

133 BOARD-LEVEL COMMITTEES

The board of directors may delegate some of its functions, but not its responsibilities, to board-level committees. In this regard, the board of directors 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 directors, what is expected of the committee members, and tenure limits for serving in the committee. The board of directors 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 directors, through the committees, to fully understand and objectively evaluate the relevant issues. In order to promote objectivity, the board of directors shall appoint independent directors and non-executive members of the board of directors to the greatest extent possible. Towards this end, an independent director who is a member of any committee that exercises executive or management functions that can potentially impair such director's independence cannot accept membership in committees that perform independent oversight/control functions such as the Audit, Risk Oversight and Corporate Governance, Related Party Transactions committees, without prior approval of the Monetary Board.
- 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, and (3) Corporate Governance Committee: *Provided*, That the board of directors of simple or non-complex banks may, at a minimum, constitute only the Audit Committee unless directed by the Bangko Sentral to create other board-level committees: *Provided, further*, That the board of directors shall discuss risk management and corporate governance matters in the meetings of the board of directors, with the views of the independent directors duly considered and minuted.

UBs/KBs that are part of a conglomerate shall also constitute an RPT Committee. The Bangko Sentral may likewise direct the board of directors of other BSFIs to constitute an RPT committee as part of their corporate governance reforms.

Audit committee.

- a. *Composition and chairperson.* The audit committee shall be composed of at least three (3) members of the board of directors, who shall all be non-executive directors, majority of whom shall be independent directors, including the chairperson: *Provided*, That in the case of simple or non-complex RBs, the audit committee shall be composed of at least three (3) members of the board of directors who shall all be non-executive directors, including the chairperson who shall be an independent director: *Provided, further*, That the chairperson of the audit committee shall not be the chairperson of the board of directors or of any other board-level committees.

The audit committee shall have accounting, auditing, or related financial management expertise or experience commensurate with the size, complexity of operations and risk profile of the BSFI. 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 BSFI's risk profile and strategic direction.
- (3) *Oversee the internal audit function.* The committee shall be responsible for the appointment/selection, remuneration, and dismissal of internal auditor. 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 BSFI's internal controls, including financial, operational and compliance controls, and risk management system. The committee shall functionally meet with the head of internal audit and such meetings shall be duly minuted and adequately documented. In this regard, the audit committee shall review and approve the performance and compensation of the head of internal audit, and budget of the internal audit function.
- (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 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 director or executive officer to attend its meetings.
- (7) *Establish whistleblowing mechanism.* The committee shall establish and maintain mechanisms by which officers and staff shall, in confidence, raise concerns about possible improprieties or malpractices in matters of financial reporting, internal control, auditing or other issues to persons or entities that have the power to take corrective action. It shall ensure that arrangements are in place for the independent investigation, appropriate follow-up action, and subsequent resolution of complaints.

Risk oversight committee (ROC).

- a. *Composition and chairperson.* The committee shall be composed of at least three (3) members of the board of directors, majority of whom shall be independent directors, including the chairperson. The ROC's chairperson shall not be the chairperson of the board of directors, 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 directors on the BSFI'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 BSFI. 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 recovery 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 BSFI'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, remuneration, and dismissal of the chief risk officer (CRO). It shall also ensure that the risk management function has adequate resources and effectively oversees the risk-taking activities of the BSFI.

Corporate governance committee.

a. *Composition.* The committee shall be composed of at least three (3) members of the board of directors who shall all be non-executive directors, majority of whom shall be independent directors, including the chairperson.

b. *Duties and responsibilities of the corporate governance committee.* The corporate governance committee shall assist the board of directors in fulfilling its corporate governance responsibilities. In this regard, the corporate governance committee shall:

- (1) *Oversee the nomination process for members of the board of directors and for positions appointed by the board of directors.* The committee shall review and evaluate the qualifications of all persons nominated to the board of directors as well as those nominated to other positions requiring appointment by the board of directors. The committee shall recommend to the board of directors matters pertaining to the assignment to board committees, as well as succession plan for the members of the board of directors and senior management.

- (2) *Oversee the continuing education program for the board of directors.* The committee shall ensure allocation of sufficient time, budget and other resources for the continuing education of directors, and draw on external expertise as needed. The committee shall establish and ensure effective implementation of policy for on-boarding/orientation program for first time directors and annual continuing education for all directors.

For this purpose, the orientation program for first time directors shall be for at least eight (8) hours, while the annual continuing training shall be at least for four (4) hours. The training programs should cover topics relevant in carrying out their duties and responsibilities as directors.

- (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 directors, board-level committees, and senior management. Internal guidelines shall be adopted that address the competing time commitments of directors serving on multiple boards.

- (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 BSFI, 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 BSFI'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.

Related party transactions committee.

- a. *Composition and chairperson.* The committee shall be composed of at least three (3) members of the board of directors, two (2) of whom shall be independent directors, including the chairperson. The committee shall at all times be entirely composed of independent directors and non-executive directors, with independent directors comprising majority of the members. In case a member has conflict of interest in a particular RPT, he should refrain from evaluating that particular transaction. The compliance officer or internal auditor may sit as resource persons in said committee.
- b. *Duties and responsibilities of the related party transactions committee.*
- (1) Evaluate on an ongoing basis existing relations between and among businesses and counterparties to ensure that all related parties are continuously identified, RPTs are monitored, and subsequent changes in relationships with counterparties (from non-related to related and vice versa) are captured. Related parties, RPTs, and changes in relationships shall be reflected in the relevant reports to the board of directors and regulators/supervisors.
- (2) Evaluate all material RPTs to ensure that these are not undertaken on more favorable economic terms (e.g., price, commissions, interest rates, fees, tenor, collateral requirement) to such related parties than similar transactions with non-related parties under similar circumstances and that no corporate or business resources of the BSFI are misappropriated

or misapplied, and to determine any potential reputational risk issues that may arise as a result of or in connection with the transactions. In evaluating RPTs, the Committee shall take into account, among others, the following:

- (a) The related party's relationship to the BSFI and interest in the transaction;
- (b) The material facts of the proposed RPT, including the proposed aggregate value of such transaction;
- (c) The benefits to the BSFI of the proposed RPT;
- (d) The availability of other sources of comparable products or services; and
- (e) An assessment of whether the proposed RPT is on terms and conditions that are comparable to the terms generally available to an unrelated party under similar circumstances. The BSFI shall have in place an effective price discovery system and have exercised due diligence in determining a fair price for RPTs.

All RPTs that are considered material based on BSFI's internal policies shall be endorsed by the RPT committee to the board of directors for approval.

- (3) Ensure that appropriate disclosure is made, and/or information is provided to regulating and supervising authorities relating to the BSFI's RPT exposures, and policies on conflicts of interest or potential conflicts of interest. The disclosure shall include information on the approach to managing material conflicts of interest that are inconsistent with such policies; and conflicts that could arise as a result of the BSFI's affiliation or transactions with other related parties.
- (4) Report to the board of directors on a regular basis, the status and aggregate exposures to each related party as well as the total amount of exposures to all related parties.
- (5) Ensure that transactions with related parties, including write-off of exposures, are subject to periodic independent review or audit process.
- (6) Oversee the implementation of the system for identifying, monitoring, measuring, controlling, and reporting RPTs, including the periodic review of RPT policies and procedures.

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