

Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City

EIGHTEENTH CONGRESS
Second Regular Session

HOUSE BILL NO. 7765



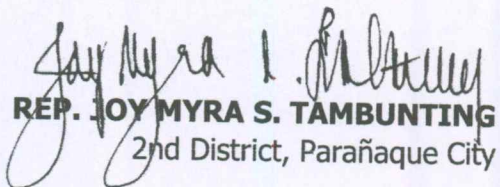
Introduced by **HON. JOY MYRA S. TAMBUNTING**

EXPLANATORY NOTE

Cooperatives play a vital role in development, particularly in formalizing work in informal economies. Cooperatives, together with micro, small and medium enterprises, have shown their capacity for job generation in local communities. Cooperatives allow for small entrepreneurs to grow and thrive by giving them platform to launch their businesses. They provide financial security and open opportunities for their member's growth and development.

This measure is proposed in recognition of the State's responsibility to support the advancement and growth of this sector. This measure mandates the Government to assist in the establishment of cooperative banks in order to make credit facilities available and readily accessible to people. This measure also provides for the regulation and management of cooperative banks in such manner that allows for them to be sound, stable, sustainable and efficient in operations for the protection of public interest.

On behalf of the people of Parañaque City's Second District, and for the common good of the Filipino people, the approval of the said measure is earnestly sought.


REP. JOY MYRA S. TAMBUNTING
2nd District, Parañaque City

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Introduced by **HON. JOY MYRA S. TAMBUNTING**

AN ACT
PROVIDING FOR THE REGISTRATION, REGULATION AND OPERATION OF
COOPERATIVE BANKS AND OTHER PURPOSES

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

SECTION 1. Short Title. – This Act shall be known as the "Cooperative Banking Act of 2020".

Sec. 2. Declaration of Policy. – It is hereby declared the policy of the State to foster the creation and growth of cooperatives as a practical vehicle for promoting self-reliance, communal unity and harnessing people power towards the attainment of economic development and social justice. The State shall encourage the private sector to undertake the actual formation and organization of cooperatives and shall create an atmosphere that is conducive to the growth and development of these cooperatives.

Further, it is hereby declared the policy of the state to:

1. Recognize Cooperative Banks (CB) as a practical vehicle for the promotion of self-reliance and harnessing of people power towards the attainment of economic development and social justice;
2. Encourage thrift and savings mobilization for the achievement of sustainable economic development primarily among cooperatives and their members; and
3. Regulate and supervise the activities of CBs in order to achieve sound, stable, sustainable and efficient operations for the protection of public interest.

Towards these ends, the Government shall encourage and assist in the establishment of CBs in order to make credit facilities available and readily accessible on reasonable terms.

Sec. 3. Definition of Terms. – The following definitions shall apply within this Act:

1. Banko Sentral ng Pilipinas- refers to the central monetary authority of the Philippines created and existing under the authority of Republic Act (R.A.) No. 7653, as amended, otherwise known as the New Central Bank Act, which provides policy direction in the

- areas of money, banking and credit, and exercises supervision over the operations of banks, and other financial institutions which fall under its jurisdiction.
2. Cooperative Bank - refers to a bank organized under this Act and under the provisions of R.A. No. 9520, otherwise known as the Philippine Cooperative Code of 2008, and prior laws, the majority shares of which are owned and controlled by the cooperative organizations, for the primary purpose of providing a wide range of financial services to cooperatives and their members and the public.
 3. Cooperative Code - refers to the Philippine Cooperative Code of 2008, or also known as R.A. No. 9520.
 4. Cooperative Development Authority - refers to the agency of the Government created under R.A. No. 6939, as amended by R.A. 11364, which is mandated to register, develop, regulate and supervise cooperatives.
 5. Cooperative Organization - refers to any cooperative whether primary, secondary or tertiary, or special types of cooperatives registered under the provisions of R.A. No. 9520 and R.A. No. 10744, otherwise known as Credit Surety Fund Cooperative Act of 2015.
 6. Individual - refers to a Filipino citizen who is a member of any cooperative registered under R.A. No. 9520
 7. Monetary Board - refers to the Monetary Board of the BSP
 8. Samahang Nayon and Municipal Katipunan ng mga Samahang Nayon -refers to pre-cooperative organizations established under Presidential Decree No. 175.

Sec. 4. Organization and Membership. – The organization and membership of a CB shall be governed by the following provisions of this Act:

1. Organization – At least five (5) cooperative organizations duly established and registered under the Cooperative Code may register a CB with the CDA, upon compliance with the requirement and required authorization from the Banko Sentral ng Pilipinas (BSP)
2. Membership – Membership in a CB shall be open to: (a) cooperatives of all types and categories (local or foreign), (b) individuals who are members of a cooperative, and (c) associations and organizations. Membership is either regular or associate. Regular membership shall be limited to cooperative organizations and any individual who are members of a cooperative. Associate members shall be individuals or associations or organizations which are subscribing and holding preferred shares only. The common shareholdings of cooperative members shall at all times be at least sixty percent (60%) of the total outstanding voting shares of the CB, while common shares held by individuals shall not be more than forty (40%) of the total outstanding voting shares: Provided, further that the individual common shareholders shall not be related to each other within the fourth degree of consanguinity or affinity. Provided, finally, that a foreign cooperative may own, acquire or purchase common shares not exceeding forty percent (40%) of the total outstanding common shares.

Sec. 5. Establishment of Cooperative Banks. – The articles of cooperation and by-laws of a CB, or any amendment thereto, shall be registered with the CDA only when accompanied by a certificate of authority issued by the Monetary Board.

Sec. 6. Establishment of Branches and Other Offices. – The establishment of branches/branch-lite units/other banking offices by CBs shall be governed by the rules and regulations of the BSP.

Sec. 7. Management of Cooperative Banks. – The management of the CBs shall be governed by the rules and regulations to be promulgated by the BSP, in consultation with the CDA. To maintain the quality of management and accord appropriate protection to depositors and the public in general, the BSP shall prescribe the firm and proper qualifications of bank directors and officers for the purposes of this Section, giving due recognition to the unique nature and character of the CBs.

The number, composition and term of the board of directors shall be defined in the articles of cooperation and by-laws of the CB.

7.1 Board and Committees. – The CB shall constitute, at a minimum, the Board of Directors, Election Committee and Audit Committee.

The Board of Directors shall be composed of at least five (5) but not more than fifteen (15) members, at least one (1) of whom is an independent director. It refers to the body entrusted with the management of the affairs of the CB. It shall be responsible for the strategic planning, direction-setting and policy formulation activities of the CB. The members of the Board of Directors shall be elected by the general assembly.

The Election Committee shall refer to the committee which shall be responsible in the formulation and implementation of election rules and guidelines. It shall supervise the conduct of election, election-related activities, canvass and certify the results of the election, and decide cases relative to such election, except those involving the committee itself or its members. The Election Committee shall be composed of the Internal Auditor/Chief Compliance Officer, Independent Director and Board Secretary.

The Audit Committee shall be composed of at least three (3) members of the Board of Directors, who shall all be non-executive directors, including the chairperson who shall be an independent director. The Committee shall be responsible for the oversight of financial reporting framework, internal control system, selection/appointment of independent auditor and perform such other functions as may be required by the by-laws and existing regulations of the BSP. It shall assist the board of directors in fulfilling its overseeing responsibilities in relation to the adequacy and effectiveness of the internal audit function, implementation of corrective actions, investigation of issues/concerns within the committee's terms of reference and establishment of whistleblowing mechanism.

Other committees may be created by the board of directors with powers, functions and responsibilities which shall be defined in the by-laws.

7.2. Key Management Officers. – The key management officers shall be appointed by the Board and shall include but not be limited to the President, Treasurer, Internal Auditor, Chief Compliance Officer or their equivalent ranks. The BSP shall prescribe the qualifications and disqualifications of the key management officers.

Sec. 8. Vacancy in the Board and Committees. – Any vacancy in the board of directors, other than by removal or by expiration of term, may be filled by the vote of at least a majority of the remaining directors, if still constituting a quorum; otherwise, said vacancy must be filled by the general assembly in a regular or special meeting called for that purpose. A director so elected to fill a vacancy shall serve only the unexpired term of his predecessor in office.

In case of vacancy, in the committees, the board, unless otherwise provided in the by-laws, will appoint a person to fill the same, subject to the provision that the person appointed shall serve only for the unexpired portion of the vacated term.

Sec. 9. Compensation. – In the absence of any provisions in the by-laws fixing their compensation, the directors shall not receive any compensation except for reasonable per diems: Provided, however, that the directors and officers shall not be entitled to any per diem when, in the preceding calendar year, the CB reported a net loss or had a dividend rate less than the official inflation rate for the same year. Any compensation other than per diems may be granted to directors by a majority vote of the members with voting rights at a regular or special general assembly meeting specifically called for the purpose: Provided, that no additional compensation other than per diems shall be paid during the first year of existence of the CB.

In no case shall the total yearly compensation of directors exceed ten percent (10%) of the net income of the CB during the preceding year.

Sec. 10. Liability of Directors, Officers and Committee Members. – Directors, officers, and committee members, who willfully and knowingly vote for or assent to patently unlawful acts or who are guilty of gross negligence or bad faith in directing the affairs of the CB or acquire any personal or pecuniary interest in conflict with their duties as such directors, officers or committee members shall be liable jointly and severally to the CB for the full amount of damages or personal gain resulting therefrom.

Sec. 11. Disloyalty of Directors and Officers. – A director or officer who, by virtue of his office, acquires for himself an opportunity which should belong to the CB shall be liable for damages and must account for double the profits otherwise would have accrued to the CB by refunding the same, unless his act has been ratified by two-thirds (2/3) vote of all the members with voting rights. This provision shall be applicable, notwithstanding the fact that the director or officer uses his own funds in the venture.

Sec. 12. Dealings of Directors and Officers. – Dealings with directors and officers of the CB shall comply with the provisions of Section 36 of R.A. No. 8791, otherwise known as General Banking Law of 2000.

Sec. 13. Illegal Use of Confidential Information. – A director or officer, or an associate of a director or officer, who, for his benefit or advantage or that of an associate, makes use of confidential information that, if generally known, might reasonably be expected to adversely affect the operations and viability of the CB, shall be held:

1. Liable to compensate the CB for the direct losses suffered by the CB as a result of the illegal use of information; and
2. Accountable to the CB for any direct benefit or advantage received or yet to be received by him or his associate, as a result of the transaction.

Sec. 14. Bond for Faithful Performance of Duties and Obligations. – Every officer or employee handling funds, securities, or property on behalf of a CB shall, before performing such duties, execute and deliver adequate and appropriate bond for the faithful performance of his/her duties and obligations.

Sec. 15. Quorum and Voting Rights. – In meetings of the board of directors, whether regular or special, the quorum requirements shall be one-half plus one of all members of the board of directors. Each director shall only have one vote.

Sec. 16. Composition of the General Assembly. – The general assembly shall be composed of regular members who are entitled to vote under the articles of cooperation and by-laws of the CB.

Sec. 17. Powers of the General Assembly. – The general assembly shall be the highest policy-making body of the CB and shall exercise such powers as are stated in this Code, in the articles of cooperation and in the by-laws of the CB. The general assembly shall have the following exclusive powers which cannot be delegated:

1. To determine and approve amendments to the articles of cooperation and by-laws;
2. To elect or appoint the members of the board of directors, and to remove them for cause; and
3. To approve developmental plans of the CB.

Sec. 18. Meetings. –

1. A regular meeting shall be held annually by the general assembly on a date fixed in the by-laws, or if not so fixed, on any date within one hundred eighty (180) days after the close of each fiscal year: Provided, that notice of regular meetings shall be in writing which shall be sent through personal delivery, registered mail or other electronic means to all members of record, and posted in conspicuous places with the CB premises.
2. Whenever necessary, a special meeting of the general assembly may be called at any time by a majority vote of the board of directors or as provided for in the by-laws: Provided, that a notice in writing shall be sent one (1) week prior to the meeting to all members who are entitled to vote. However, a special meeting shall be called by the board of directors after compliance with the required notice or by at least ten percent (10%) of the total members who are entitled to vote to transact specific business covered by the call.
3. In the case of a newly approved CB, a special general assembly shall be called, as far as practicable, within ninety (90) days from such approval.

Sec. 19. Quorum and Voting System. – The quorum requirement for general assembly meetings, whether regular or special, shall be one-half plus one of the number of voting shares of all members in good standing.

To amend its articles of cooperation and by-laws, at least three-fourths (3/4) vote of all the members with voting rights, present and constituting a quorum shall be required. All other voting requirements shall be prescribed by the BSP.

The voting rights of the members shall be proportionate to the number of their paid-up shares.

Sec. 20. Powers and Functions of Cooperative Banks. – CBs shall primarily provide wide range of financial services to cooperative organizations, their members, and to the public. A CB may perform any or all of the following banking services:

1. Extend loans and advances primarily for the purpose of meeting the normal credit needs of farmers, fishermen or farm families as well as cooperatives, merchants, private and public employees;
2. Accept savings and time deposits from the public as well as from government agencies and instrumentalities, local government units and government-owned and controlled corporations subject to existing rules and regulations;
3. Act as a correspondent of other financial institutions;
4. Discount and rediscount paper with the Land Bank of the Philippines, Development Bank of the Philippines or any other bank, including its branches and agencies. Said banks shall specify the nature of paper deemed acceptable for rediscounting, as well as the rediscount rate to be charged by any of these banks;
5. Act as collection agent;
6. Acquire readily marketable bonds and other debt securities;
7. Buy and sell foreign exchange; and
8. Offer other banking services as provided in Section 53 of R.A. No. 8791.

In addition to the powers granted to the CBs by this Act and other existing laws, any CB may perform any or all of the banking services offered by other types of banks subject to prior approval of the BSP.

Sec. 21. Investment in Allied Undertakings. – Subject to the requirements and restrictions as may be imposed by the Monetary Board under its existing rules and regulations, CBs may invest in equities of allied undertakings which may include, but not be limited to the following:

1. Banks, financial institutions and non-bank financial intermediaries;
2. Warehousing and other post-harvest facilities;
3. Fertilizer and agricultural chemical and pesticides manufacturing and distribution;
4. Farm equipment distribution
5. Trucking and transportation of agricultural products;
6. Marketing of agricultural products
7. Leasing;
8. Automated teller machine (ATM) networks;
9. Public transportation;
10. Insurance;
11. Financial technology; and
12. Other undertakings as may be determined by the Monetary Board.

Sec. 22. Limitations and Lending Authority. – Except as the Monetary board may otherwise prescribe, the direct indebtedness to CBs of any person, company, corporation, or firm, including the indebtedness of members of a partnership and association, for money borrowed, excluding: loans secured by obligations of the BSP; loans fully guaranteed by the Government as to the payment of principal and interest; loans to the extent covered by the hold-out on, or assignment of, deposits maintained in the lending CB and held in the Philippines; and other loans or credits

as the Monetary Board may, from time to time, specify non-risk assets, shall in no time exceed twenty five percent (25%) of unimpaired capital and surplus of the CB.

Sec. 23. capital Requirement for Cooperative Banks. – A CB shall have a minimum paid-up capital in such amount as may be required by the BSP. The BSP may prescribe rules and regulations on the types of shares a CB may issue, including the terms thereof and rights appurtenant thereto to determine compliance with laws and regulations governing capital and equity structure of banks. Provide(1✓ that CBs shall issue par value shares only.

Sec. 24. Samahang Nayon and Municipal Katipunan ng mga Samahang Nayon. – Samahang Nayon (SN) and Municipal Katipunan ng mga Samahang Nayon (MKSAN) which held common shares of CBs prior to the effectivity of R.A. No. 9520 shall apply for conversion to cooperatives in order to maintaining their status as regular members of CBs: Provided, that the CBs shall exert effort to perform and assist the SN and MKSAN to convert within a period of five (5) years from the effectivity of this Act. Upon failure of the SN and MKSAN to finally convert to a cooperative or association within said period, the funds held in the name of such SN and MKSAN shall be subject to escheat.

Sec. 25. Funds Held in the Name of Cooperatives Whose Certificates of Registration Have Already Been Cancelled. – Cooperatives whose certificates of registration have already been cancelled by the CDA and which failed to liquidate their funds or shares in accordance with R.A. No. 9520 shall file a petition with the CDA for the reactivation of their registration: Provided, that the CBs shall exert effort to inform and assist such cooperatives to activate their registration with the CDA within a period of five years (5) from the effectivity of this Act. Provided, further that the shares of such cooperatives which fail to reactivate their registration with the CDA within the said period shall remain in the CBs as retained earnings.

Sec. 26. Supervision of Cooperative Banks. – All CBs shall be under the supervision of the BSP; Provided, however, that the CDA shall monitor the CBs compliance to cooperative laws, rules and regulations. With respect to the provisions and governance of the CBs, the provisions of the banking laws, rules and regulations shall prevail, notwithstanding Section 71 of R.A. No. 8791.

Sec. 27. Privileges of Cooperative Banks. – CBs registered under this Act and under the Cooperative Code shall be given the same privileges and incentives granted to rural banks, thrift: banks, commercial banks, and other banks to rediscount notes with the BSP, the Land Bank of the Philippines and other government banks without affecting in any way the provisions of this Act.

The same privileges and incentives generally granted to cooperatives under the Cooperative Code shall be granted to CB organized under this Act and other prior laws including exemption from all national, city, provincial, municipal or barangay taxes, fees and charges of whatever nature and description. Provided, however, that when CB has reached an undivided net savings of more than ONE HUNDRED MILLION PESOS (Php 100,000,000.00), transaction to non-member will become taxable.

Sec. 28. Separability Clause. – If any provision or section of this Act or the application thereof to any person or circumstances is held invalid, the other provisions or sections of this Act shall remain valid, and the application of such remaining provisions or sections to the other persons or circumstances, shall not be affected thereby.

Sec. 29. Repealing Clause. – All laws, issuances, rules and regulations inconsistent with this Act are hereby repealed accordingly.

Sec. 30. Effectivity. – This Act shall take effect fifteen (15) days from the date of its publication in the Official Gazette or in at least two (2) newspapers of general circulation.

Approved,