

Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City, Philippines

Thirteenth Congress
First Regular Session

House Bill No. 2403



Introduced by Hon. Herminio G. Teves

Explanatory Note

This bill seeks to amend Republic Act 1405, which prohibits examination of bank deposit records, in order to prevent illegal and unsound banking practices that have resulted in bank closures.

Approved by Congress way back in September 9, 1955, Republic Act 1405 was meant to encourage people to save and deposit their money in banks. However, it has become a disincentive for people to save; excessive guarantees of bank deposit secrecy proliferate illegal and unsound banking practices that lead to bank closures and endanger people's hard-earned savings.

In a survey of 20 countries, the Philippine Deposit Insurance Corporation (PDIC) found out that the Philippines is the only country that has an obsolete law that prevents bank regulators from examining deposit records and determining the actual financial condition of banks.

Section 2 of said law provides that all bank deposits are strictly confidential. Bank deposits cannot be examined or inquired into by any person or office except in the following cases: 1) when there is a written permission of the depositor; 2) in cases of impeachment; 3) when there is a court order in cases of bribery or dereliction of public duty of public officials; and, 4) when the bank deposit is the subject matter of a litigation. The anti-money laundering law, which amended Republic Act 1405, allows the examination of bank deposits in anti-money laundering cases.

Because of Republic Act 1405, some unscrupulous bankers have manipulated the financial reports of their banks, prejudicing the depositing public and, in case of bank closures, destabilizing the country's financial system. Sadly, it is only when the BSP Monetary Board closes an erring bank and examines deposit records that illegal and unsound banking practices come into light.

Originally designed as a measure to encourage savings, Republic Act 1405 has now become a source of public perceptions on the lack of stability and credibility of the banking system. It has become a serious impediment to the strengthening of the banking system.

People have grown into the habit of using the banking system to deposit their money and conduct various domestic and international economic, financial, and

trade transactions. Their reliance on the banking system as a conduit for various economic and financial transactions is based on their confidence on the system's stability, credibility and soundness, and not because of the secrecy that it guarantees.

However, in recent years, people's trust on the banking system has been eroded as a result of well advertised cases of bank closures brought about by illegal, unsound, and dangerous banking practices. Because the people's confidence on the banking system is crucial to economic development, the State must be more proactive in ensuring the continued stability, credibility and soundness of the banking system.

This bill ensures proactive government action in effectively preventing bank closures by amending Republic Act 1405, to allow bank regulators from the Bangko Sentral ng Pilipinas (BSP) and the Philippine Deposit Insurance Corporation (PDIC) to examine deposit records of banks in order to ascertain their actual financial condition.

In addition, it enables examiners from the Bureau of Internal Revenue (BIR) to verify the correctness of tax payments withheld by banks. Consequently, it enables the national government to generate more funds for its anti-poverty programs.

The bill addresses a more legitimate concern of depositors that their savings should be fully safeguarded and intact by effectively preventing bank closures that rock the stability of the country's financial system. In addition, it protects them from unwarranted disclosures of deposit information by subjecting examiners to rules of strict confidentiality and penalizing them for violations.

Early approval of this bill is earnestly requested.



HERMINIO G. TEVES

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AN ACT
AUTHORIZING THE BANGKO SENTRAL NG PILIPINAS (BSP), PHILIPPINES
DEPOSIT INSURANCE COMPANY (PDIC) AND BUREAU OF INTERNAL
REVENUE (BIR) TO LOOK INTO DEPOSITS OF ANY BANKING
INSTITUTION, THEREBY AMENDING REPUBLIC ACT 1405, AND FOR
OTHER PURPOSES.

Be it enacted by the Senate and the House of Representatives of the Philippines in Congress assembled:

SECTION 1. It is the policy of the State to provide adequate protection to depositors by strengthening bank supervision in the country and ensure that banks pay the correct amount of taxes.

SECTION 2. Section 2 and 3 of Republic Act 1405 is hereby amended to read as follows:

"Section 2. All deposits of whatever nature with banks or banking institutions in the Philippines including investments in bonds issued by the Government of the Philippines, its political subdivisions and its instrumentalities, are hereby considered as of an absolutely confidential nature and may not be examined by any person, government official, bureau or office, except [upon written permission of the depositor,] BY EXAMINERS FROM THE BANGKO SENTRAL NG PILIPINAS (BSP), PHILIPPINE DEPOSIT INSURANCE CORPORATION (PDIC), AND BUREAU OF INTERNAL REVENUE (BIR) SOLELY FOR SUPERVISORY AND TAX AUDIT PURPOSES, or upon order of a competent court in cases of bribery, or dereliction of duty of public officials, or in cases where the money deposited or invested is the subject matter of the litigation.

Section 3. It shall be unlawful for any official or employee of banking institution AND ALL THOSE WHO IN ANY MANNER HAS ACCESS TO BANK RECORDS to disclose to any person other than those mentioned in Section two hereof any information concerning deposits.

SECTION 3. Section 5 of Republic Act 1405 is likewise amended to read as follows:

"Section 5. Any violation of this law will subject the offender, upon conviction, to an imprisonment of not [more than five years] LESS THAN TWO (2) YEARS BUT NOT MORE THAN FIVE (5) YEARS or a fine of [not more than twenty thousand pesos] NOT LESS THAN FIFTY THOUSAND PESOS (P50,000.00) BUT NOT MORE THAN ONE HUNDRED THOUSAND PESOS (P100,000.00), or both, in the discretion of the court.

SECTION 4. All laws, decrees, rules and regulations or portions thereof, inconsistent with this Act are hereby repealed or modified accordingly.

SECTION 5. This Act shall take effect upon its approval.

APPROVED.