

SEVENTEENTH CONGRESS OF THE  
REPUBLIC OF THE PHILIPPINES  
*First Regular Session*)

17 MAY 16 P6:18

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S E N A T E

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**COMMITTEE REPORT NO. 86**

Submitted jointly by the Committees on Banks, Financial Institutions and Currencies and Finance on MAY 16 2017

Re: Senate Bill No. 1459

Recommending its approval in substitution of Senate Bill No. 354.

Sponsor: Senators Escudero and Aquino

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**MR. PRESIDENT:**

The Committees on Banks, Financial Institutions and Currencies and Finance to which was referred Senate Bill No. 354, introduced by Senator Paolo Benigno Aquino IV, entitled:

**“AN ACT STRENGTHENING THE SECURED TRANSACTIONS LEGAL FRAMEWORK IN THE PHILIPPINES, WHICH SHALL PROVIDE FOR THE CREATION, PERFECTION, DETERMINATION OF PRIORITY, ESTABLISHMENT OF A NOTICE REGISTRY, AND ENFORCEMENT OF SECURITY INTERESTS IN PERSONAL PROPERTY, AND FOR OTHER PURPOSES”**

have considered the same and have the honor to report it back to the Senate with the recommendation that the attached bill, Senate Bill No. 1459, prepared by the Committees, entitled:

**“AN ACT STRENGTHENING THE SECURED TRANSACTIONS LEGAL FRAMEWORK IN THE PHILIPPINES, WHICH SHALL PROVIDE FOR THE CREATION, PERFECTION, DETERMINATION OF PRIORITY, ESTABLISHMENT OF A CENTRALIZED NOTICE REGISTRY, AND ENFORCEMENT OF SECURITY INTERESTS IN PERSONAL PROPERTY, AND FOR OTHER PURPOSES”**

be approved in substitution of Senate Bill No. 354, with Senators Aquino and Escudero as authors.

Respectfully submitted:

**SEN. LOREN B. LEGARDA**

*Chairperson*  
Committee on Finance

**SEN. FRANCIS G. ESCUDERO**

*Chairperson*  
Committee on Banks, Financial Institutions,  
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*Member*, Committee on Finance

*Vice-Chairpersons:*

**SEN. GRACE POE**

Committee on Banks, Financial Institutions  
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Member, Committee on Finance

**SEN. PANFILO LACSON**

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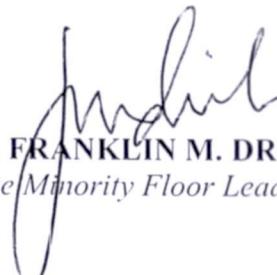


**SEN. FRANCIS "KIKO" PANGILINAN**  
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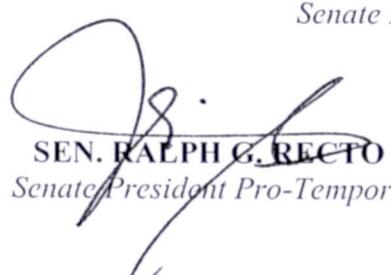


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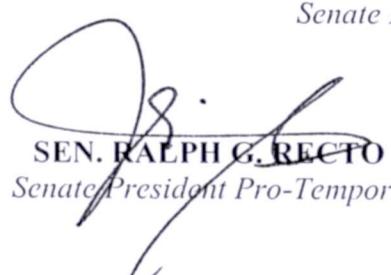
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*Senate Minority Floor Leader*



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*Senate President Pro-Tempore*



**HON. AQUILINO "KOKO" PIMENTEL III**  
*Senate President*



SEVENTEENTH CONGRESS OF THE )  
REPUBLIC OF THE PHILIPPINES )  
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SENATE  
S.B. No. 1459

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Prepared by the Committees on Banks, Financial Institutions and Currencies; and Finance, with Senators Paolo Benigno "Bam" A. Aquino IV and Francis G. Escudero as authors thereof

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**AN ACT  
STRENGTHENING THE SECURED TRANSACTIONS LEGAL  
FRAMEWORK IN THE PHILIPPINES, WHICH SHALL PROVIDE FOR  
THE CREATION, PERFECTION, DETERMINATION OF PRIORITY,  
ESTABLISHMENT OF A CENTRALIZED NOTICE REGISTRY, AND  
ENFORCEMENT OF SECURITY INTERESTS IN PERSONAL PROPERTY,  
AND FOR OTHER PURPOSES**

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

- 1        **SECTION 1. Title.** - This Act shall be known as the "Personal Property Security Act."
  
- 3        **SEC. 2. Declaration of Policy.** - It is the policy of the State to promote economic activity by increasing access to least cost credit, particularly for micro-, small, and medium enterprises (MSMEs), by establishing a unified and modern legal framework for securing obligations with personal property.

## CHAPTER 1 – DEFINITIONS AND SCOPE

**SEC. 3. *Definition of Terms.*** – As used in this Act, the following terms

3 shall mean:

- (a) *Accession* – goods that are physically united with other goods in such a manner that the identity of the goods is not lost;
  - (b) *Account debtor* – the person who is obligated on an account receivable, including a guarantor and other person secondarily liable for payment of the receivable;
  - (c) *Account receivable* – a right to payment of monetary obligation, excluding a right to payment arising from a negotiable instrument and a deposit account;
  - (d) *Collateral* – any personal property subject to a security interest or lien, and account receivable that is the subject of an outright transfer;
  - (e) *Commingled goods* – goods that are physically united with goods in a way that their identity is lost in a product or mass;
  - (f) *Commodity contract* – a commodity futures contract, an option on a commodity futures contract, a commodity option, or another contract if the contract or option is:
    - 1) traded on or subject to the rules of a board of trade that has been designated as a contract market for such a contract; or

- 1           2) traded on a foreign commodity board of trade, exchange, or  
2           market, and is carried on the books of a commodity  
3           intermediary for a commodity customer;
- 4       (g) *Consumer goods* - goods primarily used or intended to be used by  
5           the grantor for personal, family, or household purposes;
- 6       (h) *Control agreement* -
- 7           1) With respect to securities, means an agreement in writing  
8           among the issuer or the intermediary, the grantor and the  
9           secured creditor, according to which the issuer or the  
10          intermediary agrees to follow instructions from the secured  
11          creditor with respect to the security, without further consent  
12          from the grantor;
- 13          2) With respect to rights to deposit account, means an  
14          agreement in writing among the deposit-taking institution,  
15          the grantor and the secured creditor, according to which the  
16          deposit-taking institution agrees to follow instructions from  
17          the secured creditor with respect to the payment of funds  
18          credited to the deposit account without further consent from  
19          the grantor;

- 1           3) With respect to commodity contracts, means an agreement in  
2                 writing among the grantor, secured creditor, and  
3                 intermediary, according to which the commodity  
4                 intermediary will apply any value distributed on account of  
5                 the commodity contract as directed by the secured creditor  
6                 without further consent by the commodity customer or  
7                 grantor;
- 8           (i) *Debtor* – a person who owes payment or other performance of a  
9                 secured obligation, whether or not that person is the grantor of the  
10                 security interest securing the obligation;
- 11           (j) *Default* – the failure of the debtor to pay or otherwise perform the  
12                 secured obligation, and any other event constituting a default  
13                 under a security agreement;
- 14           (k) *Deposit account* – a demand, time, savings, or any similar account  
15                 maintained by a deposit-taking institution to which funds may be  
16                 credited or debited. The term does not include investment property  
17                 or deposit account evidenced by an instrument;
- 18           (l) *Electronic records* – information or the representation of  
19                 information, data, figures, symbols or other modes of written  
20                 expression, described or however represented by which a fact may

1           be proved or affirmed, which is received, recorded, transmitted,  
2           stored, processed, retrieved or produced electronically;

3           (m) *Equipment* – goods that are not crops, livestock, inventory, or  
4           consumer goods that are primarily used or intended to be used by  
5           the grantor in the operation of its business;

6           (n) *Financial lease* – a lease under which at the end of the lease term:

7           1) the lessee automatically becomes the owner of the asset that is  
8           the object of the lease; or

9           2) the lessee may acquire ownership of the asset by paying no  
10           more than a nominal price; or

11           3) the asset has no more than a nominal residual value;

12           (o) *Fixture* – goods that are affixed or are intended to become affixed to  
13           real property in a manner that causes a property right in the goods  
14           to arise in favor of a person who has a right in the real property.

15           Readily removable factory machines, office machines, and  
16           domestic appliances are not fixtures;

17           (p) *Goods* – tangible personal property, including fixtures, crops, and  
18           livestock. The term does not include money, documents,  
19           instruments and certificated securities;

- 1                             (q) *Grantor* -
- 2                             1) the person who grants a security interest in collateral to secure
- 3                                 its own obligation or that of another person;
- 4                             2) a buyer or other transferee of a collateral that acquires its right
- 5                                 subject to a security interest;
- 6                             3) a transferor in an outright transfer of an accounts receivable; or
- 7                             4) a lessee of goods;
- 8                             (r) *Instrument* - a writing that evidences a right to payment of money
- 9                                 that in the ordinary course of business may be transferred by
- 10                                 delivery with any necessary endorsement;
- 11                             (s) *Intangible personal property* - includes deposit account, intellectual
- 12                                 property, investment property (other than certificated securities),
- 13                                 and other intangibles;
- 14                             (t) *Intellectual property* - includes copyrights, patents, trademarks,
- 15                                 service marks, trade secrets and industrial designs and any other
- 16                                 asset considered to be intellectual property rights under Republic
- 17                                 Act No. 8293, "The Intellectual Property Code of the Philippines;"
- 18                             (u) *Inventory* - goods held for sale or lease in the ordinary course of
- 19                                 business, including raw materials and work-in-process (semi-
- 20                                 processed);

- 1                   (v) *Investment property* – a security, whether or not evidenced by  
2                   certificates, and whether or not held directly against the issuer or  
3                   credited to a securities account, commodity contract, or commodity  
4                   account;
- 5                   (w) *Lien* – a right in property, other than a right of retention, which is  
6                   created by operation of law, by an order of a court or other legal  
7                   authority; including a right held by a tax authority;
- 8                   (x) *Negotiable document* – a document of title, such as a bill of lading, or  
9                   warehouse receipt that embodies the right to delivery of goods;
- 10                  (y) *Non-intermediated securities* – securities other than securities  
11                  credited to a securities account and rights in securities resulting  
12                  from the credit of securities to a securities account;
- 13                  (z) *Notice* – a statement of information that is registered in the Registry  
14                  relating to a security interest or lien. The term includes an initial  
15                  notice, amendment notice, and termination notice;
- 16                  (aa) *Ordinary course of business* – the regular conduct or pursuit of a  
17                  commercial or an economic activity, including transactions  
18                  incidental thereto;
- 19                  (bb) *Person* – a natural or juridical person;
- 20                  (cc) *Personal property* – intangibles, and tangibles of any nature;

- 1                   (dd) *Proceeds* – any property received upon sale, lease or other  
2                   disposition of collateral, or whatever is collected on or distributed  
3                   with respect to collateral, claims arising out of the loss or damage  
4                   to the collateral, as well as a right to insurance payment or other  
5                   compensation for loss or damage of the collateral;
- 6                   (ee) *Purchase money security interest* – a security interest in goods taken  
7                   by the seller to secure the price or by a person who gives value to  
8                   enable the grantor to acquire the goods to the extent that the credit  
9                   is used for that purpose;
- 10                  (ff) *Registry* – the centralized and nationwide electronic registry  
11                  established in the Land Registration Authority where notice of a  
12                  security interest and a lien in personal property may be registered;
- 13                  (gg) *Secured creditor* – a person that has a security interest. For the  
14                  purposes of registration and priority only, it includes a buyer of  
15                  account receivable and a lessor of goods under an operating lease  
16                  for not less than one (1) year;
- 17                  (hh) *Securities account* – an account maintained by an intermediary to  
18                  which securities may be credited or debited;

1                   (ii) *Security agreement* -

- 2                   1) an agreement, regardless of whether the parties have  
3                   denominated it as a security agreement, between the grantor  
4                   and a secured creditor for the creation of the security interest;  
5                   and  
6                   2) an agreement that provides for the outright transfer of a  
7                   receivable;

8                   (jj) *Security interest* - a property right in collateral that secures payment  
9                   or other performance of an obligation, regardless of whether the  
10                  parties have denominated it as a security interest, and regardless of  
11                  the type of asset, the status of the grantor or secured creditor, or the  
12                  nature of the secured obligation; including the right of a buyer of  
13                  accounts receivable and a lessor under an operating lease for not  
14                  less than one (1) year; and

15                  (kk) *Writing* - for the purpose of this Law includes electronic records.

16                  **SEC. 4. Scope of the Act.**

17                  (a) This Act shall apply to:

- 18                  1) transactions that secure an obligation with collateral, regardless  
19                  of form or terminology used, and whether the secured creditor  
20                  or the grantor owns or has other rights to the collateral,  
21                  including a financial lease, and sale with a retention of

1 ownership, and, other than Enforcement of Security Interest in  
2 Chapter 6, the outright transfer of an account receivable.

3 2) for purposes of registration and priority,

4 a. liens in personal property; and

5 b. an operating lease for not less than one (1) year.

6 (b) This Act shall not apply to interests in aircrafts subject to Republic  
7 Act No. 9497, or the "Civil Aviation Authority Act of 2008", and  
8 interests in ships subject to Presidential Decree No. 1521, or the  
9 "Ship Mortgage Decree of 1978".

## 10 CHAPTER 2 - CREATION OF SECURITY INTEREST

### 11 SEC. 5. *Creation of a security interest.*

12 (a) A security interest shall be created by a security agreement.

13 (b) A security agreement may provide for the creation of a security  
14 interest in a future property, but the security interest in that  
15 property is created only when the grantor acquires rights in it or  
16 the power to encumber it.

17 SEC. 6. *Security agreement.* – A security agreement must be in writing  
18 signed by the grantor, and it may consist of one or more writings that, taken  
19 together, establish the intent of the parties to create a security interest, and:

20 (a) identifies the secured creditor and grantor;

21 (b) describes the secured obligation as provided in Section 7; and

(c) describes the collateral, as provided in Section 9.

### **SEC. 7. Obligations that may be secured.**

(a) A security interest may secure one or more obligations, which may

be of any type, pre-existing, present or future, conditional or unconditional, monetary or non-monetary, fixed or fluctuating.

(b) Secured obligations may be described specifically or generally, including by the maximum amount for which the security interest may be enforced.

**SEC. 8. Property that may be encumbered.** – A security interest may be

10 created over:

(a) Any type of personal property;

(b) Parts of property and undivided rights in personal property;

(c) Generic categories of personal property; and

(d) All of a grantor's personal property.

**SEC. 9. Description of collateral.** – A description of collateral shall be

16 considered sufficient, whether it is specific or general, if it reasonably  
17 identifies the collateral. A description such as "all personal property", "all  
18 equipment", "all inventory", or "all personal property within a generic  
19 category" of the grantor shall be sufficient.

1           **SEC. 10. Right to proceeds and commingled funds and money.**

2           (a) A security interest in personal property shall extend to its  
3           identifiable or traceable proceeds.

4           (b) Where proceeds in the form of funds credited to a deposit account  
5           or money are commingled with other funds or money:

6           1) The security interest shall extend to the commingled money or  
7           funds, notwithstanding that the proceeds have ceased to be  
8           identifiable to the extent they remain traceable;

9           2) The security interest in the commingled funds or money shall be  
10           limited to the amount of the proceeds immediately before they  
11           were commingled; and

12           3) If at any time after the commingling, the balance credited to the  
13           deposit account or the amount of the commingled money is less  
14           than the amount of the proceeds immediately before they were  
15           commingled, the security interest against the commingled funds  
16           or money shall be limited to the lowest amount of the  
17           commingled funds or money between the time when the  
18           proceeds were commingled and the time the security interest in  
19           the proceeds is claimed.

1           **SEC. 11. *Continuity of security interest.*** - A security interest shall  
2 continue in collateral notwithstanding sale, lease, license, exchange, or other  
3 disposition of the collateral, except as otherwise provided in Section 25 of this  
4 Act, or agreed upon by the parties.

5           **SEC. 12. *Contractual limitation on the creation of a security interest.***

6           (a) A security interest in an account receivable shall be effective  
7 notwithstanding any agreement between the grantor and the  
8 account debtor or any secured creditor limiting in any way the  
9 grantor's right to create a security interest.

10          (b) Nothing in this Section shall affect any obligation or liability of  
11 the grantor for breach of the agreement in subsection (a).

12          (c) Any stipulation limiting the grantor's right to create a security  
13 interest shall be void.

14          (d) This Section shall apply only to accounts receivable arising  
15 from:

16           1) a contract for the supply or lease of goods or services other  
17 than financial services;

18           2) a construction contract or a contract for the sale or lease of  
19 real property;

1                   3) a contract for the sale, lease or licence of intellectual  
2                   property.

3                   **SEC. 13. Rights and obligations and general standard of conduct of**  
4                   *parties.*

5                   (a) The mutual rights and obligations of the grantor and the secured  
6                   creditor are determined by the terms and conditions set out in the  
7                   security agreement, including any rules or general conditions  
8                   referred to therein.

9                   (b) A person must exercise its rights and perform its obligations under  
10                  this Law in good faith and in a commercially reasonable manner.

11                  **CHAPTER 3 – PERFECTION OF SECURITY INTEREST**

12                  **SEC. 14. Perfection of security interest.**

13                  (a) A security interest shall be perfected when it has been created and  
14                  the secured creditor has taken one of the actions in accordance with  
15                  Sec. 15.

16                  (b) On perfection, a security interest becomes effective against third  
17                  parties.

18                  **SEC. 15. Means of perfection. –** A security interest may be perfected by:

19                  (a) registration of a notice with the Registry;  
20                  (b) possession of the collateral by the secured creditor; and

(c) control of investment property and deposit account.

A security interest in any tangible asset may be perfected by registration or possession. A security interest in investment property and deposit account may be perfected by registration or control.

## SEC. 16. *Perfection by control.*

(a) A security interest in a deposit account or investment property may be perfected by control through:

1) The creation of the security interest in favour of the deposit-taking institution or the intermediary;

2) The conclusion of a control agreement; or

3) For an investment property that is an electronic security not held with an intermediary, the notation of the security interest in the books maintained by or on behalf of the issuer for the purpose of recording the name of the holder of the securities.

(b) Nothing in this Act shall require a deposit-taking institution or an intermediary to enter into a control agreement, even if the grantor so requests. A deposit-taking institution or an intermediary that has entered into such an agreement shall not be required to

1           confirm the existence of the agreement to another person unless  
2           requested to do so by the grantor.

3           **SEC. 17. *Perfection of judgment creditor's rights by registration or***  
4           ***seizure.*** - A judgement creditor may perfect his right by registering a notice,  
5           or seizing the property.

6           **SEC. 18. *Perfection in proceeds.***

- 7           (a) Upon disposition of collateral, a security interest shall extend to  
8           proceeds of the collateral without further act and be continuously  
9           perfected, if the proceeds are in the form of money, accounts  
10          receivable, negotiable instruments or deposit accounts.
- 11          (b) Upon disposition of the collateral, if the proceeds are in a form  
12          different from money, accounts receivable, negotiable instruments  
13          or deposit accounts, the security interest in such proceeds must be  
14          perfected by one of the means applicable to the relevant type of  
15          collateral within fifteen (15) days after the grantor receives such  
16          proceeds; otherwise, the security interest in such proceeds shall not  
17          be effective against third parties.

18           **SEC. 19. *Change in means of perfection.*** - A security interest shall  
19          remain perfected despite a change in the means for achieving perfection,  
20          provided that there was no time when the security interest was not perfected.

1           **SEC. 20. Assignment of security interest.** – If a secured creditor assigns  
2        a perfected security interest, an amendment notice may be registered to reflect  
3        the assignment.

4           **CHAPTER 4 – PRIORITY OF SECURITY INTEREST**

5           **SEC. 21. Priority rules.** – The priority of security interests and liens in  
6        the same collateral shall be determined according to time of registration of a  
7        notice or perfection by other means, without regard to the order of creation of  
8        the security interests and liens.

9           **SEC. 22. Priority for perfection by control.**

- 10          (a) A security interest in a deposit account with respect to which  
11           the secured creditor is the deposit-taking institution or the  
12           intermediary shall have priority over a competing security  
13           interest perfected by any method.
- 14          (b) A security interest in a deposit account or investment property  
15           that is perfected by a control agreement shall have priority over  
16           a competing security interest except a security interest of the  
17           deposit-taking institution or the intermediary.
- 18          (c) The order of priority among competing security interests in a  
19           deposit account or investment property that were perfected by  
20           the conclusion of control agreements shall be determined on  
21           the basis of the time of conclusion of the control agreements.

- 1                   (d) Any rights to set-off that the deposit-taking institution may  
2                   have against a grantor's right to payment of funds credited to a  
3                   deposit account shall have priority over a security interest in  
4                   the deposit account.
- 5                   (e) A security interest in a security certificate perfected by the  
6                   secured creditor's possession of the certificate shall have  
7                   priority over a competing security interest perfected by  
8                   registration of a notice in the Registry.
- 9                   (f) A security interest in electronic securities not held with an  
10                  intermediary perfected by a notation of the security interests in  
11                  the books maintained for that purpose by or on behalf of the  
12                  issuer shall have priority over a security interest in the same  
13                  securities perfected by any other method.
- 14                  (g) A security interest in electronic securities not held with an  
15                  intermediary perfected by the conclusion of a control  
16                  agreement shall have priority over a security interest in the  
17                  same securities perfected by registration of a notice in the  
18                  Registry.
- 19                  (h) The order of priority among competing security interests in  
20                  electronic securities not held with an intermediary perfected by

1                   the conclusion of control agreements is determined on the basis  
2                   of the time of conclusion of the control agreements.

3                 **SEC. 23. Priority for instruments and negotiable documents.** - A  
4                 security interest in an instrument or negotiable document that is perfected by  
5                 possession of the instrument or the negotiable document shall have priority  
6                 over a security interest in the instrument or negotiable document that is  
7                 perfected by registration of a notice in the Registry.

8                 **SEC. 24. Priority and right of retention by operation of law.** - A  
9                 person who provides services or materials with respect to the goods, in the  
10                ordinary course of business, and retains possession of the goods shall have  
11                priority over a perfected security interest in the goods until payment thereof.

12                 **SEC. 25. Transferee exceptions.**

13                 (a) A person who buys or leases goods in the ordinary course of  
14                 business of the seller or lessor shall take free of a security interest, if  
15                 the buyer or lessee did not have knowledge that the sale or lease  
16                 violates the rights of the secured creditor under the security  
17                 agreement.

18                 (b) A non-exclusive licensee of an intangible collateral licensed in the  
19                 ordinary course of the licensor's business shall take free of a  
20                 security interest, provided that, at the time of the conclusion of the  
21                 license agreement, the licensee did not have knowledge that the

1 license violates the rights of the secured creditor under the security  
2 agreement.

3 (c) A buyer or lessee of a motor vehicle shall take it free of a security  
4 interest if the buyer or lessee did not have knowledge that the sale  
5 or lease violates the rights of the secured creditor under the  
6 security agreement and if the notice would not be retrieved in a  
7 search according to the serial number.

8 (d) A buyer or lessee shall take free of a security interest in goods if the  
9 secured creditor consents to the sale or lease by the grantor.

10 (e) A person who receives money shall take free of a security interest  
11 in the money, unless the person acted in collusion with the grantor.

12 (f) A transferee of funds or investment property shall acquire its  
13 rights free of a security interest in deposit account or  
14 investment property, unless the transferee has knowledge that  
15 the transfer violates the rights of the secured creditor under the  
16 security agreement.

17 (g) A person who takes possession of an instrument or negotiable  
18 document and gives value without knowledge that the sale or  
19 other transfer is in violation of the rights of the secured creditor  
20 under the security agreement shall acquire its rights free of a

1           security interest that is made effective against third parties by  
2           registration of a notice in the Registry.

3           **SEC. 26. *Effect of the grantor's insolvency on the priority of a security***  
4           *interest.* - Subject to the applicable insolvency law, a security interest  
5           perfected prior to the commencement of insolvency proceedings in respect of  
6           the grantor shall remain perfected and retain the priority it had before the  
7           commencement of the insolvency proceedings.

8           **SEC. 27. *Purchase money security interest.***

9           (a) A purchase money security interest in equipment and its proceeds  
10           shall have priority over a conflicting security interest, if a notice  
11           relating to the purchase money security interest is registered within  
12           three (3) business days after the grantor receives possession of the  
13           equipment.

14           (b) A purchase money security interest in consumer goods that is  
15           perfected by registration of notice not later than three (3) business  
16           days after the grantor obtains possession of the consumer goods  
17           shall have priority over a conflicting security interest.

18           (c) A purchase money security interest in inventory, intellectual  
19           property or livestock shall have priority over a conflicting  
20           perfected security interest in the same inventory, intellectual  
21           property or livestock if:

1           1) the purchase money security interest is perfected when the  
2           grantor receives possession of the inventory or livestock, or  
3           acquires rights to intellectual property, and  
4           2) before the grantor receives possession of the inventory or  
5           livestock, or acquires rights in intellectual property, the  
6           purchase money secured creditor gives written notification to  
7           the holder of the conflicting perfected security interest in the  
8           same types of inventory, livestock, or intellectual property. The  
9           notification sent to the holder of the conflicting security interest  
10          may cover multiple transactions between the purchase money  
11          secured creditor and the grantor without the need to identify  
12          each transaction.

13         (d) The purchase money security interest in equipment or consumer  
14          goods perfected timely in accordance with subsections (a) and (b),  
15          shall have priority over the rights of a buyer, lessee, or lien holder  
16          which arise between delivery of the equipment or consumer goods  
17          to the grantor and the time the notice is registered.

18         **SEC. 28. *Livestock.* -** A perfected security interest in livestock securing

19          an obligation incurred to enable the grantor to obtain food or medicine for the  
20          livestock shall have priority over any other security interest in the livestock,  
21          except for a perfected purchase money security interest in the livestock, if the

1 secured creditor providing credit for food or medicine gives written  
2 notification to the holder of the conflicting perfected security interest in the  
3 same livestock before the grantor receives possession of the food or medicine.

4 **SEC. 29. *Fixtures.***

5 (a) A perfected security interest may be created in fixtures or may  
6 continue in goods that become fixtures.

7 (b) A security interest in a fixture shall be subordinate to rights in the  
8 real property to which it is affixed unless a notice of the security  
9 interest in the fixture has been registered in the Registry  
10 established by this Act and prior to the registration of the rights in  
11 the real property.

12 (c) A purchase money security interest in fixtures shall have priority  
13 over a conflicting interest of an encumbrancer or owner of the real  
14 property if the grantor:

15 1) the interest of the encumbrancer or owner arises before the  
16 goods become fixtures; and  
17 2) the security interest in the fixture is perfected by registration  
18 before the goods become fixtures or within ten (10) days  
19 thereafter.

1           **SEC. 30. *Accessions.*** – If a security interest is perfected when the  
2   collateral becomes an accession, the security interest shall remain perfected in  
3   the collateral.

4           **SEC. 31. *Commingled goods.***

5           (a) If a security interest has been created before commingling, the  
6        security interest shall extend to the product or mass.

7           (b) If a security interest is perfected before the collateral becomes  
8        commingled, the security interest shall continue to be perfected in  
9        the product or mass.

10          (c) The priority of the security interest in the product or mass shall be  
11        determined from the time of perfection in the collateral that  
12        became commingled, except as limited by subsection (d)(3), below.

13          (d) If more than one security interest extends to the product or mass,  
14        the following rules shall determine priority:

15           1) A security interest that is perfected shall have priority over a  
16        security interest that is unperfected at the time the collateral  
17        becomes commingled goods;

18           2) The first security interest to be created in the product or mass  
19        shall have priority among unperfected security interests; and

1           3) If more than one security interest is perfected, the perfected  
2           security interests shall rank equally in proportion to the value of  
3           the collateral at the time it became commingled.

4           **SEC. 32. *Subordination.***

5           (a) A secured creditor may, in a security agreement or otherwise,  
6           subordinate its security interest to any other interest.

7           (b) A subordination of security interest shall be effective without  
8           registration.

9           (c) A subordination shall not adversely affect the rights of other  
10          secured creditors.

11           **CHAPTER 5 - REGISTRATION - REGISTRY**

12           **SEC. 33. *Establishment of electronic registry.***

13           (a) The Registry shall be established in and administered by the Land  
14          Registration Authority.

15           (b) The Registry shall provide electronic means for registration and  
16          searching of notices.

17           **SEC. 34. *Public record.***

18           (a) Information contained in a registered notice shall be considered as  
19          a public record.

20           (b) Any person may search notices registered in the Registry.

21           (c) The electronic records of the Registry shall be the official records.

1           **SEC. 35. *Sufficiency of notice.***

- 2           (a) An initial notice of security interest shall not be rejected:
- 3           1) If it identifies the grantor by an identification number, as further  
4           prescribed in the regulations;
- 5           2) If it identifies the secured creditor or an agent of the secured  
6           creditor by name;
- 7           3) If it provides an address for the grantor and secured creditor or  
8           its agent;
- 9           4) If it describes the collateral; and
- 10          5) If the prescribed fee has been tendered, or an arrangement has  
11          been made for payment of fees by other means.
- 12          (b) If the Registry rejects to register a notice, it shall promptly  
13          communicate the fact of and reason for its rejection to the person  
14          who submitted the notice.
- 15          (c) Each grantor must authorize the registration of an initial notice by  
16          signing a security agreement or otherwise in writing.
- 17          (d) A notice may be registered before a security agreement is  
18          concluded. Once a security agreement is concluded, the date of  
19          registration of the notice shall be reckoned from the date notice  
20          was registered.

1                   (e) A notice of lien may be registered by a lien holder without the  
2                   consent of the person against whom the lien is sought to be  
3                   enforced.

4                   (f) Description of the collateral in a notice shall be entered in English.

5                   **SEC. 36. *One notice sufficient for security interests under multiple***  
6                   *security agreements.* – The registration of a single notice may relate to security  
7                   interests created by the grantor under one or more than one security  
8                   agreement.

9                   **SEC. 37. *Effectiveness of notice.***

10                  (a) A notice shall be effective at the time it is discoverable on the  
11                  records of the Registry.

12                  (b) A notice shall be effective for the duration of the term indicated in  
13                  the notice unless a continuation notice is registered before the term  
14                  lapses.

15                  (c) A notice substantially complying with the requirements of this  
16                  Chapter shall be effective unless it is seriously misleading.

17                  (d) A notice that may not be retrieved in a search of the Registry  
18                  against the correct identifier of the grantor shall be ineffective with  
19                  respect to that grantor.

1           **SEC. 38. *Seriously misleading notice.*** – A notice that does not provide  
2       the identification number of the grantor shall be seriously misleading.

3           **SEC. 39. *Amendment of notice.***

4           (a) A notice may be amended by the registration of an amendment  
5       notice that:

6           1) identifies the initial notice by its registration number; and  
7           2) provides the new information.

8           (b) An amendment notice that adds collateral that is not proceeds  
9       must be authorized by the grantor in writing.

10          (c) An amendment notice that adds a grantor must be authorized by  
11       the added grantor in writing.

12          (d) An amendment notice shall be effective only as to each secured  
13       creditor who authorizes it.

14          (e) An amendment notice that adds collateral or a grantor shall be  
15       effective as to the added collateral or grantor from the date of its  
16       registration.

17           **SEC. 40. *Continuation of notice.***

18          (a) The period of effectiveness of a notice may be continued by  
19       registering an amendment notice that identifies the initial notice by  
20       its registration number.

1                   (b) Continuation of notice may be registered only within six (6)  
2                   months before the expiration of the effective period of the notice.

3                   **SEC. 41. *Termination of effectiveness of a notice.***

4                   (a) The effectiveness of a notice may be terminated by registering a  
5                   termination notice that:  
6                   1) identifies the initial notice by its registration number; and  
7                   2) identifies each secured creditor who authorizes the registration  
8                   of the termination notice.

9                   (b) A termination notice terminates effectiveness of the notice as to  
10                  each authorizing secured creditor.

11                  **SEC. 42. *Registry duties.***

12                  (a) For each registered notice, the Registry shall:  
13                   1) assign a unique registration number;  
14                   2) create a record that bears the number assigned to the initial  
15                  notice and the date and time of registration; and  
16                   3) maintain the record for public inspection.

17                  (b) The Registry shall index notices by the identification number of the  
18                  grantor and, for notices containing a serial number of a motor  
19                  vehicle, by serial number.

1                   (c) The Registry shall provide a copy of the electronic record of the  
2                   notice, including the registration number and the date and time of  
3                   registration to the person who submitted it.

4                   (d) The Registry shall maintain the capability to retrieve a record by  
5                   the identification number of the grantor, and by serial number of a  
6                   motor vehicle.

7                   (e) The Registry shall maintain records of lapsed notices for a period  
8                   of ten (10) years after the lapse.

9                   (f) The duties of the Registry shall be merely administrative in nature.

10                  By registering a notice or refusing to register a notice, the Registry  
11                  does not determine the sufficiency, correctness, authenticity, or  
12                  validity of any information contained in the notice.

13                  **SEC. 43. *Search of Registry records and certified report.***

14                  (a) The Registry shall communicate the following information to any  
15                  person who requests it:

16                  1) whether there are in the Registry any unlapsed notices that  
17                  indicate the grantor's identification number or vehicle serial  
18                  number that exactly matches the relevant criterion provided by  
19                  the searcher;

20                  2) the registration number, and the date and time of registration of  
21                  each notice; and

1                   3) all of the information contained in each notice.

2                   (b) If requested, the Registry shall issue a certified report of the results

3                   of a search that is an official record of the Registry and shall be

4                   admissible into evidence in judicial proceedings without extrinsic

5                   evidence of its authenticity.

6                   **SEC. 44. Disclosure of information.**

- 7                   (a) The secured creditor must provide to the grantor at its request:
- 8                   1) the current amount of the unpaid secured obligation; and
- 9                   2) a list of assets currently subject to a security interest.
- 10                  (b) The secured creditor may require payment of a fee for each request
- 11                  made by the grantor in subsection (a) in this Section, but the
- 12                  grantor is entitled to a reply without charge once every six (6)
- 13                  months.
- 14                  (c) A security interest in a deposit account shall not:
- 15                  1) Affect the rights and obligations of the deposit-taking institution
- 16                  without its consent; or
- 17                  2) Require the deposit-taking institution to provide any
- 18                  information about the deposit account to third parties.

19                  **SEC. 45. Fees set by regulation.**

- 20                  (a) The fees for registering a notice and for requesting a certified
- 21                  search report shall be set by regulation issued by the Department

1                   of Finance for the recovery of reasonable costs of establishing and  
2                   operating the Registry.

- 3                   (b) The fee structure or any change thereof under subsection (a) shall  
4                   further consider that the same shall not be burdensome to either  
5                   lender or grantor.  
6                   (c) There shall be no fee for electronic searches of the Registry records  
7                   or for the registration of termination notices.  
8                   (d) The Registry may charge fees for services not mentioned above.

9                   **SEC. 46. When the grantor may demand amendment or termination of**

10                  *notice.* - A grantor may give a written demand to the secured creditor to  
11                  amend or terminate the effectiveness of the notice if:

- 12                  (a) all the obligations under the security agreement to which the  
13                  registration relates have been performed and there is no  
14                  commitment to make future advances;  
15                  (b) the secured creditor has agreed to release part of the collateral  
16                  described in the notice;  
17                  (c) the collateral described in the notice includes an item or kind of  
18                  property that is not a collateral under a security agreement  
19                  between the secured creditor and the grantor;  
20                  (d) no security agreement exists between the parties; or  
21                  (e) the security interest is extinguished in accordance with this Act.

1           **SEC. 47. Matters that may be required by demand.** – Upon receipt of  
2       the demand submitted under Section 46, the secured creditor must register,  
3       within fifteen (15) working days, an amendment or termination notice:  
4           (a) terminating the registration in a case within subsection (a), (d) or  
5           (e) of Section 46;  
6           (b) amending the registration to release some property that is no  
7       longer collateral in a case within subsection (c) of Section 46 or that  
8       was never collateral under a security agreement between the  
9       secured creditor and the grantor in a case within subsection (c) of  
10      Section 46.

11           **SEC. 48. Procedure for non-compliance with demand.** – If the secured  
12      creditor fails to comply with the demand within fifteen (15) working days  
13      after its receipt, the person giving the demand under Section 46 may ask the  
14      proper Court to issue an order terminating or amending the notice as  
15      appropriate.

16           **SEC. 49. Compulsory amendment or termination by court order.**

17           (a) The Court may, on application by the grantor, issue an order that  
18       the notice be terminated or amended in accordance with the  
19       demand, which order shall be conclusive and binding on the Land  
20       Registration Authority, provided, that the secured creditor who  
21       disagrees with the order of the Court may appeal the order.

1                         (b) The Court may make any other order it deems proper for the  
2                                  purpose of giving effect to an order under subsection (a) of this  
3                                  Section.

4                         (c) The Land Registration Authority shall amend or terminate a notice  
5                                  in accordance with a Court order made under subsection (a) of this  
6                                  Section as soon as reasonably practicable after receiving the order.

7                         **SEC. 50. No fee for compliance of demand.** – A secured creditor shall  
8                                  not charge any fee for compliance with a demand received under Section 46.

9                         **SEC. 51. When registration and search constitutes interference with**  
10                                 *privacy of individual.* – A person who submitted a notice for registration or  
11                                  carried out a search of the Registry with a frivolous, malicious or criminal  
12                                  purpose or intent shall be subject to civil and criminal penalties according to  
13                                  the relevant laws.

14                         **Chapter 6 - Enforcement of Security Interest**

15                         **Secured Creditor's Rights**

16                         **SEC. 52. Secured creditor rights upon default by debtor.**

17                         (a) If the debtor defaults, the secured creditor may enforce its rights  
18                                  against the collateral.

19                         (b) Upon default, the secured creditor shall have:

20                                  1) the right to possession of the collateral;

21                                  2) the right to dispose of the collateral;

- 1           3) other rights or remedies provided in this Act; and  
2           4) other rights or remedies provided in other laws or security  
3           agreement, to the extent they are not inconsistent with this Act.

4           **SEC. 53. *Right of Redemption.***

- 5           (a) Any person who is entitled to receive a notification of disposition  
6           in accordance with this Chapter is entitled to redeem the collateral  
7           by paying or otherwise performing the secured obligation in full,  
8           including the reasonable cost of enforcement.  
9           (b) The right of redemption may be exercised, unless:  
10           1) the person entitled to redeem has not, after the default, waived  
11           in writing the right to redeem;  
12           2) the collateral is sold or otherwise disposed of, acquired or  
13           collected by the secured creditor or until the conclusion of an  
14           agreement by the secured creditor for that purpose; and  
15           3) the secured creditor has retained the collateral.

16           **SEC. 54. *Right of higher-ranking secured creditor to take over***  
17           *enforcement.*

- 18           (a) Even if another secured creditor or a lien holder has commenced  
19           enforcement, a secured creditor whose security interest has priority  
20           over that of the enforcing secured creditor or lien holder shall be  
21           entitled to take over the enforcement process.

(b) The right referred to in subsection (a) of this Section may be invoked at any time before the collateral is sold or otherwise disposed of, or retained by the secured creditor or until the conclusion of an agreement by the secured creditor for that purpose.

(c) The right of the higher-ranking secured creditor to take over the enforcement process shall include the right to enforce the rights by any method available to a secured creditor under Section 52.

**SEC. 55. Expedited repossession of the collateral.**

(a) The secured creditor may take possession of the collateral without judicial process if the security agreement so stipulates, provided that possession can be taken without a breach of the peace.

(b) If the collateral is a fixture, the secured creditor, if it has priority over all owners and mortgagees, may remove the fixture from the real property to which it is affixed without judicial process. The secured creditor shall exercise due care in removing the fixture.

(c) If, upon default, the secured creditor cannot take possession of collateral without breach of the peace the secured creditor may proceed as follows:

- 1) The secured creditor shall be entitled to an expedited hearing upon application for an order granting the secured creditor

1 possession of the collateral. Such application shall include a  
2 statement by the secured creditor, under oath, verifying the  
3 existence of the security agreement attached to the application  
4 and identifying at least one event of default by the debtor under  
5 the security agreement.

6 2) The secured creditor shall provide the debtor, grantor, and, if  
7 the collateral is a fixture, any real estate mortgagee, a copy of the  
8 application, including all supporting documents and evidence  
9 for the order granting the secured creditor possession of the  
10 collateral.

11 3) The secured creditor is entitled to an order granting possession  
12 of the collateral upon the court finding that a default has  
13 occurred under the security agreement and that the secured  
14 creditor has a right to take possession of the collateral. The court  
15 may direct the grantor to take such action as the court deems  
16 necessary and appropriate so that the secured creditor may take  
17 possession of the collateral.

18 *Provided*, that breach of the peace shall include entering the private  
19 residence of the grantor without permission, resorting to physical  
20 violence or intimidation, or being accompanied by a law

1 enforcement officer when taking possession or confronting the  
2 grantor.

3 **SEC. 56. *Recovery in special cases.*** – Upon default, the secured  
4 creditor may without judicial process:

- 5 (a) instruct the account debtor to make payment to the secured  
6 creditor, and apply such payment to the satisfaction of the  
7 obligation secured by the security interest after deducting the  
8 secured creditor's reasonable collection expenses. On request of the  
9 account debtor, the secured creditor shall provide evidence of its  
10 security interest to the account debtor when it delivers the  
11 instruction to the account debtor.
- 12 (b) in a negotiable document that is perfected by possession, proceed  
13 as to the negotiable document or goods covered by the negotiable  
14 document.
- 15 (c) in a deposit account maintained by the secured creditor, apply the  
16 balance of the deposit account to the obligation secured by the  
17 deposit account; and
- 18 (d) in other cases of security interest in a deposit account perfected by  
19 control, instruct the deposit-taking institution to pay the balance of  
20 the deposit account to the secured creditor's account.

1           **SEC. 57. *Right to dispose of collateral.***

- 2           (a) After default, a secured creditor may sell or otherwise dispose of  
3           the collateral, publicly or privately, in its present condition or  
4           following any commercially reasonable preparation or processing.  
5           (b) The secured creditor may buy the collateral at any public  
6           disposition, or at a private disposition but only if the collateral is of  
7           a kind that is customarily sold on a recognized market or the  
8           subject of widely distributed standard price quotations.

9           **SEC. 58. *Commercial reasonableness required.***

- 10          (a) In disposing of collateral, the secured creditor shall act in a  
11          commercially reasonable manner.  
12          (b) A disposition is commercially reasonable if the secured creditor  
13          disposes of the collateral in conformity with commercial practices  
14          among dealers in that type of property.  
15          (c) A disposition is not commercially unreasonable merely because a  
16          better price could have been obtained by disposition at a different  
17          time or by a different method from the time and method selected  
18          by the secured creditor.  
19          (d) If a method of disposition of collateral has been approved in any  
20          legal proceeding, it is conclusively commercially reasonable.

1           **SEC. 59. *Notification of disposition.***

2           (a) Not later than ten (10) days before disposition of the collateral, the

3           secured creditor shall notify:

4           1) the grantor;

5           2) any other secured creditor or lien holder who, five (5) days

6           before the date notification is sent to the grantor, held a security

7           interest or lien in the collateral that was perfected by

8           registration; and

9           3) any other person from whom the secured creditor received

10           notification of a claim of an interest in the collateral if the

11           notification was received before the secured creditor gave

12           notification of the proposed disposition to the grantor.

13           (b) The grantor may waive the right to be notified.

14           (c) A notification of disposition is sufficient if it identifies the grantor

15           and the secured creditor; describes the collateral; states the method

16           of intended disposition; and states the time and place of a public

17           disposition or the time after which other disposition is to be made.

18           (d) The requirement to send a notification under this Section shall not

19           apply if the collateral is perishable or threatens to decline speedily

20           in value or is of a type customarily sold on a recognized market.

1           **SEC. 60. *Application of proceeds.***

2           (a) The proceeds of disposition shall be applied in the following order:

- 3           1) The reasonable expenses of taking, holding, preparing for  
4           disposition, and disposing of the collateral, including reasonable  
5           attorneys' fees and legal expenses incurred by the secured  
6           creditor;
- 7           2) The satisfaction of the obligation secured by the security interest  
8           of the enforcing secured creditor;
- 9           3) The satisfaction of obligations secured by any subordinate  
10          security interest or lien in the collateral if a written demand and  
11          proof of the interest are received before distribution of the  
12          proceeds is completed.

13          (b) The secured creditor shall account to the grantor for any surplus,  
14          and, unless otherwise agreed, the debtor is liable for any  
15          deficiency.

16           **SEC. 61. *Rights of buyers and other third parties.***

17          (a) If a secured creditor sells the collateral under this Chapter, the  
18          buyer shall acquire the grantor's right in the asset free of the rights  
19          of any secured creditor or lien holder.

1                   (b) If a secured creditor leases or licenses the collateral under this  
2                   Chapter, the lessee or licensee shall be entitled to the benefit of the  
3                   lease or license during its term.

4                   (c) If a secured creditor sells, leases or licenses the collateral not in  
5                   compliance with this Chapter, the buyer, lessee or licensee of the  
6                   collateral shall acquire the rights or benefits described in  
7                   subsections (a) and (b) of this Section; *Provided*, that it had no  
8                   knowledge of a violation of this Chapter that materially prejudiced  
9                   the rights of the grantor or another person.

10                  **SEC. 62. *Retention of collateral by secured creditor.***

11                  (a) After default, the secured creditor may propose to the debtor and  
12                  grantor to take all or part of the collateral in total or partial  
13                  satisfaction of the secured obligation, and shall send a proposal to:

- 14                  1) the debtor and the grantor;
- 15                  2) any other secured creditor or lien holder who, five (5) days  
16                  before the proposal is sent to the debtor and grantor, perfected  
17                  its security interest or lien by registration;
- 18                  3) any other person with an interest in the collateral who has given  
19                  a written notification to the secured creditor before the proposal  
20                  is sent to the debtor and grantor.

21                  (b) The secured creditor may retain the collateral in the case of:

- 1) a proposal for the acquisition of the collateral in full satisfaction of the secured obligation, unless the secured creditor receives an objection in writing from any person entitled to receive such a proposal within twenty (20) days after the proposal is sent to that person; or
- 2) a proposal for the acquisition of the collateral in partial satisfaction of the secured obligation, only if the secured creditor receives the affirmative consent of each addressee of the proposal in writing within twenty (20) days after the proposal is sent to that person.

Chapter 7 – Conflicts of Law provisions

### **SEC. 63. Law applicable to the mutual rights and obligations of the**

13 *grantor and the secured creditor.* – The law applicable to the mutual rights  
14 and obligations of the grantor and the secured creditor arising from their  
15 security agreement is the law chosen by them and, in the absence of a choice  
16 of law provision in the security agreement, the law governing the security  
17 agreement.

**SEC. 64. Law applicable to a security interest in a tangible asset.**

19           (a) The law applicable to the creation, perfection, and priority of a  
20           security interest in a tangible asset shall be the law of the State in  
21           which the asset is located.

- 1                   (b) The law applicable to the priority of a security interest in a tangible  
2                   asset covered by a negotiable document perfected by possession of  
3                   the document as against a competing claimant shall be the law of  
4                   the State in which the document is located.
- 5                   (c) The law applicable to the creation, perfection and priority of a  
6                   security interest in a tangible asset of a type ordinarily used in  
7                   more than one State shall be the law of the State in which the  
8                   grantor is located.

9                   **SEC. 65. *Law applicable to a security interest in an intangible asset.*** -  
10          Except as otherwise provided in this Chapter, the law applicable to the  
11          creation, perfection and priority of a security interest in an intangible asset  
12          shall be the law of the State in which the grantor is located.

13                   **SEC. 66. *Law applicable to a security interest in a receivable relating***  
14                   ***to real property.*** - Notwithstanding Section 63, in the case of a security  
15          interest in a receivable that arises from the sale or lease of, or is secured by,  
16          real property, the law applicable to the priority of the security interest in the  
17          receivable as against the right of a competing claimant that is registrable in  
18          the real property registry in which rights in the relevant real may be  
19          registered is the law of the State under whose authority the real property  
20          registry is maintained.

1           **SEC. 67. *Law applicable to the enforcement of a security interest.*** -

2     The law applicable to issues relating to the enforcement of a security interest  
3     in:

- 4       (a) A tangible asset shall be the law of the State in which the asset is  
5           located at the time of commencement of enforcement and  
6       (b) An intangible asset shall be the law applicable to the priority of the  
7           security interest.

8           **SEC. 68. *Law applicable to a security interest in proceeds of the***  
9     ***collateral.***

- 10      (a) The law applicable to the creation of a security interest in proceeds  
11       shall be the law applicable to the creation of the security interest in  
12       the original collateral from which the proceeds arose.  
13      (b) The law applicable to the third-party effectiveness and priority of a  
14       security interest in proceeds shall be the law applicable to the  
15       third-party effectiveness and priority of a security interest in an  
16       original collateral of the same kind as the proceeds.

17           **SEC. 69. *Meaning of location of the grantor.*** - For the purposes of this  
18     Chapter, the grantor shall be located:

- 19       (a) In the State in which it has its place of business;

- 1                   (b) If the grantor has a place of business in more than one State, in the  
2                   State in which the central administration of the grantor is exercised;  
3                   and  
4                   (c) If the grantor does not have a place of business, in the State in  
5                   which the grantor has his or her habitual residence.

6                   **SEC. 70. *Relevant time for determining location.***

7                   (a) Except as provided in subsection (b) of this Section, references to  
8                   the location of the collateral or of the grantor in this Chapter shall  
9                   refer:

- 10                  1) For creation issues, to the location at the time of the putative  
11                  creation of the security interest; and  
12                  2) For third-party effectiveness and priority issues, to the location  
13                  at the time the issue arises.

14                  (b) If the right of a secured creditor in an encumbered asset is created  
15                  and perfected and the rights of all competing claimants are  
16                  established before a change in the location of the asset or the  
17                  grantor, references in this Chapter to the location of the asset or of  
18                  the grantor shall refer, with respect to perfection and priority  
19                  issues, to the location prior to the change.

1           **SEC. 71. *Impact of commencement of insolvency proceedings on the***  
2       ***law applicable to a security interest.*** - The commencement of insolvency  
3       proceedings in respect of the grantor does not displace the law applicable to a  
4       security interest under this Chapter.

5           **SEC. 72. *Law applicable to security interests in deposit accounts.***

- 6       (a) The law applicable to the creation, perfection, priority and  
7       enforcement of a security interest in a deposit account, as well as to  
8       the rights and obligations between the deposit-taking institution  
9       and the secured creditor, shall be the law of the State expressly  
10      stated in the account agreement as the State whose law governs the  
11      account agreement or, if the account agreement expressly provides  
12      that the law of another State is applicable to all such issues, the law  
13      of that other State.
- 14      (b) The law of the State determined pursuant to subsection (a) of this  
15      Section shall apply only if the deposit-taking institution has, at the  
16      time of the conclusion of the account agreement, an office in that  
17      State that is engaged in the regular activity of maintaining deposit  
18      accounts.

1           **SEC. 73. *Law applicable to security interests in investment property.***

- 2           (a) While a security certificate is located in a State, the law of that State  
3           governs perfection and the priority of a security interest in the  
4           security certificate.
- 5           (b) The law of the State under which the issuer is organized governs  
6           perfection and the priority of a security interest in an uncertificated  
7           security.
- 8           (c) The law applicable to the creation, perfection, priority and  
9           enforcement of a security interest in investment property held with  
10           an intermediary is the law of the State expressly stated in the  
11           account agreement as the State whose law governs the account  
12           agreement or, if the account agreement expressly provides that the  
13           law of another State is applicable to all such issues, the law of that  
14           other State.
- 15           (d) The law of the State determined pursuant to subsection (c) of this  
16           Section applies only if the intermediary has, at the time of the  
17           conclusion of the account agreement, an office in that State that is  
18           engaged in the regular activity of maintaining securities and  
19           commodity accounts.
- 20           (e) The law of the State in which the grantor is located shall govern  
21           perfection of a security interest in investment property by filing

and automatic perfection of a security interest in investment property created by an intermediary.

Chapter 8 – Transitional Provisions

4 SEC. 74. *Interpretation of Transitional Provisions.* - For this Chapter,  
5 unless the context otherwise requires:

- (a) *Existing secured creditor* – means a secured creditor with a prior security interest;
  - (b) *Prior law* – means any law that existed or in force before the effectiveness of this Act;
  - (c) *Prior interest* – means a security interest created or provided for by an agreement or other transaction that was made or entered into before the effectiveness of this Act and that had not been terminated before the effectiveness of this Act, but excludes a security interest that is renewed or extended by a security agreement or other transaction made or entered into on or after the effectiveness of this Act; and
  - (d) *Transitional period* – means the period from the date of effectiveness of this Act until the date when the Registry has been established and operational.

### **SEC. 75. *Creation of prior interest.***

- 20 (a) Creation of prior interest shall be determined by prior law.

21 (b) A prior interest remains effective between the parties

1                    notwithstanding its creation did not comply with the creation  
2                    requirements of this Act.

3                    **SEC. 76. *Perfection of prior interest.* –**

- 4                    (a) A prior interest that was perfected under prior law continues to be  
5                    perfected under this Act until the earlier of:  
6                    1) the time the prior interest would cease to be perfected under  
7                    prior law; and  
8                    2) the expiration of the transitional period.  
9                    (b) If the perfection requirements of this Act are satisfied before the  
10                  perfection of a prior interest ceases in accordance with subsection  
11                  (a) of this Section, the prior interest continues to be perfected under  
12                  this Act from the time when it was perfected under the prior law.  
13                  (c) If the perfection requirements of this Act are not satisfied before the  
14                  perfection of a prior interest ceases in accordance with subsection  
15                  (a) of this Section, the prior interest is perfected only from the time  
16                  it is perfected under this Act.  
17                  (d) A written agreement between a grantor and a secured creditor  
18                  creating a prior interest is sufficient to constitute authorization by  
19                  the grantor of the registration of a notice covering assets described  
20                  in that agreement under this Act.

(e) If a prior interest referred to in subsection (b) of this Section was perfected by the registration of a notice under prior law, the time of registration under the prior law shall be the time to be used for purposes of applying the priority rules of this Act.

**SEC. 77. Priority of prior interest.**

(a) The priority of a prior interest as against the rights of a competing claimant is determined by the prior law if:

- 1) The security interest and the rights of all competing claimants arose before the effectiveness of this Act; and
  - 2) The priority status of these rights has not changed since the effectiveness of this Act.

(b) For purposes of subsection (a) (2) of this Section, the priority status of a prior interest has changed only if:

- 1) It was perfected when this Act took effect, but ceased to be perfected; or
  - 2) It was not perfected under prior law when this Act took effect, and was only perfected under this Act.

**SEC. 78. Enforcement of prior interest.**

(a) If any step or action has been taken to enforce a prior interest before the effectiveness of this Act, enforcement may continue under prior law or may proceed under this Act.

(b) Subject to subsection (a) of this Section, prior law shall apply to a matter that is the subject of proceedings before a court before the effectivity of this Act.

## Chapter 9 – Congressional Oversight and Miscellaneous Provisions

**SEC. 79. Congressional oversight and periodic review.** - A Congressional Oversight Committee shall be created that will conduct a periodic review every five (5) years commencing from effectiveness of this Act.

8 The Congressional Oversight Committee shall be composed of the  
9 Chairperson of the Senate Committee on Banks, Financial Institutions and  
10 Currencies, the Chairperson of the House of Representatives Committee on  
11 Banks and Other Financial Intermediaries, and representatives of other  
12 relevant congressional committees.

13 SEC. 80. *Interpretation.* – If there is conflict between a provision of this  
14 Act and a provision of any other law, this Act shall govern unless the other  
15 law specifically cites or amends the conflicting provision of this law.

16 SEC. 81. *Implementing rules and regulations.* – Within six (6) months  
17 from the passage of this Act, the Department of Finance in coordination with  
18 the Department of Justice through the Land Registration Authority (LRA)  
19 shall promulgate the necessary rules and regulations for the effective  
20 implementation of this Act.

1           **SEC. 82. Rules on enforcement procedure.** - Subject to Section 55, the  
2 expedited hearing/proceedings shall be conducted in a summary manner  
3 consistent with the declared policies of this Act and in accordance with the  
4 rules of procedure that the Supreme Court may promulgate.

5           **SEC. 83. Sourcing of Funds.** - The funds needed for the  
6 implementation of this Act shall be taken from the Special Account arising  
7 from revenues collected by the Land Registration Authority under Section 111  
8 of Presidential Decree 1529, without need for any further government  
9 approval.

10          **SEC. 84. Separability clause.** - Should any provision herein be  
11 declared unconstitutional, the same shall not affect the validity of the other  
12 provisions of this Act.

13          **SEC. 85. Repeal of conflicting laws.** - This Act repeals the following:

- 14           (a) Sections 1 to 16 of Act No. 1508, otherwise known as the Chattel  
15           Mortgage Law;
- 16           (b) Articles 1484-1486, 2085-2123, 2127, 2140-2141, 2241, 2243, and  
17           2246-2247 of Republic Act No. 386, otherwise known as the Civil  
18           Code of the Philippines;
- 19           (c) Section 13 of Republic Act No. 5980, as amended by Republic Act  
20           No. 8556, otherwise known as Financing Company Act of 1998 ;

- (d) Section 10 and Sections 114-116 of Presidential Decree No. 1529, otherwise known as Property Registration Decree; and
- (e) Section 5(e) of Republic Act No. 4136, otherwise known as Land Transportation and Traffic Code.

5 SEC. 86. *Effectivity.* - This Act shall take effect fifteen (15) days after  
6 publication in at least two (2) newspapers of general circulation.

7           **SEC. 87. Implementation.** – Notwithstanding the entry into force of  
8     this Act under Section 86, the implementation of the Act shall be conditioned  
9     upon the Registry being established and operational under Section 33.

*Approved,*