirty (30) banking days from 6 March 2019, the appropriate supervising department of the FSS does not advise the BSFI concerned of any deficiency on such application.

Type of License	Permissible Activity	Related Sections
A	Trust and Other Fiduciary Business	Sec. 302-T
B	Amendment of Articles of Incorporation (AOI) and By-Laws	Sec. 103-T (*Basic Guidelines in Establishing TCs*)
C		

Processing and Licensing Fees. All applications shall be charged with the following processing fees pursuant to Section II.3.i of *Appendix Q-77*:

Type of License/ Authority	Processing Fees for Non-Bank Financial Institutions
A	10,000
B	10,000

Certain Type A licenses shall be charged with the following licensing fees upon approval pursuant to Section II.3.ii of *Appendix Q-77*:

Type of License/ Authority	Licensing Fees* for Non-Bank Financial Institutions
A	50,000

*Licensing fee shall be net of the processing fee.

The foregoing tables shall not apply to licensing applications with separate fee structure under specific sections of this Manual.

(Circular Nos. 1033 dated 22 February 2019 and 1031 dated 07 February 2019)

112 - T MANAGEMENT CONTRACTS AND OUTSOURCING OF THE FUNCTIONS

Management Contracts. Subject to existing laws and regulations, all agreements whereby the affairs or operations of a TC will be carried out by another corporation, person or group of persons, shall be subject to prior Bangko Sentral approval.

The agreements referred to in the preceding paragraph shall not be entered into for a period longer than five (5) years.

Duties and Responsibilities of TCs and their Directors/Officers in All Cases of Outsourcing of Other Functions. The trust corporation shall ensure that outsourcing of activities will not compromise confidentiality or access to (client) sensitive information. Moreover, no trust corporation shall outsource inherent trust functions such as the administration and management of assets, strategic decision-making activities, and activities of similar import The rules on outsourcing of services as shown under Sec. 112 of the MORB and *Appendix Q-36*, in so far as applicable, shall apply.

(Circular No. 1097 dated 21 September 2020 and 1066 dated 04 December 2019)

C. CAPITALIZATION

121 - T MINIMUM REQUIRED CAPITAL

A TC shall have an unimpaired combined capital accounts of P300 million or 0.10% of the total book value of its AUM, whichever is higher: *Provided,* That the minimum paid-in capital shall be at least P300 million.

Capital build-up program. Upon incorporation/establishment, a TC may have an initial minimum paid-in capital of P100 million and shall be allowed to build-up capital over a period of five (5) years: *Provided,* That the minimum paid-in capital after five (5) years shall be at least P300 million: *Provided, further*, That the minimum capital during the capital build-up phase shall be determined as follows:

Calendar Year	Capital Requirements
Year 0- Upon incorporation/At inception	P100 million
End of Year 1	P140 million or 0.10% of AUM whichever is higher
End of Year 2	P180 million or 0.10% of AUM whichever is higher
End of Year 3	P220 million or 0.10% of AUM whichever is higher
End of Year 4	P260 million or 0.10% of AUM whichever is higher
End of Year 5 and onwards	P300 million or 0.10% and onwards of AUM whichever is higher.

The assets under management, for this purpose, shall be computed based on the average of the quarter-end balances of AUM for the calendar year.

For purposes of this Section, *combined capital accounts* shall mean the total capital stock, retained earnings, and profit and loss summary, net of (a) unbooked allowance for probable losses (which includes allowance for credit losses and impairment losses) on the allowable proprietary assets and (b) such other capital adjustments as may be required by the Bangko Sentral.

Sanctions. Whenever the paid-in or the combined capital accounts of the TC are deficient with respect to the preceding paragraphs, the TC may be subject to the sanctions/penalties provided under existing laws and Bangko Sentral rules and regulations. Moreover, the Monetary Board, after considering the report of the appropriate supervising department of the Bangko Sentral, shall require the TC to institute necessary corrective action(s) to address its capital deficiency. Until the TC complies with the minimum capital requirement, the Monetary Board may restrict the ability of the TC, to declare dividends and/or expand its business. The Monetary Board may revoke the license of the TC which fails to comply with the minimum capital requirement within the remedial period.

(Circular Nos. 1066 dated 04 December 2019 and 1027 dated 28 December 2018)

D. BASIC SECURITY DEPOSIT AND ALLOWABLE PROPRIETARY ASSETS

131 - T SECURITY FOR THE FAITHFUL PERFORMANCE OF TRUST AND OTHER FIDUCIARY BUSINESS AND INVESTMENT MANAGEMENT ACTIVITIES

Basic security deposit. Trust Corporation duly authorized by the Monetary Board, shall deposit with the Bangko Sentral eligible government securities, pursuant to this Section (Eligible Securities), as security for the faithful performance of trust and other fiduciary duties and investment management activities equivalent to 0.05% of the total book value of the AUM: *Provided*, That at no time shall the basic security deposit be less than P500,000. *Provided, further,* That after the first year of operation, the basic security deposit shall be based on the trust rating of the most recent report of examination of the Trust Corporation, as shown in the table below:

Trust Rating	Required Basic Security Deposit
4	P500,000 or 0.03% of the total book value of the AUM, whichever is higher.
3	P500,000 or 0.05% of the total book value of the AUM, whichever is higher.
2	P500,000 or 0.10% of the total book value of the AUM, whichever is higher.
1	P500,000 or 0.20% of the total book value of the AUM, whichever is higher.

The basic security deposit shall be in the form of government securities acceptable to the Bangko Sentral, pursuant to this Section (*Eligible Securities*).

Scripless securities under the Bureau of the Treasury (BTr) Registry may be used as basic security deposit for trust and other fiduciary duties.

The security for the faithful performance of Personal Equity and Retirement Account (PERA) Administrator shall be separately calculated as prescribed under Sec. 1121-Q.

Eligible securities. The provisions of Sec. 416-Q on eligible securities shall govern the basic security deposit requirement for faithful performance of trust and other fiduciary business and investment management activities of trust corporations.

Valuation of securities and basis of computation of the basic security deposit requirement. For the valuation of securities and basis of computation of the basic security deposit requirement, the provisions of Sec. 416-Q (*Valuation of securities and basis of computation of the basic security deposit requirement*) shall apply.

Compliance with the basic security deposit requirement.

a. Compliance[1]. The trust corporation shall ensure compliance with the required basic security deposit at all times. Any deficiency arising from a withdrawal, replacement or redemption transaction must be corrected through the immediate posting of additional securities. In case a deficiency is calculated at the end of the calendar quarter, the trust corporation shall have a grace period of thirty (30) calendar days reckoned from the end of the reference calendar quarter within which to deposit with the Bangko Sentral the additional securities required under this Section. In case of change in the trust rating, the reckoning period of the thirty (30) days shall be the quarter-end from receipt of the Report of Examination.

   (1) *Quarterly compliance.* The trust corporation shall comply with the basic security deposit requirement on a quarterly basis. In determining quarterly compliance, the fair value of government securities used as compliance with the basic security deposit requirement shall be reckoned as of the end of the calendar quarter and the base amount for the basic security deposit requirement provided under this Section on v*aluation of securities and basis of computation of the basic security deposit requirement* shall be applied.

[1] The provisions on quarterly compliance and compliance upon deposit, withdrawal, replacement or redemption became effective on 31 March 2018.

Haircuts for government securities prescribed under this Section *(Valuation of securities and basis of computation of the basic security deposit requirement)* shall be determined based on the remaining maturity of the security from the end of the reference quarter, and applied of the fair value of the government securities used as compliance with the basic security deposit.

The trust corporation shall have a thirty (30)-calendar day grace period after the end of every quarter within which to deposit with the Bangko Sentral, securities pursuant to existing regulations to comply with the basic security deposit requirement as of the preceding quarter-end.

(2) *Compliance upon deposit, withdrawal, replacement or redemption.* The trust corporation shall ensure compliance with the basic security deposit requirement after every deposit, withdrawal, replacement or redemption of government securities. The basic security deposit requirement shall be the amount computed as of the quarter-end preceding the date of deposit, withdrawal, replacement or redemption pursuant to this Section (*Valuation of securities and basis of computation of the basic security deposit requirement)*. The fair value of the remaining government securities, adjusted for relevant haircuts, shall be based on amounts reported as of the quarter-end preceding the date of deposit, withdrawal, replacement or redemption pursuant to this Section (*Valuation of securities and basis of computation of the basic security deposit requirement)*. The haircuts shall be determined based on the remaining maturity of the security from the quarter-end preceding the date of the securities transfer transaction.

Securities used as compliance with the basic security deposit requirement that are issued within the calendar quarter shall be valued at their purchase price, adjusted for relevant haircuts that are determined based on their remaining maturity as of the purchase date.

b. Required Reports. Trust corporations shall submit the following reports in accordance with *Appendix T-3*:

(1) Quarterly Report on Compliance with the Basic Security Deposit Requirement (BSD-Form-1); and
(2) Report on Basic Security Deposit Transactions (BSD-Form-2).

Trust corporations shall maintain adequate documentation (e.g., screenshots of fair values) to support the computation of their compliance with the basic security deposit requirement, which shall be made available to the Bangko Sentral upon request.

c. Other Procedural Requirements.

(1) Opening of a Securities Account. The guidelines on the opening of an account with the BTr Registry are provided in *Appendix Q-24*.

(2) Deposit, Withdrawal or Replacement. The trust corporation shall input the details of securities transfer transactions that are properly supported by notification reports in the BTr Registry to effect the deposit, withdrawal or replacement of securities on the intended date of transfer in the BTr Registry. The input of details of transactions shall be made on or before 12:00 noon for withdrawal or replacement transactions, and on or before 3:30 pm for deposit transactions, on the intended date of transfer as provided in the BSD-Form-2.

Withdrawal or replacement transactions entered after the cut-off time shall be processed on the next banking day: *Provided*, That the trust corporation re-enters the details of the withdrawal or replacement transaction on or before 12:00 noon of the next banking day: *Provided, further*, That deficiency in the basic security deposit arising from failure of the trust corporation to input details of withdrawal or replacement transactions in the BTr Registry on the intended date of transfer shall cause the imposition of sanctions/penalties under this Section (*Sanctions*). Failure to enter or re-enter the transaction details on the next banking day will result in the cancellation of the previously submitted BSD-Form-2. To effect withdrawal or replacement transactions, the trust corporation shall re-submit the BSD-Form-2 in accordance with the prescribed timelines.

(3) Administration of Proceeds from Deposited Securities. Coupon or interest payments and the redemption value of matured securities that are deposited with the Bangko Sentral shall be credited to the DDA of the trust corporation's settlement bank.

Trust corporations shall develop and maintain systems to ensure compliance with the required basic security deposit as prescribed in this Section (*Compliance with the basic security deposit requirement*).

Sanctions.

a. Without prejudice to the imposition of sanctions for capital deficiency, the following sanctions shall be imposed for any deficiency in the basic security deposit for the faithful performance of trust and other fiduciary duties and investment management activities:

(1) On the TC

(a) Daily monetary penalty of P1,000 or one tenth of one percent (1/10 of 1%) on the amount of the deficiency reckoned per calendar day, whichever is higher but not to exceed P10,000 per calendar day, shall be assessed on the Trust Corporation. A trust corporation which incurs a deficiency with the basic security deposit within the quarter, or reports a deficiency with the basic security deposit as of the end of the quarter and fails to deposit securities to comply with the said requirement within the thirty (30)-calendar day grace period, shall be considered deficient with the basic security deposit requirement from the date the deficiency is incurred up to the date the deficiency is corrected or the succeeding quarter-end, whichever comes earlier.

(b) Non-monetary penalty beginning with the third offense – Prohibition against the acceptance of new trust and other fiduciary accounts, introduction of new trust products or UITF, and/or from renewing expiring trust and other fiduciary contracts up to the time the violation is corrected.

(2) On the president and/or other officer(s) responsible for the deficiency/non-compliance.

(a) First offense - warning that subsequent violations shall be dealt with more severely;
(b) Second offense - written reprimand with a stern warning that subsequent violations shall be subject to suspension;
(c) Third offense - thirty (30) calendar day-suspension without pay; and
(d) Subsequent offense(s) - sixty (60) calendar day-suspension without pay.

b. Notwithstanding the execution of a basic security deposit, withdrawal, or replacement transaction, the Bangko Sentral is not precluded from imposing sanctions against the trust corporation for non-compliance with the regulations on the basic security deposit, if warranted.

(Circular Nos. 1066 dated 04 December 2019, 1032 dated 15 February 2019 and 998 dated 01 March 2018)

132 - T ALLOWABLE PROPRIETARY ASSETS

Assets owned by the TC shall be for the purpose of engaging in the business of trust, other fiduciary and investment management activities and for maintaining the minimum capital requirement. The TC shall not engage in any manner in proprietary trading and speculative investing activities. The allowable proprietary assets shall include eligible government securities deposited with the Bangko Sentral in compliance with the basic sescurity deposit requirement provided under Sec. 114-T.

The allowable proprietary assets shall consist of:

(1) Investments in eligible government securities earmarked as basic security deposits as defined under Sec. 114-T (*Eligible Securities*);

(2) Investments in securities issued by or guaranteed by the Philippine government, or the Bangko Sentral;

(3) Investments in bank deposits, and highly liquid and investment grade securities, including: (1) money market instruments, (2) those issued by central governments and central banks of foreign countries with the highest credit quality given by any two (2) internationally accepted rating agencies, and (3) securities issued by any supranational entity;

(4) Loans and other credit accommodations: (1) secured by obligations of the Philippine Government or of the Bangko Sentral; (2) fully guaranteed by the Philippine Government as to the payment of principal and interest; (3) secured by highly liquid and investment grade securities; (4) to the extent covered by the hold-out on or assignment of, bank deposits held in the Philippines; and (5) which the Monetary Board may from time to time specify as non-risk items;

(5) Real and other properties, including building, furniture and fixtures, safes, equipment, and other fixed assets, utilized/to be utilized by the TC in the conduct of its trust, other fiduciary business and investment management activities; and

(6) Other assets, not inconsistent with the provisions of paragraphs *"a"* to *"d"* hereof, which are deemed to be readily realizable and available for the payment of liabilities, losses or claims at values to be determined in accordance with existing Bangko Sentral guidelines.

For purposes of investing the allowable assets, the TC shall not: (a) commingle their proprietary funds or assets with the AUM and (b) invest the same in their own UITF or other trust products. The TC is expected to adopt policies and processes that will address relevant exposures as well as potential conflict of interest in the administration of fiduciary business.

(Circular No. 1066 dated 04 December 2019)

E. STOCK, STOCKHOLDERS, AND DIVIDENDS

141 - T SHARES OF STOCKS OF TCS

The following shall govern transactions affecting shares of stock of TCs and limits on stockholdings in a single TC.

Limits of stockholdings in a single TC. The stockholdings in any TC shall be subject to the limits as prescribed below:

a. Domestic stockholders

(1) Banks may own stockholdings of a TC: *Provided,* That the acquisition or investment in the equity of a TC shall be subject to all relevant laws, rules and regulations on equity investment of banks in a financial allied enterprise.

(2) Regulated non-bank entities engaged in finance, insurance, asset management and other similar activities acceptable to the Bangko Sentral may own up to 100% of the TC's stockholdings unless otherwise provided in their respective governing laws, charters and regulations.

(3) Filipino individuals and non-regulated domestic entities may each own up to forty percent (40%) of the voting stock of a TC. There shall be no ceiling on the aggregate ownership by Filipino individuals and non-regulated domestic entities in a TC.

c. Foreign stockholders may own stockholdings in a TC, subject to the limits as stated below:

(1) Unless otherwise provided by laws, charters and regulations, foreign banks and regulated foreign non-bank entities engaged in finance, insurance, asset management, and other similar activities acceptable to the Bangko Sentral may own more than forty percent (40%) up to 100% of the voting stock of a trust corporation, subject to the following factors:

(a) Strategic trade and investment relationships between the Philippines and the home country of the foreign bank/entity;
(b) Relationship between the applicant foreign bank/entity and the Philippines;
(c) Demonstrated capacity, global reputation for financial innovations and stability in a competitive environment of the applicant foreign bank/entity;
(d) Reciprocity enjoyed by Philippine banks and other financial institutions in the applicant's country; and
(e) Willingness to share technology.

(2) Others, such as individuals and other entities not identified above may own up to forty percent (40%) of the voting stock of a trust corporation: *Provided,* That the aggregate voting stock owned by foreign individuals and other entities not identified above shall not exceed forty percent (40%) of the outstanding voting stock of the trust corporation.

The limits as stated above are further subject to the limits imposed by the respective laws/regulations in the home country of investing companies or country of origin.

A foreign bank or non-bank entity seeking to operate in the Philippines shall satisfy the criteria in Item No. "*b(1)(c)*" above, i.e., demonstrated capacity, global reputation for financial innovations and stability in a competitive environment of the applicant foreign bank/entity: *Provided,* That if it has controlling interest in the TC, it must be widely-owned and publicly-listed in the country of origin, unless the foreign bank/entity is owned and controlled by the government of its country of origin.

The determination of whether a foreign bank/entity is widely-owned and publicly listed, established, reputable, and financially sound shall be based on the information derived from submitted documents. Further, if the foreign bank/entity is owned/controlled by a holding company, this requirement may apply to the holding company.

Moreover, the reciprocity rights enjoyed by Philippine banks and other financial institutions in the applicant's country shall be considered.

d. An individual and a non-regulated entity or entities which are wholly-owned, or a majority of the voting stock of which is owned, by him, may own only up to a combined forty percent (40%) of the voting stock of a TC.

e. Stockholdings of family groups or related interests. Individuals related to each other within the fourth degree of consanguinity or affinity, whether legitimate, illegitimate or common-law, shall be considered family groups or related interests but may each own up to forty percent (40%) of the voting stock of a trust corporation: *Provided,* That said relationship must be fully disclosed in all transactions by such individuals or family groups or related interests.

f. Two (2) or more corporations owned or controlled by the same family group or same group of persons shall be considered related interests but may each own up to forty percent (40%) of the voting stock of a trust corporation: *Provided,* That said relationship must be fully disclosed in all transactions by such corporations or related groups of persons with the trust corporation.

g. Determination of foreign-owned voting stock and citizenship of corporate stockholders in a trust corporation as well as the relationship of stockholders of a trust corporation.

(1) The percentage of foreign-owned voting stock in a trust corporation should be based on citizenship of individual stockholders, including beneficial owners[1] of shares being held by nominees, custodians and other vehicles; and

(2) The citizenship of the corporation, which is a stockholder of a trust corporation, shall follow the citizenship of the controlling stockholders of the corporation. For purposes hereof, the term "controlling stockholders" shall refer to stockholders holding more than fifty percent (50%) of the voting stock of the corporate stockholders of the trust corporation.

(3) The relationship of individuals who are stockholders of a trust corporation shall be determined in accordance with the provisions of Articles 963 to 966 of the Civil Code of the Philippines.

Transactions involving voting shares of stocks. The provisions relevant to the transactions involving voting shares of stocks as provided under Sec. 122 (*Transactions involving voting shares of stocks*) of the MORB, in so far as applicable to TC, shall apply.

(Circular Nos. 1066 dated 04 December 2019 and 903 dated 29 February 2016)

142 - T DIVIDENDS

No trust corporation shall declare dividends greater than its accumulated net profits then on hand, deducting therefrom its losses. At the time of declaration, the trust corporation shall have complied with the following:

a. Minimum capitalization;
b. Basic security deposit;
c. No net losses from operations in any one of the two calendar or fiscal years immediately preceding the date of dividend declaration; and
d. Has not committed any of the following major violations:

(1) Unsafe and unsound practices as defined under existing Bangko Sentral regulations;
(2) Uncorrected major violations/exceptions cited in the previous examination;
(3) Engaging in activities without the required prior approval or license from the Bangko Sentral such as, but not limited to derivatives; and
(4) Refusal to permit examination into the affairs of the institution or any willful making of a false or misleading statement to the Monetary Board or to the appropriate supervising department of the Bangko Sentral.

The provisions under Sec. 123-Q (*Definition of terms, Requirements on the declaration of dividends/net amount available for dividends* Item *"b", Reporting and verification, Recording of dividends,* and *Rules on declaration of stock dividends*), shall be adopted relative to dividends declaration of a trust corporation.

(Circular No. 1066 dated 04 December 2019)

F. CORPORATE GOVERNANCE

151 - T BOARD OF DIRECTORS

Definition; Qualifications; Powers; Duties and Responsibilities of the Board of Directors. Unless otherwise provided specifically, the provisions of Sec. 131-Q, Sec. 132-Q, and Sec. 133-Q in so far as applicable, shall be adopted.

***Qualifications of a director*.** In addition to the provisions of Sec. 132-Q (*Qualifications of a director*), the members of the Board are expected to be familiar with Philippine laws, rules and regulations, and best practices on trust business, as well as uphold at all times, ethical and good governance standards. Accordingly, the members of the board of directors shall possess the necessary technical expertise and relevant experience in such trust business which may be indicated by any of the following:

[1] Beneficial owner refers to natural person(s) who ultimately owns or controls a customer and/or the person on whose behalf a transaction is being conducted. It also incorporates those persons who exercise ultimate effective control over a legal person or arrangement.

a. At least one (1) year of actual experience in trust, other fiduciary business, or investment management activities;
b. At least three (3) years of professional experience in relevant field such as banking, finance, economics, law and risk management;
c. Completion of at least ninety (90) training hours on trust, other fiduciary business, or investment management activities acceptable to the Bangko Sentral; or
d. Completion of a relevant global or local professional certification program.

Duties and responsibilities of the board of directors. In addition to the provisions prescribed under Sec. 132-Q (*Specific duties and responsibilities of the board of directors*), and Sec. 133-Q *(Board-Level Committee)*, the board of directors shall conduct regular meetings at least once every quarter, or more frequently as necessary, depending on the size and complexity of the fiduciary business.

(Circular Nos. 1094 dated 07 September 2020, 1066 dated 04 December 2019 and 970 dated 22 August 2017)

152 - T OFFICERS

Definition; Qualifications; and Duties and Responsibilities of Officers. The definition, qualifications and duties of officers provided under Secs. 131-Q and 132-Q, shall be adopted for trust corporation, unless otherwise provided herein.

Moreover, in line with the fit and proper criterion of the abovementioned Section, the president who shall be appointed shall also possess the following qualifications:

a. At least five (5) years of actual management experience in trust, other fiduciary and investment management operations; or

b. At least five (5) years of actual experience as officer of a bank, NBFI or related field: *Provided,* That said officer passed the training program in trust, other fiduciary and investment management operations acceptable to the Bangko Sentral.

Officers of the TC with position of senior vice president and up, shall at least possess the requirement in Item *"(b)"* above.

The foregoing qualifications for officers shall be in addition to those required or prescribed under R. A. No. 8791, the Corporation Code of the Philippines (Batas Pambansa Blg. 68) and other existing applicable laws and regulations.

Duties and responsibilities of officers. The president shall have general supervision and direction of the business affairs of the TC; he/she shall be responsible in the management of the day-to-day activities of the TC. In this regard, the president shall provide supervision and direction in the following areas:

a. Adherence to the basic standards in the administration of trust, other fiduciary and investment management accounts pursuant to *Appendix Q-49*;
b. Development and implementation of relevant policies and procedures on fiduciary activities;
c. Observance of sound risk management practices and maintenance of necessary controls to protect assets under custody and held in trust or other fiduciary capacity;
d. Implementation of investment and other fiduciary activities in accordance with agreements with clients and parameters set by the BoD;
e. Regular reportorial requirements to the board of directors on business performance and other matters requiring its attention;
f. Maintenance of adequate books, records and files for each trust or other fiduciary account and provision of timely and regular disclosures to clients on the status of their accounts; and
g. Submission of periodic reports to regulatory agencies on the conduct of the trust operations.

The other duties and responsibilities for officers as provided under Sec. 134-Q (*Duties and responsibilities of officers*) shall likewise apply to the officers of the TC.

Prohibitions to become officer. No appointive or elective public official, whether full-time or part-time, shall at the same time serve as officer of the trust corporation.

Bio-data of Directors and Officers. The applicable provisions of Sec. 136-Q (*Bio-data of directors and officers,* Item "*(c)*") shall be adopted by the Trust Corporation.

(Circular Nos. 1066 dated 04 December 2019 and 970 dated 22 August 2017)

153 - T INTERLOCKING DIRECTORSHIP/OFFICERSHIP

The Bangko Sentral recognizes that effective sharing of managerial and technical expertise across institutions promotes economies of scale and organizational synergies, as well as broadens perspectives in strategy formulation and risk management. In this regard, Bangko Sentral-supervised financial institutions (BSFIs) are expected to have an effective

governance process in place to ensure that the benefits of having directors or officers with interlocking positions in other entities are optimized, that the concerned directors or officers devote sufficient time and attention necessary to effectively carry out their duties and responsibilities, and that excessive concentration of economic power, unfair competitive advantage, abusive practices, and conflict of interest situations are prevented.

a. Responsibilities of board of directors. Consistent with the standards and principles set forth in the corporate governance guidelines for BSFIs under Sec. 132-Q, the board of directors of BSFIs shall:

(1) Approve policy on having directors or officers with interlocking positions in other entities, which shall cover, among others, the following:

(a) Cases and the corresponding rationale when the BSFI shall allow/appoint directors or officers to have/with interlocking positions in other entities; the sectors or industries of the entities where the directors or officers may assume other positions; interlocking positions that may be held by directors or officers; and limit on the number of entities where the director or officer may hold interlocking positions.

Provided, That the limit to be set shall be consistent with Item "b" of Qualifications of a director under Sec. 132-Q;

(b) Measures to avoid excessive concentration of economic power, unfair competitive advantage and abusive practices. The policy shall also include the measures in handling conflict of interest situations;

(c) Requirement to obtain approval from the board of directors or the appropriate authority designated in the BSFI prior to acceptance of interlocking directorship/officership positions in other entities;

(d) Requirement to obtain proof of disclosure to and consent from all the involved entities on interlocking officership positions held outside the banking group/conglomerate; and

(e) Courses of action in case conflict of interest arise or when the performance of the director or officer has been affected by the interlocking positions held.

(2) Ensure effective governance process on the selection and appointment of directors and/or officers who are holding interlocking positions in other entities and in approving the acceptance of directors/officers of interlocking positions in other entities. The governance process shall cover continuous assessment of potential conflict of interest in the entities involved as well as the interlocking positions held.

(3) Ensure that directors and/or officers holding interlocking positions in other entities effectively carry out their duties and responsibilities in the BSFI. It shall be the responsibility of the board of directors to conduct a periodic performance evaluation of the concerned directors and officers measured against agreed upon standards for the position. The board of directors shall immediately take appropriate action should the results of performance evaluation reflect that the performance of the function in the BSFI has been adversely affected by the interlocking positions held by the director and/or officer.

(4) Ensure that the control functions (i.e., risk management, compliance, and internal audit) cover the assessment of adherence to internal policies and regulatory expectations on interlocking positions held by the directors and/or officers. For the interlocking positions held by heads of control functions, the assessment shall be performed by the board of directors or board-level committee to whom they functionally report to.

b. Factors to Consider on Interlocking Positions. BSFIs shall observe the following rules for interlocking positions held by directors and/or officers:

(1) *Interlocking directorships.* Interlocking directorships in BSFIs are allowed except in cases involving banks belonging to the same category. In this respect, interlocking directorship in banks belonging to the same category shall only be allowed if the banks: (i) are part of the same banking group; or (ii) have different business models and are serving different markets or clients.

For purposes of determining interlocking directorship, a director and his/her spouse, whether legitimate or common-law, shall be considered as one (1) and the same person.

(2) *Interlocking directorships and officerships.* Interlocking directorships and officerships are allowed provided that the positions do not pose conflict of interests. For this purpose, the appointment should be consistent with the policy adopted by the BSFI.

(3) Interlocking officerships. As a general rule, interlocking officerships shall not be allowed except:

(a) Held in the same capacity within a banking group as (i) corporate secretary, (ii) security officer, (iii) Chief Risk Officer, Chief Compliance Officer, Head of Internal Audit, or (iv) other positions performing similar functions as those in (i) to (iii) hereof; *Provided*, That: The assumption of interlocking officerships is consistent with the enterprise risk management approach of the BSFI and the banking group where the concerned entities belong.

(b) As corporate secretary or assistant corporate secretary between/among entities, which are not part of the same banking group/conglomerate; *Provided*, That:

(i) Proof of disclosure to and consent from all of the involved entities on the interlocking officerships are obtained; and

(ii) The positions do not pose conflict of interest and that the officer holding interlocking positions will still be able to devote sufficient time and attention to effectively carry out his/her duties and responsibilities.

(4) Consistent with Section 6 of Presidential Decree No. 129, as amended by Batas Pambansa Blg. 66, entitled "Governing the Establishment, Operation and Regulation of Investment Houses," the Bangko Sentral hereby allows interlocking directorship and officership between a bank and an investment house subject to the requirements of this Section and other applicable laws and regulations: *Provided, however,* That interlocking officerships between a bank and an investment house may only be allowed where the majority or all of the equity of the investment house is owned by the bank.

c. Approval of interlocking positions. The board of directors or the appropriate authority designated in the BSFI shall approve the interlocking positions held by directors and officers of a BSFI. The documents supporting the approval shall reflect the assessment done by the approving authority consistent with the policy adopted in the BSFI and the expectations in this Section.

d. Transitory Provisions. BSFIs shall reassess existing interlocking positions held by directors and officers, including those previously approved by the Bangko Sentral, considering the principles set out in this Section and the internal policy adopted. BSFIs shall address issues noted in the assessment of interlocking positions in the election of directors and appointment of officers to fully comply with the provisions of this Section by 30 June 2022.

e. Reports. BSFIs shall submit an annual report of all interlocking positions of its directors and officers within twenty (20) banking days from the end of each reference year starting 31 December 2021.

BSFIs shall keep a complete record of all interlocking positions of its directors and officers, and documentation of the assessments conducted by the board of directors or appropriate authority designated in the BSFI on existing and new interlocking positions, and shall maintain a system of updating said records which shall be made available during examination by the Bangko Sentral or when required for submission for verification.

f. Enforcement Actions. The Bangko Sentral shall deploy enforcement actions to promote adherence to the requirements set forth in this Section and bring about timely corrective actions. The Bangko Sentral shall issue directives or sanctions on the BSFI and responsible persons which may include restrictions or prohibitions from certain authorities/activities; and warning, reprimand, suspension, removal and disqualification of concerned BSFI directors, and officers. The Bangko Sentral shall disallow interlocking directorships and officerships or direct the BSFI to amend its internal policy on interlocking positions if the Bangko Sentral deems that the interlocking positions pose conflict of interest which give rise to excessive concentration of economic power, unfair competitive advantage, and abusive practices.

g. 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 Bangko Sentral.

h. Representatives of government. The provisions of this Section shall apply to representatives of the government or government-owned or controlled entities appointed as directors or officers in BSFIs, unless otherwise covered under existing laws.

(Circular Nos. 1129 dated 12 November 2021, 1066 dated 04 December 2019 and 953 dated 27 March 2017)

154 - T DISQUALIFICATIONS OF DIRECTORS AND OFFICERS

Disqualification of Directors and Officers. In so far as applicable, Sec. 137-Q shall be adopted by the trust corporation. In addition, Sec. 137-Q (*Persons disqualified to become directors/trustees, Persons disqualified to become officers*) as well as the following shall also be considered grounds for disqualification of directors and officers:

a. Negligence in the performance of the duties and responsibilities stipulated in the contract creating the trust, other fiduciary and investment management account and which directly or indirectly caused material loss/impairment of the managed trust, other fiduciary and investment management assets;

b. Entering into an arrangement or scheme which will compromise or prejudice the interest, rights and privileges of the trustor, principal and/or beneficiaries; and

c. Other grounds as may be approved by the Monetary Board.

The foregoing grounds for disqualification for directors shall be in addition to those prescribed under the Corporation Code of the Philippines (Batas Pambansa Blg. 68) and other existing applicable laws and regulations.

(Circular Nos. 1066 dated 04 December 2019 and 970 dated 22 August 2017)

155 - T RULES OF PROCEDURE ON ADMINISTRATIVE CASES INVOLVING DIRECTORS AND OFFICERS OF TC

Sec. 137-Q on the rules of procedure on administrative cases involving directors and officer of QBs shall likewise be adopted for TCs.

(Circular No. 1066 dated 04 December 2019)

G. RISK MANAGEMENT

161 - T RISK MANAGEMENT GUIDELINES

Risk Management Guidelines. Risk management guidelines for trust and other fiduciary business and investment management activities shall be governed by the applicable regulations under Secs. 142-Q , 144-Q , 145-Q and 147-Q , and by *Appendix Q-50*.

(Circular No. 1066 dated 04 December 2019)

162 - T CREDIT RISK MANAGEMENT

The guidelines on sound credit risk management practices as provided under Sec. 143-Q and the following Subtopics shall apply in so far as applicable to trust corporations:

Sec. 143-Q (*Evaluation of credit risk management system*)
Sec. 143-Q (*Role of the board and senior management*)
Sec. 143-Q (*Credit risk management structure*)
Sec. 143-Q (*Credit risk strategy*)
Sec. 143-Q (*Credit policies, processes and procedures*)

(Circular No. 1066 dated 04 December 2019)

163 - T OPERATIONAL RISK MANAGEMENT

Policy Statement.[1] It is the thrust of the Bangko Sentral to promote the adoption of effective risk management systems to sustain the safe and sound operations of its trust corporations. Cognizant that operational risk is inherent in all activities, products and services, and is closely tied in with other types of risks (e.g., credit, liquidity and market risks), the Bangko Sentral is issuing these guidelines to clearly set out its expectations and define the minimum prudential requirements on operational risk management. These guidelines align existing regulations to the extent possible, with international standards[2] and best practices. Bangko Sentral expects trust corporations to adopt an operational risk management framework, as part of the enterprise-wide risk management system, that is suited to their size, complexity of operations, and risk profile.

[1] Trust Corporations shall comply with the foregoing standards on operational risk management within a period of two (2) years from 05 February 2016. In this regard, a trust corporation should be able to show its plan of actions with specific timelines, as well as the status of initiatives being undertaken to fully comply with the provisions of Sec. 125-T.

[2] Embodied in the relevant documents issued by the Basel Committee on Banking Supervision

Definition of operational risk. *Operational risk* refers to the risk of loss resulting from inadequate or failed internal processes, people and systems; or from external events. This definition includes legal risk, but excludes strategic and reputational risk. Operational risk is inherent in all activities, products and services, and cuts across multiple activities and business lines within the financial institution and across the different entities in a banking group or conglomerate where the financial institution belongs.

Duties and responsibilities.

a. *Board of directors.* Consistent with the principles embodied under Sec. 151-T (*Powers/responsibilities and duties of board of directors*), the duties and responsibilities of the board of directors in relation to the effective management of risk include the establishment of a comprehensive and effective operational risk management framework as part of the enterprise-wide risk management system. In this regard, the board of directors shall:

(1) Ensure that it is aware of and understands the nature and complexity of the major operational risks in the trust corporation's business and operating environment, including risks arising from transactions or relationships with third parties, vendors, suppliers including outsourced service providers, and clients of services provided. This should include understanding of both the financial and non-financial impact of operational risk to which the trust corporation is exposed to;

(2) Approve the operational risk management framework which shall form part of the trust corporation's enterprise-wide risk management system and shall cover all business lines and functions of the trust corporation, including outsourced services and services provided to external parties. The operational risk management framework should include an enterprise-wide definition of operational risk, which should be consistent with the definition under Sec. 163-T (*Definition of Operation Risk*), governance, and reporting structures including the roles and responsibilities of all personnel, feedback mechanism, as well as standards and tools for operational risk management. In this respect, the board shall:

(a) Define the operational risk management strategy and ensure that it is aligned with the trust corporation's overall business objectives. Relative to this, the board should set and provide clear guidance on the trust corporation's operational risk appetite (i.e., the level of operational risk the trust corporation is willing to take and able to manage in pursuit of its business objectives as well as the type of risks that are not acceptable to the board and management), which should consider all material risk exposures as well as the trust corporation's financial condition and strategic direction;

(b) Approve appropriate thresholds or limits to ensure that the level of operational risk is maintained within tolerance and at prudent levels and supported by adequate capital. Relative to this, the board shall approve policy on resolving limit breaches which should cover escalation procedures for approving or investigating breaches, approving authorities, and requirements in reporting to the appropriate level of management or the board;

(c) Ensure that operational risk is appropriately considered in the capital adequacy assessment process;

(d) Ensure that it receives adequate information on material developments in the operational risk profile of the trust corporation, including pertinent information on the current and emerging operational risk exposures and vulnerabilities as well as information on the effectiveness of the operational risk management framework. The board must challenge the quality and comprehensiveness of the operational risk information it receives. It should also be satisfied with the reliability of the said information and the monitoring system for operational risk;

(e) Ensure that business objectives, risk appetite, the operational risk management framework, and the respective roles and responsibilities of personnel and officers at all levels in terms of implementing the operational risk management framework, are properly disseminated, clearly communicated/discussed, and understood by personnel concerned;

(f) Provide senior management with clear guidance and direction regarding the principles underlying the operational risk management framework. The board shall ensure that senior management appropriately implements policies, processes and procedures, and provides feedback on the operational risk management process. In this regard, the board shall establish a feedback and reporting system that will allow employees to raise their concerns without fear of negative consequences; and

(g) Ensure that the operational risk management framework is subject to effective and comprehensive independent review, on a periodic basis, by operationally independent, appropriately trained, and competent staff to ensure that it remains commensurate with the trust corporation's risk profile and continues to be adequate and effective in managing operational risk. The review should take into account the changes in business and operating environment, material changes in systems, business activity or volume of transactions, quality of control environment, effectiveness of risk management or mitigation strategies, loss experience, and the frequency, volume or nature of breaches in limits or any policy.

(3) Provide adequate oversight on all outsourcing activities and ensure effective management of risks arising from these activities. In this regard, the board of directors shall approve a framework governing outsourcing activities, which includes a system to evaluate the risk and materiality of all existing and prospective outsourcing engagements and the policies that apply to such arrangements;

(4) Ensure observance of expectations and requirements prescribed under relevant laws, rules, and regulations, industry-set standards, and policies on internal control, internal audit, and disclosure;

(5) Promote a culture of high standards of ethical behavior. The board shall adopt a code of conduct of ethical behaviors with corresponding disciplinary actions for non-compliance, which should cover, among others, guidance and protocols on conflicts of interest situations, safeguarding of confidential information, and use of sensitive information. The board should likewise institute tools, methodologies, and practices in order to ensure compliance and adherence to the standards by all employees including the senior officers and the board itself. In this regard, employees should be required to acknowledge in writing that they have read, understood, and will observe the code of conduct;

(6) Ensure that business and risk management activities, including the operational risk management function, are carried out by adequate and qualified staff with the necessary experience, technical capabilities, and competence. Moreover, the board shall ensure that employees and officers in all areas of operations have a high degree of integrity.

For this purpose, the board shall approve appropriate hiring and selection policies and processes, adopt a continuing professional development program, and institutionalize a framework for continuing assessment of fitness and propriety of employees. These policies, processes and programs should reinforce the conduct and values being promoted in the organization.

Further, the board shall oversee the design and implementation of remuneration policies. It shall ensure that the remuneration policies do not encourage excessive risk-taking or provide incentives to people to perform contrary to the desired risk management values. It shall also ensure that remuneration policies are appropriate and aligned with the trust corporation's long-term strategic direction and risk appetite, as well as with relevant legal or regulatory requirements;

(7) Ensure that all units in the organization have adequate resources, including personnel complement, and are supported by appropriate technological systems. The use of technological systems must be commensurate to the activities being undertaken; and

(8) Oversee implementation of a sound business continuity management framework. The board should create and promote an organizational culture that places high priority on business continuity. This shall include providing sufficient financial and human resources associated with the trust corporation's business continuity initiatives.

b. *Senior management*. Senior management shall be responsible for the implementation and consistent adherence by all personnel to the operational risk management framework approved by the board of directors. In this respect, senior management shall:

(1) Translate the approved operational risk management framework into specific policies and processes covering all businesses and functions of the trust corporation, including outsourced services and services provided to external parties. Said policies should be clearly documented, approved by the board of directors and communicated to personnel at all levels. Policies should include, among others:

(a) Definition of operational risk and operational risk loss. This should be supported by common operational risk taxonomy that includes the operational risk event type and causes of losses to facilitate the consistent identification of operational risks across the trust corporation as well as the management of operational risk in an integrated manner;

(b) Appropriate governance and oversight structures, reporting lines, and accountabilities for managing operational risks;

(c) Clear description of risk limits and thresholds that correspond to the BSFI's approved operational risk appetite and tolerance;

(d) Risk mitigation strategies and tools for maintaining risks within the thresholds and limits set;

(e) Approach to operational risk identification, assessment, monitoring and reporting that utilizes appropriate operational risk management tools. This should include an outline of the reporting framework and types of data/information to be included in the risk management reports; and

(f) Requirement for the conduct of independent review of the framework as well as its implementation, on a periodic basis, and whenever there are material changes in the trust corporation's operational risk profile.

(2) Communicate individual roles and responsibilities of personnel. It is important that personnel at all levels understand their respective roles in the operational risk management process. In this regard, senior management should clearly assign authority, responsibility, and reporting relationships to encourage and maintain accountability, and ensure that the necessary resources are available to manage operational risk effectively;

(3) Establish systems to report, track, escalate, and resolve issues; and set the frequency of operational risk management reporting considering the level and type of risks involved as well as the pace and nature of the operating environment of the trust corporation;

(4) Assess the appropriateness of the operational risk management process in light of the changing business environment and nature of risks arising from business activities or functions;

(5) Ensure that sufficient number of personnel, technical support, and other resources are devoted for operational risk management such that the trust corporation's activities are conducted by qualified personnel with the necessary experience and technical capabilities. It shall also ensure that personnel responsible for monitoring and enforcing compliance with the trust corporation's operational risk policy as well as the compliance and internal audit units have authority independent from the units they review and are knowledgeable about the different areas of operations; and

(6) Establish policies, standards and processes for an effective business continuity management.

c. *Business units.* Business line management and personnel, as the first line of defense, are responsible on a day-to-day basis for identifying, managing and reporting operational risks inherent in the products, activities, processes and systems for which they are accountable. In this regard, business line management shall ensure that:

(1) Internal controls and practices within their business lines are consistent with the enterprise-wide policies and procedures to support the management of operational risk;

(2) Business line specific policies, processes, and procedures are adequate and effectively implemented, and personnel are adequate and competent to manage operational risk for all material products, activities, and processes;

(3) Operational risk management framework within each business line reflects the scope of that business line and its inherent operational complexity and operational risk profile;

(4) Risk mitigation strategies and processes as approved by the board and senior management are established and executed;

(5) Internal controls, and operational risk mitigation strategies and processes are periodically reviewed within the business units to effectively manage operational risks within approved risk tolerance, and consistent with enterprise-wide policies and procedures established. There must be clear expectations and processes established to ensure prompt escalation and actions to address any gap or issue identified; and

(6) Operational risk-related information (e.g., loss events, incidents, et. al.) are adequately and timely communicated/coordinated to Operational Risk Management Function (ORMF) for risk monitoring and reporting, in addition to the usual reporting to senior management and/or board.

Roles and functions.

a. *Operational Risk Management Function*. Trust corporations are not required to create an ORMF. However, the board of directors is expected to discuss operational risk issues during its board meetings with discussions adequately documented in the minutes of meetings. The board of directors of trust corporations may, at its own discretion, or as directed by the appropriate supervising department of the Bangko Sentral, create a Risk Management Unit (RMU) or assign specific personnel under said unit to handle operational risk concerns. The specific personnel or RMU shall directly report to the head of the RMU or to the board-level Risk Oversight Committee (ROC), as appropriate. The ROC or the board shall be responsible for assessing the annual performance of the unit taking into account how said unit carried out its duties and responsibilities. The ORMF shall be supported by a board-approved charter that defines its stature, authority, and independence.

The ORMF shall primarily assist management in meeting its responsibility to understand and manage operational risk exposures and ensure the development and consistent implementation of operational risk policies, processes, and procedures throughout the institution. In this regard, the ORMF shall:

(1) Recommend to the board of directors and senior management appropriate policies and procedures relating to operational risk management and controls;
(2) Design and implement the operational risk assessment methodology tools and risk reporting system of the institution;
(3) Coordinate risk management activities across the institution;
(4) Consolidate all relevant operational risk information/reports to be elevated/presented to the board and senior management;
(5) Provide operational risk management training and advice to business units on operational risk management issues; and
(6) Coordinate with compliance function, internal audit, and external audit on operational risk matters.

ORMF personnel should have technical proficiency, appropriate educational background, and exposure to enable them to effectively perform the unit's mandate. Trust corporations shall have in place a training program to keep its personnel up-to-date on different operational risk issues and challenges.

b. *Compliance function*. The compliance function shall conduct an independent assessment of the compliance with relevant laws, rules and regulations, as well as internal policies of the institution, and determine areas that may potentially result in risk of loss due to inadequate or failed internal processes, systems, and people. The latter includes inappropriate conduct/behavior of personnel, officers, and the board, that may lead to fraud or any form of business disruption. The compliance function shall assess whether the identified operational risk exposure by the business units or by the function itself shall affect the franchise value of the institution. In this regard, it shall advise and assist management in establishing guidance on the appropriate implementation of relevant laws, rules and regulations, and internal policies.

c. *Internal audit*. Internal audit shall conduct an independent assessment of the operational risk management framework, including the implementation of operational risk management policies and procedures. The board of directors, either directly or indirectly through the board-level Audit Committee shall ensure that the scope and frequency of audit is appropriate to the risk exposures. Any operational risk issue identified and reported in the audit process should be addressed by senior management in a timely and effective manner, or raised to the attention of the board as appropriate.

Operational risk management framework. Trust corporations shall have in place an appropriate operational risk management framework, as part of the enterprise-wide risk management system, that is effective and efficient in identifying, assessing, monitoring and controlling/mitigating operational risk. They shall ensure that their operational risk management framework is commensurate with the complexity of their operations, range of products and services, organizational structure, and risk profile.

a. *Risk identification and assessment*. Risk identification and assessment are fundamental elements of an effective operational risk management system. Effective risk identification shall consider both internal factors (such as trust corporation structure, nature of activities, the quality of human resources, organizational changes and employee turnover, among others) and external factors (such as changes in the broader environment and the industry, advances in technology, and developments in political, legal, and economic factors, among others). Risk identification and assessment allow the trust corporation to better understand its risk profile and allocate risk management resources and strategies more effectively. Since the business lines are expected to have the best knowledge of their risk exposures and processes, these units should play a major role in the identification and assessment of operational risk.

(1) Trust corporations shall consider the following loss event-type categories as part of their risk identification and assessment processes:

(a) Internal fraud, e.g., intentional misreporting of positions, employee theft, and insider trading on an employee's own account;

(b) External fraud, e.g., robbery, forgery, check kiting, and damage from computer hacking;

(c) Employment practices and workplace safety, e.g., workers compensation claims, violation of health and safety rules, organized labor activities, discrimination claims, and general liability;

(d) Clients, products and business practices, e.g., fiduciary breaches, misuse of confidential customer information, improper trading activities on the trust corporation's account, money laundering, and sale of unauthorized products;

(e) Damage to physical assets, e.g., terrorism, vandalism, earthquakes, fires and floods;

(f) Business disruption and system failures, e.g., hardware and software failures, telecommunication problems, and utility outages; and

(g) Execution, delivery, and process management, e.g., data entry errors, collateral management failures, incomplete legal documentation, unapproved access given to client accounts, non-client counterparty misperformance, and vendor disputes.

(2) Trust corporations shall adopt tools and mechanisms that are appropriate to their size, complexity of operations and risk profile to properly identify and assess operational risk. The tools that may be used for identifying and assessing operational risk may include, but not limited to:

(a) *Results of internal/external audit and supervisory issues raised in the Bangko Sentral Report of Examination (ROE)* - Internal audit surfaces issues on effectiveness of internal control, risk management, and governance systems and processes of an organization, while external audit focuses on control weaknesses and susceptibility of the trust corporation to material misstatements in the financial statements. On the other hand, the Bangko Sentral ROE highlights deficiencies in the risk management systems and governance processes as well as issues on compliance with relevant laws, rules and regulations, which could have adverse effects on the safety and soundness of the trust corporation;

(b) *Internal loss data collection and analysis* – Internal operational loss data provides meaningful information for assessing trust corporation's exposure to operational risk and the effectiveness of internal controls. Analysis of loss events can provide insights into the causes of large losses and information on whether control failures are isolated or pervasive. Trust corporations may consider mapping internal loss data to the following business lines:

(i) Corporate finance;
(ii) Trading and sales;
(iii) Retail banking;
(iv) Commercial banking;
(v) Payment and settlement;
(vi) Agency services;
(vii) Asset management; and
(viii) Retail brokerage.

Loss events linked to credit and market risk may also relate to operational issues and should be segmented in order to obtain a more comprehensive view of the trust corporation's operational risk exposure;

(c) *Risk Self Assessments (RSA)/Risk Control Self Assessments (RCSA)* – RSA is a tool to assess processes underlying trust corporation's operations against a library of potential threats and vulnerabilities including their potential impact. A similar approach, RCSA, typically evaluates inherent risk (the risk before controls are considered), the effectiveness of the control environment, and residual risk (the risk exposure after controls are considered). Scorecards on RCSAs may be developed by allocating weights to residual risks to provide a means of translating the RCSA output into metrics that will give a relative ranking of the control environment;

(d) *Business process mappings* – These help identify the key steps in business processes, activities, and organizational functions as well as the key risk points in the trust corporation's overall business process. Process maps can reveal individual risks, risk interdependencies, and areas of control or risk management weakness. They can also help prioritize subsequent management action;

(e) *Risk and performance indicators* – Risk and performance indicators, such as Key Risk Indicators (KRIs) and Key Performance Indicators (KPIs), provide an insight into a trust corporation's emerging risk exposure. KRIs are used to monitor the main drivers of exposure associated with key risks that contribute to early detection of heightened risk, ongoing monitoring of their movements, and preemptive reactions as necessary. KPIs, on the other hand, provide insight into the status of operational processes, which may in turn provide insights into operational weaknesses, failures, and potential loss. Risk and performance indicators are often used with escalation triggers to warn when risk levels approach or exceed acceptable ranges and prompt mitigation plans;

(f) *Scenario analysis* – This refers to the process of obtaining expert opinion of business line and risk managers to identify potential operational risk events and assess the potential outcome. Scenario analysis is an effective tool when considering potential sources of significant operational risk and the need for additional risk management controls or mitigation solutions. Given the subjectivity of the scenario process, a robust governance framework is essential to ensure the integrity and consistency of the process;

(g) *Model measurement* – Larger Trust corporations may deem it useful to quantify their operational risk exposures by using the output of the risk assessment tools as inputs into a model that estimates operational risk exposure. The results of the model can be used in an economic capital process and can be allocated to business lines to link risk and return; and

(h) *Comparative analysis* – Comparative analysis consists of comparing the results of the various assessment tools to provide a more comprehensive view of the trust corporation 's operational risk profile.

Comparison of external loss data, if available, such as industry experiences, vis-à-vis trust corporation's internal loss data can also be made to explore possible weaknesses in the financial institution's control environment and enable it to consider previously unidentified risk exposures.

In choosing among these tools, each trust corporation must carefully consider what is proportionate to its size, risk profile, and complexity of operations. Data/information gathered from these tools should enable trust corporations to make a thorough causal analysis, identify control gaps, and consequently adopt appropriate corrective actions.

Trust corporations, are expected to adopt at the minimum, the (i) results of internal/external audit and supervisory issues raised in the Bangko Sentral ROE and (ii) internal loss data collection and analysis.

(3) Trust corporations shall develop databases to accumulate at least a five(5)-year history of operational risk losses which can be fed back into the operational risk management process. Apart from capturing events that resulted to actual loss, trust corporations shall also gather potential loss or near-misses[1]. Said database of loss events provides basis for analysis which can help direct corrective action to improve the control environment, as well as determine risk mitigating actions. Trust corporations should assess the depth of its data collection which is vital in understanding the risk environment. The loss event database shall at a minimum disclose the following:

(a) Short description of the event;
(b) Loss event type category;
(c) Department/Unit/Branch sustaining the loss;
(d) Business line classification;
(e) Date of occurrence;
(f) Date of discovery;
(g) Date of booking of actual losses;
(h) Actual loss amount or potential loss amount, if a near-miss event;
(i) Amount recovered and date of recovery;
(j) Causes of the event (e.g., control weaknesses identified);
(k) Consequence of the loss event (e.g., market loss, fees paid to a counterparty, a lawsuit or damage to the trust corporation's reputation); and
(l) Action(s) taken.

Trust corporations shall define appropriate thresholds for internal loss data collection and must be able to justify the same. Thresholds should be reasonable and should not omit any operational loss event data that is material for operational risk exposure and for effective risk management. Trust corporations shall ensure that the choice of threshold should not adversely impact the credibility and accuracy of operational risk measurement.

(4) Trust corporations shall determine based on the results of the risk assessment process whether the risks are within the scope of its operational risk management strategy and policies. It shall identify the risk exposures that are unacceptable or are outside its risk appetite and/or risk management capacity, and design and prioritize appropriate risk mitigation and corrective actions with clear accountabilities, roles and responsibilities for implementation within reasonable timelines.

(5) Trust corporations shall continually assess its operational risk exposures in order to gain broader recognition and understanding of their effects. It shall consider the following factors in the assessment:

(a) Expected and unexpected changes to the trust corporation's operating environment;
(b) Actual operational loss events that could have resulted in substantial losses/damage but were avoided (e.g., near misses) or recovered;
(c) Reported external operational losses and incidents which have damaged investor confidence and caused serious reputational harm;
(d) Areas of concern or unusual volumes or high number of exceptions; and
(e) Results of internal assessment of risks and controls.

(6) Trust corporations shall ensure that their risk management and control infrastructure keep pace with the growth of or changes in their business activities, i.e., when they engage in any new activity; introduce a new

[1] *Potential loss* is an initial estimate of the loss that the bank may have sustained at the time of discovery of the event. Near-miss is an adverse operational risk event which was not prevented by internal controls but did not result in an actual adverse impact (financial or reputational) due to chance, recovery or other external factors

product; enter new or unfamiliar markets; implement new business processes or technology systems; establish subsidiaries/branches that are geographically remote from the head office; and/or embark on an aggressive growth strategy by acquiring problem trust corporations to rapidly increase branch network during a short period of time. Trust corporations should have relevant policies and procedures that address the process for review and approval of new products, activities, processes and systems. The review and approval process shall consider the following:

(a) Inherent risks in the new product, service, or activity;
(b) Changes to the trust corporation's operational risk profile, appetite and tolerance, including the impact on existing products or activities;
(c) Necessary controls, risk management processes, and risk mitigation strategies;
(d) Any residual risk; and
(e) Procedures and metrics to measure, monitor, and manage the risk of the new product or activity.

b. *Risk monitoring and reporting*. Trust Corporations shall implement a process to regularly monitor their operational risk profiles and material exposures to losses on a continuing basis. The process shall take into account both qualitative and quantitative assessment of exposure to all types of operational risk, assess the quality and appropriateness of corrective or mitigating actions, and ensure that adequate controls and systems are in place to identify and address problems before they become major concerns.

(1) Risk monitoring should be an integral part of a trust corporation's activities, the frequency of which should reflect the risks involved in these activities as well as the frequency and nature of changes in the operating environment. The results of the monitoring activities, findings of compliance, internal audit and risk management functions, management letters issued by external auditors, and reports generated by supervisory authorities, as appropriate, should be included in regular reports to the board and the senior management to ensure that timely and appropriate measures are undertaken to address the issues/findings.

(2) Management shall ensure that regular reports on operational risk are received on a timely basis and in a form and format that will aid in the monitoring and control of their business areas. The board should receive sufficient high-level information to enable it to understand the trust corporation's overall operational risk profile and focus on the material and strategic implications for the business.

(3) Management reports should contain relevant internal financial, operational, and compliance data, as well as external market information about events and conditions that are relevant to decision making. They should aim to provide information such as:

(a) The critical operational risks facing, or potentially facing, the trust corporation (e.g., as shown in KRIs and their trend data, changes in risk and control self-assessments, comments in audit/compliance review reports, etc.);

(b) Major risk events/loss experience, issues identified and intended remedial actions;

(c) The status and/or effectiveness of actions taken; and

(d) Exception reporting (covering among others authorized and unauthorized deviations from the trust corporation's operational risk policy and likely or actual breaches in predefined thresholds for operational exposures and losses).

(4) Reports should be analyzed with a view to improving existing management performance as well as developing new risk management policies, procedures and practices. Moreover, to ensure the usefulness and reliability of the reports received, management should regularly verify the timeliness, accuracy, and relevance of reporting systems and internal controls in general.

(5) Management should keep track of the information provided in the reports, particularly the loss data, to establish a framework for systematically tracking and recording the frequency, severity and other relevant information on loss events.

c. *Risk control and mitigation*. Strong control environment is key to effective risk control and mitigation. In this respect, trust corporations are expected to adhere to the standards set forth under pertinent provisions of Sec. 172-T and Sec. 173-T on Internal Control and Internal Audit.

Trust corporations shall decide whether to use appropriate procedures to control and/or mitigate the risks, or bear the significant risks that have been identified. In those instances where internal controls do not adequately address risk and accepting the risk is not a reasonable option, trust corporations may seek to transfer the risk to another party such as through insurance. Relative thereto, the board shall determine the maximum loss exposure the trust corporation is willing to take and has the capacity to assume, and should perform an annual review of the trust corporation's risk and insurance management program.

Trust corporations, however, should not consider risk transfer tools as substitute but as complementary tools to sound controls and risk management system. Management shall also assess the extent to which risk mitigation tools such as insurance reduces risk, transfer the risk to another business sector or area, or create a new risk (e.g., counterparty risk).

Management of human resource-related risk. One of the major sources of operational risk is "people risk". In this regard, BSFIs shall embed in their enterprise-wide risk management framework measures to identify, measure, monitor, and control human resource related risks. BSFIs shall ensure that there are adequate policies and risk management and control measures in the following areas:

a. *Recruitment and selection*. The board shall establish efficient process that will facilitate timely recruitment and selection of personnel from a broad pool of candidates with appropriate educational background, skills, experience, character, integrity and competencies to fulfill the duties and responsibilities of the function. This process shall include:

   (1) *Adoption of risk-focused screening process.* Management shall develop a risk-focused approach for its pre-employment background screening where an appropriate level of screening is employed based on factors like the position, reputational risk implication, and responsibilities associated with a particular position. The sensitivity of the position and authorities given to certain positions, including those in the branches, or the access level of an individual employee may warrant additional background screening procedures. These shall include, among others, verification of character references, criminal records, psychological evaluation, past employment, credentials, and professional qualifications. Information gathered shall enable BSFIs to have sufficient understanding of the applicant's personal background and character, conflict of interest, and susceptibility to collusion, fraud, or illegal activities.

   BSFIs shall likewise adopt a policy that sets out the expected actions from Management when pre-employment screening processes detect that the applicant has provided inaccurate or false information.

   (2) *Screening the applicants against the Bangko Sentral records.* As part of the background screening procedures, the Human Resource Department of the BSFI shall require all those who passed the initial stages of pre-employment screening to accomplish the Authorization Form for Querying (AFQ) the Bangko Sentral Records shown in *Appendix 80.* Any information gathered from the Bangko Sentral records shall be considered in the decision to consider the fitness and propriety of the applicant for the position.

   Screening the applicants against the records of the Bangko Sentral shall only be part of and shall not be sole source of information for pre-employment screening.

   (3) *Alignment with organization culture.* Management shall also ensure that the BSFI's culture, values and expectations on behavior are compatible with those of its employees so that there is unity of direction and purpose.

b. *Performance management*. The board shall establish effective performance management framework that will ensure that personnel's performance is at par with the standards set by the board/senior management. Results of performance evaluation should be linked to other human resource activities such as training and development, remuneration, and succession planning. These should likewise form part of the assessment of the continuing fitness and propriety of personnel in carrying out their respective duties and responsibilities.

   The board shall likewise establish effective mechanism that leverages on existing controls or reports to facilitate assessment of continuing fitness and propriety of personnel, taking into account factors that may affect the performance of an individual. For instance, the financial circumstances of an employee who will be responsible for the custody of, or handling cash related transactions, shall be taken into consideration in the evaluation of his continuing qualifications. This mechanism shall enable the BSFI to detect suspicious behaviors of personnel such as reluctance or refusal to take vacation leaves; involvement of personnel in cases with frequent overrides of internal controls, established limits or approving authorities, and high incidence of circumventions of policy; changes in employees' conduct; unusual activities in operations; and sudden or significant changes in lifestyle, standard of living, and spending habits that are inconsistent with the salary, financial position, and level of indebtedness of the personnel concerned.

   The assessment of continuing fitness and propriety of personnel should take into account factors that may affect the performance of an individual. For instance, the financial circumstances of an employee who will be responsible for the custody of, or handling of cash related transactions, shall be taken into consideration in the evaluation of his continuing qualification.

c. *Training and development*. The board shall establish training and development programs that will ensure continuing development of employees' knowledge, competence, and skill. Results of gaps assessment in the performance evaluation/appraisal process can be used in the creation of training and development programs for employees.

d. *Remuneration and compensation*. The board shall establish sound remuneration and compensation policies that can be used by the institution to attract/recruit and retain highly qualified workforce. Said policies should appropriately motivate personnel and discourage excessive risk taking. This can be achieved through timely assessment of performance and competencies based on set standards. Results of performance assessment/appraisal can be used in the organization's remuneration decisions.

e. *Succession planning*. The board shall establish an effective succession planning program. The program should include a system for identifying and developing potential successors for key and or critical positions in an organization, through systematic evaluation process and training. This will require identifying critical skills and competencies; assessing gaps; and designing developing, and delivering training and development programs to build or improve critical skills and competencies. The program should be adequately documented to facilitate monitoring and assessment of its implementation.

f. *Adequacy of complement*. The board shall establish effective strategic manpower planning to ensure that there is adequate and right manpower complement to meet the strategic goals and operational plans of the organization.

g. *Disciplinary actions*. The board, officers and all employees are expected to conform to prescribed ethical culture and guidelines, meet performance standards, and to behave ethically/appropriately in the workplace. Disciplinary or corrective actions may be taken to improve/arrest unacceptable behavior or performance. Disciplinary action must be in accordance with the laws and the applicable rules.

h. *Separation from service*. The board shall establish policies and procedures governing the separation of employees from service (e.g., termination, dismissal, retrenchment, retirement, or resignation), which should include transfer of accountabilities and/or salient information (e.g., client data, business strategies and formula, other trade secrets, etc.) to the successor, and clearance requirements. Policies may also include "non-compete" clauses, in accordance with existing laws.

The Human Resource Department shall assist the board in fulfilling its oversight responsibilities in the areas of recruitment, manpower planning, personnel development, performance appraisal, remuneration, termination, retrenchment and other key human resource issues.

Management of information technology-related risk. Trust corporations shall refer to Sec. 147-Q for the management of information technology-related risk.

Management of integrity of prudential reports or reports submitted to Bangko Sentral. Trust corporation shall adopt a prudential reporting framework that ensures the integrity of information submitted to the Bangko Sentral. They shall establish a system for ensuring effective compliance with the standards prescribed by the Bangko Sentral on acceptable reporting quality. Trust corporations shall likewise maintain adequate documentation of the processes and procedures covering the prudential reporting framework and conduct a periodic review of their continuing relevance.

Management should be cognizant of relevant guidelines that may be issued by the Bangko Sentral relative to issues on the integrity and accuracy of prudential reports. Persistent concerns on the integrity and accuracy of prudential reports including failure to comply with the directives of the Bangko Sentral in this respect may be considered by the Bangko Sentral as conducting business in an unsafe or unsound manner, subject to applicable provision of laws and regulations.

Management of legal risk exposures. Trust corporations shall adopt a system for identifying and assessing legal risks related to business line functions as well as products and services offered. This shall include a process for assessing the trust corporation's rights and obligations in contractual relationships and in ensuring that all agreements/contracts entered into by the trust corporation conform with legal and regulatory requirements and that no party is unduly disadvantaged. This shall also include the assessment of trends of customer complaints to determine potential legal risk exposures.

There should be a system in place to manage outstanding legal cases involving the trust corporation or any of its directors and officers, with respect to suits filed in line with the performance of their duties. Said system should cover a periodic review of the status of cases, an assessment of potential outcome including probable liability or receivable, and regular reporting of the same to the appropriate level of management and the board.

Management of operational risk arising from financial inclusion initiatives. Trust corporations that provide financial services to the unserved and underserved sector generally handle small and voluminous transactions, which have inherently high operational risk. Incremental operational risk also comes from the higher number of personnel or from the use of technology-based platform to effectively and efficiently deliver financial services. Trust corporations are expected to identify and understand the distinct operational risk arising from the products and services they offer or innovative delivery channels they use. They should also be cognizant of potential transformation or transfer or risk exposures. In this regard, trust corporations shall adopt an operational risk management framework appropriate to the nature and scale of their operations. Said framework shall consider the principles embodied in this Section designed to suit the trust corporation's business model and ensure sustained delivery of financial services to the unserved and underserved sector.

Notification/Reporting to Bangko Sentral. Trust corporations shall notify the appropriate supervising department of the Bangko Sentral, within ten (10) calendar days from the date of discovery, of any operational risk event[1] that may result in any of the following:

a. Significant operational losses or exposures;
b. Activation of business continuity plan; or
c. Any material change in business and operating environment.

Upon receipt of notification, the Bangko Sentral may require, if warranted, the reporting trust corporation to submit a report detailing the causes and impact of such events and an acceptable action plan to address the issue and any other weakness identified.

Supervisory enforcement actions. Consistent with Sec. 002-T, the Bangko Sentral may deploy enforcement actions to promote adherence with the requirements set forth in this Section and bring about timely corrective actions. The Bangko Sentral may issue directives to improve the operational risk management system, or impose sanctions to limit the level of or suspend any business activity that has adverse effects on the safety or soundness of the trust corporation, among others. Sanctions may likewise be imposed on a trust corporation and/or its directors, officers and/or employees.

(Circular Nos. 1112 dated 8 April 2021,1066 dated 04 December 2019, 930 dated 18 November 2016, and 900 dated 18 January 2016)

164 - T BUSINESS CONTINUITY MANAGEMENT

Business Continuity Management; Policy Statement.[2] BSFIs can be adversely affected by disruption of critical operations due to internal and external threats, which may be natural, man-made or technical in origin. Extreme events may cause major disruptions whose impact are very broad in scope, duration or both and can pose a substantial risk to the continued operation of BSFIs. Because BSFIs play a crucial role in the financial system and economy as a whole, it is important to ensure that their operations can withstand the effects of major disruptions. Thus, BSFIs need to have a comprehensive business continuity management (BCM) process as an integral part of their operational risk management system. A well-designed BCM process enables BSFIs to resume critical operations swiftly and minimize operational, financial, legal, reputational, and other material risks arising from a disruption. This also helps mitigate systemic risks as well as maintain public trust and confidence in the financial system.

Purpose, applicability, and scope. The guidelines aim to promote sound management of business continuity risks. These align existing regulations, to the extent possible, with leading standards and recognized principles on BCM, and shall serve as the Bangko Sentral's baseline requirement for all BSFIs.

The guidelines shall apply to BSFIs which include banks, non-banks with quasi-banking function (NBQB), non-bank electronic money issuers and other non-bank institutions which under existing Bangko Sentral rules and regulations and special laws are subject to Bangko Sentral supervision and/or regulation. Moreover, subject guidelines shall also apply to BSFIs with offshore data processing as may be appropriate to their situation.

Definition of terms. In these guidelines, terms are used with the following meanings:

a. *Alternate and business recovery sites* shall refer to standby facilities for use during disruption of critical operations to ensure business continuity. These provide work space and/or the necessary technology environment needed to process business-critical information. Organizations may have more than one (1) alternate site. In some cases, alternate sites may involve facilities that are used for normal day-to-day operations but which are able to accommodate additional business processes when a primary location becomes inoperable. Examples of alternate sites include relocation and disaster recovery sites, whether managed directly or maintained by a third party for a BSFI or for use by multiple organizations.

b. *Business continuity* shall refer to a state of continued, uninterrupted operation of a business.

c. *BCM* shall refer to an enterprise-wide framework encompassing policies, standards, facilities, personnel and practices that provides for continuous functioning of the institution during disruptions. It is proportionate to the BSFI's internal and external risk exposures and tailored to the nature, scale, and complexity of its business.

d. *Business continuity plan (BCP)/plan* shall refer to a documented plan detailing the orderly and expeditious process of recovery, resumption, and restoration of business functions in the event of disruptions. It should be able to cover and establish linkages among its multiple components, such as communication plan, crisis management plan, contingency funding plan, and technology recovery plan.

[1] As enumerated under Sec. 125-T (*Operational risk management framework*), Item "*a.(1)*".

[2] BSFIs shall comply with the foregoing standards on BCM within a period of one (1) year from 11 April 2017. In this regard, a BSFI should be able to show its plan of actions with specific timelines, as well as the status of initiatives being undertaken to fully comply with the provisions of Sec. 126-T starting July 2017, upon request by the Bangko Sentral.

e. *Business impact analysis (BIA)* shall refer to the process of identifying and measuring (quantitatively and qualitatively) the business impact or loss of business processes in the event of a disruption. It is used to identify recovery priorities, recovery resource requirements, essential staff, and dependencies (internal and external) to be incorporated in the plan.

f. *Crisis* shall refer to a situation that requires urgent action due to its disruptive impact on the BSFI's core activities or business and operating environment.

g. *Crisis management plan (CMP)* shall refer to a documented plan detailing the actions to be taken when a crisis strikes a BSFI and designed to maintain order amidst the confusion surrounding such situations. During and immediately after a crisis, the members of the crisis management team will convene and activate the plan to attain control over the crisis and minimize its impact to operations.

h. *Critical process* shall refer to any activity, function or service, which when lost would materially affect the continued operation of the BSFI.

i. *Cyber resilience* shall refer to an organization's ability to anticipate, handle, adapt to, and/or recover from evolving cyber threats.

j. *Events* shall refer to disruption scenarios such as loss of people, technology, alternate site, and service providers.

k. *Pandemic* shall refer to epidemics or outbreaks in humans of infectious diseases that have the ability to spread rapidly over large areas, possibly worldwide.

l. *Recovery point objective (RPO)* shall refer to acceptable amount of data loss should a disruption occur without severe impact on the recovery of operations.

m. *Recovery time objective (RTO)* shall refer to the period of time following an incident within which a product, system or business process must be resumed or resources must be recovered.

n. *Resilience* shall refer to the ability of an organization to anticipate, handle, adapt to and/or recover from a disruption and resume operations.

o. *Risk assessment* shall refer to the process involving the identification and assessment of potential threats and vulnerabilities that could severely interrupt a BSFI's business activities and the corresponding likelihood and magnitude of impact on business processes.

p. *Technology recovery plan (TRP)/disaster recovery plan (DRP)* shall refer to a documented plan detailing the technology strategy and requirements during recovery for business and support functions. The relevant regulations are in Item *"3.3.2.13"* of Appendix *Q-64*.

Roles and responsibilities.

a. *Board of directors and senior management.* The BSFI's board and senior management are responsible for overseeing the implementation of a sound BCM process, which involves the creation and promotion of an organizational culture that places high priority on business continuity. This should be reinforced by providing sufficient financial and human resources associated with the BSFI's business continuity initiatives. Senior management should establish BCM policies, standards, and processes, which must be duly endorsed to and approved by the board.

Awareness training and periodic reporting to board and senior management on matters related to business continuity are equally important to ensure their continuing commitment and support. At a minimum, periodic management reports should include the following: (1) implementation status of the BCP; (2) incident reports; (3) plan test results; (4) changes to the plan; and (5) related action items to strengthen the BSFI's ability to recover during disruptions.

b. *BCM coordinator/unit.* Coordination and supervision of all business continuity activities should be assigned to a competent individual and/or unit with technical knowledge and experience consistent with the nature and complexity of the BSFI's business activities. A complex[1] BSFI may need a BCM unit with a team of departmental liaisons throughout the organization. For a simple BSFI, an individual BCM coordinator may suffice. While the BCM coordinator/unit may recommend initiatives or activities to be prioritized, the board and senior management are ultimately responsible for understanding the critical business processes and subsequently establishing plans to meet business process requirements in a safe and sound manner.

[1] Pursuant to Sec. 147-Q (*IT profile classification*). BSFIs are classified as "*simple*" but maybe re-classified as "*complex*" depending on extent or degree of reliance of core business functions or technology.

c. *BSFI personnel.* BSFI personnel should understand their roles and responsibilities on the prevention of crisis and recovery of business operations during disruptions. Business and support functions should allocate responsibilities for managing disruptions and provide clear guidance regarding the succession of authority to account for unavailability of key personnel in the event of a disruption.

(1) *Audit.* An independent review of the BSFI's BCM framework and corresponding plans should be periodically performed with frequency based on a sound risk assessment process. This is to ensure that significant policy revisions resulting from changes in the operating environment, lessons learned from plan tests, and internal and regulatory audit recommendations have been considered. Moreover, plan testing exercises should be independently observed, verified, and evaluated to ensure reasonableness and validity of the testing process and the accuracy of test results.

Figure 1. Business Continuity Management Process



Business continuity management framework. BSFIs should adopt a cyclical, process-oriented BCM framework, which, at a minimum, should include five (5) phases, namely: BIA and risk assessment, strategy formulation, plan development, plan testing, and personnel training and plan maintenance. This framework represents a continuous cycle that should evolve over time based on changes in business and operating environment, audit recommendations, and test results. This framework should cover each business function and the technology that supports it. Other related policies, standards, and processes should also be integrated in the overall BCM framework.

a. *Business impact analysis and risk assessment.* A comprehensive BIA and risk assessment should be undertaken to serve as the foundation in the development of the plan. The BIA entails determining and assessing the potential impact of disruptions to critical business functions, processes, and their interdependencies through work-flow analyses, enterprise-wide interviews, and/or inventory questions. Accordingly, the BSFI should determine the recovery priority, RTO, RPO, and the minimum level of resources required to ensure continuity of its operations consistent with the criticality of business function and technology that supports it. The BSFI should then conduct risk assessment incorporating the results of the BIA and evaluating the probability and severity of a wide-range of plausible threat scenarios in order to come up with recovery strategies that are commensurate with the nature, scale, and complexity of its business functions.

Domestic systemically important banks (D-SIBs). To minimize the extent or impact of a D-SIB's failure in the financial system, BSFIs identified as D-SIB by the Bangko Sentral, pursuant to Sec. 126-Q (*Domestic systematically important banks*), should set the RTO for each of their critical processes to a maximum of four (4) hours from the point of disruption. For non-D-SIB BSFIs, the RTO of critical processes should be primarily driven by their BIA and risk assessment.

b. *Strategy formulation*. Recovery and resumption strategies to achieve the agreed time-frame and deliver the minimum required services as identified in the BIA should be defined, approved, and tested. The minimum requirements for the provision of essential business and technology service levels during disruptions should be established by concerned business and support functions.

(1) *Recovery strategy*. As business resumption relies primarily on the recovery of technology resources, adequate provisions should be in place to ensure systems availability and recoverability during disruptions as prescribed under *Appendix Q-64*. Recovery strategies should be able to meet the agreed requirements between business units and support functions for the provision of essential business and technology service levels.

(2) *Continuity of operations/business resumption strategy*. The business continuity models adopted by the BSFI to handle prolonged disruptions should be based on the risk assessment of its business environment and the characteristics of its operations. The resumption strategies and resource requirements should be approved by the board as recommended by senior management or the relevant board committees to ensure alignment with corporate goals and business objectives.

c. *Plan development*. Plans are an important, tangible evidence of the BSFI's business continuity initiatives. The objective of the plan is to provide detailed guidelines and procedures on response and management of a crisis, recovery of critical business services and functions and to ultimately resume to normal operations. The plan should be formulated on an enterprise-wide basis, reviewed and approved by the board and senior management at least annually and disseminated to all concerned employees. The plan should include provisions for both short-term and prolonged disruptions.

A well-written plan should describe the various types of events or scenarios that could prompt BCP activation. It should include, at a minimum, the following components:

(1) Escalation, declaration and notification procedures;

(2) Responsibilities and procedures to be followed by each continuity or recovery teams and their members. The procedures should enable the BSFI to respond swiftly to a crisis (i.e., a crisis management plan) and to recover and resume the critical processes outlined in the plan within the stipulated time frame during disruptions;

(3) A list of resources required to recover critical processes in the event of a major disruption. This would include, but not limited to: (a) key recovery personnel; (b) computer hardware and software; (c) communication systems; (d) office equipment; and (e) vital records and data;

(4) Relevant information about the alternate and recovery sites; and

(5) Procedures for restoring normal business operations. This should include the orderly entry of all business transactions and records during disruption into the relevant systems up to completion of all verification and reconciliation procedures.

Communication is a critical aspect of a BCP. In this respect, the BSFI should include a communication plan for notifying all relevant internal and external stakeholders (e.g., employees, customers, vendors, regulators, counterparties, and key service providers, media and the public) following a disruption. The BSFI should maintain an up-to-date call tree and contact list of key personnel and service providers, including communication flow and channels for internal and external stakeholders. Clear and effective communication will facilitate escalation for appropriate management action and instruction to all concerned and help manage reputation risks. The BSFI should consider alternate methods of communication and preparation of pre-determined messages tailored to a number of plausible disruption scenarios to ensure various stakeholders are timely, consistently, and effectively informed.

A crisis management plan should be included in the BCP to assist senior management in dealing with and containing an emergency and avoid spillover effects to the business. Senior management should identify potential crisis scenarios and develop corresponding crisis management procedures. This includes identifying a mix of individuals from various departments who are authorized to make instantaneous decisions during crisis situations. This team shall be responsible for the actual declaration of an event, activation of the plan, and internal and external communication process.

When outsourcing plan development, management should ensure that the chosen service provider has the expertise required to analyze the business needs of the BSFI and that the arrangement conforms with legal and regulatory requirements. The service provider should be able to design executable strategies relevant to the BSFI's risk environment and design education and training programs necessary to achieve successful BCP deployment.

d. *Plan testing*

(1) *Types of testing methods*. Plan testing is a vital element of the BCM. It ensures that the plan remains accurate, relevant, and operable. Tests should be conducted periodically, with the nature, scope, and frequency determined by the criticality of the applications, business processes, and support functions. In some cases, plan tests may be warranted due to changes in BSFI's business, responsibilities, systems, software, hardware, personnel, facilities, or the external environment.

Testing methods can vary from simple to complex each bearing its own characteristics, objectives, and benefits. Types of testing methods in order of increasing complexity include:

(a) *Tabletop exercise/structured walk-through test* – the primary objective is to ensure that critical personnel from all areas are familiar with the plan and that it accurately reflects the BSFI's ability to recover from a disruption.

(b) *Walk-through drill/simulation test* - similar to a tabletop exercise but with a more focused application. During this test, participants choose a specific scenario to which relevant plan provisions shall be applied.

(c) *Communication/call tree test* – an exercise that validates the capability of crisis management teams to respond to specific events and the effectiveness of the call tree notification process in disseminating information to employees, vendors, and key clients.

(d) *Alternate site test/exercise* - tests the capability of staff, systems, and facilities, located at alternate sites to effectively support production processing and workloads.

(e) *Component test/exercise* - A testing activity designed to validate the continuity of individual systems, processes, or functions, in isolation.

(f) *Functional drill/parallel test* - test to determine capability of alternate site and BSFI employees to support strategy as defined in the plan, which involves actual mobilization of personnel, establishing communications, and recovery processing.

(g) *Enterprise-wide full-interruption/full-scale test* – the most comprehensive type of test encompassing the entire organization and requires activation of all the components of the plan at the same time to simulate a real-life emergency and processing data and transactions using back-up media at the recovery site.

(2) *Test policy/plan*. Testing should be viewed as a continuously evolving cycle. The BSFI should incorporate the results of BIA and risk assessment and work towards a testing strategy that increases in scope and complexity to address a variety of threat scenarios. Test scenarios should vary from isolated system failures to wide-scale disruptions and promote testing its primary and alternate facilities, as well as with key counterparties and third-party service providers.

A testing policy should define roles and responsibilities for the implementation and evaluation of the testing program. Test plans with pre-determined goals and test criteria should be developed for each testing activity. It should clearly define the objectives of testing, identify the functions, systems, or processes to be tested and the criteria for assessing what constitutes a successful test. Formal testing documentation (i.e., test plans, test scenarios, test procedures, test results) should be prepared to ensure thoroughness and effectiveness of testing and properly maintained for audit and review purposes.

(3) *Annual enterprise-wide business continuity testing*. The BSFI must conduct an enterprise-wide business continuity test at least annually, or more frequently depending on changes in the operating environment, to ensure its plan's relevance, effectiveness, and operational viability. The scope of testing should be comprehensive to cover the major components of the plan as well as coordination and interfaces among important parties.

(4) *Analysis and report of test result*. Plan tests, including successes, failures, and lessons learned, should be thoroughly analyzed to promote continuous BCM improvement. Exceptions noted should be documented and corrective actions should be closely monitored to ensure that they are implemented in a timely manner by concerned parties, including the board and senior management, business line management, risk management, IT management, and other internal stakeholders.

e. *Personnel training and plan maintenance.*

(1) *Training program*. A business continuity training program should be provided to all concerned employees to promote awareness, familiarity, and understanding of their roles and responsibilities in the event of a disruption. The training program should be offered on a continuing basis for existing and new employees and should be updated to address changes to the plan.

(2) *Plan maintenance*. Plans and results of BIA and risk assessment should be reviewed and updated on an ongoing basis (at least annually or when necessary) so that they remain consistent with the BSFI's current operations and business strategies. BCM-related documents (i.e., BCP, test program, policy guidelines, and program requirements) should be subject to change management process to ensure these are updated with proper approval and documentation with respect to any significant changes in the business environment or as a result of audit findings.

Other policies, standards and processes. The following policies, standards and processes should be integrated into the BCM process:

a. *Pandemic planning*. Similar to natural disasters or technical disruptions, pandemics may also interrupt a BSFI's business activities. However, the difficulty in determining a pandemic's scope and duration present additional challenges in ensuring resilience and continuity of a BSFI's operations.

Generally, pandemic plans are integrated in the BSFI's BCP and follow the same BCM process with additional considerations, such as:

(1) *Business impact analysis and risk assessment*. The BCM process should consider pandemics as early as the BIA and risk assessment phase. The BIA and risk assessment should be updated to incorporate complexities that may arise from pandemics, such as (a) increasing level of absenteeism based on a pandemic's severity; and (b) the need for another layer of contingency plans as regular disaster or emergency response methods are no longer feasible.

(2) *Strategy formulation*. To complement strategies for natural and technical disruptions, the following should be given due consideration when planning for pandemics:

(a) *Trigger events* – Trigger events and strategies should be defined depending on the nature of a pandemic. Pandemic planning should have the flexibility to accommodate varying degrees of epidemic or outbreak as pandemics normally occur in waves or phases and of varying severity.

(b) *Remote access capability* – In the event of a pandemic, enabling remote access may be one of the primary strategies available to a BSFI. To support a telecommuting strategy, the BSFI should ensure adequate capacity, bandwidth and authentication mechanisms in its technological infrastructure against expected network traffic or volume of transactions.

(c) *External parties* – With pandemics not limited to the BSFI, establishing working relationships with external parties is an essential component. In addition to the communication plan for all relevant internal and external stakeholders, the BSFI should establish open relationships and communication channels with local public health and emergency response teams or other government authorities. The BSFI should inform concerned parties of any potential outbreaks and, at the same time, be aware of any developments in the expected scope and duration of a pandemic.

(d) *Employee awareness* – As information becomes available from reputable sources or local agencies, the BSFI should ensure that steps to limit or reduce the risk of being affected by the pandemic are cascaded to its employees.

(3) *Plan development*. Pandemic plans should be commensurate to the nature, size and complexity of a BSFI's business activities and have sufficient flexibility to address the various scenarios that may arise. At a minimum, the pandemic plan should include:

(a) Strategy that is scalable dependent on the extent and depth of the outbreak;
(b) Preventive measures, including monitoring of current environment and hygiene tools available to employees;
(c) Communication plan with internal and external stakeholders, including concerned local public health teams and government agencies; and
(d) Tools, systems and procedures available to ensure continuity of its critical operations even with the unavailability of BSFI's staff for prolonged periods.

(4) *Plan testing*. Test policy/plan should include strategies to assess capability to continue critical operations, systems and applications even in the event of a severe pandemic. When regular tests are unable to cover pandemic scenarios, separate pandemic plan tests should be carried out.

(5) *Personnel training and plan maintenance*. The plan should be updated as developments and information become available. As needed, employee training programs should cover pandemic risks, including the roles and responsibilities of each employee during pandemic situations.

b. *Cyber resilience*. Cyber-threats and attacks against the financial services industry have become increasingly widespread, sophisticated and coordinated. Recent cyber-attacks worldwide highlight, not only the degree of disruption to a BSFI's operations, but also the extent of reputational damage which could undermine public trust and confidence. As such, the BSFI should consider the potential impact of these cyber events into its BCM process and institute adequate cyber resilience capabilities.

Given the unique characteristics of cyber-threats and attacks, traditional back-up and recovery arrangements adopted by the BSFI may no longer be sufficient and even increase the damage to the BSFIs' network, operations and critical information assets. In worst case scenarios, back-up systems and alternate recovery sites are likewise affected rendering both sites inoperable. To ensure cyber resilience, the BSFI should take into consideration a wide-range of cyber-threat scenarios perpetrated from diverse threat sources (e.g., skilled hackers, insiders, state-sponsored groups) which seek to compromise the confidentiality, availability and integrity of its information assets and networks. Defensive strategies and innovative recovery arrangements should be explored that are commensurate with the BSFI's cyber-security risk exposures and aligned with its information security program in accordance with *Appendix Q-62.*

c. *Information security*. Mitigation strategies should consider security controls to manage risks that may arise once an event triggers plan activation. Security during disasters and disruptions is an important consideration to manage risks arising from the change in working environment. The relevant guidelines/standards on information security that may be considered in strategy formulation and/or in choosing alternate sites are in *Appendix Q-62.*

d. *Interdependencies*. An effective plan coordinates across its many internal and external components, identifies potential process or system dependencies, and mitigates risks from interdependencies. The BSFI may have very complex operating and recovery environment wherein interdependencies need to be duly considered, such as telecommunications, third party service providers, and recovery site. Given the critical resources and services that are being shared with the BSFI or other entities, additional mitigating controls and recovery strategies need to be integrated in the plan.

e. *Liquidity risk management*. Sound liquidity risk management practices enable a BSFI to maintain availability of funds even in times of financial stress or adverse changes in market conditions. In the event of a business disruption, sound liquidity risk management practices should similarly apply. The BSFI should ensure it has sufficient liquidity to support its recovery strategies and continue supporting the delivery of basic banking services to the clients pending full business resumption. Guidelines on liquidity risk management are in *Appendix Q-43.*

f. *Project management*. Senior Management should ensure that availability and business continuity requirements are considered at the planning and development stages of new business products and services and other critical technology processes, such as systems development and acquisition, and change management.

g. *Event/problem management*. Operations personnel should be properly trained to recognize events that could trigger implementation of the plan. Although an event may not initially activate the plan, it may become necessary as conditions and circumstances change. Management should train and test BSFI personnel to implement and perform appropriate business continuity procedures within the timeframes of the plan.

h. *Outsourcing*. When a BSFI enters into an outsourcing arrangement, it should put due consideration on the business continuity and disaster recovery arrangements of the service provider to ensure continuity of operations. Detailed guidelines/standards on business continuity considerations for outsourcing arrangements are in *Appendix Q-65.*

i. *Insurance*. Insurance is an option available to a BSFI for recovery of losses that cannot be completely prevented and the expenses related to recovering from a disruption. The BSFI should regularly review the adequacy and coverage of its insurance policies in reducing any foreseeable risks caused by disruptive events, such as loss of offices, critical facilities and equipment, and casualty. Insurance policies may also need to address the BSFI's legal responsibilities for failing to deliver services to its customers and counterparties. To facilitate the claims process, the BSFI should create and retain a comprehensive hardware and software inventory list in a secure off-site location and detailed expenses should be documented to support insurance claims.

Supervisory enforcement actions. BSFIs should make available all policies and procedures and other documents/information related to the foregoing during on-site examination as well as provide copies thereof to the regulator when a written request is made to determine compliance.

Consistent with Sec. 002-T, the Bangko Sentral may deploy enforcement actions to promote adherence with the requirements set forth in Sec. 164-T and bring about timely corrective actions. The Bangko Sentral may issue directives to improve the BCM process, or impose sanctions to limit the level of or suspend any business activity that has adverse effects on the safety and soundness of the BSFI, among others. Monetary and non-monetary sanctions, as provided under existing laws, Bangko Sentral rules and regulations, may likewise be imposed on a BSFI and/or its directors, officers and/or employees for violation of subject Sec. 164-T.

(Circular Nos. 1066 dated 04 December 2019, 1051 dated 27 September 2019 and 951 dated 20 March 2017)

165 - T SOCIAL MEDIA RISK MANAGEMENT

Policy Statement.[1] Social media, a low-cost solution capable of disseminating real-time information via the internet, presents vast opportunities for growth, customer engagement and business benefits as usage, customer reach and adoption scale up and become widespread and ubiquitous. Considering these potential benefits alongside exponential growth in the number of social media users and its massive reach, BSFIs have started to leverage on social media platform/s to promote their business and improve customer interaction experience to help drive business objectives/strategies.

Similar to any new technology, however, social media introduces a new attack vector which may expose BSFIs to compliance, legal, reputational, strategic, and operational risks. Risks in social media include susceptibility to account take-over, malware distribution, brand bashing, inadvertent disclosure of sensitive information and privacy violation, among other possible threats. As such, BSFIs should adopt an appropriate risk management system, commensurate to the extent and degree of their social media usage, to effectively identify, measure, manage and monitor risks arising from the use of social media platforms. This should form an integral part of their operational risk management system.

***Applicability and scope*.** The guidelines underscore the importance of having a well-defined social media risk management strategy in supporting BSFI's overall business goals and objectives. These guidelines align existing regulations, to the extent possible, with leading standards and recognized principles. They outline the minimum standards/basic principles that shall govern the BSFI's framework to aid in the sound management of risks associated with the use of social media for official purpose or employees' personal use, within and outside the organization.

It is not intended to provide procedural specifics or a "one-size-fits-all" solution for carrying out compliance and risk management responsibilities. Each BSFI is therefore expected to establish its own risk management strategy; suitable to its size, risk tolerance level, and the nature and scope of social media activities engaged in.

The guidelines shall apply to all BSFIs which include banks, NBQB, non-bank electronic money issuers, and other non-bank institutions which under existing Bangko Sentral rules and regulations and special laws are subject to Bangko Sentral supervision and/or regulation.

Definition of terms. In these guidelines, terms are used with the following meanings:

a. *Attack vector* shall refer to the path or means by which an attacker can gain access to a computer system in order to deliver a malicious code (e.g., virus, worms, trojans).

b. *Non-technical controls* shall refer to management, administration, and operational controls employed that are manual and procedural in nature (e.g., security-related policies and procedures; operational procedures; personnel, physical, and environmental security controls; performance management and measurement).

c. *Risk assessment* shall refer to the process involving the identification and assessment of potential threats and vulnerabilities related to the use of social media and determination of the likelihood that the threat will occur as well as the corresponding impact to the business should the threat occur.

d. *Social media* shall refer to online communication channels dedicated to community-based content generation and sharing, interaction, and collaboration.

e. *Social media platform* shall refer to any form of interactive communication medium wherein users can generate and disseminate content (e.g., text, images, audio, video) through social networks using the internet. Examples of popular social media platform categories include the following:

   (1) Social networking (e.g., Facebook, LinkedIn)
   (2) Micro-blogging (e.g., Twitter, Tumblr)
   (3) Blogging (e.g., Wordpress, Blogger)
   (4) Photo Sharing (e.g., Flicker, Instagram, Pinterest)
   (5) Video Sharing (e.g., Youtube, Vimeo, Vine)
   (6) Crowdsourcing (e.g., Ushahidi, Inc.)

f. *Technical controls* shall refer to the controls incorporated into the computer hardware, software, or firmware to aid in the effective implementation of policies and standards (e.g., access control, authentication, web scanner/crawler).

[1] BSFIs shall comply with the foregoing standards on social media risk management within a period of six (6) months from 04 April 2017. In this regard, a BSFI should be able to show, upon request of the Bangko Sentral, its plan of actions with specific timelines, as well as the status of initiatives being undertaken to fully comply with the provisions of this Section.

Social media risk management system. BSFIs should establish an appropriate framework that will result in sound social media governance and risk management. At a minimum, the framework shall include the following elements:

a. Clearly defined governance structure indicating the roles and responsibilities of the board of directors and senior management in setting the direction on the BSFI's use of social media, including its alignment to the BSFI's strategic goals/plans; establishing adequate standards, policies, procedures, and controls; and implementing ongoing risk assessment of social media-related activities.

   The board of directors shall be primarily responsible for defining the BSFI's risk tolerance level, understanding the nature and degree of risks the BSFI will be exposed to, and ensuring that these risks are properly addressed. Moreover, the board of directors, as part of its duties, shall approve and oversee the design and implementation of the social media strategy; related standards, policies and procedures; and means to ensure compliance with said standards and/or policies as well as applicable laws and regulations. Senior management, on the other hand, shall be responsible for the implementation of the social media risk management system approved by the board of directors.

   The governance process should also include reporting mechanisms to the board of directors and/or senior management to enable periodic evaluation of the effectiveness of the BSFI's social media strategy/program, in terms of achieving its stated objectives, and measures put in place to manage the risks related to its use.

b. Policies and procedures governing the following, among others:

   (1) Scope and definition of social media;

   (2) Social media regulatory landscape reflecting applicable laws, rules and regulations for compliance;

   (3) Individuals and/or composition of the team/s who will be responsible for the creation, maintenance, and monitoring of the BSFI's proprietary social media sites/pages. Their corresponding roles and accountabilities should also be clearly defined;

   (4) Content management and approval process;

   (5) Ongoing assessment, management, and monitoring of risks associated with social media-related activities;

   (6) Acceptable use as well as prohibitions/restrictions on the business/official use of social media platforms. These guidelines shall likewise apply to the employees'[1] personal use of social media, insofar as it may impact the BSFI's operations, reputation and/or compliance with applicable laws and regulations. These should cover matters such as, but not limited to, expectations, ethical behavior, types/nature and extent of BSFI and/or customer-related information that can be posted, statements that can or cannot be made about or in behalf of the institution, comments that should not be made about a competitor, and corresponding sanctions/penalties for inappropriate use of social media and committing non-permissible activities;

   (7) Use and monitoring of the BSFI's proprietary social media sites/pages to ensure compliance with applicable laws, regulations and internal policies;

   (8) Monitoring and recording of suspicious transactions and customer activities on the BSFI's proprietary social media sites/pages;

   (9) Adoption of technical and non-technical controls to address risks associated with the use of social media platform/s including methodologies to manage risks from online postings, edits, replies and retention;

   (10) Due diligence process for selecting, managing and continuous monitoring of third-party service providers (TSP) that administer the BSFI's social media site(s)/page(s). In addition, the specific roles and responsibilities of the TSP, including liabilities and accountabilities for errors, omissions, fraud, and other instances, resulting from the TSP's actions, which may adversely affect the BSFI, should also be defined;

   (11) Social media crisis management plan and escalation procedures;

   (12) Enterprise-wide employee training and awareness programs covering relevant topics such as the BSFI's social media use policies, employee roles and responsibilities and non-permissible activities;

   (13) Records retention of social media data; and

   (14) Communication of the BSFI's official social media sites/pages to its customers to avoid confusion and being misled to unofficial sites.

[1] Include the BSFI's employees, contractual employees and/or project hires, and third-party service providers

c. Specific roles and responsibilities of the risk management, consumer protection, audit and compliance functions to ensure that social media risks are adequately managed and integrated in the BSFI's enterprise-wide risk management systems.

BSFIs that do not utilize social media should nevertheless have clear policies and measures in place to address the potential reputation risks that may arise within the various social media platforms and provide guidance on employee use of social media.

Compliance with relevant regulations. BSFIs, in formulating and implementing their social media policies, should ensure compliance with the applicable requirements of Bangko Sentral rules and regulations on financial consumer protection, especially those relating to disclosures and transparency in advertising and promotional materials, protection of client information, effective recourse, and financial education and awareness. They should likewise conform with the relevant provisions of Bangko Sentral's outsourcing framework should they decide to outsource the conduct of social media-related activities to a service provider.

The use of social media platforms, including information gathered therein, for the conduct of account origination activities should comply with applicable rules and regulations, especially on the provisions relating to customer identification procedures under the existing anti-money laundering rules and regulations. In the event that BSFIs opt to use social media for processing financial transactions, the applicable Bangko Sentral rules and regulations on electronic payment and financial services and technology risk management should likewise be observed to ensure security, reliability and authenticity of such transactions.

The regulations mentioned herein are not exhaustive. It is the BSFI's responsibility to ensure that all applicable laws and regulations relevant to the activities it will choose to engage in using social media will be adequately complied with. Moreover, the BSFI is expected to stay abreast of and continuously adapt to changes in the regulatory requirements.

Supervisory enforcement actions. BSFIs should make available all policies and procedures and other documents/information related to the foregoing during the on-site examination as well as provide copies thereof when a written request is made to determine compliance.

Consistent with Sec. 002-T, the Bangko Sentral may deploy enforcement actions to promote adherence with the requirements set forth in Sec. 165-T and bring about timely corrective actions. The Bangko Sentral may issue directives to improve the social media risk management system or impose monetary and non-monetary sanctions on a BSFI and/or its directors, officers and/or employees.

(Circular Nos. 1066 dated 04 December 2019, 1033 dated 22 February 2019 and 949 dated 15 March 2017)

166 – T REPUTATIONAL RISK MANAGEMENT

The guidelines on reputational risk management for QBs under Sec. 151-Q shall govern the reputational risk management of BSFIs to the extent applicable.

The guidelines set out the supervisory expectations and the minimum prudential requirements in managing reputational risk. A BSFI is expected to adopt a reputational risk management framework that is commensurate to its size, nature and complexity of operations, overall risk profile, and systemic importance.

(Circular No. 1114 dated 16 April 2021)

167 – T GUIDELINES FOR THE ADOPTION OF OPEN FINANCE FRAMEWORK[1]

Policy Statement. It is the thrust of the Bangko Sentral to promote an enabling environment that foster innovation, encourages coopetition, and advances financial inclusion while safeguarding the integrity and stability of the financial system. In line with this, the Bangko Sentral is introducing the Open Finance Framework that aims to empower customers by giving them better control over their personal and financial data catalyzing the development of products and services that are responsive to their needs.

The Open Finance Framework espouses consent-driven data portability, interoperability, and collaborative partnerships among financial institutions and third-party providers (TPPs). Under the framework, financial institutions and TPPs can leverage on permissioned-access customer financial information to develop bespoke financial products and services for customers. The Open Finance Framework subscribes to the principle that "customers are the owners of personal and transaction data" hence, information shall only be shared with the consent of the customers.

Coverage. The Open Finance Framework covers technology, products, services, information, and policies that enable customers to securely share their financial data with qualified parties, either BSP-supervised financial institutions (BSFIs) or TPPs.

[1] All existing API arrangements prior to the creation of this Section, i.e. 17 June 2021, they shall comply with the applicable requirements prescribed herein within one (1) year from 13 July 2021. In cases awaiting policy-setting or further clarifications, compliance timetable shall be further determined by the OFOC.

Definition of Terms. The terms used in this Section shall be defined as follows:

a. *Account Information Service Provider (AISP)* refers to an information technology service and/or software solution provider that processes data and provides an alternative access point to multiple sources of data other than payment transactions;

b. *Application Programming Interfaces (APIs)* refer to a set of rules and specifications for software programs to communicate with each other, forming an interface between different programs to facilitate interaction;

c. *Customer-permissioned data* refers to data held by Participants (e.g., customer transactions, personal identification data, and customer financial history) that are permissioned by the Participants' customer to be accessed by a third party (and possibly shared onwards with fourth parties if covered by the customer's consent);

d. *Open Finance* refers to leveraging on and sharing of customer-permissioned data among banks, other financial institutions, and TPPs to develop innovative financial solutions, such as among others, those that provide real-time payments, promote greater transparency to account holders, and provide marketing and cross-selling opportunities to banks, other financial institutions, and TPPs;

e. *Open Finance Standards* refer to the recommended standards in implementing the Open Finance Framework that takes into account various factors, including the financial industry's level of readiness to adopt such standards and the overall benefits arising from such standardization;

f. *Open API*, also known as external or public API, refers to a software technology interface that provides a means of accessing data based on a public standard;

g. *Open Data* refers to publicly obtainable data that is published by Participants, including, but not limited to financial products, service information, and other public information;

h. *Open Access* refers to allowing authorized third parties to access consented data without needing to establish a business relationship with the Open API publisher;

i. *Payment Initiation Service Provider (PISP)* refers to a registered operator of payment systems (OPS), as defined under Republic Act (R.A.) No. 11127 – The National Payments Systems Act and clarified in Part 1, Section 101 of the Manual of Regulations for Payment Systems (MORPS), that carries out payment orders at the request of payment service users in connection with payment accounts held at other payment service providers;

j. *Third party providers* or TPPs refers to any external legal entity such as service providers, integrators, solutions vendors, and/or infrastructure support that interact with BSFIs to provide services to customers. They are classified as either AISP and/or PISP, however, other TPP classification may be created by the Open Finance Oversight Committee (OFOC), as deemed applicable;

k. *Participant* refers to the entities covered by the Open Finance Framework such as the BSFIs and TPPs;

l. *Open API publisher* refers to the Participant that keeps/is the custodian of customer data;

m. *Third party* refers to the Participant who has open access to customer-permissioned data residing in another Participant (publisher) through the Open API; and

n. *Fourth party* refers to an outsourcing partner or a service provider of a third party.

Governance Framework. The Bangko Sentral shall recognize an Open Finance Oversight Committee (OFOC), an industry-led self-governing body, that shall exercise governance over the activities and Participants of the Open Finance Ecosystem. The OFOC shall be subject to the regulation and supervision of the Bangko Sentral.

The Bangko Sentral shall facilitate the establishment of the OFOC in coordination with industry stakeholders. For this purpose, the initial set of members of the OFOC shall be comprised of representatives from each bank classification, non-bank financial institutions, electronic money issuers, operators of payment systems, TPPs, and other relevant sectors, as determined by the Bangko Sentral. The OFOC shall:

a. Adopt membership and participation rules that are non-discriminatory to ensure that key areas of interest of the financial industry are adequately represented and that all members and applicants for membership are treated fairly and consistently.

b. Define the functions, roles, and responsibilities of the Committee and the Participants. It shall adopt policies in monitoring Participants' compliance with the established policies and in handling non-compliance thereto including the corresponding sanctions or penalties for non-compliance.

c. Adopt standards, agreements, policies, and guidelines (Conventions) governing the Open Finance Framework which shall be consistent with relevant laws, rules and regulations and regional/global standards. At the minimum, these shall cover the following:

(1) Registration/On-boarding of non-BSFI Participants;
(2) API standards reference or other equivalent documentation;
(3) Authorization, authentication, and encryption requirements for each product/service tier;
(4) Disclosure and transparency requirements as prescribed under Sec. 1002-Q of the MORNBFI;
(5) Consent management;
(6) Protection of client information including responsible data handling as well as data privacy and protection;
(7) Reciprocity arrangement among Participants;
(8) Economic model; and
(9) Consumer protection and effective recourse as prescribed under Part Ten of the Q-Regulations of the MORNBFI.

d. Cooperate with and extend fullest assistance permissible to the Bangko Sentral and other regulators in enforcing applicable laws and regulations, in promoting adherence to this Framework.

Consistent with the provisions of Sec. 002-T, the Bangko Sentral reserves the right to deploy its range of supervisory tools to promote adherence to the requirements and expectation set forth in this Framework. In this regard, the Bangko Sentral may issue directives to or impose sanctions against the OFOC, such as suspension or revocation of any authority of the OFOC (including any or all of its generally authorized activities), without prior notice, to promote the safety and soundness of the financial system and/or to protect Participants, its customers, or the general public.

Registration Standards. BSFIs with a composite rating of at least "3" under the Supervisory Assessment Framework (SAFr), or its equivalent, are automatically eligible to become Participants of the Open Finance Ecosystem. On the other hand, those that do not meet the minimum rating must secure prior Bangko Sentral approval to participate in the Open Finance Ecosystem. Participants which are not under the regulation and supervision of the Bangko Sentral shall comply with the applicable registration requirements set by the OFOC, pursuant to pertinent laws, rules and regulations of the Bangko Sentral and other relevant authorities. Participants shall be responsible for ensuring fourth party compliance with applicable laws, rules and regulations.

Open Finance Standards. The OFOC shall issue guidelines aimed at ensuring that:

a. access to and participation in the standard-setting process, including any planning and consultation activities, is non-discriminatory;
b. the standards development process is transparent; and
c. the Open Finance Standards will be accessible to all qualified parties.

The API standards reference or other equivalent documentation that shall be developed by the OFOC shall meet the recommended technical standards to facilitate industry-wide adoption, and shall cover, at a minimum, the following:

(1) *API Architecture Standards.* These shall comprise, among others, reference for Open API specifications, including communication protocols, and architecture types. Participants are encouraged to adopt recognized industry-wide architectural styles such as Representational State Transfer (REST) and Simple Object Access Protocol (SOAP);

Data Standards. These shall include data formats, data structures, and related data protection and privacy rules to enable Participants to share data and information accurately and efficiently. Participants shall adopt data formats which are recognized by the industry such as, but not limited to, JavaScript Object Notation (JSON), Extensible Markup Language (XML), Comma Separated Values (CSV), and Structured Query Language (SQL). The "data dictionary" shall be published online, with sufficient level of detail to facilitate third party understanding and adoption;

(2) *Security Standards.* These shall cover minimum security compliance requirements, guidelines, and specifications that must be met by Participants, including authentication, authorization, and encryption. Participants should always refer to industry sound practices, relevant regulatory, and internal requirements, and apply holistic controls on information and cybersecurity based on a risk- and principles-based approach to protect their systems as well as financial and consumer data. At a minimum, Participants shall adopt the latest and robust authorization and authentication protocols that are adequate for the risks presented by Open Access, such as, but not limited to, multi-factor authentication, Transport Layer Security (TLS)/Advanced Encryption Standard (AES)/Hashed Message Authentication Code (HMAC) encryption standards and OAuth 2.0 authentication standard. Participants should use more secure methods for sharing data, such as token-based authentication through APIs. The API must be designed in such a way that the end-user access shall be limited to data that the end-user has permission to see or process. These access rights must be appropriately recorded, verified, measured, and audited. In terms of secure hosting, PCI DSS and ISO 27001 are most desired; and

(3) *Outsourcing Standards.* These shall refer to the management of risks arising from outsourcing activities particularly those involving data disclosure and confidentiality, data privacy and protection, data management such as procedures for accessing and processing data, obtaining consent, contract management, security, performance monitoring and business continuity, among others.

Adoption of Open Finance Standards and Publication of Open APIs. All Participants that intend to provide Open Access shall adopt the Open Finance Standards and shall comply with relevant laws and pertinent Bangko Sentral regulations particularly on Outsourcing, Operational Risk Management, IT Risk Management, Internal Control, Anti-Money Laundering/Countering the Financing of Terrorism, Financial Consumer Protection, and sound corporate governance principles, among others.

Open Finance Standards may be revised periodically to address emerging issues or to improve the Open API functionalities. To facilitate third party adoption, Participants shall publish detailed Open API documentation and ensure consistency with the latest version of Open Finance Standards.

Tiered Approach towards Open Finance Standards Adoption. Open Finance Standards shall be classified into five (5) tiers based on data sensitivity, data type, and data holder type. The tiers are not necessarily sequential, and multiple implementations may occur simultaneously.

a. *Tier 1* – Product and Service Information. Refers to "read-only" information on financial data and other details of financial products/services that is readily accessible online and can be freely used, reused, and redistributed by any entity such as deposit/lending rates, credit card offerings, service charges and other public data.

b. *Tier 2* – Subscription and New Account Applications. Includes customer acquisition and account opening processes, along with facilitating digital application and submission of supporting documents. Applications for deposits, loans, debit/credit cards, and other financial products are covered under this category.

c. *Tier 3* – Account Information. Refers to personal (e.g., name, registered address, phone numbers, etc.) and financial information provided by a customer at any given time or other details pertaining to the account of authenticated customers for stand-alone or aggregated views. This consists of, but are not limited to, data types such as account balance, credit card outstanding balance, transaction records, credit limit change, and credit score.

d. *Tier 4* – Transactions. Covers payments and other financial transactions such as scheduled payments and transfers initiated by customers.

e. *Tier 5* – Others. Covers other more complex financial products or use cases and those that are not covered by tiers 1-4.

Cooperative Regulatory Oversight. The Bangko Sentral duly recognizes that other regulatory/supervisory authorities may be involved in the Open Finance Framework as this would involve other Participants that are not under the supervisory ambit of the Bangko Sentral. In this regard, the Bangko Sentral shall coordinate with the concerned regulatory authority with respect to the implementation of the Open Finance Framework.

Regulatory Sandbox

The Bangko Sentral seeks to provide a regulatory environment that is conducive for the deployment of innovative financial services, including the development of standards for Open Finance. In line with this, the Bangko Sentral will permit innovation in Open Finance, such as but not limited to, the development of an industry API sandbox, in which Open APIs can be deployed and tested in a live environment and within specified parameters and timeframes.

Recommendation to Build a Central API Sandbox. While API providers will be encouraged to develop local sandboxes, it is recognized that costs may present a barrier and further incentives may be required. Thus, the Bangko Sentral encourages the OFOC to establish a central sandbox for testing developers and for other purposes related to local sandbox development (e.g., outsourcing sandbox development to trusted parties). The OFOC shall ensure that the central sandbox (i) implements all levels of security for APIs and (ii) contains a set of executable tests that API developers can use to validate compliance. The OFOC shall provide the executable tests to developers free of charge so that barriers to entry are avoided.

The OFOC shall maintain a list of approved Use Case API Services[1] with defined technical and security standards. This list shall include clear mechanisms and guidelines for providing the API services (e.g., basic APIs such as Authentication, Account Information, Transfers, etc.). The Use Case list per API service is a list that will be regularly updated based on new API innovations that have been reviewed by the Bangko Sentral or other relevant governing body.

[1] All existing API arrangements prior to the issuance of Circular No. 1122 dated 17 June 2021, they shall comply with the applicable requirements prescribed herein within one (1) year from 13 July 2021. In cases awaiting policy-setting or further clarifications, compliance timetable shall be further determined by the OFOC.

Consumer Protection. Participants shall adopt customer awareness measures to, at the minimum, educate their customers on the following: (i) safeguarding of information; (ii) use of the Open API; (iii) actual fees and charges related to the access of information and performance of transactions; (iv) fair and equitable terms and conditions; (v) products and services appropriate to the capacity and risk appetite of the consumer; and (vi) problem resolution procedures. Participants shall disclose, prior to entering an initial transaction and on an ongoing basis, all material risks to their clients in a manner that is clear, fair and not misleading. Participants shall carry out initiatives to give consumers the knowledge, skills, and confidence to understand and evaluate the information they receive and empower them to make informed financial decisions.

Data Privacy and Data Protection. Each contract relating to the implementation or use of Open API shall contain a clause for the recognition by each party that the customers have ownership over their data being collected and processed through the transaction, and that they have all the rights enumerated under R.A. No. 10173 (Data Privacy Act of 2012). This views that while customer and transaction data are in the custody of the Open API publisher, their rights to control the use of such data is limited to the boundaries of the consent the customer provided. All Participants shall comply with relevant requirements of the Data Privacy Act of 2012, its Implementing Rules and Regulations, and other National Privacy Commission issuances.

Dispute Mechanism. Participants shall have an adequate, prompt, and effective mechanism or procedure for handling and resolving disputes covering Open Finance issues aligned with agreed Conventions, as applicable.

User Consent and access to opt-in and opt-out mechanisms. Proper mechanisms shall be in place to ensure customers' private information is not used for purposes that are against their interests. The customers should, at all times, not only be educated and informed but they must also consent to how their data is being used and be provided with opt-in and opt-out mechanisms if and when they want to withdraw or modify the scope of their consent. Customers must be periodically informed as to how the Participants have utilized their permissioned data within a given period. Proper mechanisms based on industry standards shall be in place in providing a consent management portal/service that is interoperable, open, and has extensible information structure for recording obtained consents, consent duration, timestamp and opted-in/opted-out services, among others.

(Circular No. 1122 dated 17 June 2021)

H. COMPLIANCE, INTERNAL CONTROL, AND AUDIT

171 - T COMPLIANCE SYSTEM

The applicable provisions under Sec. 161-Q (*Compliance program*) shall be adopted by the trust corporations.

(Circular Nos. 1066 dated 04 December 2019 and 972 dated 22 August 2017)

172 - T INTERNAL CONTROL SYSTEM

The applicable provisions under Sec. 162-Q shall be adopted by the trust corporations.

(Circular No. 1066 dated 04 December 2019)

173 - T INTERNAL AUDIT FUNCTION

Internal audit is an independent, objective assurance and consulting function established to examine, evaluate and improve the effectiveness of risk management, internal control, and governance processes of an organization.

The board of directors, in a resolution entered in its minutes, may adopt a suitable continuous audit system to supplement and/or replace the performance of an annual audit. The audit may be conducted in intervals commensurate with the assessed levels of risk in trust and investment management operations: *Provided,* That such intervals shall be supported and reassessed regularly to ensure appropriateness given the current risk and volume of the trust and investment management operations. In any case, the audit shall ascertain whether the institution's trust and other fiduciary business and investment management activities have been administered in accordance with laws, Bangko Sentral rules and regulations, and sound trust or fiduciary principles. The report of the audit, together with the actions thereon, shall be noted in the minutes of the trust corporation's board of directors. Other applicable provisions of Sec. 163-Q shall likewise be adopted by the trust corporation.

174 - T FRAMEWORK ON THE SELECTION OF EXTERNAL AUDITORS

Policy Statement. The Bangko Sentral considers the external auditing profession as a partner in promoting the integrity of financial reports and transparency in the financial system. In this light, the Bangko Sentral is issuing this framework on the selection of external auditors (individual practitioners and audit firms) for Bangko Sentral Supervised Financial Institutions (BSFIs) in line with its cooperative arrangements with the Securities and Exchange Commission (SEC), Insurance

Commission (IC), and Philippine Deposit Insurance Corporation (PDIC), under the auspices of the Financial Sector Forum (FSF).

Appointment of External Auditors of BSFIs

a. BSFIs shall engage the services of an external auditor included in the List of Selected External Auditors for BSFIs. In this respect, a BSFI shall only appoint an external auditor belonging to the same category or from categories higher than the category of the BSFI concerned as provided in this section: *Provided*, That the Monetary Board may require the BSFI to appoint an external auditor from higher categories as part of the Bangko Sentral's supervisory action on the BSFI. The external auditor appointed by the BSFI shall likewise audit the BSFI's trust department as well as its subsidiaries and affiliates engaged in allied activities, as applicable.

b. External Auditors shall be classified into three categories and shall extend their services to BSFIs belonging to the same category or from categories lower than the category of the external auditor, as follows:

(1) Group A

(a) UBs/KBs
(b) Foreign banks and branches or subsidiaries of foreign banks
(c) Banks, trust departments and trust corporations with additional derivatives authority, pursuant to Sec. 613 of the MORB

(2) Group B

(a) TBs
(b) NBFIs with quasi-banking license
(c) Trust departments and trust corporations

(3) Group C

(a) RBs and Coop Banks
(b) Non-stock Savings and Loan Associations
(c) Pawnshops
(d) Remittance and Transfer Companies (RTCs)/Money Changers/Foreign Exchange Dealers (MCs/FXDs), including Virtual Currency Exchanges and Electronic Money Issuers
(e) Credit Card Issuers/Acquirers

The above categories shall include their subsidiaries and affiliates engaged in allied activities and other financial institutions subject to Bangko Sentral's consolidated supervision.

c. External auditors applying for first time inclusion or renewal of inclusion in the List of Selected External Auditors for BSFIs shall submit their application to the SEC. The application shall be subject to the requirements set out by the SEC as agreed upon by the Bangko Sentral, SEC, IC and PDIC.

d. The inclusion in the List of Selected External Auditors for BSFIs shall be valid for five (5) years or for a shorter period prescribed by the financial sector supervisors.

e. The Bangko Sentral shall periodically evaluate the performance of the external auditor through an assessment of the quality of the BSFI's audited financial statements and its compliance with the requirements provided under this Section. The results of assessment shall serve as basis for the continuing inclusion of external auditors in the List of Selected External Auditors for BSFIs.

f. The external auditor, including the engagement and quality control partners of the audit firm, of the BSFI shall be rotated in accordance with the relevant provisions of the Code of Ethics for Professional Accountants in the Philippines as adopted by the Philippine Board of Accountancy.

Audit Engagement and Reportorial Requirements

a. The BSFI's Audit Committee/board of directors/board of trustees shall ensure that the scope of external audit work appropriately covers areas relevant to BSFI's operations and risk exposures. These include the following:

(1) Review of the adoption of applicable reporting framework as well as the assessment of the accuracy, adequacy, and reliability of accounting records and financial reports;
(2) Assessment of the propriety and adequacy of disclosures in the financial statements;
(3) Assessment of the adequacy and effectiveness of internal controls and risk management systems;
(4) Assessment of the quality of capital in relation to risk exposures; and
(5) Evaluation of the quality of corporate governance.

b. The engagement contract of BSFIs with the external auditor shall include, at a minimum, the following provisions:

(1) That disclosure of information, such as those enumerated under Item *"c"* of this Section (*Audit engagement and reportorial requirements*), by the external auditor to the Bangko Sentral and/or other financial sector supervisors shall not constitute a breach of confidentiality on the part of the external auditor nor shall it be a ground for civil, criminal, or disciplinary proceedings against the external auditor;

(2) That the external auditor shall be allowed read-only access to the Bangko Sentral's Report of Examination on the BSFI and that the external auditor shall appropriately consider the contents thereof and maintain its confidentiality; and

(3) That the BSFI concerned and external auditor shall comply with all the requirements under this Section. The engagement contract shall be made available by the BSFI to the Bangko Sentral upon request.

c. The external auditor shall report to the appropriate supervising department of the Bangko Sentral within fifteen (15) calendar days upon discovery of any matter adversely affecting the condition or soundness of the BSFI, such as, but not limited to the following cases:

(1) Any material finding involving fraud or error;

(2) Actual or potential losses, the aggregate of which amounts to at least ten percent (10%) of the consolidated total assets of the BSFI;

(3) Significant doubt as to the ability of the BSFI to continue as a going concern;

(4) Material breach of laws or Bangko Sentral rules and regulations such as but not limited to prescribed capital and liquidity ratios, significant deficiency in allowance for credit losses, material weaknesses in fair value measurement methodology, and significant vulnerabilities to money laundering and combating the financing of terrorism;

(5) Material internal control weaknesses which may lead to financial reporting problems; and

(6) Findings on matters of corporate governance that may require urgent action by the Bangko Sentral.

Where a thorough investigation or evaluation of facts is necessary on the noted case, an initial report shall be submitted within the prescribed timeline: Provided, That a complete report is submitted not later than fifteen (15) calendar days from completion of investigation or evaluation.

In case there are no matters to report, the external auditor shall submit to the appropriate supervising department of the Bangko Sentral, not later than 120 calendar days after the close of the calendar year or the fiscal year adopted by the BSFI, a certification that there is none to report.

d. The board of directors and management of the BSFI shall be primarily responsible for the financial statements submitted to the Bangko Sentral. External auditors are expected to conduct the audit of financial statements in accordance with the provisions of the Philippine Standards on Auditing.

e. The external auditor shall directly inform the appropriate supervising department of the Bangko Sentral of the pre-termination of the engagement contract or his/her resignation/replacements as external auditor as well as the reasons thereto, within fifteen (15) calendar days of the pre-termination of the contract or his/her resignation/replacement.

Supervisory Enforcement Action

The Bangko Sentral reserves the right to deploy its range of supervisory enforcement actions to promote adherence with the requirements set forth in this Section and bring about timely corrective actions. For this purpose, the Bangko Sentral may issue directives or impose sanctions on BSFIs and/or its directors/trustees who approved the appointment of the external auditor, who/which are not in the List of Selected External Auditors for BSFIs, and/or for non-compliance with the provisions of this Section. The Bangko Sentral may likewise shorten the period of validity of inclusion of an external auditor in the List of Selected External Auditors for BSFIs, suspend, or delist external auditors from its List of Selected External Auditors for BSFIs based on the results of assessment of the quality of audited financial statements (AFS) as well as non-compliance with the provisions of this Section. The guidelines on the supervision/delisting of external auditor in the list of selected external auditors for BSFIs is prescribed in *Appendix Q-30/S-7/N-5.*

Transitory provisions

a. External auditors whose inclusion in the List of Selected External Auditors for BSFIs is valid to cover the audit of 2018 financial statements are hereby given one (1) year extension on their inclusion in the List of Selected External Auditors for BSFIs allowing them to engage in the audit of the 2019 financial statements.

b. All applications (new and renewal) for inclusion in the List of Selected External Auditors for BSFIs to cover in the audit of 2020 financial statements and thereafter shall be filed with the SEC starting June 2019.

(Circular Nos. 1066 dated 04 December 2019 and 1040 dated 20 May 2019)

I. REPORTING GOVERNANCE

181 - T AUDITED FINANCIAL STATEMENTS OF TCs; FINANCIAL AUDIT

The Bangko Sentral recognizes that external auditors play a vital role in contributing to the conduct of effective supervision and sustaining the confidence of the public in the financial system. In this light, the regulations on financial audit aim to enhance the quality of information channeled to the supervisory process and ultimately promote fairness, transparency and accuracy in financial reporting.

The following rules shall govern the submission of audited financial statements (AFS) of trust corporations (TCs).

For purposes of this Section, AFS shall include the balance sheets, income statement, statement of changes in accountabilities, notes to financial statements, and the opinion of the external auditor.

Financial Audit. TCs shall cause an annual financial audit by an external auditor included in the List of Selected External Auditors for BSFIs not later than thirty (30) calendar days after the close of the calendar year or the fiscal year adopted by the TC. The financial audit shall cover the financial statements of both the TC proper and the trust and managed funds of the TC.

The AFS shall be submitted by the TC, to the appropriate supervising department of the Bangko Sentral, not later than 120 calendar days after the close of the calendar year or the fiscal year adopted by the TC, accompanied by the documentary requirements as enumerated under *Appendix T-6*.

In addition, the external auditor shall be required by the TC to submit to the board of directors a Letter of Comments (LOC) indicating any material weakness or breach in the institution's internal control and risk management systems not later than 120 calendar days after the close of the calendar year or fiscal year adopted by the TC. If no material weakness or breach is noted to warrant the issuance of an LOC, a certification under oath stating that no material weakness or breach in the internal control and risk management systems was noted in the course of the audit of the TC shall be submitted in its stead, together with the AFS.

Material weakness shall be defined as a significant control deficiency, or combination of deficiencies that results in more than a remote likelihood that a material misstatement of the financial statements will not be detected or prevented by the institution's internal control. A material weakness does not mean that a material misstatement has occurred or will occur, but that it could occur. A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the institution's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles. The phrase "more than remote likelihood" shall mean that future events are likely to occur or are reasonably possible to occur.

The board of directors, in a regular or special meeting, shall consider and act on the AFS and the LOC and shall submit not later than 120 calendar days after the close of the calendar year or fiscal year adopted by the TC, a copy of its resolution (containing the date of receipt of the AFS and LOC by the board of directors) to the appropriate supervising department of the Bangko Sentral. The resolution shall show the action(s) taken on the AFS and the findings and recommendations stated in the LOC, if any.

Government-owned or-controlled TCs including their subsidiaries and affiliates under Bangko Sentral supervision which are under the concurrent jurisdiction of the Commission on Audit (COA) shall be exempt from the aforementioned annual financial audit by an external auditor included in the List of Selected External Auditors for BSFIs: *Provided,* That, when warranted by the supervisory concern such as material weakness/breach in internal control and/or risk management systems, the Monetary Board may, upon recommendation of the appropriate supervising department of the Bangko Sentral, require the financial audit to be conducted by an external auditor included in the List of Selected External Auditors for BSFIs, at the expense of the TC concerned: *Provided, further,* That when circumstances such as, but not limited to loans from multilateral FIs, privatization, or public listing warrant, the financial audit of the institution concerned by an external auditor included in the List of Selected External Auditors for BSFIs may also be allowed.

TCs under the concurrent jurisdiction of the Bangko Sentral and COA shall, however, submit a copy of the annual audit report (AAR) of the COA to the appropriate supervising department of the Bangko Sentral within forty (40) calendar days after receipt of the AAR by the board of directors. The AAR shall be accompanied by the: (a) certification by the institution concerned on the date of receipt of the AAR by the board of directors; (b) reconciliation statement between the AFS in the AAR and the balance sheet and income statement of TC and trust department submitted to the Bangko Sentral, including copies of adjusting entries on the reconciling items; and (c) other information that may be required by the Bangko Sentral. The board of directors of said institutions, in a regular or special meeting, shall consider and act on the AAR, as well as on the comments and observations and shall submit, within thirty (30) banking days after receipt of the report, a copy of its resolution to the appropriate supervising department of the Bangko Sentral. The resolution shall show the action(s) taken on the report, including on the comments and observations and the names of the directors present and absent, among other things.

The AFS required to be submitted shall in all respect be Philippine Financial Reporting Standards (PFRS)/PAS-compliant.

TCs as well as external auditors shall strictly observe the requirements in the submission of the AFS and reports required to be submitted under *Appendix T-6.*

The reports and certifications of institutions concerned, schedules and attachments required under this Section shall be considered as *Category B reports*, delayed submissions of which shall be subject to the penalties under Item *"b.ii"* of Sec. 172-Q *(Sanctions in case of willful delay in the submission of reports/refusal to permit examination).*

Posting of audited financial statements. TCs shall post in conspicuous places in their head offices, all their branches and other offices, as well as in their respective websites, their latest AFS.

Disclosure requirements in the notes to the audited financial statements. TCs shall disclose the information prescribed under Annex C of *Appendix T-5* in the AFS.

(Circular No. 1075 dated 07 February 2020 and 1066 dated 04 December 2019)

182 - T RECORDS

TCs shall have a true and accurate account, record or statement of their daily transactions. The TC shall also keep books and records on trust, other fiduciary and IMAs separate and distinct from the books and records of its proprietary accounts and shall strictly follow and implement the FRPTI prescribed by the Bangko Sentral.

The making of any false entry or the willful omission of entries relevant to any transaction is a ground for the imposition of administrative sanctions under Section 37 of R.A. No. 7653, without prejudice to the criminal liability of the director or officer responsible therefor under Sections 35 and 36 of R.A. No. 7653 and/or the applicable provisions of the Revised Penal Code. Records shall be up-to-date and shall contain sufficient detail so that an audit trail is established. Other provisions of Sec. 171-Q and 435-Q shall be adopted in so far as applicable to the TC.

(Circular No. 1066 dated 04 December 2019)

183 - T REPORTS/MANNER OF FILING

The applicable provisions of Sec. 172-Q shall be adopted by the TC, except that, instead of *Appendix Q-3*, the applicable reports for TCs are those enumerated under *Appendix T-4.*

The TC, if a subsidiary/affiliate of a bank, is required to submit a quarterly report to the appropriate supervising department of the Bangko Sentral on its financial transactions with the bank within twenty (20) calendar days after the end of the reference quarter.

(Circular No. 1066 dated 04 December 2019)

J. UNSAFE OR UNSOUND CONDUCT OF BUSINESS

191 - T CONDUCTING BUSINESS IN UNSAFE OR UNSOUND MANNER

Sec. 419-Q, on unsafe and unsound practices shall be adopted for trust corporations.

(Circular No. 1066 dated 04 December 2019)

K. LIQUIDATION AND RECEIVERSHIP

192 - T VOLUNTARY LIQUIDATION

A TC which intends to surrender its trust license shall file with the Bangko Sentral a certified copy of the resolution of its board of directors manifesting such intention. The appropriate supervising department of the Bangko Sentral shall then

conduct an examination of the TC's trust, other fiduciary business and investment management activities. If the TC is found to have satisfactorily discharged its duties and responsibilities as trustee, fiduciary or investment manager, and has provided for the orderly closure or transfer of its trust, fiduciary or IMAs, the Monetary Board, on the basis of the recommendation of the examining department, shall order the revocation of the institution's authority to engage in trust and other fiduciary management activities.

TCs shall adopt the provisions of *Appendix Q-60* on the guidelines on voluntary liquidation.

(Circular No. 1066 dated 04 December 2019)

193 - T RECEIVERSHIP AND INVOLUNTARY LIQUIDATION

The Monetary Board, after considering the report of the appropriate supervising department of the Bangko Sentral, may revoke the TC's authority to engage in trust, other fiduciary business and investment management activities in accordance with Section 37 of R.A. No. 7653. Upon revocation of the trust, other fiduciary and investment management license, the TC shall be required to wind down and liquidate its trust, other fiduciary business and investment management activities, and distribute proceeds thereof to its clients. It shall be unlawful for any such TC to thereafter perform or engage in trust, other fiduciary business and investment management activities.

Whenever a receiver is appointed by the Monetary Board for a TC, the receiver shall, pursuant to the instructions of the Monetary Board, proceed to close the trust, other fiduciary and IMAs promptly and/or transfer all other accounts to substitute trustees, fiduciaries or investment managers acceptable to the trustors, beneficiaries, principals or other parties in interest: *Provided,* That where the trustee, fiduciary or investment manager is acting as such under appointment by a court, the receiver shall proceed pursuant to the instructions of said court.

The guidelines on receivership and liquidation of banks found in Sec. 192 of the MORB, shall apply to the placement of a trust corporation under receivership or liquidation, to the extent possibly, or by analogy.

In case of a TC which license has been revoked by the Monetary Board, any director or officer thereof

a. who refuses to turn over the corporation's records and assets under management to the appointed successor-trustee(s), or
b. who tampers with the corporation's records, or
c. who appropriates for himself for another party or destroys or causes the misappropriation and destruction of the TC's assets under management, or
d. who receives or permits or causes to be received in said corporation any part or all of the assets under management, or
e. who pays out or permits or causes to be transferred any part thereof,

shall be subject to the penal provisions of the R.A. No. 7653.

(Circular No. 1066 dated 04 December 2019)

PART TWO

ASSET MANAGEMENT OPERATIONS

201 - T MANAGEMENT OF RISK ASSETS/MINIMUM GUIDELINES ON INVESTMENT OPERATIONS

It shall be the responsibility of the board of directors of a trust corporation to formulate written policies on credit and investment activities, and risk diversification and to set the guidelines for evaluation of proprietary and fiduciary assets. Sound credit and investment processes are essential if a trust corporation is to perform its asset management function effectively and minimize the risk inherent in any credit and investment activity. The responsibility should be approached in a way that will provide assurance to the client, the stockholders and supervisory authorities that timely and adequate action will be taken to maintain the quality of the loan and investment portfolio and other fiduciary assets.

Circular No. 1066 dated 04 December 2019)

202 - T LOAN PORTFOLIO AND OTHER RISK ASSETS REVIEW SYSTEM

The following provisions of Sec. 143-Q on operating under a sound credit granting process shall be adopted, in so far as applicable to the TC:

Sec. 143-Q (*Credit approval process*)
Sec. 143-Q (*Credit granting and loan evaluation/analysis process and underwriting standards*)
Sec. 143-Q (*Renewal or extension of maturity date of credits*)
Sec. 143-Q (*Country and Transfer Risks*)
Sec. 143-Q (*Credit Administration*)
Sec. 143-Q (*Credit Risk Measurement, Validation and Stress Testing*)
Sec. 143-Q (*Credit Risk Management Information and Reporting Systems*)
Sec. 143-Q (*Credit Monitoring*)
Sec. 143-Q (*Credit Review Process*)
Sec. 143-Q (*Credit Classification and Provisioning*)
Sec. 143-Q (*Credit Workout and Remedial Management of Problem Credits*)
Sec. 143-Q (*Writing off problem credits*)
Sec. 143-Q (*Enforcement Actions*)

203 - T LARGE EXPOSURES

TCs are expected to adopt policies and processes that will identify, measure, monitor and control large exposures as well as potential conflict of interest in the administration of fiduciary business.

Large exposures should be kept under regular review to ensure quality and controls thereof to safeguard against credit risk concentrations.

Large exposures shall refer to exposures to counterparty or a group of related counterparties equal or greater than five percent (5%) of TC's combined capital account as defined under Sec. 113-T.

204 - T APPLICABLE REGULATIONS ON CREDIT AND INVESTMENT OPERATIONS

Unless otherwise provided herein, the following regulations in Part Two (Asset Management Operations) shall be adopted, in so far as applicable to the TC:

Sec. 301-Q	Grant of Loans and Other Credit Accommodations (except for Sec. 143-Q (*Credit granting and loan evaluation/analysis process and underwriting standards*))
Sec. 304-Q	Interest and Other Charges
Sec. 303-Q	Past Due Accounts and Non-Performing Loans, and Sec. 303-Q (*Exclusion from loan limit*, *Non-performing loans*, and *Updating of information provided to credit information bureaus*)
Sec. 305-Q	"Truth in Lending Act" Disclosure Requirement
Sec. 322-Q	Transactions Covered and Not Covered
Sec. 328-Q	Procedural and Reportorial Requirements
Sec. 361-Q	Purchase of Receivables and Other Obligations
Sec. 362-Q	Acquired Assets in Settlement of Loans (except Sec. 362-Q (*Joint Venture of QBs with Real Estate Development Companies*))

(Circular No. 941 dated 20 January 2017)

205 - T LOANS/CREDIT ACCOMMODATIONS TO DIRECTORS, OFFICERS, STOCKHOLDERS AND THEIR RELATED INTERESTS (DOSRI) AND RELATED PARTIES

Dealings of a TC with any of its DOSRI and related parties[1] shall be in the regular course of business and upon terms not less favorable to the trust corporation and/or its clients than those offered to others. DOSRI shall be defined in accordance with the definitions under Sec. 321-Q (*Definitions*) and Sections 12 and 13 of R.A. 8791 on related interests.

The TC is expected to clearly articulate policies and procedures on the handling of any transaction with DOSRI and other related parties ensuring that there is appropriate disclosure and effective compliance with existing laws, rules and regulations at all times and no stakeholder is unduly disadvantaged.

(Circular No. 970 dated 22 August 2017)

206 - T TRANSACTIONS NOT COVERED

The provisions under Sec. 322-Q (except its Subtopics) shall be adopted by the TC.

207 - T REPORTS

The TC shall submit a report to the appropriate supervising department covering transactions of the TC with its DOSRI and related parties within twenty (20) calendar days from end of the reference quarter. Moreover, TC's records on monitoring large exposures and loans to DOSRI and its related parties shall be made available to the Bangko Sentral examiners for verification at any given time. When warranted, the Bangko Sentral may impose additional reporting requirements on TC in relation to its large exposures and credit risk concentrations.

[1] As defined under Sec. 131-Q, Item "*(o)*"

PART THREE

TRUST, OTHER FIDUCIARY BUSINESS AND INVESTMENT MANAGEMENT ACTIVITIES

301 - T STATEMENT OF PRINCIPLES

The cardinal principle common to all trust and other fiduciary relationships is fidelity. Policies predicated upon this principle shall be directed towards observance of the following:

a. *Prudent administration*. The trust, investment management and other fiduciary accounts shall be administered in conformity with the intention and purpose of the client as manifested in the terms of the agreement, and with the skill, care, prudence and diligence necessary under the circumstance then prevailing that a prudent man acting in like capacity and familiar with such matters would exercise in the conduct of an enterprise of like character and with similar aims.

b. *Undivided loyalty and utmost care*. In the discharge of fiduciary responsibility, the interests of clients shall be placed above those of the TC. Clear policies and procedures shall be developed in dealing with conflict of interest situations. The fiduciary assets shall be objectively and fairly administered, invested and distributed giving due regard to the beneficiaries' respective interests.

c. *Non-delegation of responsibilities*. The administration of the trust, investment management, or fiduciary responsibilities or the performance of acts that should be personally performed shall not be delegated as the client's confidence is reposed on the TC.

d. *Preserving and protecting property*. Reasonable care and diligence shall be observed to preserve and protect the property entrusted. Fiduciary assets shall be kept legally separate and distinct from proprietary assets and from one fiduciary/trust/investment management account to another.

e. *Keeping and rendering accounts*. A true and accurate account or record of transactions entered into shall be kept. Reports on the trust, investment management and other fiduciary accounts shall be rendered to the trustor, principal, beneficiary or other party in interest, or the court concerned, or any party duly designated by a court order, as the case may be, in accordance with Sec. 435-Q (*Books, Records and Reports Required*). Likewise, all material facts within the knowledge or reasonably discoverable by the TC, particularly information that would enable clients to make well-informed decisions, shall be promptly transmitted/relayed to clients for them to protect their interests.

Furthermore, practices shall be carried out in accordance with the basic standards (*Appendix Q-49*) and risk management guidelines for trust, other fiduciary business and investment management activities *(Appendix Q-50).*

An institution incorporated or authorized to engage in trust and fiduciary business is under no obligation, either legal or moral, to accept any such business being offered nor has it the right to accept if the same is contrary to law, rules, regulations, public order and public policy. It shall advertise its services in a dignified manner and enter such business only when demand for such service is evident, when specially equipped to render such service and upon full appreciation of the responsibilities involved. It shall be ready and willing to give full disclosure of the services being offered and shall conduct its dealing with transparency. Harmonious relationship shall likewise be pursued with other professions to achieve the common goal of mutual service to the public and protection of its interest.

The TC shall formulate and adhere to a Code of Ethics and Professional Standards (Code and Standards), duly approved by the board of directors, that defines the ethical principles and professional conduct of fiduciary functions with the clients' best interest in mind. It shall be the responsibility of the board of directors of the TC to ensure strict conformance with the Code and Standards by all its directors, officers and personnel. To this end, the board of directors shall incorporate compliance procedures in its Code and Standards.

302 - T APPLICABLE REGULATIONS ON TRUST AND OTHER FIDUCIARY ACTIVITIES

Trust operations and investment management activities of trust corporations shall be subject to the applicable regulations in Parts Five (Foreign Exchange Operations), Six (Treasury and Money Market Operations), Seven (Electronic Operations and Other Services) and Nine (Anti-Money Laundering Operations) of the MORNBFI, unless otherwise provided in this Manual. The provisions of Sec. 613 of the MORB that are applicable to trust departments of universal and commercial banks shall apply to trust corporations.

In addition to the provisions in the "T" regulation, trust operations and other fiduciary activities, including investment management shall be subject to the following regulations provided under Part Four of the MORNBFI, in so far as applicable to the TC:

a. Sec. 438-Q Non-Trust, Non-Fiduciary and/or Investment Management Activities

b. Sec. 413-Q Trust and Other Fiduciary Business (except Sec. 413-Q (*Ceilings on loans; Tax-exempt Individual Trust Accounts*)

c. Sec. 414-Q Unit Investment Trust Funds

d. Sec. 415-Q Investment Management Activities (except on the required pre-numbered contractual agreement form; and except Sec. 415-Q (*Ceilings on Loans; Tax-exempt individual investment management accounts*)

e. Sec. 418-Q Required Retained Earnings Appropriation

f. Sec. 432-Q Custody of Assets

g. Sec. 433-Q Fees and Commissions

h. Sec. 434-Q Taxes

i. Sec. 435-Q Reports Required to Trustor, Beneficiary, Principal;

j. Sec. 499-Q Sanctions (For this purpose the guidelines for the imposition of monetary penalty as shown under Appendix T-2 shall be used by TCs).

k. Sec. 411-Q Authority to Perform Trust and Other Fiduciary Business

(Circular Nos. 1119 dated 07 June 2021, 1031 dated 07 February 2019, and 903 dated 29 February 2016)

Trust fund of pre-need companies. The rules and regulations on the acceptance, management and administration of trust funds of pre-need companies by TCs shall be governed by Chapter VIII of the Pre-need Code of the Philippines (Republic Act No. 9829).

(Circular Nos. 1119 dated 07 June 2021, 1031 dated 07 February 2019 and 903 dated 29 February 2016)

303 - T FOREIGN CURRENCY DENOMINATED TRUST, OTHER FIDUCIARY AND INVESTMENT MANAGEMENT ACCOUNTS

A TC may accept foreign currency-denominated (FCD) trust, other fiduciary and IMA accounts in any acceptable foreign currency.

For purposes of this Section, *"acceptable foreign exchange"* comprise those foreign currencies which are acceptable to and exchangeable at the Bangko Sentral and which form part of the international reserves of the country.

Applicability of rules and regulations. Unless otherwise revised by the provisions of this Section, the rules and regulations governing the administration of trust, other fiduciary or investment management accounts, including UITFs, shall be observed.

Allowable loans and Investments. FCD accounts may be invested in loans and investments as allowed under the written contract between the TC and its clients: *Provided,* That the loans and investments are allowed under existing Bangko Sentral regulations and are properly disclosed to trustors/principals/fund participants: *Provided further,* That the pertinent rules and regulations in the Manual of Regulations on Foreign Exchange Transactions (Part V of MORB) are complied with.

The TC shall adopt a written policy on the determination of the level of liquid assets appropriate to each client after considering the client's mandate/s or objective/s, given constraints and unique needs and circumstances. The Investment Policy Statement of each client shall show the basis for the client's liquidity requirement.

Accounting. TCs shall maintain a separate accounting for these foreign currency transactions that will enable preparation of the Balance Sheet and Income Statement covering said funds. FCD assets and accountabilities shall be recorded at their foreign currency amounts and their local currency equivalent using the Philippine Dealing System (PDS) Peso/US Dollar closing rate and the New York US Dollar/Third Currencies closing rate. For purposes of preparing the FCD financial statements, the TC shall use the US dollar (USD) as its functional currency. However, for purposes of consolidating the FCD financial statements with the Peso financial statements, these shall be translated into the presentation currency, i.e. Philippine Peso (PHP).

The TC shall also prepare financial reports to clients as required under Sec. 435-Q, reflecting dollar denominated assets and accountabilities and consolidated reports reflecting the peso and foreign currency (translated into Philippine Peso) denominated assets and accountabilities.

304 - T SECURITIES CUSTODIANSHIP AND SECURITIES REGISTRY OPERATIONS

The provisions under Sec.631-Q, shall apply to trust corporations (TC) applying for authority to conduct securities custodianship and securities registry operations.

(Circular No. 1121 dated 8 June 2021)

PART FOUR

OTHER REGULATIONS

401 - T ANNUAL SUPERVISION FEES

Trust Corporations shall pay to the Bangko Sentral an annual supervision fee of 0.01% of the average monthly balance of assets under management for the first three (3) years of the trust corporation's operations. However, a supervision fee of 0.02% of the average monthly balance of assets under management shall be imposed on the year and onwards. Securities held under custodianship shall be exempt from annual fees. The average monthly balance shall refer to the sum of the twelve (12) month-end balances of the preceding calendar year divided by a factor of twelve (12). Said annual supervision fee shall be paid by the trust corporations on or before end-February of every year. Non-payment of the supervisory fee within the prescribed period shall subject the concerned trust corporation to the sanctions prescribed under Section 37 of R.A. No. 7653.

(M-2021-023 dated 12 April 2021 and M-2019-010 dated 8 April 2019)

402 - T OTHER PAYMENTS OF TCs

Payments to the Bangko Sentral. TCs shall make payments for transactions, including penalties and other charges, other than those required to be paid through the TC's DDA, in accordance with the manner of payments provided in the billing notice, or through any such acceptable means of payment as may be provided in pertinent advisories issued by the Bangko Sentral. Such payments shall be accompanied by the appropriate form as shown in *Appendix Q-27.* Payments not accompanied by the required payment forms shall be presumed to be additions to reserves and shall be credited to the DDA of the paying TC.

Check payments shall be value-dated when the check is cleared.

(Circular No. 1125 dated 20 August 2021)

403 - T APPLICABLE REGULATIONS ON TCs

Trust operations and investment management activities of trust corporations shall be subject to the applicable regulations in Parts Five (Foreign Exchange Operations), Six (Treasury and Money Market Operations), Seven (Electronic Operations and Other Services) and Eight (Anti-Money Laundering Operations), and Ten (Financial Consumer Protection Framework) including the provisions of Section 002-T (Enforcement Actions) of the MORNBFI, unless otherwise provided in this Manual.

Transitory Provision.

Trust Corporations spun off from trust departments of banks/NBFIs, may continue to operate as a trust department within a reasonable period of time, to be determined by the Bangko Sentral, after the grant of the Authority to Operate as trust corporation. Necessary documentations and transfer of resources may be done during this period: *Provided,* That new services and/or products to be offered by the trust corporation during this period shall be rendered by the newly incorporated trust corporation: *Provided, further*, That all necessary arrangements, notices to clients/investors/creditors shall be made by the trust corporation immediately after receipt of approval from the Bangko Sentral of its Authority to Establish as a trust corporation.

Compliance with the required basic security deposit during and after transition period.

a. During transition period

   (1) Spun-off trust department shall maintain basic security deposit equivalent to one percent (1%) of its previous end-of-day balance of total trust, investment management, and other fiduciary assets;

   (2) The newly established trust corporation shall maintain basic security deposit equivalent to the higher of P500,000 or 0.05% of the previous end-of-day balance of total trust, investment management, and other fiduciary asset; and

   (3) A weekly report on the daily compliance with the required basic security deposit shall be submitted to the Bangko Sentral by the first business day following the reference calendar week (Monday to Sunday).

b. After the transition period

   (1) The newly established trust corporation shall maintain basic security deposit equivalent to the higher of P500,000 or 0.05% of the balance of the total trust, investment management, and other fiduciary assets as of the end of transition period until one (1) calendar quarter of operations; and

(2) Thereafter, the trust corporation shall maintain the required basic security deposit under Sec. 131-T (*Valuation of securities and basis of computation of the basic security deposit requirement*).

The trustee or fiduciary shall have ten (10) calendar days after end of day from the start of the transition period until one (1) calendar quarter of operation after end of the transition period within which to deposit with the Bangko Sentral the additional securities to comply with the required securities.

((Circular Nos. 1066 dated 04 December 2019, 1048 dated 08 September 2019, 1033 dated 22 February 2019 and 962 dated 08 June 2017)

404-T ELECTRONIC PAYMENT AND FINANCIAL SERVICES

Requirements for the grant of authority to offer EPFS. Pursuant to Sec. 111-T on the Bangko Sentral Policy and Regulations on Licensing, BSFIs that intend to offer EPFS shall obtain the appropriate authority/license, as follows:

Classification	Category of License/Authority
Advanced EPFS	Type A[1]/B[2]
Basic EPFS	Type C

BSFIs shall observe the "Guidelines on Licensing of Electronic Payment and Financial Services" shown in *Appendix Q-89*.

Reportorial requirements. BSFIs shall provide the Bangko Sentral with the required data and updates on their EPFS.

a. *Required Reports.* The following reports shall be submitted to the appropriate supervising department of the Bangko Sentral in the manner prescribed under *Appendix T-4*:

(1) EPFS Transactions and Indicators; and
(2) Changes and Enhancements in EPFS

b. *Sanctions*. Failure to comply with the reportorial requirements shall subject the concerned BSFI to applicable sanctions for "Erroneous/Delayed/Erroneous and Delayed/Unsubmitted reports" as prescribed under Sec. 111-T.

Enforcement action. Failure to comply with the provisions of this Section shall cause the concerned BSFI to be subject to enforcement action in accordance with Sec. 111-T (*Enforcement actions*).

(Circular No. 1033 dated 22 February 2019)

[1] This applies to BSFIs that *can* be assessed against the prudential criteria provided in the Policy and Regulations on Licensing. These applicants must have been examined by the Bangko Sentral.
[2] This applies to proponents that *cannot* be assessed against the prudential criteria provided in the Policy and Regulations on Licensing. These include newly-established BSFIs and new applicants for an authority to operate as "Electronic Money Issuer-Others".

LIST OF APPENDICES

No.	Subject Matter
T-1	List of Appendices of MORB/Q-Regulations Applicable to Trust Corporations
T-2	The Guidelines for the Imposition of Monetary Penalty for Violations/Offenses with Sanctions Falling Under Section 37 of R.A. No. 7653 on Quasi-Banks, Directors and/or Officers
T-3	Aggravating and Mitigating Factors to be Considered in the Imposition of Penalty
T-4	List of Required Reports from Trust Corporations
T-5	Guidelines on Granting of License/Authority
T-6	Checklist of Bangko Sentral Requirements in the Submission of Audited Financial Statements and Annual Audit Report
T-7	Guidelines on the Imposition of Monetary Penalties on TCs, and/or their Directors, Officers and/or Employees for Violations of Banking and other Applicable Laws with Sanctions Falling under Section 37 of Republic Act No. 7653 (The New Central Bank Act), as Amended

LIST OF APPENDICES OF MORB/Q REGULATIONS APPLICABLE TO TRUST CORPORATIONS

Appendix		Reference in T Regulations
MORB		
4	Format of Affidavit on Transactions	Sec. 116-T (Transactions on *Involving Voting Shares of Stocks)*
68	Prompt Corrective Action Framework	Sec. 003-T
Q Regulations		
Q-8	Guidelines on Prescribed Reports Signatories and Signatory Authorization	Sec. 134-T
Q-12	Minimum Internal Control Standards for Quasi-Banks	Sec. 129-T *(same standards is required for Trust Corporations)*
Q-14	Basic Guidelines in Setting Up of Allowance for Credit Losses	Sec. 202-T
Q-15	Format of Disclosure Statement on Small Business/Retail/Consumer Credit	Sec. 204-T
Q-16	Abstract of "Truth in Lending Act" (Republic Act No. 3765)	Sec. 305-Q
Q-18	Sample Investment Management Agreement	Sec. 302-T Sec. 415-Q *(except on the Required pre-numbered contractual agreement form; Ceilings on loans; and Tax exempt individual IMA)*
Q-19	Risk Management Guidelines for Derivatives	Sec. 101-T
Q-22	Guidelines on the Adoption of Philippine Financial Reporting Standards (PFRS 9) – Classification and Measurement	Sec. 204-T Sec. 361-Q
Q-23	Marking to Market Guidelines for Investments in Debt and Equity Securities	
Q-24	Guidelines on the Use of Scripless (RoSS) Securities as Security Deposit for the Faithful Performance of Trust Duties	Sec. 114-T (*Basic security deposit*)
Q-26	Procedures on Collection of Fines/Penalties from Quasi-Banks and/or Directors/Officers of Quasi-Banks	Sec. 402-T
Q-27	Pro-forma Payment Form	
Q-28	Activities Which May Be Considered Unsafe and Unsound Practices	Sec. 135-T
Q-29	Guidelines and Minimum Documentary Requirements for Foreign Exchange Forward and Swap Transactions	Sec. 101-T
Q-30	Guidelines to Govern the Selection, Appointment, Reporting Requirements and Delisting of External Auditors and/or Auditing Firm of Covered Entities	Sec. 131-T

Q-31	Qualifications Requirements for a Bank/Non-Bank Financial Institution Applying for Accreditation to Act as Trustee on any Mortgage or Bond Issued by any Municipality, Government-Owned or Controlled Corporation, or any Body Politic	Sec. 302-T Sec. 413-Q *(except Ceiling on loans; and Tax exempt individual trust accounts)*
Q-32	Checklist of Bangko Sentral Requirements in the Submission of Financial Audit Report, Annual Audit Report and Reports Required Under Appendix Q-30	Sec. 132-T
Q-33	Guide in Preparing the Key Information and Investment Disclosure Statement for Unit Investment Trust Funds	Sec. 302-T Sec. 414-Q
Q-34	Risk Disclosure Statement	
Q-35	Bangko Sentral Rules of Procedure on Administrative Cases Involving Directors and Officers of Quasi-Banks and Trust Entities	Sec. 122-T
Q-36	Documents Required under the Revised Outsourcing Framework for Non-Banks	Sec. 112-T
Q-37	Implementation of the Delivery by the Seller of Securities Directly to the Buyer or to his Designated Securities Custodian/Central Security Depository	Sec. 304-T
Q-38	Delivery of Government Securities to the Investor's Principal Securities Account with the Registry of Scripless Securities	
Sec. 1102-Q (*Guidelines on the imposition of monetary penalties*)	Guidelines on the Imposition of Monetary Penalties	Replaced by *Appendix T-2*
Q-41	Guidelines on Supervision by Risk	Sec. 123-T
Q-42	Guidelines on Market Risk Management	
Q-43	Guidelines on Liquidity Risk Management	
Q-44	Authorization Form for Querying the Bangko Sentral Watchlist Files for Screening Applicants and Confirming Appointments of Directors and Officials	Sec. 121-T
Q-48	Guidelines on the Prohibition Against the Use of Funds from Non-Resident Sources for Placements in the Bangko Sentral's Term Deposit Facility (TDF) and the Overnight Deposit Facility (ODF)	Sec. 302-T
Q-49	Basic Standards in the Administration of Trust, Other Fiduciary and Investment Management Accounts	Sec. 119-T (*Duties and responsibilities of officers*) Sec. 301-T
Q-50	Risk Management Guidelines for Trust and Other Fiduciary Business and Investment Management Activities	Sec. 123-T Sec. 301-T

Q-51	Guidelines for Days Declared as Public Sector Holidays	Sec. 101-T
Q-52	Guidelines on the Submission of Application for Merger and Consolidation	Sec. 104-T
Q-57	Guidelines on the Adoption of Philippine Financial Reporting Standards 9 (PFRS 9) – Impairments	Sec. 133-T
Q-58	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)	Sec. 118-T
Q-59	List of Members of the Board of Directors and Officers	
Q-60	Guidelines on Receivership and Liquidation Proceedings of Non-Banks with Quasi-Banking Functions and Trust Entities	Sec. 136-T Sec. 137-T
Q-61	IT Risk Management Standards and Guidelines Area: IT Audit	Sec. 123-T
Q-62	IT Risk Management Standards and Guidelines Area: Information Security	
Q-63	IT Risk Management Standards and Guidelines Area: Project Management/Development, Acquisition and Change Management	
Q-64	IT Risk Management Standards and Guidelines Area: IT Operations	
Q-65	IT Risk Management Standards and Guidelines Area: IT Outsourcing/Vendor Management	
Q-66	IT Risk Management Standards and Guidelines Area: Electronic Banking, Electronic Payment, Electronic Money and Other Electronic Products and Services	
Q-67	Report on Breach in Information Security	

(Circular Nos. 967 dated 27 July 2017, 913 dated 02 June 2016, and 884 dated 22 July 2015)

THE GUIDELINES FOR THE IMPOSITION OF MONETARY PENALTY FOR VIOLATIONS/OFFENSES WITH SANCTIONS FALLING UNDER SECTION 37 OF R. A. NO. 7653 ON QUASI-BANKS, DIRECTORS AND/OR OFFICERS

(Appendix to Sec. 001-Q, Sec. 002-Q, Sec. 499-Q, Sec. 1003-N)

(Deleted by Circular No. 988 dated 20 December 2017)

AGGRAVATING AND MITIGATING FACTORS TO BE CONSIDERED IN THE IMPOSITION OF PENALTY

(Deleted by Circular No. 988 dated 07 February 2017, and as amended by M-2019-007 dated 14 March 2019, M-2019-014 dated 3 May 2019, and M-2019-015 dated 15 May 2019)

LIST OF REPORTS REQUIRED FROM TRUST CORPORATIONS

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
A-1		Secs. 134-T & 172-Q (Publication Requirements) *(Cir. No. 967 dated 07.27.17, M-027 and M-028 dated 09.11.17)*	Balance Sheet/Consolidated Balance Sheet for Publication (For Banks consolidated reports are applicable to parent banks with subsidiary banks and other financial allied undertakings excluding insurance companies)	Quarterly	20 banking days from the date of Call Letter	sdctc-pbs@bsp.gov.ph
			Control Prooflist			
			Scanned copy of Published Balance Sheet with Publisher's Certificate (PBS)		5th business day from publication date	
A-1	Unnumbered	*(Circular No. 967 dated 07.27.17, M-027 dated 09.11.17, and M-028 dated 09.11.17)*	Expanded Report on Real Estate Exposures – solo	Quarterly	30 banking days after end of reference quarter	sdctc-ree@bsp.gov.ph
			Control Prooflist			
A-1	Unnumbered	*(Cir. No. 967 dated 07.27.17, M-027 dated 09.11.17, and M-028 dated 09.11.17)*	Financial Reporting Package (FRP)	Quarterly	15 banking days after end of reference quarter	sdctc-frp@bsp.gov.ph
			Balance Sheet			
			Schedules:			
			1 - Deposit in Banks			
			2 - Financial Assets Designated at Fair Value through Profit or Loss			
			3 - Available - for - Sale Financial Assets			
			4 - Held-to-Maturity (HTM) Financial Assets			
			5 - Unquoted Debt Securities Classified as Loans			

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
			6 - Loans and Receivables – Others			
			7 - Accrued Interest Income/Expense from Financial Assets and Liabilities			
			8 - Trust Corporation Premises, Furniture and Equipment			
			9 - Schedule of Tax Assets and Liabilities			
			10 - Other Assets			
			11 - Bonds Payable and Redeemable Preferred Shares			
			12 - Other Liabilities			
			13 - Investment in Debt Instruments Issued by LGUs and Loans Granted to LGUs			
			Notarized Control Prooflist			
A-1	Unnumbered	Sec. 613-Q *(Reporting requirements)*	Report on Outstanding Derivatives Contracts	Monthly	15th business day from end of reference month	Appropriate supervising department of the Bangko Sentral
A-1	Unnumbered	Sec. 613-Q *(Reporting requirements)*	Report on Trading Gain/(Loss) on Financial Derivatives	Monthly	15th business day from end of reference month	-do-
A-1	Unnumbered	Sec. 172-Q *(M-028 dated 09.11.17 and Cir. No. 1131 dated 13 December 2021)*	Comprehensive Credit and Equity Exposures Report (COCREE)[1]	Monthly	15 business days after end of reference month	Via FI portal

[1] To facilitate the transition to the COCREE Report, the CREDEX Report shall continue to be submitted quarterly in accordance with its existing deadline and reporting rules until otherwise advised by the Bangko Sentral, while the COCREE Report shall be submitted based on the schedule provided in the footnote under Sec. 172-Q (Comprehensive Credit and Equity Exposures Report).

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
A-2	BSP 7-16-11	Secs. 122 & 116-T *(Transactions Involving Voting Shares of Stocks)*	Consolidated List of Stockholders and Their Stockholdings	Annual/quarterly when any changes occur	12th business day after the end of the calendar year and if there are changes, 12th business day after the end of the reference quarter	Appropriate supervising department of the Bangko Sentral
A-2	Unnumbered (no prescribed form)	Sec. 132 *(Specific duties and responsibilities of the board of directors; Specific duties and responsibilities of a director)* *(Cir. No. 967 dated 07.27.17 and Cir. No. 970 dated 08.22.17)*	Certification under oath of directors that they have received copies of the general responsibility and specific duties and responsibilities of the board of directors and that they fully understand and accept the same	Upon election as first-time director with a trust corporation or banking group	20th business day from date of election	-do-
A-2		Sec. 109-T *(Reports)*	Certification on the Fitness and Propriety of marketing personnel and the existence of policy on the handling of trust corporations' marketing personnel. (NEW REPORT)	Annual	On or before 30 January of the following year	-do-
A-2	BSP-7-26-24	Sec. 172-Q *(Reports)* *(Cir. No. 967 dated 07.27.17, M-027, and M-028 dated 09.11.17)*	Credit and Equity Exposures to Individuals/Companies/Groups Aggregating P1 million & above (CREDEX)	Quarterly	15 banking days after end of reference quarter	sdctc-credex@bsp.gov.ph
			Notarized Control Prooflist	Quarterly	15th business day from end of reference quarter	sdctc-credex@bsp.gov.ph

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
A-2	Unnumbered	Sec. 133-T *(Reports)* *(Cir. No. 913 dated 06.05.16, M-009 dated 06.23.16, Cir. No. 967 dated 07.27.17, M-027 dated 09.11.17 and M-028 dated 09.11.17)*	Financial Reporting Package for Trust Institutions (FRPTI)	Quarterly	20 banking days after end of reference quarter	sdctc-frpti@bsp.gov.ph
			Schedules:			
			Balance Sheet			
			A1 to A2 Main Report			
			B to B2 Details of Investments in Debt and Equity Securities			
			C to C2 Details of Loans and Receivables			
			D to D2 Wealth/Asset/Fund Management-UITF			
			E-Fiduciary Accounts			
			E1 to E1B – Other Fiduciary Services-UITF			
			Income Statement			
			Control Prooflist			
A-3		Secs. 323-Q & 205-T	Transmittal of Board Resolution/Written Approval on Credit Accommodations to Affiliates	As loans to affiliate is approved	20th business day after date of approval	Original and duplicate to appropriate supervising department of the Bangko Sentral
A-3	BSP-7-26-18.1	Sec. 207-T	Credit Accommodations to Directors, Officers, Stockholders and Their Related Interests	Quarterly	20 calendar days from end of reference quarter	Appropriate supervising department of the Bangko Sentral

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
A-3	Unnumbered	Sec. 328-Q *(Procedural and Reportorial Requirements)* & Sec. 205-T *(Loans/Credit Accommodations to Directors, Officers, Stockholders and their Related Interests (DOSRI) and Related Parties)*	Copy of Written Approval on Board of Directors on Credit Accommodations to Directors, Officers, Stockholders, and Their Related Interests	As approved	20th business day from date of approval	Appropriate supervising department of the Bangko Sentral
A-3	Unnumbered	Sec. 101-T *(Reportorial Requirement)* *(Cir. No. 1033 dated 22 February 2019)*	EPFS Transactions and Indicators	Monthly	15 banking days after end of reference month	sdc-ccbar@bsp.gov.ph
A-3	Unnumbered	Sec. 101-T *(Reportorial Requirement)* *(Cir. No. 1033 dated 22 February 2019)*	Changes and Enhancements in EPFS	Semi-annually	15 banking days after end of reference semester	sdc-ccbar@bsp.gov.ph
B	Unnumbered	Sec. 103-T *(Basic Guidelines in Establishing TCs)*	Documentary requirements/information on organizational structure and operational policies	Upon submission of application to engage in trust corporation		-do-
				As changes occur	15th calendar day from change/issuance	-do-
B		Sec. 136-Q *(Confirmation of election/ appointment of directors/officers)* *(Cir. No. 970 dated 08.22.17)*	Notice of Election/Appointments of Members of Board of Directors and Committees	As changes occur	10th calendar day from election/assumption of office	-do-

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
B	Unnumbered (no prescribed form)	Sec. 137-Q *(Disqualification procedures)* *(Cir. No. 970 dated 08.22.17)*	Report on Disqualification of Director/Officer	As disqualification occurs	Within 72 hours from receipt of report by board of directors	sdc-ccbar@bsp.gov.ph
B	Indicate the form no. [for QB - SES II Form 15 (NP08-TB]	Sec. 136-Q *(Bio-data of directors and officers)* *(Cir. No. 967 dated 07.27.17, M-027 dated 09.11.17, and Cir. No. 970 dated 08.22.17)*	Biographical Data of Directors/Officers with ID picture (BIODATA)	Upon every election/re-election or appointment/pro-motion or if change in name or change in residential address occurs, or if requesting approval for interlocks	20th business day from from the date of election of the directors in which the officers are appointed/promoted or from the date the change of name or residential address occurred.	sdctc-biodata@bsp.gov.ph
			- if submitted in CD form-Notarized first page of each of the directors'/officers Biographical Data saved in CD and control proof list			
			- if sent by electronic mail-Notarized first page of Biographical Data or Notarized list of names of Directors/officers whose Biographical Data were submitted thru electronic mail to be faxed to SDC		20th business day from the date the change of name or residential address occurred	
B	Unnumbered	Sec. 136-Q *(Bio-data of directors and officers, Item "(c)")* *(Cir. No. 967 dated 07.27.17 and Cir. No. 970 dated 08.22.17)*	Notarized List of Members of the Board of the Directors and Officers	Annually	20th business day from the annual election of the board of directors	Hard copy to appropriate supervising department of the Bangko Sentral
B		Sec. 137-Q *(Disqualification procedures)* *(Cir. No. 967 dated 07.27.17 and Cir. No. 970 dated 08.22.17)*	Duly accomplished and notarized authorization form for querying the Bangko Sentral watchlist files	Upon election or appointment/promotion as first time director/officer within a trust corporation or banking group	20th business day from date of election of the directors/meeting of the board of directors in which the officers are appointed/promoted	-do-

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
B	Unnumbered (no prescribed form)	Sec. 132-T *(Audited Financial Statements of TCs; Financial Audit)* Sec. 173-Q *(Audited Financial Statements of TCs; Financial Audit)*	Audited Financial Statements [two (2) sets of AFS: AFS of the trust corporation proper and AFS covering trust operations] for Previous Years Prepared by the External Auditor and the corresponding Auditor's Letter of Comments	Annually	120th calendar day after the end of reference year	Appropriate supervising department of the Bangko Sentral
B		Sec. 172-Q (Reports) *(Cir. No. 967 dated 07.27.17 and Cir. No. 970 dated 08.22.17)*	Certification under oath of independent directors that he/she is an independent director as defined under Sec. 131-Q, Item "(g)" and that all the information thereby supplied are true and correct	Upon election	20th business day from the date of election	Hard copy to appropriate supervising department of the Bangko Sentral
B		Sec. 172-Q /Sec. 132-Q *(Specific duties and responsibilities of the board of directors)* and Sec. 132-Q *(Specific duties and responsibilities of a director)* *(Cir. No. 967 dated 07.27.17 and 970 dated 08.22.17)*	Certification under oath of directors/officers that he/she has all the qualifications and none of the disqualifications	Upon every election/re-election or appointment/ promotion	20th business day form date of election of the directors/meeting of the board of directors in which the officers are appointed/promoted	-do-
B		Sec. 134-T	Report on Intra-Group Transaction	Quarterly	20 calendar days after the end of reference quarter	Hard copy to appropriate supervising department of the Bangko Sentral

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
B	BSP 7-26-26	Sec. 172-Q *(Publication Requirements)* *(Cir. No. 967 dated 07.27.17)*	Balance Sheet for Publication	Quarterly	20th business day from receipt of call	To be submitted to the SDC via electronic mail (sdctc-pbs@bsp.gov.ph) or CD if unable to submit electronically.
			Control Prooflist duly signed by the authorized officer of the institution			
B		Sec. 172-Q *(Reports)* *(Cir. No. 967 dated 07.27.17)*	Annual Report of Management to Stockholders Covering Results of Operations for the Previous Year	Annually	180th calendar days after the close of the calendar /fiscal year elected by the trust corporation	Appropriate supervising department of the Bangko Sentral
B	Unnumbered	Sec. 173 *(Report on crimes/losses)* *(Cir. No. 967 dated 07.27.17 and M-027 dated 09.11.17)*	Report on Crimes and/or Losses (RCL)	As crime/incident occurs		sdctc-rcl@bsp.gov.ph
			- initial report		Not later than ten (10) calendar days from knowledge of crime/incident	
			- complete/final report		Not later than twenty (20) calendar days from termination of investigation	
B	Unnumbered	Sec. 172-Q *(Reports)*	Board Resolution on trust corporation's signatories of report submitted to Bangko Sentral	As authorized	3rd day from date of resolution	Appropriate supervising department of the Bangko Sentral
B	BSP 7-26-13	Sec. 303-Q *(Past Due Accounts and Non-Performing Loans)*	Past Due Receivables, Loans and/or Commercial Papers/Private Securities	Quarterly	15th calenday day after end of reference quarter	Appropriate supervising department of the Bangko Sentral

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
B	SES Form 6H (CBP-7-16-21), revised	Sec. 303-Q	Notice of Write-offs of Loans, Other Credit Accommodations, Advances and Other Assets	As write-off occurs	Within thirty (30) business days after every write-off	Appropriate supervising department of the Bangko Sentral
			(i) Sworn statement signed by the President or officer of equivalent rank stating that the write-off did not include DOSRI			
			(ii) Board resolution approving write-off			
B		Sec. 413-Q *(Qualification and accreditation of quasi-banks acting as trustee on any mortgage or bond issuance by any municipality, government owned or controlled corporation, or any body politic)*	Waiver of Confidentiality of Information under Sections 2 and 3 of R.A. No. 1405, as amended	As transaction occurs		Appropriate supervising department of the Bangko Sentral
B	Unnumbered	Sec. 94 of the FX Manual	Report on FX Swaps with Customers[1] where 1st leg is a Purchase of FX Against Pesos (For trust corporations with derivative license)	Monthly	5th business day after end of reference month	IOD @ e-mail: iod@bsp.gov.ph cc: mail SDC
		Cir. No. 967 dated 07.27.17, and M-027 dated 09.11.17	Report on NDF transactions with non-resident	Weekly	2nd business day after end of reference week	sdcndf@bsp.gov.ph
			Control Prooflist			Fax to SDC

[1] Excluding cross country swaps

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
B	SEC Form	*MAB dated 09.02.05*	General Information Sheet	Annually	30th day from date of Annual Stockholders' meeting or if changes occur, 7th day from date of change	Appropriate supervising department of the Bangko Sentral
	Unnumbered	Sec. 147-Q *(Reports)* *(M-027 dated 09.11.17 and M-028 dated 09.11.17)*	IT Risk Profile Report	Annually	25 calendar days after end of reference year	sdctc-itprofile@bsp.gov.ph
			Certification			
	Unnumbered	*(M-026 dated 09.11.17)*	Registration Form (e-correspondences)	As changes occur		sdctc-rf@bsp.gov.ph
B	BSD-Form-1;	Sec. 416-Q *(Compliance with the basic security deposit requirement)* *(Cir. No. 1032 dated 02.15.19)*	Quarterly Report on Compliance with the Basic Security Deposit Requirement (with certification from Trust officer in the case of trust entities, and designated/authorized officer)	Quarterly	20 banking days after end of every quarter	e-mail to BSD-Quarterly@bsp.gov.ph, SDC e-mail and to appropriate supervising departments
	BSD-PERA-Form-1	Sec. 1121-Q *(Security for the faithful performance of administrators)* *(Cir. No. 1032 dated 02.15.19)*				

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
B	BSD-Form-2;	Sec. 416-Q *(Compliance with the basic security deposit requirement)* *(Cir. No. 1032 dated 02.15.19)*	Report on Basic Security Deposit Transactions with certification from designated/authorized officer	On every deposit, withdrawal, replacement or redemption of securities	3 banking/business days prior to date of securities transfer	e-mail to BSD-Transactional@bsp.gov.ph and to appropriate supervising departments
	BSD-PERA-Form-2	Sec. 1121-Q *(Security for the faithful performance of administrators)* *(Cir. No. 1032 dated 02.15.19)*				

GUIDELINES ON GRANTING OF LICENSE/AUTHORITY
(Appendix to Sec. 111-T [Statement of policy and objectives])

I. Guiding principle

The Bangko Sentral, the licensing authority, has the power to set criteria and reject applications that do not comply with the criteria/standards set. In this light, the Bangko Sentral is providing the following guidelines on its licensing process to establish accountability and promote transparency to banks and BSFIs wishing to apply for any licenses/authorities within the jurisdiction of the Bangko Sentral. These guidelines also aim to provide more consistency in how risk-focused supervision is applied to licensing process.

The Bangko Sentral will not restrict the scope of risk-taking activities of BSFIs consequent of the licenses and/or authorities granted: *Provided, That* these licenses and/or authorities are in line with their business model and strategic direction: *Provided, further,* That BSFIs demonstrate the capacity and ability to implement these strategies.

As indicated in the new licensing policy, applications for licenses and/or authorities are categorized as follows:

a. Type "A" – applications for licenses and/or authorities where compliance with the defined prudential requirements/criteria described in Sec. 111-T is a pre-condition for applicants to be considered eligible;

b. Type "B" – applications for licenses and/or authorities processed regardless of risk profile; and

c. Type "C" -activities which no longer require submission of applications and processing but shall be subject to submission of reports/certification/notification within stated deadlines. However, compliance with pre-qualification requirements is subject to post verification and any false information and/or mispresentation may be a basis for the imposition of appropriate enforcement actions described in Sec. 111-T.

II. Guidelines and procedures

1. Process flow. The licensing application process involves four (4) stages, to wit:

   a. Stage 1. Eligibility test and assessment. The Bangko Sentral shall consider an applicant's eligibility for licenses/authorities categorized as Type "A" in accordance with the standards and/or prudential criteria described in Sec. 111-T; and whether approval thereof is consistent with applicable laws, rules, regulations, policies and safety and soundness considerations.

      In this regard, BSFIs shall signify to the appropriate supervising department of the SES its interest to apply for a license(s) or authority/ies. However, the Bangko Sentral expects each BSFI to have conducted self-assessment vis-à-vis prudential criteria and/or requirements to determine whether it is eligible and/or qualified to apply for any specific license/authority, prior to signifying its interest.

      BSFIs with CAMELS composite rating of below "3", or under PCA or rehabilitation may still be considered eligible, on a case by case basis, upon showing valid justifications and/or verifiable evidence of significant compliance with the comprehensive PCA plan (PCAP)/rehabilitation plan approved by the Bangko Sentral and/or if licenses and/or authorities applied for are vital to the implementation of the PCAP/rehabilitation plan.

   b. Stage 2. Application. The BSFI upon receipt of notice and/or confirmation from the Bangko Sentral of its eligibility can now formally submit its application letter together with the documentary requirements, as applicable to the license/authority applied for. Applications with incomplete documentation will be returned without prejudice to re-submission of a complete application and collection of applicable fees.

   c. Stage 3. Processing. Upon receipt of a complete application, the appropriate supervising department of SES shall proceed in preparing the memorandum elevating to the appropriate approving authority of the Bangko Sentral its recommended action/s.

   d. Stage 4. Decision. Within five (5) working days upon approval and/or confirmation from the appropriate authority of the Bangko Sentral, BSFIs shall expect to be notified of the decision on their request/application.

      The Bangko Sentral may request information and/or documents aside from the minimum documentary requirements for each type of license/authority to arrive at an informed decision. It may also conduct limited inspection or validation, when warranted.

      The Bangko Sentral may approve any application of an eligible applicant after evaluating the application and considering relevant factors. Likewise, the Bangko Sentral may deny applications if (a) significant

supervisory or compliance concerns exist or (b) the applicants fail to provide material information necessary to make an informed decision.

2. Responsibility

The Bangko Sentral expects each applicant to prepare accurately and completely each application/certification/reports submitted to the appropriate department of the Bangko Sentral -SES.

By virtue of the application, the applicant authorizes the Bangko Sentral to conduct an on-site evaluation or inspection for the purpose of ascertaining compliance with relevant laws, rules, regulations and/or directives, and/or applicant's risk management capabilities, when warranted.

For this purpose, the applicant shall include in its application letter the authorization in favor of the Bangko Sentral giving its consent to the conduct of on-site verification of the documents and/or representations stated in the application filed in connection with the license or authority applied for.

3. Fees

An applicant, depending on its classification and type of license/authority applied for, shall be assessed the following fees per application:

i. Processing fee -shall be charged upon filing of an application and is non-refundable. In case of re-submission of application that is returned for incomplete documentation, another processing fee shall be charged anew; and

ii. Licensing fee -shall be charged to certain application upon approval.

The licensing fee shall be net of the processing fee.

For banks, assessed fees shall be debited from the applicants' demand deposit account with the Bangko Sentral upon the lapse of fifteen (15) calendar days reckoned from receipt of Bangko Sentral's decision on its request/application. For this purpose, banks shall, upon filing of an application, state in its application letter the authority to debit their demand deposit account with the Bangko Sentral for the applicable fees to the license or authority applied for. Otherwise, assessed fees shall be paid to the Bangko Sentral.

4. Post decision

Unless otherwise prescribed by the Bangko Sentral, an applicant may file a new application for a denied and/or withdrawn application after the lapse of six (6) months reckoned from the date of denial/withdrawal: *Provided*, That any weaknesses, deficiencies and/or non-compliance with any laws, rules, regulations and/or directives that made the applicants ineligible have already been satisfactorily addressed.

(Circular No. 947 dated 15 February 2017)

CHECKLIST OF BANGKO SENTRAL REQUIREMENTS IN THE SUBMISSION OF AUDITED FINANCIAL STATEMENTS AND ANNUAL AUDIT REPORT
(Appendix to Sec. 132-T (Financial Audit))

Information/Data Required	Deadline for submission
A. Audited Financial Statements (AFS)	
1. AFS	Not later than 120 calendar days after the close of the calendar year or fiscal year adopted by the TC.
2. Certification by the external auditor on compliance with Bangko Sentral requirements on: a. Confidentiality clause pertinent to read-only access to the Report of Examination; and b. Disclosure under Sec. 132-T *(Disclosure requirements in the notes to the audited financial statements)* and other information that may be required.	For submission together with the AFS, not later than 120 after the close of the calendar year or fiscal year adopted by the TC.
3. Reconciliation statement, including copies of adjusting entries on the reconciling items, following the formats in *Annexes A* and *B* of this Appendix, which shall be between the: (a) AFS and FRP; and (b) AFS and the FRP for Trust Institution (FRPTI) for each of the general categories of contractual relationships (i.e., UITF trust, institutional trust, and individual trust; other fiduciary; institutional-agency, and individual -agency; and special purpose trust) of the TC with its clients.	For submission together with the AFS, not later than 120 calendar days after the close of the calendar year or fiscal year adopted by the TC.
4. Letter of Comments (LOC)[1] indicating material weaknesses on internal control and risk management system as well as other issues, which may include findings on the quality of governance[2], that should be brought to the attention of the board/management along with the recommendations for corrective action. Otherwise, a certification by the external auditor that there are no issues noted in the course of the audit to warrant the submission of an LOC.	For submission together with the AFS, not later than 120 calendar days after the close of the calendar year or fiscal year adopted by the TC.
5. Copy of the board resolution showing the actions on the AFS and the submitted LOC, if any.	For submission together with the AFS, not later than 120 calendar days after the close of the calendar year or fiscal year adopted by the TC.
6. The external auditor shall report directly to the Bangko Sentral the following: a. Any material finding involving fraud or error; b. Actual or potential losses the aggregate of which amounts to at least ten percent (10%) of the consolidated total assets of the TC; c. Significant doubt as to the ability of the TC to continue as a going concern; d. Material breach of laws or Bangko Sentral rules and regulations such as but not limited to prescribed capital and liquidity ratios, significant deficiency in allowance for credit	Within fifteen (15) calendar days from discovery.

[1] LOC or equivalent letter to management/board of directors
[2] Reportable issues on the quality of governance shall only pertain to financial reporting matter.

losses, material weaknesses in fair value measurement methodology, significant vulnerabilities to money laundering and countering the financing of terrorism; e. Material internal control weaknesses which may lead to financial reporting problems; and f. Findings on matters of corporate governance that may require urgent action by the Bangko Sentral.	
In case there are no matters to report (e.g., fraud, dishonesty, breach of laws, etc.) a notarized certification that there is none to report.	Not later than 120 calendar days after the close of the calendar year or fiscal year adopted by the TC.
B. Annual Audit Report (AAR) - For TCs under the concurrent jurisdiction of the Bangko Sentral and COA	
1. AAR accompanied by: a. Certification by the institution concerned on the date of receipt of the AAR by the board of directors; b. Reconciliation statement, including copies of adjusting entries on the reconciling items, for the differences in amounts between the: (a) AFS and FRP; and (b) AFS and FRPTI for each of the general categories of contractual relationships (i.e., UITF trust, institutional trust, and individual trust; other fiduciary; institutional-agency, and individual-agency; and special purpose trust) of the TC with its clients; and c. Other information that may be required by the Bangko Sentral.	Within forty (40) calendar days after receipt of the AAR by the board of directors.
2. Copy of the board resolution showing the action taken on the AAR, as well as on the comments and observations, including the names of the directors present and absent, among other things.	Within 30 banking days after receipt of the AAR by the board of directors.

(Circular No. 1075 dated 7 February 2020)

Name of Trust Corporation
Comparison of Submitted Balance Sheet and Income Statement
and Audited Financial Statements
As of (end of calendar or fiscal year)
(In Thousand Pesos)

	Submitted Report	Audited Report	Variance/ Discrepancy	Reasons for Discrepancy
Cash and Other Cash Items				
Due from BSP				
Deposit in Banks				
Financial Assets Designated at Fair Value through Profit or Loss (DFVPL)				
Available-for-Sale (AFS) Financial Assets				
Held-to-Maturity (HTM) Financial Assets				
Loans and Receivables, *net*				
Loans and Receivable Arising from Repurchase Agreements, Certificates of Assignment/Participation with Recourse Transactions				
Accrued Interest Income from Financial Assets				
TC Premises, Furniture, Fixtures and Equipment, *net*				
Other Assets				
Total Assets				
Financial Liabilities Designated at Fair Value through Profit or Loss (DFVPL)				
Bonds Payable				
Redeemable Preferred Shares				
Financial Liabilities Associated with Transferred Assets				
Finance Lease Payment Payable				
Accrued Interest, Taxes and Other Expenses				
Other Liabilities				
Paid-in Capital Stock				
Additional Paid-in Capital				
Retained Earnings				
Other Comprehensive Income				
Total Capital				
Total Liabilities and Capital				
Total Income				
Total Expenses				
Net Income Before Income Tax				

Name of Trust Corporation
(Contractual Relationship of TE, e.g., Institutional-Trust, etc.)
Comparison of Submitted FRPTI Balance Sheet and
Audited Financial Statements
As of (end of calendar or fiscal year)
(In Thousand Pesos)

Accounts	FRPTI	AFS	Discrepancy	Explanation for Discrepancy
Assets (net)				
Cash on Hand, Checks and Other Cash Items				
Due from BSP				
Deposit in Banks				
Financial Assets Designated at Fair Value through Profit or Loss (DFVPL)				
Available-for-Sale (AFS) Financial Assets				
Held-to-Maturity (HTM) Financial Assets				
Unquoted Debt Securities Classified as Loans				
Investments in Non-Marketable Equity Securities				
Loans and Receivables and Loans Arising from Repurchase Agreements and Securities Lending and Borrowing Transactions				
Other Financial Assets				
Investment Properties and Real and Other Properties Acquired				
Other Assets				
Total Assets				
Accountabilities				
Principal				
Accumulated Income				
Net Unrealized Gains/(Losses) on AFS Financial Assets				
Other Accountabilities				
Total Accountabilities				

DISCLOSURE REQUIREMENTS TO THE AUDITED FINANCIAL STATEMENTS (AFS)
[(Appendix to Sec. 132-T Disclosure requirements in the notes to the audited financial statements)]

TCs shall include the following additional information in the AFS:

a. Notes to the financial statements:

(1) Minimum required capital pursuant to Sec. 113-T;

(2) Provisioning methodology and key assumptions in providing allowance for credit losses; and

(3) Accounting policies which shall include, but not limited to, general accounting principles and valuation policies for financial instruments and Real and Other Properties Acquired (ROPA).

b. Supplementary information:

(1) Basic quantitative indicators of financial performance such as return on average equity, return on average assets and percentage of total trust fees to total assets under management (AUM), using the following formulas:

(i) Return on Average Equity (%) =

$$\frac{\text{Net Income (or Loss) after Income Tax x 100}}{\text{Average Total Capital Accounts}}$$

Where:

$$\text{Average Total Capital Accounts} = \frac{\text{Total Capital Accounts Current calendar/fiscal year-end balance + Previous calendar/fiscal year-end balance}}{2}$$

(ii) Return on Average Assets (%) =

$$\frac{\text{Net Income (or Loss) after Income Tax x 100}}{\text{Average Total Assets}}$$

Where:

$$\text{Average Total Assets} = \frac{\text{Total Assets Current calendar/fiscal year-end balance + Previous calendar/fiscal year-end balance}}{2}$$

(iii) Percentage of total trust fees to total AUM (%) =

$$\frac{\text{Total Trust Fees x 100}}{\text{Total AUM}}$$

(2) Total outstanding investment, loans and other credit accommodations to TC's DOSRI and related parties with name of DOSRI/related parties, and breakdown, if applicable, as to (i) security (secured, including type of security; and unsecured) and (ii)status (performing and non-performing);

(3) Large exposures as defined under Section 203-T;

(4) Nature and amount of contingencies and commitments arising from off-balance sheet items, if any; and

(5) Aggregate amount of secured liabilities and assets pledged as security.

For Items "2", "3", "4", and "5", indicate if there is none to report.

GUIDELINES ON THE IMPOSITION OF MONETARY PENALTIES ON TCs, AND/OR THEIR DIRECTORS, OFFICERS AND/OR EMPLOYEES FOR VIOLATIONS OF BANKING AND OTHER APPLICABLE LAWS WITH SANCTIONS FALLING UNDER SECTION 37 OF REPUBLIC ACT NO. 7653 (THE NEW CENTRAL BANK ACT), AS AMENDED

(Appendix to Sec. 004-T on Monetary Penalties on TCs, and/or their Directors, Officers, and/or Employees)

The following are the guidelines on the imposition of monetary penalties on TCs, and/or their directors, officers and/or employees.

I. *Definition of Terms*. For purposes of this Appendix, the following definitions shall apply:

a. *Transactional violation* refers to an act or omission constituting a violation of any applicable law or any order, instruction/directive or regulation issued by the Monetary Board, or any order, instruction/directive or ruling by the Governor which is consummated and concluded in a single instance/occasion.

For licensing-related violations, transactional violation refers to the failure to obtain approval prior to engaging in an activity which the institution is qualified to undertake at the onset, based on eligibility test and assessment of compliance with the prudential criteria set forth under existing Bangko Sentral rules and regulations.

b. *Continuing violation* refers to an act or omission constituting a violation of any applicable law or any order, instruction/directive or regulation issued by the Monetary Board, or any order, instruction/directive or ruling by the Governor in which the violation persists or lingers over time from the instant the particular act was committed or omitted until the violation is stopped.

For licensing-related violations, continuing violation refers to an act which the institution is not qualified to undertake at the onset based on eligibility test and assessment of compliance with the prudential criteria set forth under existing Bangko Sentral rules and regulations.

II. Imposition and Payment of Monetary Penalties.

a. In accordance with Section 37 of R.A. No. 7653, as amended, monetary penalties may be imposed against TCs and/or their directors, officers and/or employees for any willful violation of its charter or bylaws; willful delay in the submission of reports or publications thereof as required by law, rules and regulations; any refusal to permit examination into the affairs of the institution; any willful making of a false or misleading statement to the Monetary Board or the appropriate supervising and examining department or its examiners; any willful failure or refusal to comply with, or violation of, any banking law or any order, instruction or regulation issued by the Monetary Board, or any order, instruction or ruling by the Governor; or any commission of irregularities, and/or conducting business in an unsafe or unsound manner as may be determined by the Monetary Board.

In the absence of specific provision under other applicable laws or Bangko Sentral rules and regulations prescribing the imposable monetary penalty for the above-mentioned violations/offenses, TCs, and/or their directors, officers and/or employees may be imposed a maximum monetary penalty of ₱1 million for each transactional violation or ₱100 thousand per calendar day for violations of a continuing nature as provided under Section 37 of R.A. No. 7653, as amended. Further, in case profit is gained or loss is avoided as a result of the violation, the Bangko Sentral may impose a fine of no more than three (3) times the profit gained or loss avoided on top of the aforementioned monetary penalty.

The Bangko Sentral considers the attendant circumstances of the case, including aggravating and mitigating factors, in the guided exercise of supervisory discretion to reach a reasonable and proportionate monetary penalty that best achieve the Bangko Sentral's supervisory objectives. These factors include the: (1) nature, gravity and seriousness of the violation or irregularity; (2) financial and/or non-financial impact of the violation or irregularity to the TC, its industry and/or the financial system; (3) intentionality, frequency and duration of the violation or irregularity; and (4) measures undertaken to stop or correct the violation or irregularity.

The appropriate department of the Bangko Sentral shall notify the TC, and/or director, officer and/or employee concerned of the violation, together with a directive for the TC, and/or director, officer and/or employee concerned to show cause within fifteen (15) business days from receipt of the letter why no monetary penalty under Section 37 of R.A. No. 7653, as amended, should be imposed. The recommendation to impose monetary penalties shall be approved by the Governor or the Monetary Board, as the case may be, pursuant to Section 37 of R.A. No. 7653, as amended: *Provided*, That monetary penalties against directors, officers and/or employees shall be approved only by the Monetary Board. The decision of the Governor/Monetary Board shall be communicated to the TC, and/or director, officer and/or employee concerned.

However, the Bangko Sentral is not precluded from imposing non-monetary sanctions along with monetary penalties if circumstances so warrant.

b. *Basis for the computation of the period or duration of penalty.* The computation of the period or duration of all penalties shall be based on calendar days. For this purpose the terms "per banking day", "per business day", "per day" and/or "a day" as used in this Manual, and other Bangko Sentral rules and regulations shall mean "per calendar day" and/or "calendar day" as the case may be.

c. *Payment of Monetary Penalties.* TCs, and/or their directors, officers and/or employees shall pay the monetary penalties within fifteen (15) calendar days from receipt of the notice of the decision of the Governor imposing said monetary penalties, and payment thereof shall not be suspended by the filing of an appeal to the Monetary Board.

Monetary penalties imposed by original decisions of the Monetary Board shall be paid within fifteen (15) calendar days from the last day to file a motion for reconsideration where none has been filed or within fifteen (15) calendar days from receipt of the notice of the decision of the Monetary Board affirming the decision on motion for reconsideration, as the case may be.

For uniform implementation of the above regulations, the following procedural guidelines shall be observed:

(1) Upon approval of the fines/penalties by the Governor/Monetary Board, the Department/Office concerned shall send the Statement of Account (SOA)/billing letter to the TC with an advice that the penalty should be paid in full within fifteen (15) calendar days from receipt of SOA/billing letter. For TCs which maintain a DDA with the Bangko Sentral, the amount of the penalty/ies that remain unpaid shall be automatically debited from their DDA after the lapse of the fifteen (15)-calendar day period within which to pay the monetary penalties. The TC shall likewise be advised that penalty or portion thereof which remained unpaid after the lapse of said fifteen (15)-day period shall be subject to additional charge of six percent (6%) per annum reckoned from the business day immediately following the end of the fifteen (15)-day period up to the day of actual payment.

(2) On the business day immediately following the end of said fifteen (15)-day period, unpaid penalties shall be automatically debited, without additional charge, against the TC's DDA with the Bangko Sentral by the Comptrollership Sub-sector (CoSS) based on the amount booked by the Department/Office concerned after first confirming with the CoSS the sufficiency of the TC's DDA balance to cover the amount of the penalty.

(3) If, based on its confirmation with the CoSS, the Department/Office concerned received information that the TC's DDA balance is insufficient to cover the amount of the penalty, it shall accordingly advise and request the TC to immediately fund its DDA.

(4) As soon as it is funded, the TC's DDA shall be debited by the CoSS for the amount of the penalty, plus the six percent (6%) additional charge for late payment of the penalty reckoned from the business day immediately following the end of the fifteen (15)-day period up to the day of actual payment, based on the amount booked by the Department/Office concerned.

(5) In the absence of DDA with the Bangko Sentral, penalties shall be paid through any acceptable means of payment and in accordance with the provisions of Sec. 402-T.

(6) In the case of penalty/ies imposed on TC directors, officers, and/or employees, the employer TC and said directors, officers, and/or employees shall be advised by the appropriate supervising department of the Bangko Sentral that the employer TC's DDA with the Bangko Sentral shall be debited for the amount of the penalty as advance payment on behalf of the director, officer, and/or employee whose penalty/ies remain unpaid after the lapse of fifteen (15) calendar days within which to pay the monetary penalty. In case the director, officer, and/or employee is no longer connected with the TC, payment thereof shall be for the account of the director, officer, and/or employee who shall pay directly to the Bangko Sentral through any such acceptable means of payment in accordance with the provisions of Sec. 402-T. The procedures under Items *"2", "3"* and *"4"* hereof shall likewise apply.

III. *Appeal or Motion for Reconsideration.*

The imposition of monetary penalties by the Governor shall be final and executory until reversed, modified or lifted by the Monetary Board on appeal. The appeal shall be filed within fifteen (15) calendar days from receipt of the notice of the decision, copy furnished the appropriate department of the Bangko Sentral. No motion for reconsideration of the decision of the Governor or of the Monetary Board on appeal shall be allowed.

Original decisions of the Monetary Board imposing monetary penalties shall become final and executory after fifteen (15) calendar days from receipt of the Monetary Board decision, unless a motion for reconsideration is timely filed, copy furnished the appropriate department of the Bangko Sentral.

The appeal or the motion for reconsideration shall be in writing and shall specify the findings or conclusions in the decision which are not supported by the evidence or which are contrary to law, making express reference to the evidence or to the provisions of law alleged to be contrary to such findings or conclusions.

A *pro forma* appeal or motion for reconsideration shall be denied outright and shall not prevent the decision from attaining finality.

(Circular No. 1125 dated 20 August 2021)

MANUAL OF REGULATIONS FOR NON-BANK FINANCIAL INSTITUTIONS

C - REGULATIONS
(Regulations Governing Non-Bank Credit Card Issuers)

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POWERS OF THE BANGKO SENTRAL

001 – CC MONETARY PENALTIES ON BSFIs, AND/OR THEIR DIRECTORS, OFFICERS AND/OR EMPLOYEES

The Bangko Sentral recognized the need to impose monetary penalties as one of the possible administrative sanctions to hold BSFIs, and/or their directors, officers and/or employees accountable for their conduct, deter future commission of violations, and achieve the overarching supervisory objectives of changes behavior and mitigated risks.

Pursuant to Section 37 of R.A. No. 7653, as amended, BSFIs and/or their directors, officers and/or employees may be imposed a maximum monetary penalty of P1 million for each transactional violation or P100 thousand per calendar day for violations of a continuing nature. In case profit is gained or loss is avoided as a result of the violation, the Bangko Sentral may also impose a fine of no more than three (3) times the profit gained or loss avoided.

To ensure fairness, consistency and reasonableness in the imposition of monetary penalties, the Bangko Sentral takes into consideration the attendant circumstances of each case, such as the nature and gravity of the violation or irregularity and the size of the financial institution, including other aggravating and mitigating factors. Further, in accordance with Sec. 002-Q, the Bangko Sentral may impose monetary penalties, singly or in combination with non-monetary sanctions, if appropriate.

The guidelines on the imposition of monetary penalties for violations in which sanctions fall under Section 37 of R.A. No. 7653 (The New Central Bank Act), as amended, and other applicable laws are in *Appendix CC-6*

(Circular No. 1125 dated 20 August 2021)

PART ONE

ORGANIZATION, MANAGEMENT, AND ADMINISTRATION

101-CC CREDIT CARD OPERATIONS; GENERAL POLICY

Policy Statement. The Bangko Sentral shall foster the development of consumer credit through innovative products such as credit cards under conditions of fair and sound consumer credit practices. The Bangko Sentral likewise encourages competition and transparency to ensure more efficient delivery of services and fair dealings with customers.

The following rules and regulations shall govern the establishment and operations of all non-bank credit card issuers, acquirers and all credit card transactions.

Definition of terms.

a. *Credit card* refers to any card or other credit device, including its virtual representation, intended for the purpose of obtaining money, property, goods or services on credit.

b. *Minimum amount due or minimum payment required* refers to the minimum amount that the credit cardholder is required to pay on or before the payment due date for a particular billing period/cycle which may include:

(1) outstanding balance multiplied by the required payment percentage or a fixed amount, whichever is higher;
(2) any amount which is part of any fixed monthly installment that is charged to the card;
(3) any amount in excess of the credit line; and
(4) all past due amounts, if any.

c. *Default or delinquency* refers to non-payment of, or payment of an amount less than, the *"Minimum Amount Due"* or *"Minimum Payment Required",* or words of similar import, for at least three (3) billing cycles, in which case, the *"Total Amount Due"* or *"Outstanding Balance"* for the particular billing period as reflected in the monthly statement of account may be considered in default or delinquent.

d. *Acceleration clause* refers to any provision in the contract between the credit card issuer and the cardholder that gives the credit card issuer the right to demand the full settlement of the obligation in case of default or non-payment of any amount due, or for any valid reason.

e. *Subsidiary* refers 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.

f. *Affiliate* refers to an entity linked directly or indirectly to a credit card issuer by means of:

(1) Ownership, control as defined under Item "*c*" of Sec. 131-Q *(Definition of terms)*, 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 owns, controls, as defined under Item "*c*" of Sec. 131-Q *(Definition of terms)* 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 credit card issuer and at least twenty percent (20%) of the outstanding voting stock of the other entity;

(4) Management contract or any arrangement granting power to the credit card issuer to direct or cause the direction of management and policies of the other entity; or

(5) Permanent proxy or voting trusts in favor of the credit card issuer constituting at least twenty percent (20%) of the outstanding voting stock of the entity, or vice versa.

g. *Simple annual rate* refers to the uniform percentage which represents the ratio between the finance charge and the amount to be financed under the assumption that the loan is payable in one (1) year with single payment upon maturity and there are no upfront deductions to principal.

For loans with terms different from the above assumptions, the effective annual interest rate shall be calculated and disclosed to the borrower as the relevant true cost of the loan comparable to the concept of simple annual rate.

For loans with contractual interest rates stated on monthly basis, the effective interest rate may be expressed as a monthly rate.

In accordance with the Philippine Accounting Standards (PAS) definition, *effective interest rate* is the rate that exactly discounts estimated future cash flows through the life of the loan to the net amount of loan proceeds. For consistency, methodology and standards for discounted cash flow models shall be prescribed to be used for the purpose.

h. *Credit card acquirer* refers to the institution that accepts and facilitates processing of the credit card transaction which is initially accepted by the merchant.

i. *Credit cardholder* refers to a person who owns and benefits from the use of a credit card.

j. *Credit card business activity report* refers to a report which contains the quantitative data on the credit card industry.

k. *Credit card issuer* refers to a corporation that offers the use of its credit card.

l. *Pre-approved credit cards* refer to unsolicited credit cards issued by credit card issuers to consumers who have not applied for such credit cards. Acts described under *Appendix CC-2* and other similar acts are deemed tantamount to the act of issuing pre-approved credit cards, notwithstanding any contrary stipulations in the contract.

m. *Application* refers to a request, documented in physical or electronic form with clear and explicit intention and consent of the applicant to avail of a credit card from a credit card issuer.

n. *Balance transfer* refers to the transfer of the balance in a credit card account with one (1) credit card issuer to another account under a different credit card issuer subject to terms mutually agreed upon by the parties concerned.

o. *Billing cycle/billing period* refers to the period of time between two (2) successive cut-off dates documented in a billing statement and defined under the terms and conditions of the credit card contract/agreement. A billing cycle/billing period shall comprise at least fifteen (15) calendar days.

p. *Card association or payment network or credit card network provider* refers to any company that provides credit card network such as, but not limited to American Express, VISA International, MasterCard International, JCB International, Diners Club and China Union Pay.

q. *Cash advances* refer to cash obtained by the cardholder from his/her credit card account, availed in any manner as stipulated in the credit card contract/agreement.

r. *Credit card limit* refers to the maximum total amount for purchases, cash advances, balance transfers, and finance charges, service fees, penalties, and other charges which can be charged to the credit card. It represents the total loan or credit that a credit card issuer can extend to a cardholder.

s. *Finance charges* refer to the interest charged to the cardholder on all credit card transactions in accordance with the terms and conditions specified in the agreement or contract on the use of the credit card.

t. *Installment purchases* refer to transactions wherein payment is amortized in parts over a fixed period.

u. *Industry association* refers to an association composed of companies engaged in the business of banking, finance, credit and/or payments.

v. *Membership fee* refers to the amount a credit card issuer charges the credit cardholder for the right to use its credit card and acquire access to other membership benefits. This may also be referred to as annual membership fee, annual fee, joining fee or application fee.

w. *Outstanding balance or total amount due* refers to the amount to be repaid as of statement cut-off date.

x. *Statement cut-off date* refers to the end date of a billing cycle, as determined by the credit card issuer, when account activities (such as purchases, payments, charges) during the billing cycle are summarized.

y. *Statement of account or billing statement* refers to the regular statement listing of the purchases, payments and other debits and credits made to the credit card account within the billing cycle.

z. *Supplementary card or extension card* refers to a credit card issued to another person whose credit limit is consolidated with the primary cardholder.

Authority to operate

a. A corporation, a non-bank subsidiary/affiliate of a bank or quasi-bank of good standing, or a finance/lending company duly registered with the Securities and Exchange Commission (SEC), and with the primary or secondary purpose to engage in the credit card business may engage in credit card operations only upon prior authority from the Monetary Board;

When the owner or parent organization of the applicant entity is a foreign-regulated financial institution or corporation, the prior consent of the foreign regulator/supervisor of the parent organization shall be obtained by the applicant entity.

b. A quasi-bank which intends to engage in credit card business, may operate as a credit card issuer subject to the requirements provided under Sec. 312 of the Manual of Regulations for Banks (MORB).

Additional requirements for non-bank entities applying as credit card issuers.

a. Minimal Capital Requirements.

Entities in Item *"a"* under this Section *(Authority to operate)* applying to become credit card issuers must be stock corporations with a minimum paid-up capital P100 million.

b. Application for Certificate of Authority to Engage in Credit Card Issuance.

Entities in Item "a" under this Section *(Authority to operate)*, represented by the incorporation/directors or the president or officer of equivalent rank, shall submit an application for a certificate of authority to engage in credit card issuance, together with documentary requirements and fees, to the appropriate supervising department of the Bangko Sentral. Application requirements are provided in *Appendix* CC-1.

Minimum requirements for the governance and risk management system of all credit card issuers. All credit card issuers must have adequate financial strength and fit and proper board and management. Unless otherwise provided specifically, applicable regulations on the Qualifications, Powers, Responsibilities and Duties of the Board of Directors/Officers, shall apply to directors and officers of all credit card issuers.

To effectively deliver services, credit card issuers must demonstrate technical and risk management capability to operate a credit card business. Credit card issuers shall establish a risk governance framework that includes policies, supported by appropriate processes and control procedures, designed to ensure that the risk arising from credit card operations are identified, aggregated, monitored and mitigated. The risk governance framework of credit card issuers shall be guided by Sec. 142-Q, as applicable.

At the minimum, the risk management and control systems on credit card operations shall cover:

a. Policies, procedures and management information systems for credit card operations. These shall include limits and thresholds on exposures considering the credit card issuer's approved credit risk appetite;

b. Organizational set up and the corresponding roles and responsibilities of personnel in the unit handling the credit card business;

c. Approach to identifying, assessing, aggregating, monitoring, and reporting risks arising from credit card operations using appropriate risk management tools. This shall likewise include risk mitigation strategies and tools for maintaining risks within thresholds and limits set;

d. Internal audit and other independent review of credit card operations; and

e. Policies and procedures including outsourcing arrangements necessary to ensure safe and sound operations in accordance with Bangko Sentral regulations on outsourcing under Sec. 111-Q and Sec. 102-N.

Written policies, procedures and internal control guidelines shall be established on the following aspects of credit card operations:

a. Requirements for application;
b. Solicitation and application processing;
c. Determination and approval of credit limits;
d. Issuance, distribution and activation of cards;
e. Supplementary or extension cards;
f. Cash advances;
g. Billing and payments;
h. Deferred payment program or special installment plans;

i. Collection of past due accounts;
j. Handling of accounts for write-off;
k. Suspension, cancellation and withdrawal or termination of card;
l. Renewal of cards, upgrade or downgrade of credit limit;
m. Lost or stolen cards and their replacement;
n. Accounts of DOSRI and employees;
o. Disposition of errors and/or questions about the billing statement, statement of account and other customers' complaints; and
p. Dealings with marketing agents/collection agents.

Minimum requirements for the issuance of credit cards Credit card issuers shall not issue pre-approved credit cards as provided under *Appendix CC-2* notwithstanding any contrary stipulations in the credit card contract/agreement with the cardholder.

Before issuing credit cards, credit card issuers shall conduct know-your-client (KYC) and customer identification procedures, consistent with applicable regulations; and exercise proper diligence in ascertaining that applicants possess good credit standing and are financially capable of fulfilling their credit commitments.

All credit card applications shall undergo a strict credit underwriting process, and information stated thereon shall be verified and validated by authorized personnel of credit card issuers, other than those handling marketing.

Information to be disclosed. Credit card issuers shall disclose to each of their existing and potential credit cardholders the following information:

a. the finance charges for unpaid amounts after payment due date to be paid by the cardholder;

b. other charges or fees, individually itemized, such as membership/renewal fees, processing fees, over-the-limit fees, collection fees, credit investigation fees and attorney's fees to be paid by the cardholder in connection with the transaction and incidental to the extension of credit;

c. the percentage that the interest/finance charge bears to the total amount to be financed expressed as a simple monthly or annual rate, or a monthly or annual effective interest rate, on the outstanding balance of the obligation, as described in Item *"g"* under this Section *(Late payment fees/penalty for late payment)*;

d. for installment loans, the number of installments, amount and due dates or payment schedules to repay the indebtedness;

e. the late payment fee/penalty for late payment or similar delinquency-related charges payable in the event of late payments, which shall be computed in accordance under this Section *(Late payment fees/penalty for late payment)*;

f. when one (1) or more periodic rates is used to compute interest: each such rate, the balances to which it is applicable, and the corresponding simple annual rate;

g. in cases when transactions are made in foreign currencies, or for dual currency accounts, or when payments are made in any currency other than the billing currency: the manner of conversion from transaction currency to billing currency, or a general description of the conversion rates;

h. a reminder to the cardholder in the billing statement, or its equivalent document, that payment of only the minimum amount due or any amount less than the total amount due for the billing cycle/billing period would mean the imposition of interest and/or other charges. A written statement in the following form must be printed in the billing statement:

> "Important Reminder: Paying less than the total amount due will increase the amount of interest and other charges you pay and the time it takes to repay your balance."

Credit card issuers may provide additional reminders to the cardholder, including but not limited to late payment fees that may be imposed on past due or delinquent accounts;

i. to the extent practicable, a detailed explanation and a clear illustration of the manner by which all interest, charges and fees are computed.

The credit card issuer shall notify the cardholder at least ninety (90) calendar days prior to any change in the manner of computation of the outstanding balance and the amount of fees to be imposed on the cardholder[1]. If

[1] Pursuant to MB Res No. 1185 dated 17 September 2020, credit card issuers need not notify their cardholders of the change in interest or finance charges imposed on all credit card transactions and the change in processing fees for credit card cash advances. The said waiver of notice requirement shall only apply to the change in interest or finance charges and the change in processing fees brought about by the imposition of the cap on interest or finance charge on all credit card transactions and the imposition of the maximum amount of processing fee on credit card cash advances which will take effect on 03 November 2020 in accordance with the said MB Resolution.

the cardholder finds the change to be unacceptable, he/she shall have the right to terminate his/her account with the credit card issuer, subject to under this Section *(Suspension, termination of effectivity and reactivation of credit cards; and termination of accounts)*;

j. a table of all applicable fees, penalties, interest rates, conversion reference rates for third currency transactions, and the reason for their imposition, on credit card application forms, billing statements, and in the terms and conditions of the credit card agreement; and

k. any other information that may be required by the Bangko Sentral.

The credit card issuer shall endeavour to convey the above information in a manner that is understandable to the credit cardholder: *Provided*, That the items enumerated above may be included in a billing statement on a quarterly basis at the minimum, in tabular format.

The table of fees, penalties, interest rates and reminder shall be printed in plain language, in bold black letters against a light or white background using the minimum Arial 12 theme font and size, or its equivalent in readability, and on the first page, if applicable document has more than one (1) page.

The credit card issuer shall ensure that all the above information, conveyed through written or electronic forms of communication, is easy to read for the average person. All marketing and advertising materials shall also disclose information that are consistent with the aforementioned provisions.

The credit card issuer shall put in place policies and procedures to ensure timely and effective delivery, either through physical or electronic means, of statement of accounts or billing statements, and other important information related to the credit card account of the cardholder.

Dissemination of Relevant Information. Banks operating as credit card issuer shall ensure that all persons to whom credit is extended are well informed of the salient provisions of Republic Act No. 3765, otherwise known as the "Truth in Lending Act" as contained in the revised format of disclosure statement in *Appendix 16* of the MORB through any acceptable medium of communication such as, but not limited to, posters, brochures, pamphlets, leaflets, educational videos, corporate websites, infographics and social media platforms. Said information much be conspicuously displayed and made available at all times, in physical or electric format, to all persons to whom credit is extended by banks operating as credit card issuers subject to the consumer protection standards and social media risk management guidelines. Such medium of communication shall include an explicit notification that the disclosure statement in writing is a required attachment to the credit transaction contract which banks operating as credit card issuer shall provide all persons to whom credit is extended with a copy of said disclosure statement prior to the consummation if the credit transaction.

Accrual of interest earned on loans. Accrual of interest earned on loans shall be subject to the provisions of Secs. 304-Q or 301-N (*Accrual of interest earned on loans*), as may be applicable.

Imposition of interest or finance changes. Credit card shall impose an interest or financial charge on all credit card transactions not to exceed an annual interest rate of twenty-four (24%) percent, except credit card installment loans which shall be subject to monthly add-on rate not exceeding one (1%) percent: *Provided,* That in the case of credit card cash advances, aside from the foregoing applicable maximum interest rate caps, no other charge or fee shall be imposed or collected apart from the processing fee in the maximum amount of Php 200.00 per transaction. Such maximum process fee and interest rates or finance charges shall be subject to review by the Bangko Sentral every six (6) months.

Credit card issuers shall only charge interest or finance charges arising from the non-payment in full or on time of the outstanding balance based on the unpaid amount of the outstanding balance as of statement cut-off date, but excluding:

a. the current billing cycle's purchase transactions reckoned from the previous cycle's statement cut-off date; and
b. deferred payments under zero-interest installment arrangements which are not yet due.

interest or finance charges shall be imposed on the unpaid outstanding balance as of cut-off date each time a cardholder pays less than, or does not pay on time, the outstanding balance stated in his/her statement of account. Such interest or finance charge shall continue to be imposed until the outstanding balance and applicable interest are fully paid.

For credit card cash advances, a cardholder may be charged cash advance fees and finance charge on the date that the cash is obtained, subject to terms and conditions under the credit card agreement or contract.

For a loan where the principal is payable in installments, interest per installment period shall be calculated based on the outstanding balance of the loan at the beginning of each installment period.

on all credit card transactions and the imposition of the maximum amount of processing fee on credit card cash advances which will take effect on 03 November 2020 in accordance with the said MB Resolution.

All credit card-related documents shall show repayment schedules in a manner consistent with this provision. Marketing and advertising materials shall likewise be consistent with this provision.

Payment due date. Payment due date, or the date on which payment of the minimum amount due must be made to the credit card issuer shall be specified in the statement of account or billing statement: *Provided,* That:

a. Payment due date shall be the same whatever the mode of payment: *Provided, further*, That payment through any authorized mode, or made to any accredited payment center of the credit card issuer shall be considered as payment to the credit card issuer made on the same date. Accordingly, Service Level Agreements between credit card issuers and their accredited payment centers shall be amended to operationalize this requirement.

b. Notwithstanding any provision in the credit card contract/agreement, if the payment due date falls on a weekend and regular national holidays, the payment due date shall be automatically moved to the next business day and payment thereon shall not be treated as late payment.

Deferral charges. The credit card issuer and the cardholder may, prior to the consummation of the transaction, agree in written or electronic form, to a deferral of all or part of one (1) or more unpaid installments; and the credit card issuer may collect a deferral charge which shall not exceed the rate previously disclosed pursuant to the provisions under this Section *(Information to be disclosed)*.

Late payment fees/penalty for late payment No late payment fees or penalty for late payment shall be collected from cardholders unless the collection thereof is fully disclosed in the contract/agreement between the credit card issuer and the cardholder: *Provided,* That such fees shall be based on the unpaid minimum amount due or a prescribed minimum fixed amount, whichever is lower: *Provided, further*, That said fees may be based on the total outstanding balance of the credit card obligation, including amounts payable under installment terms or deferred payment schemes, if the contract/agreement between the credit card issuer and the cardholder contains an "*acceleration clause*" as defined in Item "*d*" of Sec. 101-CC *(Definition of terms)*, and the total outstanding balance of the credit card is classified and reported as past due.

Confidentiality of information. Credit card issuers, their directors, officers, employees and agents shall keep strictly confidential the data on the cardholder, except under any of the following circumstances:

a. when disclosure of information is with the consent of the cardholder, which shall be stipulated in the application forms, the credit card contract/agreement, or any manner allowed by applicable laws, rules and regulations;

b. upon orders of a court of competent jurisdiction or any government office or agency authorized by law, or under such conditions as may be prescribed by the Bangko Sentral Monetary Board;

c. when the cardholder information is released, submitted or exchanged with credit information bureaus, industry associations or card associations or payment networks;

d. when disclosure to third party service providers is necessary for the sole purpose of assisting or rendering services to the credit card issuer in enforcing its rights against the cardholder;

e. when disclosure to third parties such as insurance companies is necessary for the sole purpose of insuring the credit card issuer from cardholder default or other credit loss, and the cardholder from fraud or unauthorized charges; and

f. when disclosure to third parties is for the purpose of investigating fraud or unauthorized activities or mitigating risk involving card issuance, use and acquiring.

The recipients of information described in Items "*a*" to "*f*" above shall likewise be bound to preserve the confidentiality of cardholder data.

The disclosure of cardholder information by credit card issuers to third parties shall be subject to applicable laws, rules and regulations on data privacy.

Suspension, termination of effectivity and reactivation of credit cards; and termination of accounts. Credit card issuers shall formulate criteria or parameters for suspension, revocation and reactivation of the right to use the card, and shall include in their contract/agreement with cardholders a provision authorizing the credit card issuer to suspend or terminate the credit card effectivity, if circumstances warrant.

A cardholder may cancel or terminate his/her credit card account with any credit card issuer anytime: Provided, That the cardholder either pays in full, or enters into another agreement for payment of the outstanding balace and new purchases, debits and deferred installments. Payment may be made either through a one-time payment or on installments within a fixed period of time: Provided, further, That repayment in installments shall only be generally subject to interest, unless there is a violation of the above-mentioned new agreement.

A credit card issuer may initiate suspension, cancellation or revocation of a credit card account for any valid reason, as indicated in the terms and conditions of the credit card agreement: Provided, That the cardholder is notified within seven (7) business days from the date of suspension/cancellation/revocation. The credit cardholder shall have the right to appeal the suspension/cancellation/revocation subject to mutual agreement with the credit card issuer.

Inspection of records covering credit card transaction; determination of credit card limit; and over-the-limit transactions. Credit card issuers shall make available for inspection or examination by the appropriate supervising department of the Bangko Sentral the complete and accurate files on card applicant/cardholder to support the consideration for approval of the application and determination of the credit limit, which shall be in accordance with the verified debt repayment ability and/or net worth of the card applicant/cardholder.

Credit card issuers shall determine, based on the credit standing, credit history and financial capacity of the cardholder, the credit limit to be extended to the cardholder. Credit card issuers may thereafter implement changes in the credit limit applicable on the account based on their policies: *Provided,* That the cardholder is notified of such changes: *Provided, further,* That any credit limit increase may be declined by the cardholder: *Provided, finally,* That the cardholder has the option to request for a credit limit adjustment upon submission of updated information, but subject to the approval of the credit card issuer.

If a cardholder breaches the credit limit by a new transaction, the transaction may be processed, subject to the discretion of the credit card issuer as guided by its policies: *Provided*, That fees on over-the-limit transactions, if any, are clearly and prominently disclosed in the table of fees and charges, pursuant to under this Section *(Information to be disclosed)*.

Offsets. A credit card issuer shall inform the cardholder, through the agreement, contract or any equivalent document governing the use of the credit card that, pursuant to the provisions of Articles 1278 to 1290 of the New Civil Code of the Philippines, as amended, the credit card issuer may offset any amount due and payable on the credit card against the cardholder's deposits with the credit card issuer, if any.

Handling of complaints, inquiries or requests. Credit card issuers shall establish a Consumer Assistance Unit within its organization, which shall be responsible for providing prompt action for the expeditious resolution of credit card related complaints, inquiries and requests.

a. *Billing Statement*. Credit card issuers shall give cardholders up to thirty (30) calendar days from statement date to report any error or discrepancy in their statement of account or billing statement. The manner of reporting or notice of any billing error or discrepancy to the credit card issuer may be through written, verbal or any documented means.

   The credit card issuer shall take action within ten (10) business days from receipt of such notice together with relevant documents or records in physical or electronic form from the cardholder.

   Within ninety (90) days after receipt of the notice, credit card issuers shall conduct a thorough investigation; shall make appropriate corrections in their records; and send a written explanation or clarification to the cardholder prior to taking any action to collect the contested amount, subject to the result of the investigation.

   Nothing in this Section shall be construed to prohibit any action by the credit card issuer to collect any amount which has not been indicated by the cardholder to contain a billing error.

b. Lost *or Stolen Cards*. In case a credit card is lost or stolen, any transaction made prior to reporting by the cardholder of the loss or theft of his/her card to the credit card issuer shall be for the account of the cardholder: *Provided*, That this is without prejudice to the right of the cardholder to dispute the transaction, which, if found to be an unauthorized or fraudulent transaction, shall be corrected or reversed by the credit card issuer, including any finance charges and other fees related thereto, in accordance with the procedures set forth in the aforementioned regulations.

Appropriate manner of collection and use of third party collection agents. Credit card issuers may resort to all reasonable and legally permissible means to collect amounts due them under the credit card agreement: *Provided*, That in the exercise of their rights and performance of duties, they must observe good faith, reasonable conduct and proper decorum, and refrain from engaging in unscrupulous acts.

Credit card issuers may engage qualified third party service providers/collection agents for the purpose of assisting or rendering services in the administration of the credit card business, including recovery of unpaid obligations and enforcement of rights against the cardholder: *Provided,* That the engagement is in accordance with regulations on outsourcing under Sec. 111-Q and Sec. 102-N, as applicable: *Provided, further,* That the outsourcing arrangement shall be covered by a Service Level Agreement covering the responsibilities and accountabilities of each party.

Notwithstanding any contractual agreement between a credit card issuer and service provider/collection agent, the credit card issuer shall be responsible to its customers for maintaining customer service standards, without prejudice to further recourse, if any, by the credit card issuer to the service provider/collection agent.

A credit card issuer or its service provider/collection agent may communicate with a credit cardholder in connection with the collection of any debt through acceptable and reasonable modes. They shall not harass, abuse or oppress any cardholder or any person, or engage in any unfair practices in the collection of credit card debt.

The following activities are considered as guidelines and are not irrebutably presumed to be unfair collection practices. Conversely, not all practices which might under the circumstances be termed unfair are mentioned here. The Monetary Board may now and then consider any other acts/omissions as unfair collection practices:

a. the use or threat of violence or other criminal means to harm a person, or his/her reputation or property;

b. the use of obscenities, insults, or profane language which amount to a criminal act or offense under applicable laws;

c. disclosure of the names of credit cardholders who allegedly refuse to pay debts, except as allowed under this Section *(Confidentiality of information)*;

d. threat to take any action that cannot legally be taken;

e. communicating or threatening to communicate to any person or entity, credit information which is known to be false, including failure to communicate that a debt is being disputed;

f. any false representation or deceptive means to collect or attempt to collect any debt, or to obtain information concerning a cardholder; and

g. making contact at unreasonable/inconvenient hours defined as contact before 6:00 A.M. or after 10:00 P.M., unless the cardholder has given express permission, or said times are the only reasonable or convenient opportunities for contact.

Credit card issuers shall inform their cardholder in writing of the endorsement of the collection of his/her account to a collection agency/agent, or the endorsement of the account from one (1) collection agency/agent to another, at least seven (7) business days prior to the actual endorsement. The notification shall include the full name of the collection agency and its contact details. The requirement to notify in writing shall be included in the terms and conditions of the credit card agreement: *Provided,* That the credit card issuer shall refer the collection of an account to only one collection agency/agent at any one time.

Credit card issuers shall adopt policies and procedures to ensure that personnel handling the collection of accounts, whether these are in-house collectors, or third-party collection agents, shall disclose his/her full name/true identity to the cardholder.

Application of card payment. Upon receipt of a payment from a cardholder whose account carries different interest rates for different types of purchases (i.e., cash advances, regular purchases, balance transfers), the credit card issuer shall apply amounts in excess of the minimum payment amount first to the fees and charges, and then to the billed balance bearing the highest rate of interest, followed by the billed balance bearing the next higher rate of interest, until the payment is exhausted: *Provided,* That the original rates for promotional offers shall be the basis for determining hierarchy of payment.

Service level agreement among industry players. There shall be, in the Service Level Agreement between acquirers and their partner merchants, a provision requiring merchants to perform due diligence to establish the identity of the cardholders, in accordance with applicable laws, rules and regulations.

Nothing in these regulations shall preclude card issuers from verifying or seeking confirmation with the cardholder any purchase, if in their assessment there is reasonable concern as to the validity of the purchase

Sanctions and penal provisions. Violations of the provisions of this Regulation shall be subject to any or all of the following sanctions depending upon their severity:

a. Consistent with Sec. 002-Q, the Bangko Sentral may deploy enforcement actions to promote adherence with the requirements set forth in this Part and bring about timely corrective actions.

b. Imposition of penalties and sanctions provided under Section 37 of R.A. No. 7653.

The provisions of Section 37 shall be made applicable to any credit card issuer, acquirer, and/or their directors, officers and/or employees including, but not limited to, the administrative sanctions that may be imposed, without prejudice to the criminal sanctions against the culpable persons provided in R.A. No. 10870, for any willful violation of such law, or any related rules, regulations, orders or instructions issued by the Monetary Board: *Provided,* That in addition to the administrative sanctions that may be imposed, the authority of the credit card issuer to issue credit cards may be suspended or cancelled by the Bangko Sentral.

c. Appropriate monetary penalties, sanctions and other enforcement action/s shall be imposed for the following violation/s:

Nature of Violation/Exception	Possible Sanctions/Penalties
i. Operating without prior Bangko Sentral registration/license/authority	• Applicable penalty prescribed under Section 37 of R.A. No. 7653, as implemented under Sec. 1102-Q (*Other Payments of NBFIs*) and *Appendix CC-6 [Guidelines on the Imposition of Monetary Penalties on Credit Card Issuers, and/or their Directors, Officers and/or Employees for Violations falling under Section 37 of R.A. No. 7653 (The New Central Bank Act), as amended, and Other Applicable Laws]* • Applicable enforcement actions under Sec. 002-Q and Sec. 101-Q (*Transactions not considered quasi-banking*) and Sec. 101-N (*Enforcement actions*)
ii. Violation of any provisions/ requirements of this Part	• Penalties and sanctions and enforcement actions under applicable laws, such as Section 27 of R.A. No. 10870, rules and regulations, such as, but not limited to Sec. 002-Q, Sec. 1102-Q *(Other Payments of NBFIs), Appendix CC-6 [Guidelines on the Imposition of Monetary Penalties on Credit Card Issuers, and/or their Directors, Officers and/or Employees for Violations falling under Section 37 of R.A. No. 7653 (The New Central Bank Act), as amended, and other Applicable Laws],* Sec. 101-Q (*Transaction not considered quasi-banking*) and Sec. 101-N (*Enforcement actions*)
iii. Erroneous/delayed/unsubmitted reports	• Applicable penalties under Secs. 172-Q and 143-N (*Reports*)

Submission of credit card business activity report. For purposes of transparency and availability of data on credit card operations and in light of ensuring consumer protection, as well as managing risks involved in credit transactions, credit card issuers shall submit a monthly quantitative report to the Bangko Sentral covering the following data on credit card issuers/acquirers, cardholders, credit card complaints and usage location:

Credit Card Issuance	**Unit of Expression**
I. Cards-in-force per network/brand	Number
II. Cards-in-force per card type	Number
III. Approved credit card applications	Number
IV. Cards issued by status	Number
V. Cards issued per credit limit	Peso amount
VI. Billings per mode of transactions	Peso amount
VII. Billings per network/ brand	Peso amount
VIII. Billed fees/charges	Peso amount
IX. Gross payment	Peso amount
X. Receivables	Peso amount
XI. Rates/charges per cardholder percentage	Peso amount
IX. Gross payment Peso	Peso amount
X. Receivables	Peso amount
XI. Rates/charges per cardholder	Peso amount/percentage

Cardholder Profile	**Unit of Expression**
I. Cardholder information (age, occupation, gender, civil status, educational attainment, geographic location)	Number
II. Cardholder by type of payment	Number

Complaints	**Unit of Expression**
I. Cardholder issues	Number
II. Complaint/request resolution	Number
III. External service provider	Number

Usage Location	**Unit of Expression**
I. Incoming	Peso Amount
II. Outgoing	Peso Amount

Changes to the existing report format required under this Section *(Submission of credit card business activity report)* shall be covered by a separate guideline.

Voluntary cessation of credit card business. A credit card issuer may undertake voluntary cessation of its credit card business only upon prior approval of the Monetary Board: *Provided,* That requests for approval of a voluntary cessation of business shall be accompanied by a plan of cessation of operations duly approved by the credit card issuer's Board of Directors. Such request for approval of voluntary cessation shall be submitted to the Monetary Board within ten (10) banking days from approval of the plan of cessation of operations by the credit card issuer's Board of Directors.

Transitory provisions. All existing credit card issuers shall be allowed a transitory period to make appropriate adjustments in their systems, processes and personnel to be compliant with the following provisions of this Section:

a. For this Section on *Method of computing and imposition of interest or finance charges,* which pertains to adjustments in the computation and imposition of interest and finance charges; and for this Section on *Application of card payment* which pertains to the hierarchy of application of credit card payments: within one (1) year from the date of 6 June 2018;

b. For this Section on *Payment due date,* Item *"(a)"*, which pertains to same day recognition of payments made in accredited payment centers by credit card issuers: within nine (9) months from the date of 6 June 2018;

c. For this Section on *Payment due date,* Item *"(b)"*, which pertains to adjustment of payment due dates falling on weekends and holidays into the next business day: within three (3) months from 6 June 2018;

d. For this Section on *Late payment fees/penalty for late payment*, which pertains to adjustments in the computation of late payment fees or penalty for late payment: within six (6) months from 6 June 2018; and

e. For this Section on *Additional requirements, for non-bank entities applying as credit card issuers*, which pertains to minimum capital requirement: Existing credit card issuers shall comply with the minimum paid-up capital of P100 million within one (1) year from 6 June 2018.

(Circular Nos. 1102 dated 20 August 2021, 1098 dated 24 September 2020, 1052 dated 2 October 2019, and 1003 dated 16 May 2018)

102-CC GUIDELINES FOR THE ADOPTION OF OPEN FINANCE FRAMEWORK[1]

Policy Statement. It is the thrust of the Bangko Sentral to promote an enabling environment that fosters innovation, encourages coopetition, and advances financial inclusion while safeguarding the integrity and stability of the financial system. In line with this, the Bangko Sentral is introducing the Open Finance Framework that aims to empower customers by giving them better control over their personal and financial data catalyzing the development of products and services that are responsive to their needs.

The Open Finance Framework espouses consent-driven data portability, interoperability, and collaborative partnerships among financial institutions and third-party providers (TPPs). Under the framework, financial institutions and TPPs can leverage on permissioned-access customer financial information to develop bespoke financial products and services for customers. The Open Finance Framework subscribes to the principle that "customers are the owners of personal and transaction data" hence, information shall only be shared with the consent of the customers.

Coverage. The Open Finance Framework covers technology, products, services, information, and policies that enable customers to securely share their financial data with qualified parties, either BSP-supervised financial institutions (BSFIs) or TPPs.

Definition of Terms. The terms used in this Section shall be defined as follows:

a. *Account Information Service Provider (AISP)* refers to an information technology service and/or software solution provider that processes data and provides an alternative access point to multiple sources of data other than payment transactions;

b. *Application Programming Interfaces (APIs)* refer to a set of rules and specifications for software programs to communicate with each other, forming an interface between different programs to facilitate interaction;

c. *Customer-permissioned data* refers to data held by Participants (e.g., customer transactions, personal identification data, and customer financial history) that are permissioned by the Participants' customer to be accessed by a third party (and possibly shared onwards with fourth parties if covered by the customer's consent);

[1] All existing API arrangements prior to the issuance of Circular No. 1122 dated 28 June 2021, shall comply with the applicable requirements prescribed herein within one (1) year from 13 July 2021. In case awaiting policy-setting or further clarifications, compliance timetable shall be further determined by the OFOC.

d. *Open Finance* refers to leveraging on and sharing of customer-permissioned data among banks, other financial institutions, and TPPs to develop innovative financial solutions, such as among others, those that provide real-time payments, promote greater transparency to account holders, and provide marketing and cross-selling opportunities to banks, other financial institutions, and TPPs;

e. *Open Finance Standards* refer to the recommended standards in implementing the Open Finance Framework that takes into account various factors, including the financial industry's level of readiness to adopt such standards and the overall benefits arising from such standardization;

f. *Open API*, also known as external or public API, refers to a software technology interface that provides a means of accessing data based on a public standard;

g. *Open Data* refers to publicly obtainable data that is published by Participants, including, but not limited to financial products, service information, and other public information;

h. *Open Access* refers to allowing authorized third parties to access consented data without needing to establish a business relationship with the Open API publisher;

i. *Payment Initiation Service Provider (PISP)* refers to a registered operator of payment systems (OPS), as defined under Republic Act (R.A.) No. 11127 – The National Payments Systems Act and clarified in Part 1, Section 101 of the Manual of Regulations for Payment Systems (MORPS), that carries out payment orders at the request of payment service users in connection with payment accounts held at other payment service providers;

j. *Third party providers* or TPPs refers to any external legal entity such as service providers, integrators, solutions vendors, and/or infrastructure support that interact with BSFIs to provide services to customers. They are classified as either AISP and/or PISP, however, other TPP classification may be created by the Open Finance Oversight Committee (OFOC), as deemed applicable;

k. *Participant* refers to the entities covered by the Open Finance Framework such as the BSFIs and TPPs;

l. *Open API publisher* refers to the Participant that keeps/is the custodian of customer data;

m. *Third party* refers to the Participant who has open access to customer-permissioned data residing in another Participant (publisher) through the Open API; and

n. *Fourth party* refers to an outsourcing partner or a service provider of a third party.

Governance Framework. The Bangko Sentral shall recognize an Open Finance Oversight Committee (OFOC), an industry-led self-governing body, that shall exercise governance over the activities and Participants of the Open Finance Ecosystem. The OFOC shall be subject to the regulation and supervision of the Bangko Sentral.

The Bangko Sentral shall facilitate the establishment of the OFOC in coordination with industry stakeholders. For this purpose, the initial set of members of the OFOC shall be comprised of representatives from each bank classification, non-bank financial institutions, electronic money issuers, operators of payment systems, TPPs, and other relevant sectors, as determined by the Bangko Sentral. The OFOC shall:

a. Adopt membership and participation rules that are non-discriminatory to ensure that key areas of interest of the financial industry are adequately represented and that all members and applicants for membership are treated fairly and consistently.

b. Define the functions, roles, and responsibilities of the Committee and the Participants. It shall adopt policies in monitoring Participants' compliance with the established policies and in handling non-compliance thereto including the corresponding sanctions or penalties for non-compliance.

c. Adopt standards, agreements, policies, and guidelines (Conventions) governing the Open Finance Framework which shall be consistent with relevant laws, rules and regulations and regional/global standards. At the minimum, these shall cover the following:

    (1) Registration/On-boarding of non-BSFI Participants;
    (2) API standards reference or other equivalent documentation;
    (3) Authorization, authentication, and encryption requirements for each product/service tier;
    (4) Disclosure and transparency requirements as prescribed under Sec. 101-CC;
    (5) Consent management;
    (6) Protection of client information including responsible data handling as well as data privacy and protection;

(7) Reciprocity arrangement among Participants;
(8) Economic model; and
(9) Consumer protection and effective recourse as prescribed under Sec 101-CC.

d. Cooperate with and extend fullest assistance permissible to the Bangko Sentral and other regulators in enforcing applicable laws and regulations, in promoting adherence to this Framework.

Consistent with the provisions of Sec. 101-CC, the Bangko Sentral reserves the right to deploy its range of supervisory tools to promote adherence to the requirements and expectation set forth in this Framework. In this regard, the Bangko Sentral may issue directives to or impose sanctions against the OFOC, such as suspension or revocation of any authority of the OFOC (including any or all of its generally authorized activities), without prior notice, to promote the safety and soundness of the financial system and/or to protect Participants, its customers, or the general public.

Registration Standards. BSFIs with a composite rating of at least "3" under the Supervisory Assessment Framework (SAFr), or its equivalent, are automatically eligible to become Participants of the Open Finance Ecosystem. On the other hand, those that do not meet the minimum rating must secure prior Bangko Sentral approval to participate in the Open Finance Ecosystem. Participants which are not under the regulation and supervision of the Bangko Sentral shall comply with the applicable registration requirements set by the OFOC, pursuant to pertinent laws, rules and regulations of the Bangko Sentral and other relevant authorities. Participants shall be responsible for ensuring fourth party compliance with applicable laws, rules and regulations.

Open Finance Standards*.* The OFOC shall issue guidelines aimed at ensuring that:

a. access to and participation in the standard-setting process, including any planning and consultation activities, is non-discriminatory;
b. the standards development process is transparent; and
c. the Open Finance Standards will be accessible to all qualified parties.

The API standards reference or other equivalent documentation that shall be developed by the OFOC shall meet the recommended technical standards to facilitate industry-wide adoption, and shall cover, at a minimum, the following:

(1) *API Architecture Standards.* These shall comprise, among others, reference for Open API specifications, including communication protocols, and architecture types. Participants are encouraged to adopt recognized industry-wide architectural styles such as Representational State Transfer (REST) and Simple Object Access Protocol (SOAP);

Data Standards. These shall include data formats, data structures, and related data protection and privacy rules to enable Participants to share data and information accurately and efficiently. Participants shall adopt data formats which are recognized by the industry such as, but not limited to, JavaScript Object Notation (JSON), Extensible Markup Language (XML), Comma Separated Values (CSV), and Structured Query Language (SQL). The "data dictionary" shall be published online, with sufficient level of detail to facilitate third party understanding and adoption;

(2) *Security Standards.* These shall cover minimum security compliance requirements, guidelines, and specifications that must be met by Participants, including authentication, authorization, and encryption. Participants should always refer to industry sound practices, relevant regulatory, and internal requirements, and apply holistic controls on information and cybersecurity based on a risk- and principles-based approach to protect their systems as well as financial and consumer data. At a minimum, Participants shall adopt the latest and robust authorization and authentication protocols that are adequate for the risks presented by Open Access, such as, but not limited to, multi-factor authentication, Transport Layer Security (TLS)/Advanced Encryption Standard (AES)/Hashed Message Authentication Code (HMAC) encryption standards and OAuth 2.0 authentication standard. Participants should use more secure methods for sharing data, such as token-based authentication through APIs. The API must be designed in such a way that the end-user access shall be limited to data that the end-user has permission to see or process. These access rights must be appropriately recorded, verified, measured, and audited. In terms of secure hosting, PCI DSS and ISO 27001 are most desired; and

(3) *Outsourcing Standards.* These shall refer to the management of risks arising from outsourcing activities particularly those involving data disclosure and confidentiality, data privacy and protection, data management such as procedures for accessing and processing data, obtaining consent, contract management, security, performance monitoring and business continuity, among others.

Adoption of Open Finance Standards and Publication of Open APIs. All Participants that intend to provide Open Access shall adopt the Open Finance Standards and shall comply with relevant laws and pertinent BSP regulations particularly on Outsourcing, Operational Risk Management, IT Risk Management, Internal Control, Anti-Money Laundering/Countering the Financing of Terrorism, Financial Consumer Protection, and sound corporate governance principles, among others.

Open Finance Standards may be revised periodically to address emerging issues or to improve the Open API functionalities. To facilitate third party adoption, Participants shall publish detailed Open API documentation and ensure consistency with the latest version of Open Finance Standards.

Tiered Approach towards Open Finance Standards Adoption. Open Finance Standards shall be classified into five (5) tiers based on data sensitivity, data type, and data holder type. The tiers are not necessarily sequential, and multiple implementations may occur simultaneously.

a. *Tier 1* – Product and Service Information. Refers to "read-only" information on financial data and other details of financial products/services that is readily accessible online and can be freely used, reused, and redistributed by any entity such as deposit/lending rates, credit card offerings, service charges and other public data.

b. *Tier 2* – Subscription and New Account Applications. Includes customer acquisition and account opening processes, along with facilitating digital application and submission of supporting documents. Applications for deposits, loans, debit/credit cards, and other financial products are covered under this category.

c. *Tier 3* – Account Information. Refers to personal (e.g., name, registered address, phone numbers, etc.) and financial information provided by a customer at any given time or other details pertaining to the account of authenticated customers for stand-alone or aggregated views. This consists of, but are not limited to, data types such as account balance, credit card outstanding balance, transaction records, credit limit change, and credit score.

d. *Tier 4* – Transactions. Covers payments and other financial transactions such as scheduled payments and transfers initiated by customers.

e. *Tier 5* – Others. Covers other more complex financial products or use cases and those that are not covered by tiers 1-4.

Cooperative Regulatory Oversight. The Bangko Sentral duly recognizes that other regulatory/supervisory authorities may be involved in the Open Finance Framework as this would involve other Participants that are not under the supervisory ambit of the Bangko Sentral. In this regard, the Bangko Sentral shall coordinate with the concerned regulatory authority with respect to the implementation of the Open Finance Framework.

Regulatory Sandbox

The Bangko Sentral seeks to provide a regulatory environment that is conducive for the deployment of innovative financial services, including the development of standards for Open Finance. In line with this, the Bangko Sentral will permit innovation in Open Finance, such as but not limited to, the development of an industry API sandbox, in which Open APIs can be deployed and tested in a live environment and within specified parameters and timeframes.

Recommendation to Build a Central API Sandbox. While API providers will be encouraged to develop local sandboxes, it is recognized that costs may present a barrier and further incentives may be required. Thus, the Bangko Sentral encourages the OFOC to establish a central sandbox for testing developers and for other purposes related to local sandbox development (e.g., outsourcing sandbox development to trusted parties). The OFOC shall ensure that the central sandbox (i) implements all levels of security for APIs and (ii) contains a set of executable tests that API developers can use to validate compliance. The OFOC shall provide the executable tests to developers free of charge so that barriers to entry are avoided.

The OFOC shall maintain a list of approved Use Case API Services[1] with defined technical and security standards. This list shall include clear mechanisms and guidelines for providing the API services (e.g., basic APIs such as Authentication, Account Information, Transfers, etc.). The Use Case list per API service is a list that will be regularly updated based on new API innovations that have been reviewed by the Bangko Sentral or other relevant governing body.

Consumer Protection. Participants shall adopt customer awareness measures to, at the minimum, educate their customers on the following: (i) safeguarding of information; (ii) use of the Open API; (iii) actual fees and charges related to the access of information and performance of transactions; (iv) fair and equitable terms and conditions; (v) products and services appropriate to the capacity and risk appetite of the consumer; and (vi) problem resolution procedures. Participants shall disclose, prior to entering an initial transaction and on an ongoing basis, all material risks to their clients in a manner that is clear, fair and not misleading. Participants shall carry out initiatives to give consumers the knowledge, skills, and confidence to understand and evaluate the information they receive and empower them to make informed financial decisions.

[1] All existing API arrangements prior to the issuance of Circular No. 1122 dated 28 June 2021, they shall comply with the applicable requirements prescribed herein within one (1) year from 13 July 2021. In cases awaiting policy-setting or further clarifications, compliance timetable shall be further determined by the OFOC.

Data Privacy and Data Protection. Each contract relating to the implementation or use of Open API shall contain a clause for the recognition by each party that the customers have ownership over their data being collected and processed through the transaction, and that they have all the rights enumerated under R.A. No. 10173 (Data Privacy Act of 2012). This views that while customer and transaction data are in the custody of the Open API publisher, their rights to control the use of such data is limited to the boundaries of the consent the customer provided. All Participants shall comply with relevant requirements of the Data Privacy Act of 2012, its Implementing Rules and Regulations, and other National Privacy Commission issuances.

Dispute Mechanism. Participants shall have an adequate, prompt, and effective mechanism or procedure for handling and resolving disputes covering Open Finance issues aligned with agreed Conventions, as applicable.

User Consent and access to opt-in and opt-out mechanisms. Proper mechanisms shall be in place to ensure customers' private information is not used for purposes that are against their interests. The customers should, at all times, not only be educated and informed but they must also consent to how their data is being used and be provided with opt-in and opt-out mechanisms if and when they want to withdraw or modify the scope of their consent. Customers must be periodically informed as to how the Participants have utilized their permissioned data within a given period. Proper mechanisms based on industry standards shall be in place in providing a consent management portal/service that is interoperable, open, and has extensible information structure for recording obtained consents, consent duration, timestamp and opted-in/opted-out services, among others.

(Circular No. 1122 dated 17 June 2021)

111-CC FRAMEWORK ON THE SELECTION OF EXTERNAL AUDITORS

Policy Statement. The Bangko Sentral considers the external auditing profession as a partner in promoting the integrity of financial reports and transparency in the financial system. In this light, the Bangko Sentral is issuing this framework on the selection of external auditors (individual practitioners and audit firms) for Bangko Sentral Supervised Financial Institutions (BSFIs) in line with its cooperative arrangements with the Securities and Exchange Commission (SEC), Insurance Commission (IC), and Philippine Deposit Insurance Corporation (PDIC), under the auspices of the Financial Sector Forum (FSF).

Appointment of External Auditors of BSFIs

a. BSFIs shall engage the services of an external auditor included in the List of Selected External Auditors for BSFIs. In this respect, a BSFI shall only appoint an external auditor belonging to the same category or from categories higher than the category of the BSFI concerned as provided in this section: *Provided*, That the Monetary Board may require the BSFI to appoint an external auditor from higher categories as part of the Bangko Sentral's supervisory action on the BSFI. The external auditor appointed by the BSFI shall likewise audit the BSFI's trust department as well as its subsidiaries and affiliates engaged in allied activities, as applicable.

b. External Auditors shall be classified into three categories and shall extend their services to BSFIs belonging to the same category or from categories lower than the category of the external auditor, as follows:

(1) Group A

(a) UBs/KBs
(b) Foreign banks and branches or subsidiaries of foreign banks
(c) Banks, trust departments and trust corporations with additional derivatives authority, pursuant to Sec. 613 of the MORB

(2) Group B

(a) TBs
(b) NBFIs with quasi-banking license
(c) Trust departments and trust corporations

(3) Group C

(a) RBs and Coop Banks
(b) Non-stock Savings and Loan Associations
(c) Pawnshops
(d) Remittance and Transfer Companies (RTCs)/Money Changers/Foreign Exchange Dealers (MCs/FXDs), including Virtual Currency Exchanges and Electronic Money Issuers
(e) Credit Card Issuers/Acquirers

The above categories shall include their subsidiaries and affiliates engaged in allied activities and other financial institutions subject to Bangko Sentral's consolidated supervision.

c. External auditors applying for first time inclusion or renewal of inclusion in the List of Selected External Auditors for BSFIs shall submit their application to the SEC. The application shall be subject to the requirements set out by the SEC as agreed upon by the Bangko Sentral, SEC, IC and PDIC.

d. The inclusion in the List of Selected External Auditors for BSFIs shall be valid for five (5) years or for a shorter period prescribed by the financial sector supervisors.

e. The Bangko Sentral shall periodically evaluate the performance of the external auditor through an assessment of the quality of the BSFI's audited financial statements and its compliance with the requirements provided under this Section. The results of assessment shall serve as basis for the continuing inclusion of external auditors in the List of Selected External Auditors for BSFIs.

f. The external auditor, including the engagement and quality control partners of the audit firm, of the BSFI shall be rotated in accordance with the relevant provisions of the Code of Ethics for Professional Accountants in the Philippines as adopted by the Philippine Board of Accountancy.

Audit Engagement and Reportorial Requirements

a. The BSFI's Audit Committee/board of directors/board of trustees shall ensure that the scope of external audit work appropriately covers areas relevant to BSFI's operations and risk exposures. These include the following:

(1) Review of the adoption of applicable reporting framework as well as the assessment of the accuracy, adequacy, and reliability of accounting records and financial reports;
(2) Assessment of the propriety and adequacy of disclosures in the financial statements;
(3) Assessment of the adequacy and effectiveness of internal controls and risk management systems;
(4) Assessment of the quality of capital in relation to risk exposures; and
(5) Evaluation of the quality of corporate governance.

b. The engagement contract of BSFIs with the external auditor shall include, at a minimum, the following provisions:

(1) That disclosure of information, such as those enumerated under Item *"c"* of this Section (*Audit engagement and reportorial requirements*), by the external auditor to the Bangko Sentral and/or other financial sector supervisors shall not constitute a breach of confidentiality on the part of the external auditor nor shall it be a ground for civil, criminal, or disciplinary proceedings against the external auditor;

(2) That the external auditor shall be allowed read-only access to the Bangko Sentral's Report of Examination on the BSFI and that the external auditor shall appropriately consider the contents thereof and maintain its confidentiality; and

(3) That the BSFI concerned and external auditor shall comply with all the requirements under this Section.

The engagement contract shall be made available by the BSFI to the Bangko Sentral upon request.

c. The external auditor shall report to the appropriate supervising department of the Bangko Sentral within fifteen (15) calendar days upon discovery of any matter adversely affecting the condition or soundness of the BSFI, such as, but not limited to the following cases:

(1) Any material finding involving fraud or error;

(2) Actual or potential losses, the aggregate of which amounts to at least ten percent (10%) of the consolidated total assets of the BSFI;

(3) Significant doubt as to the ability of the BSFI to continue as a going concern;

(4) Material breach of laws or Bangko Sentral rules and regulations such as but not limited to prescribed capital and liquidity ratios, significant deficiency in allowance for credit losses, material weaknesses in fair value measurement methodology, and significant vulnerabilities to money laundering and combating the financing of terrorism;

(5) Material internal control weaknesses which may lead to financial reporting problems; and

(6) Findings on matters of corporate governance that may require urgent action by the Bangko Sentral.

Where a thorough investigation or evaluation of facts is necessary on the noted case, an initial report shall be submitted within the prescribed timeline: *Provided*, That a complete report is submitted not later than fifteen (15) calendar days from completion of investigation or evaluation.

In case there are no matters to report, the external auditor shall submit to the appropriate supervising department of the Bangko Sentral, not later than 120 calendar days after the close of the calendar year or the fiscal year adopted by the BSFI, a certification that there is none to report.

d. The board of directors and management of the BSFI shall be primarily responsible for the financial statements submitted to the Bangko Sentral. External auditors are expected to conduct the audit of financial statements in accordance with the provisions of the Philippine Standards on Auditing.

e. The external auditor shall directly inform the appropriate supervising department of the Bangko Sentral of the pre-termination of the engagement contract or his/her resignation/replacements as external auditor as well as the reasons thereto, within fifteen (15) calendar days of the pre-termination of the contract or his/her resignation/replacement.

Supervisory Enforcement Action

The Bangko Sentral reserves the right to deploy its range of supervisory enforcement actions to promote adherence with the requirements set forth in this Section and bring about timely corrective actions. For this purpose, the Bangko Sentral may issue directives or impose sanctions on BSFIs and/or its directors/trustees who approved the appointment of the external auditor, who/which are not in the List of Selected External Auditors for BSFIs, and/or for non-compliance with the provisions of this Section. The Bangko Sentral may likewise shorten the period of validity of inclusion of an external

auditor in the List of Selected External Auditors for BSFIs, suspend, or delist external auditors from its List of Selected External Auditors for BSFIs based on the results of assessment of the quality of audited financial statements (AFS) as well as non-compliance with the provisions of this Section. The guidelines on the supervision/delisting of external auditor in the list of selected external auditors for BSFIs is prescribed in *Appendix Q-30.*

Transitory provisions

a. External auditors whose inclusion in the List of Selected External Auditors for BSFIs is valid to cover the audit of 2018 financial statements are hereby given one (1) year extension on their inclusion in the List of Selected External Auditors for BSFIs allowing them to engage in the audit of the 2019 financial statements.

b. All applications (new and renewal) for inclusion in the List of Selected External Auditors for BSFIs to cover in the audit of 2020 financial statements and thereafter shall be filed with the SEC starting June 2019.

(Circular No. 1040 dated 20 May 2019)

121-CC BANGKO SENTRAL REGULATIONS OF FINANCIAL CONSUMER PROTECTIONS[1]

Credit card issuers shall adopt a system for promptly addressing the complaints of their customers.

The Financial Consumer Protection Framework of the Bangko Sentral as stated under Part Ten of this Manual on Q-Regulations shall be adopted insofar as these are applicable to pawnshop operations.

Consistent with Sec. 002-Q, the Bangko Sentral may deploy enforcement action to promote adherence to the Bangko Sentral Regulations on Financial Consumer Protection.

(Circular No. 1048 dated 06 September 2019)

[1] BSFIs shall be given six (6) months from 26 September 2019 to: (1) perform a gap analysis of their current consumer protection practices vis-i-vis this Section and (2) propose an action plan duly approved by the Board of Directors to achieve full compliance within a reasonable period of time but in no case longer than one (1) year from 26 September 2019.

130 – CC SALE/TRANSFER TRANSACTIONS OF BSFIS PURSUANT TO R.A. NO. 11523, OTHERWISE KNOWN AS THE FINANCIAL INSTITUTIONS STRATEGIC TRANSFER (FIST) ACT

Policy Statement.

This Section sets forth the guidelines governing the sale/transfer and investment transactions of banks and other institutions licensed by the Bangko Sentral to perform (i) quasi-banking functions and (ii) credit-granting activities, including but not limited to pawnshops, non-stock savings and loan associations, and non-bank credit card issuers pursuant to R.A. No. 11523, otherwise known as the FIST Act and its IRR. The implementation of the FIST Act reinforces the BSFIs' primary role of providing financial services and liquidity to support households, business enterprises and productive sectors of economy by allowing BSFIs to dispose of their NPAs and increase their liquidity and risk-bearing capacity.

Sale/transfer transactions of non-performing assets (NPAs) by BSFIs for purposes of availing of the tax exemptions and incentives/privileges under the FIST Act shall comply with the provisions under this Section.

Definition of Terms.

For purposes of this Section, the following definitions shall apply:

a. *Certificate of Eligibility (COE)* refers to the certificate issued by the Bangko Sentral as to the eligibility of the non-performing loan (NPL) or real and other properties acquired (ROPA) for purposes of availing the tax exemptions and privileges pursuant to the provisions of the FIST Act.

b. *Data Package* refers to the set of documents prescribed by the Securities and Exchange Commission (SEC) under Rule No. 5.1.j of the IRR and the additional documentation required under this Section (*Sale and Transfer of Assets*), which must be prepared and made available by the selling BSFI in respect of the sale/transfer of NPAs to FIST Corporations (FISTCs)/individuals. The Data Package should contain, among others, scanned copy of all pertinent documents and the particulars of each property or loan account being sold and should be made electronically available to potential bidders.

c. *FISTC* refers to a stock corporation organized in accordance with R.A. No. 11232, otherwise known as the "Revised Corporation Code of the Philippines," the provisions of Section 4 of the FIST Act and Rule 4 of the IRR. It is incorporated primarily to invest in or acquire NPAs of financial institutions under the FIST Act. With respect to foreign FISTCs, existing laws on ownership of real properties shall apply.

d. *Individual* refers to a natural person who, subject to certain conditions, is entitled to the tax exemptions, incentives, and fee privileges under the FIST Act.

e. *NPAs* refers to the NPLs and ROPA of BSFIs. NPAs are those NPLs and ROPA that are classified as such under the FIST Act on or before 31 December 2022.

f. *NPLs* refer to secured or unsecured loans and other receivables, including restructured loans and sales contracts receivables (SCRs), whose principal and/or interest have remained unpaid for at least ninety (90) days after they have become past due or any of the events of default under the loan agreement/restructuring agreement/sales contract, as applicable, has occurred.

   NPLs shall also include loans that are classified as items in litigation on or before 31 December 2022 for which collection and foreclosure cases have been filed or are subject to pending cases that seek to restrain foreclosure or consolidation of title of foreclosed assets, or where a restraining order or injunction has been issued to prevent foreclosure of mortgage or consolidation of title of foreclosed assets.

g. *ROPAs* refers to real and other properties acquired by a BSFI in settlement of loans and receivables, including real properties, shares of stocks, and personal properties which have been acquired by way of dation in payment (dacion en pago) or judicial or extra-judicial foreclosure or execution of judgement or enforcement of security interest.

h. *SCRs* refer to the amortized cost of assets acquired in settlement of loans through foreclosure or dation in payment and subsequently sold on installment basis whereby the title to the said property is transferred to the buyers only upon full payment of the agreed selling price.

i. *Special Purpose Vehicles (SPVs)* refer to entities created under R.A. No. 9182, as amended, otherwise known as the "The Special Purpose Vehicle (SPV) Act of 2002," primarily incorporated to invest in or acquire NPAs of financial institutions under the SPV Act, whose application for reconfirmation has been approved by the SEC.

j. *True sale* refers to a sale wherein the selling BSFI transfers or sells its NPAs to an individual/FISTC, without recourse for cash or property in exchange for the transfer or sale, and without prejudice to the BSFI and the FISTC agreeing on sharing of profits and subject to the following results:

(1) The transferor transfers full legal and beneficial title to and relinquishes effective control over the transferred NPAs; and
(2) The transferred NPAs are legally isolated and put beyond the reach of the transferor and its creditors;

Provided, That the transferring BSFI shall not have direct or indirect control, of the transfereeee FISTC: *Provided, further,* That the selling BSFI does not have legal or beneficial ownership of more than ten percent (10%) of the (a) total number of outstanding shares of stock entitled to vote in the election of directors; and (b) the total number of outstanding shares of stock, whether or not entitled to vote, of the transferee FISTC.

For purposes of determining existence of control, the provisions of Sec. 131-Q shall apply.

All references to FISTCs in subsequent provisions of this Section shall also refer to SPVs as defined under this Section (*Definition of Terms*).

Issuance of COEs.

A BSFI which intends to avail of the tax exemptions and fee privileges under the FIST Act shall apply for a COE in accordance with the Bangko Sentral's guidelines for obtaining a COE under the FIST Act. The following transactions shall require a COE:

a. The sale/transfer of NPAs by a BSFI to a FISTC;

b. The dation in payment (dacion en pago) of NPL by a borrower or third party on behalf of the borrower to a BSFI; and

c. The sale/transfer of NPL (secured by a real estate mortgage on a residential unit or an empty lot) or ROPA (single family residential unit or an empty lot) by a BSFI to an individual: *Provided,* That an individual is limited to only one acquisition of NPA (either NPL or ROPA).

Notice, Manner and Nature of Sale/Transfer of NPAs

The following provisions on notice, manner and nature of sale/transfer of NPAs under Sections 12 and 13 of the FIST Act and Rules 12 and 13 of the IRR shall apply:

a. *Prior Notice.* No transfer of NPLs to a FISTC/individual shall take effect unless the BSFI concerned gives prior notice to the borrowers of the NPLs and all persons actually or constructively known to the BSFI to be holding prior encumbrances upon the assets mortgaged or subject to security interest. The BSFI's notification to the borrower shall include a breakdown of his/her loan and related credit obligations that shall be the subject of the sale/transfer. Such notice shall be in writing and made in accordance with the 2019 Revised Rules of Civil Procedure, including Rule 13. Sections 5-15 and 17 on the modes and proof of service, Rule 14, Section 12 on the service upon domestic private juridical entity. The borrower shall be given a period of almost thirty (30) calendar days upon receipt of notice from the BSFI to restructure or renegotiate the loan under such terms and conditions as may be agreed upon by the borrower and the BSFI concerned.

b. *Sale/Transfer of Assets*

A selling BSFI shall provide prospective bidders, including individuals and FISTCs, with a data package as defined under this Section (*Definition of Terms*). At a minimum, the data package shall include the documents prescribed under Rule 5.1.j of the IRR and the following documents, if available:

(1) For NPLs:

(a) Promissory Note/Pawn ticket;
(b) Restructuring Agreement, debt settlement agreement and other loan agreements of similar nature; and
(c) Chattel Mortgage and Security Agreement, third-party financial guarantee or surety arrangement.

(2) For ROPA:

(a) Proof of property's ownership, e.g., Transfer Certificate of Title (TCT), with registered real estate mortgage (REM), tax declaration for unregistered land, Certificate of Stocks or other certificate/proof of participation in securities, Official Receipt/Certificate of Registration for motor vehicle;

(b) Certificate of Sale (COS) for Extra-judicial foreclosure/Notarized Deed of Dacion in case of dation in payment/judgment in case of judicial foreclosure for real estate ROPA with unconsolidated land title; and

(c) Latest Real Estate Tax Receipt.

(3) For SCRs:

(a) Notarized Sales Contract;

(b) Proof of property's ownership, e.g., TCT, with REM, tax declaration for unregistered land, Certificate of Stocks or other certificate/proof of participation in securities, Official Receipt/Certificate of Registration for motor vehicle;

(c) COS for Extra-judicial foreclosure/Notarized Deed of Dacion in case of dation in payment/judgment in case of judicial foreclosure for real estate ROPA with unconsolidated land title; and

(d) Latest Real Estate Tax Receipt.

All sales or transfers of NPAs by a BSFI shall meet the definition of a true sale under this Section (*Definition of Terms*) and shall be made in accordance with the provisions of Section 13 of the FIST Act and Rule 13 of the IRR. Sales/Transfers of NPAs shall be in the nature of a "true sale" after proper notice in accordance with the procedure provided under this Section (*Notice, Manner and Nature of Sale/Transfer of NPAs*), without need for the borrower's consent: *Provided,* That in the transfer of the NPLs, the provisions on the right of the debtor to reimburse the assignee or transferee under Article 1634 of the New Civil Code shall not apply: *Provided, further,* That after the sale, the FISTC/individual shall assume all legally transferrable rights and obligations of the transferring BSFI.

The Bangko Sentral shall not issue the COE to a BSFI in case of its non-compliance with the FIST Act, its IRR, and this Section, including, but not limited to, the following: (1) the asset subject of the sale/transfer transaction does not meet the definition of an NPA under this Section (*Definition of Terms*), or (2) the sale/transfer transaction (i) does not meet the definition of a "true sale", (ii) falls under the transactions not considered "true sale" under *Appendix CC-5,* or (iii) is presumed to be not a "true sale" transaction under the same Appendix, based on documents submitted/presented relative to its COE application, without prejudice to submission by the BSFI of a new application/request with complete requirements and accurate documents.

Moreover, the Bangko Sentral reserves its authority to pass upon the "true sale" nature of the sale/transfer even after the issuance of the COE, and revoke a COE already issued upon finding of any violation of the "true sale" nature of the transaction.

The guidelines in determining whether the sale/transfer satisfies the requirements of a "true sale" is in *Appendix CC-5.*

c. *Subsequent notice.*

Within fifteen (15) banking/business days after the execution of the NPL's sale or transfer documents, the transferring BSFI shall inform the borrower, in writing sent to the latter's last known address or email address, of the fact of the sale or transfer of the NPLs. Non-compliance with the post-notification requirement shall not invalidate the sale or transfer of NPLs but shall subject the erring BSFI to appropriate sanctions and penalties under the FIST Act and its IRR, as well as other pertinent laws, rules, and regulations.

d. *Subsequent transfers.*

The re-acquisition of the NPA by the borrower or owner from the FISTC, individual, or subsequent transferee other than by the exercise of the right of redemption as provided for in Section 20 of the FIST Act and Rule 20 of the IRR shall be in accordance with the terms and conditions as may be agreed upon by them.

Prudential Relief Measures on the Sale/Transfer of NPAs

BSFIs may avail of the prudential relief measures that shall be granted by the Bangko Sentral in relation to their NPA sale/transfer transactions.

Limitations on Amount Available for Dividends

BSFIs may carry-over any loss incurred as a result of the result of the transfer of an NPA within a period of not more than two-years from the date of effectivity of the FIST Act (I.e., on 18 February 2021 for a period of five (5) consecutive taxable years immediately following the year of the transfer that resulted to such loss: *Provided,* That the loss meets the requirements under Section 17 of the FIST Act and Rule 17.1 of the IRR: *Provided, further,* That the tax savings derived by a BSFI from this net operating loss carry-over shall not be made available for dividend declaration under Sec. 123-Q but shall be retained as a form of capital build-up pursuant to Section 17 of the FIST Act and Rule 17.2 of the IRR.

Prudential Report

BSFIs that availed of the tax exemptions and incentives/privileges under the FIST Act shall submit a Monthly Report on the Sale/Transfer and Investment Transactions of BSFIs under the FIST Act to the Bangko Sentral. The report shall be considered a Category B report and shall be submitted within twenty (20) business days after end of reference month.

Penalties and Administrative Sanctions

A BSFI and/or its concerned directors, officers, and employees who violate any provision of the FIST Act, its IRR, and this Section, or who, in a notice or certification, makes any untruthful statement of a material fact or omits to state a material fact, or who violate the required "true sale" nature of the sale/transfer of NPAs shall be penalized pursuant to Sections 18 and 24 of the FIST Act, Rules 18 and 24 of the IRR; Section 37 of R.A. No. 7653, or "The New Central Bank Act", as amended, and other applicable laws, without prejudice to the enforcement actions that may be deployed by the Bangko Sentral consistent with Sec. 101-CC (*Sanctions and penal provisions*).

(Circular No. 1117 dated 27 May 2021)

LIST OF APPENDICES

No.	Subject Matter
CC-1	Requirements for Non-Banks Applying to Become Credit Card Issuers
CC-2	Acts Tantamount to the Act of Issuing Pre-Approved Credit Cards
CC-3	Format of Disclosures Statement on Small Business/Retail/Consumer Credit
CC-4	Guidelines on the Suspension/Delisting of External Auditor in the List of Selected External Auditors for Bangko Sentral Supervised Financial Institutions (BSFIs)
CC-5	Guidelines in Determining a "True Sale" Transaction under the FIST Act
CC-6	Guidelines on the Imposition on Monetary Penalties on Credit Card Issuers, and/or their Directors, Officers and/or Employees for Violations of Banking and other Applicable Laws with Sanctions Falling under Section 37 of R.A. No. 7653 (The New Central Bank Act), as Amended

REQUIREMENTS FOR NON-BANKS APPLYING TO BECOME CREDIT CARD ISSUERS
(Appendix to Sections 101-CC on Authority to Operate and Minimum Requirements for the Issuance of Credit Cards)

A. *Pre-qualification requirements* for non-banks applying to become credit card issuers:

1. It has generally complied with the applicable laws, rules and regulations, orders of instructions of appropriate authorities and the Monetary Board and/or the Bangko Sentral where applicable, including the minimum capital requirements.

2. Its accounting records, systems and procedures as well as internal control systems are satisfactorily maintained.

3. It has no past due obligation with any financial institution as of date of application.

4. The officers who will be in-charge of the credit card operations have actual experience of at least two (2) years in a bank or quasi-bank as in-charge (or at least as assistant-in-charge). The directors, officer-in-charge of the credit card operations and the managerial staff must comply with the fit and proper rule prescribed under existing law/rules and regulations.

5. The non-bank entity has elected at least two (2) independent directors and all its directors have attended the required seminar for directors of banks or quasi-banks conducted or accredited by the Bangko Sentral.

6. It must have in place a comprehensive risk management system approved by its board of directors appropriate to its operations, characterized by a clear delineation of responsibility for risk management, adequate risk measurement systems, appropriately structured risk limits, effective internal control and complete, timely and efficient risk reporting systems.

B. *Application for authority to become a credit card issuer.* The incorporators/directors or the president or officer of equivalent rank of a non-bank entity shall file and submit to the appropriate Department of the Bangko Sentral an application for authority to be a credit card issuer, together with the following documents:

1. New corporations/ subsidiaries of corporations in Item *"a"* of Section 101-CC *(Authority to Operate)* shall submit the following:

   a. Certified true copy of the board resolution authorizing the application, together with a certification signed by the president or equivalent rank that the non-bank entity has complied with all prerequisites for the grant of authority to engage in credit card issuance.

   b. Biographical data with picture of each incorporator, subscriber, existing/proposed director and officer. The directors and officers of the institution must comply with the fit and proper rule prescribed under existing law and regulations;

   c. National Bureau of Investigation (NBI) clearance of each of the incorporator, subscriber, existing/proposed director and officer or similar document from the home country in the case of non-Filipino citizens, if possible;

   d. If applicable, certification from home country's supervisory authority that the Non-Filipino citizen has no derogatory record, if applicable;

   e. For corporate subscribers, the following additional documents shall be submitted:

      i. Copy of the board resolution authorizing the corporation to invest in the business of credit card issuance and designating the person who will represent the corporation in connection therewith;

      ii. Copy of the latest articles of incorporation and by-laws;

      iii. Updated list of directors and principal officers;

iv. Current list of substantial or major stockholders, indicating the citizenship and the number, amount and percentage of the voting and non-voting shares held by them. For this purpose, substantial or major shareholder shall mean a person, whether natural or juridical, owning such number of shares that will allow him to elect at least one (1) member of the board of directors of a credit card issuer/acquirer, 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. A copy each of the corporation's audited financial statements for the last two (2) years prior to the filing of the application;

vi. A copy of the corporation's annual report to the stockholders for the year immediately preceding the date of filing of the application;

vii. Certified photocopies of the corporation's Income Tax Return; and

viii. For foreign corporations, in addition to Items *"e(i)"* to *"e(vii)"*, it shall also submit, if applicable, a certification from its home country's supervisory authority that it has no objection to the investment of such company in a credit card issuer/acquirer in the Philippines and that adequate information on such foreign corporation shall be provided to the Bangko Sentral to the extent allowed under existing laws;

f. Detailed plan of operation and economic justification for engaging in the credit card issuance business, including a manual of operations and other related documents embodying the risk management system.

g. Projected financial statements for the first five (5) years together with assumptions. These should be consistent with its proposed plan of operation and would show sufficient capital to support its strategy and operations; and

h. Such other information/documents that the Bangko Sentral may require.

2. A duly incorporated quasi-bank of good standing, shall submit documents indicated in Sec. 312 *(Risk management system)* of the MORB.

C. *Applicable fees.* Applications to become a credit card issuer shall be subject to the following fees:

1. Filing fee – A filing fee of ₱1,000.00 shall be charged upon filing of the application and is non-refundable; and

2. Licensing fee – a licensing fee of ₱100,000.00 shall be charged upon approval of the application. Licensing fee shall be inclusive of the filing fee.

D. *Complete documentation.* The application shall be considered filed and submitted on a first-come, first-served basis: Provided, that all required documents are complete and properly accomplished. Otherwise, the application shall be returned un-acted.

E. *Commencement of operation as a credit card issuer***.** A newly authorized non-bank credit card issuer shall commence operation within six (6) months from the receipt of certificate of authority to engage as a credit card issuer. Not later than ten (10) banking days from the commencement of business operations, the President or officer of equivalent rank of the credit card issuer shall submit a written notice to the appropriate supervising sector of the Bangko Sentral of the actual date of commencement.

Provided, That the credit card issuer may be granted by the Deputy Governor of the appropriate supervising sector of the Bangkok Sentral, a final extension of six (6) months subject to the formal presentation of valid justification and documentary proof that the credit card issuer can commence operation within the six (6)-month extension period. Otherwise, upon recommendation of the Deputy Governor of the appropriate supervising sector of the Bangkok Sentral, the Bangko Sentral shall revoke the certificate of authority to engage as a credit card issuer.

(Circular No. 1003 dated 16 May 2018)

ACTS TANTAMOUNT TO THE ACT OF ISSUING PRE-APPROVED CREDIT CARDS

(Appendix to Sections 101 – CC on Definition of terms and Minimum requirements for the governance and risk management system of all credit card issuers.)

The acts described above and other similar acts are deemed tantamount to the act of issuing pre-approved credit cards notwithstanding any contrary stipulations in the contract.

i. Sending of credit cards to consumers with no prior application, written request and supporting documents required for prudent credit card evaluation;
ii. Sending of unsolicited supplementary cards and other cards with added features which are not in replacement or substitute to an existing cardholder's initial credit card;
iii. Unsolicited calls by a credit card issuer requesting updated information from selected clients in order to be entitled to receive credit card as a reward for his/her continued patronage of the credit's other financial product;
iv. Unsolicited calls by the credit card issuer to its depositors/clients informing them that they already have a credit card from the credit card issuer or its Credit Card Department due to good standing as a depositor/client;
v. Sending of mails with credit card enclosed which will be deemed accepted upon the receipt of such card by a receiver, whether authorized or not;
vi. Sending to a consumer an unsolicited credit card which is deemed accepted unless a request for termination is promptly instructed by the cardholder to the credit card issuer; and
vii. Sending of credit cards as free offers to consumers who availed themselves of the credit card issuer's other financial products.

(Circular No. 1003 dated 16 May 2018)

FORMAT OF DISCLOSURE STATEMENT ON SMALL BUSINESS/RETAIL/CONSUMER CREDIT
(Appendix to Sec. 101-CC)

_____
(Business Name of Creditor)

DISCLOSURE STATEMENT ON CREDIT TRANSACTION
(As Required under R.A. No. 3765, Truth in Lending Act)

NAME OF BORROWER _____
ADDRESS _____

1. CREDIT TRANSACTION AMOUNT	**₱ XXX**
2. OTHER BANK CHARGES/DEDUCTIONS COLLECTED[1]	**₱ XXX**

a. Documentary/Science Stamps ₱ _____
b. Mandatory Credit Insurance _____
c. Others (Specify) _____

3. NET PROCEEDS OF CREDIT TRANSACTION (Item 1 less Item 2) **₱ XXX**

4. SCHEDULE OF PAYMENTS

a. Single payment due on — **date** | **₱ XXX**
b. Installment Payments

(Please see attached amortization schedule)

5. EFFECTIVE INTEREST RATE (Interest and Other Charges) **XXX%**

Explanation: The effective interest rate is higher than the contractual interest rate of _____% because of Item 2 deductions above.

6. CONDITIONAL CHARGES THAT MAY BE IMPOSED (if applicable). Please specify manner of imposition:

a. Late Charge ₱ _____
b. Prepayment (penalty/refund) _____
c. Others (Specify) _____
_____ _____

CERTIFIED CORRECT:

_____ _____
(Signature of Creditor/Authorized Representative Over Printed Name) Position

I ACKNOWLEDGE RECEIPT OF A COPY OF THIS STATEMENT PRIOR TO THE CONSUMMATION OF THE CREDIT TRANSACTION.

_____ _____
(Signature of Borrower over Printed Name) Date

[1] **Notes:**
Itemize all charges including advance deductions.
- Small Business/Retail/Consumer loans include microfinance, auto (motor), salary, personal, educational, and other loans of similar nature.
- This document contains the minimum information required to be disclosed to the borrower/person to whom credit is extended and may be enhanced to improve client information.

AMORTIZATION SCHEDULE
(Sample Only)

Installment (A)	Loan (B)	Principal (C)	Interest (D)	Total (E)	O/S Balance (F)
	xxx				*xxx*
1		xxx	xxx	xxx	xxx
2		*xxx*	*xxx*	*xxx*	*xxx*
3		*xxx*	*xxx*	*xxx*	*xxx*
4		*xxx*	*xxx*	*xxx*	*xxx*
5		*xxx*	*xxx*	*xxx*	*xxx*
6		*xxx*	*xxx*	*xxx*	*xxx*
7		*xxx*	*xxx*	*xxx*	*xxx*
8		*xxx*	*xxx*	*xxx*	*xxx*
9		*xxx*	*xxx*	*xxx*	*xxx*
10		*xxx*	*xxx*	*xxx*	*xxx*
11		*xxx*	*xxx*	*xxx*	*xxx*
12		*xxx*	*xxx*	*xxx*	*xxx*
	Total	*xxx*	*xxx*	*xxx*	

Legends:

A - Number of installment periods based on loan term
B - Gross amount of loan
C - Installment payment on the principal
D - Installment payment on the interest
E - Total amortization payment for the installment period
F - Outstanding principal balance of the loan

(Cir. 1052 dated 2 October 2019)

GUIDELINES ON THE SUSPENSION/DELISTING OF EXTERNAL AUDITOR IN THE LIST OF SELECTED EXTERNAL AUDITORS FOR BANGKO SENTRAL SUPERVISED FINANCIAL INSTITUTIONS (BSFIs)
(Appendix to Sec. 111-CC)

Section 1. Grounds for Suspension/Delisting of External Auditors

An external auditor included in the List of Selected External Auditors for BSFIs shall be suspended or delisted by the Bangko Sentral, without prejudice to the imposition of other sanctions by the Securities and Exchange Commission (SEC)[1], under any of the following grounds:

a. Gross negligence in the conduct of the audit or failure to comply with the Philippine Standards on Auditing and such other issuances of the Auditing and Assurance Standards Council;

b. Issuance of an unqualified opinion which is not supported by full compliance by the auditee with the applicable financial reporting framework due to material deficiencies or misstatements in the financial statements;

c. Conduct of an audit despite the lack or eventual loss of independence as provided for under the Code of Ethics for Professional Accountants in the Philippines;

d. Conduct of any non-audit services for his statutory audit clients, if he has not undertaken the safeguards to reduce the threat to his independence;

e. Any material misrepresentation in the reports submitted to the Bangko Sentral;

f. Failure to comply with the provisions set forth under Section 111-CC;

g. Refusal for no valid reason, upon lawful order of the Bangko Sentral, to submit requested documents in connection with an ongoing investigation. The external auditor, however, be made aware of such investigation; and

h. Failure to obtain from the Securities and Exchange Commission an accreditation appropriate to the client's category provided under Section 111-CC on the appointment of external auditor.

Section 2. Procedures and Effects of Delisting/Suspension

a. On the basis of the results of the assessment of the quality of audited financial statements and evidence on the existence of the grounds for suspension or delisting under Section 1 above, the external auditor shall be notified in writing by the appropriate supervising department of the Bangko Sentral of the existence of the ground for his/her suspension or delisting in the List of Selected External Auditors for BSFIs and shall be allowed to submit within fifteen (15) calendar days from receipt of such notice an explanation on why he/she should not be suspended/delisted, together with the evidence in support of his/her position.

   An external auditor shall only be suspended or delisted after due notice and opportunity to defend/clear himself/herself.

b. Failure of the external auditor concerned to reply within the period prescribed under Item "a" above, shall be considered as a waiver on his/her part of the opportunity to defend/clear himself/herself. In this respect, the appropriate supervising department of the Bangko Sentral shall proceed with the evaluation of the case based on available records/evidence.

c. Upon approval by the Monetary Board, the external auditor concerned shall be informed in writing by the appropriate supervising department of the Bangko Sentral of his/her suspension or delisting in the List of Selected External Auditors for BSFIs.

d. A suspended or delisted external auditor shall be automatically included in the Bangko Sentral's Watchlist

[1] Accrediting Agency duly designated by the member-agency of the Financial Sector Forum, comprising of the Bangko Sentral ng Pilipinas, Securities and Exchange Commission, Insurance Commission, and Philippine Deposit Insurance Corporation

Disqualification File “B” (temporary).

e. The Securities and Exchange Commission shall be immediately informed of the suspension or delisting of the external auditor.

f. Suspended external auditors may re-apply for inclusion in the List of the Selected External Auditors for BSFIs after the lapse of five (5) years from the date of effectivity of the suspension.

GUIDELINES IN DETERMINING A "TRUE SALE" TRANSACTION UNDER THE FIST ACT

The transfer by a BSFI of its NPAs to a FISTC or an individual shall be considered not a True Sale if the BSFI satisfied any of the enumerated below:

(a) Has direct or indirect management of the transferee FISTC;

(b) Has any of its directors, officers or employees on the board of the transferee FISTC;

(c) Is obligated to repurchase or substitute/exchange the NPA or any part of the pool of NPAs at any time, except in cases of a breach of representation or warranty of the BSFI;

(d) Is a Related Interest, as defined under Rule 11 of the FIST IRR, of the transferee FISTC;

(e) Has legal and beneficial ownership of more than ten percent (10%) of the (a) total number of outstanding shares of stock entitled to vote in the election of directors, and (b) the total number of outstanding shares of stock, whether or not entitled to vote, of the transferee FISTC; or

(f) Accepts the transferred NPAs as the FISTC's collateral for any unpaid balance of the consideration of the transfer of said NPAs.

Unless otherwise determined by the Bangko Sentral, the following shall be presumed not a True Sale, if the BSFI:

(a) Is made the beneficiary of a trust used as a vehicle for purchasing and securitizing the NPAs; or

(b) Pays further expenses in relation to the NPAs after said NPAs have been sold/transferred to the transferee FISTC/individual;

(c) Extends, directly or indirectly, any credit facility, guaranty or any similar financial transaction to the transferee FISTC; or

(d) Extends any credit facility, guaranty of any similar financial transaction to any party for the purpose of investing in the equity or IUIs of the FISTC, or for acquiring the NPAs from the FISTC; or

(e) Extends any credit facility, guaranty or any similar financial transaction to any party for the purpose of acquiring the NPAs from the transferring FI; or

(f) Acts as trustee (BSFI's trust department) or if the trust department of any of the BSFI's subsidiaries/Affiliates, Parent bank or Parent bank's Subsidiaries/Affiliates acting as trustee, under any circumstances, in the securitization of NPAs that it has transferred to the FISTC; or

(g) Accepts as collateral for a loan extended by said BSFI the equity shares and IUIs of the FISTC that acquired its NPAs; or

(h) Enters into buy-back and other similar arrangements, or financial derivative transactions with similar effect, involving the NPAs or the securities backed by such NPAs; or

(i) Enters into any other transaction where the BSFI retains effective control over the transferred NPAs or shares in the losses of the FISTC; or

(j) Enter into a profit-sharing arrangement with a FISTC in relation to the sale/transfer of NPAs that will result in a sale/transfer transaction that does not meet the derecognition criteria under PFRS 9.

Provided: That, the extension of credit to an individual for the purpose of acquiring a single-family residential unit or an empty lot or ROPA or NPL secured by real estate mortgage on a residential unit or an empty lot shall be allowed and not considered a violation of the required "true sale" transaction.

For purposes of the foregoing, the term "any party" includes proxies, nominees, and voting trustees.

(Circular No. 1117 dated 27 May 2021)

GUIDELINES ON THE IMPOSITION OF MONETARY PENALTIES ON CREDIT CARD ISSUERS, AND/OR THEIR DIRECTORS, OFFICERS AND/OR EMPLOYEES FOR VIOLATIONS OF BANKING AND OTHER APPLICABLE LAWS WITH SANCTIONS FALLING UNDER SECTION 37 OF REPUBLIC ACT NO. 7653 (THE NEW CENTRAL BANK ACT), AS AMENDED

(Appendix to Sec. 001-CC on Monetary Penalties on Credit Card Issuers, and/or their Directors, Officers, and/or Employees)

The following are the guidelines on the imposition of monetary penalties on credit card issuers, and/or their directors, officers and/or employees.

I. *Definition of Terms*. For purposes of this Appendix, the following definitions shall apply:

a. *Transactional violation* refers to an act or omission constituting a violation of any applicable law or any order, instruction/directive or regulation issued by the Monetary Board, or any order, instruction/directive or ruling by the Governor which is consummated and concluded in a single instance/ occasion.

For licensing-related violations, transactional violation refers to the failure to obtain approval prior to engaging in an activity which the institution is qualified to undertake at the onset, based on eligibility test and assessment of compliance with the prudential criteria set forth under existing Bangko Sentral rules and regulations.

b. Continuing violation refers to an act or omission constituting a violation of any applicable law or any order, instruction/directive or regulation issued by the Monetary Board, or any order, instruction/directive or ruling by the Governor in which the violation persists or lingers over time from the instant the particular act was committed or omitted until the violation is stopped.

For licensing-related violations, continuing violation refers to an act which the institution is not qualified to undertake at the onset based on eligibility test and assessment of compliance with the prudential criteria set forth under existing Bangko Sentral rules and regulations.

II. *Imposition and Payment of Monetary Penalties.*

a. In accordance with Section 37 of R.A. No. 7653, as amended, monetary penalties may be imposed against credit card issuers and/or their directors, officers and/or employees for any willful violation of its charter or bylaws; willful delay in the submission of reports or publications thereof as required by law, rules and regulations; any refusal to permit examination into the affairs of the institution; any willful making of a false or misleading statement to the Monetary Board or the appropriate supervising and examining department or its examiners; any willful failure or refusal to comply with, or violation of, any banking law or any order, instruction or regulation issued by the Monetary Board, or any order, instruction or ruling by the Governor; or any commission of irregularities, and/or conducting business in an unsafe or unsound manner as may be determined by the Monetary Board.

In the absence of specific provision under other applicable laws or Bangko Sentral rules and regulations prescribing the imposable monetary penalty for the above-mentioned violations/offenses, credit card issuers, and/or their directors, officers and/or employees may be imposed a maximum monetary penalty of P1 million for each transactional violation or P100 thousand per calendar day for violations of a continuing nature as provided under Section 37 of R.A. No. 7653, as amended. Further, in case profit is gained or loss is avoided as a result of the violation, the Bangko Sentral may impose a fine of no more than three (3) times the profit gained or loss avoided on top of the aforementioned monetary penalty.

The Bangko Sentral considers the attendant circumstances of the case, including aggravating and mitigating factors, in the guided exercise of supervisory discretion to reach a reasonable and proportionate monetary penalty that best achieve the Bangko Sentral's supervisory objectives. These factors include the: (1) nature, gravity and seriousness of the violation or irregularity; (2) financial and/or non-financial impact of the violation or irregularity to the credit card issuer, its industry and/or the financial system; (3) intentionality, frequency and duration of the violation or irregularity; and (4) measures undertaken to stop or correct the violation or irregularity.

The appropriate department of the Bangko Sentral shall notify the credit card issuer, and/or director, officer and/or employee concerned of the violation, together with a directive for the credit card issuer, and/or director, officer and/or employee concerned to show cause within fifteen (15) business days from receipt of the letter why no monetary penalty under Section 37 of R.A. No. 7653, as amended, should be imposed. The recommendation to impose monetary penalties shall be approved by the Governor or the Monetary Board, as the case may be, pursuant to Section 37 of R.A. No. 7653, as amended: *Provided*, That monetary penalties against directors, officers and/or employees shall be approved only by the Monetary Board. The decision of the Governor/Monetary Board shall be communicated to the credit card issuer, and/or director, officer and/or employee concerned.

However, the Bangko Sentral is not precluded from imposing non-monetary sanctions along with monetary penalties if circumstances so warrant.

b. *Basis for the computation of the period or duration of penalty.* The computation of the period or duration of all penalties shall be based on calendar days. For this purpose the terms "per banking day", "per business day", "per day" and/or "a day" as used in this Manual, and other Bangko Sentral rules and regulations shall mean "per calendar day" and/or "calendar day" as the case may be.

c. *Payment of Monetary Penalties.* Credit card issuers, and/or their directors, officers and/or employees shall pay the monetary penalties within fifteen (15) calendar days from receipt of the notice of the decision of the Governor imposing said monetary penalties, and payment thereof shall not be suspended by the filing of an appeal to the Monetary Board.

Monetary penalties imposed by original decisions of the Monetary Board shall be paid within fifteen (15) calendar days from the last day to file a motion for reconsideration where none has been filed or within fifteen (15) calendar days from receipt of the notice of the decision of the Monetary Board affirming the decision on motion for reconsideration, as the case may be.

For uniform implementation of the above regulations, the following procedural guidelines shall be observed:

(1) Upon approval of the fines/penalties by the Governor/Monetary Board, the Department/Office concerned shall send the Statement of Account (SOA)/billing letter to the credit card issuer with an advice that the penalty should be paid in full within fifteen (15) calendar days from receipt of SOA/billing letter. For credit card issuers which maintain a DDA with the Bangko Sentral, the amount of the penalty/ies that remain unpaid shall be automatically debited from their DDA after the lapse of the fifteen (15)-calendar day period within which to pay the monetary penalties. The credit card issuer shall likewise be advised that penalty or portion thereof which remained unpaid after the lapse of said fifteen (15)-day period shall be subject to additional charge of six percent (6%) per annum reckoned from the business day immediately following the end of the fifteen (15)-day period up to the day of actual payment.

(2) On the business day immediately following the end of said fifteen (15)-day period, unpaid penalties shall be automatically debited, without additional charge, against the credit card issuer's DDA with the Bangko Sentral by the Comptrollership Sub-sector (CoSS) based on the amount booked by the Department/Office concerned after first confirming with the CoSS the sufficiency of the credit card issuer's DDA balance to cover the amount of the penalty.

(3) If, based on its confirmation with the CoSS, the Department/Office concerned received information that the credit card issuer's DDA balance is insufficient to cover the amount of the penalty, it shall accordingly advise and request the credit card issuer to immediately fund its DDA.

(4) As soon as it is funded, the credit card issuer's DDA shall be debited by the CoSS for the amount of the penalty, plus the six percent (6%) additional charge for late payment of the penalty reckoned from the business day immediately following the end of the fifteen (15)-day period up to the day of actual payment, based on the amount booked by the Department/Office concerned.

(5) In the absence of DDA with the Bangko Sentral, penalties shall be paid through any acceptable means of payment and in accordance with the provisions of Sec. 101-CC (*Sanctions and penal provisions*).

(6) In the case of penalty/ies imposed on credit card issuer directors, officers, and/or employees, the employer credit card issuer and said directors, officers, and/or employees shall be advised by the appropriate supervising department of the Bangko Sentral that the employer credit card issuer's DDA with the Bangko Sentral shall be debited for the amount of the penalty as advance payment on behalf of the director, officer, and/or employee whose penalty/ies remain unpaid after the lapse of fifteen (15) calendar days within which to pay the monetary penalty. In case the director, officer, and/or employee is no longer connected with the credit card issuer, payment thereof shall be for the account of the director, officer, and/or employee who shall pay directly to the Bangko Sentral through any such acceptable means of payment in accordance with the provisions of Sec. 101-CC (*Sanctions and penal provisions*). The procedures under Items *"2", "3"* and *"4"* hereof shall likewise apply.

III. *Appeal or Motion for Reconsideration.*

The imposition of monetary penalties by the Governor shall be final and executory until reversed, modified or lifted by the Monetary Board on appeal. The appeal shall be filed within fifteen (15) calendar days from receipt of the notice of the decision, copy furnished the appropriate department of the Bangko Sentral. No motion for reconsideration of the decision of the Governor or of the Monetary Board on appeal shall be allowed.

Original decisions of the Monetary Board imposing monetary penalties shall become final and executory after fifteen (15) calendar days from receipt of the Monetary Board decision, unless a motion for reconsideration is timely filed, copy furnished the appropriate department of the Bangko Sentral.

The appeal or the motion for reconsideration shall be in writing and shall specify the findings or conclusions in the decision which are not supported by the evidence or which are contrary to law, making express reference to the evidence or to the provisions of law alleged to be contrary to such findings or conclusions.

A *pro forma* appeal or motion for reconsideration shall be denied outright and shall not prevent the decision from attaining finality.

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