



Bangko Sentral ng Pilipinas

MAYNILA, PILIPINAS
OFFICE OF THE GOVERNOR

**Circular No. 271
Series of 2001**

The Monetary Board, in its Resolution No. 2154 dated December 15, 2000, approved the following regulations implementing Section 3 and other related sections of R.A. No. 8791 or the General Banking Law of 2000:

Section 1. Definition, Classification, Powers and Scope of Authorities of Banks. The following are the definitions, classifications, powers and scope of authority of banks, as well as the prerequisites for the grant of banking authorities.

1.1 Definition and Classification of Banks. Subject to the power of the Monetary Board to create other classes or kind of banks, they shall be classified into:

- a. Universal banks (UBs);
- b. Commercial banks (KBs);
- c. Thrift banks (TBs), as defined in Republic Act (R.A.) No. 7906, which shall be composed of: (i) Savings and mortgage banks, (ii) Stock savings and loan associations, and (iii) Private development banks;
- d. Rural banks (RBs), as defined in R. A. No. 7353;
- e. Cooperative banks (Coop Banks), as defined in R. A. No. 6938; and
- f. Islamic banks (IBs), as defined in R. A. No. 6848.

1.2 Powers and Scope of Authority. The following are the powers and scope of authority of banks.

a. **UBs.** A UB shall have the authority to exercise, in addition to the powers and services authorized for a KB as enumerated in item b of this Subsection and those provided by other laws, the following:

- (1) the powers of an investment house as provided under existing laws;
- (2) the power to invest in non-allied enterprises;



(3) the power to own up to one hundred percent (100%) of the equity in a TB, a RB, a financial allied enterprise, or a non-financial allied enterprise; and

(4) in case of publicly-listed UBs, the power to own up to one hundred percent (100%) of the voting stock of only one other UB or KB.

A UB may perform the functions of an investment house either directly or indirectly through a subsidiary investment house; in either case, the underwriting of equity securities and securities dealing shall be subject to pertinent laws and regulations of the Securities and Exchange Commission (SEC): *Provided*, That if the investment house functions are performed directly by the UB, such functions shall be undertaken by a separate and distinct department or other similar unit in the UB but it cannot perform such functions both directly and indirectly through a subsidiary.

b. KBs. In addition to the general powers incident to corporations and those provided in other laws, a KB shall have the authority to exercise all such powers as may be necessary to carry on the business of commercial banking, such as accepting drafts and issuing letters of credit; discounting and negotiating promissory notes, drafts, bills of exchange, and other evidences of debt; accepting or creating demand deposits; receiving other types of deposits and deposit substitutes; buying and selling foreign exchange and gold or silver bullion; acquiring marketable bonds and other debt securities; and extending credit, subject to such rules as the Monetary Board may promulgate. These rules may include the determination of bonds and other debt securities eligible for investment, the maturities and aggregate amount of such investment.

It may also exercise or perform any or all of the following

(1) invest in the equities of allied enterprises as may be determined by the Monetary Board;

(2) purchase, hold and convey real estate as specified under Sections 51 and 52 of R.A. No. 8791;

(3) receive in custody funds, documents and valuable objects;

(4) 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;

With prior approval of the Monetary Board, and subject to such guidelines as may be established by it, TBs may also perform the following services:

- (1) open current or checking accounts;
- (2) engage in trust, quasi-banking functions and money market operations;
- (3) act as collection agent for government entities, including but not limited to, the Bureau of Internal Revenue (BIR), Social Security System (SSS) and the Bureau of Customs (BOC);
- (4) act as official depository of national agencies and of municipal, city or provincial funds in the municipality, city or province where the TB is located;
- (5) issue mortgage and chattel mortgage certificates, buy and sell them for its own account or for the account of others, or accept and receive them in payment or as amortization of its loan; and
- (6) to invest in the equity of allied undertakings.

d. **RBs.** In addition to the powers provided in other laws, an RB may perform any or all of the following services:

- (1) extend loans and advances primarily for the purpose of meeting the normal credit needs of farmers, fishermen or farm families as well as cooperatives, merchants, private and public employees;
- (2) accept savings and time deposits;
- (3) act as correspondent of other financial institutions;
- (4) rediscount paper with the LBP, DBP or any other bank, including its branches and agencies. Said banks shall specify the nature of paper deemed acceptable for rediscount, as well as the rediscount rate to be charged by any of these banks;
- (5) Act as collection agent; and
- (6) Offer other banking services as provided in Section 53 of R.A. No. 8791.

(5) make collections and payments for the account of others and perform such other services for their customers as are not incompatible with banking business;

(6) upon prior approval of the Monetary Board, act as managing agent, adviser, consultant or administrator of investment management/advisory/-consultancy accounts;

(7) rent out safety deposit boxes; and

(8) engage in quasi-banking functions.

c. **TBs.** In addition to the powers provided in other laws, a TB may perform any or all of the following services:

(1) grant loans, whether secured or unsecured;

(2) invest in readily marketable bonds and other debt securities, commercial papers and accounts receivable, drafts, bills of exchange, acceptances or notes arising out of commercial transactions;

(3) issue domestic letters of credit;

(4) extend credit facilities to private and government employees;

(5) extend credit against the security of jewelry, precious stones and articles of similar nature, subject to such rules and regulations as the Monetary Board may prescribe;

(6) accept savings and time deposits;

(7) rediscount paper with the Land Bank of the Philippines (LBP), Development Bank of the Philippines (DBP), and other government-owned or controlled corporations;

(8) accept foreign currency deposits as provided under R.A. No. 6426, as amended;

(9) act as correspondent for other financial institutions;

(10) purchase, hold and convey real estate as specified under Sections 51 and 52 of R.A. No. 8791; and

(11) offer other banking services as provided in Section 53 of R.A. No. 8791.

(6) accept drafts and issue letters of credit or letters of guarantee, negotiate notes and bills of exchange and other evidence of indebtedness under the universally accepted Islamic financial instruments;

(7) act as collection agent insofar as the payment orders, bills of exchange or other commercial documents are exclusive of *riba* or interest prohibitions;

(8) provide financing with or without collateral by way of leasing, sale and leaseback, or cost plus profit sales arrangement;

(9) handle storage operations for goods or commodity financing secured by warehouse receipts presented to the Bank;

(10) Issue shares for the account of institutions and companies assisted by the Bank in meeting subscription calls or augmenting their capital and or fund requirements as may be allowed by law;

(11) Undertake various investments in all transactions allowed by the Islamic Shari'a in such a way that shall not permit the *haram* (forbidden), nor forbid the *halal* (permissible);

(12) Act as an official government depository, or its branches, subdivisions and instrumentalities and of government-owned or controlled corporations, particularly those doing business in the autonomous region;

(13) Issue investment participation certificates, *muqaradah* (non-interest-bearing bonds), debentures, collaterals and/or the renewal and refinancing of the same, with the approval of the Monetary Board to be used by the IB in its financing operations for projects that will promote the economic development primarily of the Autonomous Region;

(14) carry out financing and joint investment operations by way of *mudharabah* purchasing for others on a cost-plus financing arrangement, and invest funds directly in various projects or through the use of funds whose owners desire to invest jointly with other resources available to the IB on a joint *mudharabah* basis; and

(15) Invest in equities of the following allied undertakings.

- (a) Warehousing companies;
- (b) Leasing companies;
- (c) Storage companies;

With prior approval of the Monetary Board, an RB may perform any or all of the following services:

- (1) accept current or checking accounts: *Provided*, That such RB has net assets of at least P5 million;
- (2) accept NOW accounts;
- (3) act as trustee over estates or properties of farmers and merchants;
- (4) act as official depository of municipal, city or provincial funds in the municipality, city or province where it is located;
- (5) sell domestic drafts; and
- (6) invest in allied undertakings.

e. Coop Banks. A Coop Bank shall be organized primarily to provide financial and credit services to cooperatives and may perform any or all of the services offered by RBs.

f. IBs. In addition to the general powers incident to corporations and those provided in other laws, as well as in Circular No. 105, insofar as they are not inconsistent or incompatible with the provisions of R.A. No. 6848, an IB may perform any or all of the following services:

- (1) open savings accounts for safekeeping or custody with no participation in profit and losses except unless otherwise authorized by the account holders to be invested;
- (2) accept investment account placements and invest the same for a term with the IB's funds in Islamically permissible transactions on participation basis;
- (3) accept foreign currency deposits from banks, companies, organizations and individuals, including foreign governments;
- (4) buy and sell foreign exchange;
- (5) act as correspondent of banks and institutions to handle remittances or any fund transfers;

- (d) Companies engaged in the management of mutual funds but not in the mutual funds themselves; and
- (e) Such other similar activities as the Monetary Board has declared or may declare as appropriate from time to time, subject to existing limitations imposed by law.

Section 2. Prerequisites for the grant of UB authority.

2.1 Compliance with guidelines. A domestic bank seeking authority to operate as a UB shall submit an application to the appropriate supervising and examining department of the BSP. The applicant shall comply with the guidelines for the issuance of a UB authority and shall submit all the documentary requirements enumerated in Annex "A".

2.2 Public offering of bank shares. A domestic bank applying for a UB authority shall, as a condition to the approval of its application, make a public offering of at least ten percent (10%) of the required minimum capital and this condition must be complied with before it can be granted the license for authority to operate as a UB.

The term *public offering* shall mean the offer to sell equity shares to the public stockholders.

Public stockholders shall refer to all stockholders, excluding the bank's directors, shareholders owning twenty percent (20%) or more of the bank's subscribed capital stock together with those of their relatives within the fourth degree of consanguinity or affinity, and corporations controlled or affiliated with them.

A bank whose shares of stock are already listed in the Philippine Stock Exchange (PSE) at the time of filing of its application for UB authority shall be deemed to have complied with the public offering requirement. Likewise, an applicant bank may opt to have its shares listed in the PSE directly instead of passing through the process of public offering. In either case, at least ten percent (10%) of the applicant bank's capital stock should be held by public stockholders before it can be granted the license for authority to operate as a UB.

2.3 Listing of bank shares in the stock exchange. Domestic banks granted a UB license, existing or new, must list their shares in the PSE within three (3) years: *Provided*, That in the case of new UBs, the three (3) year period shall be reckoned from the date the license to operate as a UB was granted. In the case of existing UBs which have not yet listed their shares in the exchange, the three (3) year period lapsed on December 27, 1998.

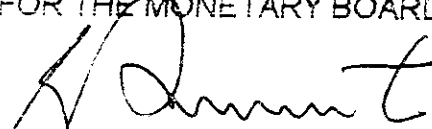
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The guidelines on public offering and listing of bank shares are enumerated in Annex "B".

Section 3. **Repealing clause.** This Circular supersedes Section X101 and Subsections X101.1 and X101.2 of the Manual of Regulations for Banks.

Section 4. **Effectivity.** This Circular shall take effect immediately.

FOR THE MONETARY BOARD:



RAFAEL B. BUENAVENTURA
Governor

January 8, 2001