

**[ BSP CIRCULAR NO. 429, S. 2004, May 11, 2004 ]**

**AMENDMENTS TO THE MANUAL OF REGULATIONS FOR BANK (MORB) AND THE MANUAL OF REGULATIONS FOR NON-BANK FINANCIAL INSTITUTIONS (MORNBFI)**

Pursuant to Monetary Board Resolution No. 610 dated 29 April 2004, the Manual of Regulations for Banks (MORB) and the Manual of Regulations for Non-Bank Financial Institutions (MORNBFI) are hereby amended, as follows:

*SECTION 1.* Subsecs. X170.3 and 4191Q.3 of the MORB and MORNBFI, respectively, are hereby added to read, as follows:

Subsecs. X170.3 and 4191Q.3 **Compliance risk.** Compliance risk is the risk of legal or regulatory sanctions, financial loss, or loss to reputation a bank/non-bank may suffer as a result of its failure to comply with all applicable laws, regulations, codes of conduct and standards of good practice.

*SECTION 2.* Subsecs. X170.4 and 4191Q.4 of the MORB and MORNBFI, respectively, are hereby added to read, as follows:

Subsecs. X170.4 and 4191Q.4 **Responsibilities of the board of directors and senior management on compliance.** Aside from the duties and responsibilities of the board of directors mentioned under Subsecs. X141.3 and 4141Q.3, the board should oversee the implementation of the compliance policy and ensure that compliance issues are resolved expeditiously. Senior management should be responsible for establishing a compliance policy, ensuring that it is observed, reporting to the board of directors on its ongoing implementation and assessing its effectiveness and appropriateness. Senior management should, at least once a year, report to the board of directors or a committee of the board on matters relevant to the compliance policy and its implementation, recommending any required changes to the policy. The report should assist the board members in making an informed assessment as to whether the institution is managing its compliance risk effectively. However, any material breaches of laws, rules and standards shall be reported promptly.

*SECTION 3.* Subsecs. X170.5 and 4191Q.5 of the MORB and MORNBF1, respectively, are hereby added to read, as follows:

Subsecs. X170.5 and 4191Q.5. **Status.** The compliance function should have a formal status within the organization established by a charter or other formal document approved by the board of directors that defines the compliance function's standing, authority and independence, and addresses the following issues:

- 1) measures to ensure the independence of the compliance function from the business activities of the bank;
- 2) its role and responsibilities;
- 3) its relationship with other functions or units within the organization;
- 4) its right to obtain access to information necessary to carry out its responsibilities;
- 5) its right to conduct investigations of possible breaches of the compliance policy;
- 6) its formal reporting relationships to senior management and the board of directors; and
- 7) its right of direct access to the board of directors or an appropriate committee of the board.

The compliance charter or other formal document defining the status of the compliance function shall be communicated throughout the organization.

*SECTION 4.* Subsecs. X170.6 and 4191Q.6 of the MORB and MORNBF1, respectively, are hereby added to read, as follows:

Subsecs. X170.6 and 4191Q.6 **Independence.** The compliance function should be independent from the business activities of the institution. It should be able to carry out its responsibilities on its own initiative in all units or departments where compliance risk exists and must be provided with sufficient resources to carry out its responsibilities effectively. It must be free to report to senior management and the board or a committee of the board on any irregularities or breaches of laws, rules and standards discovered, without fear of retaliation or disfavor from management or other affected