

**SPOT REPORT ON THE ORGANIZATIONAL MEETING CONDUCTED BY THE COMMITTEE ON BANKS, FINANCIAL INSTITUTIONS AND CURRENCIES, RE: OVERVIEW OF THE BANKING AND FINANCIAL SECTOR AS WELL AS IDENTIFYING SPECIFIC MEASURES THAT NEED THE COMMITTEE'S PRIORITY ACTION TO ADDRESS THE COUNTRY'S FISCAL CRISIS.**

**HELD ON MONDAY, 20 SEPTEMBER 2004 AT 9:00 A.M., SEN. LORENZO TANADA, PHILIPPINE SENATE**

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**I. PRELIMINARY**

Senator Edgardo J. Angara, Chairman of the Committee on Banks, Financial Institutions and Currencies promptly commenced the hearing at 9:09 a.m. Also present were members Senator Juan Ponce Enrile and Senator MAR Roxas.

At the outset, the Chair emphasized that the agenda of the meeting would comprise three parts: 1.) The adoption of the *Rules* of the Committee; 2.) Overview of the banking and financial sectors as presented by the Bangko Sentral ng Pilipinas, the Bankers Association of the Philippines and the Capital Market Development Council; and 3.) To identify specific measures that need priority action of the Committee to address the fiscal crisis.

Legislative Committee Secretary: Patricia Sarmiento

The following resource persons were in attendance:

<b>RESOURCE PERSONS</b>	<b>DESIGNATION/ OFFICE</b>
Mr. Nestor Espenilla	Assistant Governor, Bangko Sentral ng Pilipinas (BSP)
Atty. Juan de Zuñiga, Jr.	Assistant Secretary and Legal Counsel, Bangko Sentral ng Pilipinas (BSP)
Mr. Jeremias Paul	Assistant Secretary, Department of Finance (DOF)
Ms. Margarita Songco	Assistant Deputy General National Economic and Development Authority (NEDA)
Former Prime Minister Cesar Virata	President Bankers Association of the Philippines (BAP)
Mr. Leonilo Coronel	Executive Director Bankers Association of the Philippines (BAP)
Mr. Miguel Andaya	Consultant Bankers Association of the Philippines (BAP)
Ms. Conchita Manabat	Chairman, Capital Market Development Coordinating Council (CMDCC)
Mr. Vicente Castillo	Capital Market Development Coordinating Council (CMDCC)

## II. HIGHLIGHTS OF THE MEETING:

1. The Chairman and the members present agreed to adopt the proposed *Rules* of the Committee subject to amendments within three days. As regards the query of Sen. Roxas on Section 9 covering Confidential Documents, Senator Angara noted that the resource persons could inform the body which information or document are to be held confidential and that due to the high sensitivity of banking and financial information, the Committee would try to device a system on how to classify information provided its members.
2. BSP Assistant Governor Nestor Espenilla then proceeded with his presentation on the Philippine Banking System. He stated that although the banking system has been greatly affected by the Asian Financial Crisis of 1997, the system has been on continuous recovery and remains in a very stable condition today. The salient points of his presentation were:

- The system is composed of 42 universal and commercial banks: 90 thrift banks and 765 rural and cooperative banks. The geographic distribution of the banking system would show that the concentration of banks and number of persons served by each banking office is relatively high in Luzon, principally in the National Capital Region as compared to areas in Visayas and in Mindanao.
  - He highlighted that technology has played a major role in changing the banking system's delivery channel, as there has been a significant increase of banks now engaged in electronic banking.
  - Mr. Espenilla then relayed the recent developments in relation to microfinance activities; the compliance of banks to the Agri-Agra Credit (PD 717) and an implementation update on the Special Purpose Vehicle law (R.A. 9182)
  - Also included in the presentation were the main banking reform initiatives actively advocated by the Bangko Sentral ng Pilipinas (BSP). The legislative measures being endorsed by the BSP are:
    - a.) Strengthening of the corporate governance arrangement in banks
    - b.) Developing a comprehensive domestic credit reporting system, which according to the BSP, will facilitate greater credit access to borrowers who cannot tender collateral to the banks.
    - c.) Advocating faster capital market development through coordination with the private players as this would greatly strengthen the banking system
    - d.) Strengthening the legal framework to support more effective banking supervision through amendments to the BSP Charter
    - e.) Modernizing the bankruptcy resolution framework
3. As to the query of Senator Angara regarding bank's non-performing assets, Mr. Espenilla narrated to the Committee that 20% or P100 billion has already been covered by the Special Purpose Vehicle Act. However, this amount falls short of BSP's target amount pegged at P 200 to P 300 billion.
4. Ms. Conchita Manabat, Chairperson of the Capital Market Development Coordinating Council (CMDCC) recounted that they fully support the following legislative measures:
- a. Rationalization of tax measures, as there appears to be a lopsided playing field for financial institutions as a result of the varying rulings, opinions and provisions covering the activities of insurance groups, banks and other monetary institutions.
  - b. Extending the Special Purpose Vehicle law
  - c. Corporate Recovery Act
  - d. Private Equity Retirement Act (PERA)
  - e. Revised Investment Company Act (RICA)
  - f. Fair Credit Reporting Act

- g. Pre-need Act
- h. Lending Investors Act
- i. Securities Regulation Act
- j. Single regulator initiative

5. Upon query of the Chairman as to the urgency and necessity of the measures, Ms. Manabat and Mr. Virata of the Bankers Association of the Philippines explained that the rationalization of taxes is their primary concern because aside from varying tax exemptions on monetary instruments, the financial players also have to contend with institutions granting varying tax exemptions.

Ms. Manabat also explained that amendments to the Corporate Recovery Act, better known as the Bankruptcy law, is necessary as there is a growing need to provide alternatives or middle ground to insolvent companies, permitting them to operate and recover rather than providing them no other recourse but to liquidate.

6. Mr. Virata stressed that there is an immediate need to extend the deadline of the Special Purpose Vehicle law as to provide ample time for financial institutions to avail of or dispose non-performing assets in their balance sheets

7. Sen. Enrile then suggested that the time period for the disposal of non-performing assets be set to a maximum of five years, similar to the allowable period for disposal of real estate properties owned by banks under the Special Purpose Vehicle law. He also proposed that the banks unload their non-performing assets to a corporation in exchange for shares as a mode to facilitate faster clean up. Mr. Virata then countered that for this proposal to prosper there is a need to amend the law, for aside from imposing a true sale requirement, the law only covers assets, which includes non-performing loans. In addition, Mr. Virata emphasized that the extension of the tax exemption period is necessary for banks to save on transfer costs of real property amounting to 17%. The transfer cost consists of the VAT, capital gain stocks, documentary stamps, and registration fee.

8. The “Fair Credit Reporting Act” as presented by Mr. Virata recommends the establishment of a bureau tasked to disclose positive credit information, which at present is covered by restrictions on confidentiality. Mr. Espenilla maintained that further studies are still being conducted by the BSP to decide on whether the Credit Bureau would be of private-public ownership or purely private in nature.

9. Ms. Manabat discussed that enactment of the Private Equity Retirement Act (PERA) would provide the public an alternative other than the GSIS and SSS for the set up of their retirement pension. This would allow employers to direct contributions into a private bank account, she said.

### **III. FURTHER INSTRUCTIONS:**

1. Sen. Angara asked to be provided information on the number of cooperative banks operating in the country as well as the analysis of the substitute and actual compliance for the agricultural credit extension
2. Senators Angara and Enrile directed the resource persons to present to the Committee a listing of their selected advocated legislative reforms either in a form of a thematic scheme or an actual draft bill with an explanation of the problems which need to be resolved, provided that a time line be included for the Senate to act on the measure
3. With respect to amendments to the Bankruptcy Law, Sen. Enrile directed the resource persons to prepare a draft and indicate the sources of their revisions. He also stressed that the resource persons should take into consideration the interest of the borrowers in their study of the priority measures

### **IV. ADJOURNMENT:**

The Chair requested the resource persons to send in their position papers by Friday, September 24, 2004 to give the Committee sufficient time to refine the proposed measures. Thereafter, he adjourned the meeting. It was 10:33 a.m.

