



Bangko Sentral ng Pilipinas

MAYNILA, PILIPINAS

Office of the Governor

Circular No. 196

Series of 1999

The Monetary Board, in its Resolution No. 422 dated April 7, 1999, approved the following rules and regulations to implement Executive Order No. 83 dated December 25, 1998 on the strengthening of the enforcement of the Agri-Agra Law (PD 717) and the launching of the National Development Company (NDC) Agri-Agra Economic Recovery through Agricultural Productivity (ERAP) Bonds for rural development.

Section 1. *Statement of Policy* - The Government has, as a matter of policy, given the highest priority to the development of the agricultural and agrarian sectors and in connection therewith, has called upon the private sector to share in the responsibility of promoting and improving productivity to these sectors.

Presidential Decree No. 717 entitled *Providing an Agrarian Reform Credit and Financing System for Agrarian Reform Beneficiaries Through Banking Institutions* of the Agri-Agra Law has laid the basic social policy by requiring the banking sector to allocate at least twenty-five percent (25%) of its loanable funds for agricultural credit in general, of which ten percent (10%) of its loanable funds shall be made available to agrarian reform beneficiaries.

Realizing the need to increase and further improve compliance by the banking sector with PD 717 to be able to increase the productivity of the agriculture and agrarian sectors, the Government has authorized the issuance of NDC Agri-Agra ERAP Bonds to support projects for economic growth under a revitalized rural development program which Bonds may be used as alternative compliance with PD 717. Section 4 of PD 717 allows banking institutions to invest in such government securities as may be declared eligible by the Bangko Sentral, any portion of the amount set aside for agrarian reform credit not actually loaned out, as alternative compliance with PD 717.

Section 2. *Issuance and Features of Agri-Agra ERAP Bonds* - The NDC has been authorized to issue Agri-Agra ERAP Bonds in the total amount of Fifty Billion Pesos (P50,000,000,000.00). The Bonds which shall be issued in tranches are guaranteed by the Republic of the Philippines and interest income thereon shall be exempt from the payment of taxes. Other features of the Bonds shall be determined and fixed by the NDC in consultation with the Department of Finance, which features shall be competitive with existing bonds and securities in circulation in the Philippine market.

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Section 3. *Utilization of Bond Proceeds* - The proceeds from the issuance of NDC Agri-Agra ERAP Bonds shall be used exclusively for the development of the agriculture and agrarian sectors and in priority development projects to these sectors identified by the NDC, Department of Agrarian Reform (DAR) and the Department of Agriculture such as, but not limited to, rice production joint ventures, establishment of food chains, livestock and agri-processing support services and facilities and other similar undertakings through concessional co-financing loans, investments in equity or other forms of securities, issuance of guarantees and through such other modes as may be determined by the NDC and DAR.

Section 4. *Allowable Alternative Compliance* - In addition to the allowable alternative compliance under Section 3 of Circular No. 190 dated February 15, 1999, the investment by banks in NDC Agri-Agra ERAP Bonds as well as the firm underwriting of said Bonds by banks or by the subsidiary investment house of an expanded commercial bank shall serve as compliance with the mandatory allocation of funds for agrarian reform and agricultural credit under PD 717 by said banks, subject to the following conditions:

- a. Such Bonds shall not be hypothecated in any way or earmarked for any other purpose; and
- b. In case the Bonds are the subject of a repurchase/resale agreement, only the buying/lending bank may use such Bonds as compliance with PD No. 717 during the holding period, provided that the repurchase/resale agreement shall be for a term of at least thirty (30) days without pre-termination during the first thirty (30) days.

Section 5. *Compliance on a Group-wide Basis* - Banks may be allowed to report compliance on a group-wide basis (based on the consolidated report of the parent bank and its subsidiary bank): *Provided*, That the subsidiary bank is at least seventy-five percent (75%) owned/controlled by the parent bank, subject to the following conditions:

- a. The consolidated report shall be submitted by the parent bank in the prescribed form which shall be supported by the individual reports of the parent bank and its subsidiary banks duly signed by each bank's authorized signatory. The subsidiary banks shall continue with their separate submission of the subject report to their respective supervising and examining departments within the prescribed period;
- b. Only the parent bank may utilize the excess compliance of its subsidiaries for its own compliance; and

- c. In the event of a deficiency in compliance of any parent or subsidiary or all of the banks, the members of the board of directors, the president and other officers of the parent bank shall be held responsible for the group's compliance.

Section 6. *Other Allowable Uses of ERAP Bonds* - ERAP Bonds which are not being used as alternative compliance with PD No. 717 may be utilized, subject to existing regulations, for any of the following purposes:

- a. as liquidity reserves for deposits and deposit substitutes, under Circular No. 10 dated December 29, 1993, and for common trust funds and trust and other fiduciary accounts - others, under Memorandum to All Banks and Other Financial Intermediaries Performing Trust, Other Fiduciary Business and Investment Management Activities;
- b. as liquidity floor for government deposits; or
- c. as security for the faithful performance of trust duties.

The requirements that securities used for Item "a" above shall have a term of not more than one (1) year and those used for Item "c" shall have a remaining maturity of not more than three (3) years, shall not apply.

Section 7. *Sanctions* - Appropriate sanctions as provided under existing laws, rules and regulations shall be imposed on banks which fail to comply with the mandatory credit allocation under PD 717.

The imposition of sanctions shall be based on banks' *Consolidated Report on the Utilization of Loanable Funds Generated Which Were Set Aside for Agrarian Reform Credit/Other Agricultural Credit* which banks are required to submit to the Bangko Sentral every quarter.

Section 8. *Effectivity* - This Circular shall take effect upon the availability of the NDC Agri-Agra ERAP Bonds in the market.

For the Monetary Board:


GABRIEL C. SINGSON
Governor

12 April 1999