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OUTSOURCING OF OTHER BANKING FUNCTIONS

BSP CIRCULAR NO. 488, June 21, 2005

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Pursuant to Monetary Board Resolution No. 772 dated 09 June 2005, the Manual of Regulations for Banks (MORB) is hereby amended, as follows:

SECTION 1. Subsec. X169.3 Outsourcing of other banking functions of the MORB is hereby amended to read, as follows:

> "Subject to prior approval of the Monetary Board, banks may outsource the following functions, services or activities:

1. data imaging, storage, retrieval and other related systems;

2. clearing and processing of checks not included in the Philippine Clearing House System;

3. printing of bank deposit statements;

4. credit card services;

5. credit investigation and collection;

6. processing of export, import and other trading transactions;

7. property appraisal;

8. property management services;

9. INTERNAL AUDIT, SUBJECT TO THE FOLLOWING CONDITIONS:

a. THE BOARD OF DIRECTORS AND SENIOR MANAGEMENT OF THE REGULATED ENTITY REMAIN RESPONSIBLE FOR MAINTAINING AN EFFECTIVE SYSTEM OF INTERNAL CONTROL AND FOR PROVIDING ACTIVE OVERSIGHT OF THE OUTSOURCED INTERNAL AUDIT ACTIVITIES/FUNCTIONS;

b. THE EXTERNAL SERVICE PROVIDER SHALL BE AN INDEPENDENT EXTERNAL AUDITOR INCLUDED IN THE LIST OF BSP SELECTED EXTERNAL AUDITORS OR A PARENT COMPANY WHICH OWNS OR CONTROLS MORE THAN FIFTY PERCENT (50%) OF THE SUBSCRIBED CAPITAL STOCK OF THE OUTSOURCING ENTITY: PROVIDED, THAT ITEM "B" OF THE GENERAL REQUIREMENTS UNDER SECTION 2 OF CIRCULAR NO. 410, SERIES OF 2003 SHALL APPLY TO THE PARENT COMPANY WHILE ITEMS "B", "D", "E", AND "F" SHALL APPLY TO THE INDEPENDENT EXTERNAL AUDITOR.

c. THE CONTRACT/SERVICE AGREEMENT WITH THE EXTERNAL SERVICE PROVIDER SHALL NOT BE ENTERED INTO FOR A PERIOD LONGER THAN FIVE (5) YEARS;

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d. THERE SHALL BE A CONTINGENCY PLAN TO MITIGATE ANY SIGNIFICANT DISRUPTION, DISCONTINUITY OR GAP IN AUDIT COVERAGE, PARTICULARLY FOR HIGH-RISK AREAS;

e. THE WRITTEN ENGAGEMENT CONTRACT OR SERVICE AGREEMENT WITH THE EXTERNAL SERVICE PROVIDER SHALL, AS A MINIMUM:

i. DEFINE THE RIGHTS, EXPECTATIONS AND RESPONSIBILITIES OF BOTH PARTIES;

ii. SET THE SCOPE AND FREQUENCY OF, AND THE FEES TO BE PAID FOR, THE WORK TO BE PERFORMED BY THE EXTERNAL SERVICE PROVIDER;

iii. STATE THAT THE OUTSOURCED INTERNAL AUDIT SERVICES ARE SUBJECT TO REGULATORY REVIEW AND THAT BSP EXAMINERS SHALL BE GRANTED FULL AND TIMELY ACCESS TO INTERNAL AUDIT REPORTS AND RELATED WORKING PAPERS;

iv. STATE THAT THE EXTERNAL SERVICE PROVIDER WILL NOT PERFORM MANAGEMENT FUNCTIONS, MAKE MANAGEMENT DECISIONS, OR ACT OR APPEAR TO ACT IN A CAPACITY EQUIVALENT TO THAT OF A MEMBER OF MANAGEMENT OR AN EMPLOYEE OF THE INSTITUTION, AND WILL COMPLY WITH PROFESSIONAL AND REGULATORY INDEPENDENCE GUIDELINES;

v. SPECIFY THAT THE EXTERNAL SERVICE PROVIDER MUST MAINTAIN THE AUDIT REPORTS AND RELATED WORKING PAPERS/FILES FOR AT LEAST FIVE (5) YEARS;

vi. STATE THAT INTERNAL AUDIT REPORTS ARE THE PROPERTY OF THE INSTITUTION, THAT THE INSTITUTION WILL BE PROVIDED WITH COPIES OF RELATED WORKING PAPERS/FILES IT DEEMS NECESSARY, AND ANY INFORMATION PERTAINING TO THE INSTITUTION MUST BE KEPT CONFIDENTIAL; AND

vii. ESTABLISH A PROTOCOL FOR CHANGING THE TERMS OF THE SERVICE CONTRACT AND STIPULATIONS FOR DEFAULT AND TERMINATION OF THE CONTRACT;

10. MARKETING LOANS, DEPOSITS AND OTHER BANK PRODUCTS AND SERVICES, PROVIDED IT DOES NOT INVOLVE THE ACTUAL OPENING OF DEPOSIT ACCOUNTS;

11. GENERAL BOOKKEEPING AND ACCOUNTING SERVICES, PROVIDED THAT THESE ACTIVITIES DO NOT INCLUDE SERVICING BANK DEPOSITS OR OTHER INHERENT BANKING FUNCTIONS;

12. OFFSITE RECORDS STORAGE SERVICES;

13. front/back office functions, i.e., trade support services and downstream processing activities, by parent to a subsidiary or vice-versa, subject to the following conditions:

a. The bank intending to outsource the aforementioned functions shall certify that the front office functions to be done by its parent/subsidiary (service provider) shall be limited to trade support services;

b. The bank shall remain a parent/subsidiary of its subsidiary/parent (service provider) and such service provider shall service only entities belonging to its business group;

c. The bank shall certify that no inherent banking functions involving deposit transactions shall be outsourced to its parent/subsidiary (service provider);

d. The bank shall submit a Service Level Agreement duly signed by the concerned parties and any amendments

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thereto, detailing the functions to be outsourced, the respective responsibilities of the bank and its parent/subsidiary (service provider), and a confidentiality clause; and

e. Any breach in any of the above conditions shall subject the outsourcing of the aforementioned banking functions to all the requirements of this Section; and

14. such other activities as may be determined by the Monetary Board.

WITHOUT NEED OF PRIOR MONETARY BOARD APPROVAL, banks may outsource the following functions, services or activities:

1. printing of bank loan statements and other non-deposit records, bank forms and promotional materials;

2. transfer agent services for debt and equity securities;

3. messenger, courier and postal services;

4. security guard services;

5. vehicle service contracts;

6. janitorial services;

7. public relations services, procurement services, and temporary staffing, provided that these activities do not include servicing bank deposits or other inherent banking functions;

8. SORTING AND BAGGING OF NOTES AND COINS;

9. MAINTENANCE OF COMPUTER HARDWARE, E.G., DISK DRIVES, PRINTERS, MONITORS, UPS, NETWORK CABLING SYSTEMS;

10. PAYROLL OF BANK EMPLOYEES;

11. TELEPHONE OPERATOR/RECEPTIONIST SERVICES;

12. SALE/DISPOSAL OF ACQUIRED ASSETS (ROPOA);

13. PERSONNEL TRAINING AND DEVELOPMENT;

14. BUILDING, GROUND AND OTHER FACILITIES MAINTENANCE; AND

15. SUCH OTHER ACTIVITIES AS MAY BE DETERMINED BY THE MONETARY BOARD."

SECTION 2. The provisions on outsourcing of Section X169 and Subsecs. X169.1 to X169.5 of the Manual of Regulations for Banks (MORB) in so far as they are applicable to quasi-banks and other non-bank financial institutions are hereby incorporated in the Manual of Regulations for Non-Bank Financial Institutions (MORNBFI).

This Circular shall take effect fifteen (15) days following its publication either in the Official Gazette or in a newspaper of general circulation.

Adopted: 21 June 2005

(SGD.) AMANDO M. TETANGCO, JR.

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