

## **[ BSP CIRCULAR NO. 439, July 05, 2004 ]**

### **RULES AND REGULATIONS THAT SHALL GOVERN THE DEVELOPMENT AND IMPLEMENTATION OF BANKS INTERNAL CREDIT RISK RATING SYSTEM**

The Monetary Board, in its Resolution No. 889 dated 23 June 2004, approved the following rules and regulations that shall govern the development and implementation of banks' internal credit risk rating systems:

*SECTION 1. Statement of Policy* - It is the policy of the Bangko Sentral ng Pilipinas (BSP) to ensure that banks' credit risk management processes are sound and effective. Towards this end, the following rules and regulations that shall govern the use of banks' internal credit risk rating systems are hereby prescribed:

*SECTION 2. Scope* - All universal and commercial banks must have in place a formal internal credit risk rating system for the underwriting and ongoing administration, initially, of corporate credit exposures. The internal credit risk rating system must be appropriate to a bank's nature, complexity and scale of activities.

Initially and until such time that the Monetary Board prescribes otherwise, corporate credit exposure shall be defined as exposures to companies with assets of more than P15 million.

*SECTION 3. Minimum Operational Requirements* -

1. A bank's internal credit risk rating system must be duly approved by the board of directors (or equivalent management committee in the case of Philippine branches of foreign banks). The board should exercise appropriate oversight over the system in a consistent manner.

2. A bank's internal credit risk rating system must be operationally integrated into its internal credit risk management process. Its output should accordingly be an integral part of the process of evaluation and review of prospective and existing exposures, respectively. Credit underwriting criteria should become progressively more conservative as credit rating declines. All credit decisions must be supported by a written assessment. In the context of ongoing review, provisioning standards must be rationally tied to the internal credit rating system.

3. Banks must have an independent credit risk control function that is responsible for the design, implementation and performance of their credit risk rating systems. The credit risk control function must be independent from the business functions responsible for originating exposures.

4. Internal ratings must be an essential part of annual or more frequent reporting of bank's changing portfolio quality over time to the board of directors (or equivalent