Related Party Transactions
Definition of Related Parties

- Related parties shall cover the bank’s subsidiaries as well as affiliates and any party (including their subsidiaries, affiliates and special purpose entities) that the bank exerts direct/indirect control over or that exerts direct/indirect control over the bank; the bank’s directors; officers; stockholders and related interests (DOSRI), and their close family members, as well as corresponding persons in affiliated companies. This shall also include such other person/juridical entity whose interests may pose potential conflict with the interest of the financial institution (FI), hence, is identified as a related party.
CLOSE FAMILY MEMBERS

DOSRI

SUBSIDIARIES  AFFILIATES

CORRESPONDING PERSONS IN AFFILIATED COMPANIES
Promotes efficiency
Provides Strategic Feedback
Facilitates Investment

(CFA Institute: Related-Party Transactions Cautionary Tales for Asia)

Create financial, commercial, and economic benefits to individual institutions and to the entire group
RELATED PARTY TRANSACTIONS
Risks Posed by RPTs
Guidelines in Handling RPTs

• Principles anchored on
  – Effective oversight
  – Strong checks and balances system
  – Transparency
Effective Oversight

The board of directors shall....

- Ensure that transactions with related parties are handled in a sound and prudent manner, with integrity and in compliance with applicable laws and regulations to protect the interest of depositors, creditors and other stakeholders.

- Adopt an overarching RPT policy
Effective Oversight

The board of directors shall....

• Establish an effective system to:
  ➢ Determine, identify and monitor related parties and RPTs;
  ➢ Continuously review and evaluate existing relationships between and among businesses and counterparties; and
  ➢ Identify, measure, monitor and control risks arising from RPTs.

• Approve material RPTs and submit the same for confirmation by majority vote of the stockholders in the annual stockholders’ meeting
Strong Checks and balances

The board of directors shall....

• Constitute an RPT Committee

➢ shall be composed of at least three (3) members of the board of directors, two (2) of whom shall be independent directors, including the chairperson. The Committee shall at all times be entirely composed of independent directors and non-executive directors, with independent directors comprising majority of the members
Strong Checks and balances

Internal audit function shall.....

- conduct a periodic formal review of the effectiveness of the FI’s system and internal controls governing RPTs to assess consistency with the board-approved policies and procedures.

Compliance function shall.......

- ensure the institution’s effective compliance with relevant rules and regulations, assist in the identification and review of RPTs, and ensure the updating and implementation of the RPT policy.
Transparency

• Disclosure Requirements in the Annual Reports:

  ➢ overarching policies and procedures for managing RPTs, including managing of conflicts of interest or potential conflicts of interest;

  ➢ responsibility of RPT Committee/Audit Committee;

  ➢ nature, terms and conditions, as well as original and outstanding individual and aggregate balances, including off-balance sheet commitments, of material RPTs
Overarching Principles in Implementation

- Proportionality
- Fair share for each stakeholder
- collective accountability
Thank you!