

Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City, Metro Manila

EIGHTEENTH CONGRESS
Second Regular Session

House Bill No. 7864



Introduced by REP. JOEY SARTE SALCEDA

**AN ACT
ESTABLISHING THE BASIC REGULATORY FRAMEWORK FOR
BLOCKCHAIN TECHNOLOGY IN THE PHILIPPINES,
PROVIDING FOR ITS USE IN GOVERNMENT SERVICE DELIVERY,
AND FOR OTHER PURPOSES**

EXPLANATORY NOTE

Distributed ledger technology (DLT) or “blockchain” has immense potential as a records-keeping and data management system for large and complex institutions, such as the Philippine government. A blockchain is, in less complex terms, a time-stamped series of immutable records of data that is managed by a cluster of computers not owned by any single entity. Each of these blocks of data (i.e. block) is secured and linked to each other using cryptographic principles (i.e. chain).

Since it is a distributed and immutable ledger, the information in it is open for anyone and everyone to see. Hence, anything that is built on the blockchain is transparent and everyone involved is accountable for their actions.

The blockchain is a simple yet inventive way of passing information from one terminal to another in a fully automated and secure manner. One party to a transaction initiates the process by creating a block. This block is verified by thousands, perhaps millions of computers distributed around the net. The verified block is added to a chain, which is stored across the net, creating not just a unique record, but a unique record with a unique history.

This secure feature is one of the reasons why blockchain has been used to generate “cryptocurrency.” While cryptocurrency itself is controversial, the technology behind it clearly has merits for secure data transactions. Falsifying a single record would mean falsifying the entire chain in millions of instances. That is virtually impossible.

More importantly, it could ease the transaction costs in data transmission. Not only can the blockchain transfer and store money and other pieces of vital information, but it can also replace all processes and business models that rely on charging a small fee for a transaction. Or any other transaction between two parties. This could potentially save consumers, and even the government, millions.

The most promising applications for blockchain appear to be in the financial sector, with implications for the way stock exchanges work, loans are bundled, and insurances contracted. For regulators, the promise of blockchain is that it could boost efforts on Anti-money laundering (AML) and know your customer (KYC) practices. These areas have a strong potential for being adapted to the blockchain. Presently, financial institutions must perform a labor-intensive multi-step process for each new customer. KYC costs could be reduced through cross-institution client verification and at the same time increase monitoring and analysis effectiveness.

Blockchain also has immense potential for the delivery of basic social services. Currently, most social services in the country are linked with residency, such that one has to go where they are registered to be able to avail of social benefits. Under DLT, these social benefits could become more portable, such that the beneficiary can access these services anywhere in the country that has access to the DLT for the specific service.

To reap these immense potential benefits, this Act aims to set the basic regulatory framework for blockchain technology.

Specifically, this Act:

1. Identifies the permitted and restricted uses of blockchain technology;
2. Establishes the Bangko Sentral ng Pilipinas (BSP) as the policymaking and regulatory agency for the use of blockchain in the financial sector;
3. Encourages the use of blockchain in the broader economy;
4. Encourages the use of blockchain technology in human development programs;
5. Releases blockchain use from overregulation by local governments; and
6. Explores the use of blockchain in the National ID system.

The potential benefits of blockchain technology when employed in governance and in the larger economy have not yet been fully explored. This Act aims to provide the government with the tools needed to utilize this promising technological development,

In view of the foregoing, the approval of this bill is urgently sought.



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

SECTION 1. *Short title.* This Act may be cited as the “Blockchain Technology Development Act.”

SEC. 2. *Definitions of terms.* – As used in this Act:

(a) “Blockchain” or “Distributed Ledger” means an electronic record created by the use of a decentralized method by multiple parties to verify and store a digital record of transactions which is secured by the use of a cryptographic hash of previous transaction information.

(b) “Blockchain technology” means computer software or hardware or collections of computer software or hardware, or both, that utilize or enable a blockchain.

(c) “Cryptographic hash” means a mathematical algorithm which performs a one-way conversion of input data into output data of a specified size to verify the integrity of the data;

(d) “Electronic” means relating to technology having electrical, digital, magnetic, wireless, optical, electromagnetic, or similar capabilities;

(e) “Electronic record” means a record created, generated, sent, communicated, received, or stored by electronic means, including a blockchain or a smart contract;

(f) “Record” means information that is inscribed on a tangible medium or that is stored in an electronic or other medium and is retrievable in perceivable form; and

(g) “Smart contract” means a contract stored as an electronic record which is verified by the use of a blockchain.

SEC. 3. *Permitted use of blockchain.* –

(a) A smart contract, record, or signature may not be denied legal effect or enforceability solely because a blockchain was used to create, store, or verify the smart contract, record, or signature.

(b) In a proceeding, evidence of a smart contract, record, or signature must not be excluded solely because a blockchain was used to create, store, or verify the smart contract, record, or signature.

(c) If a law requires a record to be in writing, submission of a blockchain which electronically contains the record satisfies the law.

(d) If a law requires a signature, submission of a blockchain which electronically contains the signature or verifies the intent of a person to provide the signature satisfies the law.

The Department of Justice (DOJ) and the Department of Information and Communication Technology (DICT), in consultation with relevant stakeholders, shall issue the rules and regulations necessary to implement this Section.

SEC. 4. Limitations to the use of blockchain. –

(a) If parties have agreed to conduct a transaction by use of a blockchain and a law requires that a contract or other record relating to the transaction be in writing, the legal effect, validity, or enforceability of the contract or other record may be denied if the blockchain containing an electronic record of the transaction is not in a form that is capable of being retained and accurately reproduced for later reference by all parties or other persons who are entitled to retain the contract or other record.

(b) Except as otherwise provided in subsection (f) of this Section, if a law other than this Act requires a record to be posted or displayed in a certain manner, to be sent, communicated, or transmitted by a specified method, or to contain information that is formatted in a certain matter, the use of a blockchain to post, display, send, communicate, transmit, or store such a record does not satisfy the requirement of the other law.

(c) If a person inhibits the ability of another person to store or retrieve information contained in a blockchain, such information is not enforceable by the person who inhibited the storage or retrieval.

(d) Regardless of whether a smart contract was used to establish the relationship between the parties to an agreement, a requirement that a notice or an acknowledgment or other response to a notice be in writing is not satisfied by providing or delivering the notice or recording an acknowledgment or other response to the notice by the use of a blockchain if the notice is a notice of: (1) the cancellation or termination of service by a public utility; (2) default, acceleration, repossession, foreclosure, or eviction, or the right to cure, under a credit agreement secured by or a rental agreement for, a primary residence of a natural person; (3) the cancellation or termination of a policy of health insurance, benefits received under a policy of health insurance, or benefits received under a policy of life insurance, excluding annuities; or (4) the recall of a product, or material failure of a product, that risks endangering the health or safety of a person.

(e) A requirement that a document be in writing is not satisfied by the use of a blockchain if the document is required to accompany any transportation or handling of hazardous materials, pesticides, or other toxic or dangerous materials.

(f) The requirements of this Section may not be varied by agreement, except that: (1) to the extent a law other than this Act requires that a contract or other record relating to a transaction be in writing, but permits that requirement to be varied by agreement, the provisions of subsection (a) concerning the denial of legal effect, validity, or enforceability of the contract or other record relating to the transaction may also be varied by agreement; and (2) a requirement under a law other than this Act to send, communicate, or transmit a record by mail, may be varied by agreement to the extent permitted by the other law.

The Department of Justice (DOJ) and the Department of Information and Communication Technology (DICT), in consultation with relevant stakeholders, shall issue the rules and regulations necessary to implement this Section.

SEC. 5. *Blockchain regulation in financial activities.* – The Bangko Sentral ng Pilipinas (BSP) shall have original and primary policymaking powers and regulatory oversight on the use of blockchain in financial transactions and activities.

The BSP shall review the potential application of blockchain technology to the provision of banking, and consider areas for potential adoption and any necessary regulatory changes in the Philippines. On or before June 30, 2021, the BSP shall submit to Congress a report of its findings and recommendations.

SEC. 6. *Blockchain and financial technology promotion.* – The National Economic and Development Authority (NEDA) shall incorporate into one or more of its economic development reports and support programs, events, and activities the following topics:

(a) opportunities to promote blockchain technology and financial technology-related economic development in the private sector, including in the areas of banking, insurance, retail and service businesses, and cryptocurrency;

(b) legal and regulatory mechanisms that enable and promote the adoption of blockchain technology and financial technology; and

(c) educational and workforce training opportunities in blockchain technology, financial technology, and related areas.

SEC. 7. *Use of blockchain technology in human development programs.* – The Philippine Institute for Development Studies (PIDS) shall conduct a study on the use of blockchain technology for more efficient delivery of government services, including social welfare programs and benefits.

The PIDS shall apprise Congress of its efforts to complete this study on or before June 30, 2021.

SEC. 8. *Restrictions on overregulation by local governments.* – A unit of local government shall not:

(a) impose any tax or fee on the use of a blockchain or smart contract by any person or entity;

(b) require any person or entity to obtain from the unit of local government any certificate, license, or permit to use a blockchain or smart contract; or

(c) impose any other requirement relating to the use of a blockchain or smart contract by any person or entity.

Nothing in this Section prohibits a unit of local government from using a blockchain or smart contract in the performance of its powers or duties in a manner not inconsistent with the provisions of this Act.

SEC. 9. *Use of blockchain in the National ID system.* – The Philippine Statistics Authority (PSA) is authorized to conduct, or cause the conduct through another agency or organization, of a study on the use of blockchain in implementing Republic Act No. 11055, otherwise known as the Philippine Identification System Act.

The PSA shall apprise Congress of its efforts to complete this study on or before June 30, 2021.

SEC. 10. *Separability Clause.* – If any part or provision of this Act is held invalid or unconstitutional, the remaining parts or provisions not affected shall remain in full force and effect.

SEC. 11. *Repealing Clause.* – All laws, decrees, orders, rules, and regulations inconsistent with the provisions of this Decree are hereby repealed or modified accordingly.

SEC. 12. *Effectivity.* – This Act shall take effect fifteen (15) days after its publication in the Official Gazette or in any newspaper of general circulation.

Approved,