

## [ BSP CIRCULAR NO. 456, October 04, 2004 ]

### **SPECIFIC DUTIES AND RESPONSIBILITIES OF THE BOARDS OF DIRECTORS**

Pursuant to Monetary Board Resolution No. 1351 dated 16 September 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. X 141.3c(9) and 4141Q.3.c(9) of the MORB and MORNBFI, respectively, are hereby amended to read, as follows:

Subsecs. X 141.3.c(9) and 4141Q.3.c (9) **Specific duties and responsibilities of the board of directors**

"(9) To constitute the following committees:

(a) Audit Committee. The audit committee shall be composed of members of the board of directors, INCLUDING THE CHAIRMAN, preferably with accounting, AUDITING OR RELATED FINANCIAL MANAGEMENT EXPERTISE OR experience. The audit committee provides oversight of the institution's FINANCIAL REPORTING AND CONTROL AND internal and external AUDIT FUNCTIONS. It shall be responsible for the setting up of the internal audit department and for the appointment of the internal auditor as well as the independent external auditor WHO SHALL BOTH REPORT DIRECTLY TO THE AUDIT COMMITTEE. It shall monitor and evaluate the adequacy and effectiveness of the internal control system.

UPON SETTING UP THE AUDIT COMMITTEE, THE BOARD OF DIRECTORS SHALL DRAW UP A WRITTEN CHARTER OR TERMS OF REFERENCE WHICH CLEARLY SETS OUT THE AUDIT COMMITTEE'S AUTHORITY AND DUTIES, AS WELL AS THE REPORTING RELATIONSHIP WITH THE BOARD OF DIRECTORS. THIS CHARTER SHALL BE APPROVED BY THE BOARD OF DIRECTORS AND REVIEWED AND UPDATED PERIODICALLY.

THE AUDIT COMMITTEE SHALL HAVE EXPLICIT AUTHORITY TO INVESTIGATE ANY MATTER WITHIN ITS TERMS OF REFERENCE, FULL ACCESS TO AND COOPERATION BY MANAGEMENT AND FULL DISCRETION TO INVITE ANY

DIRECTOR OR EXECUTIVE OFFICER TO ATTEND ITS MEETINGS, AND ADEQUATE RESOURCES TO ENABLE IT TO EFFECTIVELY DISCHARGE ITS FUNCTIONS.

THE AUDIT COMMITTEE SHALL ENSURE THAT A REVIEW OF THE EFFECTIVENESS OF THE INSTITUTIONS INTERNAL CONTROLS, INCLUDING, FINANCIAL, OPERATIONAL AND COMPLIANCE CONTROLS, AND RISK MANAGEMENT, IS CONDUCTED AT LEAST ANNUALLY.

b. CORPORATE GOVERNANCE COMMITTEE. The CORPORATE GOVERNANCE committee SHALL ASSIST THE BOARD OF DIRECTORS IN FULFILLING ITS CORPORATE GOVERNANCE RESPONSIBILITIES. It shall review and evaluate the qualifications of all persons nominated to the board as well as those nominated to other positions requiring appointment by the board of directors. THE COMMITTEE shall be composed of at least three (3) members of the board of directors, TWO (2) OF WHOM SHALL BE independent directors.

THE CORPORATE GOVERNANCE COMMITTEE SHALL HAVE A WRITTEN CHARTER THAT DESCRIBES THE DUTIES AND RESPONSIBILITIES OF ITS MEMBERS. THIS CHARTER SHALL BE APPROVED BY THE BOARD OF DIRECTORS AND REVIEWED AND UPDATED AT LEAST ANNUALLY.

THE COMMITTEE SHALL BE RESPONSIBLE FOR ENSURING THE BOARD'S EFFECTIVENESS AND DUE OBSERVANCE OF CORPORATE GOVERNANCE PRINCIPLES AND GUIDELINES. IT SHALL OVERSEE THE PERIODIC PERFORMANCE EVALUATION OF THE BOARD AND ITS COMMITTEES AND EXECUTIVE MANAGEMENT; AND SHALL ALSO CONDUCT AN ANNUAL SELF-EVALUATION OF ITS PERFORMANCE. THE COMMITTEE SHALL ALSO DECIDE WHETHER OR NOT A DIRECTOR IS ABLE TO AND HAS BEEN ADEQUATELY CARRYING OUT HIS/HER DUTIES AS DIRECTOR BEARING IN MIND THE DIRECTOR'S CONTRIBUTION AND PERFORMANCE (E.G., COMPETENCE, CANDOR, ATTENDANCE, PREPAREDNESS AND PARTICIPATION). INTERNAL GUIDELINES SHALL BE ADOPTED THAT ADDRESS THE COMPETING TIME COMMITMENTS THAT ARE FACED WHEN DIRECTORS SERVE ON MULTIPLE BOARDS.

THE COMMITTEE SHALL MAKE RECOMMENDATIONS TO THE BOARD REGARDING THE CONTINUING EDUCATION OF DIRECTORS, ASSIGNMENT TO BOARD COMMITTEES, SUCCESSION PLAN FOR THE BOARD MEMBERS AND SENIOR OFFICERS, AND THEIR REMUNERATION COMMENSURATE WITH CORPORATE AND INDIVIDUAL PERFORMANCE.

THE CORPORATE GOVERNANCE COMMITTEE SHALL DECIDE THE MANNER BY WHICH THE BOARD'S PERFORMANCE MAY BE EVALUATED AND PROPOSE AN OBJECTIVE PERFORMANCE