Eight Elements of PNB Effective Compliance Framework
AGENDA

Overview

8 Elements of an Effective Compliance Framework
- Executive Level Oversight
- Compliance Structure
- Policies and Procedures
- Monitoring and Assessment
- MIS and Reporting
- Training
- Compliance Testing and Review
- Working Closely with Regulators

Conclusion - What we did right in 2016-1H2017?
Moving Ahead thru Compliance...
Overview

- Over the past 10 years, banks have to reassess its compliance, ethics, governance & risk management practices.

- Recent cases highlights the risk of cyber-attacks to institutions worldwide.

- Exposed the need to strengthen the nation's anti-money laundering law.

- However, it is more important for financial institutions to bolster their compliance framework, ethics and corporate governance.
I. Executive Level Oversight
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The BOARD should ensure a Compliance Program is defined for the Bank.

Senior Management must be responsible for establishing and ensuring that the Compliance Program is observed.

Chief Compliance Officer is the lead Senior Officer for Compliance.
Global Compliance Group
COs Direct/Matrix Reporting to CCO

- 5 domestic subsidiaries
- 1 affiliate
- 7 overseas branches
- 7 overseas subsidiaries
- 1 desk office

with full-time AML CO
II. Compliance Structure
Hierarchy of Control

“Compliance culture is embedded across all levels”

ROLE

Supervision & Sanctions
External Independent Audit
Ultimate Oversight & Policy Approvals
Independent Oversight & Monitoring
Independent Group Oversight of Programs
Ultimate Line CO Seniors Directly Responsible
Line CO Partners Assess, Monitor & Escalate: QC Preparation

TOOLS

Exam & MB Directives
AFS & Mgmt Letter
Board Committee Reports/Minutes
Monthly Reports/Audit Reports/MIS
MIS/Bulletins/Testing/Audit
Approval of Quarterly Certifications & Regulatory Reports
Daily/Weekly MIS & Monthly Committee Minutes

BSP
AMLC
SEC/PDIC

SGV/EY
PWC/KPMG
Delloite

PNB Board (15)

BACC, ROC, CORGOV, BORC (4)

ARC (3)
GCG, RMG & IAG

Senior Management Team (24)

Compliance Officer /Compliance Designate (743)
Management Compliance Committees (5)
The Bank has Management Compliance Committees for complex units that require closer supervision. (eg. Branch Operations Division AML Compliance Committee, Philippine AML Review Committee, Global AML Transactions Review Sub-Committee)
III. Policies and Procedures
• The Bank should have **updated policies and procedures** embracing the compliance framework, the corporate governance guidelines, including new, existing and changes in the laws, rules and regulations issued by regulators.

• Policies and procedures can be in the form of:

  **Compliance Manuals**
  - Provide compliance framework used as reference by Bank employees
  - Include Compliance Programs: AML/CFT, MLPP, RPT, Corporate Governance, AML Cybercrime, 3rd Party Remittance Arrangement, FATCA, Consumer Protection,

  **Compliance Bulletins**
  - Issued on interim basis to cover new laws, rules and regulations, IRRs, policies and procedures and updated corporate standards

  **Compliance Alerts**
  - Advisories to restrain and caution bank units regarding individuals and entities subject of regulatory investigation and/or sanction.
IV. MIS and Reporting
Banks must design regular reports to ensure tracking of:

1) critical issues and management concerns,
2) corrective actions are complete and timely; and
3) accurate flow of information among different units, branches and legal entities

**Frequency of Reports**

- Daily
- Weekly
- Bi-Monthly
- Monthly
- Quarterly
- Semi-Annually
- Annually

**Hierarchy of Responsibility**

- BOARD
- COMMITTEES
- SENIOR MANAGEMENT
# MIS and Reporting

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Report Type</th>
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</table>
| **Daily**   | 1. CIF Management Deficiency Report  
               2. Run-to-Run System Control Totals  
               3. Daily National News Alert  
               4. Large Transaction Report  
               5. Covered Transaction Report  
               6. CTR Exception Report  
               7. Incoming Remittances from Swift MT103 tiered threshold |
| **Weekly**  | 1. Compliance Officers’ Production Report  
               2. Phil AML Review Committee Meeting  
               3. Transaction Monitoring (Profiles) Reviews and EDDs  
               4. AML Review of CTRs and STRs  
               5. New Regulations notifications to Group Heads/Directors  
               6. Overseas Offices Conference Calls |
| **Bi-Monthly** | 1. STR Reviews  
                      2. AML transaction monitoring reports |
<table>
<thead>
<tr>
<th>Frequency</th>
<th>Report Type</th>
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</thead>
</table>
| Monthly   | 1. Compliance Package to BACC/Board  
2. CTR – STR Analysis Review  
3. Philippine AML Review Committee  
4. Status of Freeze Orders  
5. AMLC Requests for KYC Documents/Transaction Records  
6. Compliance Awareness and AML Training Program  
7. Compliance Bulletins Issued  
8. FATCA Activities and Updates  
9. Domestic AML Transaction Profiles Review Reports  
10. Compliance Committee Meeting Highlights (Overseas Offices)  
11. Compliance Systems Projects and Monitoring Reports  
12. Compliance Testing Review Reports – Domestic and Overseas  
13. AML Cases Special Report  
14. Regulatory Examination Progress Reports  
15. External Auditor Reports  
16. Regulatory Compliance Reports  
17. Business Vehicle Compliance Meetings/Conference Calls |
## MIS and Reporting

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Report Type</th>
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| **Quarterly** | 1. AML Risk Assessment  
               2. AML Compliance Certification  
               3. Regulatory Compliance Certification and CCSAs  
               4. OFAC-SDN File Matching Report  
               5. High Risk Customers Accounts and Transaction Review  
               6. PEP Accounts and Transaction Review |
| **Semi-Annual** | 1. AML Monitoring Profiles Review  
                  2. CTR Testings  
                  3. RCL-STR Review |
| **Annual** | 1. AML/CFT Policy Guidelines and MLPP Manuals  
              2. FATCA Compliance Manual  
              3. RPT Compliance Manual  
              4. Corporate Governance Manual  
              5. Third-Party Remittance Arrangement Manual  
              6. AML Cybercrime Compliance Manual  
              7. Consumer Protection Compliance Program  
              8. Remittance Agents Compliance Program  
              9. AML Risk Assessment by Legal Vehicle  
              10. Compliance Testing Review Schedule  
              11. AML Training Plan  
              12. Global Compliance Group Accomplishment Report |
V. Monitoring and Assessment
The Bank should have **continuous monitoring** and **assessment** of the compliance program.

**The Bank must have a strategic compliance plan** with the objective to:

- sustain & upgrade existing policies/procedures and practices
- take proactive actions by strengthening succession planning, risk rating systems compliance test scripts & AML investigation processes
- with the ultimate goal **to preserve franchise licenses** achieved through standardization of manuals, compliance testing programs and compliance package across all businesses.
<table>
<thead>
<tr>
<th>Y1</th>
<th>Y2</th>
<th>Y3</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>SUSTAIN / UPGRADE</strong></td>
<td><strong>STRENGTHEN</strong></td>
<td><strong>STANDARDIZE</strong></td>
</tr>
<tr>
<td>Manuals</td>
<td>Succession Planning</td>
<td>Manuals across businesses</td>
</tr>
<tr>
<td>Compliance Bulletins</td>
<td>Compliance Training Programs</td>
<td>Compliance Testing programs</td>
</tr>
<tr>
<td>AML, CorGov, Compliance &amp; Control Risk Assessment</td>
<td>Risk Rating Systems</td>
<td>Compliance &amp; AML Package per entity / branch</td>
</tr>
<tr>
<td>Certification Process / Self-Assessment Programs</td>
<td>Compliance Test Scripts / Methodology</td>
<td>Automation of Compliance Testing Programs</td>
</tr>
<tr>
<td>AML Transaction Monitoring Policies and Procedures</td>
<td>AML Investigation Processes</td>
<td>CTR/STR/MIS Report format across businesses</td>
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<tr>
<td>AML Electronic Monitoring Interface data controls</td>
<td>Full automation of AML Monitoring Interface</td>
<td>AML Electronic Monitoring parameters across businesses</td>
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**OBJECTIVE**

PREVENTIVE/DEFENSIVE

**ACTION**

PROACTIVE COMPLIANCE

**GOAL**

PRESERVE FRANCHISE LICENSES
VI. Training
A successful framework involves the training of staff at all levels and across departments and Board to maintain a sound compliance program.

The bank should make all personnel aware of the banking laws and regulations that affect their areas of responsibilities and should provide training regarding bank’s policies and procedures for those areas.

Training could be primarily in the form of formal lectures or classroom training, briefings, customized modules or focused workshops/sessions or survey questionnaires or web-based.

New hires are required to attend Compliance Awareness and AML Training prior to assumption of duties while existing employees are required to attend periodic AML continuing education and compliance partnership training programs.
VII. Compliance Testing and Review
Compliance Testing and Review

• **Independent testing** should be conducted to verify that compliance-risk mitigation controls are in place and functioning as intended throughout the organization.

• In conducting a compliance review and testing, **consideration should be given to issues such as:**

  - potential exposure to regulatory penalties
  - internal & external audit examination findings
  - compliance testing and review results
  - new laws and amendments to regulations
  - other areas that require focus to include personnel turnover, operational processes, system enhancements, new product offerings, and recent market developments

• Independent reviewers of the Bank are **Compliance Group, Risk Management Group and Internal Audit Group.**
## Compliance vs. Risk vs. Internal Audit

<table>
<thead>
<tr>
<th>Compliance Program</th>
<th>Risk Program</th>
<th>Internal Audit Program</th>
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<tbody>
<tr>
<td><strong>Chief Compliance Officer (CCO)</strong></td>
<td><strong>Chief Risk Officer (CRO)</strong></td>
<td><strong>Chief Audit Executive (CAE)</strong></td>
</tr>
<tr>
<td>Mitigates <em>business risk</em> that may erode the franchise value of the Bank.</td>
<td>Covers <em>financial risks arising from balance sheet exposures</em> of the Bank</td>
<td>Review on an ex-post basis whether prescribed guidelines of the Bank were followed in administering transactions, handling procedures, making decisions &amp; undertaking related activities.</td>
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<tr>
<td><strong>Intangible risk (risk to reputation)</strong></td>
<td><strong>Tangible risk</strong></td>
<td></td>
</tr>
<tr>
<td><em>Pro-active</em></td>
<td><em>Pro-active</em></td>
<td><em>Re-active</em></td>
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VIII. Working Closely with Regulators
Working Closely with Regulators

Banks are expected to always work closely with the regulators through:

- timely submission of regulatory reports
- active participation in technical working groups among regulatory bodies and banking organizations
- provide feedback on draft policies, circulars, IRRs issued by regulators
- full cooperation with enforcement regulatory bodies and government agencies for on-going investigations

The Bank must initiate new policies and procedures to align with international best practices.
What we did right?

<table>
<thead>
<tr>
<th>Key Elements</th>
<th>2016-1st Half 2017 Major Enhancements</th>
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<tbody>
<tr>
<td><strong>Executive Level Oversight</strong></td>
<td>• Created Management Committees for complex business and support groups</td>
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<tr>
<td><strong>Policies and Procedures</strong></td>
<td>• Developed at least 5 modified compliance programs for inherent high risk products and services</td>
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</tbody>
</table>
| **MIS and Controls**          | • Prepared monthly comprehensive compliance package for Board and Senior Management  
                                • Implemented Annual Risk Assessment across business legal vehicles |
| **Training**                  | • Trained Compliance Officers/Compliance Designates to be empowered to effectively carry out compliance duties and responsibilities |
| **Compliance Reviews and Testing** | • Relied on competent and independent reviewers comprised of auditors, branch Area Operations Officers, compliance officers/compliance designates and risk overseers. |
| **Working with Regulatory Bodies and Enforcement Agencies** | • Ensured timely submission of reports and actively participated in technical working groups among regulatory bodies and banking organizations |

In Compliance, the only permanent thing is CHANGE
Moving AHEAD thru Compliance...
Moving AHEAD thru Compliance

For the Bank
- PRESERVE FRANCHISE LICENSES
- Generate new business initiatives ...PROFITS
- All resources focus on revenue generating activities to become among the top profitable Bank

For the Stockholders
- Protect and increase share value
- Good corporate image of strong compliance culture

For the Customers
- Build stronger relationship
- Attract new quality customers & protect attrition of good loyal customers

For the Employees
- Belonging to the best bank

For the Regulators
- Promote best practice
Thank You!

PNB

You first.