

Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City
NINETEENTH CONGRESS
Second Regular Session



HOUSE BILL NO. 9564

Introduced by HON. GUS S. TAMBUNTING

EXPLANATORY NOTE

AN ACT TO AMEND THE NEGOTIABLE INSTRUMENTS LAW BY RECOGNIZING ELECTRONIC NEGOTIABLE INSTRUMENTS FOLLOWING STANDARDS AND SECURITY FEATURES OF ELECTRONIC TRANSFERABLE RECORDS

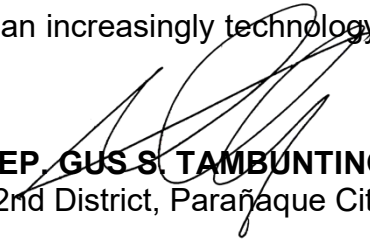
In an increasingly digital world, the legal framework governing negotiable instruments, such as promissory notes and bills of exchange, under Act No. 2031 or the Negotiable Instruments Law, needs to evolve to keep pace with technological advancements. The existing Negotiable Instruments Law lacks clarity regarding the use of electronic forms for these instruments. While Republic Act No. 8792 or the Electronic Commerce Act of 2000 provides a functional equivalence principle in that any law requiring a text to be in "writing" to include the electronic form, the same does not address the specific challenges and intricacies related to electronic negotiable instruments, such as indorsements, delivery, and transfer of possession.

The United Nations Commission on International Trade Law (UNCITRAL) Model Law on Electronic Transferable Records (MLETR), endorsed in 2017, offers a valuable opportunity for the Philippines to modernize its approach to negotiable instruments. This model law provides a standardized framework for the creation and use of electronic transferable documents and instruments, encompassing various financial instruments like bills of exchange, promissory notes, and checks.

One of the key challenges in transitioning to electronic transferable documents is the preservation of the concept of possession, which is inherent in traditional paper instruments. Tangible paper documents provide a clear representation of ownership and control over financial obligations. However, replicating this concept in the digital realm is a complex endeavor. The MLETR addresses this legal gap by establishing a robust legal framework for electronic possession, enabling businesses and individuals to engage in secure transactions involving electronic transferable records.

The proposed bill seeks to integrate the principles of the MLETR into the Philippine legal framework, particularly in the realm of negotiable instruments. By doing so, it aims to provide legal clarity and certainty, facilitate secure electronic transactions, and ensure the Philippines remains at the forefront of legal developments in the digital age. This legislative initiative is crucial to modernizing our legal system, enhancing the

efficiency of commerce, and fostering economic growth in an increasingly technology-driven world.



REP. GUS S. TAMBUNTING
2nd District, Parañaque City

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**AN ACT TO AMEND THE NEGOTIABLE INSTRUMENTS LAW BY RECOGNIZING
ELECTRONIC NEGOTIABLE INSTRUMENTS FOLLOWING STANDARDS AND
SECURITY FEATURES OF ELECTRONIC TRANSFERABLE RECORDS**

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

Section 1. *Short Title.* – This law shall be known as “*An Act to Recognize Electronic Negotiable Instruments Following the Standards and Features of Electronic Transferable Records.*”

Section 2. *Declaration of Policy.* – It is hereby declared the policy of the State to promote the efficient and secure conduct of electronic commerce, enhance the use of electronic negotiable instruments, and align the legal framework with international standards to facilitate electronic transactions in a globally interconnected economy.

Section 3. *Insertion of Section 1-A to Act No. 2031 or the Negotiable Instruments Law.* – Act No. 2031 or the Negotiable Instruments Law is hereby amended to include the following new section:

Section 1-A. *Recognition of Electronic Negotiable Instruments in the Form of Electronic Transferable Records.* – (a) Electronic negotiable instruments are hereby recognized as valid and enforceable instruments under this Act. Such instruments shall possess the characteristics of being negotiable (when compliant with Section 1), capable of being indorsed, transferred, and delivered, and may be executed through electronic means, including through electronic signatures.

(b) The issuance, negotiation, indorsement, signing or execution, transfer, and delivery of electronic negotiable instruments shall adhere to the principles, standards, and security features set forth in the United Nations Commission on International Trade Law (UNCITRAL) Model Law on Electronic Transferable Records (MLETR). “Electronic transferable records” for the purpose of this Act shall have the same definition as provided in MLETR.

(c) An electronic negotiable instrument, whether issued, indorsed, negotiated, or delivered, shall be deemed consistent with this section when it complies with the provisions of the MLETR. Instruments that purport to be electronic negotiable instruments, but are not compliant with the MLETR, shall not be recognized as negotiable instruments under this Act.

(d) The *Bangko Sentral ng Pilipinas* (BSP) shall promulgate implementing rules and regulations to govern the issuance, use, and management of electronic negotiable instruments, including the establishment of necessary safeguards to ensure their security, integrity, and authenticity, consistent with the MLETR.

(e) The BSP shall also prescribe guidelines for the recognition and supervision of qualified service providers engaged in the creation, maintenance, and transfer of electronic negotiable instruments, consistent with the MLETR and other relevant laws and regulations.

(f) Nothing in this section shall preclude the use of traditional negotiable instruments or affect their legal validity and enforceability.

Section 4. *Separability Clause*. – If any provision of this Act is declared invalid or unconstitutional, the other provisions not affected thereby shall remain in full force and effect.

Section 5. *Repealing Clause*. – All laws, decrees, executive orders, rules, and regulations or parts thereof which are inconsistent with the provisions of this Act are hereby repealed or modified accordingly.

Section 6. *Effectivity*. – This Act shall take effect fifteen (15) days after its publication in at least two (2) national newspapers of general circulation.

Approved,