



BANGKO SENTRAL NG PILIPINAS

OFFICE OF THE GOVERNOR

CIRCULAR NO. 1115
Series of 2021

Subject: Amendments to the Manual of Regulations for Non-Bank Financial Institutions on the Enhancement of Corporate Governance Guidelines for Non-Stock Savings and Loan Associations

The Monetary Board, in its Resolution No. 409 dated 31 March 2021, approved the following amendments to the provisions of the Manual of Regulations for Non-Bank Financial Institutions (MORNBFi) on the enhancement of corporate governance guidelines for Non-Stock Savings and Loan Associations (NSSLAs).

Section 1. Chapter D of Part One and Sections 131-S to 134-S are hereby amended. The provisions of Section 135-S are transferred to Section 136-S, and new provisions are added to Section 135-S. Sections 131-S to 136-S of the MORNBFi shall read as follows:

D. Corporate Governance

131-S POLICY STATEMENT AND DEFINITION OF TERMS

Policy Statement. Pursuant to Sections 2 (b) and (c) of the Republic Act 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 strengthen 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.

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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) Broad 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 be perceived to materially interfere with the exercise of independent judgment 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 others (i) mentioned as officers of the NSSLA, or whose duties as such are defined, in the by-laws, or (ii) generally known to be the 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 regular officers, and are not purely recommendatory or advisory, shall likewise be considered as officers.
- e. *Risk appetite statement* shall refer to the articulation in written form of the aggregate level and types of risk that a financial institution 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.
- f. *Risk governance framework* shall refer to the framework through which the board and management establish the firm's strategy; articulate and monitor adherence to risk appetite and risk limits; and identify, measure, and manage risks.

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- 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."

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 hold their office charged with the duty to exercise sound and objective judgment for the best interest of the NSSLA.

Composition of the board. Pursuant to Sections 13 and 91 of Republic Act (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/CEO as circumstances may warrant.

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Qualifications of a trustee. 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 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 applicable 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 trustee has the burden to prove that he/she possesses all the foregoing minimum qualifications and none of the cases mentioned under Section 136-S. A trustee shall submit to the Bangko Sentral the required certifications 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 corporate 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 covers strategic matters including discussion on risk appetite, 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 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 reasonably be perceived to materially interfere with the exercise of independent judgment 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 date of effectivity of this Circular 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 meetings 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 NSSLAs' 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 corporate governance framework. The board of trustees shall approve the selection of the President/CEO (or its equivalent title) and key members of the Senior

management and control functions and oversee their performance. Unless otherwise provided in the Revised Corporation 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 its 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 trustees 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 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 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 assess 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, question, 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 successors 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 areas 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 a 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 results 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 trustee may have, commensurate with the responsibilities placed on the trustee, 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 any 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 facilitated by the corporate governance committee or external facilitators. This 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 for officers (e.g. setting the maximum retirement age), as part of the succession plan, to promote dynamism and avoid perpetuation in 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 effective compliance with the latter, which include prudential reporting obligations. Serious weaknesses in adhering to these

duties and responsibilities may be considered as practice prejudicial to the members.

- (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 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 proper stature in the organization, 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 trustee is a position of trust. A trustee assumes certain responsibilities to different

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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 engaged in or intends to pursue as well as the developments in the NSSLA industry including regulatory changes through continuing education or 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 than those offered to others. The basic principle to be observed is that a trustee 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 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 regard 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 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 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 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. 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 affecting the NSSLA 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 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 must 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 trustee prescribed under these 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.

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 members 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, constitute only the Audit Committee and Membership Committee unless directed 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 views of each of the trustees duly considered and minuted.

Both complex and simple NSSLAs may constitute an 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 or 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 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 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 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 Officer (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. The committee shall recommend to 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, processes 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 and 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.

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(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.

Section 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 possession 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 officer's reputation, observed conduct and behavior, as well as his ability to continuously comply with internal policies and applicable 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 appointed officer has the burden to prove that he/she possesses all the foregoing minimum qualifications and none of the cases mentioned under Section 136-S. An 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 officer is appointed/promoted. 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 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.

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- 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 or 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 for NSSLAs. NSSLAs with total assets of at least P5.0 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.

Section 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:

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Confirming Authority	Position Level
1. Monetary Board	Trustees and president/chief executive officer (or equivalent rank) of NSSLAs with total assets of at least ₱10 billion
2. FSS Committee	<ul style="list-style-type: none"> • 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 the 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 hereof¹: *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 shall be shown in Appendix S-19.

¹ Also includes those previously approved elected undergraduate trustee

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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 of 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/reelection 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.
- 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 with *Appendix S-2*.
- d. If after evaluation, the appropriate department of the FSS shall find grounds for disqualification, the trustee/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 22 of R.A. No. 8367.

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Section 2. Section 142-SS of the MORNBFI is hereby amended to read as follows:

142-S RISK MANAGEMENT FUNCTION.

An effective independent risk management function is a key component of the NSSLAs' second line of defense. The risk management function is generally responsible for:

xxx xxx xxx

Section 3. Section 153-S of the MORNBFI is hereby amended to read as follows:

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 NSSLAs and its reputation. xxx.

Section 4. Appendix S-2 of the MORNBFI (copy attached) is hereby amended to include certifications required to be submitted to the Bangko Sentral by trustees under Section 135-S of the MORNBFI.

Section 5. A list of documentary requirements to be submitted to Bangko Sentral for the election/appointment of trustees/officers of NSSLAs pursuant to Section 135-S of the MORNBFI is hereby added as Appendix S-19 of the MORNBFI (copy attached).

Section 6. The footnote to Subsection 151-S (*Chief Compliance Officer*) on the definition of Complex NSSLAs shall be amended as follows:

xxx As defined under Section 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) broad membership base which means that the number of members 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 of service units wherein there are five (5) or more service units, whether branches or satellite offices, and regardless of geographical location.

Section 7. The following provision shall be incorporated as a footnote to Chapter D (*Corporate Governance*) of the MORNBFI:

An NSSLAs shall be given a transition period of one (1) year from date of effectivity of this Circular within which to comply with the herein requirements and to amend the

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pertinent provisions of its articles of incorporation and/or by-laws to effect corresponding changes.

Section 8. This Circular shall take effect fifteen (15) days after its publication either in the Official Gazette or in a newspaper of general circulation.

FOR THE MONETARY BOARD:


BENJAMIN E. DIOKNO
Governor

23 April 2021

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LIST OF REPORTS REQUIRED FROM NON-STOCK SAVINGS AND LOAN ASSOCIATIONS
(Appendix to Sec. 134-S and Sec. 135-S)

<u>Category</u>	<u>Form No.</u>	<u>MOR Ref.</u>	<u>Report Title</u>	<u>Frequency</u>	<u>Submission Deadline</u>	<u>Submission Procedure</u>
A-2	Unnumbered (no prescribed form)	131-S	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 an NSSLA	20th business day after date of election	Electronic/online to appropriate department of the SES
x x x	x x x	x x x	x x x	x x x	x x x	x x x
B	Unnumbered (no prescribed form)	131-S	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 appropriate department of the SES
x x x	x x x	x x x	x x x	x x x	x x x	x x x
B	SES II Form 15 (NP08-TB)	134-S (As amended by Cir. No. 758 dated 05.11.12, M-024 dated 07.31.08 and Cir. No. 887 dated 10.07.15)	Biographical Data of Trustees/ Officers mentioned in Subsection 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 appropriate department of the FSS
x x x	x x x	x x x	x x x	x x x	x x x	x x x

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**Documentary Requirements to be Submitted to Bangko Sentral
for the Election/Appointment of Trustees/Officers of NSSLAs¹
(Appendix to Sections 134-S and 135-S)**

Requiring Bangko Sentral Confirmation²

Not Requiring Bangko Sentral Confirmation

Trustees

**Chief Executive Officer and Other Officers enumerated in
Sec. 134-S³**

**Officers below the rank of Senior Vice President
requiring a different set of minimum qualifications⁴**

- | | | |
|--|--|---|
| <ul style="list-style-type: none"> • Letter-request for Bangko Sentral confirmation signed by authorized officer⁵ with an affirmative statement that the institution has conducted fit and proper test on the trustee/s concerned • 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 • Certification under oath of the trustee concerned that he/she possesses all the qualifications and none of the disqualifications to become a trustee • For first-time trustees in a particular NSSLAs as defined in Sec. 134-S: | <ul style="list-style-type: none"> • 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 • Bio-data with a photograph (2" x 2") taken within the last six (6) months • 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 officers to be subject to Bangko Sentral confirmation in a particular NSSLAs as defined in Sec. 134-S of | <ul style="list-style-type: none"> • Bio-data with a photograph (2" x 2") taken within the last six (6) months |
|--|--|---|

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 Section 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.

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Requiring Bangko Sentral Confirmation²**Not Requiring Bangko Sentral Confirmation****Trustees****Chief Executive Officer and Other Officers enumerated in Sec. 134-S³****Officers below the rank of Senior Vice President requiring a different set of minimum qualifications⁴**

- | | | |
|---|---|--|
| <ul style="list-style-type: none"> 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 | <p>the MORNBFi:</p> <ul style="list-style-type: none"> a. Duly accomplished and notarized authorization form for querying the Bangko Sentral watchlist file from the officer concerned | <ul style="list-style-type: none"> • Brief description of his/her duties and responsibilities |
| <ul style="list-style-type: none"> • 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 | <ul style="list-style-type: none"> • Brief description of his/ her duties and responsibilities | <ul style="list-style-type: none"> • Brief description of his/her duties and responsibilities |

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