



BANGKO SENTRAL NG PILIPINAS

OFFICE OF THE DEPUTY GOVERNOR
SUPERVISION AND EXAMINATION SECTOR

MEMORANDUM NO. M – 2013 - 007

To : **ALL COOPERATIVE BANKS**

Subject : **MB Resolution No. 177 dated 31 January 2013**

Memorandum to all Cooperative Banks on various cooperative banking issues/concerns discussed and clarified in the Cooperative Banks Federation of the Philippines (BangKOOP) meeting

Notice is hereby given that the Monetary Board, in its Resolution No. 177 dated 31 January 2013 approved to disseminate to all Cooperative Banks various issues/concerns of the cooperative banking sector discussed and clarified in a meeting with the Representatives of the Cooperative Banks Federation of the Philippines (BangKOOP) on 26 March 2012 at the Bangko Sentral ng Pilipinas (BSP) as follows:

1. DOSRI regulations

- a. Under existing regulations, loans extended by a cooperative bank to its primary cooperative stockholders are considered as loans to DOSRI. These loans are subject to the prudential regulations on the grant of loans (e.g., general guidelines in the grant of loans, requirement that these be made upon terms not less favorable to the bank than those offered to others, procedural requirements, as well as reporting to the BSP). Loans to these primary stockholders are, however, exempt from the individual ceiling on loans to DOSRI which puts a cap on the amount of loan that a DOSRI may avail of, which is the amount of the DOSRI's deposit plus the book value of his paid – in capital contribution in the coop bank as prescribed in Subsection X330.1(c) of the Manual of Regulations for Banks (MORB).
- b. Loans to individual members of primary shareholders are not considered DOSRI loans, unless these individual members are also directors or officers of the cooperative bank.
- c. For purposes of computing compliance with the capital requirements of cooperative banks as prescribed in Section X111 of the MORB, unsecured loans to primary stockholders are to be deducted from Tier 1 capital. To address this concern, the loan to DOSRI should be secured.

2. Deposit for Stock Subscriptions (DSS) (Circular No. 762 dated 25 July 2012)

- a. A DSS supported by a Subscription Agreement will be considered as Tier 1 capital subject to the following conditions:
 - i. The DSS meets the definition of an equity instrument under Philippine Accounting Standards 32 Financial Instruments: Presentation such that the deposit for stock subscription shall not be interest-bearing nor withdrawable by the subscriber.
 - ii. The bank's existing authorized capital is already fully subscribed;
 - iii. The bank's stockholders and board of directors have approved the proposed increase in authorized capital; and
 - iv. The bank has filed an application for the amendment of its Articles of Incorporation for the increase in authorized capital with the appropriate department of the SES, BSP duly supported by complete documents as listed in Circular Letter No. 2009-042 dated 14 May 2009; and
 - v. The bank must have obtained approval of the Monetary Board on transactions involving significant ownership of voting shares of stock by any person natural or juridical, or by one group of persons as provided in Subsec. X126.2.b of the MORB, if applicable.
- b. If the "DSS" is not documented/not supported by a Subscription Agreement or other conditions are not met, it is to be treated for regulatory purpose as a liability account.

3. Capital build-up of the cooperative stockholders-

- a. Existing regulations (MORB) provide:

Subsection X304.3 Prohibited use of loan proceeds. Banks are prohibited from requiring their borrowers to acquire shares of stock of the lending bank out of the loan or other credit accommodation proceeds from the same bank.

- b. Coop Banks may deduct a portion of the loan proceeds to build the capital contribution in the primary cooperative stockholder of a member borrower, provided (1) there is consent of the borrower, and (2) the bank is able to support said deduction with a reliable data and record keeping system.

4. Independent Director

- a. Independent directors are required in all board of directors of cooperative banks pursuant to the General Banking Act and BSP implementing regulations as amended by Circular No. 749 dated 27 February 2012. At least 20 percent but not less than 2 of the members of the board should be independent directors. A fraction of the result of applying the required minimum proportion shall be rounded off to the nearest whole number.

- b. An independent director may be the nominee of a primary cooperative who does not possess substantial shareholdings in the cooperative bank. Substantial shareholders are those primary cooperatives which have enough shares to elect a seat in the board, or those with at least 10 percent of the cooperative bank's equity. Because all coop banks have numerous primary cooperative stockholders, which include those that are considered minority shareholders, designating an independent director should not be problem.

5. Information Technology (IT)

- a. Cooperative banks are not automatically required to have an IT officer. The requirement is relevant for those coop banks that have put in place an IT system that they have found necessary to support their operational requirements. Cooperative banks that have only very basic or no IT system are not required to have an IT officer.

6. Audit Committee

- a. The Audit Committee (AC) is a required board-level committee established by the Board of Directors (BOD). The AC members are not elected by the General Assembly. However, nothing prevents the BOD of the cooperative banks if they so desire from designating AC members who are first elected by the General Assembly for such role, provided they meet the qualifications prescribed in Subsection X141.3(9)(a) of the MORB. Admittedly, this could be inconvenient but it is up to the BOD to decide on the practicality of the matter.

7. Corporate Governance Committee and Election Committee

- a. The Corporate Governance Committee that banks, including cooperative banks, are required to constitute is tasked to evaluate the qualifications of persons nominated to be banks directors as prescribed in Subsection X141.3(9)(b) of the MORB. Such directors are to be voted upon, proportionate to shareholdings by the primary cooperative stockholders.
- b. An Election Committee is not a requirement of BSP for cooperative banks. However, the BSP has no objection to its creation which is required for a cooperative pursuant to Article 43(2) of Republic Act No. 9520 (Philippine Cooperative Code of 2008), which also provides that the election committee shall be elected by the General Assembly.

8. Reportorial requirements

Cooperative banks are required to submit reports to the BSP as enumerated in Appendix 6 of the MORB. The CDA may have access to such reports through an information sharing arrangement between the BSP and CDA. The CDA may require cooperative banks to submit certain reports subject to coordination with the BSP as primary regulator.

For information and guidance.



NESTOR A. ESPENILLA JR.
Deputy Governor

22 February 2013