



# BANGKO SENTRAL NG PILIPINAS

## OFFICE OF THE GOVERNOR

CIRCULAR NO. 947  
Series Of 2017

**Subject: Supervisory Policy on Granting of a License/Authority**

The Monetary Board in its Resolution No. 201 dated 2 February 2017, approved the enhanced Supervisory Policy on Granting of a License/Authority of the Bangko Sentral ng Pilipinas (BSP) to strengthen and align its screening function with international standards and to rationalize and standardize the licensing process of the Supervision and Examination Sector, BSP.

Accordingly, Section 1 below shall constitute:

1. Part Eleven entitled BSP Policy and Regulations on Licensing of the Manual of Regulations for Banks (MORB);
2. Part Eleven of the Q Regulations of the Manual of Regulations for Non-Bank Financial Institutions (MORNBFi);
3. Part Five of the P Regulations of the MORNBFi;
4. Part Five of the S Regulations of the MORNBFi;
5. Part Two of the T Regulations of the MORNBFi; and
6. Section 4110N of the N Regulations of the MORNBFi.

**Section 1.** Section X1101/41101Q/4501S/4501P/4110N/4201T on Licensing Policy are hereby added to the MORB/MORNBFi to read as follows:

**Section X1101/41101Q/4501S/4501P/4110N/4201T. 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 Bangko Sentral -supervised financial institutions (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*, These licenses and/or authorities are in line with their business model and strategic direction; *Provided*, 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 bank/ Bangko Sentral -supervised NBFIs ("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.

**Subsection X1101.1/41101Q.1/4501S.1/4501P.1/4110N.1/4201T.1. 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 Section X1101.2 of the MORB and Sections 41101Q.2/4501S.2/4501P.2/4110N.2/4201T.2 of the MORNBF is a pre-condition for applicants to be considered eligible; and
- b. Type "B" – applications for licenses and/or authorities processed regardless of risk profile.
- 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 Subsection X1101.3/41101Q.3/4501S.3/4501P.3/4110N.3/4201T.3 hereof. 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.

**Subsection X1101.2/41101Q.2/4501S.2/4501P.2/4110N.2/4201T.2. 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 NBFIs 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 or 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 Bangko Sentral Supervised Financial Institutions;

(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<sup>1</sup> 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 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 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.

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<sup>1</sup> As defined under Memorandum No. M-2013-023 dated 28 May 2013 on Bangko Sentral Compliance Rating System, 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.

Applications of BSFIs under rehabilitation and/or enhanced supervision status<sup>2</sup> shall be dealt with in accordance with the eligibility test described in Section II.1(a) of Annex "A" hereof.

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 Subsection X1101.3/41101Q.3/4501S.3/4501P.3/4110N.3/4201T.3 hereof.

The specific guidelines and procedures on the Bangko Sentral's licensing framework are shown in Appendix 118/Q-71/S-12/P-11/N-14.

**Subsection X1101.3/41101Q.3/4501S.3/4501P.3/4110N.3/4201T.3. 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 banks/NBFIs 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.

a. Non-Monetary

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

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<sup>2</sup> *Rehabilitation includes banks/NBFIs under the Prompt Corrective Action (PCA), Rehabilitation Program, Letter of Commitment and any other similar cases where banks/NBFIs are expected to comply specific terms and conditions to restore eligibility (safe and sound) status.*

- (2) *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
- (3) *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 "1" to "3".

and/or

b. 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.

**Section 2. Effectivity**

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

**FOR THE MONETARY BOARD:**

  
**DIWA C. GUINIGUNDO**  
Officer-in-Charge

15 February 2017

**GUIDELINES ON GRANTING OF LICENSE/AUTHORITY**  
(Appendix to Section X1101/41101Q/4501S/4501P/4110N/4201T)

**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 Bangko Sentral-supervised non-bank financial institutions 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 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 Section X1101.2 of the MORB and Sections 41101Q.2/4501S.2/4501P.2/4110N.2/4201T.2 of the MORNBFI is a pre-condition for applicants to be considered eligible; and
- b. Type "B" – applications for licenses and/or authorities processed regardless of risk profile).
- 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 Subsection X1101.3 of the MORB and Sections 41101Q.3/4501S.3/4501P.3/4110N.3/4201T.3 of the MORNBFI.

**II. Guidelines and Procedures**

1. **Process Flow.** The licensing application process involves 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 Subsection X1101.2 of the MORB and Sections 41101Q.2/4501S.2/4501P.2/4110N.2/4201T.2 of the MORNBFI; 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 the 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, BSFI's 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 applications 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.