

Sound Corporate Governance

**Rural Bankers Association of the Philippines
61st Charter Anniversary Symposium
22 October 2018, 2:15 – 2:35 PM
One Esplanade, Mall of Asia Complex, Pasay City**



BANGKO SENTRAL NG PILIPINAS

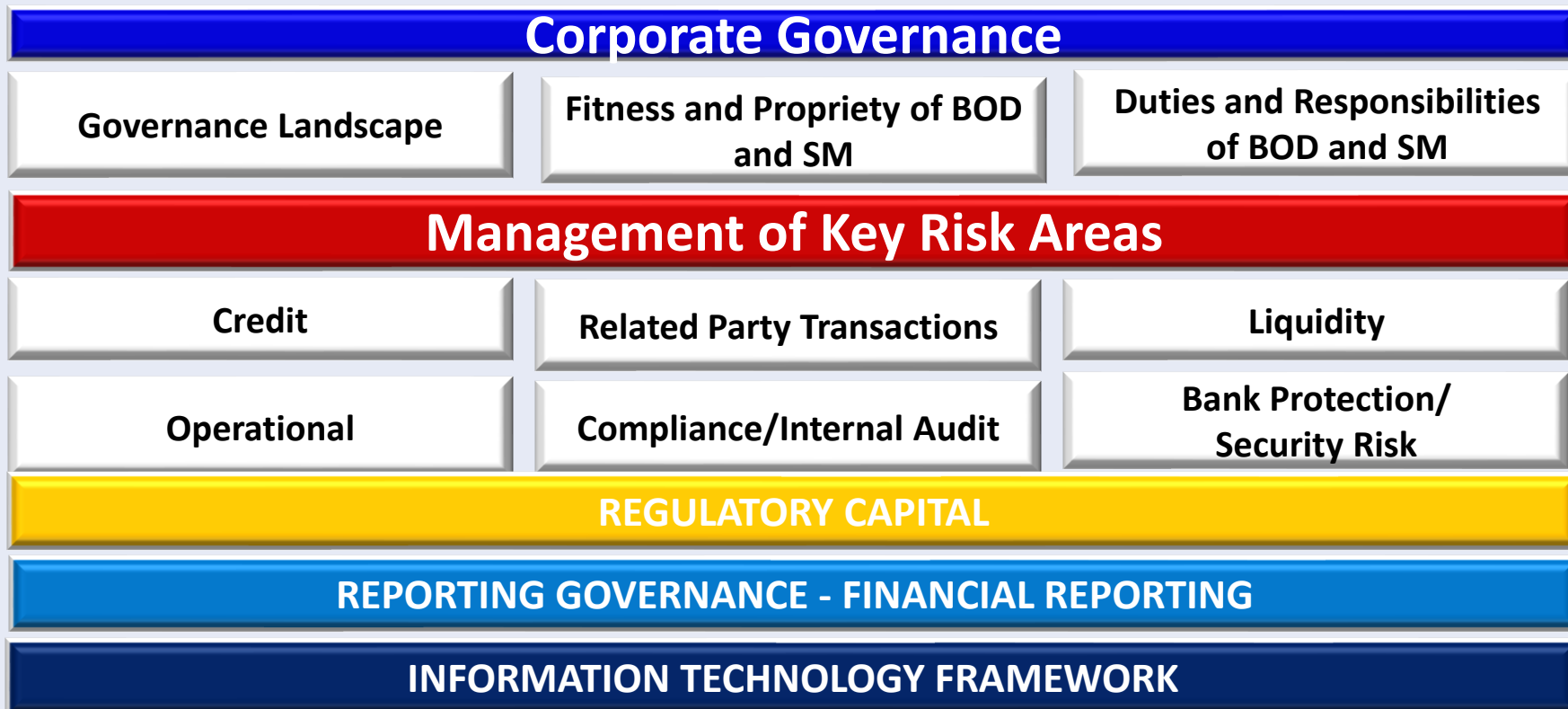
Outline of Presentation

- Prudential Regulatory Framework
- Application of the Principle of Proportionality
- Compliance Challenges
- Policies in the Pipeline
- Key Take Aways



BANGKO SENTRAL NG PILIPINAS

Prudential Regulatory Framework



Prudential Regulatory Reforms

BSP's Key Regulations

Fit and Proper Standards

**Circular Nos.
969/970**
(Enhanced CG
Guidelines for
BSFIs)

Internal Audit & Compliance

Circular No. 972
(Compliance
Framework)

Circular No. 871
(Internal Control
and Internal Audit)

Risk Management Guidelines

Circular No. 989
(Stress Testing)

Circular No. 981
(Liquidity Risk)

Circular No. 971
(Risk Governance)

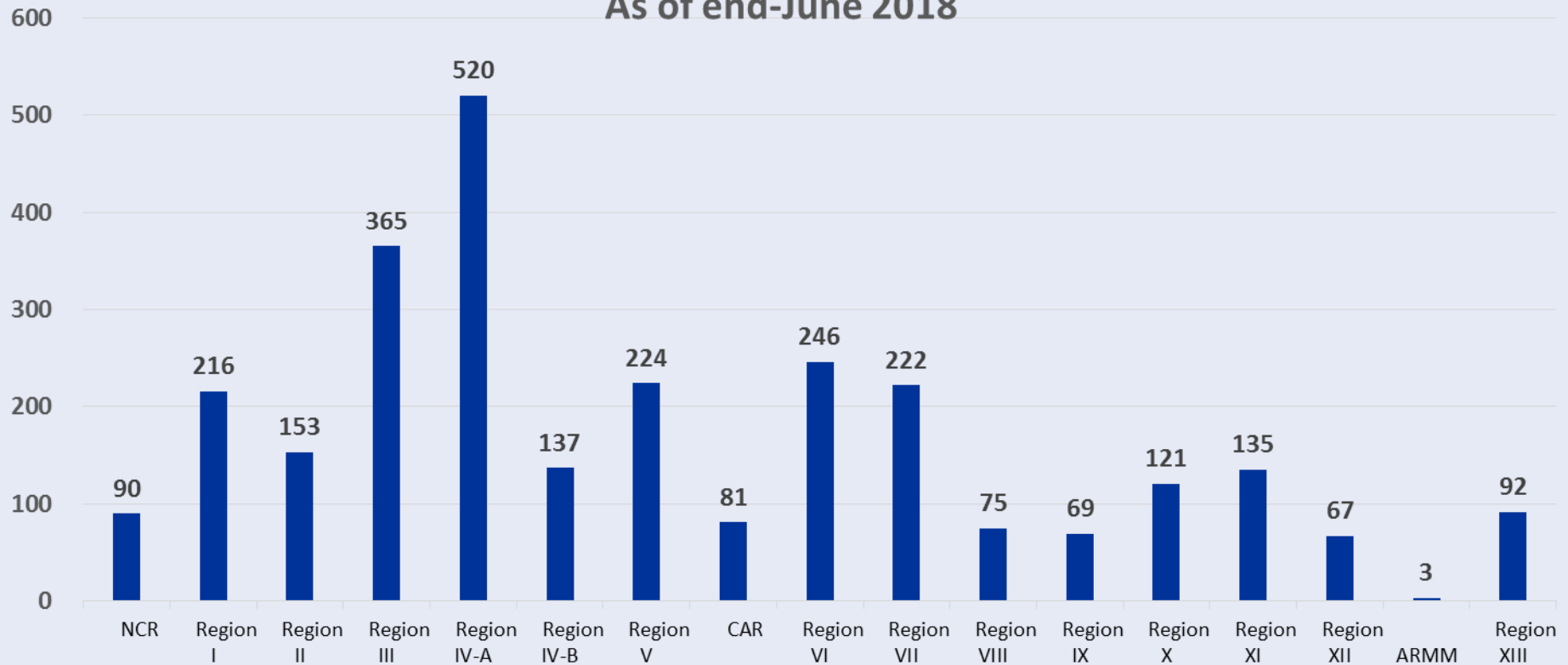
Circular No. 900
(Operational Risk)

Circular No. 855
(Credit Risk)

CORPORATE GOVERNANCE

Rural Banks – Strategic Importance

Regional Profile of Philippine Rural Banks
As of end-June 2018

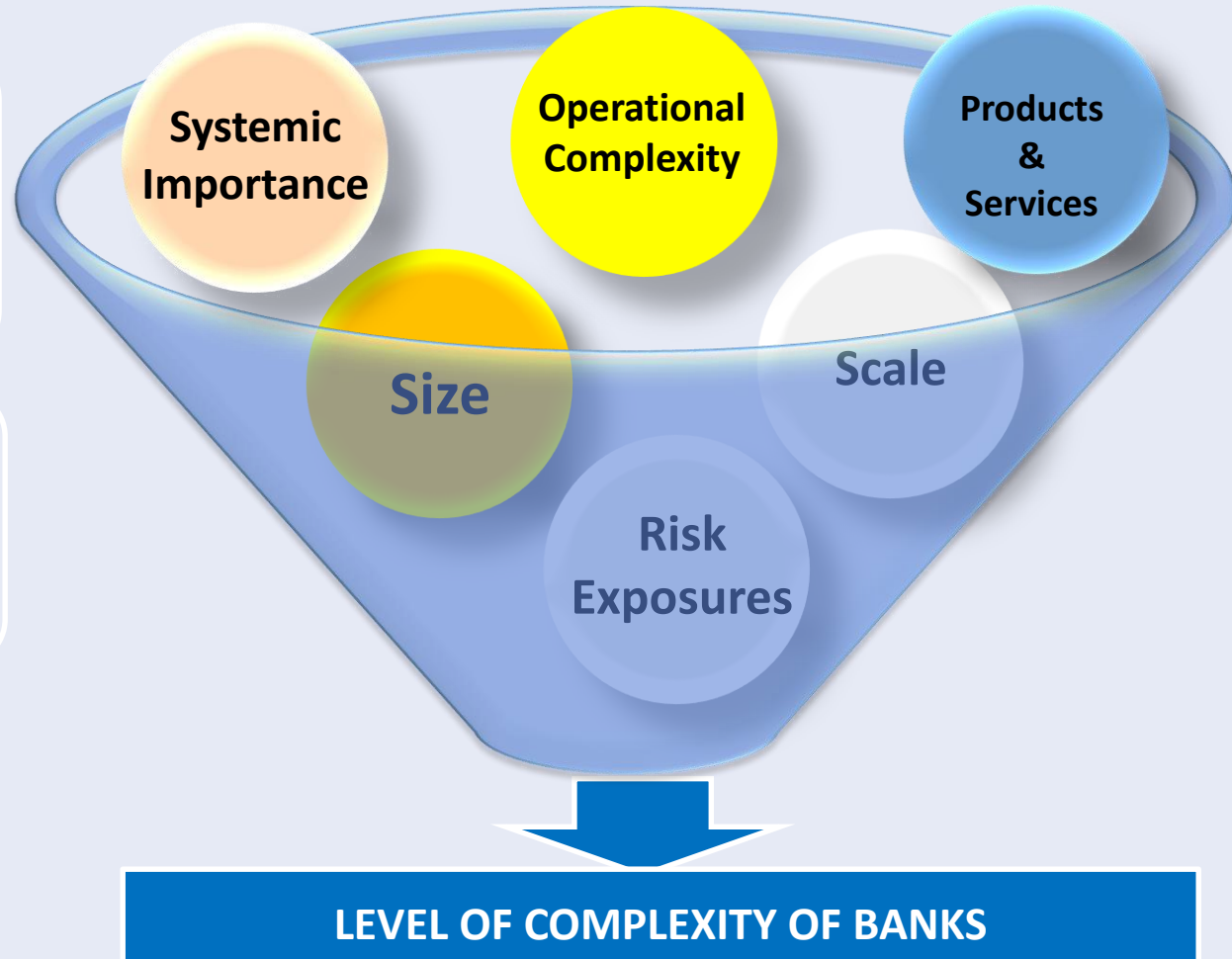


BANGKO SENTRAL NG PILIPINAS

Application of the Principle of Proportionality

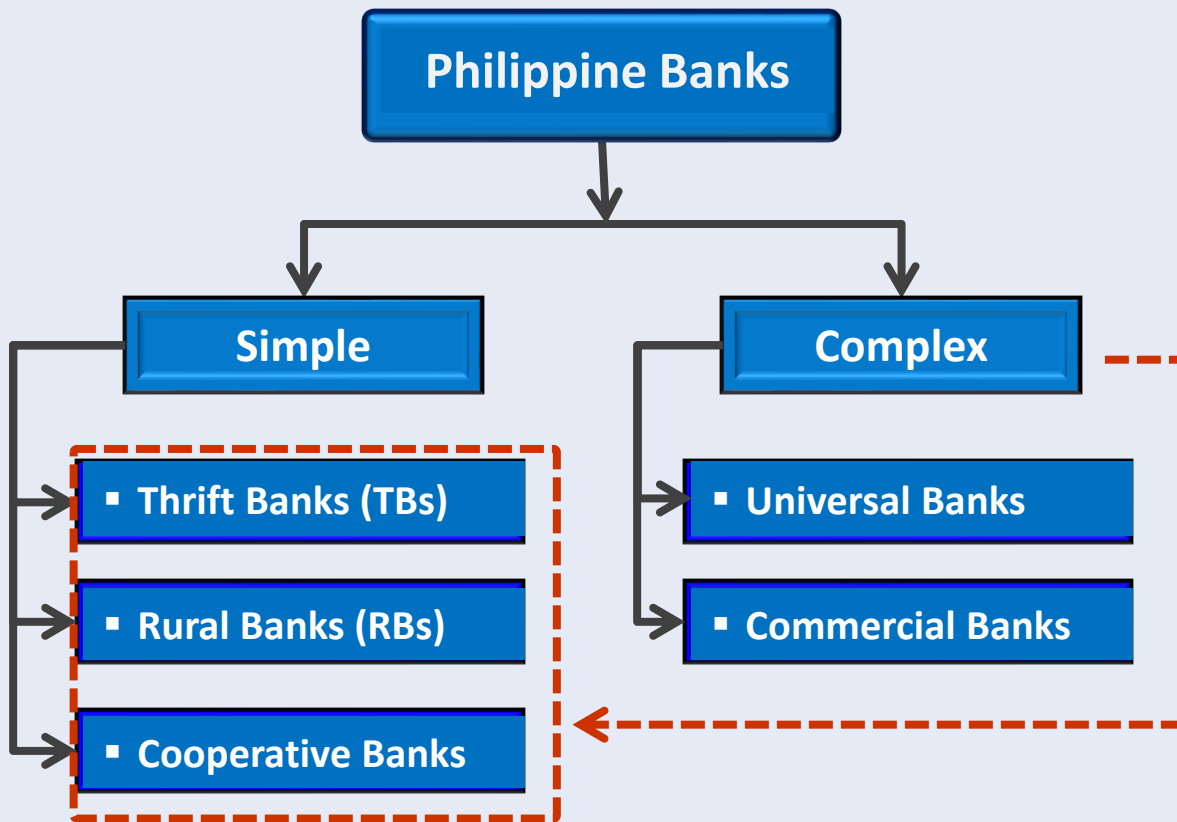
A supervisory approach that is commensurate with the financial institution's risk profile and systemic importance.

Simpler standards but without compromising regulatory objectives.



Bank Segmentation Based on Business Model and Risk Profile

Compliance with corporate governance, risk management and regulatory disclosure standards



RBs can be considered as complex if at least three of the following characteristics exists:

- Total assets of at least P6 billion
- Extensive branch network
- Non-traditional financial products and services
- Use of non-conventional business model
- Business strategy characterized by aggressive risk appetite and increasing risk exposure



Calibrated Corporate Governance

Governance Standards

Complex Banks

Simple Banks

Board of Directors Composition

- At least 1/3 but not less than two (2) members of the Board as Independent Director

- At least one Independent Director

Board-Level Committees

- Three (3) board-level committees:
 - ✓ Audit Committee
 - ✓ Corporate Governance Committee
 - ✓ Risk Oversight Committee

- Audit Committee

- Universal and commercial banks that are part of a conglomerate are required to create a Related Party Transactions Committee



Flexibility in Management Structures but with Safeguards

Key Risk Areas

Complex Banks

Simple Banks

Internal Audit

Internal Auditor

U/KBs

- A Certified Public Accountant or a Certified Internal Auditor
- At least five years experience in the regular audit (internal or external) of a U/KB as auditor-in-charge, senior auditor or audit manager
- Possesses the knowledge, skills, and other competencies to examine all areas in which the institution operates

TBs, RBs, CBs

- Graduate of any accounting, business, finance or economics course with technical proficiency on the conduct of internal audit
- At least five years experience in the regular audit (internal or external) of a TB, national CB or, at least three years experience in the regular audit (internal or external) of a U/KB

Internal Auditor

- Graduate of any accounting, business, finance or economics course with technical proficiency on the conduct of internal audit
- At least two years experience in the regular audit (internal or external) of a U/KB, TB, RB, CB, QB or NSSLA.

Compliance Risk

Full-time Chief Compliance Officer (CCO)

- Full-time CCO or Internal Auditor may serve as the CCO in a concurrent capacity

Risk Governance

Chief Risk Officer (CRO) to lead the Risk Management Function

- CRO or Qualified Senior Officer can be designated as CRO
- Corporate governance and risk management discussed at the Board level



Appropriate Risk Management Guidelines

Key Risk Areas

Complex Banks

Simple Banks

Credit Risk

- ❑ Sound loan loss methodology that can reasonably estimate expected loan loss provisions in a timely manner
- ❑ Subject to simplified but more stringent loan loss provisioning guidelines

Liquidity Risk

- ❑ Dynamic approaches and a range of techniques that factor future changes in their activities and impact of these changes on the bank's balance sheet
- ❑ Static approach to liquidity management. Static models are based on positions at a given point in time. This may consist of a cash flow projection in a spreadsheet where the bank's sources and uses of funds is analyzed based on contractual or maturity

Operational Risk

- ❑ Utilize more sophisticated tools in identifying and assessing operational risk exposures. These may include but need not be limited to the following:
 - ✓ risk self assessments
 - ✓ scenario analysis
 - ✓ business process mapping
 - ✓ model measurement
- ❑ In identifying and assessing operational risk exposures, banks are expected to adopt at a minimum, the results of internal/external audit and supervisory issues raised in the BSP Report of Examination and internal loss data collection analysis



Appropriate Risk Management Guidelines

Key Risk Areas

Complex Banks

Simple Banks

Stress Testing

- Methodologies that could be employed may be sensitivity analysis, scenario analysis and reverse stress test.
 - Required to report the results of the stress testing that were undertaken to the BSP on an annual basis as part of the Internal Capital Adequacy Assessment Process document.
- Use of simple sensitivity analysis covering credit, liquidity and operational risks.
 - Results available upon request

Liquidity Metrics

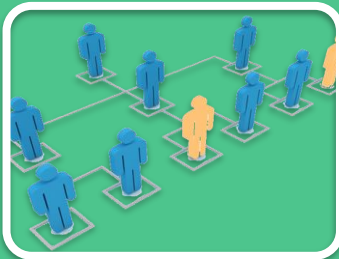
- Basel III Liquidity Coverage Ratio (LCR)
 - Applicable to TBs, RBs and CBs that are subsidiaries of U/KBs
 - Minimum LCR requirement of 100 percent
 - Ratio of high-quality liquid assets to total net cash outflows
- Minimum Liquidity Ratio (MLR)
 - Applicable to stand-alone TBs, RBs and CBs
 - Prudential MLR of 20 percent
 - Ratio of eligible stock of liquid assets to total qualifying liabilities



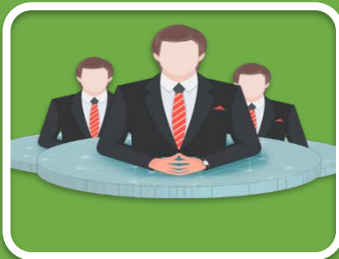
Compliance Challenges



Concurrent positions of Chairperson and President/CEO



Qualifications of the Chairperson on not serving the bank for the past three years as President/CEO



Qualifications of an independent director



BSP Assessment of Corporate Governance Issues

BSP Assessment on Corporate Governance Issues



Willingness and
Capability of the
Board



Responsiveness to
BSP Directives



Integrity and
Effectiveness of
Controls and Risk
Management
Systems



Policies in the Pipeline

Corporate Governance

- Enhanced Guidelines on the Disqualification and Watchlisting of Directors and Officers

Enhanced Risk Management

- Model Risk Management
- Reputational Risk Management
- Risk-based Pricing for Consumer Loans

Towards a self-sustaining corporate governance culture.



BANGKO SENTRAL NG PILIPINAS

BSP Financial Institution Portal



- Reserve Reports (U/KBs & TBs)

4Q 2018

1Q 2019

- FRP & FRP-Related Reports (U/KBs & TBs)
- Reserve Reports (RBs)
- Implementation of 2FA



- Integration of API in the FI Portal

2Q 2019



BANGKO SENTRAL NG PILIPINAS

Key Takeaways



Tone of good governance should come from the top



Entire organization has a collective responsibility



Application of proportionality principle in the regulations



Sound Corporate Governance

LYN I. JAVIER
Managing Director, BSP

**Rural Bankers Association of the Philippines
61st Charter Anniversary Symposium
22 October 2018, 2:15 – 2:35 PM
One Esplanade, Mall of Asia Complex, Pasay City**



BANGKO SENTRAL NG PILIPINAS