



# **BPI/MS**

## **Policy on Related Party Transactions**

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Version 1.0

## Revision History Summary

Version	Effective date	Description of Change
1.0		Initial issue. Adapted from BPI's Policy on Related Party Transactions

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## 1. INTRODUCTION

The Insurance Commission (IC) recognizes the importance of establishing and maintaining policies and procedures for transactions between related parties. These policies shall be made to ensure that such transactions are only undertaken on an arm's length basis for the financial, commercial and economic benefit of the given Covered Institution (CI) and the entire group where the said institution belongs. The IC expects every single CI including its subsidiaries and affiliates, to exercise appropriate oversight and implement effective control systems for managing said exposures as these may potentially lead to abuses that are disadvantageous to the CI and its policyholders, members, plan holders, card holders, claimants, creditors, fiduciary clients, and other stakeholders.

With the above, the IC issued Circular Letter (CL) No. 2017-29 in May 2, 2017 detailing the guidelines on related party transactions for IC's covered institutions.

The following are the highlights of the above issuance:

- a) Providing definition of Related Party and Related Party Transactions (RPTs);
- b) Defining the duties and responsibilities, roles and functions of the CI's Board of Directors;
- c) Requiring the constitution of an RPT Committee;
- d) Defining the responsibilities of the RPT Committee;
- e) Defining the roles of Senior Management and Self-Assessment functions;
- f) Requiring sets of disclosures in the Annual Report concerning related parties and related party transactions;
- g) Requiring the Board to approve all material RPTs as well as write off of material exposures to related parties and giving the Board the power to delegate to appropriate management committee the approval of RPTs that are below the materiality threshold.

## 2. SCOPE

This policy covers related parties as defined herein.

## 3. OBJECTIVES

- 3.1 To define related party and related party transactions;
- 3.2 To set materiality threshold for RPTs;
- 3.3 To prescribe processes and procedures in the preparation of the reports required by the IC.

## 4. POLICY STATEMENT

BPI/MS shall ensure strict and consistent compliance with laws and regulations involving transactions with its Directors, Officers and Stockholders (DOS), Affiliates and Other Related Parties.

For this purpose, BPI/MS shall submit to the IC, as required under Circular Letter (CL) No. 2017-29 (a) disclosure report of all entities in the conglomerate structure where it belongs, (the “Conglomerate Map/Organizational Structure”) and (b) a report on material exposures to related parties (the “Report on Material Related Party Transaction”).

## 5. POLICY GUIDELINES

5.1 This policy framework aims to establish the standard for evaluating, identifying and accounting of relationships and transactions between companies and parties. A related party to BPI/MS can be BPI/MS’ subsidiaries as well as affiliates and special purpose entities that BPI/MS exerts direct/indirect control over or that exerts significant influence over BPI/MS; the directors; officers; stockholders and related interests 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 BPI/MS, hence, is identified as a related party.

5.2 Close family members are persons related to the CI's directors, officers and stockholders (DOS) within the second degree of consanguinity or affinity, legitimate or common-law. These shall include the spouse, parent, child, brother, sister, grandparent, grandchild, parent-in-law, son-/daughter-in-law, brother-/sister-in-law, grandparent-in-law, and grandchild-in-law of BPI/MS's DOS.

5.3 Corresponding persons in affiliated companies are the DOS of the affiliated companies and their close family members.

5.4 Under Section 290 of the Insurance Code, as amended by R.A. 10607, control is presumed to exist if any person directly or indirectly owns, controls or holds with the power to vote forty percent (40%) or more of the voting securities of any other person. Provided, that no person shall be deemed to control another person solely by reason of his being an officer or director of such other person.

5.5 Control of an enterprise exists when there is:

- 5.5.1 Power to govern the financial and operating policies of the enterprise under a statute or an agreement; or
- 5.5.2 Power to appoint or remove the majority of the members of the board of directors or equivalent governing body; or
- 5.5.3 Power to cast the majority votes at meetings of the board of directors or equivalent governing body; or
- 5.5.4 Any other arrangement similar to any of the above.

## 6. Related Party Transactions (RPT)

The following is a list of transactions or dealings with related parties, regardless of whether or not a price is charged. These shall include, but not limited to the following –

	Transaction Type	Materiality Threshold		
		Management Committee	RPT Committee	BOD
a.	On-and off-balance sheet credit exposures and claims and write-offs	n/a	Up to P5M per transaction per contract	Over P5M per transaction per contract
b.	Investments and/or subscriptions for debt/equity issuances	n/a	n/a	In excess of the limits indicated in the Investment Policy Statement
c.	Consulting, professional, agency and other service arrangements/contracts/agreements	Cumulative P5M per counterparty	Over P5M up to Cumulative P10M per counterparty	Cumulative above P10M per counterparty
d.	Purchases and sales of assets, including transfer of technology and intangible items (e.g. research and development, trademarks and license agreements)	Up to P5M per transaction per contract	Over P5M Up to P10M per transaction per contract	Above P10M per transaction per contract
e.	Construction arrangements/contracts	Cumulative P5M per counterparty	Over P5M up to Cumulative P10M per counterparty	Cumulative above P10M per counterparty
f.	Lease arrangements/contracts	Up to P5M per transaction per contract	Over P5M up to P10M per transaction per contract	Above P10M per transaction per contract
g.	Trading and derivative transactions	n/a	n/a	In excess of the limits indicated in the Investment Policy Statement
h.	Borrowings, commitments, fund transfers and guarantees	n/a	n/a	Regardless of amount

i.	Sale, purchase or supply of any goods or materials	Up to P5M per transaction per contract	Over P5M up to P10M per transaction per contract	Above P10M per transaction per contract
j.	Establishment of joint venture entities	n/a	n/a	Regardless of contribution

6.1 Insurance coverage / transactions are vetted through the appropriate Committees/approving authorities, as indicated in the following Regulations/Guidelines approved by the Board of Directors –

- a) R-UW-06 Underwriting Acceptance Limit
- b) G-S&U-08 Underwriting Manual

6.2 This RPT Policy excludes regular trade transactions involving purchase and sales of debt securities traded in an active market.

6.3 RPTs shall include not only transactions that are entered into with related parties but also outstanding transactions that were entered into with an unrelated party that subsequently becomes a related party.

6.4 Any clarification on whether or not a transaction should be classified as "Related Party Transaction" shall be referred to Risk Management Department of BPI/MS and BPI Unibank

## 7. RPT Approval

7.1 RPTs are not prohibited provided that the RPTs are approved by the appropriate authority, conducted at arm's length basis and disclosed and reported as required under this policy.

7.2 RPTs shall be subject to approval, as defined in Section 6 above.

## 8. RPT Vetting

8.1 All RPTs shall be submitted for vetting prior to Board approval and/ or implementation.

8.2 Vetting is a process wherein a specific body (e.g. RPTC, Management Committee) reviews and ensures that RPT terms are arm's length.

8.3 An RPT is deemed conducted at arm's length terms when it is done in the regular course of business of BPI/MS and are not undertaken on more favorable economic terms (e.g., interest rates, price, fees, commissions, tenor, collateral requirements, etc.) than similar transactions with unrelated parties under similar circumstances. Further, the RPT should be engaged into at terms that promote the best interest of BPI/MS and its stakeholders. Vetting may thus include comparison of RPT terms with the terms granted to non-related parties under comparable circumstances and conditions.

- 8.4 Vetting is not itself the approval of the credit or non-credit transaction.
- 8.5 Related Party Transaction Committee (RPTC) is a Board level committee tasked to review and endorse RPTs that are classified as Material Transactions.
- 8.6 The RPTC shall be composed of at least three (3) Independent and/ or Non-Executive members of the BPI/MS Board, the majority of whom shall be Independent Directors. The Chairperson must be an Independent Non-Executive Director of the Board. Majority of the members, regardless of position, shall constitute a quorum.
- 8.7 The Chief Compliance Officer (CCO) / Chief Risk Officer (CRO) / Internal Auditor (Chief Audit Executive) may sit as resource persons in the RPT Committee.
- 8.8 The authority, responsibility, membership and operation of RPTC are provided in detail in the RPTC Charter.
- 8.9 RPTs involving amounts below the materiality threshold shall be vetted by the Management Committee.
- 8.10 In case a member of the Management or RPT committee has conflict of interest in a particular RPT, he/ she should inhibit from the evaluation, endorsement and / or approval process of the particular RPT. In the event a member of the Management Committee directly supervises the recommending unit of the RPT, he shall abstain from vetting the same.
- 8.11 Conflict of Interest and handling of personnel, officers or directors who have been remiss in their duties are governed by the Manual on Corporate Governance and specific HR policies. Persons who refuse to fully disclose the extent of their business interests shall be subject to temporary disqualification from their office.

## 9. RPT Monitoring/ Individual and Aggregate Limits

The Board, through the RPTC, shall establish an effective system to determine/ identify Related Parties, monitor Related Party exposure and implement RPTs.

- a. Internal Limits for Individual and Aggregate Credit Exposure
  - i. To ensure that RPTs are within prudent levels, the BPI/MS board shall prescribe, from time to time, internal limits or sub-limits for individual and aggregate credit exposures to a related party and for aggregate credit exposures to all related parties that are consistent with the BPI/MS' risk appetite, risk profile and capital strength.
  - ii. The Related Party Transaction Committee (RPTC) shall report to the Board, on a semi-annual basis, the status and aggregate credit exposure of BPI/MS to each related party as



well as the total amount of credit exposure to all related parties to ensure compliance to limits set by the Board.

- b. Internal Audit and the BPI/MS' Compliance & Legal Department shall perform periodic post verification of RPTs to ensure that the terms and conditions endorsed by the RPTC and approved by the appropriate body are properly and correctly implemented.

## 10. Disclosure and Regulatory Reporting

BPI/MS shall adequately disclose in its Annual Report, if applicable, the overarching policies and procedures for managing RPTs, including managing of conflicts of interest or potential conflicts of interest; responsibility of RPT Committee; nature, terms and conditions, as well as original and outstanding individual and aggregate balances, including off-balance sheet commitments, of material RPTs.

In addition to the required reports on transactions with subsidiaries and affiliates under existing regulations -

- a) BPI/MS shall report all entities in the conglomerate structure where it belongs (Annex A). The said structure shall likewise disclose beneficial owners of shareholdings that are in the name of PCD Nominee Corporation. The said report shall be submitted to the IC within 30 calendar days after the end of every calendar year.
- b) BPI/MS shall submit a report on material exposures to related parties, which shall include the material RPTs of its non-financial subsidiaries and affiliates, (Annex B) within 20 calendar days after the end of the reference quarter.
- c) The consolidated Report on Material RPT shall be jointly endorsed / signed by the BPI/MS' Compliance & Legal and Risk Officer prior to submission to the President or his representative for signature.
- d) The BPI/MS Finance Department shall be responsible for the transmission of all required RPT reports to the IC.
- e) Any contract with recurring payment transactions such as lease contracts, should only be reported once, upon approval of said transaction by the applicable approving authority.
- f) In case the parties involved in a RPT are both IC-regulated entities, only the lessor, in case of a lease contract, shall submit the individual Report on Material RPT.

## 11. Responsibilities of Units with RPTs

To implement the requirements of this RPT Policy, the Proponents, in coordination with the Compliance & Legal and Risk Management Office shall ensure and cause the following:

- a. Establishment of the Related Party's relationship to BPI/MS and interest in the transaction;
- b. Disclosure of material facts as regards the proposed RPT, including the aggregate value of the transaction;

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- c. Proper evaluation of the benefits to BPI/MS of the proposed RPT;
  - d. Identification of the availability of other sources of comparable products or services;
  - e. Assessment of whether the transactions involving Related Party/ies are conducted at arm's length basis which means that the terms and conditions of the transaction must be no less favorable to BPI/MS than the terms generally available to a non-related party under the same or similar circumstances'
  - f. Appropriate tagging or untagging of the identified Related Party/ies in the application systems, as applicable, to facilitate the generation of data required for the preparation of reports such as, but not limited to, the Report on Material Related Party Transaction.

## **12. Whistle Blowing Policy**

The BPI/MS' Whistle Blowing Policy found in the Quality Management System (QMS) shall also apply to RPTs.

## **13. Revision**

Any revision and supplement to this RPT Policy shall be upon the RPTC recommendation and approval of the BPI/MS ExCom/Board.