

SENATE

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Senate Bill No. 2392

Introduced by Senator Juan Miguel F. Zubiri

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

EXPLANATORY NOTE

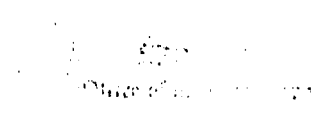
The role of cooperative banks in providing credit and other financial services to the cooperative sector has been very crucial and instrumental in helping our government in its poverty alleviation efforts. Cooperative banks are owned and financed by primary cooperatives using their funds from the shareholding of their members such as farmers, fisherfolk, micro entrepreneurs, small traders and as a return, these primary cooperatives borrow money from cooperative banks to support their loan program for members. After deducting the appropriate statutory funds at the close of each year, the net surplus generated by these cooperative banks are then plowed back to their members, both regular and associate. A demonstration of a give and take relationship whereby the co-existence of both stakeholders is evident.

The Cooperative Development Authority (CDA) reported that as of 31 August 2021, 24 cooperative banks are operating in the country, 4 of which are operating nationwide, 10 region-wide, 9 in the provincial level, and 1 in the municipal level. Total assets of cooperative banks as of 31 December 2020 amounted to Php23,425,716, 882. Of the 24 cooperative banks, all but one are categorized large by asset size.

With the enactment of the Philippine Cooperative Code of 2008, the cooperative sector has been given both the chance and the challenge to play a bigger and more meaningful role in the delivery of financial services to rural areas especially the extension of loans and credit to marginalized communities in the countryside and far-flung areas. This proposed Act aims to create a more robust legal framework for cooperative banks and is envisioned to make them more responsive to the challenges of the new Cooperative Code. It will hopefully expand the market reach of cooperative banks to the 499 unbanked cities and municipalities in the country to better serve farmers, fisherfolk, micro entrepreneurs, small traders and other rural workers.

In view of foregoing, early passage of this bill is earnestly sought


JUAN MIGUEL F. ZUBIRI



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1827 11/11/2021

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AN ACT
PROVIDING FOR THE REGISTRATION, REGULATION, AND OPERATION OF
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Be it enacted by the Senate and the House of Representatives of the Philippines in Congress assembled:

CHAPTER I
DECLARATION OF POLICY AND DEFINITIONS

1 **Section 1. Title.** - This Act shall be known as the "Cooperative Banking Act of
2 2021".

3 **Sec. 2. Declaration of Policy.** - It is the declared policy of the State to foster
4 the creation and growth of cooperatives to promote self-reliance, communal unity and
5 the attainment of economic development and social justice. The State shall encourage
6 the private sector to undertake the actual formation and organization of cooperatives and
7 shall create an atmosphere that is conducive to the growth and development of these
8 cooperatives.

9 Further, it is hereby declared the policy of the State to:

- 10 a. Recognize Cooperative Banks (CBs) as practical vehicles for the promotion of
11 self-reliance and economic development and the attainment of social justice;
12 b. Encourage thrift and savings mobilization for the achievement of sustainable
13 economic development primarily among cooperatives and their members; and
14 c. Regulate and supervise the activities of CBs in order to achieve sound, stable,
15 sustainable, and efficient operations for the protection of the public interest.

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

19 **Sec. 3. Definition of Terms.** – As used in this Act:

- 20 a. Cooperative Bank — refers to a bank organized under this Act and under the
21 provisions of R.A. No. 9520, otherwise known as Philippine Cooperative Code
22 of 2008, and prior laws, for the primary purpose of providing a wide range of
23 financial services to cooperatives and their members and the public, and which

1 was issued by the Bangko Sentral ng Pilipinas (BSP) a license to operate as
2 such, the majority shares of which are owned and controlled by the cooperative
3 organizations;

4 b. Cooperative organization — refers to any cooperative whether primary,
5 secondary, tertiary, or a special type of cooperative registered under the
6 provisions of R.A. No. 9520 and R.A. No. 10744, otherwise known as Credit
7 Surety Fund Cooperative Act of 2015;

8 c. Samahang Nayon and Municipal Katipunan ng mga Samahang Nayon — refers
9 to pre-cooperative organizations established under Presidential Decree No.
10 175, on Strengthening the Cooperative Movement.

11 **CHAPTER II** 12 **ORGANIZATION**

13 **Sec. 4. *Organization and Membership.*** - The organization and membership of
14 a Cooperative Bank (CB) shall be governed by the following:

15 a. Organization —At least fifteen (15) cooperative organizations duly established
16 and registered under the Cooperative Code may register a CB with the
17 Cooperative Development Authority (CDA), upon compliance with the
18 requirements of and required authorization from the BSP;

19 b. Membership — Membership in a CB shall be open to:

- 20 (1) cooperatives of all types and categories;
21 (2) individuals who are members of a cooperative;
22 (3) foreign cooperatives;
23 (4) pre-cooperative organizations established under P.D. 175; and
24 (5) individuals.

25 Membership in a CB is either regular or associate. Regular membership shall be
26 limited to cooperative organizations and individuals who are members of a domestic
27 cooperative or foreign cooperative. Associate members shall be pre-cooperative
28 organizations established under P.D. 175 and individuals who are subscribing and holding
29 preferred shares only.

30 The common shareholdings of local cooperative organizations shall at all times be
31 at least sixty percent (60%) of the total outstanding voting shares of the CB. Common
32 shares held by individuals who are members of a cooperative and foreign cooperatives
33 shall not be more than forty percent (40%) of the total outstanding voting shares:
34 Provided, That the common shareholdings of each individual who is a member of a
35 cooperative shall not be more than 5% of the total outstanding voting shares.

36 **Sec. 5. *Establishment of Cooperative Banks.*** - The articles of cooperation
37 and by-laws of a CB or any amendment thereto shall be registered with the CDA only
38 when accompanied by a certificate of authority issued by the BSP.

39 **Sec. 6. *Establishment of Branches and Other Offices.*** - The establishment
40 of branches, branch-lite units, or other banking offices shall be governed by the rules and
41 regulations of the BSP.

1 **CHAPTER III**
2 **MANAGEMENT AND GOVERNANCE OF COOPERATIVE BANKS**

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

9 The number, composition, and term of the board of directors shall be defined in
10 the articles of cooperation and by-laws of the CB in accordance with the following
11 guidelines:

- 12 a. **Board and Committees.** - The CB shall constitute, at a minimum, the Board of
13 Directors, Election Committee, and Audit Committee.

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

20 The Election Committee shall be responsible for the formulation and
21 implementation of election rules and guidelines. It shall supervise the conduct
22 of election and election-related activities, canvass and certify the results of the
23 election, and decide cases relative to such election, except those involving the
24 committee itself or its members. The members of the Election Committee shall
25 be elected by the general assembly or representative assembly.

26 The Audit Committee is a board-level committee which composition, functions
27 and responsibilities shall be in accordance with the existing regulations of the
28 BSP. Other board-level committees may be created as may be directed by the
29 BSP.

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

- 32 b. **Key Management Officers.** - The key management officers shall be appointed
33 by the Board and shall include the President, Treasurer, Internal Auditor, and
34 Compliance Officer, or their equivalent ranks. The BSP shall prescribe the
35 qualifications and disqualifications of the key management officers.

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

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

4 **Sec. 9. Compensation.** - In the absence of any provision in the by-laws fixing
5 their compensation, the directors shall not receive any compensation except for
6 reasonable per diems: Provided, however, That the directors and officers shall not be
7 entitled to any per diem when, in the preceding calendar year, the CB reported a net loss
8 or had a dividend rate less than the official inflation rate for the same year. Any
9 compensation other than per diems may be granted to directors by a majority vote of the
10 members with voting rights at a regular or special general assembly meeting specifically
11 called for the purpose: *Provided*, That no additional compensation other than per diems
12 shall be paid during the first year of existence of the CB.

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

15 **Sec. 10. Liability of Directors, Officers and Committee Members.** -
16 Directors, officers, and committee members, who willfully and knowingly vote for or
17 assent to patently unlawful acts or who are guilty of gross negligence or bad faith in
18 directing the affairs of the CB or acquire any personal or pecuniary interest in conflict
19 with their duties as such directors, officers or committee members shall be liable jointly
20 and severally to the CB for the full amount of damages or personal gain resulting
21 therefrom.

22 **Sec. 11. Disloyalty of Directors and Officers.** - A director or officer who, by
23 virtue of the office, acquires a financial opportunity which should belong to the CB shall
24 be liable for damages and must account for double the profits that otherwise would have
25 accrued to the CB by refunding the same, unless the act was ratified by a two-thirds (2/3)
26 vote of all the members with voting rights.

27 This provision shall be applicable notwithstanding the fact that the director or
28 officer used personal funds for the venture.

29 **Sec. 12. Dealings of Directors, Officers, Stockholders and Related**
30 **Interests (DOSRI).** - Dealings with directors, officers, stockholders and related
31 interests of the CB shall comply with Section 36 of R.A. No. 8791, otherwise known as
32 General Banking Law of 2000.

33 **Sec. 13. Illegal Use of Confidential Information.** - A director or officer, or an
34 associate of a director or officer, who, for the benefit or advantage or that of an associate,
35 makes use of confidential information that, if generally known, might reasonably be
36 expected to adversely affect the operations and viability of the CB, shall be held:

- 37 a. Liable to compensate the CB for the direct losses suffered by the CB as a result
38 of the illegal use of information; and
- 39 b. Accountable to the CB for any direct benefit or advantage received or yet to be
40 received by the associate, as a result of the transaction.

41 The CB shall take the necessary steps to enforce the liabilities and accountabilities
42 described herein.

1 **Sec. 14. Bond for Faithful Performance of Duties and Obligations.** – Every
2 officer or employee handling funds, securities, or property on behalf of a CB shall, before
3 performing such duties, execute and deliver adequate and appropriate bond for the
4 faithful performance of one’s duties and obligations.

5
6 **Sec. 15. Quorum and Voting Rights.** - In meetings of the board of directors,
7 whether special or regular, the quorum requirements shall be one-half plus one of all the
8 members. Each director shall only have one (1) vote.

9 **CHAPTER IV**
10 **GENERAL ASSEMBLY**

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

14 **Sec. 17. Powers of the General Assembly.** - The general assembly shall be the
15 highest policy-making body of the CB and shall exercise such powers as are stated in the
16 Cooperative Code, in the articles of cooperation, and in the by-laws of the CB. The general
17 assembly shall have the following exclusive powers which cannot be delegated:

- 18 a. To determine and approve amendments to the articles of cooperation and by-
- 19 laws;
- 20 b. To elect or appoint the members of the board of directors, and to remove them
- 21 for cause; and
- 22 c. To approve developmental plans of the CB.

23 Subject to such other provisions of the Cooperative Code and only for purposes of prompt
24 and intelligent decision-making, the general assembly may, by a three-fourths (3/4) vote
25 of all its members with voting rights present and constituting a quorum, delegate some
26 of its powers to a smaller body of the CB. These powers shall be enumerated under the
27 by-laws of the CB.

28 **Sec. 18. Meetings.** - A regular meeting shall be held annually by the general
29 assembly on a date fixed in the by-laws, or if not so fixed, on any date within one hundred
30 eighty (180) days after the close of each fiscal year: *Provided*, That notice of regular
31 meetings may be sent through personal delivery, registered mail or other electronic
32 means, or such other manner as the BSP may allow under its existing regulations, to all
33 members of record, and posted in conspicuous places within the CB premises.

34 Whenever necessary, a special meeting of the general assembly may be called at any
35 time by a majority vote of the board of directors or as provided for in the by-laws:
36 *Provided*, That a notice shall be sent one (1) week prior to the meeting to all members
37 who are entitled to vote: *Provided*, however, That a special meeting shall be called by
38 the board of directors after compliance with the required notice or by at least ten percent
39 (10%) of the total members who are entitled to vote to transact specific business covered
40 by the call.

41 If the board fails to call a regular or a special meeting within the given period, the CDA
42 shall, upon petition of ten percent (10%) of all the members of the CB who are entitled
43 to vote, and for good cause shown, shall issue an order to the petitioners directing them
44 to call a meeting of the general assembly by giving proper notice as required in the
45 Cooperative Code or in the by-laws.

1 In the case of a newly approved CB, a special general assembly shall be called, as far as
2 practicable, within ninety (90) days from such approval;

3 The CDA may call a special meeting of the CB for the purpose of reporting to the members
4 the result of any examination or other investigation of the CB affairs; and

5 Notice of any meeting may be waived, expressly or impliedly, by any member.

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

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

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

14 **CHAPTER V** 15 **POWERS, FUNCTIONS, AND ALLIED UNDERTAKINGS**

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

- 19 a. Extend loans and advances primarily for the purpose of meeting the normal
20 credit needs of farmers, fishermen, or farm families as well as cooperatives,
21 merchants, and private and public employees: Provided, That loans and
22 advances granted to cooperative organizations shall not be subject to individual
23 ceilings on loans to DOSRI;
- 24 b. Accept savings and time deposits;
- 25 c. Act as correspondent of other financial institutions;
- 26 d. Discount and rediscount paper with the Land Bank of the Philippines,
27 Development Bank of the Philippines or any other bank, including its branches
28 and agencies. Said banks shall specify the nature of paper deemed acceptable
29 for rediscounting, as well as the rediscount rate to be charged by any of these
30 banks;
- 31 e. Act as collection agent;
- 32 f. Act as official depository of Local Government Units and other government
33 agencies or instrumentalities;
- 34 g. Acquire readily marketable bonds and other debt securities;
- 35 h. Buy and sell foreign exchange;
- 36 i. To act as conduit bank for the disbursement of government funds intended for
37 lending to agriculture, micro, small-medium enterprises (MSMEs) and projects
38 for local economic development;
- 39 j. To be eligible to participate in government program allocations for agricultural
40 lending, social housing, loans to rural micro enterprises and other initiatives
41 towards inclusive growth; and
- 42 k. Offer other banking services as provided for in Section 53 of R.A. No. 8791.

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

1 and MKSN to finally convert to a cooperative within said period, the funds held in the
2 name of such SN and MKSN shall be considered as preferred shares and shall remain as
3 capital of the CB.

4 **Sec. 26. Additional Source of Capital of the CBs.** - The funds or common shares in
5 CBs held in the name of cooperatives whose certificates of registration have already been
6 cancelled by the CDA and which failed to liquidate such funds or shares during its
7 liquidation shall remain as capital in said CBs and shall be treated as preferred shares.

8 **CHAPTER VII** 9 **SUPERVISION**

10 **Sec. 27. Supervision of Cooperative Banks.** - All CBs shall be under the supervision
11 of the BSP: *Provided*, however, That the CDA shall monitor the CBs' compliance with
12 cooperative laws, rules, and regulations. With respect to the governance of the CBs, the
13 provisions of the banking laws, rules, and regulations shall prevail, notwithstanding
14 Section 71 of R.A. No. 8791.

15 **Sec. 28. Promulgation of Guidelines.** - The BSP and CDA may formulate guidelines
16 to implement or clarify the provisions of the Act: *Provided*, That the BSP, as the regulator
17 of banks, shall be the primary regulator of cooperative banks consistent with the
18 provisions of RA 8791: *Provided, further*, That in order to minimize the burden of dually-
19 regulated entities, the BSP shall, in consultation with the CDA, shall in its promulgation
20 of rules and regulations, to the extent allowed in banking and other relevant laws, and
21 insofar as consistent with the BSP's exercise of supervisory and regulatory powers over
22 banks, consider the requirements of this Act and the CDA for cooperatives in general.

23 **CHAPTER VIII** 24 **PRIVILEGES AND INCENTIVES**

25 **Sec. 29. Privileges of Cooperative Banks.** - CBs registered under this Act and the
26 Cooperative Code shall have the following privileges and incentives:

- 27 1. Those privileges and incentives accorded to cooperatives under the Cooperative
28 Code and other prior laws including exemption from all national, city, provincial,
29 municipal or barangay taxes, fees and charges of whatever nature and description:
30 *Provided, however*, That when a CB has reached an undivided net savings of more
31 than One hundred million pesos (P 100,000,000.00), transactions to non-member
32 will become taxable;

- 33 2. The foreclosure of mortgages covering loans granted by CBs and executions of
34 judgment thereon involving real properties levied upon by sheriff shall be exempt
35 from the publications in newspapers where the total amount of loan, excluding
36 interests due and unpaid, does not exceed One million pesos (P1,000,000.00) or
37 such amount as the Monetary Board may prescribe as may be warranted by
38 prevailing economic conditions. It shall be deemed sufficient publication in such
39 cases where the notices of foreclosure and execution of judgment are posted in
40 the most conspicuous areas such as the municipal building, the municipal public
41 market, the CB, and the barangay hall where the land mortgaged is situated during
42 the period of sixty (60) days immediately preceding the public auction or execution
43 of judgment. Proof of publication as required herein shall be accomplished via an
44 affidavit of the sheriff or officer conducting the foreclosure sale or execution of
45 judgment and shall be attached to the records of the case;

- 1 3. A CB shall be allowed to foreclose lands mortgaged to it subject to the provisions
2 of Republic Act No. 6657, otherwise known as Comprehensive Agrarian Reform
3 Law of 1988. For agrarian lands foreclosed by a CB, the disposal of the same to
4 another qualified beneficiary under Republic Act 6557 shall be made through the
5 same CB. Further, the amortization of the beneficiary in favor of the Department
6 of Agrarian Reform (DAR) shall be coursed through the servicing CB: Provided,
7 however, That CBs shall be exempt from the landholding limits as prescribed by
8 the DAR or any other law requiring the same;
- 9 4. For CBs granted by the BSP with accreditation as Rural Financial Institution
10 (RFI) under Republic Act 10000, the following privileges shall be awarded:
- 11 a. Unrestricted branching rights to set-up agriculture-oriented branches in
12 unbanked municipalities and predominantly agricultural communities, subject
13 to existing regulations on minimum capitalization for banks and the size of
14 branch network;
- 15 b. Automatic eligibility with Philippine Guarantee Corporation (with respect to
16 agricultural credit guarantee), Philippine Crop Insurance Corporation, and
17 governmental agencies providing services towards risk-mitigation in the
18 agriculture sector;
- 19 c. Priority status as credit delivery partner or conduit of government directed
20 programs for agricultural projects through the Department of Agriculture and
21 other government agencies; and
- 22 d. Entitlement to participate free of charge in capability-building activities in
23 agriculture lending such as the exchange of best-practice experiences, study
24 tour, technology transfer among ASEAN members states and other fora of
25 international cooperation.

26 **Sec. 30. Separability Clause.** - If any provision or section of this Act or the application
27 thereof to any person or circumstance is held invalid, the other provisions or sections of
28 this Act shall remain valid, and the application of such remaining provisions or sections
29 to the other persons or circumstances shall not be affected thereby.

30 **Sec. 31. Repealing Clause.** - All laws, issuances, rules, and regulations inconsistent
31 with this Act are hereby modified or amended accordingly.

32 **Sec. 32. Effectivity.** - This Act shall take effect fifteen (15) days after its publication in
33 the Official Gazette or in a newspaper of general circulation.

Approved.