

## 171 REPORTING GOVERNANCE FRAMEWORK

The proper conduct of monetary policy and effective banking supervision are core mandates of the Bangko Sentral. These mandates are facilitated by the accurate and timely submission of required information concerning a bank's financial condition and results of operations. At the same time, high quality individual bank reports contribute to the preparation of aggregate statistics that enable banks to make better informed business decisions.

It is incumbent upon the board and senior management to implement an effective reporting system to generate complete, accurate, consistent, reliable and timely reports to the Bangko Sentral. Banks are expected to capitalize on available information technology in establishing an effective reporting system that is appropriate for their size and complexity of operations. The Bangko Sentral shall prescribe reasonable reporting standards which shall consider the cost of reporting relative to the expected benefits.

**Reporting standards.** Reports submitted to the Bangko Sentral must be complete, accurate, consistent, reliable and timely to be considered compliant with the Bangko Sentral reporting standards. It follows that the report shall conform to the relevant submission and validation guidelines as prescribed by the Bangko Sentral. Likewise, reports with incomplete schedules or attachments shall be considered non-compliant with the reporting standards. As such, said reports should have been reviewed and validated by the bank prior to submission to the Bangko Sentral to ensure its completeness and correctness. Adequate internal controls should likewise be in place to ensure adherence to the reporting standards.

Reports as contemplated in this Section pertain to a bank's financial condition (i.e., solvency, liquidity, and profitability) as well as its operations and management.

**Governance process.** An effective governance process over the bank's reporting system must be established by the Board and implemented by senior management to ensure the bank's adherence to the reporting standards. The bank's reporting system should be supported by a combination of systems, policies and procedures that are intended to facilitate the accurate and timely generation of bank reports. A bank's periodic review of the governance process is likewise integral in determining whether the reporting system continues to be relevant and effective.

An effective reporting system shall include the following key components:

- a. A management information system and technology infrastructure capable of supporting the bank's reporting requirements as well as the conduct of its own internal validation prior to the submission of reports to ensure compliance with the Bangko Sentral reporting standards;

- b. Written policies and procedures documenting the bank's standards and processes in generating quality internal and external reports;
- c. Timely and periodic review of the systems, policies and procedures to ensure their continuing relevance and effectiveness conducted by an independent unit within the bank (e.g., internal audit) or an external party contracted by the bank for such purpose;
- d. A process to implement appropriate enhancements in response to changes in the bank's operating environment or in the process of addressing weaknesses noted during periodic reviews conducted; and
- e. A process for the timely reporting to the board and senior management of significant transactions, events and activities that have material impact on the quality of reports of the bank.

Bank reports shall meet the reporting standards prescribed under this Section. To ensure the quality of bank's reporting, this Section on Sanctions on reports for non-compliance with the reporting standards prescribes the corresponding sanctions for banks that fail to comply with such reporting standards. The Bangko Sentral shall conduct, as described under this Section on Assessment of reporting system, an assessment of the quality of a bank's reporting system in order to determine the underlying integrity of reports being submitted and root cause of persistent submission problems, if any.

***Sanctions on reports for non-compliance with the reporting standards.***

*a. Definitions*

- (1) *Erroneous report* – A report submitted within the prescribed deadline, but is found to be non-compliant with the Bangko Sentral reporting standards described under this Section shall be classified as “Erroneous”. Submission of an Erroneous Report shall be considered as willful failure to comply with a regulation.
- (2) *Delayed report* – A report that was able to comply with the Bangko Sentral reporting standards after the submission deadline for said report shall be classified as “Delayed”. Submission of a compliant report after the submission deadline shall be considered as willful delay in submission of reports.
- (3) *Unsubmitted* – A report that was not submitted, or was submitted but not able to comply with the Bangko Sentral reporting standards, by the time the next report becomes due or upon the lapse of thirty (30) banking days from the report's submission deadline, whichever comes

first shall be classified as “Unsubmitted”. See Table 2 as reference for the defined number of banking days after submission deadline for a report to be considered “Unsubmitted”. Non-submission of reports under this item shall be considered as willful refusal to comply with a regulation.

b. *Monetary Penalties*

The applicable monetary penalty shall be based on a prescribed fine for each occurrence (in case of Erroneous reports) or for each day (in case of Delayed or Unsubmitted reports) which will accumulate until such time the report has been determined compliant with the prescribed reporting standards, as provided for in Table 1:

Table 1 - Prescribed fines for reporting violations

Bank Type	Primary Report	Secondary Report
UBs/KBs	P3,000	P600
TBs	1,500	300
RBs/Coop Banks	450	150

The list of reports classified as Primary and Secondary are provided under *Appendix 7*.

*Erroneous* - For a report initially considered *Erroneous* but subsequently complied with the reporting standards within the prescribed deadline, the penalty shall be computed by multiplying the prescribed fine by the number of times the subject report was submitted before being considered compliant.

*Delayed* - For *Delayed* reports, the penalty shall be computed by multiplying the prescribed fine by the number of calendar days delayed.

*Erroneous and delayed* - If the report initially considered *Erroneous* was able to comply with the reporting standards but after the prescribed deadline (i.e., *Delayed*), the penalty shall be based on the sum of the penalty for being *Erroneous* and the penalty for being *Delayed*.

*Unsubmitted* - For reports classified as *Unsubmitted* (regardless if said report was not submitted or was previously submitted but remains non-compliant as described under this Section on Sanctions on reports for non-compliance with the reporting standards), the monetary penalty shall be three times (3x) the number of days applied for determining such classification, as provided in Table 2:

Table 2 – Defined number of days for penalty computation of reports considered Unsubmitted

(Column A) Reporting Frequency	(Column B) Defined # of banking days after submission deadline to be considered “Unsubmitted”	(Column C) # of days for penalty computation of reports considered “Unsubmitted”
	(A)	(B) = (A multiplied by 3)
Weekly	7	21
Monthly	30	90
Quarterly		
Semestral		
Annual		
Event-based		

\*Refers to reports that are not due under a regular periodicity since their required submission is instead reckoned from the occurrence of an event/incident or upon knowledge thereof.

In the event that a compliant report is received after it has been considered *Unsubmitted*, the applicable penalty shall be based on the number of days provided in Column C of Table 2. This will be the case even if the actual number of banking days delayed is less than the constant number of days provided in said Column C <sup>1</sup>.

Failure to submit a report on time due to fortuitous events such as fire and other natural calamities, public disorders including strike and lockout affecting a bank as defined in the Labor Code or of a national emergency affecting the operation of banks shall not be considered as willful delay or willful failure.

In cases of reports falling due in a period affected by a fortuitous event or within a regulatory relief period as contemplated under *Appendix 92*, said reports should comply with the reporting standards of the Bangko Sentral within fifteen (15) banking days after the end of the said fortuitous event or regulatory relief. Otherwise, they shall be considered *Unsubmitted* and imposed with a monetary penalty equivalent to the applicable fine prescribed in Table 1 multiplied by forty-five (45) days [i.e., three times (3x) fifteen (15) days].

A bank is still required to submit a compliant report regardless if said report has been classified as “*Unsubmitted*” unless the non-submission is approved by the Bangko Sentral. Otherwise, failure to submit a compliant report within seven (7) banking days from the time an instruction was made to submit the said *Unsubmitted* report shall result in disciplinary

enforcement action against the bank in accordance with existing regulations such as, but not limited to, the Bangko Sentral's Supervisory Enforcement Policy under Sec. 002.

*c. Implementation*

In the implementation of the rules in this Section, the submission deadline is considered moved to the next banking day should it fall on a non-working day in the locality where the reporting bank is situated or on a working day where business operations in government offices were suspended due to typhoon, flood, or similar fortuitous events.

The submission of reports with the appropriate supervising department of the Bangko Sentral or with the Bangko Sentral Regional Offices shall be effected by sending them electronically or through registered mail/courier or through messengerial services, unless otherwise specified in the circular or memorandum of the Bangko Sentral. The date when the report was sent electronically or the date of mailing postmarked on the envelope or the date of receipt from the messengerial service, as the case may be, shall be considered as the date of filing

*d. Habituality*

*Habituality* shall refer to the repetitive incurrence of reporting violations. For the purpose of objectively determining habituality, a demerit points system shall be put into effect. A bank that incurs more than 100 demerit points within a calendar year shall be considered a habitual violator.

The total number of demerit points for a calendar year shall be computed based on the total amount of penalties approved for the said year divided by the prescribed fine for the applicable reporting category. For purposes of determining demerit points, the coverage of approved penalties shall apply to reports prescribed for submission to the appropriate supervising department of the Bangko Sentral.

The demerit points system as well as the coverage of reports for determining habituality shall remain in effect unless otherwise specified by the Bangko Sentral. Table 3 provides an example of how demerit points are computed:

Table 3 - Determination of demerit point incurred by a bank in a reporting calendar year

	Report Category		Total
	Primary	Secondary	

A. Monetary penalties approved for imposition	P180,000	P30,000	
B. Prescribed fine per applicable category based on Table 1	3,000	600	
C. Number of demerit points (A/B)	60	50	110

Based on the sample computation, the bank is considered a habitual violator since it has incurred more than 100 demerit points within the calendar year.

When a bank is considered habitual in incurring reporting violations, the Bangko Sentral shall require the bank to undertake measures to address the root cause/s of the problem. The bank may also be subject to non-monetary sanctions provided under Section 37 of R.A. No. 7653 (The New Central Bank Act), as well as restriction/suspension of branching privileges and other special authorities involving the offering of new products and services to the public.

The non-monetary sanctions shall continue to be in effect until the habituality is considered addressed. The habituality is considered addressed and the non-monetary sanctions will be lifted if the bank did not incur any demerit points (i.e., none of the reports of the bank was classified as either *Erroneous*, *Delayed*, *Erroneous and Delayed*, or *Unsubmitted*) for at least three (3) consecutive months from the time the habituality was observed.

**Assessment of reporting system.** If the results of the assessment disclose significant deficiencies in the reporting system, the bank shall be required to submit a Board-approved action plan. Such action plan shall include measures that the bank must undertake within a specified period of time to address the deficiencies noted.

Failure of the board and senior management of the bank to implement the required corrective measures within the specified time frame shall be grounds to subject the bank including its board, senior management and other responsible official/s to the Bangko Sentral's Supervisory Enforcement Policy under Sec. 002. This is without prejudice to imposition of sanctions provided under applicable regulations and law, such as but not limited to, Sections 34, 35, and 36 of R.A. No. 7653 (The New Central Bank Act).

**Transitory provisions.** Banks have until 31 December 2017 to make the necessary preparations to their systems and processes to ensure compliance with this Section. The period of preparation shall be treated as an observation period wherein banks will be provided information on their accumulated demerit points described under this Section on Sanctions on reports for non-compliance with the reporting standards as of various periods in 2017. The Bangko Sentral shall provide banks with information on their accumulated demerit points within the months of August, and December 2017. Full implementation will take effect beginning 01 January 2018.

*(Circular No. 963 dated 27 June 2017)*

**Footnotes**

1. For instance, a weekly report received on the eighth (8th) banking day after the submission deadline will still be penalized the equivalent of twenty-one (21) days, while it likewise follows that a weekly report received on the twenty-eighth (28th) banking day shall still be penalized for twenty-one (21) days.