



BANGKO SENTRAL NG PILIPINAS

OFFICE OF THE GOVERNOR

CIRCULAR NO. 1074

Series of 2020

Subject: Amendments to Regulations on Financial Audit of Banks

The Monetary Board (MB), in its Resolution No. 48 dated 8 January 2020 approved the amendments to the relevant provisions of the Manual of Regulations for Banks (MORB) and Manual of Regulations for Foreign Exchange Transactions (MORFXT):

Section 1. The following provisions of Section 174 on Audited Financial Statements of the MORB are hereby amended to read, as follows:

Audited Financial Statements The Bangko Sentral recognizes that external auditors play a vital role in contributing to the conduct of effective supervision and sustaining the confidence of the public in the financial system. In this light, the regulations on financial audit aim to enhance the quality of information channeled to the supervisory process and ultimately promote fairness, transparency and accuracy in financial reporting.

The following rules shall govern the submission of audited financial statements (AFS) of Banks.

For purposes of this Section, AFS shall include the balance sheets, income statements, statements of changes in equity, statements of cashflows, notes to financial statements, and opinion of the external auditor. The AFS of banks with subsidiaries shall be presented side by side on a solo basis (parent) and on a consolidated basis (parent and subsidiaries).

Financial Audit. Banks shall cause an annual financial audit by an external auditor included in the List of Selected External Auditors for BSFIs not later than thirty (30) calendar days after the close of the calendar year or the fiscal year adopted by the bank. The AFS shall be submitted by the bank to the appropriate supervising department of the Bangko Sentral not later than 120 calendar days after the close of the calendar year or the fiscal year adopted by the bank, accompanied by the documentary requirements as enumerated under Appendix 55.

In addition, the external auditor shall be required by the bank to submit to the board of directors or country head, a LOC indicating any material weakness or breach in the institution's internal control and risk management systems not later than 120 calendar days after the close of the calendar year or fiscal year adopted by the bank. If no material weakness or breach is noted to warrant the issuance of an LOC, a certification under oath stating

that no material weakness or breach in the internal control and risk management systems was noted in the course of the audit of the bank shall be submitted in its stead, together with the AFS.

“ x x x

The board of directors, in a regular or special meeting, shall consider and act on the AFS and the Letter of Comments (LOC) and shall submit, not later than 120 calendar days after the close of the calendar year or fiscal year adopted by the bank, a copy of its resolution (containing the date of receipt of the AFS and LOC by the board of directors), to the appropriate supervising department of the Bangko Sentral. The resolution shall show the action(s) taken on the AFS and the findings and recommendations stated in the LOC, if any.

In the case of foreign banks with branches in the Philippines, the country head shall submit a report on the action taken by management (head office, regional, or country, as the case may be) on the AFS and the LOC not later than 120 calendar days after the close of the calendar year or fiscal year adopted by the bank.

Government-owned or-controlled banks, including their subsidiaries and affiliates under Bangko Sentral supervision, which are under the concurrent jurisdiction of the Commission on Audit (COA) shall be exempt from the aforementioned annual financial audit by an external auditor included in the List of Selected External Auditors for BSFIs: *Provided*, That when warranted by supervisory concern such as material weakness/breach in internal control and/or risk management systems, the Monetary Board may, upon recommendation of the appropriate supervising department of the Bangko Sentral, require the financial audit to be conducted by an external auditor included in the List of Selected External Auditors for BSFIs, at the expense of the institution concerned: *Provided, further*, That when circumstances such as, but not limited to loans from multilateral FIs, privatization, or public listing warrant, the financial audit of the institution concerned by an external auditor included in the List of Selected External Auditors for BSFIs may also be allowed.

x x x

The AFS required to be submitted shall in all respect be PFRS/PAS compliant. The guidelines under Section 172 shall be adopted.

x x x

X X X

Disclosure requirements to the audited financial statements. Banks shall disclose the information prescribed under Annex A of Appendix 55 in the AFS.

Section 2. The provisions on audited financial statements under Section 435 of the MORB are hereby amended to read, as follows:

Audited financial statements. The trust/investment management department shall adopt the provisions of the PFRS/PAS in all respect, for purposes of preparing the AFS of its trust and other fiduciary and investment management activities. The guidelines under Section 172 shall be adopted.

Section 3. The pertinent provisions on submission frequency/deadline of AFS under Sections 84 and 101 of the Manual of Regulations for Foreign Exchange Transactions (MORFXT) are hereby amended to read, as follows:

Section 84. Accounting. The foreign currency deposits and corresponding cover xxx.

xxx.

Banks which are authorized to operate under this Chapter shall submit to the appropriate supervising department of the Bangko Sentral a separate audited financial statement (category B report) of the FCDU/EFCDU for the past year not later than 120 calendar days after the close of the calendar year or fiscal year adopted by the bank in accordance with the provisions of Section 174 of the MORB.

Section 101. Reportorial Requirements. The following reports are required to be submitted to the BSP by AABs, OBUs, and AAB-forex corps, where applicable:

Title of Report Category		Submission Frequency/Deadline	Submission Procedure
Xxx	Xxx	Xxx	xxx
	D. FCDUs/EFCDUs		
	"xxx	Xxx	xxx
B	Audited Financial Statement of FCDU/EFCDU	Annually, not later than 120 calendar days after the close of the calendar year or fiscal year adopted by the	Hardcopy to the appropriate supervising department of the Bangko Sentral

		bank.	
Xxx	Report on Compliance with FCDU/EFCDU Cover Requirements (Appendix 15)	xxx	Xxx
xxx.			

Section 4. The pertinent provisions in Appendix 55 of the MORB, as shown in Annex A, are amended to indicate the new requirements and deadline in the submission of the AFS.

Section 5. 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

07 February 2020

**CHECKLIST OF BANGKO SENTRAL REQUIREMENTS IN THE SUBMISSION OF
AUDITED FINANCIAL STATEMENTS AND ANNUAL AUDIT REPORT
(Appendix to Section 174 on Financial Audit)**

The external auditor (included in the List of Bangko Sentral Selected External Auditors) shall start the audit not later than thirty (30) calendar days after the close of the calendar/fiscal year adopted by the bank. AFS of banks with subsidiaries shall be presented side by side on a solo basis and on a consolidated basis (banks and subsidiaries). The following shall be submitted by the bank to the appropriate supervising department of the Bangko Sentral:

Information/Data Required	Deadline for submission
1. Audited Financial Statements (AFS)	Not later than one hundred twenty (120) calendar days after the close of the calendar year or fiscal year adopted by the bank.
2. Certification by the external auditor on compliance with the following: <ul style="list-style-type: none"> a. Confidentiality clause pertinent to read-only access to the Report of Examination; and b. Disclosure requirements under Section 174 and other information that may be required. 	For submission together with the AFS not later than 120 calendar days after the close of the calendar year or fiscal year adopted by the bank.
3. Reconciliation statement, including copies of adjusting entries on the reconciling items, between the AFS and the prudential reports (i.e., Balance Sheet and Income Statement for bank proper (regular and FCDU) and Financial Reporting Package for Trust Institutions [FRPTI] for trust department/institutions, following the formats in Annexes B and C of Appendix 55 [for the bank proper and for the trust department, respectively]).	For submission together with the AFS not later than 120 calendar days after the close of the calendar year or fiscal year adopted by the bank.
4. Letter of Comments (LOC) ¹ indicating material weaknesses on internal control and risk management system as well as other issues, which may include findings on the quality of governance, that should be brought to the attention of	For submission together with the AFS not later than 120 calendar days after the close of the calendar year or fiscal year adopted by the bank.

¹ LOC or equivalent letter to Management/Board of Directors

the Board/Management along with the recommendations for corrective action. Otherwise, a certification by the external auditor that there are no issues noted in the course of the audit to warrant the submission of the LOC.

5. Copy of the board resolution showing the actions on the AFS and the submitted LOC, if any.

For submission together with the AFS not later than 120 calendar days after the close of the calendar year or fiscal year adopted by the bank.

6. In case of foreign banks with branches in the Philippines, in lieu of the board resolution, a report by the country head on the action taken by management (head office or regional) on the AFS and the LOC, if any.

For submission together with the AFS not later than 120 calendar days after the close of the calendar year or fiscal year adopted by the bank.

7. The external auditor shall report to the appropriate supervising department of the Bangko Sentral any matter adversely affecting the condition or soundness of the BSFI, such as, but not limited to the following cases:

Within fifteen (15) calendar days upon discovery.

- a. Any material finding involving fraud or error;
- b. Actual or potential losses the aggregate of which amounts to at least ten percent (10%) of the consolidated total assets of the BSFI;
- c. Significant doubt as to the ability of the BSFI to continue as a going concern;
- d. Material breach of laws or Bangko Sentral rules and regulations such as but not limited to prescribed capital and liquidity ratios, significant deficiency in allowance for credit losses, material weaknesses in fair value measurement methodology, significant vulnerabilities to money laundering and combating the financing of terrorism;
- e. Material internal control weaknesses which may lead to financial reporting problems; and

- f. Findings on matters of corporate governance that may require urgent action by the Bangko Sentral.

In case there are no matters to report (e.g., fraud, dishonesty, breach of laws, etc.), a notarized certification that there is none to report.

Not later than 120 calendar days after the close of the calendar year or fiscal year adopted by the BSFI.

AAR - For banks under the concurrent jurisdiction of the Bangko Sentral and Commission on Audit (COA)

1. Copy of the AAR accompanied by the:
 - a. Certification by the institution concerned on the date of receipt of the AAR by the board of directors;
 - b. Reconciliation statement, including copies of adjusting entries on the reconciling items, between the AFS in the AAR and the prudential reports (i.e., Balance Sheet and Income Statement of bank proper (Regular and FCDU) and Financial Reporting Package for Trust Institutions [FRPTI] for trust department/institutions, following the formats in Annexes B and C of Appendix 55 [for the bank proper and for the trust department, respectively]; and
 - c. Other information that may be required by the Bangko Sentral.

Within forty (40) calendar days after receipt of the AAR by the board of directors.

2. Copy of the board resolution showing the action taken on the AAR, as well as on the comments and observations, including the names of the directors present and absent, among other things.

Within thirty (30) banking days after receipt of the AAR by the board of directors.

**APPENDIX 55 – DISCLOSURE REQUIREMENTS TO THE
AUDITED FINANCIAL STATEMENTS**

(Appendix to Section 174 on Disclosure requirements to the audited financial statements)

Banks shall include the additional information to the Audited Financial Statements:

a. Notes to the financial statements

- (1) Capital position on solo and consolidated bases. These shall include Common Equity Tier 1 (CET1) capital, Tier 1 capital, Total Qualifying Capital, Total Risk-Weighted Assets; Capital Adequacy Ratio (CAR), Tier 1 ratio, and CET 1 ratio, as applicable;
- (2) Leverage ratio and Total Exposure Measure both on solo and consolidated bases;
- (3) Liquidity position on solo and consolidated bases. It shall include the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR);

In the case of stand-alone thrift banks, rural banks, cooperative banks and quasi-banks, only the Minimum Liquidity Ratio (MLR) shall be disclosed.

- (4) Provisioning methodology and key assumptions used in determining allowance for credit losses;
- (5) Accounting policies which shall include, but not limited to, general accounting principles, valuation policies for financial instruments and Real and Other Properties Acquired (ROPA), and policies on securitizations, foreign currency translations, and repurchase agreements.

b. Supplementary information

- (1) Basic quantitative indicators of financial performance such as return on average equity, return on average assets and net interest margin;

For purposes of computing the indicators, the following formulas shall be used:

$$(a) \text{ Return on Average Equity (\%)} = \frac{\text{Net Income (or Loss) after Income Tax} \times 100}{\text{Average Total Capital Accounts}}$$

Where:

$$\text{Average Total Capital Accounts} = \frac{\text{Current calendar/fiscal year-end Total Capital Accounts balance} + \text{previous calendar/fiscal year-end Total Capital Accounts balance}}{2}$$

$$(b) \text{ Return on Average Assets (\%)} = \frac{\text{Net Income (or Loss) after Income Tax} \times 100}{\text{Average Total Assets}}$$

Where:

$$\text{Average Total Assets} = \frac{\text{Current calendar/fiscal year-end Total Assets balance} + \text{previous calendar/fiscal year-end Total Assets balance}}{2}$$

$$(c) \text{ Net Interest Margin (\%)} = \frac{\text{Net Interest Income} \times 100}{\text{Average Interest Earning Assets}}$$

Where:

$$\text{Net Interest Income} = \text{Total Interest Income} - \text{Total Interest Expense}$$

$$\text{Average Interest Earning Assets} = \frac{\text{Current calendar/fiscal year-end Total Interest Earning Assets balance} + \text{previous calendar/fiscal year-end Total Interest Earning Assets balance}}{2}$$

- (2) Description of capital instruments issued;
- (3) Significant credit exposures (30.0 percent of the total loan portfolio or 10.0 percent of Tier 1 capital) as to industry/economic sector;
- (4) Breakdown of total loans as to: (i) security (secured, including type of security, and unsecured), and (ii) status (performing and non-performing per product line);
- (5) Information on related party loans broken down as follows:

Particulars	DOSRI Loans	Related Party Loans (inclusive of DOSRI Loans)
• Outstanding loans		
• Percent of DOSRI/Related Party loans to total loan portfolio		
• Percent of unsecured DOSRI/Related Party loans to total DOSRI/Related Party loans		
• Percent of past due DOSRI/Related Party loans to total DOSRI/Related		

Party loans		
<ul style="list-style-type: none"> • Percent of non-performing DOSRI/Related Party loans to total DOSRI/Related Party loans 		

- (6) Aggregate amount of secured liabilities and assets pledged as security; and
- (7) Nature and amount of contingencies and commitments arising from off-balance sheet items [include direct credit substitutes (e.g., export LCs confirmed, underwritten accounts unsold), transaction-related contingencies (e.g., performance bonds, bid bonds, standby LCs), short-term self-liquidating trade-related contingencies arising from the movement of goods (e.g., sight/usance domestic LCs, sight/usance import LCs), sale and repurchase agreements not recognized in the balance sheet; interest and foreign exchange-rate related items; and other commitments.

For items "5", "6", and "7", indicate if there is none to report.

Appendix 55[^]
Name of Financial Institution
Comparison of Submitted Balance Sheet and Income Statement
and Audited Financial Statements
As of (end of calendar or fiscal year)
(In Thousand Pesos)

	Submitted Report	Audited Report	Variance/ Discrepancy	Reasons for Discrepancy
Cash and Other Cash Items				
Due from BSP				
Due from Other Banks				
Financial Assets Measured at Fair Value through Profit or Loss				
Financial Assets Measured at Fair Value through Other Comprehensive Income				
Debt Securities Measured at Amortized Cost				
Loans and Receivables, <i>net</i>				
Loans and Receivable Arising from Repurchase Agreements, Certificates of Assignment/Participation with Recourse, and Securities Lending and Borrowing Transactions				
Accrued Interest Income from Financial Assets				
Bank Premises, Furniture, Fixture and Equipment, <i>net</i>				
Other Assets				
Due from Head Office/Branches/Agencies Abroad				
 Total Assets	<hr/>	<hr/>	<hr/>	<hr/>
	=====	=====	=====	=====
 Financial Liabilities Designated at Fair Value through Profit or Loss (DFVPL)				
Bonds Payable				
Redeemable Preferred Shares				
Financial Liabilities Associated with Transferred Assets				
Finance Lease Payment Payable				
Accrued Interest, Taxes and Other Expenses				
Other Liabilities				
Due to Head Office/Branches/Agencies Abroad				
	<hr/>	<hr/>	<hr/>	<hr/>
	=====	=====	=====	=====
 Paid-in Capital Stock				
Additional Paid-in Capital				

Retained Earnings				
Other Comprehensive Income	_____	_____	_____	_____
Total Capital	=====	=====	=====	=====
Total Liabilities and Capital	=====	=====	=====	=====
Total Income				
Total Expenses	_____	_____	_____	_____
Net Income Before Income Tax	=====	=====	=====	=====

Appendix 55
Name of Financial Institution
Trust Department
(Contractual Relationship of TE, e.g., Institutional-Trust, etc.)
Comparison of Submitted FRPTI Balance Sheet and
Audited Financial Statements
As of (end of calendar or fiscal year)
(In Thousand Pesos)

Accounts	FRPTI	AFS	Discrepancy	Explanation for Discrepancy
Assets (net)				
Cash and Other Cash Items				
Due from BSP				
Due from Other Banks				
Financial Assets Measured at Fair Value through Profit or Loss				
Financial Assets Measured at Fair Value through Other Comprehensive Income				
Debt Securities Measured at Amortized Cost				
Loans and Receivables and Loans Arising from Repurchase Agreements and Securities Lending and Borrowing Transactions				
Other Financial Assets				
Investment Properties and Real and Other Properties Acquired				
Other Assets	_____	_____	_____	_____
Total Assets	=====	=====	=====	=====
Accountabilities				
Principal				
Accumulated Income				
Net Unrealized Gains/(Losses) on AFS Financial Assets				
Other Accountabilities	_____	_____	_____	_____
Total Accountabilities	=====	=====	=====	=====