

[**BSP CIRCULAR NO. 488, June 21, 2005**]

OUTSOURCING OF OTHER BANKING FUNCTIONS

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;

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;