# BANGKO SENTRAL NG PILIPINAS

**OFFICE OF THE GOVERNOR**

# CIRCULAR NO. 1204
## Series of 2024

**Subject:** **Amendments to the Regulations on the Periodic Review of Trust, Investment Management, and Other Fiduciary Accounts**

The Monetary Board, in its Resolution No. 1237 dated 25 October 2024, approved the amendments to Appendix 86 of the Manual of Regulations for Banks (MORB) and Appendix Q-49 of the Manual of Regulations for Non-Bank Financial Institutions (MORNBFI) to set the supervisory expectations on the conduct of periodic review of trust, investment management, and other fiduciary accounts.

**Section 1.** Appendix 86/Q-49 of the MORB/MORNBFI is hereby amended to read, as follows:

**BASIC STANDARDS IN THE ADMINISTRATION OF TRUST, INVESTMENT MANAGEMENT, AND OTHER FIDUCIARY ACCOUNTS (Appendix to Sec. 401/401-Q)**

**I. Introduction**

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**II. Statement of policy**

xxx

**III. Standards**

The basic standards in the administration of trust, investment management, and other fiduciary accounts are meant to address the significant areas of operations and provide the minimum set of requirements and procedures:

A. *Account acceptance and review processes*

xxx

B. *Account administration*

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1. Periodic review of existing accounts

A trust entity (TE) shall conduct periodic reviews of its trust, investment management, and other fiduciary accounts, hereinafter referred to as "accounts review," to ensure that the TE performs its fiduciary duties and responsibilities.

The accounts review shall consist of:

(i) An **administrative review** which shall ensure that accounts are being managed in accordance with their governing agreements; relevant laws, rules, and regulations; and applicable internal policies and procedures of the TE; and

(ii) An **investment review** which shall ensure that a client's investment risks are properly managed by the TE and that the portfolio is aligned with a client's risk profile, investment objectives, risk tolerance, and liquidity needs. Upon the conduct of an investment review, the TE should be able to determine whether certain portfolios/assets are no longer appropriate for an account and/or a change in the structure(s) or composition of the portfolio(s) is required, consistent with prudent investment practices.

A TE's conduct of accounts review shall be designed in accordance with the nature and complexity of the accounts that it manages and the degree of its tolerance for risk arising from its fiduciary duties and responsibilities. A TE is expected to show what it has done in the exercise of due diligence and prudence to protect the interest of the client and/or beneficiaries.

As a general rule, all accounts shall be subject to an account review. A TE may opt to adopt alternative approaches in accordance with the following:

(a) The review of (1) trust and other fiduciary accounts where a TE exercises investment discretion, and (2) accounts, regardless of mandate that: (i) possess unique, unusual characteristics; (ii) are the subject of pending litigation; or (iii) contain a complex portfolio (e.g., multiple asset classes or high-risk investments), shall be conducted at the account level. The account level review shall apply for both administrative and investment reviews.

(b) Accounts vested with public interest or accounts potentially exposed to complaints from account holders or beneficiaries shall be subject to both investment and administrative reviews.

(c) Homogeneous accounts or those that possess common characteristics based on the type of product or service, or the type of investment outlet, and do not fall under item "*a*" above, may be subject to collective administrative and/or investment review/s.

(d) The investment review of multiple accounts of a single client shall be done at an aggregate level to account for the totality of the contractual relationships of the client with the TE, regardless of the mandate of the TE over the accounts.[1] However, accounts vested with public interest may be subjected to account-level review.

(e) Accounts of direct participants in UITFs may be excluded from administrative and investment reviews.

[1] Accounts (e.g., personal management trust, investment management accounts, and UITFs) where the client is the sole trustor/principal shall be aggregated for purposes of the review. The TE may also adopt the same approach for accounts of clients with co-trustors/principals wherein the subject client is considered as the principal accountholder.

(f) A TE may dispense with the following reviews so long as the accounts do not fall under items "*a*" or "*b*" above:

(1) Administrative review of investment management accounts; and
(2) Investment review of non-discretionary accounts.

There may be cases where a TE further identifies accounts that may be exempted from either administrative or investment review that are not covered by items "*(1)*" and "*(2)*" above. These accounts are expected to be rare. As such, they may be excluded from review: *Provided,* That the basis for the exclusion shall be clear and reasonable.

Regardless of the approach taken for an account, the TE shall ensure that its exercise of fiduciary duties is not undermined. The exclusion of an account from a review shall be done with proper bases. In this regard, the TE shall implement effective operational procedures and controls to ensure that an account excluded from reviews is properly administered and invested in assets that are aligned with the client's risk profile and investment objective.

In cases where the operational controls of the TE are deemed ineffective, the Bangko Sentral may direct the TE to perform a review of the accounts that have been subject to exclusion.

The accounts review shall be conducted by personnel or a management committee who are/that is not directly involved in the management of investments and the administration of the account/s subject of the review.

A TE's accounts review process shall be covered by a policy that sets out the following, at a minimum:

(a) A statement of purpose that explains the rationale for the design of the TE's accounts review and its tolerance for the related risks;

(b) Approaches adopted for the conduct of the reviews (e.g., at account level or collective; exclusion from administrative and/or investment reviews) and the criteria for classifying accounts under each approach;

(c) Scope of the administrative and investment reviews, which shall depend on the TE's fiduciary duties and responsibilities, the nature of the accounts, and other relevant factors;

At the minimum, the following shall be covered:

*For the administrative review -*

i. Existence of an accurate, complete, and current governing instrument; and

ii. Extent and timeliness of the trust entity's performance of the duties and responsibilities (e.g., investment execution, real estate management, adherence to distribution clauses, processing of retirement/pre-need benefits) set out in the governing agreements and as required by relevant regulatory bodies or other interested parties;

*For the investment review –*

i. Suitability of the investment portfolio(s) vis-à-vis the governing agreements, client's risk profile, and any law-mandated restrictions;

ii. Propriety of asset allocation and investments vis-à-vis client's liquidity needs, investment objectives, risk tolerance, and tax considerations, if any;

iii. Fund performance evaluation vis-à-vis the designated benchmark or other relevant performance metrics;

iv. Promptness of deployment of funds to investments considering the nature and purpose of the account;

v. Degree of concentration to a specific security, issuer, or industry considering the investment objectives, asset allocation model, and/or purpose of the account; and

vi. Whether transactions with a TE's own bank or affiliates are appropriate, dealt on an arm's length basis, and duly authorized;

TEs are expected to perform a review of processes not mentioned above (e.g., propriety of investment accreditation/approval, completeness of client's onboarding documents, promptness and accuracy of posting receipts and disbursements to the respective accounts, accuracy and timeliness of the periodic reports provided to clients, accuracy and alignment of fees with the fee schedule and the timeliness of collection thereof) through the compliance and/or internal audit functions.

(d) Rationale for the prioritization of the accounts to be reviewed;

(e) Frequency of the review of covered accounts, which shall be in accordance with the following:

| Type of Review | Frequency |
|---|---|
| Administrative review | Once every three (3) years<br><br>For accounts vested with public interest (i.e., accounts that were opened for the benefit, or uphold the interest, of the public as mandated by laws, rules, or regulations [e.g., pre-need, employee benefit/ retirement or pension funds, selected quasi-judicial trusts]), the administrative review shall be conducted more frequently depending on the operational needs and nature of the accounts.<br><br>Factors that may influence the frequency of the review include the size of the assets, demographics of the investing public/beneficiaries, the |

| Type of Review | Frequency |
|---|---|
| | complexity of the TE's duties and responsibilities, and law-mandated requirements. |
| Investment review | At least annually, or more frequently depending on the nature, investment needs, and/or requirements of the accounts. |

(f) Personnel/committee designated to conduct the administrative and/or investment review/s;

(g) Timelines for the completion of the administrative and investment reviews and systems for ensuring that accounts are reviewed within the prescribed periods;

(h) Exception and resolution tracking. This shall include the identification of items needing attention and pertinent risks; reviews that are past due; and corrective actions, realistic timelines for completion, and monitoring of compliance with the same;

(i) Manner of documenting the results of the review;

(j) Periodic reporting to the trust committee/board of directors on matters related to the reviews, including frequency and minimum content; and

(k) Communication with clients on the results of the accounts review that warrant their attention, feedback, or action. This shall include the system that enables a trust account representative or officer to periodically contact clients and/or beneficiaries to determine whether their financial objectives and circumstances have changed.

The internal audit function of a TE should assess the effectiveness of the TE's accounts review policy and its implementation.

2. Credit process

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**Section 2.** The following transitory provision shall be incorporated as a footnote to Appendix 86/Q-49 of the MORB/MORNBFI under "Periodic review of existing accounts".

Trust entities shall complete an analysis of the gaps between the requirements of this Circular and their existing policies, processes, and procedures within six (6) months from effectivity of this Circular. The results of the gap analysis shall be documented and made available for review by the Bangko Sentral. Trust entities are expected to make appropriate changes to their policies, processes, and procedures within one (1) year from effectivity of this Circular.

**Section 3.** This Circular shall take effect fifteen (15) calendar days following its publication in the Official Gazette or in any newspaper of general circulation in the Philippines.

FOR THE MONETARY BOARD:

**CHUCHI G. FONACIER**
Officer-in-Charge

8 November 2024