



Policy Brief

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As such, there is a need to make the BSP stronger and more responsive towards the changing financial landscape through the amendments of its Charter.



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Strengthening Banking Regulation: Amending the BSP Charter

Introduction

A country's central bank serves as its foremost monetary authority. As such, it has three policy objectives, namely: 1) stable monetary policy; 2) strong macroeconomic fundamentals; and 3) sound financial supervision. As the Philippines' central bank, the Bangko Sentral ng Pilipinas (BSP) assumes the same aforementioned goals. In particular, its first and foremost objective is to maintain price stability conducive to a balanced and sustainable economic growth. Second, is to promote and preserve monetary stability and the convertibility of the national currency.¹

With the liberalization of the financial market, conglomeration of financial institutions, and advancements in technology, the BSP, as with most central banks in the world, faces increased level of risks.² Since its inception, the BSP has already hurdled two international financial crises (i.e., the 1997 Asian financial crisis and the 2008 global financial crisis). It also faced a number of domestic banking issues, the more recent of which are the cases of Legacy, Banco Filipino and LBC Development Bank that drew attention to the BSP's inadequate supervisory powers. Amid the changing financial landscape and the realization of the need to make the BSP stronger and more responsive, came the calls to amend the New Central Bank Act of 1993 (Republic Act No. 7653), or the BSP Charter.

This Policy Brief discusses the proposed amendments to RA 7653. The first part briefly presents the mandate of the BSP. It then describes the financial sector's challenges that necessitate the amendment of the said law. The salient features of the proposed amendments in the bills currently pending in the 15th Congress are then explored. The last section summarizes and offers some policy recommendations.

BSP at a glance

The Philippine financial system is composed of three sub-sectors: banks, non-financial institutions, and insurance. The system is regulated by five government agencies. With banks as the predominant player in the system, the BSP stands as the main supervisor of the system, and together

¹ Section 3, Article I, Chapter 1 of Republic Act No. 7653 or the "New Central Bank Act."

² Sponsorship Speech on the Amendment of the New Central Bank Act by Senator Edgardo Angara. *Senate Journal, Session No. 92*. First Regular Session of the 13th Congress. Senate of the Philippines. May 31, 2005.

with the Philippine Deposit Insurance Corporation (PDIC), acts as regulator for banks, including cooperative banks. On the other hand, the Securities and Exchange Commission (SEC) regulates capital market and corporations, while the Insurance Commission (IC) and Cooperative Development Authority (CDA) respectively supervise insurance/pre-need firms and cooperatives.

The BSP replaced the Central Bank of the Philippines (Annex 1) as the country's central monetary authority pursuant to RA 7653, which was signed into law on June 14, 1993 and took effect on July 3 of the same year. RA 7653 explicitly provided for the independence of the BSP, a feature that was only implied in the old Central Bank Charter. The said law also vested the BSP with fiscal and administrative autonomy.³

As the central monetary authority, the BSP is mandated to provide policy directions in areas concerning money, banking and credit. In particular, the BSP has the following responsibilities:⁴

- *Liquidity management.* The BSP formulates and implements monetary policy aimed at influencing money supply consistent with its primary objective to maintain price stability.
- *Currency issue.* The BSP has the exclusive power to issue the national currency. All notes and coins issued by the BSP are fully guaranteed by the government and considered legal tender for all private and public debts.
- *Lender of last resort.* The BSP extends discounts, loans and advances to banking institutions for liquidity purposes.
- *Financial supervision.* The BSP supervises the operations of banks and exercises regulatory powers over non-bank institutions performing quasi-banking functions.
- *Management of foreign currency reserves.* The BSP seeks to maintain sufficient international reserves to meet any foreseeable net demands for foreign currencies to preserve the international stability and convertibility of the Philippine peso.

- *Determination of exchange rate policy.* The BSP determines the exchange rate policy of the Philippines. Currently, the BSP adheres to a market-oriented foreign exchange rate policy such that the role of BSP is principally to ensure orderly conditions in the market.
- *Other activities.* The BSP functions as the banker, financial advisor and official depository of the government, its political subdivisions and instrumentalities, and government-owned and -controlled corporations.

As an institution that assumes a role vested with public interest, the BSP observes the following principles of modern central banking: 1) independence; 2) transparency; and 3) accountability.⁵ Table 1 shows a modest attempt at appraising BSP's observance of said principles.

Current challenges to the BSP

Central banks are continually challenged by the changing financial architecture. The BSP is no exception. Recent developments on both the global and domestic fronts have highlighted new transmission channels by which a financial crisis can travel, crossing country borders as well as economic sectors.

1. *Financial innovation.* Financial innovation per se is not a bad concept as it helps facilitate financial integration in terms of access to information, trading and means of payment, and emergence of new financial instruments and services.⁶ But there are also risks involved as evidenced by the recent global financial crisis. While the Philippine financial market was hardly affected due to its relative immaturity, the crisis should serve as a wake-up call to re-evaluate the condition of the banking industry. Indeed, the BSP has issued directives defining and detailing requirements, and rules and regulations on financial instruments. However, a legal basis that will give teeth and reinforcement to these directives may be in order.
2. *Internationalization.* Globalization and technological advances fast-tracked financial integration. The

³ Bangko Sentral ng Pilipinas Modernization: A Policy Perspective. BSP Working Paper Series No. 2006-001.

⁴ Solans, E.D. (2003). Financial innovation and monetary policy. *Speech delivered at the 38th SEACEN Governors Conference and 22nd Meeting of the SEACEN Board of Governors on Structural Change and Growth Prospects in Asia—Challenges to Central Banking.* Manila. February 13.

³ The BSP was established based on the provisions of the 1987 Philippine Constitution and the New Central Bank Act of 1993.

⁴ BSP. (n.d.) Overview of functions and operations. <http://www.bsp.gov.ph/about/functions.asp>.

Table 1. The BSP Charter vis-à-vis the Principles of Modern Central Banking

PRINCIPLES OF MODERN CENTRAL BANKING	BSP'S OBSERVANCE OF MODERN CENTRAL BANKING PRINCIPLES
I. Independence	<p>Article XII, Section 20 of the 1987 Constitution of the Republic of the Philippines provides that there shall be an “independent central monetary authority, the members of whose governing board must be natural-born Filipino citizens, of known probity, integrity, and patriotism, the majority of whom shall come from the private sector. They shall also be subject to such other qualifications and disabilities as may be prescribed by law. The authority shall provide policy direction in the areas of money, banking, and credit. It shall have supervision over the operations of banks and exercise such regulatory powers as may be provided by law over the operations of finance companies and other institutions performing similar functions.”</p> <p>Chapter 1, Article I, Section 1 of Republic Act (RA) 7653 or the New Central Bank Act clearly stipulates in its declaration of policy that the “State shall maintain a central monetary authority that shall function and operate as an independent and accountable body corporate in the discharge of its mandated responsibilities concerning money, banking and credit. In line with this policy, and considering its unique functions and responsibilities, the central monetary authority establish under this Act, while being a government-owned corporation, shall enjoy fiscal and administrative autonomy.”</p>
1.1 Legal independence	<p>RA 7653 explicitly provides the requisite legal mantle for the conduct of independent monetary policy.</p>
1.2 Institutional independence	<p>BSP has its own Monetary Board that has been empowered to design and implement monetary and financial policies in accordance with the primary objective of price stability, conducive to balanced and sustainable growth of the economy. The Board is also responsible for promoting and maintaining monetary stability and the convertibility of the peso. (Chapter 1, Article II, RA 7653)</p>
1.3 Personal independence	<p>While the members of the Monetary Board are all Presidential appointees serving for a fixed term, the appointment is subject to fit and proper rule. Correspondingly, no member can be summarily dismissed as removal from office is also subject to certain conditions. (Chapter 1, Article II, Monetary Board, RA 7653)</p>
1.4 Functional and operational independence	<p>Chapter IV – Instruments of Bangko Sentral Action (RA7653) delineates the powers and functions of the Monetary Board in operations in gold and foreign exchange, regulation of foreign exchange operations of banks, loans to banking and financial institutions, Open Market Operation, composition of BSP’s portfolio, bank reserves, selective regulation of bank operations, and coordination of credit policies by government institutions. Specifically, it empowers the Monetary Board to use policy instruments at its disposal for the conduct of monetary policy.</p> <ul style="list-style-type: none"> • Article IV, Section 74 states that the Monetary Board “shall determine the exchange rate policy of the country;” • Article IV, Section 85 states that the Monetary Board shall fix the interest and rediscount rates on BSP’s “credit operations in accordance with the character and term of operation but after due consideration has been given to the credit needs of the market...and the general requirements of the national monetary policy.”
	<p>Chapter VI, Article II, Section 128 (RA 7653) proscribes the central bank from ownership of equities securities and from “engagement in development banking.”</p> <p>Chapter VII, Article II, Section 129 of the Transitory Provisions limits the role of the BSP in the borrowing activities of the national government and other fiscal agencies. Furthermore, the BSP’s provisional advances to the National Government were shortened to three months, renewable for another three months but not to exceed 20 percent of the government’s annual income in the preceding three fiscal years. (Chapter IV, Article IV, Section 89)</p> <p>Lastly, Section 130 transfers to the Securities and Exchange Commission the regulation of finance corporations not engaged in banking or quasi-banking.</p>
1.5 Financial and organizational independence	<p>Section 15 on the Exercise of Authority delineates powers and functions of the Monetary Board with regard to the issuance of rules and regulations, management and operations of the BSP, establishment of a human resource management system, adoption of annual budget and expenditure program. The Monetary Board is also empowered to authorize the payment of costs related to the litigation of its members and other Bank personnel provided that (1) such actions arise from the performance of their duties, and (2) they are found not guilty of negligence or misconduct. (Chapter I, Article II, Section 15)</p>
II. TRANSPARENCY	<p>Chapter I, Article V, Sections 39, 40 and 41 prescribe the reportorial duties of the BSP to the President, Congress, and the general public.</p>
III. ACCOUNTABILITY	<p>Chapter I, Article II, Section 16 stipulates that “members of the Monetary Board, officials, examiners, and employees of the Bangko Sentral ng Pilipinas who willfully violate this Act or who are guilty of negligence, abuses or acts of malfeasance or misfeasance or fail to exercise extraordinary diligence in the performance of his duties shall be held liable for any loss or injury suffered by the Bangko Sentral ng Pilipinas or other banking institutions as a result of such violation, negligence, abuse, malfeasance, misfeasance or failure to exercise extraordinary diligence.”</p> <p>The parties above shall also be held accountable for any unauthorized communication of privileged information or from profiting from such information.</p>

Sources:

- a) 1987 Constitution of the Republic of the Philippines. As cited in Bagsic, C. and Glindro, E. (2006). Bangko Sentral ng Pilipinas Modernization: A Policy Perspective. *BSP Working Paper Series No. 2006-01*. August.
- b) The New Central Bank Act. Republic Act 7653. (1993). *9th Congress of the Philippines*. As cited in Bagsic, C. and Glindro, E. (2006). Bangko Sentral ng Pilipinas Modernization: A Policy Perspective. *BSP Working Paper Series No. 2006-01*. August.

payment system⁷ is one element of a globalized financial market that has been beneficial and yet, introduced some risks. For instance, simultaneous settlement of foreign exchange transactions may not be feasible given the non-convergence of the foreign country's operating hours with the operating hours of the home country's payment system. In such case, there is a risk of non-finality of settlements that may give rise to potential losses. In the same manner, a payment system is susceptible to a liquidity crisis when the financial standing of a counterparty is in doubt (Bagsic and Glindro, 2006). On the domestic front, the BSP has put in place a payment system called Philippine Payments and Settlements System or PhilPaSS. That said, there is a need to institutionalize such system.

One must also note that financial internationalization entails international risk-sharing management. The financial system has become an international public good and thus, a global consideration. Its supervision and stability must come to be seen as a shared responsibility.

3. *Macro- and micro-prudential weaknesses.* The 2008 global financial crisis has brought to fore macro- and micro-prudential weaknesses of a financial system.⁸ Macro- and micro-prudential regulations are essential to an orderly financial market. For example, some situations require banks to beef up capital to withstand losses and liquidity risks. Good governance and regulations on individual banks and financial institutions and on the system itself (e.g., inclusion of credit card companies in the BSP's mandate) should be put in place to avoid or at least mitigate risk in transacting complex financial products. The cases of Legacy, Banco Filipino and LBC Development Bank could have been prevented if the right micro-prudential regulations were in place. In the case of the Legacy, for instance, the pyramid-like scheme led to the bankruptcy of its rural banks as savings were diverted to its affiliated companies and subsidiaries (Annex 2). The case of Banco Filipino on the other hand is contentious and complex in nature but what has been highlighted is

the need for stricter regulations and improved supervision (Annex 3).

Amending the BSP Charter

Proposals to amend the BSP Charter have been on the table since the 10th Congress through Senate Bill No. 2289 filed by Senator Franklin Drilon. Senator Ramon Magsaysay, Jr. proposed the same during the 12th Congress through SBN 2051. However, the aforementioned bills did not go beyond the First Reading of their respective Congresses. Amendments to the BSP Charter again merited attention during the 13th Congress when Senators Sergio Osmeña III and Edgardo Angara authored SBN 1943. It was certified as an urgent bill despite not being part of the Legislative-Executive Development Advisory Council's (LEDAC) priority list. It reached the plenary level at that time with the sponsorship of Senator Angara. During the 14th Congress, Senator Angara again authored and sponsored SBN 871, which only reached the period of committee amendments.

This 15th Congress, three related bills are filed in the Senate, these are SBN 54 by Senator Angara, SBN 708 by Senator Jinggoy Ejercito Estrada, and SBN 2742 by Senator Ralph Recto. In the House of Representatives, three bills are also filed—House Bill No. 61 by Representative Luis Villafuerte, HBN 458 by Representative Juan Edgardo Angara, and HBN 2161 by Representative Karlo Nograles.

A review of the salient features of the Senate bills

The following is a discussion of the salient features of the three Senate bills:

1. *Issuance of tradable government securities as payment for BSP's subscribed capital.* Pursuant to RA 7653, the BSP, upon its creation, was to receive PhP50 billion as capitalization to be fully subscribed by the national government. At the time of the drafting of the bills, the BSP has only received an equity infusion of PhP10 billion which was last given by the national government in 1996. To ensure that the balance is paid, the bill proposes the issuance of tradeable government securities of equivalent market value. PhP10 billion will be paid after a law amending the BSP Charter becomes effective and the rest, in the next two years.

However, in November 2011, the Department of Budget and Management (DBM) released another PhP10 billion in equity infusion for the BSP. It has also committed to complete the recapitalization in the succeeding three years. As such, this proposed

⁷ A payment system is defined as an arrangement that allows users to transfer "money". In simple terms, "money" is regarded as cash (i.e., notes and coins issued by the government or the central bank) and claims against credit institutions in the form of deposits. The use of bank deposits to make payments has become an important medium in most developed countries and to make a payment, the payer must issue an instruction in the form of a paper-based instrument (e.g., a check) or an electronic instruction (e.g., using a credit or plastic card).

⁸ Macro-prudential regulation refers to regulation that ensures the stability and resilience of the financial system in general. Micro-prudential regulation on the other hand, refers to firm-specific management of significant risks on the balance sheets.

amendment may no longer be necessary. Nonetheless, there is still merit in exploring other payment options,⁹ not only through the issuance of government securities but also in the form of offsetting the BSP's dividend payments as well as tapping the restricted deposit.¹⁰

2. *Additional responsibility and primary objective.* Financial and technological innovations resulted in the creation of financial instruments/agents undertaking quasi-banking functions. These include credit card companies, money changers, e-money issuers, and remittance agents. It is proposed that they be included regulated in the list of financial instruments/agents by the BSP. The BSP's authority over these entities could have prevented or mitigated the underlying problems that led to the closure of LBC Development Bank (Annex 4).

The amendment also seeks to institutionalize the payment system in the country, the PhilPaSS.¹¹ This proposal highlights the importance of a stable payment and settlement system as a necessary tool in enhancing the resilience of the country's financial system against systemic disruptions. Thus, not only is the BSP mandated to maintain price stability, it shall also uphold financial stability.

Senator Recto's bill further seeks that aside from price stability, full employment should be included as a primary goal of monetary policy. One must note, however, that while price stability significantly contributes to the achievement of maximum output growth and employment in the long run, the two goals may not necessarily coincide in the short run. In the case of a supply shock for instance,¹² easing monetary policy to counter the shock's adverse impact on growth and employment can increase upward pressure on prices *ceteris paribus*. The BSP

would then have to face the dilemma of choosing between neutralizing price pressures or mitigating the cost on output and employment.

Senator Recto's bill will also require the BSP to appear before Congress' Committees on Finance; Ways and Means; Economic Affairs; and Banks, Financial Institutions and Currencies every 4th Tuesday of March and September and not just submit report on economic development and prospects. It is not clear, however, whether the respective committees of both Houses of Congress will be convened jointly. A joint congressional oversight committee could be the proper venue.

3. *Indemnification of BSP personnel and creation of a legal unit.* The proposed amendment seeks to indemnify any BSP personnel who have incurred costs in connection with civil, administrative or criminal action, suit or proceedings by reason of the performance of his duties. This would encourage BSP personnel to carry out their duties without fear of retaliation.

To preclude any abuse, the proposal further provides that the BSP personnel shall not be indemnified in cases where he/she is judged to have acted in bad faith, malice, gross negligence or misconduct. However, the definition and parameters of what will constitute bad faith, malice, gross negligence or misconduct should be contained in the proposed amendment or in its implementing rules and regulations.

Senator Recto's bill further stipulates that issuances that affect or impose a sanction on any institution (or its officers) regulated by the BSP must be subject to public hearings. It likewise provides for the establishment of a legal unit that will exclusively assist the Monetary Board in the formulation of policy, implementing rules and regulations, and review of the legal aspects of the Monetary Board agenda. One could note that the same legal unit could be deputized to conduct public auction in cases of extrajudicial foreclosure of mortgage pursuant to Act No. 3135,¹³ and could act as a special sheriff in the sale of the debtor's properties. The proposed provision, however, puts in question the capability of BSP's present legal office, the Office of the General Counsel and Legal Services. The BSP deems this proposal as unnecessary since the current legal office is already acting as legal counsel for the BSP and is also under the supervision and control of the

⁹ According to the BSP, the Department of Finance proposed in 2008 a mechanism that would allow the national government to fully subscribe the remaining BSP's capitalization of PhP40 billion. The process would entail the Department of Budget and Management to issue Multi-Year Obligational Authority, which would represent the national government's commitment to include the PhP40 billion in the annual budget proposal over a period of ten years. The annual appropriation will be assigned to a special purpose trust, which shall issue bonds that will be used to subscribe to the PhP40-billion BSP capitalization.

¹⁰ Restricted deposits are deposits for which withdrawals are restricted on the basis of legal, regulatory, or commercial requirements.

¹¹ The PhilPaSS or Philippine Payments and Settlements System is the system name where both processing and final settlement of fund transfer instructions can take place continuously (i.e., in real time). As it is a gross settlement system, transfers are settled individually, that is, without netting debits against credit. As it is a real time settlement system, the system effects final settlement continuously rather than periodically at pre-specified times provided that a sending bank has sufficient balances or credit. The settlement process is based on real time transfer of central bank money.

¹² Supposing an oil price or commodity price hike.

¹³ An Act to Regulate the Sale of Property under Special Powers Inserted in or Annexed to Real Estate Mortgages.

Monetary Board. Thus, the current provision in the BSP Charter is sufficient and should be maintained.

4. *Increase in the number of deputy governors; exemption of BSP governor from Commission on Appointments (CA) confirmation; and limitation for outgoing Monetary Board members.* The three Senate bills propose for an increase in the number of deputy governors, from three to five. Senator Recto's bill proposes that the five deputy governors shall respectively head the following departments: 1) monetary and currency management; 2) supervision and examination of commercial and universal banks (including their subsidiaries and affiliates engaged in financial allied undertakings); 3) supervision and examination of stand-alone rural and thrift banks (that are not affiliated to universal or commercial banks); 4) supervision and examination of non-bank financial intermediaries (including investment houses, savings and loan associations, pawnshops, credit card companies, remittance agents and money issuers, which by special laws have been placed under the BSP supervision); and 5) human resources management.¹⁴ The proposed increase in the number of deputy governors is meant to promote a more responsive leadership. But the BSP should be vigilant that a more focused mandate for each deputy governor will not result in fragmented and uncoordinated policies. Also, cost considerations associated with the hiring of additional personnel (assistant governor and managing director, among others) should also be examined. On this matter, the Monetary Board has the authority to determine the need for additional offices/positions.

As for the exemption of the BSP Governor from CA confirmation,¹⁵ Senator Recto's bill cites as rationale the Supreme Court's decision in *Jesus Armando A.R. Tarrosa vs. Gabriel C. Singson and Salvador M. Enriquez III*.¹⁶

Senator Recto's bill also proposes that as a form of moratorium, outgoing Monetary Board members, including the governor and deputy governors, shall not be elected as director or employed as officer or hired as consultant, adviser, lawyer or in other contractual capacity of any bank and BSP-supervised institution within three years after the expiration of their respective terms. This bodes well to avert issues on conflict of interests.

5. *Authority to obtain information from any person and entity.* Adequate controls must be put in place to address inherent information asymmetries and the potential market failure that may result. Thus, the proposed amendment provides that the BSP is authorized to *require* (not just to *request*) from any person or entity (not just government instrumentalities) any data that pertain to the functions and representatives of the BSP. The provision will retain the BSP's authority to issue a subpoena for such purpose and sanctions will be imposed on those who will refuse to comply.

According to the BSP, the restriction on access to deposit accounts has prevented them from looking closely into Legacy's complex flow of funds and taking appropriate supervisory/regulatory actions.

While the Bankers' Association of the Philippines (BAP) agrees to the proposed amendment, it said that the proposal should still be reviewed vis-à-vis existing laws protecting the confidentiality of bank deposits.¹⁷ It is also not clear under what circumstances should this provision be invoked. A section in the proposed amendment or in the implementing rules and regulations can possibly provide for such considerations.

6. *Supervision and examination.* This pertains to the authority of the BSP to supervise and examine banking institutions and quasi-banks, including their subsidiaries and affiliates engaged in allied activities. While the BSP is essentially doing this already, the proposed amendment explicitly confers to the BSP the power to "regulate and examine transactions between the supervised institutions and their parent or other affiliate companies." It goes on to define a parent company and enumerate the elements of "control". The proposed amendment also requires that the BSP approve any transfer or acquisitions of shares/stocks in banks or quasi-banks that is "sufficient to elect at least one seat in the

¹⁴ At present, the three deputy governors handle the Monetary Stability Sector, Supervision and Examination Sector, and the Resource Management Sector.

¹⁵ Section 16, Article VII of the 1987 Philippine Constitution states that "The President shall nominate and, with the consent of the Commission on Appointments, appoint the heads of the executive departments, ambassadors, other public ministers and consuls, or officers of the armed forces from the rank of colonel or naval captain, and other officers whose appointments are vested in him in this Constitution. He shall also appoint all other officers of the Government whose appointments are not otherwise provided for by law, and those whom he may be authorized by law to appoint. The Congress may, by law, vest the appointment of other officers lower in rank in the President alone, in the courts, or in the heads of department, agencies, commissions, or boards."

¹⁶ G.R. No. 111243 May 25, 1994, *Jesus Armando A.R. Tarrosa, Petitioner, vs. Gabriel C. Singson and Salvador M. Enriquez III*, respondents. <http://www.scrlings.com/ruling.php?no=32516>.

¹⁷ For instance, Republic Act No. 1405 or "An Act prohibiting disclosure of or inquiry into deposits with any banking institution and providing penalty therefor."

board of directors or to effect a change in the majority ownership or control of these institutions.” Such amendment highlights the importance of consolidated supervision, a principle that ensures the health of both subsidiaries and parent companies. The proposed amendment also ensures integrity among bank owners and that individuals exerting control over supervised institutions are deemed fit to perform their functions.

This provision was proposed largely because of the Legacy fiasco in which various fictitious loans were created and diverted to savings accounts of Legacy Motors, Inc. and OneCard Company, Inc. These enterprises were revealed later on to be owned also by Celso delos Angeles who, together with his co-conspirators, withdrew the funds via fictitious deposit accounts in the names of various individuals and Legacy-affiliated firms. A stronger BSP could have prevented such transfers from Legacy banks to other delos Angeles-owned companies.

The bills of Senators Angara and Estrada both seek to amend Section 28 of the BSP Charter by providing that if circumstances so warrant, a special examination may be conducted. Senator Recto’s bill further provides that an executive summary of the examination report must be submitted to the Monetary Board. Moreover, supervised institutions shall be given opportunity to contest, in writing, the findings of the examination and that such shall be part of the examination report.

7. *Proceedings in receivership and liquidation.* The proposed amendment provides that the authority of the Monetary Board to place a bank or quasi-bank under receivership shall also extend over non-bank financial institutions. It also seeks to supplement the existing guidelines/grounds for placing a supervised institution on receivership and liquidation. For instance, a bank or quasi-bank may be put under receivership if it has notified the BSP or publicly announced a unilateral closure, or has been dormant for at least 60 days, or has suspended in any manner the payment of its deposit/deposit substitutes liabilities.¹⁸

The proposed amendment further provides that “any person of recognized competence in banking, credit and finance may be designated as receiver.” The receiver may adopt bridge banking (SBN 54 and SBN 2742) as a resolution method but “cannot pay or

commit any act that will involve the transfer or disposition of any asset of the institution.”¹⁹

8. *Power to issue quick resolution action.* While the BSP is already practicing quick resolution action/prompt corrective action,²⁰ there is no clear provision in the BSP Charter. This proposed new provision in the law offers a quick fix for cases wherein a supervised institution is found to have insufficient realizable assets to meet its liabilities. Senator Angara’s bill empowers the Monetary Board to direct the stockholders of such institution to infuse capital within *ninety days*, while Senator Recto’s bill gives them *at least ten months*. In cases where the stockholders are unable or unwilling to infuse capital, then the Monetary Board is authorized to order a reorganization of the institution and/or order it to accept investments or to merge with another qualified institution.

With Senator Recto’s bill (prompt corrective action), in case earnest efforts were shown by the institution to comply with the directive to infuse capital, said institution shall be given a four-month extension period. It is not made clear, however, what constitute “earnest efforts.” Moreover, a quick resolution may have to be much shorter than 10-14 months as keeping the creditors and depositors waiting too long may compromise the credibility and stability of the whole system. Senator Recto’s bill also makes particular mention of failing rural banks—where another rural bank shall have the right of first refusal. In the case of government banks and financial institutions, a legislative amendment may be considered.

9. *Bridge banking.* The bills of Senators Angara and Recto contain a new provision on the establishment of a bridge bank. The proposal authorizes the PDIC

¹⁹ However, a closed institution may be rehabilitated or merged or consolidated with another qualified institution, in which case the receiver may immediately transfer or dispose of any or all of the assets of the closed institution.

²⁰ Quick resolution or prompt corrective action is one of the reforms adopted by the BSP following the Asian crisis. The proposed amendments merely seek to improve the present set up. Under the present setup, the supervised bank is required to enter into an agreement (through the execution of a Memorandum of Understanding) with the BSP. A troubled bank then commits itself to adopt a plan to improve its capital position, business operations and corporate governance. Such plan will be time-bound, and the bank will be required to submit periodic progress reports to the BSP. When the central monetary authority’s evaluation shows that the bank cannot be restored to a healthy condition, the BSP stops the bank from further operation. The bank is then placed under receivership (PDIC) to prevent the bank from incurring further losses, which will definitely affect its depositors and creditors. Within a period not exceeding 90 days from the closure of a bank, the PDIC makes a determination as to whether or not the bank in question can be allowed to re-open.

¹⁸ A bank or quasi-bank may also be put under receivership if it has refused to permit any lawful examination into its affairs.

to “establish, organize, and operate and/or contract to operate subsidiaries or corporations whose primary purpose is to operate as a bridge bank and/or manage acquired assets of the PDIC.” It defines a bridge bank as a temporary bank licensed by the BSP to acquire assets and assume liabilities of a failed bank to facilitate resolution. The proviso also sets the conditions upon which a bridge bank may be established: 1) if it is a cost-effective and viable resolution and the amount to implement it is less than the estimated insured deposits of the failed bank; and 2) if it is for the preservation of critical banking functions. Likewise, it sets guidelines regarding the termination and dissolution of a bridge bank.

For a bridge bank to be effective, the PDIC may sell, assign or transfer stocks from subsidiaries to the failed bank and deposit such from failed bank to bridge bank. A bridge bank will be tax-exempt (capital gains, income tax, value added tax, documentary stamp tax, etc.) and its assets will not be subject to court processes. Moreover, it will be effective without consent of stockholders, creditors and stakeholders of the failed bank. It will also examine and audit deposit accounts of an insured bank, and shall exist for two years but may be extended if necessary.

A bridge bank shall accordingly terminate upon the following: its merger or consolidation with another bank, but not with another bridge bank; sale; and assumption of its assets and liabilities by an insured bank. It is not clear, however, whether the establishment of a bridge bank is an optional or requisite resolution to a failed bank.

10. *Issuance of provisional remedies (e.g., temporary restraining order and preliminary injunction or preliminary mandatory injunction against BSP actions).* The proposed amendment for the restriction on the authority to grant preliminary remedies against BSP actions should be determined at a higher and more senior hierarchy in the judiciary to minimize dilatory tactics. This provision was transferred to Section 38-A in order to make the restriction applicable to all BSP actions and not only with respect to conservatorship and receivership.

In the case of Legacy banks and Banco Filipino, for instance, various legal actions were filed in courts (Regional Trial Court and Court of Appeals) to temporarily prevent the BSP from exercising its supervisory and regulatory powers over those banks.

Such actions has serious and damaging consequences on the part of the BSP as a regulatory agency as it is restrained from the delivery of its mandate to the detriment of the general public.

11. *Increase in monetary sanctions.* The following circumstances would entail increased monetary sanctions under the proposed amendments:

- Refusal to file required reports by any officer, agency, owner, manager or director—maximum fine shall be increased to more than PhP2 million (from PhP100,000);
- False statement—maximum fine shall be increased to more than PhP2 million (from PhP200,000);
- Proceedings upon violation of rules and laws by banks and BSP-supervised institutions—maximum fine shall be increased to more than PhP2 million (from PhP200,000);
- Administrative sanctions (irregularities and conduct of business) will still be PhP30,000 per day as in the current BSP Charter but will also depend on the gravity-based offense and relative asset size. The parent company will also be fined if it will be found to be liable.

Other sanctions are suspension of rediscounting privileges or access to BSP credit facilities; suspension of or revocation of trust license; prohibition to declare cash dividends; confiscation or forfeiture in favor of the BSP; suspension or removal of officer responsible for violation after due process. Failure to comply with requirements shall entail a fine of not less than PhP100,000 per banking day.

12. *Issuance and negotiation of BSP obligations, and issue of government obligations.* These amendatory provisions are in pursuit of open market operations (OMO).²¹ Under the current BSP Charter, bonds and promissory notes can only be issued only in cases when there are extraordinary movements in the price levels. The proposed amendment intends to remove the said restriction sans the BSP’s fiscal

²¹ OMO refers to the act of buying and selling of government securities in the open market in order to expand or contract the amount of money in the banking system. Purchases of government securities inject money/ add liquidity into the banking system and stimulate growth while sales of securities siphon off money from the banking system. OMO is one the principal tools of monetary policy, along with reserve requirements, rediscounting facilities, and moral suasion.

agency function.²² This way, bonds can be issued in the normal course of operation.

13. *Credit facilities for Islamic banks.* This is a proposed new provision to the BSP Charter which states that the BSP may “formulate rules and regulations for the extension of rediscounting or other similar facilities to Islamic banks.” This provision shall strengthen the authority of the BSP over all banking activities in the country. But the rules and regulations of Islamic banking²³ have to be studied carefully to avoid conflicts. At present, there is only one Islamic bank in the country, the Al-Amanah Islamic Investment Bank of the Philippines, which was established in 1973 and is under the Development Bank of the Philippines (DBP). The DBP recently acquired the national government’s 69 percent stake in Al-Amanah.²⁴

14. *Tax exemptions.* The proposed amendment to this shall provide that all tax obligations of the BSP arising from the exercise of its mandate shall be charged to the Tax Expenditure Fund (TEF) in the General Appropriations Act (GAA) for a period of five years to be reckoned from the effectivity date of the proposed amendment. It shall further provide that on the 6th year (and thereafter), the BSP shall be exempt from national taxes arising from the exercise of its essential governmental function but shall not be exempt from national taxes resulting from the exercise of its proprietary functions.²⁵

Summary

Increasing financial and economic integration across the globe presents the risk of contagion. The economic literature details the links by which a crisis can be propagated. Studies note that the absence of sound macroeconomic, financial and institutional fundamentals increases the probability and magnitude of a crisis. The role of the BSP as regulator/supervisor of financial market activities is essential in preserving and/or enhancing the stability of the financial system, thereby engendering economic growth.

²² The original rationale behind the restriction on BSP issuances as tool for OMOs is to prevent central bank from funding the national government’s fiscal deficit, a clause no longer existing in the present BSP Charter because the fiscal functions then vested in the BSP were effectively phased out and transferred to the Department of Finance. (See Section 129 in relation to Sections 117, 118, 119 and 120 of the BSP Charter).

²³ Islamic banking pertains to a system of banking that is consistent with the principles of Sharia (Islamic law). In this type of banking system, the collection and payment of interest, which Muslims refer to as “riba,” is strictly prohibited.

²⁴ Bunye, I. (2010) Islamic Banking in the Philippines. Speaking out. *Manila Bulletin*. February 28.

²⁵ National taxes resulting from the exercise of proprietary functions include, but is not limited to, income tax and business taxes.

Asian central banks have introduced structural and prudential regulatory reforms in response to the Asian financial crisis back in the late 1990s. These reforms explain, in part, why Asian financial markets were left relatively unscathed by the most recent global financial crisis. Still, there is room for improvement. On the local front, the cases of Legacy and, more recently, Banco Filipino, have exposed vulnerabilities in the banking system, which the proposed amendments seek to address.

The proposed amendments to the BSP Charter are founded on the three principles by which central banks operate, namely: independence, transparency, and accountability. By strengthening the institutional framework of the BSP, such amendments will further guarantee the BSP’s effectiveness and credibility, as the country’s monetary authority in charge of supervising the financial market and stabilizing price levels that is conducive to growth. It is unfortunate that the amendments to the BSP Charter is not included in the LEDAC priority list nor is it certified urgent by the President.

Correspondingly, a number of bills have been filed in Congress, particularly in the Senate, seeking to further strengthen the capacity of financial markets’ regulators, thereby engendering stability. First is the amendment of the Insurance Commission Code (SBN 53 by Senator Angara, SBN 576 by Senator Estrada, SBN 1992 by Senator Ramon Bong Revilla Jr., and SBN 2500 by Senator Osmeña III) to update its outdated provisions in view of new financial products. Second is the proposed Bank Liquidation Act (SBN 2128 by Senator Angara) which sets an improved guideline on the liquidation of banks. It offers alternative modes of bank liquidation such as *purchase and assumption* (P&A), which involves third party acquirer who will purchase some or all of the assets and assume some or all of the liabilities of a closed bank; and *bridge banking*, which is a temporary bank set up to perform critical bank functions until a final resolution is reached. Lastly is the proposal for a Payment System Act to help ensure the efficient clearing and settlement of payment and settlement transactions. It would also be worthwhile to consider these proposed measures in relation to the amendments to the BSP Charter.

**Merry Christmas and a
prosperous New Year to all!**

from the Senate Economic Planning Office

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The views and opinions expressed are those of SEPO and do not necessarily reflect those of the Senate, of its leadership, or of its individual members. For comments and suggestions, please e-mail us at sepo@senate.gov.ph.

Annex 1: From CBP to BSP

The first central bank: Before the Bangko Sentral ng Pilipinas (BSP), there was the Central Bank of the Philippines (CBP). The CBP was established through Republic Act No. 265, which was signed into law on June 15, 1948. It was a development-oriented central bank. Aside from the policy objectives of maintaining monetary stability and preserving the international value of the peso into other freely convertible currencies, the CBP was also mandated to promote a rising level of production, employment, and real income. Selective credit control was its main policy tool. It was not an independent institution as can be gleaned from the dominance of representatives of key government offices in the Monetary Board who served at the pleasure of the appointing authority. All, except the Governor, were part-time members of the Monetary Board.

The ‘second central bank’: On November 29, 1972, more than two months after the declaration of martial law and roughly 23 years after the passage of the original Central Bank Act, then President Ferdinand Marcos issued Presidential Decree No. 72 amending RA No. 265. In view of the structural changes in the economy and the financial system, 56 provisions out of the original 142 provisions were amended and resulted in a massive overhaul of the then CBP. This in a way can be considered as the country’s second central bank. The stabilization role of the CBP was given prominence over its developmental role. It was recognized that economic growth was not the sole responsibility of the CBP but also that of other government agencies. The CBP’s supervisory function was broadened to include not only the monetary and banking system but also the entire financial credit system. A new section was added to authorize the Monetary Board to appoint a conservator who would take charge of the assets, liabilities, and the management of a bank that is in a state of insolvency and illiquidity to protect the interest of depositors and creditors.

The Development Bank of the Philippines (DBP) Governor and Philippine National Bank (PNB) President were replaced by the National Economic and Development Authority (NEDA) Director-General and the Board of Investments (BOI) Chair as members of the Monetary Board to avoid conflict of interest between the regulator and regulated ones. To strengthen further the monetary and fiscal policy coordination, the Budget Minister then was made a member of the Monetary Board. Despite these changes, the CBP continued to use selective credit control as its main policy tool. There were several credit programs that had access to the CBP’s rediscounting window at highly concessionary rates. It was also involved in administering special credit programs, some of which were funded by foreign donor agencies. Towards the second half of the 1980s, some of these programs were discontinued while others were transferred to government-owned banks.

Losing central bank: The CBP incurred losses for several years in the 1980s and early 1990s. These losses were incurred from swap arrangement, forward cover and interest rate.

- 1) *Losses from swap facility.* The CBP incurred losses from swap arrangements given the series of devaluations in 1983 and 1984. It booked the differential arising from exchange rate devaluation as “due to banks” and blocked almost the entire amount (that is, banks were not allowed to withdraw it) to prevent a sudden increase in liquidity. In effect, the CBP “borrowed” the blocked peso differential and paid interest on it. Thus, the losses incurred by the CBP from the swap facility consisted of the additional peso that it owed to the bank resulting from the unexpected depreciation of the peso and the interest it had to pay for blocking such account. As a result, the outstanding swap arrangement differential rose from PhP1.2 billion in 1982 to PhP18.6 billion in 1990, while the outstanding blocked account differential increased from PhP5.0 billion in 1983 to a staggering amount of PhP15.6 billion in 1990.
- 2) *Losses from forward cover facility.* The use of forward cover facility started in the 1970s when the CBP, upon instruction of the government, provided exchange cover to certain domestic corporations, which obtained long-term loans from the international capital market. Under this arrangement, the CBP would cover the differential in cases of depreciation. This practice was halted in 1981 but was again resumed in 1983, the start of the balance-of-payments crisis, to ensure the continuous importation of critical materials, notably oil.

Again with the peso depreciation between 1983 and 1985, the CBP incurred losses amounting to more than PhP5.0 billion a year.

- 3) *Interest rate losses.* Under normal conditions, the CBP should have not incurred any losses from its lending and borrowing operations since it is supposed to lend at a rate higher than its borrowing rate. However, the CBP incurred interest rate losses because of the following:
- a) Up until November 1985, the CBP performed fiscal functions by lending at a subsidized rate to sectors considered by government as priority sectors. For instance, it tried to help the ailing banks by providing them with financial assistance. From PhP306.0 million in 1980, the CBP's financial assistance rose to PhP14.8 billion in 1990. Between 1980 and 1989, 202 banks collapsed including six large banks. That is why the interest earnings realized by the CBP from overdrafts of banks declined in 1988 and 1989 despite the rise in outstanding overdrafts and the high interest rates on such loans.
 - b) The CBP's increasing reliance on the CBP bills and later on reverse repurchase window in order to conduct open market operations also added to its burgeoning interest rate losses.
 - c) The deposits of the National Government had increased phenomenally from PhP1.6 billion in 1980 to PhP67.3 billion in 1990. This was done to help the CBP mop up excess liquidity. But it had to pay interest on these deposits at market rates. In 1989 alone, the CBP paid the National Government PhP6.3 billion on such deposits. In the subsequent years, no interest was paid on these deposits. But pressure from the Department of Finance (DOF) on the CBP to pay interest on these deposits was mounting. Finally, the DOF and the CBP agreed that interest would be paid on that portion of government deposits used to mop up excess liquidity and no interest would be paid on the transaction balances of the government.
 - d) The CBP's serviced obligations without corresponding revenues since most of those it had assumed were non-performing assets (foreign loans incurred by government corporations and private corporations, with guarantees from government-owned financial institutions, i.e., PNB and DBP). As of 1990, 60 percent of the CBP's total foreign exchange liabilities consisted of those that it had assumed.

The third central bank: In June 14, 1993, or roughly 21 years after substantially amending the original charter of the CBP, the New Central Bank Act (RA No. 7653) was passed. This Act created a new central bank called the *Bangko Sentral ng Pilipinas* or the BSP, and transformed the old CBP into the Central Bank Board of Liquidators (CB-BoL). The BSP started with a clean balance sheet and is prohibited from engaging in development banking or financing. But like the second central bank, its stabilization role is given prominence over development role. The BSP is completely different from the old CBP in that it is conceived as a truly independent central bank. Its Monetary Board is composed of seven members appointed by the President of the Philippines for a term of six years. The seven members are: a) the Governor of the BSP, who is also Monetary Board Chair; b) a member of the Cabinet to be designated by the President of the Philippines; and c) five full-time members from the private sector. To date, the following are the members of the Monetary Board: 1) BSP Governor Amando Tetangco, Jr., Chairman of the Monetary Board; 2) DOF Secretary Cesar Purisima, member of the Cabinet designated by President Benigno Aquino III; 3) Alfredo Antonio; 4) Ignacio Bunye; 5) Peter Favila; 6) Felipe Medalla; and 7) Armando Suratos.

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Annex 2: The Case of Legacy

The Legacy scam is considered to be among the biggest financial fraud schemes in Philippine history. The case of the Legacy Group was at the center of everyone's attention in late 2008 and early 2009 when it declared bankruptcy that led to the closure of 12 rural banks with 29 branches nationwide and three pre-need firms, two of which were Scholarship Plans Philippines, Inc. and Legacy Plans, Inc. Its owner, Celso delos Angeles, allegedly misused some PhP31 billion Legacy funds.

The Legacy Group lured investors through extraordinary schemes that guaranteed promising and irresistible return. Among the schemes were: 1) double your money in three years; 2) double your money in five years; 3) double your money in six years; 4) hybrid five years; 5) hybrid six years; and 6) three-year-buy-back. The double-your-money scheme promised 100 percent return after three to six years, depending on the scheme. The hybrid schemes, on the other hand, offered 20 percent interest annually. The first 20 percent was given outright upon cash deposit. The rest of the annual interest earnings would be given monthly. At the end of the chosen hybrid scheme, the principal would be returned to the depositors. The three-year-buy-back was a scheme where investment will double in three years. Upon investment, 12 post-dated checks with amount that was twice the amount of the original investment will be then issued.

Such enticing yields proved too good to be true. The Legacy Group was eventually reported to be in a deep financial mess after the bankruptcy of its rural banks and pre-need firms. Further investigations by the Philippine Deposit Insurance Corporation (PDIC), with the help of forensic experts from Punongbayan & Araullo revealed that Legacy created various fictitious loans, including motorcycle loans, and diverted the proceeds of these loans to the savings accounts of Legacy Motors, Inc. and OneCard Company, Inc., which are likewise owned by delos Angeles. Thereafter, delos Angeles and his co-conspirators withdrew PhP5.3 billion from these savings accounts. Part of the withdrawals was used by these bank officers and employees to create fictitious deposit accounts in the names of various individuals and Legacy-affiliated firms.

As early as 2008, the BSP has ordered the closing of Legacy Group's 12 ailing rural banks. But delos Angeles was able to get a temporary restraining order (TRO) against the BSP from the Regional Trial Court. Thus, the Legacy continued to exist until the Supreme Court reversed the lower court's TRO. It was only then that the BSP was able to close the Legacy Group's rural banks.

In 2010, the PDIC filed 26 cases against Legacy banks' owners and officers amounting to PhP8.4 billion. The biggest estafa case amounted to PhP5.4 billion. Other cases filed are: one for syndicated estafa (PhP39.8 million) and two for large-scale estafa (PhP16.0 million) against delos Angeles and Legacy officers and employees before the Department of Justice (DOJ).

As of October 31, 2010, the PDIC had paid PhP11.0 billion to the depositors of the 12 closed banks. This represents 77.6 percent of the total amount (PhP14.2 billion). Meanwhile, claims amounting to PhP788 million or 5.5 percent of the amount of filed claims were denied. More than half of the denied claims were for non-existent accounts. The remainder was from accounts emanating from fraudulent transactions. As stated in the PDIC's complaints, the fraud was committed not so much in deposit-taking activities, but in the siphoning of funds generated from the public.

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Annex 3: The Banco Filipino Story

Banco Filipino... Subok na Matibay, Subok na Matatag! This was Banco Filipino's slogan which had been put to test twice with the bank experiencing two closures since it was founded in 1964. The first one was in 1985 when its foreclosure was ordered by the then Central Bank of the Philippines (CBP). According to the CBP, the Aguirre-owned bank overdrafted its loan to real estate companies that were also owned by the Aguirres. Banco Filipino contested CBP's decision, claiming that the CBP acted in bad faith. The case was brought to the Makati Regional Trial Court where Banco Filipino won. The Regional Trial Court's decision was then questioned by the CBP before the Court of Appeals but it ruled in favor of Banco Filipino. The same case was elevated to the Supreme Court and in 1991, six years after its foreclosure, the Supreme Court upheld the decision of the Court of Appeals.

Following the court decision, Banco Filipino was then put under the comptrollership of the CBP. In 1992, the CBP turned over the management of Banco Filipino to its owners and was again open for business in 1994. But last March 2011, it was foreclosed again when it can no longer service massive withdrawals and fund checks.

The relationship of the Bangko Sentral ng Pilipinas (BSP's successor of interest) and Banco Filipino had been on the rocks since the latter reopened in 1994. According to Banco Filipino, the BSP has the obligation to infuse them with Php25 billion but such amount was never issued. Banco Filipino also has an Php18-billion damage suit against BSP, which was affirmed by the Court of Appeals in 2010.

On the other hand, the BSP charged Banco Filipino with the following offenses:

- Willful refusal to file audited financial statements for 2002-2007;
- Falsification and issuances of false statements to hide the true financial condition of the bank;
- Willful refusal to report the so-called DOSRI or the directors, officers, stockholders and other related interest loans;
- Willful refusal to comply with BSP directives; and
- Willful refusal to cease the conduct of unsafe, hazardous and unsound banking practices.

In sum, it would appear that the story of the BSP and Banco Filipino is a case of "which-came-first,-the-chicken-or-the-egg?" But regardless of what really happened or which of the two was at fault, it can be gleaned that there are really loopholes in the system. The case of Banco Filipino could have been prevented had the BSP been vested with the power to require the banks and their subsidiaries to submit their financial and accounting books for examination and had there been stiffer penalties for violators. That said, strengthening the supervisory powers of the BSP seems to be the order of business. As the banks' regulator, it is the BSP's call to protect the interest of the greater majority and ensure that all is well in the banking system.

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Annex 4: LBC, Another Casualty

The LBC Development Bank was a thrift bank owned by the LBC group¹ founded in 1995. After 16 years in business it was placed under the receivership of the Philippine Deposit Insurance Corporation (PDIC) on September 9, 2011.

The Bangko Sentral ng Pilipinas (BSP)² said that the LBC Development Bank suffered liquidity problem partly because it made huge cash advances to its sister company, remittance firm LBC Express, which is also partly the reason why the thrift bank became insolvent. According to the BSP, the results of the investigation showed that the LBC Development Bank gave cash advances to LBC Express to expedite its delivery of remittances to clients. But not all cash advances were paid and thus eventually caused the bank's insolvency problem.

Still according to the BSP, this practice of providing cash advances to LBC Express was one of the reasons the bank was placed under BSP's prompt corrective action (PCA)³ program. The LBC Development Bank had been under the PCA program for more than a year prior to its closure in September.

PCA is as an early resolution mechanism that allows banks to address their serious concerns or underlying problems affecting their operations, financial condition or governance. Under the PCA program, banks are tightly monitored and are given directives on how to improve their financial standing.

The LBC Development Bank under the PCA program was directed to stop giving out cash advances to LBC Express but it did not comply accordingly. The BSP then issued a cease-and-desist order (CDO)⁴ which the LBC Development Bank still refused to heed.

On September 9, 2011, the Monetary Board through MB Resolution No. 1354 placed the LBC Development Bank under the receivership of the PDIC. As the receiver, the PDIC will gather, verify and validate all bank records, and administer and preserve its assets for the benefits of all creditors.

The PDIC said the LBC Development Bank, which had 20 branches nationwide, had estimated total deposit liabilities of Php6.09 billion. According to the latest record available (as of June 30, 2011), insured deposits amount to Php3.73 billion. The number of accounts totalled to 321,516, wherein 99.4 percent of which are fully covered by deposit insurance.

To date, payout operations are being held in 18 out of the 20 LBC Development Bank branches: Angeles City, Pampanga; Baguio City; Balanga, Bataan; Batangas; Cagayan de Oro City; Cebu; Dagupan and Urdaneta, Pangasinan; Davao; Iloilo; Laoag, Ilocos Norte; Naga City, Camarines Sur; Olongapo City, Zambales; San Pedro, Laguna; Timog, Quezon City; and Vigan, Ilocos Sur.

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¹ LBC, which is short for Luzon Brokerage Company, was into brokerage and air cargo before it expanded to air cargo forwarding service.

² The Senate Economic Planning Office (SEPO) tried to obtain first-hand information on the LBC Development Bank closure but according to the BSP, the confidentiality clause under the BSP Charter prevents them from disclosing such information. As such, the author made reference to the news reports on the matter and on which this LBC Development Bank story was based.

³ The PCA program is more of an early intervention measure wherein the BSP directs the Board of Directors of the institution, usually at the early stage of non-compliance with the standard prudential regulations, to institute strong measures intended to address the underlying problems or concerns which cause the same to operate in an environment exposing its depositors, creditors or even investors to higher than normal risk of failure. This is intended to save the institution from further deterioration which could trigger the imposition of harsher sanctions or even closure if its abnormal operating condition is left uncorrected.

⁴ The CDO is BSP's supervisory tool in the event that a supervised institution and/or the directors and/or officers concerned continue with or otherwise persist in the commission of the indicated practice or violation. Once issued, a CDO shall be immediately effective upon service on the respondents.