

## 111 LICENSING

**Policy statement and objectives.** Consistent with the mandate of the Bangko Sentral to promote a safe and sound banking system, the licensing process on permissible activities of banks 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 banks consequent of the licenses and/or authorities granted: *Provided*, That these licenses and/or authorities are in line with their business model and strategic direction: *Provided, further*, That these banks 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 (“applicants”) or if the information provided is not adequate. The Bangko Sentral also reserves the right to withdraw or revoke the license and/or authority or enforce appropriate actions when an institution no longer meets the criteria or standards required to be met for the exercise of the license and/or authority.

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

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

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

- a. Type “A” – applications for licenses and/or authorities where compliance with the defined prudential requirements/criteria on licensing as described in this Section is a pre-condition for applicants to be considered eligible;
- b. Type “B” – applications for licenses and/or authorities processed regardless of risk profile; and
- c. Type “C” – activities which no longer require submission of applications and processing but shall be subject to submission of reports/certification/ notification within stated deadlines. However, compliance with pre-qualification requirements is subject to post verification and any false

information and/or misrepresentation may be a basis for the imposition of appropriate enforcement actions described in this Section. The Bangko Sentral shall use this information to continuously tailor its supervisory strategy for the supervised entities and to maintain and continuously update its institutional database.

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

- a. Applicant domestic banks must have a CAMELS composite rating of at least “3” and a “Management” rating of not lower than “3”, branches of foreign banks must have a ROCA rating of at least “3”, and BSFIs must have a RAS rating of at least “Acceptable”. Whenever applicable, ratings equivalent to cited minimum rating grade requirements under appropriate rating systems (i.e., IT Rating Systems, Trust Rating Systems, among others) shall apply for certain licenses and/or authorities;
- b. Applicants have no major supervisory concerns in governance, risk management systems, and internal controls and compliance system, and characterize/ demonstrate the following:

(1) Governance

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

Applicants should not be found engaging in an activity which may be considered as conducting business in an unsafe or unsound manner. In cases where weaknesses, violations of law, policy and/or regulation exists, other than those considered unsafe or unsound 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 banks.

## (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 bank conducts its business/ operations in accordance with banking laws, rules and regulation and other laws relevant to banking such as securities laws and regulations. Banks should not have been found significantly non-compliant with prudential requirements such as SBL, DOSRI limits, capital adequacy ratio requirements, among others.

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

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

Applicants shall have corrected any findings of unsafe or unsound banking and have

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

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

Applications of banks 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 *Appendix 124*.

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

The specific guidelines and procedures on the Bangko Sentral's licensing framework are shown in *Appendix 124*.

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

b. Sanctions

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

(1) Non-monetary

- (a) *Suspension of activities.* The conduct of activities related to the licenses/authorities granted may be suspended if the Bangko Sentral determines that the concerned bank no longer meets the criteria or standards set; or
- (b) *Revocation of licenses/authorities.* The license/authority granted may be revoked in cases where violation, non-compliance with criteria/standards and/or false information are noted which affects the safety and soundness of banks' operations; and/or
- (c) *Administrative sanctions.* The responsible directors/officers who approve transactions and/or decisions that resulted in violations of laws, rules and regulations, orders, and directives issued by the Monetary Board or the Governor may be subject to reprimand, temporary suspension, and/or disqualification of directors/officers.

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

(2) Monetary

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

*(Circular No. 947 dated 15 February 2017)*

Footnotes

1. As defined under Sec. 161 (*Compliance function*) business risk refers to conditions which may be detrimental to the institution's business model and its ability to generate returns from operations, which in turn erodes its franchise value. Business risk includes reputational, compliance, market conduct and legal risks.
2. Rehabilitation includes banks under the Prompt Corrective Action (PCA), Rehabilitation Program, Letter of Commitment and any other similar cases where banks are expected to comply specific terms and conditions to restore eligibility (safety and sound) status.