



**BANGKO SENTRAL NG PILIPINAS**

**OFFICE OF THE GOVERNOR**

**CIRCULAR NO. 1112**

Series of 2021

Subject: **Amendments to Operational Risk Management and Internal Control Measures**

The Monetary Board, in its Resolution No. 410 dated 31 March 2021, approved the following amendments to the provisions of the Manual of Regulations for Banks (MORB) and the Manual of Regulations for Non-Bank Financial Institutions (MORNBFI):

**Section 1.** Section 146 of the MORB and 146-Q/125-N/125-T of the MORNBFI on Operational Risk Management is hereby amended to read, as follows:

***Section 146/146-Q/125-N/125-T Operational Risk Management***

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***Management of human resource-related risk.*** One of the major sources of operational risk is “people risk”. In this regard, BSFIs shall embed in their enterprise-wide risk management framework measures to identify, measure, monitor, and control human resource related risks. BSFIs shall ensure that there are adequate policies and risk management and control measures in the following areas:

- a. ***Recruitment and Selection.*** The board shall establish efficient process that will facilitate timely recruitment and selection of personnel from a broad pool of candidates with appropriate educational background, skills, experience, character, integrity and competencies to fulfil the duties and responsibilities of the function. This process shall include:
  - (1) ***Adoption of a risk-focused screening process.*** Management shall develop a risk-focused approach for its pre-employment background screening where an appropriate level of screening is employed based on factors like the position, reputational risk implication, and responsibilities associated with a particular position. The sensitivity of the position and authorities given to certain positions, including those in the branches, or the access level of an individual employee may warrant additional background screening procedures. These shall include, among others, verification of character references, criminal records, psychological evaluation, past employment, credentials, and professional qualifications. Information gathered shall enable BSFIs to have sufficient understanding of the

applicant's personal background and character, conflict of interest, and susceptibility to collusion, fraud, or illegal activities.

BSFIs shall likewise adopt a policy that sets out the expected actions from Management when pre-employment screening processes detect that the applicant has provided inaccurate or false information.

- (2) *Screening the applicants against the Bangko Sentral records.* As part of the background screening procedures, the Human Resource Department of the BSFI shall require all those who passed the initial stages of pre-employment screening to accomplish the Authorization Form for Querying (AFQ) the Bangko Sentral Records shown in Appendix 80. Any information gathered from the BSP records shall be considered in the decision to consider the fitness and propriety of the applicant for the position.

Screening the applicants against the records of the Bangko Sentral shall only be part of and shall not be the sole source of information for pre-employment screening.

- (3) *Alignment with organization culture.* Management shall also ensure that the BSFI's culture, values and expectations on behavior are compatible with those of its employees so that there is unity of direction and purpose.

- b. *Performance Management.* The board shall establish effective performance management framework that will ensure that personnel's performance is at par with the standards set by the Board/Senior Management. Results of performance evaluation should be linked to other human resource activities such as training and development, remuneration, and succession planning. These should likewise form part of the assessment of the continuing fitness and propriety of personnel in carrying out their respective duties and responsibilities.

The board shall likewise establish effective mechanism that leverages on existing controls or reports to facilitate assessment of continuing fitness and propriety of personnel, taking into account factors that may affect the performance of an individual. For instance, the financial circumstances of an employee who will be responsible for the custody of, or handling cash related transactions, shall be taken into consideration in the evaluation of his continuing qualification. This mechanism shall enable the BSFI to detect suspicious behaviors of personnel such as reluctance or refusal to take vacation leaves; involvement of personnel in cases with frequent overrides of internal controls, established limits or approving authorities, and high incidence of circumventions of policy; changes in employees' conduct; unusual activities in operations; and sudden or significant changes in lifestyle, standard of living, and spending habits that are inconsistent with the salary, financial position, and level of indebtedness of the personnel concerned.

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**Section 2.** Appendices 117 of the MORB and Q-72 of the MORNBFBI on Examples of Minimum Internal Control Measures shall be amended to read, as follows:

Appendix 117/Q-72 on Examples of Minimum Internal Control Measures

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6. Confirmation of accounts

At least once a year, the internal auditing staff shall confirm by direct verification with BSFI clients, the following:

- a. Balances xxx  
    xxx
- e. For QB, xxx

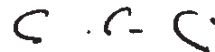
Processing of requests from clients regarding confirmation of accounts/deposit balances maintained in the BSFI, shall be centralized in the BSFI's Head Office. Certification issued for this purpose shall be number-controlled and signed/digitally signed by officers duly authorized by the board depending on the type of accounts and level of amounts involved. Designation or position of the signing officers shall be publicly disclosed thru any available means. The board shall hold accountable the officers concerned when actions are not aligned with the authority granted to them. Management shall develop an efficient process in accepting this type of requests and ensure that the information is delivered securely to its clients and/or intended users.

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**Section 3.** Separate guidelines shall be issued on the use of AFQ for purposes of screening applicants.

**Section 4.** This Circular shall take effect fifteen (15) calendar days following its publication either in the Official Gazette or in a newspaper of general circulation.

FOR THE MONETARY BOARD:



**BENJAMIN E. DIOKNO**

Governor

8 April 2021