

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

'04 JUL -2 A9:00

RECEIVED BY: 

SENATE

S. B. No. 1300

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Introduced by Senator Rodolfo G. Biazon

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**EXPLANATORY NOTE**

While there is no sufficient data to measure exactly the impact of credit and savings cooperatives in our financial system, the cooperative sector as a whole has already been recognized as instruments for marshalling resources and energies of the less economically fortunate.

Republic Act No. 6938, otherwise known as the Cooperative Code of the Philippines was enacted to promote and support the organization of cooperatives as vehicles for uplifting the lives of the masses. Likewise, Republic Act No. 6939, another piece of cooperative legislation, creates the Cooperative Development Authority to rationalize government policies and agencies with cooperative functions.

The above said laws speak well of the principle of subsidiarity and complementation under which the cooperative sector will initiate, regulate, and foster within its own ranks cooperative promotions, organization, training, research, information gathering, audit and support services, with government assistance where necessary. However, while the Cooperative Code already provides a special chapter on credit cooperatives, its provisions contain no substantial treatment of the financial service operations in this type of cooperative. The regulatory framework needed and the financial discipline required is the most important policy variables to make it conducive for credit and savings cooperative to grow.

*Hereunder are the main reasons for this bill, namely:*

1. The absence of a clear regulatory framework for the savings and credit cooperatives leads to low public confidence and trust to them (nationally, only an insignificant percentage of all savings are in the savings and credit cooperatives);
2. There is no deposit insurance/guarantee for savings in the savings and credit cooperatives to protect members' money;
3. There is a need to promote and support stronger integration and networking of savings and credit cooperatives to make them more competitive with the major banks/financial institutions;

4. For the country as a whole, a stronger savings and credit cooperatives sector will mean higher domestic savings and more accessible and affordable credit and other financial services.

This bill is a product of a number of workshops and other group processes conducted in several cooperative sector-led regional consultations and technical working group meetings. Hence, the early passage of this bill is earnestly sought.



**RODOLFO G. BIAZON**  
Senator

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AN ACT  
PROVIDING FOR GOVERNMENT REGULATION AND SELF-REGULATION  
WITHIN THE COOPERATIVE SECTOR OF COOPERATIVES ENGAGED IN  
FINANCIAL SERVICES, AND DEFINING THE RESPONSIBILITIES, POWERS AND  
FUNCTIONS OF COOPERATIVES AND COOPERATIVE FEDERATIONS  
ENGAGED IN SAVINGS, CREDIT AND OTHER FINANCIAL SERVICES,  
AMENDING THEREFOR REPUBLIC ACT NUMBERED 6938, OTHERWISE  
KNOWN AS THE COOPERATIVE CODE OF THE PHILIPPINES, AND REPUBLIC  
ACT NUMBERED 6939, CREATING THE COOPERATIVE DEVELOPMENT  
AUTHORITY”

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

CHAPTER I  
State Policy, General Concepts and Definitions

**Article 1. Title.** – This Act shall be known as the “Financial Service Cooperative Act”.

**Art. 2. Coverage** – This Act shall apply to all savings and credit cooperatives and financial service cooperatives as defined herein, including all credit cooperatives registered by the CDA as such under Republic Acts No. 6938 and 6939. It shall also apply to all other cooperatives, including multi-purpose cooperatives, that provide savings, credit or other related financial services to their members in so far as those savings, credit and other related financial services are concerned. For the purposes of this Act, cooperative banks are not included as savings and credit cooperatives or as financial service cooperatives or as financial service cooperative federations and are not covered by this Act.

**Art. 3. Declaration of Policy** - It is the declared policy of the State to recognize and support cooperatives as effective vehicles for promoting self-reliance, savings and accessible credit and other financial services, and harnessing people power towards the attainment of economic development, social justice and empowerment. The state shall create an enabling environment for the growth and development of these cooperatives and shall allow the cooperative sector to undertake the actual formation, organization, training and audit and other support services for cooperatives.

The State shall recognize and respect the autonomy and organizational integrity of cooperatives while providing appropriate regulation and supervision necessary to safeguard the members' interests and promote trust and confidence in cooperatives.

Further, the State recognizes the principle of subsidiarity under which the cooperative sector will initiate, sustain and regulate within its own ranks the promotion and organization, training, research, audit and support services relating to cooperatives, and government shall only take on those training, research and support services that the cooperative sector is unable to do.

#### **Art. 4. Definition of Terms**

Section. 1. *Savings and credit cooperatives and financial service cooperatives* are legal entities registered with the Cooperative Development Authority (CDA) in which persons having economic and social needs unite to form a financial service institution whose objectives and rules of cooperative action are set out in this Act.

*Savings and credit cooperatives* refer to those cooperatives that have less than 150 members and Five Million Pesos in paid-up share capital. Financial service cooperatives are those cooperatives that have 150 members or more and Five Million Pesos or more in paid-up share capital.

Multi-purpose and other primary cooperatives that engage in savings, credit or other related financial services shall also be classified and treated as either savings and credit cooperatives or financial service cooperatives based on these criteria. In this Act, "cooperatives" shall refer to both savings and credit cooperatives and financial service cooperatives, including multi-purpose and other primary cooperatives engaged in savings, credit or other related financial services.

Sec. 2. *A financial service cooperative federation* is a legal entity registered with the CDA the members of which are savings and credit cooperatives and/or financial service cooperatives and other cooperatives or other federations, the objectives and rules of cooperative action of which are set out in this Act, and which provide financial services to their members. Such federations may be organized at the local, regional or national level. In this Act, "federations" shall refer to local, regional and national financial service cooperative federations.

A registered cooperative union that provides financial services to its members shall be treated as a financial service cooperative federation under this Act immediately upon its effectivity, and shall be given two (2) years after the effectivity of this Act to change their registration with the CDA into a financial service cooperative federation.

Sec. 3. *A registered national financial service cooperative federation* must have as members a minimum of fifty primary financial service cooperatives or five local or regional federations: Provided, that such local or regional federations must have as members a total fifty or more primary financial service cooperatives. National financial service cooperative federations are also referred to in this Act as "national federations".

Sec. 4. *A national federation* and its members together with the stabilization fund established at the request of the national federation as well as any other legal person directly or indirectly controlled by the national federation form a network.

Sec. 5. *The Cooperative Development Authority or the CDA* is the government agency created under Republic Act No. 6939.

Sec. 6. *Internationally accepted cooperative principles* shall mean the body of principles adhered to worldwide by cooperatives and which are also known as the International Cooperative Identity Statement.

Sec. 7. *The Financial Service Cooperative Commission or FSCC* is the government body created under this Act to undertake the regulation and supervision of savings and credit cooperatives, financial service cooperatives and financial service cooperative federations.

Sec. 8. *Regulation* is the act of issuing various rules of conduct or establishing modes or standards of operation to ensure that cooperatives and federations operate in a sound and prudent manner.

Sec. 9. *Supervision* includes overseeing to ascertain that regulations are complied with, investigating or examining to determine whether a cooperative or federation is conducting its business on a sound basis and inquiring into the solvency and liquidity of a cooperative or federation.

**Art. 5.** A cooperative and a federation operate according to the following:

- a) The number of members is not limited;
- b) A general reserve must be provided;
- c) Surplus earnings are allocated in accordance with this Act; and
- d) The internationally accepted cooperative principles are adhered to, subject to the provisions of the present Act.

In addition, no member of a cooperative is entitled to more than one vote and no member, except legal persons, may vote by proxy.

## CHAPTER II

### Organization, Registration of Savings and Credit Cooperatives, Financial Service Cooperatives and Federations and Amendments of the Articles of Cooperation and By-Laws

**Art. 6. Articles of Cooperation** -The Articles of Cooperation of a savings and credit cooperative, a financial service cooperative or a financial service cooperative federation shall set out:

- (1) its name;
- (2) the location of its principal office;
- (3) the name and address of each founding member;
- (4) the conditions and restrictions, if any, concerning the exercise of certain powers or the pursuit of certain activities.

In addition, the Articles of Cooperation of a cooperative shall include the name of the federation of which it will be a member. The articles of cooperative shall indicate, in accordance with the standards of the national federation, the common characteristic shared by the members, other than associate members, that may be recruited by the cooperative. The common characteristic may be determined on the basis of one or more criteria applicable to the members, and in particular on the basis of territory, employment status or occupation.

The Articles of Cooperation and By-Laws of a cooperative or federation, signed by each founding member or, in the case of a federation, by their representative shall be transmitted in quadruplicate to the Cooperative Development Authority (CDA) including a copy for the Financial Service Cooperative Commission (FSCC).

The Article of Cooperation and By-Laws of the cooperative or federation must be accompanied by:

- (1) An application signed by all founding members requesting the CDA to authorize the organization of the cooperative or the federation together with, in the case of a federation, a certified copy of the resolution of each of the founding cooperatives;
- (2) Name and address of the provisional secretary;
- (3) Manner in which the organizational meeting will be called;
- (4) Address of the principal office;

(5) The financial forecasts of the assets, liabilities and income and expenses for the first year;

In the case of a cooperative, they must also submit certified copy of the federation resolution committing to accept the cooperative as a member and its consent to the proposed name of the cooperative, and the documents constituting guarantees that are sufficient to ensure the protection of its members and creditors. Such guarantees may be provided by a stabilization fund and/or a federation.

The CDA may require reasonable additional documents or information for the examination of the application.

**Art. 7. Registration by the CDA** - Upon receipt of the Articles, By-Laws and accompanying documents, the fees prescribed by regulation of the Government, any additional document or information required, the FSCC shall make a report to the CDA.

Upon the favorable advice of the FSCC, the Cooperative Development Authority may approve the organization of the cooperative or federation.

For this purpose, the CDA shall:

Sec. 1. Prepare a certificate attesting the constitution of the cooperative or federation and stating the date of establishment;

Sec. 2. Deposit in the register a duplicate copy of the Articles of Cooperation and By-Laws of the cooperative or federation;

Sec. 3. Send a copy of the certificate and the Articles of Cooperation and By-Laws to the cooperative or federation; and, in the case of a cooperative or a local or regional federation, to the national federation that has undertaken to admit the cooperative as a member; and

Sec. 4. Send a copy of the certificate to the FSCC.

**Art. 8. Name of the Cooperative or Federation** - The name of the cooperative or federation:

Sec. 1. Shall not be the name of another cooperative or federation, which has been approved before;

Sec. 2. Shall not be the name or words that evoke an immoral, obscene or offensive expression, which belittles the cooperative or federation;

Sec. 3. Shall not falsely suggest that the cooperative or federation is a purely charitable group, or falsely suggest that the cooperative or federation is related to another person, partnership or group;

Sec. 4. Shall not be misleading in any manner for third persons;

Sec. 5. The name of a cooperative or federation shall contain one or a combination of the following expressions: "cooperative", "savings and credit cooperative", "credit cooperative" and "financial service cooperative".

Sec. 6. The name of a federation must include the word "federation" or "confederation".

No legal person other than a savings and credit cooperative or financial service cooperative or a financial service cooperative federation may include in its name the expressions "savings and credit cooperative" or "credit cooperative". No legal person other than a financial service cooperative or a financial service cooperative federation may include in its name the expression "financial service cooperative".

The CDA shall issue the necessary rules for the implementation of Articles 7 and 8.

**Art. 9.** A cooperative or federation may transfer its principal office to another city or province provided its Articles of Cooperation is amended accordingly.

**Art. 10. Organizational Meeting** - The founding members as well as those subsequently enrolled members of the cooperative or federation shall hold an organizational meeting within ninety (90) days from the decision of its entry in the register of the CDA. At the meeting, the founding members of a cooperative or federation must:

- Sec. 1. Inform the members of the approval of its Articles of Cooperation and By-Laws;
- Sec. 2. Subscribe for the number of founder shares and qualifying shares in the by-laws or, in the absence of a provision in the by-laws, for one qualifying share;
- Sec. 3. Elect the Board of Directors, Audit and Ethics Committee or the Ethics Committee in the case of a federation;

A cooperative must also pass a resolution ratifying the membership of the cooperative with the national financial service cooperative federation that has undertaken to accept it as a member.

This meeting shall be called by the provisional secretary. If the provisional secretary is unable or refuses to act, the meeting shall be called by at least three founding members.

Every person who transmitted an application for membership to the provisional secretary before the notice calling the meeting was sent and who is accepted at the beginning of the meeting by the founding members named in the articles is deemed to be a founding member of the cooperative or federation for the purposes of the meeting.

**Art. 11.** Within 30 days after the organizational meeting, the cooperative or federation shall transmit to the FSCC and CDA the following:

- Sec. 1. A list of the members of the Board of Directors, Audit and Ethics Committee, or Ethics Committee if a federation, and their addresses;
- Sec. 2. A notice of the fiscal year of the cooperative or federation; and
- Sec. 3. In the case of a cooperative, a certified copy of the resolution ratifying the membership of the cooperative to the national federation which has undertaken to admit it as a member.

**Art. 12. Amendments of the Articles of Cooperation and the By-Laws** - Amendments of the Articles of Cooperation or the By-Laws of a cooperative or federation cannot be authorized except by a valid resolution of the General Assembly as provided in the By-Laws. The amendments must first be submitted for approval to the national federation of which the cooperative or federation is a member, unless the object of the amendment is to terminate the membership of a cooperative in a national federation.

The cooperative or federation shall transmit the amendments to the CDA in quadruplicate, including a copy for the FSCC.

The amendments must be accompanied by:

- (1) an application for the amendment or replacement of the articles or by-laws signed by the Chairperson or a person authorized for that purpose;
- (2) a certified copy of the resolution of the cooperative or federation approving the amendment to or replacement of the articles or by-laws;
- (3) a certified copy of the resolution of the national federation of which the cooperative or federation is a member approving the amendment to or replacement of the articles or by-laws of a cooperative or federation.

Upon receipt of the amendments and the accompanying documents, the fees prescribed by regulation of the Government and any additional document or information required by the CDA, the CDA shall act on the application within sixty (60) days upon advice of the FSCC. Upon approval, the CDA shall prepare a certificate, in quadruplicate, attesting the amendments and stating its date of effect, which may be subsequent to the date on which the certificate is made. The CDA shall deposit a copy of the certificate and the amendments or replacement, and send a copy of the certificate to the cooperative or federation, the national federation and the FSCC.

### CHAPTER III Share Capital

**Art. 13. Types of Shares** - The share capital of a cooperative or federation consists of:

- (1) Qualifying Shares; and
- (2) Capital Shares.

In addition, a cooperative or federation may have Founder's shares.

**Art. 14. Qualifying Shares** - Qualifying shares may be issued in accordance with the by-laws. If the by-laws are silent, the number of qualifying shares to be subscribed by a member is one share. No interest or dividend is given to qualifying shares. Neither is the holder given the right to be reimbursed for his or her qualifying share, except in the event of death, withdrawal or expulsion of a member or in the event of the winding-up, insolvency or dissolution of the cooperative or federation.

**Art. 15. Founder's Shares** - Founder's shares may be issued by the cooperative or federation if so provided by the Articles of Cooperation and By-Laws. Founding members shall subscribe for the number of founder's shares provided for in the Articles and By-laws. The founder's shares shall have the same rights, restrictions and conditions as qualifying shares.

**Art. 16. Payment for Capital Shares** - The capital share is always paid for in cash, in full or by installment. It is entitled to dividends after a fixed period, the rate of which shall be decided by the General Assembly.

The purchase of capital share may also be done by paying it as:

- (1) Dividends;
- (2) Redemption or conversion of other shares; and
- (3) In accordance with a merger agreement.

**Art. 17.** The cooperative or federation shall determine, by by-laws, the rights, preferences, condition and restrictions attached to each class of shares. In the case of a cooperative or in the case of a federation that is a member of a national federation, the determination must be in accordance with the standards of the national federation of which it is a member. In the case of a national federation, the determination must be in accordance with the standards of the FSCC.

The Board of Directors, by resolution, and subject to the standards of the national federation in the case of a cooperative or a federation that is a member of a national federation, and the FSCC in the case of a national federation, shall determine for each class of shares, the:

- Sec. 1. Number of authorized shares it could issue and its par value; and
- Sec. 2. Number and amount that could be subscribed;

**Art. 18.** The dividend payable on the capital share may not exceed the maximum determined by the national federation or the FSCC, whichever is lower.



**Art 19.** In the order of priority, capital shares have priority over qualifying shares and founder's shares for reimbursement in cases of winding-up or dissolution of a cooperative or federation. However, deposits and other debts of the cooperative or federation have to be repaid first before the capital shares are reimbursed.

**Art. 20.** The Board of Directors shall determine the amount it shall set aside as stabilization reserve fund and reserves other than the general reserve fund.

#### **CHAPTER IV**

##### **Savings and Credit Cooperatives and Financial Service Cooperatives**

**Art. 21.** The purposes or objectives of a savings and credit cooperative or financial service cooperative are:

Sec. 1. To receive deposits, investments and other funds from its members and to invest them for income;

Sec. 2. In the case of a savings and credit cooperative, to extend credit to its members; and, in the case of a financial service cooperative, to extend credit and supply other financial products and services to its members and, as an ancillary activity, to any other person or partnership, for the benefit of its members;

Sec. 3. To provide education for its members, training for its officers and staff and to inform the community and the public that the cooperative is working to improve economic conditions and social relations; and

Sec. 4. To promote and improve cooperation between its members, the members and the cooperative, with other cooperatives, and at the local, regional, national and international levels towards its programs and eventually towards changes for the better in the political, cultural, and spiritual arenas.

A financial service cooperative may also:

- (a) act as official depository of national agencies and of municipal, city or provincial government units in the municipality, city or province where the financial service cooperative is located, subject to such guidelines as may be established by the FSCC;
- (b) act as financial agent and buy and sell, by order of and for the account of their customers, shares, evidences of indebtedness and all types of securities; and
- (c) make collections and payments for the account of others and perform such other services for their members as are not incompatible with their financial intermediation business.

In addition, a financial service cooperative may perform, upon prior approval by the FSCC, other financial services related to savings and credit, including the following:

- (a) offer current or checking accounts or accept demand deposits notwithstanding Section 33 of Republic Act No. 8791 and any other provision of law to the contrary;
- (b) act as correspondent for other financial institutions; and
- (c) act as collection and/or withholding agent for government entities, including but not limited to the Bureau of Internal Revenue, the Social Security System and the Bureau of Customs.

**Art. 22.** The duties and rights of a cooperative shall be exercised primarily for the benefit of its members.

**Art. 23.** At its establishment, a savings and credit cooperative must have a paid-up capital of at least Thirty Thousand Pesos.

**Art. 24.** A cooperative is empowered to pursue its activities in the city or province that the cooperative has designated as its principal office, and to operate branches within the city or province where its principal office is located. Provided that opening of branches must be approved by the national federation of which it is a member. Opening or setting up branches in a city or province other than where the principal office is located shall require the approval of the national federation and the FSCC.

**Art. 25.** Every cooperative must apply sound and prudent management practices. It should become a member of a federation to maximize its services to its members.

**Art. 26.** A financial service cooperative may, upon prior approval of the FSCC, carry on the activities that a trust entity may undertake under Republic Act No. 8791, notwithstanding Section 79 of the said Act.

#### A. MEMBERS

**Art. 27.** A minimum of 30 founding members is required for the establishment of a savings and credit cooperative.

Any natural person may be a founding member of a cooperative, except

- (1) a minor;
- (2) a person of full age under protective supervision or a person totally or partially deprived of the exercise of civil rights;
- (3) a person convicted, in the past five years, of an offence or an indictable offence involving fraud or dishonesty, unless the person has obtained a pardon ;
- (4) a person who does not meet the conditions relating to common characteristic set out in the articles of the cooperative in accordance with Article 6.

**Art. 28.** To be a regular member of a savings and credit cooperative or a financial service cooperative, a natural person must:

- (1) apply for membership, except in the case of a founding member, and fulfill the requirements for membership;
- (2) subscribe and pay for the number of qualifying share/s prescribed by the by-laws, or, if not provided, one share and, in the case of a founding member, subscribe and pay for the number of qualifying and founder's shares prescribed in the by-laws or, if not provided, one qualifying share;
- (3) comply with the by-laws; and
- (4) be accepted by the Board of Directors or a person authorized by the board, except in the case of a founding member.

**Art. 29.** A cooperative maintains two types of members:

- (1) regular members, who are natural persons; and
- (2) associate members, who are natural persons not complying with the requirements for membership or the common characteristics set out in the Articles of Cooperation or who are legal persons.

Both have the same rights and duties except that only the regular members can vote and be voted as officers of the cooperative.

**Art. 30.** A regular member who ceases to meet the conditions relating to common characteristics set out in the Articles of the cooperative becomes an associate member. A n

elected officer of the cooperative who becomes an associate member shall immediately be deemed resigned.

**Art. 31.** Minors and persons without the legal capacity to contract may only become associate members. Provided, That minors who are members may, in their own right and in their own names, open accounts deposit funds in and withdraw from their account, subject to the by-laws and rules of the cooperative and the national federation of which the cooperative is a member, and the rules and regulations of the FSCC, notwithstanding the provisions of existing laws to the contrary.

**Art. 32.** A member of a cooperative may withdraw from membership by requesting the repayment of the member's qualifying share and other shares and the withdrawal of the member's deposits. The member's withdrawal takes effect upon the full repayment of the member's shares and deposits.

**Art. 33. Suspension and Expulsion of a Member** - The board of directors may suspend or expel a member for:

- (1) non-compliance with the by-laws of the cooperative;
- (2) failure to fulfill the member's financial undertaking to the cooperative;
- (3) issuing a check with insufficient funds three consecutive times;
- (4) having been absent from members' meetings three times consecutively; and
- (5) having been convicted in court for an offense involving fraud and dishonesty.

Provided that, no member may be suspended for more than six months. Provided Further that, suspension or expulsion can only be availed of when members are given due process.

A member who is suspended loses the right to receive notice of, to attend or to vote at meetings or to hold any office of the cooperative for the duration of the suspension.

## **B. GENERAL ASSEMBLY**

**Art. 34.** The regular members entitled to vote constitute the general meeting or assembly of the cooperative. The general assembly of the cooperative shall be governed by the provisions of the Cooperative Code, the by-laws of the cooperative and the rules of the national federation to which the cooperative belongs.

Provided That the cooperative must hold a special general assembly upon the signed request of 10% of its regular members.

If the meeting is not called within 30 days of the request, the national federation may call the meeting. Unless the members object thereto by resolution at the meeting, the cooperative shall reimburse the national federation for reasonable expenses incurred in calling the meeting.

## **C. AFFILIATION**

**Art. 35.** Every savings and credit cooperative or financial service cooperative, including multi-purpose and other cooperatives engaged in savings, credit and other related financial services must be a member of only one national financial service cooperative federation. Membership in the national federation may be direct or may be through a federation that is in turn a member of the national federation.

Provided, that all unaffiliated savings and credit cooperatives or financial service cooperatives, including multi-purpose and other cooperatives engaged in savings, credit and other related financial services already registered at the time this law takes effect shall be given two (2) years within which to become a member of one national federation.

Provided further, that all registered savings and credit cooperatives or financial service cooperatives, including multi-purpose and other cooperatives engaged in savings, credit and other related financial services which are members of more than one national federation shall be given two (2) years within which to choose one national federation of which it shall continue to be a member and to disaffiliate from any other national federation. Provided finally, that registered multi-purpose cooperatives that are covered by this Act may still affiliate with federations other than financial service cooperative federations.

**Art. 36.** A cooperative which withdraws from a national federation or is expelled by a national federation must, within 90 days from such withdrawal or expulsion, apply for admission to another national federation, amalgamate or merge with another cooperative that is already member of a national federation or be dissolved.

A cooperative which is a member of a national federation that is wound-up or dissolved must, within 90 days from notice of such winding-up or dissolution, pass a resolution to apply for admission to another national federation, amalgamate or merge with another cooperative that is already member of a national federation or be dissolved.

A cooperative remains a member of a national federation:

- (1) until another national federation has admitted it;
- (2) until it has merged with another cooperative that is already member of a national federation; or
- (3) until it is dissolved.

**Art. 37.** The CDA shall not accept the admission of a cooperative with another national federation unless the federation of which it has been a member certifies that the cooperative has fulfilled all its obligations toward that federation.

#### **D. MANAGEMENT AND ADMINISTRATION**

**Art. 38.** Apart from the general assembly of members, the principal organs of a cooperative are the Board of Directors and the Audit and Ethics Committee.

**Art. 39.** Every regular member of a cooperative may be elected to the Board of Directors or the Audit and Ethics Committee, unless he or she:

- (1) has been a member for less than one year except in the case of a cooperative that is only two years old or less;
- (2) is an employee of the cooperative or the federation;
- (3) is a person deprived of the exercise of civil rights; an insolvent or an undischarged bankrupt person; and
- (4) is a person convicted of a crime with an imprisonment of six years or more involving fraud or dishonesty, unless the person has obtained a pardon.

**Art. 40.** The term of office of a member of the Board of Directors and of the Audit and Ethics Committee shall be determined in the by-laws of the cooperative, but shall not in any case be less than two years nor more than three years. The cooperative determines, by by-law, a mode of rotation so that one-half or, as the case may be, one-third of the members of each of those organs are replaced each year, so it will be a continuing body. Provided, that any member shall be qualified to be elected as a director only for three successive terms of office. Provided further, that upon the expiry of the term of office of the director or officer, he or she shall remain in office until reelected or until a successor has been validly elected or appointed.

**Art. 41.** A member of a board may resign from office by giving a notice of resignation. A member of a board who resigns for reasons relating to the conduct of the affairs of the cooperative shall declare the member's reasons in writing to the cooperative, sending a copy of the declaration to the national federation of which the cooperative is a member:

- (1) where the member has grounds to believe that such course of action is in contravention of a provision of this Act, a government regulation thereunder, a standard established under this Act, a provision of any other Act or an order or written instruction of the national federation or the FSCC;
- (2) where the member has grounds to believe that such course of action may have an adverse effect on the financial position of the cooperative.

A member of a board who in good faith makes such a declaration shall not thereby incur any civil liability.

**Art. 42. Dismissal of a Director or Member of the Audit and Ethics Committee** - A member of the Board of Directors or of the Audit and Ethics Committee may be dismissed by the general assembly, at an annual or special meeting. The member must be given the opportunity to present his/her position and be given due process.

Within 15 days, the cooperative shall send to the dismissed member and to its national federation a formal notice of the dismissal.

**Art. 43.** A vacancy resulting from the dismissal of a Director or a member of the Audit and Ethics Committee may be filled by election during the meeting during which the dismissal takes place provided that the notice of meeting mentions the possibility that such an election may be held. A director or committee member so elected to fill a vacancy shall serve only for the unexpired portion of the term of office of the dismissed member.

**Art. 44. Volunteer Nature of the Board** - The members of the Board of Director are not remunerated, but are entitled to reimbursement of reasonable expenses incurred by them in the exercise of their functions. However, the members of a board may be remunerated by the national federation or by another legal person belonging to the network for the exercise of other functions within the national federation or a legal person controlled by the national federation. For the purposes of this Act, such members are deemed not to be employees on the ground that they have entered into a contract of employment in connection therewith.

**Art. 45.** The members of the Board of Directors or of the Audit and Ethics Committee may, if they all consent, participate in a meeting by means of telephone or other communications equipment enabling all participants to hear each other. The members are deemed in that case to have attended the meeting.

**Art. 46.** Any member of the Board or of the Audit and Ethics Committee may waive, in writing, the notice of a meeting. The member's mere attendance at the meeting is a waiver, except when a member's purpose is to object to the holding of the meeting on the ground that notice of the meeting was given irregularly.

**Art 47.** The decisions of the Board of Directors or those of the Audit and Ethics Committee are taken by a majority of the votes cast. In the event of a tie, the person chairing the meeting breaks the tie.

**Art. 48.** A member of the Board of Directors or of the Audit and Ethics Committee present at a meeting is deemed to have consented to any resolution passed or action taken at the meeting, except if the member requests that the member's dissent be recorded in the minutes before the meeting is adjourned or closed.

**Art. 49.** The affairs of a cooperative are managed by the Board of Directors, except any function that may be devolved upon another organ of the cooperative. The by-laws of a cooperative may specify those powers that the Board of Directors may exercise only if so authorized by the general assembly. Routine business of management cannot be made subject to such authorization, but are presumed within the powers of the Board.

**Art. 50.** The Board of Directors shall:

- (1) observe and enforce this Act, the regulations made by the Government, the by-laws of the cooperative and its national federation, and the rules of ethics, standards, orders and written instructions issued under this Act;
- (2) establish a policy for sound and prudent management practices;
- (3) provide the Audit and Ethics Committee with any personnel it requires to carry out all its functions;
- (4) furnish to the FSCC, on request, a certified copy of any document of the cooperative;
- (5) ensure the keeping and preservation of the records of the cooperative;
- (6) set policies for determining interest rates on savings deposits and credit extended, and the rates of products and services provided by the cooperative;
- (7) make or control the investments of the cooperative;
- (8) insure the cooperative against the risks of fire, theft and embezzlement by its officers or employees, and provide the cooperative with civil liability insurance and directors' and officers' liability insurance;
- (9) designate the persons authorized to sign contracts or other documents on behalf of the cooperative;
- (10) at the annual general assembly, give an account of its management and submit the annual report;
- (11) facilitate the work of the persons responsible for the audit of its books and accounts.

**Art. 51.** The cooperative shall determine in its by-laws the number of directors, which shall not be less than five.

**Art. 52.** The cooperative may, in its by-laws, organize its members into groups or chapters and grant each group or chapter the right to elect a specified number of directors. No member of the board of directors thus elected shall be dismissed except by the members of the cooperative who have the right to elect that member. The by-laws of the cooperative may also prescribe the number of directors elected by the members of such a group.

**Art. 53.** At its first meeting after the organizational assembly and, afterwards, after the annual assembly, the Board of Directors shall choose from among its members a Chairperson and a Vice-Chairperson. The Vice-Chairperson shall replace the Chairperson if the latter is absent or is unable to act.

**Art. 54.** The Board of Directors shall meet when a meeting is called by the Chairperson or by at least three members of the Board of Directors in accordance with the by-laws of the cooperative. A representative of the national federation of which the cooperative is a member may attend and address the meeting. The national federation may also call a meeting of the Board of Directors of the cooperative.

**Art. 55.** Unless otherwise provided in the by-laws of the cooperative, the quorum at meetings of the board of directors is a majority of its members.

**Art. 56.** In case of a vacancy for reasons other than the dismissal of a director, the replacement is appointed by the remaining members of the board for the remainder of the term of the person replaced.

**Art 57.** If authorized in the by-laws of the cooperative, the Board of Directors may form an executive committee composed of directors, including the Chairperson, Vice-Chairperson the Manager of the cooperative. The number of members of the executive committee may not exceed half the number of directors and may not be less than three. The executive committee shall exercise the powers delegated to it by the board of directors.

**Art. 58.** In any vacancy in the executive committee, the Board of Directors may appoint a substitute for the remainder of the term of office.

Articles 46, 47, 48 and 55 apply, with the necessary modifications, to the executive committee.

**Art. 59.** The board of directors may create special committees to examine particular matters or to facilitate the proper operation of the cooperative.

**Art. 60.** The board of directors must set up at the request of the general assembly a special committee to be given a certain task. A special committee shall be composed of not fewer than three persons. It may be composed of officers, employees and members of the cooperative. The rules of ethics applicable to officers also bind the members of special committees.

**Art. 61.** The board of directors shall determine the functions and powers of special committees. The special committees shall submit their recommendations to the board. However, special committees formed at the request of the general assembly must report to the general assembly.

#### **E. AUDIT AND ETHICS COMMITTEE**

**Art. 62.** The functions of the Audit and Ethics Committee are to supervise the operation of the cooperative and to ensure the rules of ethics and on conflict of interest are observed at all times.

The Audit and Ethics Committee shall, in particular:

- (1) ensure that the operations of the cooperative is in compliance with this Act, regulations, by-laws, standards, orders and written instructions applicable to it;
- (2) ensure that the cooperative adheres to sound and prudent management practices;
- (3) ensure that the rules adopted by the Ethics Committee of the national federation of which the cooperative is a member are observed;
- (4) ensure that the internal affairs and activities of the cooperative are inspected in accordance with the provisions of this Act;
- (5) ensure that the admission of members and the suspension and expulsion of members are in compliance with the applicable legislative provisions and the by-laws of the cooperative;
- (6) ensure that the executive committee and the special committees of the cooperative act in accordance with their powers and duties, and, with the Acts, regulations, standards, rules of ethics, orders and written instructions applicable to them;
- (7) intervene at the request of the board of directors of the cooperative to resolve a situation of conflict of interest;
- (8) recommend that the board of directors take decisions in order to implement, apply and periodically revise the policies and orientations of the cooperative, and in particular any provision relating to the protection of the interests of the cooperative and its members.

**Art. 63.** The Audit and Ethics Committee shall also receive complaints from members, inform the other organs of the cooperative if need be, and shall reply to the complainant. A complainant who is not satisfied with the committee's reply may file the complaint with the national federation of which the cooperative is a member. The national federation may make recommendations to the cooperative in connection with a complaint filed with it.

**Art. 64.** The Audit and Ethics Committee shall consist of three or five members, according to the cooperative's by-laws.

**Art. 65.** At its first meeting after the organizational assembly and, afterwards, after the annual assembly, the Audit and Ethics Committee shall choose a Chairperson and a secretary from among its members.

The majority of the members constitutes a quorum at meetings of the Audit and Ethics Committee.

In case of a vacancy, the replacement is appointed by the remaining members of the committee for the remainder of the term of the person replaced.

**Art. 66.** The Audit and Ethics Committee shall have access to the books of accounts, records and other documents of the cooperative, and every person having custody of them must facilitate examination.

**Art. 67.** The Audit and Ethics Committee may, where it considers it necessary, require that a special inspection be carried out.

**Art. 68.** The Audit and Ethics Committee may suspend any employee or officer of the cooperative or request that the national federation to which the cooperative is affiliated intervene to that effect.

Before rendering its decision, the committee shall give the person concerned advance notice of not less than three days mentioning the grounds which justify such decision, the date on which it will become effective and the possibility of presenting observations. Where the Committee is of the belief that any delay could seriously compromise the interest of the members of cooperative, it may render its decision without giving the person advance notice or an opportunity to present observations. Such suspension should not exceed two weeks. Where the suspended officer holds the office of general manager, the Committee shall immediately inform the Chairperson and ask the Chairperson to designate a replacement for the duration of the suspension.

Within five days following the decision of suspension, the Committee shall notify, in writing, the board of directors, the national federation of which the cooperative is a member and the FSCC in the case of the suspension of an officer.

**Art. 69.** The Audit and Ethics Committee shall report its observations to the board of directors and may include recommendations. The committee shall also report its observations to the Ethics Committee of the national federation to which it the cooperative is affiliated.

**Art. 70.** If the board of directors of a cooperative fails to resolve a conflict of interest or to enforce a rule of ethics, the Audit and Ethics Committee may act in its stead or request that the national federation of which the cooperative is a member intervene to that effect, in accordance with the intervention procedure provided for in the rules of ethics.

**Art. 71.** The Audit and Ethics Committee shall notify, in writing, the board of directors and the national federation to which the cooperative is affiliated if:

- (1) in its opinion, the cooperative is contravening a provision of this Act or the regulations or by-laws where the contravention relates to the operations and transactions of the cooperative and may have an adverse effect on its financial position;
- (2) it discovers management practices that may have an adverse effect on the financial position of the cooperative;



- (3) it observes that the cooperative is not complying with the standards, orders or written instructions issued under this Act.

The Audit and Ethics Committee shall submit its recommendations in writing to the board of directors.

Upon receipt of the periodical inspection report, the Audit and Ethics Committee shall submit its recommendations to the board of directors. It may call a special meeting to lay any matter brought up in the report before the members.

**Art. 72.** The Audit and Ethics Committee shall give an annual report on its activities to the board of directors at the end of the fiscal year of the cooperative and shall present it at the annual meeting. The Committee shall also provide the national federation to which the cooperative is affiliated a copy of its report.

## F. OTHERS

**Art. 73.** A cooperative may, to obtain payment of any specific, liquid and eligible claim it has against a member or depositor, withhold any sum of money it owes to the member or depositor and use it to compensate its claim, except in the case of the redemption of qualifying shares issued by it.

## Chapter V Officers and Ethics of Savings and Credit Cooperatives and Financial Service Cooperatives

**Art. 74.** The Chairperson and Vice-Chairperson and the other members of the board and members of the Audit and Ethics Committee of a cooperative are the elected officers of the cooperative. The manager, the secretary and the treasurer and other persons who are also designated as officers by the Board of Directors are the appointed officers of the cooperative.

**Art. 75.** The members of the board may also appoint a committee of three persons who shall decide the credit activities of the cooperative, while the manager may recommend candidates for the credit committee to the board.

**Art. 76.** The Board of Directors of a cooperative may name its officers as they are called traditionally or may name its officers differently.

**Art 77.** The Board of Directors of a cooperative shall appoint a manager for a period based upon its by-laws.

**Art. 78.** A n elected officer of a cooperative cannot qualify as an appointed officer of the cooperative for the same period. An elected officer of a cooperative must first resign before he/she can accept the appointment and vice versa.

**Art. 79.** The manager shall function according to the direction of the Board of Directors. The board shall determine the remuneration of the general manager.

**Art. 80.** The manager, though not a member of the Board, shall attend the meetings of the Board. The manager should offer his/her advice to the Board of Directors based on prudent management practices.

The manager shall withdraw from a meeting when the appropriateness of the manager's presence to debate a given matter is being discussed. The general manager must withdraw from a meeting at the request of the board.

**Art. 81.** The Board of Directors of every cooperative shall furnish the FSCC the names and addresses of all officers of the cooperative within 30 days after their election or appointment.

**Art. 82.** The powers and duties of the officers shall be determined by the by-laws of the cooperative. The officers must comply with this Act, the regulations made under this Act, the Articles of Cooperation, By-Laws and standards of the cooperative. The rules of ethics of the national federation of which the cooperative is a member, and its orders and written instructions under this Act must be observed.

Officers must act with prudence and diligence. They must also be honest and fair in the best interest of the cooperative.

**Art. 83.** An officer is presumed to have acted with prudence and diligence where the officer acted in good faith based on an expert's opinion and report.

**Art. 84.** The mere fact that an investment or credit has been made or extended in compliance with this Act does not release any officer of the cooperative from the obligation to act in accordance with Articles 82 and 83.

**Art. 85.** A cooperative must purchase according to market conditions liability insurance for the benefit and protection of an officer or director of the cooperative to cover any liability that may be incurred by such persons except liability resulting from a failure to act with honesty and fairness.

**Art. 86.** No officer may communicate information concerning the cooperative or one of its members except to the extent determined by the rules adopted by the Audit and Ethics Committee of a cooperative or the Ethics Committee of the national federation of which it is a member.

**Art. 87.** A cooperative shall assume the defense of any officer or any person who has acted for the cooperative and is prosecuted by a third person for an act done in the performance of the officer's or person's duties, except when such officer or person has committed gross negligence.

In criminal cases, the cooperative shall assume the expense where the case has been dismissed, withdrawn or the officers of persons have been acquitted. If the cooperative only wins in part, the court may determine the amount of expense the cooperative shall assume.

**Art. 88.** The officers of a cooperative who authorize the redemption or the repurchase of shares in contravention of this Act are jointly liable for the payment to the cooperative of any sum disbursed by it for the redemption or the repurchase.

The officers of a cooperative who authorize an investment or an extension of credit in contravention of this Act, of the regulations, of the by-laws, of the standards or of the rules of ethics applicable are jointly liable for any resulting losses to the cooperative.

Every person who accepts a deposit or who extends credit in contravention of this Act is liable for the sums lost by the cooperative by reason of the more favorable terms granted.

**Art. 89.** Any right of action arising from Article 88 may be exercised by:

- (1) the cooperative;
- (2) the national federation, in case the cooperative which is its member has neglected to exercise its right of action, after having been formally notified by the national federation or when the federation itself is personally affected;
- (3) the FSCC, if the national federation has neglected to act after having been formally notified by the FSCC.

**Art. 90.** A person is related to an officer if he/she is:

- (1) The spouse of the officer;
- (2) Related to the officer by affinity or consanguinity up to the third civil degree;
- (3) A partnership in which the officer is a partner or a member of such partnership;
- (4) A legal person controlled by the officer or the spouse; and
- (5) A person of which the officer is a trustee.

**Art. 91.** In this Act, a spouse as designated in Article 90 (1) means a person:

- (1) Who is married to the officer, or
- (2) Who has been living with the officer for at least three years in a common law relationship.

**Art. 92.** Officers must act in the interest of the members and avoid placing themselves in situations where their personal interest, or the interest of persons related to them, is in conflict with their obligations.

Every officer who is in a situation of conflict of interest must, on pain of dismissal, disclose the situation, abstain from voting on any matter concerning the situation and avoid influencing any decision relating thereto. The officer must also withdraw from a meeting while the situation is being discussed or voted on. The disclosure of the situation of conflict of interest must be mentioned in the minutes of the meeting.

An officer who is dismissed for having contravened this Article also loses the right to be elected as officer of a cooperative for a period of five years from the dismissal. A cooperative must in respect of persons related to an officer act in the same manner as when dealing at arms length.

**Art. 93.** A person is a restricted party with respect to a cooperative where that person is:

- (1) an officer of the cooperative or an officer of the national federation of which the cooperative is a member, and any person related to any such officer;
- (2) a legal person belonging to the network of which the cooperative or its national federation is part of;
- (3) a legal person a majority of the directors or officers of which are officers referred to in paragraph 1;
- (4) any other person whose interests or dealings with the cooperative might, in the opinion of the FSCC, influence in that person's favor the investments, credit or transactions that may be made or extended by that cooperative.

The FSCC shall, when designating a person as being a restricted party, notify the person designated and the cooperative concerned of the decision. The decision may be revised by the FSCC at the request of the person so designated or of the cooperative concerned. Before rendering or refusing to revise a decision, the FSCC must give the person and the cooperative concerned an opportunity to present their observations.

**Art. 94.** All contracts and transactions of a cooperative must be consistent with the provisions of this Act and with the rules adopted by the Ethics Committee of the national federation to which it is affiliated.

All service contracts between a cooperative and a restricted party must be made on favorable terms for the cooperative, or at least on competitive terms. All such contracts must be approved by the board of directors of the cooperative upon the advice of the Audit and Ethics Committee.

**Art. 95.** The FSCC or any person having a sufficient interest may apply to the court for the cancellation of the contract made with a restricted party in contravention of the provisions of this Act.

**Art. 96.** No cooperative may accept deposits from its employees or from a restricted party nor extend credit to them on more favorable terms than those applicable in the normal course of its business. Provided However, that this provision does not apply:

- (1) to credit extended by way of a credit card; and
- (2) to credit extended to an officer or a person related to an officer where the officer has no authority over the person extending credit of the cooperative.

## **CHAPTER VI**

### **Books of Accounts, Register, Audit and Reports of Savings and Credit Cooperatives and Financial Service Cooperative**

**Art. 97.** Savings and credit cooperatives and financial service cooperatives shall keep a register containing:

- 1) Its articles of cooperation, its by-laws, related certificates of the CDA and any notice concerning the address of its principal office;
- 2) Minutes and resolutions of its meetings;
- 3) Minutes of the meetings and resolutions of the board of directors, executive committee, special committees, and Audit and Ethics Committee;
- 4) List of names of all officers, stating their terms of office;
- 5) List containing the name and address of each member of the cooperative;
- 6) Number of qualifying shares, founder's shares and capital shares;
- 7) Subscription of each share;
- 8) List of fees charged by the cooperative for the various services it offers;
- 9) Management agreements between the cooperative and the national federation of which it is a member;
- 10) Compliance programs of the cooperative;
- 11) Orders of the FSCC and the CDA, and of the national federation to which the cooperative is affiliated; and
- 12) The written instructions issued under this Act.

**Art. 98.** A cooperative shall keep the following:

- 1) the books of accounts and accounting records for preparing financial statements; and
- 2) statements of accounts on a daily basis for each depositor and deposit ledger for all depositors.

In cases where the cooperative also provides other non-financial services, separate books of accounts, records and statements shall be prepared for its financial service operations. The books of accounts, registers and other financial documents may be kept on any electronic information storage device capable of reproducing information in intelligible written form.

Savings and credit cooperatives and financial service cooperatives must keep the books of accounts, registers and other accounting documents dating back less than 10 years, or a copy that is admissible as evidence in proceedings. Financial service cooperatives must keep every check issued for five years.

A cooperative must comply with the standards of the national federation to which it is affiliated, and a national federation must comply with the standards of the FSCC pertaining to its books of accounts, statements of assets and liabilities and operation as well as keeping them for a certain period.

**Art. 99.** Any member may examine during usual business hours, on the premises of a cooperative, the documents described in sections 1, 2, 4 and 8 of Art. 97. The member may also obtain copies of the documents described in sections 1, 2, 4 and 8 of the said Article, but the cooperative may require payment of the cost of reproduction and transmission of such documents.

The cooperative may require a member to declare under oath that the information obtained by the member under this section will be used solely for the exercise of the member's rights under this Act and shall not violate the confidentiality protected under this Act.

**Art. 100.** Cooperatives shall cause their books of accounts to be audited every year by an auditor. The audit of a cooperative shall be conducted by the audit service of the national federation of which the cooperative is a member. Provided, that in case the national federation is unable to do the audit, it shall be done by a certified public accountant accredited by the national federation.

A national federation has, in exercising its functions as auditor, the powers and obligations of an auditor set out in Article 103.

Provided that, if a cooperative fails to cause its books of accounts to be audited, the FSCC may appoint an auditor whose remuneration shall be charged to the cooperative.

Provided Further, That the auditor of a cooperative must be a member in good standing of the Philippine Institute of Certified Public Accountants (PICPA), and that in no case may the auditor be an employee or a member of the cooperative being audited or a person related to any such employee or member as defined in Article 90. Provided Finally, That the appointment of an auditor is terminated if the auditor ceases to qualify to act as auditor in accordance with Article 127 or if the auditor ceases to meet the requirements of this Article.

**Art. 101.** The FSCC or any interested person may apply to the proper court to obtain the dismissal of an auditor who does not meet the requirements of Article 100.

**Art. 102.** A national federation shall notify the FSCC, within 10 days, of the resignation of the auditor or of the decision to propose the auditor's dismissal before the expiry of the auditor's appointment.

**Art. 103. Powers and Obligations of the Auditor** - The auditor shall have access to all the books of accounts, registers, and other accounting records of the cooperative. Every person having custody of those documents and records must allow and facilitate their examination by the auditor. The auditor may require from any officer or employee of a cooperative the information and documents required for the performance of the auditor's duties.

The auditor may also require the holding of a meeting of the board of directors and address all questions related to the auditor's duties.

The auditor shall send a copy of the auditor's report to the Board of Directors and Audit and Ethics Committee of the cooperative, the national federation of which the cooperative is a member, and the FSCC.

The Board of Directors shall give the audit report to the members meeting without any change.

The auditor shall indicate, in the report,

- 1) Whether the audit conforms to the generally accepted auditing standards;
- 2) Whether, in his/her opinion, the financial statement of condition and the statement of operation present fairly the financial position of the cooperative and the results of its

operations, based upon the generally accepted accounting principles, practices, and accounting rules prescribed by the FSCC; and

3) Any other information prescribed by regulation of the Government.

The auditor in his/her report shall in writing give to the board of directors necessary information of any operation, transaction or situation of the cooperative that needs rectification and satisfactory operation. The report of the auditor shall indicate transactions of the cooperative and restricted parties noticed by the auditor in the course of the audit to be in contravention of this Act or the regulations.

An auditor who makes a report in good faith shall not thereby incur any civil liability.

The auditor also has the right to attend any meeting of the cooperative and address the meeting on any matter brought up in the auditor's report. The secretary shall give notice to the auditor for all relevant meetings.

**Art. 104.** Three directors or fifteen (15) members, by means of a notice of at least five days, can require the presence of the auditor to attend the general assembly of the cooperative.

**Art. 105.** If a director or the manager becomes aware of an error or misstatement in the financial statements on which the auditor reported, he shall immediately notify the auditor thereof and, if necessary, send the auditor revised financial statements.

If an auditor is notified or becomes aware of an error or misstatement in the financial statement on which she/he reported, and if in her/his opinion the error or misstatement is material, she/he shall inform each director of the cooperative of the error or misstatement.

The directors who are informed of the error or misstatement shall, within 60 days, prepare and issue revised financial statements or inform the members, the national federation of which the cooperative is a member and the FSCC of the error or misstatement.

**Art. 106.** The FSCC may order that the annual audit of the cooperative be repeated or that a special audit be made, and for that purpose, the auditor shall be appointed by the FSCC and the corresponding remuneration shall be charged to the cooperative concerned.

**Art. 107.** Cooperatives and federations will have December 31<sup>st</sup> as the ending of their fiscal year.

**Art. 108.** At the end of the fiscal year, the cooperatives shall prepare an annual report containing:

- (1) the name of the cooperative and the address of its principal office;
- (2) the names of its officers;
- (3) the number of its members;
- (4) a statement of condition and operation, with, in the case of cooperatives that also offer their members non-financial services, a separate statement for its financial services operation;
- (5) a statement of the community development fund, a statement of the net surplus, a statement of the general reserve, and a statement of provisions to cover credit losses and investment losses, presented on a comparative basis with the corresponding statements for the immediately preceding fiscal year;
- (6) total amount of credit extended to restricted parties;
- (7) the auditor's report;
- (8) a statement showing the cooperative's participation in the investment fund of the national federation to which the cooperative is affiliated;
- (9) report of any special committee formed at the request of the general assembly of members;
- (10) other information required by the by-laws of the cooperative; and

(11) any other information required by the FSCC.

The annual report shall be submitted to the board of director for approval. The approval of board of directors must be certified by at least two of the directors.

Every member is entitled to receive a copy of the annual report of the cooperative free of charge. The member is entitled to a copy of its articles of cooperation and its by-laws within 30 days after he/she has become a member. The cooperative may ask for a fee to shoulder the cost of reproduction.

Cooperatives shall, within 90 days after the end of the fiscal year, transmit a copy of the annual report to the FSCC and to the national federation of which they are a member.

The FSCC shall, upon request, send to a national federation a copy of the documents and information sent under the preceding paragraph by a cooperative that is its member.

## CHAPTER VII

### Deposits, Other Funds, Credit, Security and Net Surplus of Savings and Credit Cooperatives and Financial Service Cooperatives

**Art. 109.** Deposits, investments and other funds can be received by savings and credit cooperatives and financial service cooperatives from regular and associate members. A financial service cooperative may receive deposits from a minor or from a person who does not have the capacity to enter into contracts.

*Provided However, That a financial service cooperative may also receive deposits from:*

- 1) a federation;
- 2) a savings and credit cooperative or another financial service cooperative with the authorization of the national federation of which the cooperative is a member;
- 3) The Philippine government and local governments (provinces, cities, municipalities and barangays); and
- 4) Government owned or controlled corporations.

**Art. 110.** In this Act, credit includes all forms of financing or suretyship.

**Art. 111.** No cooperative shall extend credit to another cooperative belonging to the same network without the consent and authority of the national federation of which it is a member.

**Art. 112.** No cooperative may mortgage property or give property as a security except:

- 1) To secure a loan to meet a short term need for liquid fund; and
- 2) To acquire or improve an immovable property intended mainly for its own use.

**Art. 113.** The annual net surplus of a cooperative shall be allocated to the following:

- Sec. 1. Maintaining the general reserve;
- Sec. 2. Patronage refund;
- Sec. 3. Paying dividends on capital shares;
- Sec. 4. The education and training fund;
- Sec. 5. Establishing and maintaining a community development fund; and
- Sec. 6. Other approved allocations.

*Provided, That the first priority of a cooperative shall be to maintain its general reserve at five percent (5%) of its total assets, and no other allocation shall be made unless this has been attained; Provided further, That such other allocation of the net surplus shall be in accordance*

with Article 87 of Republic Act No. 6938. Provided finally, That the allocation of the surplus earnings of a cooperative must also be consistent with the standards of the national federation of which it is a member.

**Art. 114.** In no case may the general reserve of a cooperative be drawn upon for the payment of dividends or to be shared between the members.

**Art. 115.** The dividends paid to the member of a cooperative may be in cash or in shares as provided in the by-laws of the cooperative, which have to be consistent with the standards adopted by the national federation of which the cooperative is a member.

## **CHAPTER VIII**

### **Liquid Assets and Investments of Savings and Credit Cooperatives And Financial Service Cooperatives**

#### **A. LIQUID ASSETS**

**Art. 116.** Every cooperative must at all times maintain such liquid assets as are adequate to ensure sound and prudent management, in accordance with the standards of the national federation of which it is a member.

**Art. 117.** The national federation shall administer the liquid assets maintained by the member cooperatives, in accordance with the by-laws that the national federation must pass in that regard.

#### **B. INVESTMENTS**

**Art. 118.** Every cooperative shall exercise its powers to make investments with prudence and care in accordance with any applicable standards of the national federation of which it is a member and the regulations of the Government. Every cooperative shall also practice sound and prudent management in its investments.

**Art. 119.** A cooperative may not acquire, by itself or jointly with a cooperative or any legal person belonging to its network, directly or indirectly, more than 30% of the assets or the voting rights attached to the shares of a legal person. The voting rights may not enable the cooperative to elect more than one-third of the directors of the legal person.

Provided However That, a cooperative may acquire directly, by itself or jointly with other members of its network, all or part of the shares of a legal person carrying on activities that are similar to those of the cooperative. The cooperative may also acquire such shares through a holding company established under the Philippine laws for the sole purpose of holding those shares.

**Art. 120.** The provisions of Article 119 allow the acquisition of shares of a legal person only where the legal person is or becomes, as a result of that acquisition, a legal person controlled by the acquirer.

The first paragraph does not apply in the cases determined by regulation of the FSCC.

**Art. 121.** No cooperative may, by itself or jointly with another member of its network, directly or through a holding company it controls, acquire shares of a legal person for the purpose of acquiring control of it unless the legal person, by a resolution of its board of directors, a copy of which shall be sent to the FSCC, makes an undertaking to the cooperative and the FSCC within 60 days after the acquisition:



- (a) not to engage in any activity other than those it was carrying on at the time of the acquisition, unless it has obtained authorization in writing from the FSOC;
- (b) to submit its annual financial statements to the FSOC together with any other statement or information the FSOC may request.

**Art. 122.** No provision of this Act shall be construed as limiting the powers of a cooperative to realize a security by acquiring property or otherwise. However, the cooperative shall, subject to market conditions, take the measures required, within a reasonable time, to comply with the provisions applicable to the investments it may make.

**Art. 123.** Where, after a merger or consolidation, the replacement of securities held by a cooperative or federation causes it to cease to comply with the provisions applicable to it in relation to investments that may be made by it, the cooperative or federation must take such action as is necessary to ensure its compliance with the said requirements within five years from the merger/ consolidation.

## CHAPTER IX

### Merger and Consolidation of Savings and Credit Cooperatives and Financial Service Cooperatives

**Art. 124.** The merger or consolidation of savings and credit cooperatives and financial service cooperatives shall be in accordance with Articles 21 and 22 of Republic Act No. 6938 and the guidelines issued by the CDA in accordance with these provisions of law.

## CHAPTER X

### Dissolution of Savings and Credit Cooperatives and Financial Service Cooperatives

**Art. 125.** The voluntary and involuntary dissolution, and liquidation of savings and credit cooperatives and financial service cooperatives shall be in accordance with Articles 65, 66, 67, 68, 69, 70 and 71 of Republic Act No. 6938, other applicable laws and the rules and regulations issued by the CDA in accordance with the provisions of this RA No. 6938.

## CHAPTER XI

### Financial Service Cooperative Federations

**Art. 126.** Except where incompatible, the provisions of the preceding Articles applicable to savings and credit cooperatives and financial service cooperatives and of the regulations made thereunder apply to financial service cooperative federations, adapted as required.

#### A. MISSION AND MEMBERS

**Art. 127.** The mission of a local financial service cooperative federation is, in addition to those of a savings and credit cooperative or financial service cooperative:

- (1) to protect the interests of savings and credit cooperatives and financial service cooperatives, and foster the fulfillment of their objectives;
- (2) to promote their development;
- (3) to provide services to savings and credit cooperatives, financial service cooperatives, cooperative members, network members and, as an ancillary activity, to any other person.

**Art. 128.** The mission of a national financial service cooperative federation is, in addition to those of a savings and credit cooperative or financial service cooperative and those of a local federation:

- (1) to act as a supervisory body over savings and credit cooperatives and financial service cooperatives that are its members, to the extent provided for in this Act;
- (2) to see to the orderly development of the network;
- (3) to establish and administer funds in accordance with this Act; and
- (4) to define common objectives for the network and to coordinate its activities.

**Art. 129.** A minimum of fifty member primary financial service cooperatives or five member regional federations and Five Million Pesos paid-up capital is required for a national financial service cooperative federation to be registered. Provided that the national federation must have at least One Hundred Million Pesos in total assets within three years after its registration. Provided further, That national cooperative federations engaged in savings, credit and other related financial services already registered at the time of the approval of this Act shall be given three years from such approval to comply with the required minimum number of members and total assets.

**Art. 130.** Only savings and credit cooperatives and financial service cooperatives may be regular members of a local financial service cooperative federation while savings and credit cooperatives, financial service cooperatives and local financial service cooperative federations as well as national cooperative federations may be regular members of a national financial service cooperative federation.

Any other cooperative or any other legal person or a partnership recommended by a member cooperative may also be admitted as an associate member of a financial service cooperative federation.

**Art. 131.** To become a founding member of a federation, a cooperative must be so authorized in a resolution of its board of directors, which must contain the name of the representative of the cooperative for the purposes of the establishment of the federation. The resolution must be ratified by the vote of two-thirds of the members present at a special meeting or, provided that the notice of meeting sets out the object of the resolution, at an annual general meeting.

**Art. 132.** A federation may, by by-law, establish one or several classes of associate members, prescribe the conditions of admission applicable to such members, and define the rights and obligations and prescribe criteria or conditions applicable to the withdrawal, suspension or expulsion of regular and associate members.

A financial service cooperative federation may provide in its by-laws that associate members of the federation have the right to vote. Provided that representatives of associate members shall not be eligible to be elected as officers of the federation.

**Art. 133.** Members of financial service cooperative federations may have a maximum of only five (5) votes. A cooperative or a legal person may be represented only by a natural person. No representative may act for more than one member. Provided however that the by-laws of a federation may allow a representative of a cooperative or a legal person to vote in behalf of another representative of the same cooperative or legal person.

Every decision of a federation concerning the admission, suspension or expulsion of a cooperative or federation shall be transmitted to that cooperative or federation and to the FSCC.

## **B. GENERAL MEETING OF A FEDERATION**

**Art. 134.** The general assembly of a federation is attended by the persons designated by the members and by the other persons determined in a by-law of the federation. The organizational meeting shall, however, consist of the persons who signed the articles of cooperation in their capacity as representatives.

**Art. 135.** A federation shall determine, by by-law:

- (1) the manner in which members are to be represented at meetings;
- (2) criteria for determining the number of representatives and votes to which each member is entitled;
- (3) rules for the calling of members to meetings; and
- (4) rules for the annual meeting and for special meetings.

**Art. 136.** A federation may organize its members into groups and establish a council of representatives for each group.

**Art. 137.** The by-laws of a federation are adopted by the general meeting by a two-third majority of the votes cast

**Art. 138.** The annual meeting of a federation shall be held within five months from the end of its fiscal year. The members shall be convened to:

- (1) examine the annual report;
- (2) examine the report on activities of the Ethics Committee;
- (3) decide upon the allocation of the net surplus;
- (4) determine, where applicable, the dividends payable on capital shares out of the stabilization reserve and the surplus earnings;
- (5) elect the members of the Board of Directors and the Ethics Committee; and
- (6) appoint an auditor.

**Art. 139.** A federation must hold a special meeting upon the request of thirty percent (30%) of all its members entitled to vote or upon the request of the FSCC. If the meeting is not called within thirty days of the request, at least two of the members who signed the request or the FSCC may call the meeting. Unless the members object thereto by resolution at the meeting, the federation shall reimburse those who called the meeting for reasonable expenses incurred by them.

### C. MANAGEMENT AND ADMINISTRATION

**Art. 140.** A federation shall fix thru its by-law the number of directors, which shall not be less than five.

In no case may of managers of cooperatives comprise more than fifty percent (50%) of the members of the board of directors.

**Art. 141.** The by-laws of a federation shall establish the procedure for electing the members of its Board of Directors and of the Audit and Ethics Committee, or, in the case of national federations, of the Ethics Committee, and the officers of the Board of Directors and of the Audit and Ethics Committee or Ethics Committee, as the case may be.

**Art. 142.** The members of a board may receive, in addition to the reimbursement of reasonable expenses they incur in the exercise of their functions, an attendance allowance or honorarium in an amount fixed by the board of directors. The total amount paid in that respect shall not exceed the amount fixed by the general assembly of members. No allowance shall be paid before the maximum amount has been fixed by the general assembly.

The directors may be remunerated in accordance with the by-laws of the federation. The board of directors shall, however, determine the remuneration to be paid to the Chairperson of the federation. For the purposes of this Act, the directors, Chairperson, Vice-Chairperson of the federation are deemed to not be employees of the federation.

**Art. 143.** The function of the Ethics Committee of a national federation is to:

- (1) ensure the independence and impartiality of the inspection and audit of the national federation;
- (2) ensure that the rules it adopts are observed;
- (3) intervene at the request of the board of directors or the Audit and Ethics Committee of a cooperative or local federation to resolve a situation of conflict of interest;
- (4) perform any mandate concerning ethics entrusted to it by the board of directors; and
- (5) advise the board of directors to take or implement any decision, apply and review the policies and orientation of the national federation, particularly the arrangements made for protecting the interest of the national federation and its members.

**Art. 144. Rules of Ethics** - The Ethics Committee of a national federation shall adopt rules to protect the interests of the federation, the cooperatives and legal persons that are its members and their members.

The rules shall concern contracts, credit extended, confidential information held by the national federation and its member cooperatives, the conduct required of and the standards and ethics to be observed by the federation and its members, and the procedures to be followed in correcting situations of conflict of interest.

The Ethics Committee shall also adopt rules of ethics applicable to persons in charge of the inspection or auditing of the cooperatives and federations affiliated to the national federation.

The rules of ethics adopted by Ethics Committee must be submitted for approval to the board of directors of the federation, which may not amend them. The federation shall submit a copy to the FSCC within 30 days from its approval.

**Art. 145.** The Ethics Committee shall, in addition to its main function, receive complaints from the members of the national federation, including associate members, inform the other organs of the national federation if necessary, and reply to the complainant.

**Art. 146.** The Ethics Committee shall notify the board of directors promptly, if:

- (1) the rules of ethics are not observed;
- (2) in its belief, the national federation is contravening a provision of this Act or the regulations or by-laws and the rules on conflict of interest.

The Ethics Committee may notify the FSCC where it considers that the national federation is neglecting to take the necessary measures timely.

**Art. 147.** The Ethics Committee has access to the books of accounts, records and other documents of the national federation, and every person having custody of them must facilitate examination.

**Art. 148.** The Ethics Committee shall report its observations and recommendations to the board of directors.

The Ethics Committee shall each year transmit to the FSCC, within four months of the closing date of the fiscal year of the national federation, a report of its activities in matters of ethics. The report shall indicate the cases where the rules of ethics were not observed.

**Art. 149.** The Ethics Committee may suspend any employee or officer of the national federation, but before suspension, the Ethics Committee shall give due process to the employee or officer. Where the suspended officer holds the office of general manager, the Committee shall immediately inform the Chairperson and request that the Board of Directors or the Chairperson designate a replacement for the duration of the suspension.

**Art. 150.** Upon receipt of the regular inspection report, the Ethics Committee shall submit its recommendations to the board of directors and may call a special meeting to bring up the report before the members.

Likewise, the Ethics Committee shall submit a general report on its activities to the board of directors at the end of the fiscal year of the national federation and shall present this report to the annual general meeting of the members. The report shall make particular mention of the measures taken by the national federation to prevent or resolve conflicts of interest and, where credit has been extended to restricted parties, the report shall show compliance with the applicable provisions of this Act and rules of ethics and standards.

Where the board of directors fails to resolve a conflict of interest or to apply a rule of ethics, the Ethics Committee may act in its stead, according to the procedure provided by the rules of ethics.

**Art. 151.** A national federation shall, thru its by-laws, fix the number of members of the Ethics Committee, which must be three or five.

**Art. 152.** The term of office of a member of the Ethics Committee shall be determined in the by-laws of the national federation, but shall not in any case be less than two years nor more than three years. The by-laws shall also establish a mode of rotation so that one-half or one-third of the members of the Committee are replaced each year, so it will be a continuing body. Provided, that any member shall be qualified to be elected only for three successive terms of office. Provided further that upon the expiry of the term of office of the member, he or she shall remain in office until a successor has been validly elected or appointed.

#### **D. FUNCTIONS AND POWERS**

**Art. 153.** In addition to the other powers it may exercise under this Act, a national federation may:

- (1) examine the books of accounts of any affiliated cooperative or federation;
- (2) enter into an agreement with the board of directors of any member cooperative or federation entrusting the national federation with the supervision, direction or administration of the affairs of the cooperative for a specified period;
- (3) develop and provide any service for the benefit of affiliated cooperatives and federations and their members;
- (4) act, for the purposes of this Act and upon the approval of the FSCC, as the temporary or provisional administrator or as the liquidator of a member cooperative or federation; and
- (5) act as the liquidator or sequestrator for the performance of an obligation secured by a mortgage of which a member cooperative or federation is a creditor.

A national federation may also enter into a contract with a third party that binds cooperatives and federations that are its members where the cooperatives avail themselves of the benefit stipulated in the contract.

**Art. 154.** A national federation shall adopt standards applicable to cooperatives and federations that are its members with respect to:

- (1) the requirements relating to accounting procedure;
- (2) the management, preservation and destruction of book of accounts, records, documents issued or received by them;
- (3) the place and manner of keeping records to be preserved;
- (4) a system in a computerized register for the registration of the shares they issued;
- (5) the exercise of their powers in matters of credit and investment;

- (6) the adequacy of their liquid assets;
- (7) the management of the community development fund, the reserve fund, and other funds established by the cooperative or federation; and
- (8) the reports that they are required to submit for the purpose of determining the amount to be assessed by the national federation.
- (9) the reserves to be maintained for doubtful debts and contingent losses;
- (10) the allocation of surplus earnings;
- (11) the classes and series of shares that may be issued;
- (12) the repurchase or redemption of capital shares; and
- (13) any matter related to sound and prudent management where required in the interest of the national federation and its members.

**Art. 155.** A national federation may adopt standards applicable to its members with respect to:

- (1) the type of persons that a member cooperative or federation may recruit as regular members and associate members;
- (2) any other administrative practice.
- (3) the allocation and form of dividends;
- (4) the allocation of any amount to the general reserve;
- (5) risk management, including credit risk management; and
- (6) sound and prudent management practices.

**Art. 156.** A national federation may also adopt standards applicable to its members in connection with financial products and services, including:

- (1) the issue, endorsement, accepting and discounting of promissory notes or other negotiable instruments, and the accepting of deposits transferable by order to third persons;
- (2) cash management and electronic cash commands (ATMs);
- (3) travellers' checks;
- (4) debit and credit cards;
- (5) the administration of savings plans or trust deposit agreements between cooperatives and members or federations and members with relevance to the regulations of the Bureau of Internal Revenue;
- (6) the distribution of the shares it issues;
- (7) the distribution of the securities of a member of the network;
- (8) the sale of bonds or other debt securities issued or guaranteed by the Government; and
- (9) the exercise of activities and commercial practices connected with the distribution of financial products and services, especially micro-credit.

**Art. 157.** The by-laws of federations and the standards of national federations shall be transmitted to the FSCC.

**Art. 158.** Where the national federation considers that a cooperative or federation that is its member does not practise sound and prudent management, that it has failed to resolve a conflict of interest, that its financial position is not satisfactory or that its assets are not sufficient to give adequate protection to its depositors, creditors and members, it may:

- (1) give written instructions to the cooperative or federation to undertake measures considered appropriate to remedy the situation and to specify the period within which the cooperative or federation is required to comply therewith;
- (2) order the cooperative or federation, within the period prescribed and for the reasons specified by the national federation, to adopt and implement a compliance program in accordance with its directives; and

(3) enter into an agreement with the Audit and Ethics Committee of the cooperative or federation entrusting the national federation with the supervision, direction or administration of the cooperative or federation for a specified period.

The national federation shall submit to the FSCC, within 14 days, a copy of the instructions or orders given or issued under this article.

**Art. 159.** The national federation shall notify the FSCC of any failure of a member cooperative or federation to comply with its instructions or orders. The FSCC may, after giving the national federation and the cooperative or federation an opportunity to be heard, approve the instructions or orders of the national federation with or without amendment. Once approved, the instructions or orders are deemed to be written instructions of the FSCC.

If in its opinion, the FSCC a national federation neglects to exercise the powers to give written instructions or orders given to it by sections 1 and 2 of Art. 158, the FSCC may, after giving the national federation an opportunity to be heard, issue the instruction or order to the concerned cooperative or federation.

**Art. 160.** The national federation has all the powers necessary to correct any operating deficit of a member cooperative or federation in case of a deficiency in its general reserve, where the stabilization fund of which it is a member does not do so. The national federation shall make up the deficit out of its own funds or by means of a special assessment collected from its cooperatives and federations.

#### E. ASSESSMENTS

**Art. 161.** A national federation may, by by-law, fix for each fiscal year a regular assessment and any other assessment it considers necessary. A cooperative or federation is bound to pay the assessments of the national federation of which it is a member.

A national federation may also, by resolution of its board of directors, fix an assessment in respect of a member cooperative or federation which agrees to avail itself of special services offered by the national federation.

**Art. 162.** Cooperatives and federations shall furnish to the national federation of which they are a member any report that the national federation may require pursuant to its standards to determine the amount of assessments.

#### F. AUDITS, INSPECTIONS, EXAMINATIONS AND INVESTIGATIONS

**Art. 163.** A national federation must establish and maintain a service to audit the financial statements of its member cooperatives and federations as well as an inspection service for its members. These services must be established by a registered national federation within three years from the approval of this Act or, in the case of a national financial service cooperative federation registered after the effectivity of this Act, within one year from its registration;

**Art. 164.** The board of directors of a national federation must form an audit and inspection commission composed of members of the board of directors and of persons of known integrity. Provided that the commission should not have less than three members. Provided further That the majority of the members of the commission should come from the national federation's directors.

**Art. 165.** The audit and inspection commission shall appoint on the recommendation of the Ethics Committee, a person to be in charge of audits and a person to be in charge of

inspections, or appoint one person to be in charge of both. They may only be removed from office by the audit and inspection commission, with the approval of the FSCC.

**Art. 166.** The audit and inspection commission must examine the following before they are approved by the board of directors:

- (1) every financial statement and every report transmitted to the FSCC;
- (2) every audited report;
- (3) every matter prescribed by the by-laws of the national federation; and
- (4) every matter prescribed by government regulation.

**Art. 167.** The audit and inspection commission must submit to the FSCC each year, a report on its activities.

**Art. 168.** A national federation shall periodically inspect the internal affairs and the activities of the cooperatives and federations affiliated to it. Inspections shall be conducted at least once every year for financial service cooperatives and federations, and at least once every three years for savings and credit cooperatives. Provided that the FSCC may determine an interval of more than a year for financial service cooperatives with good track records. Provided further that the FSCC may order a national federation to inspect, or the national federation on its own may inspect at anytime a member cooperative or federation.

**Art. 169.** A national federation must inspect the internal affairs and the activities of a member cooperative or federation at the request of the Audit and Ethics Committee of the cooperative or federation.

**Art. 170.** Any person making an inspection or examination and investigation under this Act may:

- (1) enter, at any reasonable time, the establishment of a cooperative or federation under inspection or examination and investigation;
- (2) examine and make copies of the books of accounts, registers, records and other documents;
- (3) require any information or document relating to the administration of this Act;
- (4) require any information or document concerning the cooperative or federation or conflicts of interest involving its officers.

Every person having custody, possession or control of the books, registers, accounts, records and other documents shall, at the request of the person making the inspection or the examination and investigation, permit access to and facilitate the examination of these documents.

The person making an inspection or examination and investigation shall, on request, identify himself or herself and produce a certificate of the federation attesting the person's capacity.

**Art. 171.** No one may hinder the work of any person making an inspection or examination and investigation by misleading that person.

**Art. 172.** A national federation shall inform the board of directors and the Audit and Ethics Committee of the cooperative or federation of the results of the inspection. It shall also transmit a copy of its inspection report to the FSCC. The report transmitted to the FSCC shall only pertain to matters within the FSCC's jurisdiction.

**Art. 173.** A national federation may convene the board of directors and the Audit and Ethics Committee of the cooperative or federation to present the inspection report to them.



A national federation may also order that a special meeting of the cooperative or federation be called to inform the members of the results of the inspection.

**Art. 174.** The person making the inspection of a cooperative or federation in behalf of a national federation shall not be the person conducting the audit of that cooperative or federation.

### G. PROVISIONAL ADMINISTRATION

**Art. 175.** A national federation may suspend the powers of the board of directors or the Audit and Ethics Committee of a cooperative or federation that is its member for a maximum period of 60 days and appoint a provisional administrator to exercise the responsibilities of the board or committee temporarily, as soon as the national federation has reason to believe:

- (1) that there has been misappropriation or embezzlement;
- (2) that there has been a grievous offence or serious lapse in the performance of obligations on the part of an officer of the cooperative or federation;
- (3) that control over the property of the cooperative or federation is insufficient to adequately protect the rights of its members.

The national federation may extend the period of 60 days upon prior approval of the FSCC. Provided however, That the suspended Board or Committee may appeal the decision of the national federation to the FSCC which shall rule on such appeal within 5 days from receipt thereof.

**Art. 176.** Before granting the authorization for extension under Article 175, the FSCC shall inform the members of the board of directors or the Audit and Ethics Committee whose powers have been suspended of the reasons advanced by the national federation and give them the chance to explain their side. However, the FSCC, when faced with the urgency of the situation, may grant authorization even if the board or committee members have not been given the opportunity to present their observations.

**Art. 177.** The provisional administrator cannot be prosecuted by reason of any act done in good faith in the exercise of the provisional administrator's functions.

**Art. 178.** The provisional administrator shall, as soon as practicable, submit a detailed report to the national federation and to the FSCC, informing them that the situation referred to in Article 175 has been corrected or cannot be corrected.

After receiving the report, the national federation may:

- (1) lift the suspension, or
- (2) order the holding of a general assembly of the cooperative to elect new members of the Board or Audit and Ethics Committee.

**Art. 179.** The costs, fees and expenses of the provisional administration are chargeable to the concerned cooperative or federation.

### H. FINANCIAL DISCLOSURE

**Art. 180.** At least ten (10) days before the date of the annual meeting of a local or national federation, the board of directors shall send to each member a copy of the annual report.

**Art. 181.** A national federation shall transmit to the FSCC, every three months, a report on the adequacy of the capital base of its network, a report on the adequacy of its liquid assets and any other report required by the FSCC.

**Art. 182.** A national federation shall submit to the FSCC its consolidated financial statements accompanied by the annual financial statements of each holding company controlled by it and, every three months, its consolidated and unconsolidated financial statements.

### **I. CAPITAL BASE**

**Art. 183.** A national federation must ensure that its network maintains an adequate capital base consistent with sound and prudent management.

The national federation shall adopt standards applicable to its member cooperatives and federations respecting:

- (1) the adequacy of their capital base,
- (2) the elements which compose their capital base, and
- (3) the proportion represented by each element.

These standards must be consistent with government regulations.

**Art. 184.** The FSCC may give written instructions to a national federation concerning the adequacy of the capital base of its network, the elements which compose that capital base and the proportion represented by each element.

Where the FSCC considers that the capital base of a network is inadequate, the FSCC may order the national federation to adopt a compliance program for the national federation and the cooperatives and federations that are its members.

Before exercising these powers, the FSCC shall notify the national federation and give it an opportunity to present its position.

The compliance program shall describe the appropriate measures to be implemented by the national federation to ensure the adequacy of the capital base of the network, within the time limits indicated therein. The compliance program adopted by the national federation shall be submitted for approval to the FSCC, who may approve it with or without amendment. A national federation and its member cooperatives and federations are bound to implement the compliance program approved by the FSCC. In addition, the national federation shall be responsible for seeing to it that the program is implemented by the cooperatives and federations that are its members.

**Art. 185.** A national federation and its member cooperatives and federations must furnish to the FSCC any report the FSCC may require on the implementation of the compliance program at such intervals, in such form and of such tenor as may be determined by the FSCC.

**Art. 186.** The FSCC may implement a compliance program that a national federation has neglected to implement.

### **J. FUNDS OF A NATIONAL FEDERATION** **General Provisions**

**Art. 187.** The national federation may make by-laws to establish funds such as liquidity fund, loan fund, investment fund and other funds.

**Art. 188.** The amounts that may be deposited in the funds and the assets that may be paid into them could also be determined in the by-laws. The sums deposited in a fund and the assets paid into it shall be used and managed in accordance with the powers of the national federation.

**Art. 189.** Any deposit made into a fund constitutes a claim against the national federation.

**Art. 190.** The deposits made into a fund become payable upon the dissolution of the national federation. Any deposit made by a cooperative or federation becomes payable upon the dissolution of that cooperative or federation or upon its ceasing to be a member of the national federation.

**Art. 191.** The assets of the funds are not separate from those of the national federation. However, the national federation may, by by-law, establish a fund whose assets are separate from those of the national federation and shall alone serve to guarantee the obligations contracted for the purpose for which the fund was created.

Where the by-laws of the national federation so provide, the assets of a fund may constitute a trust fund appropriated to a specified purpose. The national federation may acquire the assets of such a fund.

A national federation may, with the authorization of the FSCC, entrust all or part of the management of the funds it has established to any other person. The person so designated must undertake to submit a report annually to the FSCC along with any other document or information required by the FSCC.

### **Liquidity Fund**

**Art. 192.** The liquidity fund of a national federation shall consist of the sums that its member cooperatives are required to deposit into to the fund pursuant to Articles 116 and 117 and the income derived from the transactions made by the fund. The fund constitutes a liquid asset reserve for the member cooperatives of the federation.

### **Investment Fund**

**Art. 193.** An investment fund of the national federation shall consist of the sums entrusted to the fund as deposits and the revenues derived from the operations of the fund. The investment fund shall consist of the assets determined by the by-laws applicable to it, including all the federation's investment in shares, subordinated securities and preferred equity shares.

**Art. 194.** The national federation may issue capital shares in relation to an investment fund. The shares shall have no par value.

**Art. 195.** The deposits constitute the participating interest of the depositors in the net assets of the fund and shall not bear interest. The net revenue from the fund shall be shared between the depositors in accordance with the by-laws of the national federation.

**Art. 196.** Only the net value of deposits made into an investment fund constitutes a claim on the fund. The criteria used to establish a depositor's interest in an investment are determined by the by-laws fund of the national federation.

## **CHAPTER XII Stabilization Fund**

### **A. ESTABLISHMENT AND REGISTRATION**

**Art. 197.** The FSCC may, upon the application of a national federation, register a stabilization fund, the mission of the fund being:

- (1) to assist in the payment of losses sustained by a cooperative or federation that is a member of the fund;

- (2) to establish and administer a stabilization fund, liquid assets fund or assistance fund for the benefit of the cooperatives or federations that are members of the fund;
- (3) to take part in the funding operations of the network.

A national federation wishing to obtain the establishment of a stabilization fund shall send to the FSCC an application together with a certified copy of the resolution authorizing the application and indicating the name and the location of the principal office of the proposed fund. Every cooperative and federation that is a member of the federation is a member of the stabilization fund.

The FSCC shall deposit a copy of the certificate of the registration of the stabilization fund in the register and shall send a copy to the national federation immediately,

**Art. 198.** The name of a stabilization fund shall include the expression "stabilization fund". It shall also include the name of the national federation establishing the fund. The name of a legal person shall not include the expression "stabilization fund" unless the legal person has been constituted under this Act.

**Art. 199.** The stabilization fund is a legal person. The FSCC shall refuse to recognize and register the stabilization fund if the provision of Article 198 is not observed.

## B. ADMINISTRATION

**Art. 200.** The affairs of the fund are administered by a board of directors, the composition of which shall be defined by the by-laws of the fund, but which shall include, among others the Chairperson, the General Manager and the Chairperson of the Ethics Committee of the national federation.

**Art. 201.** The members of the board of directors of the fund shall, within three months after receipt of the certificate of registration provided for in Article 197, elect the Chairperson and Vice-Chairperson of the fund and every other officer whose election is provided for by the by-laws of the fund.

**Art. 202.** The board of directors of the fund may establish an executive committee from among its members. This committee shall include the Chairperson of the fund. The executive committee exercises the powers delegated to it by the board of directors.

**Art. 203.** The term of office of the members of the Board is three years. The by-laws shall establish a mode of rotation so that one-third of the members of the Board are replaced each year, so it will be a continuing body. Provided, that any member shall be qualified to be elected only for three successive terms of office. Provided further that upon the expiry of the term of office of the member, he or she shall remain in office until a successor has been validly elected or appointed.

Any vacancy occurring during the course of the term of a member of the board of directors is filled by the Board of Directors of the national federation.

**Art. 204.** The board of directors of the fund may determine the remuneration and allowances of its members.

**Art. 205.** A majority of the members of the board of directors of the stabilization fund constitutes a quorum at meetings. Decisions shall be made by a majority of the quorum.

**Art. 206.** The board of directors of the fund may, by by-laws, change the name of the fund and the location of its principal office. Every such by-law must be approved by the FSCC and the approved by-laws must be filed with the office of the FSCC and comes into effect on the date the by-laws is registered.

**Art. 207.** The Chairperson of the stabilization fund carries out the decisions of the board of directors. If the Chairperson is absent or is unable to act, the Vice Chairperson shall act in his or her place.

**Art. 208.** Any member of the board of directors of the fund having any direct or indirect interest in an undertaking or a cooperative or federation with which the fund has or intends to have business relations, must, under pain of forfeiture of office, disclose the interest and refrain from voting on any matter concerning that undertaking or cooperative or federation.

**Art. 209.** The fund may:

- (1) make loans and grants to the cooperatives or federations that are members of the fund;
- (2) guarantee the commitments of a cooperative or federation that is a member of the fund;
- (3) guarantee the repayment of an advance or of a loan made to a cooperative or federation that is a member of the fund;
- (4) make an agreement with a cooperative or federation that is a member of the fund under which the affairs of that cooperative or federation will be managed by the fund for a fixed period;
- (5) acquire some of the assets of a cooperative or federation that is a member of the fund;
- (6) act as the liquidator or sequestrator of a cooperative or federation that is a member of the fund; and
- (7) act as the provisional administrator of a cooperative or federation that is a member of the fund for the purposes of this Act.

**Art. 210.** The fund may, when making a loan or a grant to a cooperative or federation that is a member of the fund, determine the measures to be implemented by the cooperative or federation in order to correct certain of its management practices.

**Art. 211.** The fund may, for each of its fiscal years, fix the assessment payable by the cooperatives and federations that are members of the fund.

Provided That, when the fund finds or is informed by the national federation that a cooperative or federation is not practising sound and prudent management, the fund may fix and require from that cooperative or federation a special assessment for each of the fiscal years determined by the fund.

**Art. 212.** The amount of the assessment is established for each cooperative or federation from reports that it must submit to the fund in such form and at such time as the fund may determine by by-laws. The fund may also specify by by-laws the terms and conditions of payment of the assessment.

**Art. 213.** The fund may only make the investments authorized by regulation of the FSCC. The regulation may prescribe cases, conditions and restrictions concerning such investments.

**Art. 214.** The fund may, to obtain payment in whole or in part of any sum owed to it, acquire the immovables securing the payment thereof. However, the fund must dispose of the immovables so acquired within seven years unless the FSCC grants it an extension.

### C. BOOKS, AUDIT AND ANNUAL REPORT

**Art. 215.** The fund shall keep and preserve at its principal office a register of the names and addresses of the members of the board of directors, and the books in which the by-laws of the fund and the minutes of the meetings of the board of directors and of the executive committee are kept.

**Art. 216.** The stabilization fund shall keep its books in accordance with generally accepted accounting principles. Furthermore, the fund shall keep a separate register and separate accounting for transactions.

**Art. 217.** The fiscal year of the fund is the same as that of the national federation.

**Art. 218.** The stabilization fund shall have its books of accounts audited each year. If the fund does not do so, the FSCC may appoint an auditor and fix the remuneration that the fund must pay to that auditor.

The auditor has, in carrying out auditing duties, access to all the books of accounts, registers and other records of the fund, and every person having custody of them must facilitate the auditor's examination. The auditor may also require other information from the members of the board of directors and the officers of the fund to carry out his/her duties as an auditor.

**Art. 219.** The accounts of the fund are closed at the end of the fiscal year. The board of directors shall prepare the annual report, three months from the end of its fiscal year. This report must set forth, in particular:

- (1) the names and addresses of the members of the board of directors;
- (2) the names of the cooperatives and federations that are members of the fund;
- (3) the balance sheet, the statement of operation, the statement of changes in financial position and the surplus statement; and
- (4) the report of the auditor.

**Art. 220.** The balance sheet and the statement of operations must be approved by the board of directors, which shall designate the Chairperson to sign these financial statements in behalf of the Board.

**Art. 221.** The stabilization fund must send a copy of the annual report to the national federation within three months after the end of its fiscal year.

**Art. 222.** The affairs of the stabilization fund must be inspected once each year or whenever the FSCC considers it advisable. The inspection must be carried out by a person appointed by the FSCC.

The person carrying out the inspection has access at any reasonable time to the books of accounts, registers, and other records of the stabilization fund, and every person having custody of them must facilitate their examination by the person carrying out the inspection. The person carrying out the inspection shall identify himself or herself and produce a certificate of capacity signed by the FSCC.

### D. PROVISIONAL ADMINISTRATION

**Art. 223.** If, following an inspection made under Article 222, the FSCC is of the opinion that a serious fault has been committed, particularly embezzlement or breach of trust by one or more members of the board of directors, or that the board of directors engages in management practices that are not sound and prudent, the FSCC may appoint a provisional administrator to assume the powers of the board of directors, temporarily, for a period of seven working days.

The FSCC may extend this period. The powers of the board of directors are suspended when the provisional administrator assumes the administration of the stabilization fund.

**Art. 224.** The provisional administrator must present to the FSCC, as soon as practicable, a detailed report of the provisional administrator's findings, with the recommendations. If the report of the provisional administrator confirms the presence of fraud, embezzlement or breach of trust of one or more members of the Board of Directors, the FSCC shall cause the filing of the appropriate complaints before the proper court.

Before initiating the complaint/s, the FSCC shall give the stabilization fund an opportunity to be heard.

The FSCC shall attach to the report of the provisional administrator a summary of the representations the stabilization fund has made to the FSCC and the FSCC's own recommendations.

**Art. 225.** The FSCC may also:

- (1) order the fund to remedy any situation referred to in Article 293 within the time it determines;
- (2) order the provisional administrator to prolong the administration of the stabilization fund for a determined period, or to terminate the administration unless the fund fails to comply with the order referred to in paragraph 1 of this Article.

**Art. 226.** The provisional administrator must inform the FSCC as soon as the provisional administrator ascertains that the situation referred to in Article 223 has been corrected or cannot be corrected.

The provisional administrator cannot be prosecuted for acts done in good faith in the performance of the provisional administrator's duties.

**Art. 227.** After receiving the report provided for in Article 226, the FSCC may:

- (1) lift the suspension of the members of the board of directors of the stabilization fund, or
- (2) order, on the conditions it determines, the dissolution of the stabilization fund and appoint a liquidator.

**Art. 228.** The provisional administrator must, as soon as his/her mandate has expired, make a complete report of the provisional administration to the FSCC. The expenses and fees of the provisional administration shall be charged to the stabilization fund unless the FSCC decides otherwise.

**Art. 229.** The decision of the FSCC ordering the dissolution of the fund has the same effect as an order made by a judge of the Regional Trial Court.

**Art. 230.** The liquidator first pays the debts of the stabilization fund and the costs of dissolving it, and the balance from the dissolution, if any, devolves to the national federation.

## CHAPTER XIII

### The FSCC and Government Supervision and Regulation

#### A. THE FINANCIAL SERVICE COOPERATIVE COMMISSION

**Art. 231. Creation of the FSCC.** - There is hereby created a Financial Service Cooperative Commission (FSCC) under the supervision of the CDA to carry out, as a collegial body, the provisions of this Chapter and other relevant provisions of this Act.

The FSCC shall be composed of the Chairperson of the CDA or one of the Administrators duly designated by the Chairperson, who shall be the Commission Chairperson, the Secretary of Finance or one of the Undersecretaries duly designated by him/her, who shall be the Vice Chairperson of the Commission, the Executive Director of the FSCC and two other members. The Executive Director and the two members shall be appointed by the President from the nominees of the cooperative sector, and, in the case of the Executive Director, of the Secretary of Finance. They shall have a term of six (6) years. Provided, That among those first appointed, the Executive Director and one member shall serve for a term of six years while the second member shall serve for a term of three years. If the position of Executive Director or Commission member becomes vacant, the President shall appoint a new Executive Director or member from the nominees of the cooperative sector and, in the case of the Executive Director, of the Secretary of Finance. Provided, That an Executive Director or member so appointed shall serve only for the unexpired term.

**Art. 232. Qualifications and Compensation.** - No person shall be appointed Executive Director or FSCC member unless that person is a natural born Filipino citizen of legal age, is of unquestionable integrity and is widely recognized to be competent in economic and social disciplines and in cooperativism. Provided, That at least one of the members of the FSCC shall be a member of the Philippine bar.

The salary of the Executive Director and the two members of the FSCC shall be fixed by the President of the Philippines.

**Art. 233. Meeting of the FSCC.** - The FSCC shall meet at least once a month for the transaction of regular business. Special meetings may be called by the Chairperson or the majority of members to consider specific matters. A majority of the members shall constitute a quorum for all meetings of the FSCC. A majority vote by the members of the FSCC shall be required for a decision.

**Art. 234. The Executive Director and the Organization of the FSCC.** - The Executive Director is the chief executive officer of the FSCC. The Executive Director shall execute and administer the policies, decisions, orders and resolutions approved by the FSCC and shall have the general executive direction and supervision of the work and operation of the FSCC and of its members, bodies, offices, personnel and all its administrative business.

The FSCC may, for purposes of efficiency, delegate any of its functions to any department or office of the FSCC, a member of the FSCC or staff member of the FSCC except its power to adopt, alter and supplement any rule or regulation. The FSCC may review upon its own initiative or upon the petition of any interested party any action of any department or office, any member or staff member of the FSCC.

The FSCC Executive Director and members shall be appointed within sixty (60) days from the effectivity of this Act, and the FSCC shall be organized within one hundred twenty (120) days from such appointment.

## B. SUPERVISION

**Art. 235.** The FSCC shall, at least once a year, inspect or commission the inspection of the internal affairs and the activities of national financial service cooperative federations.

**Art. 236.** The purpose of the annual inspection is to evaluate the financial service and practices and the internal control systems of the national federations, to verify the accuracy of their financial statements and to ensure that they are complying with this Act, the regulations, the by-laws, the standards and the written instructions applicable to them under this Act.



**Art. 237.** The FSCC may order the person in charge of audits or the person in charge of inspections in a national federation to conduct such examinations and investigations into the internal affairs and the activities of the member cooperatives and federations as the FSCC considers expedient and necessary.

**Art. 238.** The FSCC shall, in addition, at the request of the board of directors or Audit and Ethics Committee of a cooperative or federation, or 250 of its members or of one-fourth of its members, whichever is lower, or at the request of the national federation of which it is a member, conduct or commission any examination and any investigation into the internal affairs and the activities of the cooperative or federation.

**Art. 239.** For the purposes of this Act, any person conducting an inspection or examination and investigation under this part may:

- (1) enter, at any reasonable time, the establishment of any legal person under inspection or examination and investigation;
- (2) examine and make copies of the books, registers, accounts, records and other documents relating to the activities of the legal person; and
- (3) require any information or document relating to the carrying out of this Act.

The documents, books, registers, accounts and records that the person conducting the inspection or examination may require must be provided to that person by the cooperative or federation, whatever the medium in which they are stored and whatever the means of accessing them.

No person may hinder the work of any person conducting an inspection or examination and investigation, in particular by misleading that person.

### C. REGULATION

**Art. 240.** The FSCC may, after consulting the national federations, issue regulations for cooperatives or federations concerning:

- (1) the adequacy of their capital base;
- (2) the adequacy of their liquid assets;
- (3) any additional information that must be stated in the annual reports;
- (4) any other practice of sound and prudent management, in particular relating to investments.

**Art. 241.** The FSCC may, after consulting the national federations, also issue regulations for national federations concerning:

- (1) fees payable for any procedure under this Act or a regulation thereunder and for the examination and reproduction of documents;
- (2) standards, conditions and restrictions relating to the credit services of national federations to their members;
- (3) shares that may be issued and the terms, conditions and restrictions attached to these shares;
- (4) composition and adequacy of the capital base;
- (5) any additional information that must be stated in the auditor's report;
- (6) standards relating to accounting, on a combined basis;
- (7) standards related to the adequacy of capital stock, general reserve and liquid assets;
- (8) conditions and restrictions concerning the flow of information within a national federation, to and from a cooperative and legal persons belonging to the same network, to and from a cooperative and restricted parties, with the end in view of reducing the risks of conflicts of interest;

- (9) standards governing arrangements between a cooperative or local federation, its national federation and legal persons belonging to the same network for the sale of their financial products, and conditions permitting such arrangements to be made;
- (10) standards related to the establishment and administration of the funds of a national federation;
- (11) standards applicable to national federations with respect to:
  - (a) the requirements relating to the books, registers and other accounting records which they are required to keep;
  - (b) the management, preservation and destruction of documents issued or received by a national federation;
  - (c) the book base system in a computerized register for the registration of shares issued by them;
  - (d) the place and manner in which books, registers and other documents are to be preserved; and
  - (e) the keeping of books, registers and any other document on any electronic information storage device capable of reproducing information in intelligible written form.

**Art. 242.** A cooperative or federation that fails to comply with the guidelines issued under Article 241 is deemed to have failed to adhere to sound and prudent management practices.

**Art. 243.** The FSCC may order a cooperative or federation to cease a course of action or to implement specified measures if it is of the opinion that the cooperative or federation is not adhering to sound and prudent management practices or is not complying with:

- (1) a provision of this Act;
- (2) a compliance program; or
- (3) an undertaking under this Act.

The FSCC may make an order pursuant to this Article where, in the opinion of the FSCC, the conduct of a cooperative or federation is contrary to sound and prudent management practices, even if the cooperative or federation complies with the guidelines.

Where, in the opinion of the FSCC, the Audit and Ethics Committee of a cooperative or local federation or the Ethics Committee of a national federation is not exercising its functions in accordance with the provisions of this Act, the FSCC may order the board to take the measures indicated by the FSCC to remedy the situation.

Before taking the action set out in the first paragraph, the cooperative or the federation will be given the opportunity to present their position.

The order of the FSCC must state the reasons on which the order is based. The FSCC shall send a copy of the order to the Audit and Ethics Committee of the cooperative or federation or, as the case may be, the Ethics Committee of the national federation. The order shall become effective on the day it is served or on any later date indicated therein.

However, the FSCC may, without prior notice, issue a provisional order, valid for a period not exceeding ten (10) days, if the FSCC is of the opinion that the granting of time to the person concerned to present observations could be prejudicial.

**Art. 244.** The FSCC may apply to a judge of the Regional Trial Court for an injunction in respect of any matter relating to this Act or a government regulation thereunder. The prescribed rules of court of the Philippines shall apply, except that the FSCC cannot be required to give security.

**Art. 245.** The FSCC may, after obtaining the advice of the national federation of which the cooperative or federation is a member, suspend the powers of the board of a cooperative or

federation and appoint a provisional administrator to exercise the powers of the cooperative or federation for such period as the FSCC may determine, if the FSCC has grounds to believe:

- (1) that the assets of the cooperative or federation are inadequate to ensure effective protection of the depositors, creditors and members;
- (2) that the cooperative or federation has failed to maintain a capital base meeting the requirement of this Act or the standards of its national federation;
- (3) that the cooperative or federation does not adhere to sound and prudent management practices;
- (4) that the cooperative or federation has failed to comply with the FSCC's written instructions concerning a compliance program;
- (5) that there has been misappropriation of property;
- (6) that a serious fault has been committed, in particular, embezzlement or breach of trust by members of the board of the cooperative or federation, or that such members have been seriously remiss in the performance of the obligations imposed on them by this Act or a government regulation thereunder.

Before exercising the powers under this Article, the FSCC shall give the members of the board of a cooperative or federation whose powers are suspended an opportunity to present their position.

However, if warranted by the urgency of the situation, the FSCC may order the suspension, for a period not exceeding 15 days, without giving the members referred to in the first paragraph or the cooperative or federation or the national federation of which the cooperative or federation is a member an opportunity to present their positions.

**Art. 246.** Where the powers of the board of directors are suspended, the provisional administrator shall exercise, in addition to the powers of the board of directors, those of the general assembly.

The provisional administrator shall remain in office until the expiry of his/her appointment, unless the FSCC prolongs or terminates the administrator's appointment.

The provisional administrator cannot be prosecuted by reason of any act done in good faith in the performance of the provisional administrator's duties.

**Art. 247.** The provisional administrator shall submit to the FSCC, as soon as practicable, a detailed report of his or her findings, together with recommendations. The provisional administrator shall also, at the FSCC's request, submit any additional report. The provisional administrator shall, at the end of his or her appointment, make a complete report of the provisional administration to the FSCC.

**Art. 248.** The FSCC, after considering the report of the provisional administrator and on the recommendation of the national federation, may:

- (1) lift the suspension of the powers of the board of the cooperative or federation, or prolong such suspension;
- (2) remove from office the members of the board of the cooperative or federation and order the provisional administrator to call a special meeting to elect new members of the board;
- (3) order the winding-up of the cooperative or federation and appoint a liquidator.

**Art. 249.** The decision of the FSCC ordering the winding-up of a cooperative has the same effect as an order made by a judge of the Regional Trial Court. In the case of such a winding-up, the order is final. However, the FSCC may terminate the winding-up where the interest of the members justifies it.

**Art. 250.** The expenses, fees and outlays entailed by the provisional administration shall be charged to the cooperative or federation concerned, unless the FSCC orders otherwise.

#### **D. MISCELLANEOUS PROVISIONS AND REPORTS**

**Art. 251.** The FSCC will request the CDA correct an incomplete certificate or a certificate containing an error. The completed or corrected certificate is deemed to have been issued on the date shown on the certificate that it replaces or on the date that should have been shown on it, where such is the case. The CDA shall deposit the completed or corrected certificate in the register.

**Art. 252.** It shall not be necessary in any proceedings to produce the original of any book, document, order or register in the possession of the FSCC; a copy or extract certified by the FSCC shall be sufficient proof of the original.

**Art. 253.** The FSCC may, on its own motion and without notice, intervene in any civil action concerning a provision of this Act or a government regulation thereunder to take part in the proof and hearing as if the FSCC were a party.

**Art. 254.** The FSCC shall submit a report to the CDA Board of Administrators yearly on the financial position of the savings and credit cooperative, financial service cooperatives and local and national financial service cooperative federations. The report shall include any other information considered appropriate by the FSCC or required by the CDA Board.

The CDA shall submit a copy of the report of the FSCC to the Office of the President of the Philippines within 30 days after receiving it.

#### **CHAPTER XIV Deposit Insurance**

**Art. 255.** In order to provide protection to the members, all financial service cooperatives shall be required to have deposit insurance for their member-depositors within three (3) years from the approval of this Act.

**Art. 256.** The Philippine Deposit Insurance Corporation (PDIC), the FSCC, the CDA and other government agencies, government owned or controlled corporations and government financial institutions shall provide technical assistance to national financial service cooperative federations in order for these federations to establish and/or strengthen their own Cooperative Deposit Insurance System.

#### **CHAPTER XV Final Provisions**

**Art. 257. Information Campaign.** - The CDA, in partnership with the Department of Finance and the national financial service cooperative federations, is mandated to conduct an intensive and comprehensive information campaign on the provisions of this Act beginning three months from the effectivity of this Act.

**Art. 258. Amendments of By-Laws of Cooperatives and Federations** - All savings and credit cooperatives, financial service cooperatives, financial service cooperative federations and other cooperatives covered by this Act shall, within three (3) years from its effectivity, amend their Articles of Cooperation and By-Laws to conform to this Act and shall submit such amendments to the CDA and FSCC, and, in the case of savings and credit cooperatives and financial service cooperatives, to the national federation of which they are a member.

**Art. 259. Penal Provisions.**

Sec. 1. The following are considered offenses punishable by the penalty of imprisonment for one (year) or a fine of not more than fifty thousand pesos (P50,000.00) or both at the discretion of the court:

- a) The use of the name "savings and credit cooperative" or "credit cooperative" unless duly registered under this Act, the use of the name "financial service cooperative" unless duly registered and qualified under this Act, and the use of any name or designation to falsely represent an institution as being governed by this Act;
- b) Omission or refusal to furnish any information, report or other document that is required to be furnished under this Act;
- c) Providing to the CDA or FSCC or any other person information, reports or other documents that are required under this Act, which the person knows to be false or misleading;
- d) Omission or refusal to keep a book or register required under this Act or to make a required entry therein;
- e) Making an entry required under this Act in a book or register, which the person knows to be false or misleading;
- f) Hindering a person who, as part of the person's duties, is making an inspection, an audit, an examination or an investigation under this Act;
- g) Failure to comply with an order or written instructions issued or given by the FSCC or CDA;
- h) Violation of Articles 92, 94 and 96 regarding transactions with a restricted party; and
- i) Abetting, counseling, allowing, authorizing or commanding another person to commit an offence punishable by this Act.

Provided that in case the violator is a cooperative or another juridical person, the penalty shall be imposed on its directors and officers.

Sec. 2. Any violation of any provision of this Act for which no penalty is imposed shall be punished by imprisonment of not less than six (6) months nor more than one (1) year and a fine not exceeding thirty thousand pesos (P30,000.00) or both at the discretion of the court.

**Art. 260. Appropriations.** - The amount of One Hundred Million Pesos (P100,000,000.00) is hereby appropriated for the initial year of operation of the FSCC and the implementation of this Act. This fund may be drawn from the Contingent Fund of the President. Thereafter, such sums as may be necessary for the implementation of this Act shall be included in the annual General Appropriations Act.

**Art. 261. Cooperatives covered by this Act as defined under Article 2 hereof are not covered by Republic Act No. 8791 (The General Banking Law of 2000) and are not under the regulation and supervision of the Bangko Sentral ng Pilipinas.**

**Art. 262. Repeals and Amendments.** - The provisions of the Cooperative Code of the Philippines (RA 6938), Republic Act No. 6939 and all other laws or parts thereof which are inconsistent with any provision of this Act shall be deemed repealed or modified accordingly. Provided that Articles 8, 9, 12, 13, 28, 30, 49, 50, 61, 62, 63, 74, 124 - sec. 2 and 3, 126 and other articles of RA 6938 which are not inconsistent with this Act shall still apply to cooperatives registered and covered by this Act. Sections 33 and 79 of Republic Act No. 8791 are hereby amended.

**Art. 263. Separability.** - Should any part of this Act be declared unconstitutional, the rest of the provisions shall not be affected thereby.

**Art. 264. Effectivity.** - This Act shall take effect fifteen (15) days from its publication in a newspaper of general circulation.

Approved,