

# Republic Act No. 265

REPUBLIC ACT NO. 265 – AN ACT ESTABLISHING THE CENTRAL BANK OF THE PHILIPPINES, DEFINING ITS POWERS IN THE ADMINISTRATION OF THE MONETARY AND BANKING SYSTEM, AMENDING THE PERTINENT PROVISIONS OF THE ADMINISTRATIVE CODE WITH RESPECT TO THE CURRENCY AND THE BUREAU OF BANKING, AND FOR OTHER PURPOSES

## CHAPTER I

### ESTABLISHMENT AND ORGANIZATION OF THE CENTRAL BANK OF THE PHILIPPINES

#### ARTICLE I

##### Creation, Responsibilities and Corporate Powers of the Central Bank

Sec. 1. Creation of the Central Bank. - There is hereby created a body corporate to be known as the Central Bank of the Philippines, which shall be governed by the provisions of this Act.

The capital of the Central Bank shall be ten million (P10,000,000) pesos, which are hereby appropriated from the assets of the Exchange Standard Fund, as provided in section 134 of this Act.

Sec. 2. Responsibilities and objectives. - It shall be the responsibility of the Central Bank of the Philippines to administer the monetary and banking system of the Republic.

It shall be the duty of the Central Bank to use the powers granted to it under this Act to achieve the following objectives:

- a) To maintain monetary stability in the Philippines;
- b) To preserve the international value of the peso and the convertibility of the peso into other freely convertible currencies; and
- c) To promote a rising level of production, employment and real income in the Philippines.

Sec. 3. Place of business. - The Central Bank shall have its principal place of business in the City of Manila, but may have such branches, agencies and correspondents in other places as are necessary for the proper conduct of its business.

Sec. 4. Corporate powers. - The Central Bank is hereby authorized to adopt, alter, and use a corporate seal which shall be judicially noticed; to make contracts; to lease or own real and personal property, and to sell or otherwise dispose of the same; to sue and be sued; and otherwise to do and perform any and all things that may be necessary or proper to carry out the purposes of this Act.

The Central Bank may acquire and hold such assets and incur such liabilities as result directly from operations authorized by the provisions of this Act, or as are essential to the proper conduct of such operations.

#### ARTICLE II

##### The Monetary Board

Sec. 5. Composition of the Monetary Board. - The powers and functions of the Central Bank shall be exercised by a Monetary Board, which shall be composed of seven members, as follows:

- a) The Secretary of Finance, who shall preside at the meetings of the Monetary Board. Whenever the Secretary of Finance is unable to attend a meeting of the Board, the Undersecretary of Finance shall act as his alternate, but shall not preside.
- b) The Governor of the Central Bank, who shall preside at the meetings of the Board in the absence of the Secretary of Finance. The Governor shall be appointed for a term of six years by the President of the Philippines with the consent of the Commission on Appointments. Whenever the Governor is unable to attend a meeting of the Board, the ranking deputy-governor shall act in his stead.
- c) The President of the Philippine National Bank, whose alternate shall be the senior vice-president of said bank.
- d) The Chairman of the Board of Governors of the Rehabilitation Finance Corporation, whose alternate shall be the ranking governor of said corporation.
- e) Three other members, to be appointed for terms of six years by the President with the consent of the Commission on Appointments: Provided, however, That the first members appointed under the provisions of this subsection shall have terms of office of two, four and six years, respectively.

In making appointments to the Monetary Board, the President of the Philippines shall give due regard to affording fair representation of the financial, agricultural, industrial and commercial interests, in the composition of the said Board.

Sec. 6. Vacancies. - Any vacancy in the Monetary Board created by the death, resignation, or removal of an appointive member shall be filled by the appointment of a new member to complete the unexpired period of the term of the member concerned.

Sec. 7. Qualifications. - No person shall be appointed as a member of the Monetary Board or as a deputy-governor of the Central Bank unless he be of good moral character and of unquestionable integrity and responsibility, and who is of recognized competence in the economics of banking, finance, commerce, agriculture or industry: Provided, however, That the Governor and deputy-governors of the Central Bank must be of recognized competence in the field of banking: Provided, further, That the Governor and the members of the Monetary Board shall be natural-born Filipino citizens.

Sec. 8. Disqualifications. - With the exception of the ex-officio members and their respective alternates, none of the following may be a member of the Monetary Board or a deputy-governor of the Central Bank:

- a) Persons holding any public position or office, either by election or by appointment, except academic positions; and
- b) Directors, officers or employees of other banking institutions.

Sec. 9. Removal. - The President may remove any member of the Monetary Board for any of the following reasons:

- a) If the member is disqualified under the provisions of section 8 of this Act; or
- b) If the member is guilty of acts or operations which are of fraudulent or illegal character or which are manifestly opposed to them and interests of the Central Bank; or
- c) If the member no longer possesses the qualifications specified in section 7.

Sec. 10. Meetings. - The Monetary Board shall convene as frequently as is necessary to discharge its responsibilities properly, but shall meet at least once every two weeks. The Board may be convoked either by the Secretary of Finance, in his capacity as presiding officer of the Board, or by the Governor of the Central Bank.

The presence of four members shall constitute a quorum.

All decisions of the Monetary Board shall require the concurrence of at least four members, except in special cases where the provisions of other sections of this Act demand a greater majority.

Sec. 11. Attendance of the ranking deputy-governor and the chief of the Department of Economic Research. - The ranking deputy-governor of the Central Bank and the chief of the Department of Economic Research shall attend the meetings of the Monetary Board with the right to be heard but not to vote.

Sec. 12. Remuneration of members for attending meetings of the Board. - The members of the Monetary Board or their respective substitutes, except the Governor and the ranking deputy-governor, shall receive a per diem for every Board meeting attended. The amount of said per diem shall be set by the President but may not exceed fifty (P50) pesos, nor the sum of five hundred (P500) pesos for any single month.

Sec. 13. Withdrawal of persons having a personal interest. - Whenever any person attending a meeting of the Monetary Board has a personal interest of any sort in the discussion or resolution of any given matter, or any of his business associates or any of his relatives within the fourth degree of consanguinity or second degree of affinity has such an interest, said person may not participate in the discussion or resolution of the matter and must retire from the meeting during the deliberations thereon. The minutes of the meeting shall note the withdrawal of the member concerned.

Sect. 14. Exercise of authority. - In order to exercise the authority granted to it under this Act, the Monetary Board shall:

- a) Prepare and issue such rules and regulations as it considers necessary for the effective discharge of the responsibilities and exercise of the powers assigned to the Monetary Board and to the Central Bank under this Act;
- b) Direct the management, operations and administration of the Central Bank and prepare such rules and regulations as it may deem necessary or convenient for this purpose;
- c) On the recommendation of the Governor, appoint, fix the remunerations, and remove all officers and employees of the Central Bank, with the exception of the Governor; and
- d) Authorize such expenditures by the Central Bank as are in the interest of the effective administration and operation of the Bank.

Sec. 15. Responsibility. - Any member of the Monetary Board or officer or employee of the Central Bank who wilfully violates this Act or who is guilty of gross negligence in the performance of his duties shall be held liable for any loss or injury suffered by the Bank as a result of such violation or negligence. Similar responsibility shall apply to the disclosure of any information of a confidential nature about the discussions or resolutions of the Monetary Board or about the operations of the Bank, and to the use of such information for personal gain or to the detriment of the Government, the Bank or third parties.

### ARTICLE III

#### The Governor and Deputy-Governors of the Central Bank

Sec. 16. Powers and duties of the Governor. - The Governor shall be the chief executive of the Central Bank. His powers and duties shall be:

- a) To prepare the agenda for the meetings of the Monetary Board and to submit for the consideration of the Board the policies and measures which he believes to be necessary to carry out the purposes and provisions of this Act;
- b) To execute and administer the policies and measures approved by the Monetary Board;
- c) To direct and supervise the operations and internal administration of the Central Bank. The Governor may delegate certain of his administrative responsibilities to other officers of the Bank, subject to the rules and regulations of the Monetary Board; and
- d) To exercise such other powers as may be vested in him by the Monetary Board.

Sec. 17. Representation of the Monetary Board and the Central Bank. - The Governor of the Central Bank shall be the principal representative of the Monetary Board and of the Bank, and in his capacity and in accordance with the instructions of the Monetary Board he shall be empowered:

- a) To represent the Monetary Board and the Central Bank in all dealings with other offices, agencies and instrumentalities of the Government and with all other persons or entities, public or private, whether domestic, foreign or international;
- b) To authorize, with his signature, contracts concluded by the Central Bank, notes and securities issued by the Bank, and the annual reports, balance sheets, profit and loss statements, correspondence and other documents of the Bank. The signature of the Governor may be in facsimile wherever appropriate;
- c) To represent the Central Bank, either personally or through counsel, in any legal proceedings or action; and
- d) To delegate his power to represent the Bank, as provided in subsections (a), (b) and (c) of this section, to other officers of the Bank upon his own responsibility.

Sect. 18. Authority of the Governor in emergencies. - In the event of war or other emergencies which require immediate action and in which there is insufficient time to call a meeting of the Monetary Board, the Governor of the Central Bank, with the concurrence of the Secretary of Finance or, in his absence, with the concurrence of any two other members of the Monetary Board, may decide any

matter or take any action within the authority of the Board itself and may suspend any resolution or decision of the Board.

In such cases, the Governor shall call a meeting of the Monetary Board as soon as possible, in order to explain his action and the reasons for departing from normal procedures. The Board may then confirm, revoke or modify such action as the circumstances warrant.

Sect. 19. Outside interests of the Governor. - The Governor of the Central Bank shall be required to limit his professional activities to those pertaining directly to his position with the Central Bank; accordingly, the Governor of the Bank may not accept any other employment, whether public or private, remunerated or ad honorem, with the exception of academic positions and of public commissions related to the formation, direction or implementation of monetary, banking or general economic policies which concern the national interest of the Philippines.

Sect. 20. Remuneration of the Governor. - The salary of the Governor of the Central Bank shall be fixed by the Monetary Board with the approval of the President of the Philippines, but in no case shall it exceed thirty thousand pesos per annum.

Sect. 21. Deputy-Governor. - The Governor of the Central Bank, with the approval of the Monetary Board, shall appoint one deputy-governor who shall perform such duties as may be assigned to him by the Governor and the Board.

In the absence of the Governor of the Central Bank, the deputy-governor shall act as chief executive of the Central Bank and shall exercise the powers and perform the duties of the Governor.

#### ARTICLE IV

##### Departments of the Central Bank

##### A. DEPARTMENT OF ECONOMIC RESEARCH

Sect. 22. Responsibilities of the Department. - The Central Bank shall establish and maintain a Department of Economic Research which shall prepare data and conduct economic research for the guidance of the Monetary Board in the formulation and implementation of its policies.

Toward this end, the Department of Economic Research shall prepare forecasts of the balance of payments of the Philippines, statistics on the monthly movement of the money supply and of prices and other statistical series and economic studies useful for the formulation and analysis of monetary, banking and exchange policies.

The scope of the other functions and duties of the department shall be defined and prescribed by the Monetary Board.

Sect. 23. Authority to obtain information. - The Department of Economic Research shall have the authority to request from any person or entity, including Government offices and instrumentalities, any data which the Central Bank may require for the proper discharge of its functions and responsibilities. The Central Bank shall have the power to issue a subpoena for the production of the books and records of all such persons and entities for the aforesaid purpose. Those who refuse

without justifiable cause the subpoena, shall be subject to the penalties provided in to supply the Bank with the data requested, or required by section 32.

Sect. 24. Training of technical personnel. - The Central Bank shall promote and sponsor the training of technical personnel in the field of money and banking. Toward this end, the Central Bank is hereby authorized to defray the costs of study, at home or abroad, of outstanding employees of the Bank, of promising university graduates or of any other qualified persons which shall be determined by proper competitive examinations to be conducted by the Commissioner of Civil Service as in other cases. The chief of the Department of Economic Research shall prepare and supervise the training program of the Bank, subject to the rules and regulations of the Monetary Board on the matter.

#### B. DEPARTMENT OF SUPERVISION AND EXAMINATION

Sec. 25. Creation of the Department. - In order to assure the observance of this Act and of other pertinent laws, and of the rules and regulations of the Monetary Board, the Central Bank shall have a Department of Supervision and Examination which shall be charged with the supervision and periodic examination of all banking institutions operating in the Philippines, including all Government credit institutions. The Department of Supervision and Examination shall discharge its responsibilities in accordance with the instructions of the Monetary Board. The chief of the department shall be known as the Superintendent of Banks.

The Superintendent of Banks and the examiners of the Department of Supervision and Examination are hereby authorized to administer oaths to any director, officer, or employee of any institution under the supervision of the department and to compel the presentation of all books, documents, papers or records necessary in his or their judgment to ascertain the facts relative to the true condition of any institution.

Sec. 26. Qualifications. - The Superintendent of Banks must be a person of recognized probity and competence in accounting, auditing and banking practice.

Sec. 27. Prohibitions. - The Superintendent and all employees of the Department of Supervision and Examination are hereby prohibited from:

- a) Being an officer, director, employee, or stockholder, directly or indirectly, of any institution subject to supervision or examination by the department;
- b) Receiving any loan, advance, gift, or thing of value from any such institution or from any officer, director, or employee thereof;
- c) Revealing in any manner, except under orders of the court, information relating to the condition or business of any such institution. This prohibition shall not be held to apply to the giving of information to the Monetary Board or the Governor of the Central Bank, or to any person authorized by either of them, in writing, to receive such information.

Sec. 28. Examination and fees. - It shall be the duty of the Superintendent, personally or by deputy, at least once in every twelve months, and at such other times as either he or the Monetary Board may deem expedient, to make an examination of the books of every banking institution within the purview of this Act and to make a report on the same to the Monetary Board.

Every such institution shall afford to the Superintendent and to his authorized deputies full opportunity to examine its books, cash and available assets and general condition at any time when requested so to do by the Superintendent: Provided, however, That none of the reports and other papers relative to such examinations shall be open to inspection by the public except in so far as such publicity is incidental to the proceedings hereinafter authorized or is necessary for the prosecution of violations in connection with the business of such institutions.

The institutions which are subject to examination by the Superintendent shall reimburse the Central Bank for the cost of maintaining the Department of Supervision and Examination and, for this purpose, shall pay to the Central Bank, within the first thirty days of each year, an annual fee in an amount to be determined by the Monetary Board in the manner provided in the next paragraph of this section.

The fee to be paid by each institution shall be an amount equal to a prescribed percentage of its average total assets during the preceding year, as shown on its end-of-month balance sheets, after deducting its cash on hand and amounts due from banks, including the Central Bank and banks abroad: Provided, however, That said percentage may not exceed one twentieth of one per cent (1/20 of 1%). If the total of the maximum fees authorized under this paragraph should be insufficient to defray the entire costs of the department, the difference shall be borne by the Central Bank.

Sec. 29. Proceedings upon insolvency. - Whenever, upon examination by the Superintendent or his examiners or agents into the condition of any banking institution, it shall be disclosed that the condition of the same is one of insolvency, or that its continuance in business would involve probable loss to its depositors or creditors, it shall be the duty of the Superintendent forthwith, in writing, to inform the Monetary Board of the facts, and the Board, upon finding the statements of the Superintendent to be true, shall forthwith forbid the institution to do business in the Philippines and shall take charge of its assets and proceeds according to law.

The Monetary Board shall thereupon determine within thirty days whether the institution may be reorganized or otherwise placed in such a condition so that it may be permitted to resume business with safety to its creditors and shall prescribe the conditions under which such resumption of business shall take place. In such case the expenses and fees in the administration of the institution shall be determined by the Board and shall be paid to the Central Bank out of the assets of such banking institution.

At any time within ten days after the Monetary Board has taken charge of the assets of any banking institution, such institution may apply to the Court of First Instance for an order requiring the Monetary Board to show cause why it should not be enjoined from continuing such charge of its assets, and the court may direct the Board to refrain from further proceedings and to surrender charge of its assets.

If the Monetary Board shall determine that the banking institution cannot resume business with safety to its creditors, it shall, by the Solicitor General, file a petition in the Court of First Instance reciting the proceedings which have been taken and praying the assistance and supervision of the court in the liquidation of the affairs of the same. The Superintendent shall thereafter, upon order of the Monetary Board and under the supervision of the court and with all convenient speed, convert the assets of the banking institution to money.

Sec. 30. Distribution of assets. - In case of liquidation of a banking institution, after payment of the costs of the proceedings, including reasonable expenses and fees of the Central Bank to be allowed by the court, the Central Bank shall pay the debts of such institution, under order of the court, in accordance with their legal priority.

Sec. 31. Disposition of fees and commissions. - All costs and fees earned by the Central Bank in winding up the affairs and administering the assets of any banking institution within the purview of this Act shall be used to pay the salaries of the clerks and other employees whose employment is rendered necessary in the discharge of the trust, together with other additional expenses caused thereby. The balance of fees and costs earned, after the payment of all expenses, shall be for the account of the Central Bank.

Sec. 32. Refusal to make reports or permit examination. - Any owner, agent, manager, or other officer in charge of any banking institution within the purview of this Act who, being thereunto required in writing by the Monetary Board or by the Superintendent, shall wilfully refuse to file the required report or permit any lawful examination into the affairs of such institution shall be punished by a fine of not more than ten thousand pesos or by imprisonment for not more than one year, or by both, in the discretion of the court.

Sec. 33. False statement. - The willful making of a false statement to the Monetary Board or to the Superintendent of Banks or to his examiners shall be punished by a fine not to exceed fifteen thousand pesos, or by imprisonment for a term not to exceed two years, or by both, in the discretion of the court.

Sec. 34. Proceedings upon violation of laws and regulations. - Whenever any person or entity wilfully violates this Act or any order, instruction, rule or regulation legally issued by the Monetary Board, the person or persons responsible for such violation shall be punished by a fine of not more than twenty thousand pesos and by imprisonment of not more than five years.

Whenever a banking institution persists in violating its charter or by-laws or any law, or orders, instructions, rules or regulations legally issued by the Monetary Board, or whenever a banking institution persists in carrying on its business in an unlawful or unsafe manner, the Board shall, by the Solicitor General, and without prejudice to the penalties provided in the preceding paragraph of this section, file a petition in the Court of First Instance praying the assistance of the court to compel the banking institution to discontinue the violations or practices objected to in the petition of the Board. The Monetary Board may, with the approval of the court, take such action as the court may deem necessary to compel the banking institution complained against to discontinue the violations or practices set forth in the Board's petition, and, if necessary, the Board may, under order of the court, direct the Superintendent of Banks to liquidate the business of the institution.

#### C. OTHER DEPARTMENTS OF THE CENTRAL BANK

Sec. 35. Organization of other departments. - The Monetary Board shall organize a foreign exchange department, a credit department, and such other departments as it deems convenient for the proper and efficient conduct of the business of the Central Bank. The powers and duties of the departments shall be determined by the Monetary Board, within the authority granted to the Board and the Central Bank under this Act.



## ARTICLE V

### Reports and Publications

Sec. 36. Reports and publications. - Within the first eight days of each month the Central Bank shall publish a general balance sheet showing the volume and composition of its assets and liabilities as of the last working day of the preceding month.

Sec. 37. Annual report. - Before the end of March of each year the Central Bank shall submit to the President of the Philippines, to the Senate through its President, to the House of Representatives through its Speaker, and shall publish an annual report on the condition of the Bank and a review of the policies and measures adopted by the Monetary Board during the past year and an analysis of the economic and financial circumstances which gave rise to said policies and measures.

The annual report shall also include a statement of the financial condition of the Central Bank and a statistical appendix which shall present, as a minimum, the following data:

- a) The monthly movement of the money supply, distinguishing between currency and deposit money;
- b) The monthly movement of purchases and sales of exchange and of the international reserve of the Bank;
- c) The balance of payments of the Philippines;
- d) Monthly indices of wages, of the cost of living and of import and export prices;
- e) The monthly movement, in summary from, of exports and imports, by volume and value;
- f) The monthly movement of the accounts of the Central Bank and of other banks, by groupings and classifications to be determined by the chief of the Department of Economic Research in agreement with the Superintendent of Banks;
- g) The principal data on Government receipts and expenditures and on the status of the public debt, both domestic and foreign; and
- h) The texts of the major legal and administrative measures adopted by the Government and the Monetary Board during the year which relate to the functions or operations of the Central Bank or of banking institutions operating in the Philippines.

Sec. 38. Signatures on statements. - The balance sheets and other financial statements of the Central Bank shall be signed by the officers responsible for their preparation, by the Governor, and by the auditor of the Bank.

## ARTICLE VI

### Profits, Losses, and Special Accounts

Sec. 39. Fiscal year. - The fiscal year of the Bank shall begin on January first and end on December thirty-first of each year.

Sec. 40. Computation of profits and losses. - Within the first thirty days following the end of each fiscal year, the Central Bank shall determine its net profits or losses. In the calculation of net profits, the Bank shall make adequate allowance or establish adequate reserves for bad and doubtful accounts.

Sec. 41. Distribution of net profits. - Within the first sixty days following the end of each fiscal year, the Monetary Board shall determine and carry out the distribution of the net profits, in accordance with the following rules:

- a) Twenty-five per cent (25%) of the net profits shall be carried to surplus until such time as the total capital accounts of the Bank reach a sum equivalent to at least ten per cent (10%) of the total assets of the Bank less its assets in gold and foreign currencies;
- b) Any net profits remaining after fulfilling the conditions established in subsection (a) of this section shall be used to increase the resources of the Securities Stabilization Fund, until the volume and liquidity of the Fund's assets are considered ample for any open market operations in which the Fund is deemed likely to engage;
- c) Any net profits remaining after fulfilling the conditions of subsections (a) and (b) of this section shall be used to reduce the Account to Secure the Coinage or the Monetary Adjustment Account, until said accounts shall have been liquidated. The Monetary Board shall determine the distribution between these two accounts;
- d) If any net profits remain after fulfilling the conditions of subsections (a), (b) and (c) of this section, the balance or any part thereof may be transferred to surplus, or may be used to liquidate Government obligations to the Central Bank, or may be paid into the General Fund of the Government. The Monetary Board shall determine this distribution.

Sec. 42. Distribution of net losses. - Should the Central Bank incur net losses during any fiscal year, such losses shall be debited to surplus, and if surplus be inadequate the balance shall be debited to the capital of the Bank.

Sec. 43. Extraordinary expenses of currency issue and monetary stabilization. - The Monetary Board may, whenever it deems it advisable, exclude from the computation of the annual profits and losses of any given fiscal year all or part of the following extraordinary expenses incurred during that year:

- a) Extraordinary costs of printing notes or of minting coins;
- b) Extraordinary expenditures arising from the issue and service of the evidences of indebtedness to which reference is made in section 98; and
- c) Interest paid on bank reserves which exceed fifty per cent (50%) of bank deposits, in conformity with the provisions of section 101, last paragraph of this Act.

The amounts which are excluded from the computation of profits and losses in accordance with the provisions of the first paragraph of this section shall be entered in a suspense account which shall be called the "Monetary Adjustment Account."

The Monetary Board shall in every case amortize such expenses over a period which shall not exceed five years and at a rate which shall be based on the adequacy of the Bank's surplus and of the resources of the Securities Stabilization Fund.

Sec. 44. Revaluation profits and losses. - The revaluation profits or losses made or assumed by the Central Bank in accordance with the provisions of sections 77 and 83 of this Act shall not be included in the computation of the annual profits and losses of the Central Bank.

Any profits or losses arising in this manner shall be offset by any amounts which, as a consequence of such revaluations are owned by the Philippines to the International Monetary Fund and the International Bank for Reconstruction and Development or are owed by these institutions to the Philippines. Any remaining profit or loss shall be carried in a special frozen account which shall be named "Revaluation of International Reserve" and the net balance of which shall appear either among the liabilities or among the assets of the Central Bank, depending on whether the revaluations have produced net profits or net losses.

The Revaluation of International Reserve account shall be neither credited nor debited for any purposes other than those specifically authorized in the present section or in section 45 of this Act.

Sec. 45. Profits from recoinage or from reductions in the Bank's currency liabilities. - Any profits arising from a reminting of coins or from reduction in the currency liabilities of the Central Bank as a consequence of the loss, destruction or demonetization of notes and coins shall not be included in the computation of the annual profits of the Central Bank.

Any such profits shall be used to reduce the Monetary Adjustment Account, the Account to Secure the Coinage, or the asset account Revaluation of International Reserve. The distribution of such profits among these accounts shall be determined by the Monetary Board.

If none of said accounts exists, the profits to which this section refers shall be used to increase the resources of the Securities Stabilization Fund.

## ARTICLE VII

### The Auditor

Sec. 46. Appointment and personnel. - The Auditor-General shall appoint a representative who shall be the auditor of the Central Bank. The Auditor-General shall appoint the necessary personnel to assist said representative in the performance of his duties. The salaries of the auditor and his staff shall be determined by the Auditor-General with the advice of the Monetary Board. Said salaries and all other expenses of maintaining the auditor's office shall be paid by the Central Bank. The auditor of the Central Bank and personnel under him may be removed only by the Auditor-General.

The representative of the Auditor-General must be a certified public accountant with at least ten years experience as certified public accountant or a person who has had training and experience in commercial or central banking. No relative of any member of the Monetary Board or the Auditor-General within the sixth degree of consanguinity or affinity shall be appointed such representative.

## CHAPTER II

## THE CENTRAL BANK AND THE MEANS OF PAYMENT

### ARTICLE I

#### The Unit of Monetary Value

Sec. 47. The peso. - The unit of monetary value in the Philippines is the "peso," which is represented by the sign "P".

The peso is divided into one hundred equal parts called "centavos," which are represented by the sign "c."

### ARTICLE II

The International Value of PesoSec. 48. Par value. - The gold value of the peso is seven and thirteen-twenty firsts (7-13/21) grains of gold, ninetenths (0.900) fine, which is equivalent to the United States dollar parity of the peso as provided in section 6 of Commonwealth Act No. 699.

Sec. 49. Changes in par value. - The par value of the peso shall not be altered except when such action is made necessary by the following circumstances:

a) When the existing par value would make impossible the achievement and maintenance of a high level of production, employment and real income without:

- 1) The depletion of the international reserve of the Central Bank; or
  - 2) The chronic use of restrictions on the convertibility of the peso into foreign currencies or on the transferability abroad of funds from the Philippines; or
  - 3) Undue Government intervention in, or restriction of, the international flow of goods and services; or
- b) When uniform proportionate changes in par values are made by the countries which are members of the International Monetary Fund; or
- c) When the operation of any executive or international agreement to which the Republic of the Philippines is a party requires an alteration in the gold value of the peso.

Any modification in the gold or dollar value of the peso must be in conformity with the provisions of all executive and international agreements subscribed to and ratified by the Republic of the Philippines, and such modification shall be made only by the President of the Republic upon the proposal of the Monetary Board and with the approval of Congress. The proposal of the Monetary Board shall require the concurrence of at least five of the members of the Board.

Notwithstanding the provision of the preceding paragraph with respect to the approval of Congress, if there should be an emergency which, in the opinion of the President, is so grave and so urgent as to require immediate action, the President may modify the par value of the peso without the prior approval of Congress: Provided, however, That he shall report to the Congress on his action at the earliest opportunity.

Sec. 50. Parities of foreign currencies with respect to the peso. - The legal parities of foreign currencies with respect to the Philippine peso shall be determined as follows:

a) Currencies of countries which are members of the International Monetary Fund shall have their parities with respect to the peso established on the basis of their par values announced by said Fund. In the par value of the currency of a member country has not been announced, the parity of such currency with respect to the peso shall be calculated on the basis of the exchange rates for that currency in foreign markets. If there is divergence among the rates quoted in foreign markets, the Monetary Board shall determine which rates shall be employed for the calculation of parity.

b) Currencies of countries which are not members of the International Monetary Fund shall have their parities with the peso established on the basis of their gold or United States dollar equivalents, provided such currencies are freely and effectively convertible into gold or dollars. Whenever the currency of any such country is not so convertible, its parity with the peso shall be calculated on the basis of the exchange rates for that currency in foreign markets. If there is divergence among the rates quoted in foreign markets, the Monetary Board shall determine which rates shall be employed for the calculation of parity.

The Central Bank shall determine, in conformity with the provisions of this section, and shall publish regularly, the legal parities of the foreign currencies of importance in the international transactions of the Philippines. The Central Bank may also specify the parity of any foreign currency not included in the published list of parities.

The parities published or specified by the Central Bank shall be recognized as the legal parities for all purposes.

### ARTICLE III

#### Issue of Means of Payment

##### A. CURRENCY

Sec. 51. Definition of currency. - The word "currency" is hereby defined, for the purposes of this Act, as meaning all Philippine notes and coins issued or circulating in accordance with the provisions of this Act.

Sec. 52. Issue power. - The Central Bank shall have the sole right and authority to issue currency within the territory of the Philippines. No other person or entity, public or private, may put into circulation notes, coins or any other object or document which, in the opinion of the Monetary Board, might circulate as currency.

The Monetary Board may issue such regulations as it may deem advisable in order to prevent the circulation of foreign currency or of currency substitutes.

Sec. 53. Liability for notes and coins. - Notes and coins issued by the Central Bank shall be liabilities of the Bank and may be issued only against, and in amounts not exceeding, the assets of the Bank. Said notes and coins shall be a first and paramount lien on all assets of the Central Bank.

The Central Bank's holdings of its own notes and coins shall not be considered as part of its currency issue and, accordingly, shall not form part of the assets or liabilities of the Bank.

Sec. 54. Legal tender power. - All notes and coins issued by the Central Bank shall be fully guaranteed by the Government of the Republic of the Philippines and shall be legal tender in the Philippines for all debts, both public and private.

Sec. 55. Characteristics of the currency. - The Monetary Board, with the approval of the President of the Philippines, shall prescribe the denominations, dimensions, designs, inscriptions and other characteristics of notes issued by the Central Bank: Provided, however, That said notes shall state that they are liabilities of the Central Bank and are fully guaranteed by the Government of the Republic of the Philippines. Said notes shall bear the signatures, in facsimile, of the President of the Philippines and of the Governor of the Central Bank.

Similarly, the Monetary Board, with the approval of the President of the Philippines, shall prescribe the weight, fineness, designs, denominations and other characteristics of the coins issued by the Central Bank. In the minting of coins, the Monetary Board shall give full consideration to the availability of suitable metals and to their relative prices and cost of minting.

Sec. 56. Printing of notes and minting of coins. - The Monetary Board shall prescribe the amounts of notes and coins to be printed and minted, respectively, and the conditions to which the printing of notes and the minting of coins shall be subject. The Monetary Board shall have the authority to contract institutions, mints or firms for such operations.

All expenses incurred in the printing of notes and the minting of coins shall be for the account of the Central Bank.

Sec. 57. Interconvertibility of currency. - The Central Bank shall exchange, on demand and without charge, Philippine currency of any denomination for Philippine notes and coins of any other denomination requested. If, for any reason, the Central Bank should temporarily be unable to provide notes or coins of the denominations requested it shall meet its obligation by delivering notes and coins of the denominations which most nearly approximate those requested.

Sec. 58. Replacement of currency unfit for circulation. - The Central Bank shall withdraw from circulation and shall demonetize all notes and coins which for any reason whatsoever are unfit for circulation and shall replace them by adequate notes and coins: Provided, however, That the Central Bank shall not replace notes and coins the identification of which is impossible, coins which show signs of filing, clipping or perforation, and notes which have lost more than two-fifths of their surface or all of the signatures inscribed thereon. Notes and coins in such mutilated condition shall be withdrawn from circulation and demonetized without compensation to the bearer, unless it is proved to the satisfaction of the Central Bank that the currency became unfit for circulation as a result of accidental causes or forces beyond control, in which case replacement shall be made.

Sec. 59. Retirement of old notes and coins. - The Central Bank may call in for replacement notes of any series or denomination which are more than five years old and coins which are more than ten years old.

Notes and coins called in for replacement in accordance with this provision shall remain legal tender for a period of one year from the date of call. After this period, they shall cease to be legal tender but during the following three years, or for such longer period as the Monetary Board may determine, they may be exchanged at par and without charge in the Central Bank and by agents duly authorized by the Central Bank for this purpose. After the expiration of this latter period, the notes and coins which have not been exchanged shall cease to be a liability of the Central Bank and shall be demonetized. The Central Bank shall also demonetize all notes and coins which have been called in and replaced.

Sec. 60. Profits from recoinage or from reductions in the Bank's currency liabilities. - Any profits resulting from recoinage or from a reduction in the liabilities of the Central Bank through loss, destruction or demonetization of currency shall be used for the purposes mentioned in section 45 of this Act.

## B. DEPOSIT MONEY

Sec. 61. Definition. - For the purposes of this Act, the term "deposit money" means all those liabilities of the Central Bank and of other banks which are denominated in Philippine currency and are subject to payment in legal tender upon demand by the presentation of checks.

Sec. 62. Issue of deposit money. - Only banks duly authorized so to do may accept funds or create liabilities payable in pesos upon demand by the presentation of checks, and such operations shall be subject to the control of the Monetary Board in accordance with the powers granted it with respect thereto under this Act.

Sec. 63. Legal character. - Checks representing deposit money do not have legal tender power and their acceptance in the payment of debts, both public and private, is at the option of the creditor.

## CHAPTER III

### GUIDING PRINCIPLES OF MONETARY ADMINISTRATION BY THE CENTRAL BANK

#### ARTICLE I

##### Domestic Monetary Stabilization

Sec. 64. Guiding principle. - The Monetary Board shall endeavor to control any expansion or contraction in the money supply, or any rise or fall in prices, which, in the opinion of the Board, is prejudicial to the attainment or maintenance of a high level of production, employment, and real income. In adopting policies and measures in accordance with this principle the Monetary Board shall have due regard for their effects on the availability and cost of money to particular sectors of the economy as well as to the economy as a whole, and their effects on the relationship of domestic prices and costs to world prices and costs.

Sec. 65. Definition of the money supply. - For the purposes of this section, and of this Act, the money supply is defined as consisting of all holdings of domestic currency and deposit money with the exception of such holdings by the Government and by banks having checking deposit liabilities in domestic currency. The statistics prepared by the Central Bank on the volume of the money supply shall be based on this definition to the extent that available data permit.

Sec. 66. Action when abnormal movements occur in the money supply or price level. - Whenever abnormal movements in the money supply or in prices endanger the stability of the Philippine economy or important sectors thereof, the Monetary Board shall:

a) Take such remedial measures as are appropriate and within the powers granted to the Monetary Board and the Central Bank under the provisions of this Act; and

b) Submit to the President of the Philippines and the Congress, and make public, a detailed report which shall include, as a minimum, a description and analysis of:

1) The causes of the rise or fall of the money supply or of prices;

2) The extent to which the changes in the money supply or in prices have been reflected in changes in the level of domestic output, employment, wages and economic activity in general, and the nature and significance of any such changes; and

3) The measures which the Monetary Board has taken and the other monetary fiscal or administrative measures which it recommends be adopted.

Whenever the money supply increases or decreases by more than fifteen per cent (15%), or the cost of living index increases by more than ten per cent (10%), in relation to the level existing at the end of the corresponding month of the preceding year, the Monetary Board shall submit the report to which reference is made in subsection (b) of this section, and shall state therein whether, in the opinion of the Board, said changes in the money supply or cost of living represent a threat to the stability of the Philippine economy or of important sectors thereof.

The Monetary Board shall continue to submit periodic reports to the President of the Philippines until it considers that the monetary or price disturbances have disappeared or have been adequately controlled.

## ARTICLE II

### International Monetary Stabilization

Sec. 67. Guiding principle. - The Central Bank of the Philippines shall exercise its powers under this Act to maintain the par value of the peso and the convertibility of the peso into other freely convertible currencies.

Sec. 68. International reserve. - In order to maintain the international stability and convertibility of the Philippine peso, the Central Bank shall maintain an international reserve adequate to meet any foreseeable net demands on the Bank for foreign currencies.

In the judging the adequacy of the international reserve, the Monetary Board shall be guided by the prospective receipts and payments of foreign exchange by the Philippines. The Board shall give special attention to the volume and maturity of the Central Bank's own liabilities in foreign currencies, to the volume and maturity of the foreign exchange assets and liabilities of other banks operating in the Philippines and, insofar as they are known or can be estimated, the volume and maturity of the foreign exchange assets and liabilities of all other persons and entities in the Philippines.



Sec. 69. Composition of the international reserve. - The international reserve of the Central Bank of the Philippines may include the following assets:

a) Gold; and

b) Assets in foreign currencies in the form of: documents and instruments of types customarily employed for the international transfer of funds; demand and time deposits in central banks, treasuries and commercial banks abroad; foreign government securities with maturities not exceeding five years; and foreign notes and coins.

The Monetary Board shall endeavor to hold the foreign exchange resources of the Central Bank in freely convertible currencies; moreover, the Board shall give particular consideration to the prospects of continued strength and convertibility of the currencies in which the reserve is maintained, as well as to the anticipated demands for such currencies. The Monetary Board shall issue regulations determining the other qualifications which foreign exchange assets must meet in order to be included in the international reserve of the Central Bank.

The Central Bank shall be free to convert any of the assets in its international reserve into any other asset of a type included under subsections (a) and (b) of this section.

Sec. 70. Action when the international stability of the peso is threatened. - Whenever the international reserve of the Central Bank falls to an amount which the Monetary Board considers inadequate to meet the prospective net demands on the Central Bank for foreign currencies, or whenever the international reserve appears to be in imminent danger of falling to such a level, or whenever the international reserve is falling as a result of payments or remittances abroad which, in the opinion of the Monetary Board, are contrary to the national welfare, the Monetary Board shall:

a) Take such remedial measure as are appropriate and within the powers granted to the Monetary Board and the Central Bank under the provisions of this Act; and

b) Submit to the President of the Philippines a detailed report which shall include, as a minimum, a description and analysis of:

1) The nature and causes of the existing or imminent decline;

2) The remedial measures already taken or to be taken by the Monetary Board;

3) The further monetary, fiscal or administrative measures proposed; and

4) The character and extent of the cooperation required from other Government agencies for the successful execution of the policies of the Monetary Board.

If the resultant actions fail to check the deterioration of the reserve position of the Central Bank, or if the deterioration cannot be checked except by chronic restrictions on exchange and trade transactions or by sacrifice of the domestic objectives of a high level of production, employment and real income, the Monetary Board shall propose to the President such additional action as it deems necessary to restore equilibrium in the international balance of payments of the Philippines.

The Monetary Board shall submit periodic reports to the President until the threat to the international monetary stability of the Philippines has disappeared.

## CHAPTER IV

### INSTRUMENTS OF CENTRAL BANK ACTION

#### ARTICLE I

##### General Criteria

Sec. 71. Means of action. - In order to achieve the international and domestic objectives of the national monetary policy, the Monetary Board shall rely on its moral influence, the powers granted to it under this Act for the regulation of money, credit and exchange, and the support and cooperation of the Government and all its agencies.

#### ARTICLE II

##### Operations in Gold and Foreign Exchange

Sec. 72. Purchases and sales of gold. - The Central Bank may buy and sell gold in any form, subject to such regulations as the Monetary Board may issue.

The Monetary Board may at any time require that any gold held by any person or entity under the jurisdiction of the Philippines be delivered to the Central Bank or to any banks or other agents contracted or engaged by the Central Bank for the purpose. The Monetary Board may also impose conditions under which gold in any shape or form may be acquired and held, transported, melted or treated, imported, exported, earmarked or held in custody for foreign or domestic account.

The purchases and sales of gold authorized by this section shall be made in national currency and at rates which do not differ from the par value of the peso by more than the margins established by the International Monetary Fund.

Sec. 73. Purchases and sales of foreign exchange. - The Central Bank may buy and sell foreign notes and coins, and documents and instruments of types customarily employed for the international transfer of funds. The Bank may engage in future exchange operations.

The Central Bank may engage in foreign exchange transactions with the following entities only:

- a) Banking institutions operating in the Philippines;
- b) The Government, its political subdivisions and instrumentalities;
- c) Foreign or international financial institutions; and
- d) Foreign governments and their instrumentalities.

In order to maintain the convertibility of the peso, the Central Bank, shall, at the request of any banking institution operating in the Philippines, buy any quantity of foreign exchange offered, and sell any quantity of foreign exchange demanded, by such institution, provided that the foreign currencies so offered or demanded are freely convertible into gold or United States dollars. This requirement shall not apply to demands for foreign notes and coins.

The Central Bank shall effect its exchange transactions between foreign currencies and the Philippine peso at the rates determined in accordance with the provisions of section 76.

Sec. 74. Emergency restrictions on exchange operations. - Notwithstanding the provisions of the third paragraph of the preceding section, in order to protect the international reserve of the Central Bank during an exchange crisis and to give the Monetary Board and the Government time in which to take constructive measures to combat such a crisis, the Monetary Board, with the concurrence of at least five of its members, and with the approval of the President of the Philippines, may temporarily suspend or restrict sales of exchange by the Central Bank and may subject all transactions in gold and foreign exchange to license by the Central Bank. The adoption of the emergency measures authorized in this section shall be subject to any executive and international agreements to which the Republic of the Philippines is a party.

Sec. 75. Acquisition of inconvertible currencies. - The Central Bank shall avoid the acquisition and holding of currencies which are not freely convertible, and may acquire such currencies in an amount exceeding the minimum balance necessary to cover current demands for said currencies only when, and to the extent that, such acquisition is considered by the Monetary Board to be in the national interest. The Monetary Board shall determine the procedures which shall apply to the acquisition and disposition by the Central Bank of foreign exchange which is not freely utilizable in the international market.

Sec. 76. Exchange rates. - The Monetary Board shall determine the rates at which the Central Bank shall buy and sell spot exchange, but said rates shall not differ by more than one-half of one per cent from the legal parities established in section 50, unless in any given case a greater divergence from the legal parity exists in foreign markets. The Central Bank shall not collect any additional commissions or charges of any sort, other than actual telegraphic or cable costs incurred by it.

The Monetary Board shall similarly determine the rates for other types of foreign exchange transactions by the Central Bank, including purchases and sales of foreign notes and coins, but the margins between the legal parities and the rates thus established may not exceed the corresponding margins for spot exchange transactions by more than the additional costs or expenses involved in each type of transaction.

Sec. 77. Revaluation profits and losses on Central Bank's international assets. - The profits or losses arising from any revaluation of the Central Bank's net assets or liabilities in gold or foreign currencies as a result of changes in the gold value of the peso, or of changes in the parities or exchange rates of foreign currencies with respect to the Philippine peso, shall be distributed in the manner provided in section 44 of this Act.

Sec. 78. Operations with foreign entities. - The Central Bank of the Philippines may grant loans to and receive loans from foreign banks and other foreign or international entities, both public and private, and may engage in such other operations with these entities as are in the national interest and are appropriate to its character as a central bank. The Central Bank may also act as agent or correspondent for such entities.

The Central Bank may pledge any gold or other assets which it possesses as security against loans which it receives from foreign or international entities.

## ARTICLE III

### Regulation of Foreign Exchange Operations of the Banks

Sec. 79. Rates applicable to purchases and sales of exchange by the banks. - The Monetary Board shall determine the minimum and maximum rates at which the banks may buy spot exchange, and the maximum and minimum rates at which they may sell spot exchange, but the rates thus established for each currency shall not differ from the respective legal parity by more than one per cent, unless in any given case a greater divergence from parity exists in foreign markets. The banks shall not collect any additional commissions or charges other than actual telegraphic or cable costs incurred by them.

The rates to be used by the banks for other types of exchange transactions shall be based on their spot exchange rates and shall not differ from such rates by margins greater than those considered reasonable by the Monetary Board: Provided, however, That the Board may at any time specifically fix such margins. The Monetary Board shall issue such rules and regulations as may be necessary to implement the provisions of this paragraph.

The rates established in accordance with the provisions of this section shall not apply to exchange transactions with the Central Bank. Such transactions shall be made at the rates established in accordance with the provisions of section 76 of this Act.

Sec. 80. Foreign exchange holdings of the banks. - In order that the Central Bank may at all times have foreign exchange resources sufficient to enable it to maintain the international stability and convertibility of the peso, or in order to promote the domestic investment of bank resources, the Monetary Board may require the banks to sell to the Central Bank all or part of their surplus holdings of foreign exchange. Such transfers may be required for all foreign currencies or for only certain of such currencies, according to the decision of the Monetary Board. The transfers shall be made at the rates established under the provisions of section 76 of this Act.

For the purposes of this Act, surplus holdings of any foreign currency shall be defined as the amount by which a bank's assets in the currency exceed the sum of the working balance required to accommodate normal shortrun fluctuations between the bank's sales and purchases of said currency and the total liabilities of the bank in the currency: Provided, however, That in calculating surplus holdings in any given currency, a bank may, at the discretion of the Monetary Board, subtract from its net assets in that currency an amount equal to any net liabilities of the bank in other currencies into which said currency is freely convertible.

The Monetary Board may stipulate that the working balance to which reference is made in the preceding paragraph shall not exceed a specified proportion of the average daily sales of the respective currency by the bank to entities other than the Central Bank during the preceding month. Any proportion thus established by the Monetary Board, and any requirement to transfer foreign exchange to the Central Bank, shall be applied to all banks alike and without discrimination.

Sec. 81. Requirement of balanced currency position. - The Monetary Board may require the banks to maintain a balanced position between their assets and liabilities in Philippine pesos or in any other currency or currencies in which they operate. The banks shall be granted a reasonable period of time in which to adjust their currency positions to any such requirement.

The powers granted under this section shall be exercised only when special circumstances make such action necessary, in the opinion of the Monetary Board, and shall be applied to all banks alike and without discrimination.

Sec. 82. Regulation of non-spot exchange transactions. - In order to restrain the banks from taking speculative positions with respect to future fluctuations in foreign exchange rates, the Monetary Board may issue such regulations governing bank purchases and sales of non-spot exchange as it may consider necessary for said purpose.

Sec. 83. Revaluation profits and losses on bank's holdings of gold and foreign exchange. - Any revaluation profits realized or losses suffered by the banks on their net assets or liabilities in gold or freely convertible foreign currencies as a result of changes in the par value of the peso, in the legal parities between the Philippine peso and such foreign currencies, or in the Central Bank's exchange rates for such currencies, shall be for the account of the Central Bank in their entity.

The Monetary Board may at any time declare that revaluation profits or losses on bank's net holdings of any foreign currency other than those included under the provisions of the first paragraph of this section shall also be for the account of the Central Bank until such time as the Board gives notice to the contrary. Said notice shall be communicated to the banks at least eight days before the date on which the revaluation risks cease to be for the account of the Central Bank, however, and shall apply only on acquisitions of the specified foreign currency subsequent to said date. The Board shall issue appropriate regulations to restrain the banks from increasing their holdings of the specified currency during the period from the date of the notice to the date on which it becomes effective.

The Monetary Board shall issue such rules and regulations as may be necessary to administer the provisions of this section.

Sec. 84. Other exchange losses. - The banks shall bear the risks of non-compliance with the terms of the foreign exchange documents and instruments which they buy or sell, and shall also bear any other typically commercial or banking risks, including exchange risks not assumed by the Central Bank under the provisions of the preceding section.

Sec. 85. Information on exchange operations. - The banks shall report to the Central Bank of the Philippines the volume and composition of their purchases and sales of gold and foreign exchange each day, and must furnish such additional information as the Central Bank may request with reference to the movements in their accounts in foreign currencies.

The Monetary Board may also require other persons and entities to report to it currently all transactions or operations in gold, in any shape or form, and in foreign exchange. The Monetary Board shall prescribe the forms on which such declarations must be made. The accuracy of the declarations may be verified by the Central Bank by whatever inspection it may deem necessary.

## ARTICLE IV

### Loans to Banking Institutions

#### A. THE CREDIT POLICY OF THE CENTRAL BANK

Sec. 86. Guiding principle. - The rediscounts, discounts, loans and advances which the Central Bank is authorized to extend to banking institutions under the provisions of the present article of this Act shall be used to regulate the volume, costs, availability and character of bank credit and to provide the banking system with liquid funds in times of need.

In the periods of inflation, or as long as inflationary dangers exist, the Central Bank shall refrain from extending credit to banks and at such times shall grant credit only in exceptional cases where special circumstances justify a deviation from the principle stated herein.

Conversely, whenever the national monetary policy requires an expansion of the money supply, the Central Bank shall make full use of the credit operations authorized under the present article of this Act.

## B. NORMAL CREDIT OPERATIONS

Sec. 87. Authorized types of operations. - Subject to the principles stated in the preceding section of this Act, the Central Bank may normally and regularly carry on the following credit operations with banking institutions operating in the Philippines:

a) Commercial credits. - The Central Bank may rediscount, discount, buy and sell bills, acceptances, promissory notes and other credit instruments with maturities of not more than 180 days from the date of their rediscount, discount or acquisition by the Central Bank and resulting from transactions related to:

- 1) The importation, exportation, purchase or sale of readily salable goods and products, of their transportation within the Philippines; or
- 2) The storing of non-perishable goods and products which are duly insured and deposited, under conditions assuring their preservation, in authorized bonded warehouses or in other places approved by the Monetary Board.

b) Production credits. - The Central Bank may rediscount, discount, buy and sell bills, acceptances, promissory notes and other credit instruments having maturities of not more than 270 days from the date of their rediscount, discount or acquisition by the Central Bank and resulting from transactions related to the production or processing of agricultural, animal, mineral or industrial products. Documents or instruments acquired in accordance with this subsection shall be secured by a pledge of the respective crops or products.

c) Advances. - The Central Bank may grant advances against the following kinds of collateral for fixed periods which, with the exception of advances against the collateral named in clause (4) of the present subsection, shall not exceed 180 days:

- 1) Gold coins or bullion;
- 2) Securities representing obligations of the Central Bank or of other domestic credit institutions of recognized solvency;
- 3) The credit instruments to which reference is made in subsection (a) of this section;

- 4) The credit instruments to which reference is made in subsection (b) of this section, for periods which shall not exceed 270 days;
- 5) Utilized portions of advances in current account covered by regular overdraft agreements related to operations included under subsections (a) and (b) of this section, and certified as to amount and liquidity by the institution soliciting the advance;
- 6) Negotiable treasury bills, certificates of indebtedness, notes and other negotiable obligations of the Government maturing within three years from the date of the advance; and
- 7) Negotiable bonds issued by the Government of the Philippines, by Philippine provincial, city or municipal governments, or by any Philippine Government instrumentality, and having maturities of not more than ten years from the date of the advance.

The rediscounts, discounts, loans and advances made in accordance with the provisions of this section may not be renewed or extended unless extraordinary circumstances fully justify such renewal or extension.

Advances made against the collateral named in clauses (6) and (7) of subsection (c) of this section may not exceed 80 per cent of the current market value of the collateral.

#### C. EXTRAORDINARY CREDIT OPERATIONS

Sec. 88. Loans to mortgage institutions. - Under special circumstances in which the Monetary Board considers it advisable to promote or facilitate the lending operations, or certain classes thereof, of savings bank, building and loan associations, or of the Rehabilitation Finance Corporation, the Central Bank may grant loans or advances with maturities of not more than one year to said institutions against pledge or assignment of payments, installments or amortizations of their borrowers coming due within the twelve months from the date of the granting of such loans or advances, and in an amount not exceeding forty per cent of the payments, installments or amortizations pledged or assigned: Provided, however, That the Central Bank shall not make such loans or advances whenever such action would aggravate or contribute to inflationary tendencies existing in the economy.

In granting loans and advances under this section, the Central Bank shall first ascertain that the payments, installments and amortizations to be pledged or assigned to it are in no case currently in arrears and that said payments, installments and amortizations are related to credit operations which in every case are adequately secured by mortgages. Said mortgages shall be assigned to the Central Bank.

Sec. 89. Extension of maturities. - Whenever, in the opinion of the Monetary Board, a deflationary situation exists which requires special expansionary credit measures, the Central Bank may extend the maximum maturities of new credit operations granted under the provisions of subsections (a), (b) and (c) of section 87 to periods not exceeding one year.

#### D. EMERGENCY CREDIT OPERATIONS

Sec. 90. Emergency loans and advances. - In periods of emergency or of imminent financial panic which directly threaten monetary and banking stability, the Central Bank may grant banking institutions extraordinary advances secured by any assets which are defined as acceptable security

by a concurrent vote of at least five members of the Monetary Board. While such advances are outstanding, the debtor institution may not expand the total volume of its loans or investments without the prior authorization of the Monetary Board.

#### E. CREDIT TERMS

Sec. 91. Interest and rediscount rates. - The Monetary Board shall fix the interest and rediscount rates to be charged by the Central Bank on its credit operations in accordance with the character and term of the operation, but after due consideration has been given to the credit needs of the market, the composition of the Central Bank's portfolio, and the general requirements of the national monetary policy.

Sec. 92. Endorsement. - The documents rediscounted, discounted, bought or accepted as collateral by the Central Bank in the course of the credit operations authorized in this article must bear the endorsement of the institution for which they are received.

Sec. 93. Repayment of credits. - Documents rediscounted, discounted or accepted as collateral by the Central Bank must be withdrawn by the borrowing institution on the dates of their maturities, or upon liquidation of the obligations which they represent or to which they relate whenever said obligations have been liquidated prior to their dates of maturity.

Banks shall have the right at any time to withdraw any documents which they have presented to the Central Bank as collateral, upon payment in full of the corresponding debt to the Bank, including interest charges.

Sec. 94. Other requirements. - The Monetary Board may prescribe, within the general powers granted to it under this Act, additional conditions which borrowing institutions must satisfy in order to have access to the credit of the Central Bank. These conditions may refer to the rates of interest charged by the banks, to the purposes for which their loans in general are destined, and to any other clearly definable aspect of the credit policy of the bank.

#### ARTICLE V

##### Credit Operations with the Government

Sec. 95. Provisional advances to the Government. - The Central Bank may make direct provisional advances to the Government or to any of its political subdivisions to finance expenditures authorized in the annual appropriations of the borrowing entity: Provided, That said advances must be repaid before the end of the first quarter following the end of the fiscal year of the Government or political subdivision and shall not, in their aggregate, exceed fifteen per cent of the average annual income of the borrower for the last three preceding years.

#### ARTICLE VI

##### Open Market Operations for the Account of the Central Bank

Sec. 96. Principles of open market operations. - The open market purchases and sales of securities by the Central Bank shall be made exclusively for the purpose of achieving the objectives of the national monetary policy and shall be limited to the operations authorized in sections 97 and 98 of this Act.



Accordingly in periods of inflation or as long as inflationary dangers exist, the Central Bank shall refrain from open market purchases and at such times shall endeavor to reduce its security holdings and/or to sell the evidences of indebtedness which it is permitted to issue under the provisions of section 98 of this Act.

Conversely, whenever the national monetary policy requires an expansion of the money supply, the Central Bank may repurchase its own evidences of indebtedness prior to their date of maturity, as authorized in section 98, and may acquire the securities to which reference is made in section 97. In purchasing said securities, the Central Bank shall give preference to short-term obligations, in order that the Bank may be in a better position to reduce the money supply should conditions in the future so require.

Whenever securities meeting the conditions established in section 97 of this Act represent obligations in foreign currencies, the decisions of the Monetary Board to purchase and sell such securities shall be governed by the adequacy of the international reserve of the Central Bank and by the effect which such operations would have on the balance of payments and the volume of the money supply.

Sec. 97. Purchases and sales of Government securities. - In order to achieve the objectives of the national monetary policy, the Central Bank may, in accordance with the principles stated in section 96 of this Act and with such rules and regulations as may be prescribed by the Monetary Board, buy and sell in the open market for its own account:

- a) Evidences of indebtedness issued directly by the Government of the Philippines or by its political subdivisions, and
- b) Evidences of indebtedness issued by Government instrumentalities and fully guaranteed by the Government.

The evidences of indebtedness acquired under the provisions of this section must be freely negotiable and regularly serviced.

Sec. 98. Issue and negotiation of Central Bank obligations. - In order to provide the Central Bank with effective instruments for open market operations, the Bank may, subject to such rules and regulations as the Monetary Board may prescribe and in accordance with the principles stated in section 96 of this Act, issue, place, buy and sell freely negotiable evidences of indebtedness of the Bank. Said evidences of indebtedness may be issued directly against the international reserve of the Bank or against the securities which it has acquired under the provisions of section 97 of this Act, or may be issued without relation to specific types of assets of the Bank.

The Monetary Board shall determine the interest rates, maturities and other characteristics of said obligations of the Bank, and may, if it deems it advisable, denominate the obligations in gold or foreign currencies.

Subject to the principles stated in section 96 of this Act, the evidences of indebtedness of the Central Bank to which this section refers may be acquired by the Bank before their maturity, either through purchases in the open market or through redemptions at par and by lot if the Bank has reserved the

right to make such redemptions. The evidences of indebtedness acquired or redeemed by the Central Bank shall not be included among its assets, and shall be immediately retired and cancelled.

## ARTICLE VII

### Composition of Central Bank's Portfolio

Sec. 99. Review of the Central Bank's portfolio. - At least once every month the Monetary Board shall review the portfolio of the Central Bank in relation to the Bank's future credit policy.

In reviewing the Central Bank's portfolio, the Monetary Board shall especially consider whether a sufficiently large part of the portfolio consists of assets with early maturities, in order that a contraction in Central Bank credit may be effected promptly whenever the national monetary policy so requires.

## ARTICLE VIII

### Bank Reserves

Sec. 100. Reserve requirements. - In order to control the volume of money created by the credit operations of the banking system, banks operating in the Philippines shall be required to maintain reserves against their deposit liabilities. The required reserves of each bank shall be proportional to the volume of its deposit liabilities and shall ordinarily take the form of a deposit in the Central Bank of the Philippines; nevertheless, the Monetary Board may, whenever circumstances warrant, permit the maintenance of part of the required reserves in the form of assets other than peso deposits with the Central Bank. Reserve requirements shall be applied to all banks uniformly and without discrimination.

Sec. 101. Required reserves against peso deposits. - The Monetary Board is authorized to prescribe and modify the minimum reserve ratios applicable to each class of peso deposits: Provided, however, That such ratios shall not be less than five per cent (5%) or more than twenty-five per cent (25%) for time and saving deposits, and shall not be less than ten per cent (10%) or more than fifty per cent (50%) for demand deposits.

Notwithstanding the provisions of the preceding paragraph of this section, the Monetary Board may, in periods of inflation, prescribe higher reserve ratios, but not exceeding 100 per cent, for any future increase in the deposits of each bank above the amounts outstanding on the date on which the bank is notified of the requirement.

Whenever the reserve requirements established by the Monetary Board place any bank under obligation to maintain minimum reserves in excess of twenty-five per cent (25%) of its total time or savings deposits, or in excess of fifty per cent (50%) of its total demand deposits, the Central Bank may pay interest on said excess at a rate which shall not be higher than the Bank's lowest rediscount rate.

Sec. 102. Required reserves against foreign currency deposits. - The Monetary Board is similarly authorized to prescribe and modify the minimum reserve ratios applicable to deposits denominated in foreign currencies: Provided, however, That such ratios may not be set below ten per cent (10%) or above one hundred per cent (100%), with respect to deposit liabilities in each foreign currency.

The Monetary Board shall determine the form and the currency, either national or foreign, in which such reserves shall be maintained: Provided, however, That any such requirements shall not preclude the banks from keeping a balanced position between their assets and liabilities in each of the foreign currencies in which they operate.

Sec. 103. Reserves against unused balances of overdraft lines. - In order to facilitate Central Bank control over the volume of bank credit, the Monetary Board may establish minimum reserve requirements for unused balances of overdraft lines.

The powers of the Monetary Board to prescribe and modify reserve requirements against unused balances of overdraft lines shall be the same as its powers with respect to reserve requirements against demand deposits.

Sec. 104. Increase in reserve requirements. - Whenever it becomes necessary, in the opinion of the Monetary Board, to increase reserve requirements against existing liabilities, the increase shall be made in a gradual manner and shall not exceed four percentage points in any thirty-day period. The banks shall be notified reasonably in advance of the date on which such increase is to become effective.

Sec. 105. Computation on reserves. - The reserve position of each bank shall be calculated daily on the basis of the amount, at the close of business for the day, of the bank's reserves and the amount of its liability accounts against which reserves are required to be maintained.

For the purpose of computing the reserve position of each bank, its principal office in the Philippines and all its branches and agencies located therein shall be considered as a single unit.

Sec. 106. Reserve deficiencies. - Whenever the reserve position of any bank, computed in the manner specified in the preceding section of this Act, is below the required minimum, the bank shall pay the Central Bank one-tenth of one per cent (1/10 of 1%) per day on the amount of the deficiency: Provided, however, That banks shall ordinarily be permitted to offset any reserve deficiency occurring on one or more days of the week with any excess reserves which they may hold on other days of the same week and shall be required to pay the penalty only on the average daily deficiency during the week. In cases of abuse, the Monetary Board may deny any bank the privilege of offsetting reserve deficiencies in the aforesaid manner.

If a bank chronically has a reserve deficiency, the Monetary Board may limit or prohibit the making of new loans or investments by the bank and may require that part or all of the net profits of the bank be assigned to surplus.

Sec. 107. Interbank settlements. - The Central Bank shall provide facilities for interbank clearing.

The deposit reserves maintained by the banks in the Central Bank, in accordance with the provisions of section 100, shall serve as a basis for the clearing of checks and the settlement of interbank balances, subject to such rules and regulations as the Monetary Board may issue with respect to such operations.

## ARTICLE IX

### Selective Regulation of Bank Operations

Sec. 108. Guiding principle. - The Monetary Board shall use the powers granted to it under the present article and elsewhere in this Act to ensure that the supply, availability and cost of money are in accord with the needs of the Philippine economy and that the bank credit is not granted for speculative purposes prejudicial to the national interests.

Sec. 109. Interest rates, commissions and charges. - The Monetary Board may fix the maximum rates of interest which banks may pay on deposits and on any other obligations.

The Monetary Board may, within the limits prescribed in the Usury Law (Act No. 2655, as amended), fix the maximum rates of interest which banks may charge for different types of loans and for any other credit operations, or may fix the maximum differences which may exist between the interest or rediscount rates of the Central Bank and the rates which the banks may charge their customers if the respective credit documents are not to lose their eligibility for rediscount or advances in the Central Bank.

Any modifications in the maximum interest rates permitted for the borrowing or lending operations of the banks shall apply only to future operations and not to those made prior to the date on which the modification becomes effective.

In order to avoid possible evasion of maximum interest rates set by the Monetary Board, the Board may also fix the maximum rates that banks may pay to or collect from their customers in the form of commissions, discounts, charges, fees or payments of any sort.

Sec. 110. Margin requirements against letters of credit. - In order to restrict the granting of bank credit for purposes which are contrary to the general welfare of the Philippines, the Monetary Board may at any time prescribe minimum cash margins for the opening of letters of credit, and may relate the size of the required margin to the nature of the transaction to be financed.

The Board may particularly use its powers under this section to require high margins for the opening of letters of credit to finance the importation of luxuries or other non-essential goods, or to finance any goods the importation of which at the time is considered by the Monetary Board to be unduly prompted by speculative motives prejudicial to the interests of the Philippine economy.

Sec. 111. Required security against bank loans. - In order to promote the liquidity and solvency of the banking system, or to influence the availability of bank credit for specific purposes, the Monetary Board may issue such regulations as it may deem necessary from time to time with respect to the maximum permissible maturities of the loans and investments which the banks may make, and the kind and amount of security to be required against the various types of credit operations of the banks.

Sec. 112. Portfolio ceilings. - Whenever the Monetary Board considers it advisable to prevent or check an expansion of bank credit, the Board may place an upper limit on the amount of loans and investments which the banks may hold, or may place a limit on the rate of increase of such assets within specified periods of time. The Monetary Board may apply such limits to the loans and investments of each bank or to specific categories thereof.

In no case shall the Monetary Board establish limits which are below the value of the loans or investments of the banks on the date on which they are notified of such restrictions. The restrictions shall be applied to all banks uniformly and without discrimination.

Sec. 113. Minimum capital ratios. - In order to regulate the volume and distribution of bank credit, and to ensure the maintenance of bank capital and surplus at levels adequate to protect the depositors against risk of loss, the Monetary Board may prescribe minimum ratios which the capital and surplus of the banks must bear to the volume of their assets, or to specific categories thereof, and may alter said ratios whenever it deems it convenient so to do.

## ARTICLE X

### Government Credit Institutions as Instruments of the National Monetary Policy

Sec. 114. Coordination of credit policies. - Government- owned corporations which perform banking or credit functions are hereby declared to be instruments of the national monetary policy and, accordingly, shall coordinate their general credit policies with those of the Monetary Board.

Toward this end, the Monetary Board may, whenever it deems it expedient, make suggestions or recommendations to such corporations for the more effective coordination of their policies with those of the Central Bank.

## CHAPTER V

### FUNCTIONS AS FISCAL AGENT, BANKER AND FINANCIAL ADVISOR OF THE GOVERNMENT

## ARTICLE I

### Functions as Fiscal Agent and Banker of the Government

Sec. 115. Designation of Central Bank as fiscal agent and banker of the Government. - The Central Bank of the Philippines shall act as the fiscal agent and banker of the Government, its political subdivisions and instrumentalities.

Sec. 116. Representation with the International Monetary Fund. - The Central Bank of the Philippines shall represent the Government of the Philippines in all dealings, negotiations and transactions with the International Monetary Fund and shall carry such accounts as may result from Philippine membership in, or operations with, said Fund.

Sec. 117. Representation with other financial institutions. - The Central Bank may be authorized by the Government to represent it in dealings, negotiations or transactions with the International Bank for Reconstruction and Development and with other foreign or international financial institutions or agencies.

Sec. 118. Official deposits. - The Central Bank shall be the official depository of the Government and its political subdivisions and instrumentalities: Provided, however, That the Monetary Board may designate Government-owned banks and other banks incorporated in the Philippines to accept deposits from said entities, subject to such rules and regulations as the Board may prescribe.

Sec. 119. Fiscal operations. - The Central Bank shall open a general cash account for the Treasurer of the Philippines, in which the liquid funds of the Government shall be deposited.

Transfers of funds from this account to other accounts shall be made only upon order of the Treasurer of the Philippines.

Sec. 120. Other banks as agents of the Central Bank. - In the performance of its functions as fiscal agent, the Central Bank may engage the services of the Philippine National Bank and of other domestic banks for operations in localities at home or abroad in which the Central Bank does not have offices or agencies adequately equipped to perform said operations: Provided, however, That for fiscal operations in foreign countries, the Central Bank may engage the services of foreign banking and financial institutions.

Sec. 121. Remuneration for services. - The Central Bank shall not charge for services which it renders to the Government and to its political subdivisions and instrumentalities any rates, commissions or fees.

The Bank shall not pay interest on deposits of the Government or of its political subdivisions and instrumentalities.

## ARTICLE II

### The Marketing and Stabilization of Securities for the Account of the Government

#### A. THE ISSUE AND PLACING OF GOVERNMENT SECURITIES

Sec. 122. Issue of Government obligations. - The issue of securities representing obligations of the Government, its political subdivisions or instrumentalities, shall be made through the Central Bank, which shall act as agent of, and for the account of, the Government or its respective subdivision or instrumentality, as the case may be: Provided, however, That the Bank shall not subscribe to the issue of said securities and shall not guarantee their placement.

Sec. 123. Methods of placing Government securities. - The Central Bank may place the securities to which the preceding section refers through direct sale to financial institutions and the public, through outright sale to syndicates, brokers or dealers for purposes of resale to the public for their own account, or through brokers or banks contracted to place the securities with the public for the account of the Central Bank.

The Central Bank shall not be a member of any stock exchange or syndicate, but may intervene therein for the sole purpose of regulating their operations in the placing of Government securities.

The Government, or its respective subdivisions or instrumentalities, shall reimburse the Central Bank for the expenses incurred in the placing of the aforesaid securities.

Sec. 124. Servicing and redemption of the public debt. - The servicing and redemption of the public debt shall also be effected through the Central Bank.

#### B. CENTRAL BANK SUPPORT OF THE GOVERNMENT SECURITIES MARKET

Sec. 125. The Securities Stabilization Fund. - There shall be established a "Securities Stabilization Fund" which shall be administered by the Central Bank for the account of the Government.

The operations of the Securities Stabilization Fund shall consist of purchases and sales, in the open market, of bonds and other evidences of indebtedness issued or fully guaranteed by the Government of the Philippines. The purpose of these operations shall be to increase the liquidity and stabilize the value of said securities in order thereby to promote private investment in Government obligations.

The Monetary Board shall use the resources of the Fund to prevent, or moderate, sharp fluctuations in the quotations of said Government obligations, but shall not endeavor to alter movements of the market resulting from basic changes in the pattern or level of interest rates.

The Monetary Board shall issue such regulations as may be necessary to implement the provisions of this section.

Sec. 126. Resources of the Securities Stabilization Fund. - The resources of the Securities Stabilization Fund shall come from the following sources:

- a) Two million (P2,000,000) pesos, which are hereby appropriated from the assets of the Exchange Standard Fund, as provided in section 134 of this Act, and such other appropriations as the Government may make from time to time;
- b) That part of the annual net profits of the Central Bank allocated to the Fund in accordance with the provisions of section 41;
- c) Profits arising from recoinage or from reductions in the currency issue, under the conditions specified in section 45.

Sec. 127. Profits and losses of the Fund. - The Securities Stabilization Fund shall retain any net profits which it may make on its operations, regardless of whether said profits arise from capital gains or from interest earnings. The Fund shall correspondingly bear any net losses which it may incur.

### ARTICLE III

#### Functions as Financial Advisor of the Government

Sec. 128. Financial advice on official credit operations. - Before undertaking any credit operation abroad, the Government, through the Secretary of Finance, shall request the opinion, in writing, of the Monetary Board on the monetary implications of the contemplated action. Such opinions must similarly be requested by all political subdivisions and instrumentalities of the Government before any credit operation abroad is undertaken by them.

The opinion of the Monetary Board shall be based on the gold and foreign exchange resources and obligations on the nation and on the effects of the proposed operation on the balance of payments and on the volume of the money supply.

Whenever the Government, or any of its political subdivisions or instrumentalities, contemplates borrowing within the Philippines, the prior opinion of the Monetary Board shall likewise be requested in order that the Board may render an opinion on the probable effects of the proposed operation on the money supply, the price level, and the balance of payments.

Sec. 129. Representation on the National Economic Council. - In order to assure effective coordination between the economic, financial and fiscal policies of the Government and the monetary, credit and exchange policies of the Central Bank, the Governor of the Central Bank shall be an ex-officio member of the National Economic Council.

## CHAPTER VI

### Privileges and Prohibitions

#### ARTICLE I

##### Privileges

Sec. 130. Tax exemptions. - The Central Bank of the Philippines shall be exempt from all national, provincial, municipal and city taxes and assessments now in force or hereafter established.

The exemptions authorized in the preceding paragraph of this section shall apply to all property of the Central Bank, to the resources, receipts, expenditures, profits and income of the Bank, as well as to all contracts, deeds, documents and transactions related to the conduct of the business of the Bank: Provided, however, That said exemptions shall apply only to such taxes and assessments for which the Central Bank itself would otherwise be liable, and shall not apply to taxes or assessments payable by persons or other entities doing business with the Central Bank.

Sec. 131. Exemption from customs duties. - The importation and exportation by the Central Bank of notes and coins, and of gold and other metals to be used for purposes authorized under this Act, and the importation of all equipment needed for furnishing, equipping and operating the offices of the Bank, shall be fully exempt from all customs duties and consular fees and from all other taxes, assessments and charges related to such importation or exportation.

Sec. 132. Applicability of the Civil Service Law. - Appointment in the Central Bank, except as to those which are policy-determining, primarily confidential or highly technical in nature, shall be made only according to the Civil Service Law and Regulations.

Officers and employees in the Central Bank, including all members of the Monetary Board, shall not engage directly or indirectly in partisan activities or take part in any election except to vote.

No officer or employee of the Central Bank subject to the Civil Service Law and Regulations shall be removed or suspended except for cause as provided by law.

#### ARTICLE II

##### Prohibitions

Sec. 133. Prohibitions. - The Central Bank shall not acquire shares of any kind or accept them as collateral, and shall not participate in the ownership or management of any enterprise, either directly or indirectly.

## CHAPTER VII

### TRANSITORY PROVISIONS



## ARTICLE I

### The Exchange Standard Fund

Sec. 134. Liquidation of the Exchange Standard Fund. - Prior to the date on which the Central Bank commences business, the Exchange Standard Fund shall be liquidated. The net assets of the Fund remaining after outstanding liabilities have been met shall be used for the following purposes and in the following priority:

- a) Ten million (P10,000,000) pesos shall be used to subscribe to the capital stock of the Central Bank;
- b) Two million (P2,000,000) pesos shall be transferred to the Securities Stabilization Fund; and
- c) The remainder shall be transferred to the Bank in accordance with the provisions of section 135.

## ARTICLE II

### Retirement of Treasury Certificates and Coins

Sec. 135. Assumption by the Central Bank of the liability for treasury certificates. - On the date on which the Central Bank commences business, it shall assume the liability of the Treasury Certificate Fund for all outstanding treasury certificates. The amount of the liability shall be determined by the Secretary of Finance and certified by the Auditor-General. In consideration for assuming this liability the Treasurer of the Philippines shall transfer to the Bank all of the available assets of the Treasury Certificate Fund and that portion of the assets of the Exchange Standard Fund which may remain after deducting the amounts required to provide the capital of the Bank and the contribution to the Securities Stabilization Fund, as provided in the preceding section.

If the total assets thus transferred exceed the liability assumed, the difference shall be used to establish a reserve on the books of the Central Bank against the contingency that the actual amount of treasury certificates which the Central Bank may be called upon to exchange for its own notes may prove to be larger than the liability originally assumed. If the total assets transferred should be less than the liability assumed, the Secretary of Finance shall deliver to the Bank a non-interest bearing, non-negotiable note without fixed maturity in the amount of the difference.

The Central Bank shall, as soon as practicable, exchange outstanding treasury certificates for its own notes in accordance with the procedure described in section 59 of this Act. During the period of such exchange any treasury certificates exchanged by the Bank in excess of the liability originally assumed for such certificates shall be charged, first, to the reserve mentioned in the preceding paragraph, if there be such reserve, and, second, to the deposit of the Government. At the expiration of the exchange period any remaining balance of the liability account for outstanding treasury certificates shall be applied, first, to reduce the face value of the note delivered by the Secretary of Finance in accordance with the preceding paragraph, if such a note has been issued, and, second, to reduce the Account to Secure the Coinage, the creation of which is provided for in the following section. Any remaining balance of the abovementioned reserve shall be applied solely to reduce the Account to Secure the Coinage.

Sec. 136. Assumption by the Central Bank of the liability for treasury coins. - On the date on which the Central Bank commences business, the total Philippine treasury coin issue, including coins

dumped in Manila Bay but not yet salvaged, shall become a liability of the Bank. As a contra item against the liability thereby assumed there shall be set up on the books of the Central Bank an asset account in an amount equal to the face value of the total Philippine treasury coin issue. This account shall be called the "Account to Secure the Coinage."

The Central Bank shall, as soon as practicable, exchange treasury coins in circulation for Central Bank coins in accordance with the procedure described in section 59 of this Act. When the Monetary Board has completed the exchange of treasury coins for its own coins and has thereby determined the precise amount of the liability which it originally assumed for the treasury coin issue, the outstanding amount of the Account to Secure the Coinage shall be reduced by the difference between the original amount of the Account and the amount of the liability as finally determined.

### ARTICLE III

#### Extraordinary Advances to the Government

Sec. 137. Extraordinary advances to the Government. - Notwithstanding any provisions in the present Act to the contrary, the Central Bank may, until June 30, 1951, make direct advances to the Government when, in the opinion of the Monetary Board, the international reserve is adequate to meet all foreseeable demands upon it and when such advances are consistent with the achievement of the Board's objective of domestic monetary stability. The total advances made under the authority of this section shall not exceed two hundred million (P200,000,000) pesos.

The Bank shall make the above advances only against an equivalent amount of negotiable government securities having maturities which, insofar as possible, are appropriate to the uses to which the advances will be put, but which in no case shall exceed 15 years. In order to permit their resale by the Central Bank, the securities shall be in denominations and bear interest rates which will make them attractive to the banks and to the public.

Advances shall be made only for certain purposes specifically authorized by law, and shall be made only for productive and income-producing projects, or for the repayment or servicing of external obligations of the Government.

### ARTICLE IV

#### Miscellaneous Provisions

Sec. 138. Transfer of powers and functions of the Bureau of the Treasury to the Central Bank. - All powers, duties, and functions vested in the Bureau of the Treasury and the Treasurer of the Philippines which by the provisions of this Act shall be exercised by the Bank are hereby transferred to the Central Bank.

Sec. 139. Transfer of authority, powers, and functions of the Bank Commissioner and the Bureau of Banking to the Central Bank. - All authority now vested in the Bank Commissioner and the Bureau of Banking with respect to the establishment, operation or liquidation of banking and credit institutions, and branches or agencies thereof, and all other powers, duties and functions vested in the Bureau of Banking and Bank Commissioner which by the provisions of this Act shall be exercised by the Bank, are hereby transferred to the Central Bank.

Sec. 140. Repeal of inconsistent laws. - All laws, parts of laws, and any special charters, or parts thereof, of banking and financial institutions inconsistent herewith are hereby repealed.

Sec. 141. Exemption from restrictions on bank borrowing. - The restrictions on bank borrowing which are contained in sections 6 and 7 of Act 3610 shall not apply to bank borrowings from the Central Bank.

Sec. 142. Effectivity of this Act. - This Act shall take effect upon approval. The Central Bank of the Philippines shall commence business upon organization of the Monetary Board and certification by the Secretary of Finance that the authorized capital of the Bank has been fully paid-in and that the Bank is ready for operation.

Approved: June 15, 1948