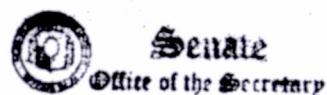


EIGHTEENTH CONGRESS OF THE
REPUBLIC OF THE PHILIPPINES
First Regular Session



20 FEB -3 PM:10

SENATE

S. No. 1315

RECEIVED BY: *[Signature]*

Introduced by SENATOR RAMON BONG REVILLA, JR.

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

EXPLANATORY NOTE

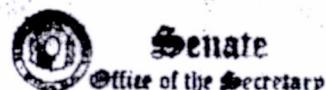
Cooperative banks play a pivotal role in furnishing credit and other financial services to the so-called non-bankable sector of our society, their efforts have been commendable. It has been a long time aspiration for the cooperative banking sector to have its own rule book distinct and different from that of rural and commercial banks. Using the small shareholding of fisherfolk, farmers, small traders and micro entrepreneurs, Cooperative banks are financed by primary cooperatives and Samahang Nayon's. In return, primary cooperatives get money from cooperative banks to support the loan program for its members. Every end of the year, net surplus generated by cooperative banks are then funnelled back to the owners; truly an example of a beneficial give and take relationship.

It is worth noting that cooperative banks have been very consistent in helping our government in efforts to alleviate our nation from poverty. Therefore, it is the duty of the State to support the advancement of this sector, aiding it in any way in order to further its growth. The cooperative banking sector now have bigger challenges to overcome in order for them to play a more meaningful role in credit delivery, targeting people from the countryside. This measure aims to make cooperative banks more capable to move the past challenges.

In view of the foregoing, the passage of this bill into law is earnestly sought.

[Signature]
RAMON BONG REVILLA, JR.

EIGHTEENTH CONGRESS OF THE)
REPUBLIC OF THE PHILIPPINES)
First Regular Session)



20 FEB -3 PM 10

SENATE

S. No. 1315

RECEIVED BY: J

Introduced by SENATOR RAMON BONG REVILLA, JR.

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

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

1 Section 1. *Title.* – This Act shall be known as the "Cooperative Banking Act of
2 2020".

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

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

- 11 1. Recognize Cooperative Banks (CB) as a practical vehicle for the promotion
12 of self-reliance and harnessing of people power towards the attainment of
13 economic development and social justice;
- 14 2. Encourage thrift and savings mobilization for the achievement of
15 sustainable economic development primarily among cooperatives and their
16 members; and

1 3. Regulate and supervise the activities of CBs in order to achieve sound,
2 stable, sustainable and efficient operations for the protection of public
3 interest.

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

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

9 1. *Banko Sentral ng Pilipinas* – refers to the central monetary authority of the
10 Philippines created and existing under the authority of Republic Act (R.A.)
11 No. 7653, as amended, otherwise known as the New Central Bank Act,
12 which provides policy direction in the areas of money, banking and credit,
13 and exercises supervision over the operations of banks, and other financial
14 institutions which fall under its jurisdiction.

15 2. Cooperative Bank – refers to a bank organized under this Act and under
16 the provisions of R.A. No. 9520, otherwise known as the Philippine
17 Cooperative Code of 2008, and prior laws, the majority shares of which
18 are owned and controlled by the cooperative organizations, for the
19 primary purpose of providing a wide range of financial services to
20 cooperatives and their members and the public.

21 3. Cooperative Code – refers to the Philippine Cooperative Code of 2008, or
22 also known as R.A. No. 9520.

23 4. Cooperative Development Authority – refers to the agency of the
24 Government created under R.A. No. 6939, as amended by R.A. 11364,
25 which is mandated to register, develop, regulate and supervise
26 cooperatives.

27 5. Cooperative Organization – refers to any cooperative whether primary,
28 secondary or tertiary, or special types of cooperatives registered under the
29 provisions of R.A. No. 9520 and R.A. No. 10744, otherwise known as
30 Credit Surety Fund Cooperative Act of 2015.

31 6. Individual – refers to a Filipino citizen who is a member of any cooperative
32 registered under R.A. No. 9520

- 1 7. Monetary Board – refers to the Monetary Board of the BSP
2 8. Samahang Nayon and Municipal Katipunan ng mga Samahang Nayon –
3 refers to pre-cooperative organizations established under Presidential
4 Decree No. 175.

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

- 7 1. Organization – At least five (5) cooperative organizations duly established
8 and registered under the Cooperative Code may register a CB with the
9 CDA, upon compliance with the requirement and required authorization
10 from the *Banco Sentral ng Pilipinas* (BSP)
11 2. Membership – Membership in a CB shall be open to: (a) cooperatives of all
12 types and categories (local or foreign), (b) individuals who are members of
13 a cooperative, and (c) associations and organizations. Membership is
14 either regular or associate. Regular membership shall be limited to
15 cooperative organizations and any individual who are members of a
16 cooperative. Associate members shall be individuals or associations or
17 organizations which are subscribing and holding preferred shares only.

18 The common shareholdings of cooperative members shall at all times be
19 at least sixty percent (60%) of the total outstanding voting shares of the
20 CB, while common shares held by individuals shall not be more than forty
21 (40%) of the total outstanding voting shares: *Provided, further,* that the
22 individual common shareholders shall not be related to each other within
23 the fourth degree of consanguinity or affinity. *Provided, finally,* that a
24 foreign cooperative may own, acquire or purchase common shares not
25 exceeding forty percent (40%) of the total outstanding common shares.

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

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

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

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

10 7.1 Board and Committees. – The CB shall constitute, at a minimum, the
11 Board of Directors, Election Committee and Audit Committee.

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

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

25 The Audit Committee shall be composed of at least three (3) members of the
26 Board of Directors, who shall all be non-executive directors, including the
27 chairperson who shall be an independent director. The Committee shall be
28 responsible for the oversight of financial reporting framework, internal control
29 system, selection/appointment of independent auditor and perform such other
30 functions as may be required by the by-laws and existing regulations of the BSP. It
31 shall assist the board of directors in fulfilling its overseeing responsibilities in relation
32 to the adequacy and effectiveness of the internal audit function, implementation of

1 corrective actions, investigation of issues/concerns within the committee's terms of
2 reference and establishment of whistleblowing mechanism.

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

5 7.2. Key Management Officers. – The key management officers shall be
6 appointed by the Board and shall include but not be limited to the President,
7 Treasurer, Internal Auditor, Chief Compliance Officer or their equivalent ranks. The
8 BSP shall prescribe the qualifications and disqualifications of the key management
9 officers.

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

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

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

28 In no case shall the total yearly compensation of directors exceed ten percent
29 (10%) of the net income of the CB during the preceding year.

30 Sec. 10. *Liability of Directors, Officers and Committee Members.* – Directors,
31 officers, and committee members, who wilfully and knowingly vote for or assent to
32 patently unlawful acts or who are guilty of gross negligence or bad faith in directing

1 the affairs of the CB or acquire any personal or pecuniary interest in conflict with
2 their duties as such directors, officers or committee members shall be liable jointly
3 and severally to the CB for the full amount of damages or personal gain resulting
4 therefrom.

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

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

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

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

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

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

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

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

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

14 Sec. 18. *Meetings.* –

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

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

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

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

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

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

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

31 Sec. 21. *Investment in Allied Undertakings.* – Subject to the requirements and
32 restrictions as may be imposed by the Monetary Board under its existing rules and

1 regulations, CBs may invest in equities of allied undertakings which may include, but
2 not be limited to the following:

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

16 Sec. 22. *Limitations and Lending Authority.* – Except as the Monetary board
17 may otherwise prescribe, the direct indebtedness to CBs of any person, company,
18 corporation, or firm, including the indebtedness of members of a partnership and
19 association, for money borrowed, excluding: loans secured by obligations of the
20 BSP; loans fully guaranteed by the Government as to the payment of principal and
21 interest; loans to the extent covered by the hold-out on, or assignment of, deposits
22 maintained in the lending CB and held in the Philippines; and other loans or credits
23 as the Monetary Board may, from time to time, specify non-risk assets, shall in no
24 time exceed twenty five percent (25%) of unimpaired capital and surplus of the CB.

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

31 Sec. 24. *Samahang Nayon and Municipal Katipunan ng mga Samahang*
32 *Nayon.* – Samahang Nayon (SN) and Municipal Katipunan ng mga Samahang Nayon

1 (MKSN) which held common shares of CBs prior to the effectivity of R.A. No. 9520
2 shall apply for conversion to cooperatives in order to maintaining their status as
3 regular members of CBs: *Provided*, that the CBs shall exert effort to perform and
4 assist the SN and MKSN to convert within a period of five (5) years from the
5 effectivity of this Act. Upon failure of the SN and MKSN to finally convert to a
6 cooperative or association within said period, the funds held in the name of such SN
7 and MKSN shall be subject to escheat.

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

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

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

27 The same privileges and incentives generally granted to cooperatives under
28 the Cooperative Code shall be granted to CB organized under this Act and other prior
29 laws including exemption from all national, city, provincial, municipal or barangay
30 taxes, fees and charges of whatever nature and description. *Provided*, however, that
31 when CB has reached an undivided net savings of more than ONE HUNDRED

1 MILLION PESOS (Php 100,000,000.00), transaction to non-member will become
2 taxable.

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

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

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

13

14 *Approved,*