

BSP Updates on Regulatory Issuances

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**Rural Bankers Association of the Philippines
60th Charter Anniversary Symposium
23 October 2017, 10:45 – 11:15 AM
Pandanggo-Polkabal Halls, Manila Hotel**



BANGKO SENTRAL NG PILIPINAS

What I Would Like to Cover Today

- Situationer
- Regulatory Issuances
 - ✓ Promote Deeper Corporate Governance (CG) Culture
 - ✓ Enhance Competition
 - ✓ Promote Financial Inclusion and Consumer Protection
- Key Takeaways

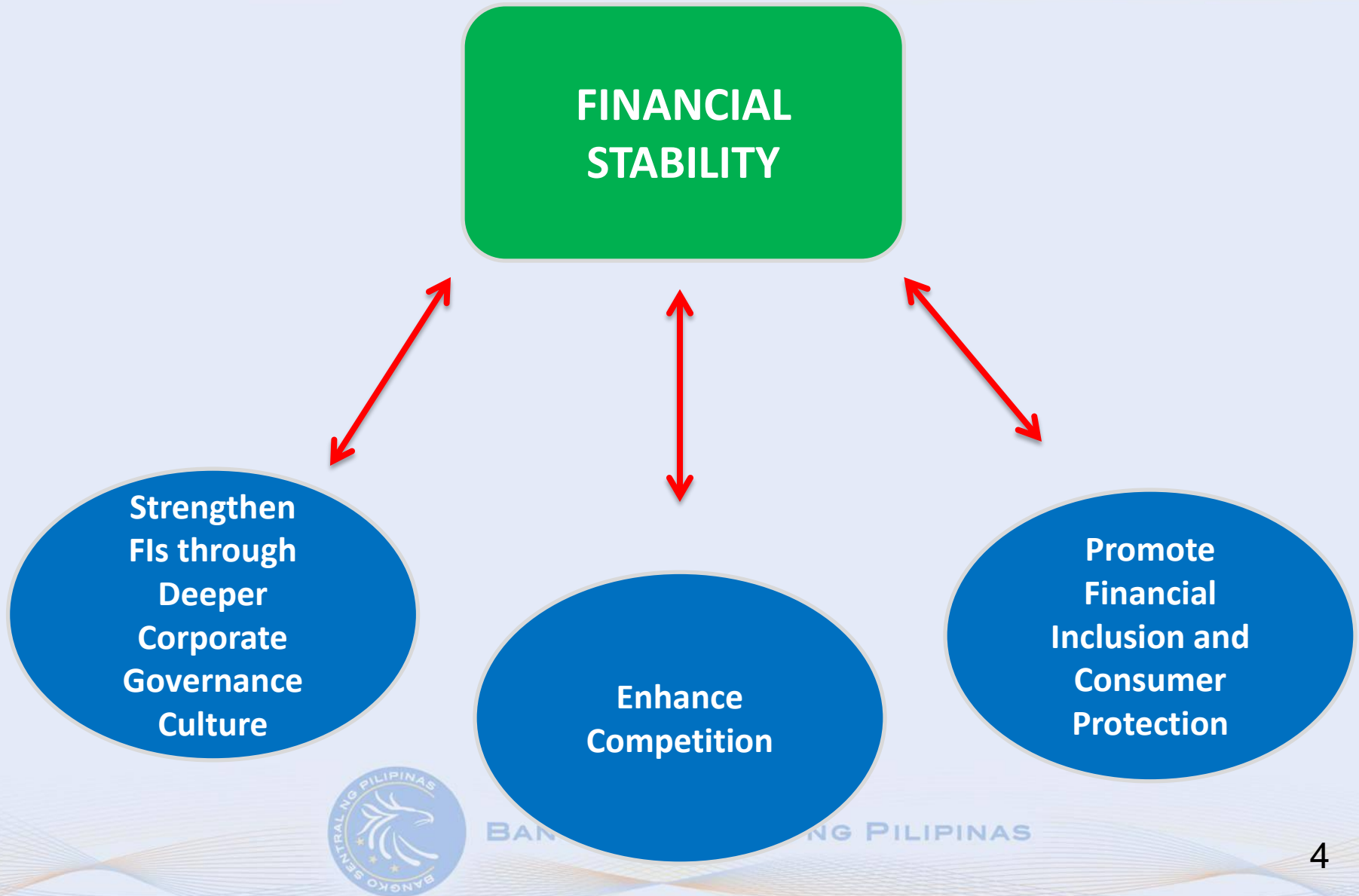


Rural Banking Industry in Broad Strokes

- Rural banks continue to grow and expand
- Challenges/Opportunities
 - Ample liquidity – search for suitable outlet
 - Competition
 - Changing environment
 - Philippines as an archipelagic economy



BSP's Regulatory Issuances



Promoting Deeper CG Culture

CG Guidelines

- three (3) sets of stand-alone issuances that comprise one (1) package of CG Guidelines
 - ✓ Enhanced CG Guidelines (Circular 969)
 - ✓ Guidelines on Risk Governance (Circular No. 971)
 - ✓ Enhanced Guidelines in Strengthening Compliance Frameworks (Circular No. 972)



Enhanced CG Guidelines (Circular 969)

✓ *Fundamental principle*

- Tone of good governance should come from the top

✓ *Composition of Board of Directors (BOD)*

- Majority should be NEDs, to include IDs
- Required number of IDs increased from 20% to 1/3 of the BOD; Simple RBs may have only 1 ID

✓ *Streamlined Duties and Responsibilities of the BOD*

- 5 key areas (1. establish corporate culture and values; 2. approve strategies and oversee implementation; 3. appoint/select senior management and control functions and approve remuneration/incentive policy; 4. approve and oversee CG framework; and 5. approve risk governance framework and oversee implementation)



Enhanced CG Guidelines (Circular 969)

✓ Membership-composition of Board Committees

	Old Regulations	Circular 969
Audit Committee	<ul style="list-style-type: none"> At least 3 members of BOD, <u>2 shall be ID, including the Chair</u> 	<ul style="list-style-type: none"> At least 3 members of BOD, <u>all NEDs and majority are IDs</u> For simple RBs, 3 members who shall <u>all be NEDs</u>
	<ul style="list-style-type: none"> CEO, CFO and/or Treasurer, or officers holding equivalent positions, shall not be appointed as members of the committee 	<ul style="list-style-type: none"> Chairperson shall be ID and shall not be the Chairperson of the BOD or any other board committees
Risk Oversight Committee	<ul style="list-style-type: none"> At least 3 members of the BOD, including at least 1 ID, and a chairperson who is a NED 	<ul style="list-style-type: none"> At least 3 members of the BOD, <u>majority shall be ID including the Chairperson</u> Chairperson shall not be the Chairperson of the BOD or any other board committees

Enhanced CG Guidelines (Circular 969)

✓ Membership-composition of Board Committees

	Old Regulations	Circular 969
Corporate Governance Committee	<ul style="list-style-type: none">At least 3 members of BOD, <u>2 shall be ID, including the Chair</u>	<ul style="list-style-type: none">At least 3 members of BOD, <u>all NEDs and majority are IDs including the Chairperson</u>

- BOD of simple banks may constitute only the Audit Committee unless directed by the BSP to create other Board Committees



Enhanced CG Guidelines (Circular 969)

✓ *Qualifications and Roles of Chairperson*

- Should be NED
- Must not have served as CEO within the past 3 years
- Not the CEO (if CEO, should be BSP approved with lead ID to be appointed)

✓ *Qualifications of a Director*

- Robust nomination process for directors
- Continuing education (8 hrs on-boarding/orientation and 4 hours annual continuing education)
- Definition of IDs aligned with the SEC CG for PLCs



Enhanced CG Guidelines (Circular 969)

- ✓ *Conduct of Meetings and Attendance and Participation of Members*
 - Alternative compliance - no longer allowed
 - Absence of director in more than 50% of all regular and special meetings – ground for disqualification in the succeeding election
 - Attendance and participation in Board Committees to be considered in the assessment of fitness and propriety



Risk Governance (Circular 971)

✓ *Risk Governance Framework*

- Embodies the bank's risk appetite

✓ *Risk Appetite*

- Conveyed through a risk appetite statement (RAS)

✓ *Risk Management*

- Sound risk aggregation and reporting practices



Compliance Framework (Circular No. 972)

✓ *Shared Responsibility*

- Integral part of culture and risk governance framework

✓ *Chief Compliance Officer (CCO)*

- Qualifications, roles and responsibilities
- May be the Internal Auditor for simple banks
- Not a Director

✓ *Compliance Program*

- Planned activities of the compliance function
- Risk-based approach with appropriate coverage
- Updating on a regular basis or at least annually



Enhancing Competition and Promoting Financial Inclusion

- Expansion of Service Delivery Channels (Circular 940)

- ✓ *Service of clients through cash agents*

- Banks to leverage on innovative digital banking solutions to on-board clients and expand services
- Can benefit even low income areas

- Risk-based KYC (Circular 950)

- ✓ *Streamlined and risk-based KYC procedures*

- Use of ICT in customer identification
- Allows restricted account even without valid IDs



Key Takeaways

- Regulatory issuances ultimately aim to develop a more stable and sound, responsive and inclusive financial system
- BSP is cognizant of the challenges faced by the industry, thus, institutes policy reforms that help address the same, to the extent possible.
- Rural banks should seize opportunities available to remain competitive, to be guided always by sound CG standards.



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