COMPLIANCE SYSTEM

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Pursuant to Monetary Board Resolution No. 1035 dated August 13, 1997, all banks are required to develop and implement a compliance system and to appoint/designate a compliance officer to oversee its implementation. In its Resolution No. 1249 dated Sept. 24, 1997, the Monetary Board approved the following implementing rules and regulations:

SECTION 1. Compliance System

The compliance system shall have the following basic elements:

1. A written compliance program approved by the Bank's Board of Directors

> a) The compliance program should enable the bank to identify the relevant Philippine laws and regulations; analyze the corresponding risks of non-compliance; and prioritize the compliance risks (e.g., low, medium, high).
>
> b) The program should provide for periodic compliance testing with applicable legal and regulatory requirements. Testing frequency should be commensurate with identified risk levels (e.g., annual testing for low-risk, quarterly testing for medium-risk, monthly testing for high-risk). It should also provide for the reporting of compliance findings noted to appropriate levels of management.
>
> c) The program should establish the responsibilities and duties of the compliance officer and other personnel (if any) involved in the compliance function.
>
> d) A copy of the compliance program and the written approval of the Board of Directors shall be submitted to the appropriate supervising and examining department of the Bangko Sentral within twenty (20) banking days from the date of approval.
>
> e) The program should be updated at least annually to incorporate changes in laws and regulations. Any changes in the program shall likewise be approved by the bank's Board and submitted to Bangko Sentral within twenty (20) banking days from the date of approval.

2. A constructive working relationship with regulatory agencies

The bank, through its compliance officer, may consult the regulatory agencies for additional clarification on specific provisions of laws and regulations and/or discuss compliance findings with the regulatory authorities. A dialogue may also be initiated with respect to borderline issues.

3. A clear and open communication process within the bank to educate and address compliance matters.

Officers and staff must be trained on the regulatory requirements through regular meetings, distribution of manuals, and dissemination of regulatory issuances.

4. Continuous monitoring and assessment of the compliance program

The program should provide for the periodic review of the compliance function to measure its effectiveness. This may be carried out by the internal audit department of the bank.

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The compliance program may operate parallel to or as part of bank's internal control and auditing programs.

SECTION 2. Compliance Officer

1. The principal function of the compliance officer is to oversee and coordinate the implementation of the compliance system. His responsibility shall include the identification, monitoring and controlling of compliance risk.

2. The appointment/designation of a compliance officer shall require prior approval of the Monetary Board. The bio-data of the proposed compliance officer shall be submitted to the appropriate supervising and examining department of the Bangko Sentral.

3. The compliance officer should have the skills and expertise to provide appropriate guidance and direction to the bank on the development, implementation and maintenance of the compliance program.

4. An independent full-time compliance officer shall be appointed by every commercial bank. He shall have a rank of at least a Vice-President.

5. For other types of bank, an incumbent senior officer may be designated concurrently as the bank's compliance officer: Provided, such designation will not give rise to any conflict of interest situation.

6. In connection with item 5 above, the internal auditor of a bank may be designated as its compliance officer subject to the condition that his primary duty will be to act as compliance officer.

Banks are given two (2) months from date of this Circular within which to comply with above requirements.

Adopted: 2 Oct. 1997

(SGD.) GABRIEL C. SINGSON
Governor

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