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of July, two thousand eight.

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[ REPUBLIC ACT NO. 9520 ]

AN ACT AMENDING THE COOPERATIVE CODE OF THE  
PHILIPPINES TO BE KNOWN AS THE "PHILIPPINE  
COOPERATIVE CODE OF 2008"

*Be it enacted by the Senate and House of Representatives of the  
Philippines in Congress assembled:*

SECTION 1. Articles 1, 2, 3, 4 and 5 of Chapter I on  
General Concepts and Principles of Republic Act No. 6938,  
otherwise known as the "Cooperative Code of the Philippines"  
are hereby amended to read as follows:

CHAPTER I

GENERAL CONCEPTS AND PRINCIPLES

"ARTICLE 1. *Title.* — This Act shall be known  
as the "Philippine Cooperative Code of 2008".

"ART. 2. *Declaration of Policy.* - It is the declared policy of the State to foster the creation and growth of cooperatives as a practical vehicle for promoting self-reliance and harnessing people power towards the attainment of economic development and social justice. The State shall encourage the private sector to undertake the actual formation and organization of cooperatives and shall create an atmosphere that is conducive to the growth and development of these cooperatives.

"Toward this end, the Government and all its branches, subdivisions, instrumentalities and agencies shall ensure the provision of technical guidance, financial assistance and other services to enable said cooperatives to develop into viable and responsive economic enterprises and thereby bring about a strong cooperative movement that is free from any conditions that might infringe upon the autonomy or organizational integrity of cooperatives.

"Further, the State recognizes the principle of subsidiarity under which the cooperative sector will initiate and regulate within its own ranks the promotion and organization, training and research, audit and support services relating to cooperatives with government assistance where necessary.

"ART. 3. *General Concepts.* - A cooperative is an autonomous and duly registered association of persons, with a common bond of interest, who have voluntarily joined together to achieve their social, economic, and cultural needs and aspirations by making equitable contributions to the capital required, patronizing their products and services and accepting a fair share of the risks and benefits of the undertaking in accordance with universally accepted cooperative principles.

"ART. 4. *Cooperative Principles.* - Every cooperative shall conduct its affairs in accordance with Filipino culture, good values and experience and the universally accepted principles of cooperation which include, but are not limited to, the following:

"(1) *Voluntary and Open Membership* - Cooperatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, cultural, political or religious discrimination.

"(2) *Democratic Member Control* - Cooperatives are democratic organizations that are controlled by their members who actively participate in setting their policies and making decisions. Men and women serving as elected representatives, directors or officers are accountable to the membership. In primary cooperatives, members have equal voting rights of one-member, one-vote. Cooperatives at other levels are organized in the same democratic manner.

"(3) *Member Economic Participation* - Members contribute equitably to, and democratically control, the capital of their cooperative. At least part of that capital is the common property of the cooperative. They shall receive limited compensation or limited interest, if any, on capital subscribed and paid as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing the cooperative by setting up reserves, part of which should at least be indivisible; benefitting members in proportion to their patronage of the cooperative's business; and, supporting other activities approved by the membership.

"(4) *Autonomy and Independence* - Cooperatives are autonomous, self-help organizations controlled by their members. If they enter into agreements with other organizations, including government, or raise capital from external sources, they shall do so on terms that ensure democratic control of their members and maintain their cooperative autonomy.

"(5) *Education, Training and Information* - Cooperatives shall provide education and training for

their members, elected and appointed representatives, managers, and employees, so that they can contribute effectively and efficiently to the development of their cooperatives.

"(6) *Cooperation Among Cooperatives* - Cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional and international structures.

"(7) *Concern for Community* - Cooperatives work for the sustainable development of their communities through policies approved by their members.

"ART. 5. *Definition of Terms.* - The following terms shall mean:

"(1) *Member* includes a person either natural or juridical who, adhering to the principles set forth in this Code and in the articles of cooperation, has been admitted by the cooperative as member;

"(2) *General Assembly* shall mean the full membership of the cooperative duly assembled for the purpose of exercising all the rights and performing all the obligations pertaining to cooperatives, as provided by this Code, its articles of cooperation and bylaws: *Provided*, That for cooperatives with numerous and dispersed membership, the general assembly may be composed of delegates elected by each sector, chapter or district of the cooperative in accordance with the rules and regulations of the Cooperative Development Authority;

"(3) *Board of Directors* shall mean that body entrusted with the management of the affairs of the cooperative under its articles of cooperation and bylaws;

"(4) *Committee* shall refer to any body entrusted with specific functions and responsibilities under the bylaws or resolution of the general assembly or the board of directors;

"(5) *Articles of Cooperation* means the articles of cooperation registered under this Code and includes a registered amendment thereof;

"(6) *Bylaws* means the bylaws registered under this Code and includes any registered amendment thereof;

"(7) *Registration* means the operative act granting juridical personality to a proposed cooperative and is evidenced by a certificate of registration;

"(8) *Cooperative Development Authority* refers to the government agency in charge of the registration and regulation of cooperatives as such, hereinafter referred to as the Authority;

"(9) *Universally Accepted Principles* mean that body of cooperative principles adhered to worldwide by cooperatives;

"(10) *Representative Assembly* means the full membership of a body of representatives elected by each of the sectors, chapter or district of the cooperative duly assembled for the purpose of exercising such powers lawfully delegated unto them by the general assembly in accordance with its bylaws;

"(11) *Officers of the Cooperatives* shall include the members of the board of directors, members of the different committees created by the general assembly, general manager or chief executive officer, secretary, treasurer and members holding other positions as may be provided for in their bylaws;

"(12) *Social Audit* is a procedure wherein the cooperative assesses its social impact and ethical performance vis-à-vis its stated mission, vision, goals and code of social responsibility for cooperatives to be established by the Authority in consultation with the cooperative sector. It enables the cooperatives to develop a process whereby it can account for its social performance and evaluate its impact in the community and be accountable for its decisions and actions to its regular members;

"(13) *Performance Audit* shall refer to an audit on the efficiency and effectiveness of the cooperative as a whole; its management and officers; and its various responsibility centers as basis for improving individual, team or overall performance and for objectively informing the general membership on such performance;

"(14) A *Single-line or Single-purpose Cooperative* shall include cooperative undertaking activities which are related to its main line of business or purpose;

"(15) *Service Cooperatives* are those which provide any type of service to its members, including but not limited to, transport, information and communication, insurance, housing, electric, health services, education, banking, and savings and credit;

"(16) *Subsidiary Cooperative* refers to any organization all or majority of whose membership or shareholders come from a cooperative, organized for any other purpose different from that of, and receives technical, managerial and financial assistance from, a cooperative, in accordance with the rules and regulations of the Authority; and

"(17) *Federation of Cooperatives* refers to three or more primary cooperatives, doing the same line of business, organized at the municipal, provincial, city, special metropolitan political subdivision, or economic zones created by law, registered with the

Authority to undertake business activities in support of its member-cooperatives."

SEC. 2. Articles 6, 7, 9, 10, 11, 12, 13, 14, 16, 17, 18, 20, 21, 23, 24 and 25 of Chapter II on Organization and Registration of the same Code are hereby amended to read, as follows:

## CHAPTER II

### ORGANIZATION AND REGISTRATION

"ART. 6. *Purposes of Cooperatives.* - A cooperative may be organized and registered for any or all of the following purposes:

"(1) To encourage thrift and savings mobilization among the members;

"(2) To generate funds and extend credit to the members for productive and provident purposes;

"(3) To encourage among members systematic production and marketing;

"(4) To provide goods and services and other requirements to the members;

"(5) To develop expertise and skills among its members;

"(6) To acquire lands and provide housing benefits for the members;

"(7) To insure against losses of the members;

"(8) To promote and advance the economic, social and educational status of the members;

"(9) To establish, own, lease or operate cooperative banks, cooperative wholesale and retail complexes, insurance and agricultural/industrial processing enterprises, and public markets;

"(10) To coordinate and facilitate the activities of cooperatives;

"(11) To advocate for the cause of the cooperative movement;

"(12) To ensure the viability of cooperatives through the utilization of new technologies;

"(13) To encourage and promote self-help or self-employment as an engine for economic growth and poverty alleviation; and

"(14) To undertake any and all other activities for the effective and efficient implementation of the provisions of this Code.

"ART. 7. *Objectives and Goals of a Cooperative.* - The primary objective of every cooperative is to help improve the quality of life of its members. Towards this end, the cooperative shall aim to:

"(a) Provide goods and services to its members to enable them to attain increased income, savings, investments, productivity, and purchasing power, and promote among themselves equitable distribution of net surplus through maximum utilization of economies of scale, cost-sharing and risk-sharing;

"(b) Provide optimum social and economic benefits to its members;

"(c) Teach them efficient ways of doing things in a cooperative manner;

"(d) Propagate cooperative practices and new ideas in business and management;

"(e) Allow the lower income and less privileged groups to increase their ownership in the wealth of the nation; and



"(f) Cooperate with the government, other cooperatives and people-oriented organizations to further the attainment of any of the foregoing objectives.

"ART. 8. *Cooperatives Not in Restraint of Trade.* - No cooperative or method or act thereof which complies with this Code shall be deemed a conspiracy or combination in restraint of trade or an illegal monopoly, or an attempt to lessen competition or fix prices arbitrarily in violation of any of the laws of the Philippines.

"ART. 9. *Cooperative Powers and Capacities.* - A cooperative registered under this Code shall have the following powers, rights and capacities:

"(1) To the exclusive use of its registered name, to sue and be sued;

"(2) Of succession;

"(3) To amend its articles of cooperation in accordance with the provisions of this Code;

"(4) To adopt bylaws not contrary to law, morals or public policy, and to amend and repeal the same in accordance with this Code;

"(5) To purchase, receive, take or grant, hold, convey, sell, lease, pledge, mortgage, and otherwise deal with such real and personal property as the transaction of the lawful affairs of the cooperative may reasonably and necessarily require, subject to the limitations prescribed by law and the Constitution;

"(6) To enter into division, merger or consolidation, as provided in this Code;

"(7) To form subsidiary cooperatives and join federations or unions, as provided in this Code;

"(8) To avail of loans, be entitled to credit and to accept and receive grants, donations and assistance from foreign and domestic sources, subject to the conditions of said loans, credits, grants, donations or assistance that will not undermine the autonomy of the cooperative. The Authority, upon written request, shall provide necessary assistance in the documentary requirements for the loans, credit, grants, donations and other financial support;

"(9) To avail of preferential rights granted to cooperatives under Republic Act No. 7160, otherwise known as the Local Government Code, and other laws, particularly those in the grant of franchises to establish, construct, operate and maintain ferries, wharves, markets or slaughterhouses and to lease public utilities, including access to extension and on-site research services and facilities related to agriculture and fishery activities;

"(10) To organize and operate schools in accordance with Republic Act No. 9155, Governance of Basic Education Act of 2001 and other pertinent laws; and

"(11) To exercise such other powers granted by this Code or necessary to carry out its purpose or purposes as stated in its articles of cooperation.

"ART. 10. *Organizing a Primary Cooperative.*  
 – Fifteen (15) or more natural persons who are Filipino citizens, of legal age, having a common bond of interest and are actually residing or working in the intended area of operation, may organize a primary cooperative under this Code: *Provided,* That a prospective member of a primary cooperative must have completed a Pre-Membership Education Seminar (PMES).

"Any newly organized primary cooperative may be registered as multipurpose cooperative only after compliance with the minimum requirements for multipurpose cooperatives to be set by the Authority.

A single-purpose cooperative may transform into a multipurpose or may create subsidiaries only after at least two (2) years of operations.

"ART. 11. *Economic Survey.* - Every group of individuals or cooperatives intending to form a cooperative under this Code shall submit to the Authority a general statement describing, among others the structure and purposes of the proposed cooperative: *Provided*, That the structure and actual staffing pattern of the cooperative shall include a bookkeeper: *Provided, further*, That they shall not be allowed to operate without the necessary personnel and shall also submit an economic survey, indicating therein the area of operation, the size of membership, and other pertinent data in a format provided by the Authority.

"ART. 12. *Liability.* - A cooperative duly registered under this Code shall have limited liability.

"ART. 13. *Term.* - A cooperative shall exist for a period not exceeding fifty (50) years from the date of registration unless sooner dissolved or unless said period is extended. The cooperative term, as originally stated in the articles of cooperation, may be extended for periods not exceeding fifty (50) years in any single instance by an amendment of the articles of cooperation, in accordance with this Code: *Provided*, That no extension can be made earlier than five (5) years prior to the original or subsequent expiry date/dates unless there are justifiable reasons for an earlier extension as may be determined by the Authority.

"ART. 14. *Articles of Cooperation.* - (1) All cooperatives applying for registration shall file with the Authority the articles of cooperation which shall be signed by each of the organizers and acknowledged by them if natural persons, and by the chairpersons or secretaries, if juridical persons, before a notary public.

"(2) The articles of cooperation shall set forth:

"(a) The name of the cooperative which shall include the word 'cooperative';

"(b) The purpose or purposes and scope of business for which the cooperative is to be registered;

"(c) The term of existence of the cooperative;

"(d) The area of operation and the postal address of its principal office;

"(e) The names, nationality, and the postal addresses of the registrants;

"(f) The common bond of membership;

"(g) The list of names of the directors who shall manage the cooperative; and

"(h) The amount of its share capital, the names and residences of its contributors and a statement of whether the cooperative is primary, secondary or tertiary in accordance with Article 23 hereof.

"(3) The articles of cooperation may also contain any other provisions not inconsistent with this Code or any related law.

"(4) Four (4) copies each of the proposed articles of cooperation, bylaws, and the general statement required under Article 11 of this Code shall be submitted to the Authority.

"(5) No cooperative, other than a cooperative union as described under Article 25 hereof, shall be registered unless the articles of cooperation is accompanied with the bonds of the accountable officers and a sworn statement of the treasurer elected by the subscribers showing that at least

twenty-five *per centum* (25%) of the authorized share capital has been subscribed and at least twenty-five *per centum* (25%) of the total subscription has been paid: *Provided*, That in no case shall the paid-up share capital be less than Fifteen thousand pesos (P15,000.00).

"The Authority shall periodically assess the required paid-up share capital and may increase it every five (5) years when necessary upon consultation with the cooperative sector and the National Economic and Development Authority (NEDA).

"ART. 15. *Bylaws*. - (1) Each cooperative to be registered under this Code shall adopt bylaws not inconsistent with the provisions of this Code. The bylaws shall be filed at the same time as the articles of cooperation.

"(2) The bylaws of each cooperative shall provide:

"(a) The qualifications for admission to membership and the payment to be made or interest to be acquired as a condition for the exercise of the right of membership;

"(b) The rights and liabilities of membership;

"(c) The circumstances under which membership is acquired, maintained and lost;

"(d) The procedure to be followed in cases of termination of membership;

"(e) The conditions under which the transfer of a share or interest of the members shall be permitted;

"(f) The rules and procedures on the agenda, time, place and manner of calling, convening, conducting meetings, quorum requirements, voting

systems, and other matters relative to the business affairs of the general assembly, board of directors, and committees;

"(g) The general conduct of the affairs of the cooperative, including the powers and duties of the general assembly, the board of directors, committees and the officers, and their qualifications and disqualifications;

"(h) The manner in which the capital may be raised and the purposes for which it can be utilized;

"(i) The mode of custody and of investment of net surplus;

"(j) The accounting and auditing systems;

"(k) The manner of loaning and borrowing, including limitations thereof;

"(l) The method of distribution of net surplus;

"(m) The manner of adopting, amending, repealing, and abrogating bylaws;

"(n) A conciliation or mediation mechanism for the amicable settlement of disputes among members, directors, officers and committee members of the cooperative; and

"(o) Other matters incident to the purposes and activities of the cooperative.

"ART. 16. *Registration.* - A cooperative formed or organized under this Code acquires juridical personality from the date the Authority issues a certificate of registration under its official seal. All applications for registration shall be finally disposed of by the Authority within a period of sixty (60) days from the filing thereof, otherwise the application is deemed approved, unless the cause of the delay is attributable to the applicant: *Provided*, That in case

of a denial of the application for registration, an appeal shall lie with the Office of the President within ninety (90) days from receipt of notice of such denial: *Provided, further,* That failure of the Office of the President to act on the appeal within ninety (90) days from the filing thereof shall mean approval of said application.

"ART. 17. *Certificate of Registration.* - A certificate of registration issued by the Authority under its official seal shall be conclusive evidence that the cooperative therein mentioned is duly registered unless it is proved that the registration thereof has been cancelled.

"ART. 18. *Amendment of Articles of Cooperation and Bylaws.* - Unless otherwise prescribed by this Code and for legitimate purposes, any provision or matter stated in the articles of cooperation and bylaws may be amended by two-thirds (2/3) vote of all the members with voting rights, without prejudice to the right of the dissenting members to exercise their right to withdraw their membership under Article 30.

"Both the original and amended articles and/or bylaws shall contain all provisions required by law to be set out in the articles of cooperation and bylaws. Amendments shall be indicated by underscoring or otherwise appropriately indicating the change or changes made and a copy of the amended articles or amended bylaws duly certified under oath by the cooperative secretary and a majority of the directors stating the fact that said amendment or amendments to the articles of cooperation and/or bylaws have been duly approved by the required vote of the members. All amendments to the articles of cooperation and/or bylaws shall be submitted to the Authority. The amendments shall take effect upon its approval by the Authority or within thirty (30) days from the date of filing thereof if not acted upon by the

Authority for a cause not attributable to the cooperative.

"ART. 19. *Contracts Executed Prior to Registration and Effects Thereof.* — Contracts executed between private persons and cooperatives prior to the registration of the cooperative shall remain valid and binding between the parties and upon registration of the cooperative. A formal written contract shall be adopted and made in the cooperative's name or on its behalf prior to its registration.

"ART. 20. *Division of Cooperatives.* — Any registered cooperative may, by a resolution approved by a vote of three-fourths (3/4) of all the members with voting rights, present and constituting a quorum, resolve to divide itself into two (2) or more cooperatives. The procedure for such division shall be prescribed in the regulations of the Authority. The new cooperatives shall become legally established upon registration with the Authority: *Provided*, That all the requirements set forth in this Code have been complied with by the new cooperatives: *Provided, further*, That no division of a cooperative in fraud of creditors shall be valid.

"ART. 21. *Merger and Consolidation of Cooperatives.* — (1) Two (2) or more cooperatives may merge into a single cooperative which shall either be one of the constituent cooperatives or the consolidated cooperative.

"(2) No merger or consolidation shall be valid unless approved by a three-fourths (3/4) vote of all the members with voting rights, present and constituting a quorum of each of the constituent cooperatives at separate general assembly meetings. The dissenting members shall have the right to exercise their right to withdraw their membership pursuant to Article 30.



"(3) The Authority shall issue the guidelines governing the procedure of merger or consolidation of cooperatives. In any case, the merger or consolidation shall be effective upon the issuance of the certificate of merger or consolidation by the Authority.

"ART. 22. *Effects of Merger and Consolidation.* - The merger or consolidation of cooperatives shall have the following effects:

"(1) The constituent cooperatives shall become a single cooperative which, in case of merger, shall be the surviving cooperative, and, in case of consolidation, shall be the consolidated cooperative;

"(2) The separate existence of the constituent cooperatives shall cease, except that of the surviving or the consolidated cooperative;

"(3) The surviving or the consolidated cooperative shall possess all the rights, privileges, immunities and powers and shall be subject to all the duties and liabilities of a cooperative organized under this Code;

"(4) The surviving or the consolidated cooperative shall possess all the assets, rights, privileges, immunities and franchises of each of the constituent cooperatives; and

"(5) The surviving or the consolidated cooperative shall be responsible for all the liabilities and obligations of each of the constituent cooperatives in the same manner as if such surviving or consolidated cooperative had itself incurred such liabilities or obligations. Any claim, action or proceeding pending by or against any such constituent cooperatives may be prosecuted by or against the surviving or consolidated cooperative, as the case may be. Neither the rights of creditors nor any lien upon the property of any of such constituent cooperatives shall be impaired by such merger or consolidation.

"ART. 23. *Types and Categories of Cooperatives.* - (1) *Types of Cooperatives* - Cooperatives may fall under any of the following types:

"(a) *Credit Cooperative* is one that promotes and undertakes savings and lending services among its members. It generates a common pool of funds in order to provide financial assistance and other related financial services to its members for productive and provident purposes;

"(b) *Consumers Cooperative* is one the primary purpose of which is to procure and distribute commodities to members and non-members;

"(c) *Producers Cooperative* is one that undertakes joint production whether agricultural or industrial. It is formed and operated by its members to undertake the production and processing of raw materials or goods produced by its members into finished or processed products for sale by the cooperative to its members and non-members. Any end product or its derivative arising from the raw materials produced by its members, sold in the name and for the account of the cooperative, shall be deemed a product of the cooperative and its members;

"(d) *Marketing Cooperative* is one which engages in the supply of production inputs to members and markets their products;

"(e) *Service Cooperative* is one which engages in medical and dental care, hospitalization, transportation, insurance, housing, labor, electric light and power, communication, professional and other services;

"(f) *Multipurpose Cooperative* is one which combines two (2) or more of the business activities of these different types of cooperatives;

"(g) *Advocacy Cooperative* is a primary cooperative which promotes and advocates cooperativism among its members and the public through socially-oriented projects, education and training, research and communication, and other similar activities to reach out to its intended beneficiaries;

"(h) *Agrarian Reform Cooperative* is one organized by marginal farmers majority of which are agrarian reform beneficiaries for the purpose of developing an appropriate system of land tenure, land development, land consolidation or land management in areas covered by agrarian reform;

"(i) *Cooperative Bank* is one organized for the primary purpose of providing a wide range of financial services to cooperatives and their members;

"(j) *Dairy Cooperative* is one whose members are engaged in the production of fresh milk which may be processed and/or marketed as dairy products;

"(k) *Education Cooperative* is one organized for the primary purpose of owning and operating licensed educational institutions, notwithstanding the provisions of Republic Act No. 9155, otherwise known as the Governance of Basic Education Act of 2001;

"(l) *Electric Cooperative* is one organized for the primary purpose of undertaking power generation, utilizing renewable energy sources, including hybrid systems, acquisition and operation of subtransmission or distribution to its household members;

"(m) *Financial Service Cooperative* is one organized for the primary purpose of engaging in savings and credit services and other financial services;

"(n) *Fishermen Cooperative* is one organized by marginalized fishermen in localities whose products are marketed either as fresh or processed products;

"(o) *Health Services Cooperative* is one organized for the primary purpose of providing medical, dental and other health services;

"(p) *Housing Cooperative* is one organized to assist or provide access to housing for the benefit of its regular members who actively participate in the savings program for housing. It is co-owned and controlled by its members;

"(q) *Insurance Cooperative* is one engaged in the business of insuring life and property of cooperatives and their members;

"(r) *Transport Cooperative* is one which includes land and sea transportation, limited to small vessels, as defined or classified under the Philippine maritime laws, organized under the provisions of this Code;

"(s) *Water Service Cooperative* is one organized to own, operate and manage water systems for the provision and distribution of potable water for its members and their households;

"(t) *Workers Cooperative* is one organized by workers, including the self-employed, who are at the same time the members and owners of the enterprise. Its principal purpose is to provide employment and business opportunities to its members and manage it in accordance with cooperative principles; and

"(u) Other types of cooperative as may be determined by the Authority.

"(2) *Categories of Cooperatives* – Cooperatives shall be categorized according to membership and territorial considerations as follows:

"(a) In terms of membership, cooperative shall be categorized into:

"(i) *Primary* – The members of which are natural persons;

"(ii) *Secondary* – The members of which are primaries; and

"(iii) *Tertiary* – The members of which are secondary cooperatives; and

"(b) In terms of territory, cooperatives shall be categorized according to areas of operations which may or may not coincide with the political subdivisions of the country.

"ART. 24. *Functions of a Federation of Cooperatives.* – A federation of cooperatives shall undertake the following functions:

"(a) To carry on any cooperative enterprise authorized under Article 6 that complements, augments, or supplements but does not conflict, compete with, nor supplant the business or economic activities of its members;

"(b) To carry on, encourage, and assist educational and advisory work relating to its member cooperatives;

"(c) To render services designed to encourage simplicity, efficiency, and economy in the conduct of the business of its member cooperatives and to facilitate the implementation of their bookkeeping, accounting, and other systems and procedures;

"(d) To print, publish, and circulate any newspaper or other publication in the interest of its member cooperatives and enterprises;

"(e) To coordinate and facilitate the activities of its member cooperatives;

"(f) To enter into joint ventures with national or international cooperatives of other countries in the manufacture and sale of products and/or services in the Philippines and abroad; and

"(g) To perform such other functions as may be necessary to attain its objectives.

"A federation of cooperatives may be registered by carrying out the formalities for registration of a cooperative.

"Registered cooperatives may organize a federation according to the type of business activity engaged in by the cooperatives.

"ART. 25. *Cooperative Unions.* - Registered cooperatives and federations at the appropriate levels may organize or join cooperative unions to represent the interest and welfare of all types of cooperatives at the provincial, city, regional, and national levels. Cooperative unions may have the following purposes:

"(a) To represent its member organizations;

"(b) To acquire, analyze, and disseminate economic, statistical, and other information relating to its members and to all types of cooperatives within its area of operation;

"(c) To sponsor studies in the economic, legal, financial, social and other phases of cooperation, and publish the results thereof;

"(d) To promote the knowledge of cooperative principles and practices;

"(e) To develop the cooperative movement in their respective jurisdictions;

"(f) To advise the appropriate authorities on all questions relating to cooperatives;

"(g) To raise funds through membership fees, dues and contributions, donations, and subsidies from local and foreign sources whether private or government; and

"(h) To do and perform such other non-business activities as may be necessary to attain the foregoing objectives.

"Cooperative unions may assist the national and local governments in the latter's development activities in their respective jurisdictions."

SEC. 3. Articles 26, 27, 28, 29, 30, 31 and 32 of Chapter III on Membership of the same Code are hereby renumbered and amended to read, as follows:

### CHAPTER III MEMBERSHIP

"ART. 26. *Kinds of Membership.* - A cooperative may have two (2) kinds of members, to wit: (1) regular members and (2) associate members.

"A regular member is one who has complied with all the membership requirements and entitled to all the rights and privileges of membership. An associate member is one who has no right to vote nor be voted upon and shall be entitled only to such rights and privileges as the bylaws may provide: *Provided*, That an associate member who meets the minimum requirements of regular membership, continues to patronize the cooperative for two (2) years, and signifies his/her intention to remain a member shall be considered a regular member.

"A cooperative organized by minors shall be considered a laboratory cooperative and must be affiliated with a registered cooperative. A laboratory cooperative shall be governed by special guidelines to be promulgated by the Authority.

"ART. 27. *Government Officers and Employees.* - (1) Any officer or employee of the Authority shall be disqualified to be elected or appointed to any position in a cooperative: *Provided*, That the disqualification does not extend to a cooperative organized by the officers or employees of the Authority.

"(2) All elective officials of the Government shall be ineligible to become officers and directors of cooperatives: *Provided*, That the disqualification does not extend to a party list representative being an officer of a cooperative he or she represents; and

"(3) Any government employee or official may, in the discharge of his duties as member in the cooperative, be allowed by the head of office concerned to use official time for attendance at the general assembly, board and committee meetings of cooperatives as well as cooperative seminars, conferences, workshops, technical meetings, and training courses locally or abroad: *Provided*, That the operations of the office concerned are not adversely affected.

"ART. 28. *Application.* - An applicant for membership shall be deemed a member after approval of his membership by the board of directors and shall exercise the rights of member after having made such payments to the cooperative in respect to membership or acquired interest in the cooperative as may be prescribed in the bylaws. In case membership is refused or denied by the board of directors, an appeal may be made to the general assembly and the latter's decision shall be final. For this purpose, the general assembly may opt to create an appeal and grievance committee, the members of which, shall serve for a period of one (1) year and shall decide appeals on membership application within thirty (30) days upon receipt thereof. If the committee fails to decide within the prescribed period, the appeal is deemed approved in favor of the applicant.



"ART. 29. *Liability of Members.* - A member shall be liable for the debts of the cooperative to the extent of his contribution to the share capital of the cooperative.

"ART. 30. *Termination of Membership.* - (1) A member of a cooperative may, for any valid reason, withdraw his membership from the cooperative by giving a sixty (60) day notice to the board of directors. Subject to the bylaws of the cooperative, the withdrawing member shall be entitled to a refund of his share capital contribution and all other interests in the cooperative: *Provided,* That such refund shall not be made if upon such payment the value of the assets of the cooperative would be less than the aggregate amount of its debts and liabilities exclusive of his share capital contribution.

"(2) The death or insanity of a member in a primary cooperative, and the insolvency or dissolution of a member in a secondary or tertiary cooperative may be considered valid grounds for termination of membership: *Provided, however,* That in case of death or insanity of an agrarian reform beneficiary-member of a cooperative, the next-of-kin may assume the duties and responsibilities of the original member.

"(3) Membership in the cooperative may be terminated by a vote of the majority of all the members of the board of directors for any of the following causes:

"(a) When a member has not patronized any of the services of the cooperative for an unreasonable period of time as may be previously determined by the board of directors;

"(b) When a member has continuously failed to comply with his obligations;

"(c) When a member has acted in violation of the bylaws and the rules of the cooperative; and

"(d) For any act or omission injurious or prejudicial to the interest or the welfare of the cooperative.

"A member whose membership the board of directors may wish to terminate shall be informed of such intended action in writing and shall be given an opportunity to be heard before the said board makes its decision. The decision of the board shall be in writing and shall be communicated in person or by registered mail to said member and shall be appealable within thirty (30) days from receipt thereof to the general assembly whose decision shall be final. The general assembly may create an appeal and grievance committee whose members shall serve for a period of one (1) year and shall decide appeals on membership termination. The committee is given thirty (30) days from receipt thereof to decide on the appeal. Failure to decide within the prescribed period, the appeal is deemed approved in favor of the member. Pending a decision by the general assembly, the membership remains in force.

"ART. 31. *Refund of Interests.* - All sums computed in accordance with the bylaws to be due from a cooperative to a former member shall be paid to him either by the cooperative or by the approved transferee, as the case may be, in accordance with this Code."

SEC. 4. Articles 33, 34, 35, 36, 37, 38, 39, 40, 41, 42, 43, 44, 45, 46, 47, 48, 49, 50 and 51 of Chapter IV on Administration of the same Code are hereby renumbered and amended to read, as follows:

#### CHAPTER IV ADMINISTRATION

"ART. 32. *Composition of the General Assembly.* - The general assembly shall be composed of such members who are entitled to vote

under the articles of cooperation and bylaws of the cooperative.

"ART. 33. *Powers of the General Assembly.* -- The general assembly shall be the highest policy-making body of the cooperative and shall exercise such powers as are stated in this Code, in the articles of cooperation and in the bylaws of the cooperative. The general assembly shall have the following exclusive powers which cannot be delegated:

"(1) To determine and approve amendments to the articles of cooperation and bylaws;

"(2) To elect or appoint the members of the board of directors, and to remove them for cause. However, in the case of the electric cooperatives registered under this Code, election of the members of the board shall be held in accordance with its bylaws or election guidelines of such electric cooperative; and

"(3) To approve developmental plans of the cooperative.

"Subject to such other provisions of this Code and only for purposes of prompt and intelligent decision-making, the general assembly may, by a three-fourths (3/4) vote of all its members with voting rights, present and constituting a quorum, delegate some of its powers to a smaller body of the cooperative. These powers shall be enumerated under the bylaws of the cooperative.

"ART. 34. *Meetings.* -- (1) A regular meeting shall be held annually by the general assembly on a date fixed in the bylaws, or if not so fixed, on any date within ninety (90) days after the close of each fiscal year: *Provided*, That notice of regular meetings shall be sent in writing, by posting or publication, or through other electronic means to all members of record;

"(2) Whenever necessary, a special meeting of the general assembly may be called at any time by a majority vote of the board of directors or as provided for in the bylaws: *Provided*, That a notice in writing shall be sent one (1) week prior to the meeting to all members who are entitled to vote. However, a special meeting shall be called by the board of directors after compliance with the required notice within one (1) month after receipt of a request in writing from at least ten *per centum* (10%) of the total members who are entitled to vote to transact specific business covered by the call.

"If the board fails to call a regular or a special meeting within the given period, the Authority, upon petition of ten *per centum* (10%) of all the members of the cooperative who are entitled to vote, and for good cause shown, shall issue an order to the petitioners directing them to call a meeting of the general assembly by giving proper notice as required in this Code or in the bylaws.

"(3) In the case of a newly approved cooperative, a special general assembly shall be called, as far as practicable, within ninety (90) days from such approval;

"(4) The Authority may call a special meeting of the cooperative for the purpose of reporting to the members the result of any examination, or other investigation of the cooperative affairs; and

"(5) Notice of any meeting may be waived, expressly or impliedly, by any member.

"ART. 35. *Quorum*. - A quorum shall consist of at least twenty-five *per centum* (25%) of all the members entitled to vote. In the case of cooperative banks, the quorum shall be as provided in Article 99 of this Code. In the case of electric cooperatives registered under this Code, a quorum, unless otherwise provided in the bylaws, shall consist of five *per centum* (5%) of all the members entitled to vote.

"ART. 36. *Voting System.* - Each member of a primary cooperative shall have only one (1) vote. In the case of members of secondary or tertiary cooperatives, they shall have one (1) basic vote and as many incentive votes as provided for in the bylaws but not to exceed five (5) votes. The votes cast by the delegates shall be deemed as votes cast by the members thereof.

"However, the bylaws of a cooperative other than a primary may provide for voting by proxy. Voting by proxy means allowing a delegate of a cooperative to represent or vote in behalf of another delegate of the same cooperative.

"ART. 37. *Composition and Term of the Board of Directors.* - Unless otherwise provided in the bylaws, the direction and management of the affairs of a cooperative shall be vested in a board of directors which shall be composed of not less than five (5) nor more than fifteen (15) members elected by the general assembly for a term fixed in the bylaws but not exceeding a term of two (2) years and shall hold office until their successors are duly elected and qualified, or until duly removed for cause.

"ART. 38. *Powers of the Board of Directors.* - The board of directors shall be responsible for the strategic planning, direction-setting and policy-formulation activities of the cooperatives.

"ART. 39. *Directors.* - (1) Any member of a cooperative who, under the bylaws of the cooperative, has the right to vote and who possesses all the qualifications and none of the disqualifications provided in the laws or the bylaws shall be eligible for election as director.

"(2) The cooperative may, by resolution of its board of directors, admit as director, or committee member one appointed by any financing institution from which the cooperative received financial

assistance solely to provide technical knowledge not available within its membership. Such director or committee member need not be a member of the cooperative and shall have no powers, rights nor responsibilities except to provide technical assistance as required by the cooperative.

"(3) The members of the board of directors shall not hold any other position directly involved in the day to day operation and management of the cooperative.

"(4) Any person engaged in a business similar to that of the cooperative or who in any way has a conflict of interest with it, is disqualified from election as a director of said cooperative.

"ART. 40. *Meeting of the Board and Quorum Requirement.* - (1) In the case of primary cooperatives, regular meetings of the board of directors shall be held at least once a month.

"(2) Special meetings of the board of directors may be held at any time upon the call of the chairperson or a majority of the members of the board: *Provided*, That written notices of the meeting specifying the agenda of the special meeting shall be given to all members of the board at least one (1) week before the said meeting.

"(3) A majority of the members of the board shall constitute a quorum for the conduct of business, unless the bylaws provide otherwise.

"(4) Directors cannot attend or vote by proxy at board meetings.

"ART. 41. *Vacancy in the Board of Directors.* - Any vacancy in the board of directors, other than by expiration of term, may be filled by the vote of at least a majority of the remaining directors, if still constituting a quorum; otherwise, the vacancy must be filled by the general assembly in a regular or special meeting called for the purpose. A director

so elected to fill a vacancy shall serve only the unexpired term of his predecessor in office.

"ART. 42. *Officers of the Cooperative.* - The board of directors shall elect from among themselves the chairperson and vice-chairperson, and elect or appoint other officers of the cooperative from outside of the board in accordance with their bylaws. All officers shall serve during good behavior and shall not be removed except for cause after due hearing. Loss of confidence shall not be a valid ground for removal unless evidenced by acts or omission causing loss of confidence in the honesty and integrity of such officer. No two (2) or more persons with relationships up to the third civil degree of consanguinity or affinity nor shall any person engaged in a business similar to that of the cooperative nor who in any other manner has interests in conflict with the cooperative shall serve as an appointive officer.

"ART. 43. *Committees of Cooperatives.* - (1) The bylaws may create an executive committee to be appointed by the board of directors with such powers and duties as may be delegated to it in the bylaws or by a majority vote of all the members of the board of directors.

"(2) The bylaws shall provide for the creation of an audit, election, mediation and conciliation, ethics, and such other committees as may be necessary for the conduct of the affairs of the cooperative. The members of both the audit and election committees shall be elected by the general assembly and the rest shall be appointed by the board. The audit committee shall be directly accountable and responsible to the general assembly. It shall have the power and duty to continuously monitor the adequacy and effectiveness of the cooperative's management control system and audit the performance of the cooperative and its various responsibility centers.

"Unless otherwise provided in the bylaws, the board, in case of a vacancy in the committees, may call an election to fill the vacancy or appoint a person to fill the same subject to the provision that the person elected or appointed shall serve only for the unexpired portion of the term.

"ART. 44. *Functions, Responsibilities and Training Requirements of Directors, Officers and Committee Members.* - The functions and responsibilities of the directors, officers and committee members, as well as their training requirements, shall be in accordance with the rules and regulations issued by the Authority.

"ART. 45. *Liability of Directors, Officers and Committee Members.* - Directors, officers and committee members, who willfully and knowingly vote for or assent to patently unlawful acts or who are guilty of gross negligence or bad faith in directing the affairs of the cooperative or acquire any personal or pecuniary interest in conflict with their duty as such directors, officers or committee members shall be liable jointly and severally for all damages or profits resulting therefrom to the cooperative, members and other persons.

"When a director, officer or committee member attempts to acquire or acquires, in violation of his duty, any interest or equity adverse to the cooperative in respect to any matter which has been reposed in him in confidence, he shall, as a trustee for the cooperative, be liable for damages and shall be accountable for double the profits which otherwise would have accrued to the cooperative.

"ART. 46. *Compensation.* - (1) In the absence of any provision in the bylaws fixing their compensation, the directors shall not receive any compensation except for reasonable *per diems*: *Provided, however,* That the directors and officers shall not be entitled to any *per diem* when, in the preceding calendar year, the cooperative reported a



net loss or had a dividend rate less than the official inflation rate for the same year. Any compensation other than *per diems* may be granted to directors by a majority vote of the members with voting rights at a regular or special general assembly meeting specifically called for the purpose: *Provided*, That no additional compensation other than *per diems* shall be paid during the first year of existence of any cooperative.

"(2) The compensation of officers of the cooperative as well as the members of the committees created pursuant to this Code or its bylaws may be fixed in the bylaws.

"(3) Unless already fixed in the bylaws, the compensation of all other employees shall be determined by the board of directors.

"ART. 47. *Dealings of Directors, Officers or Committee Members.* - A contract entered into by the cooperative with one (1) or more of its directors, officers, and committee members is voidable, at the option of the cooperative, unless all the following conditions are present:

"(1) That the presence of such director in the board meeting wherein the contract was approved was not necessary to constitute a quorum for such meeting;

"(2) That the vote of such director was not necessary for the approval of the contract;

"(3) That the contract is fair and reasonable under the circumstances; and

"(4) That in the case of an officer or committee member, the contract with the officer or committee member has been previously authorized by the general assembly or by the board of directors.

"Where any of the first two conditions set forth in the preceding paragraph is absent, in the case of a contract with a director, such contract may be ratified by a three-fourths (3/4) vote of all the members with voting rights, present and constituting a quorum in a meeting called for the purpose: *Provided*, That full disclosure of the adverse interest of the directors involved is made at such meeting, and that the contract is fair and reasonable under the circumstances.

"ART. 48. *Disloyalty of a Director*. - A director who, by virtue of his office, acquires for himself an opportunity which should belong to the cooperative shall be liable for damages and must account for double the profits that otherwise would have accrued to the cooperative by refunding the same, unless his act has been ratified by a three-fourths (3/4) vote of all the members with voting rights, present and constituting a quorum. This provision shall be applicable, notwithstanding the fact that the director used his own funds in the venture.

"ART. 49. *Illegal Use of Confidential Information*. - (1) A director or officer, or an associate of a director or officer, who, for his benefit or advantage or that of an associate, makes use of confidential information that, if generally known, might reasonably be expected to adversely affect the operation and viability of the cooperative, shall be held:

"(a) Liable to compensate the cooperative for the direct losses suffered by the cooperative as a result of the illegal use of information; and

"(b) Accountable to the cooperative for any direct benefit or advantage received or yet to be received by him or his associate, as a result of the transaction.

"(2) The cooperative shall take the necessary steps to enforce the liabilities described in subsection (a).

"ART. 50. *Removal.* - All complaints for the removal of any elected officer shall be filed with the board of directors. Such officer shall be given the opportunity to be heard. Majority of the board of directors may place the officer concerned under preventive suspension pending the resolution of the investigation. Upon finding of a *prima facie* evidence of guilt, the board shall present its recommendation for removal to the general assembly.

"An elective officer may be removed by three-fourths (3/4) votes of the regular members present and constituting a quorum, in a regular or special general assembly meeting called for the purpose. The officer concerned shall be given an opportunity to be heard at said assembly."

SEC. 5. Articles 52, 53, 54, 55, 56, 57, 58, 59, 60, 61, 62 and 63 of Chapter V on Responsibilities, Rights and Privileges of Cooperatives of the same Code are hereby renumbered and amended to read, as follows:

## CHAPTER V

### RESPONSIBILITIES, RIGHTS AND PRIVILEGES OF COOPERATIVES

"ART. 51. *Address.* - Every cooperative shall have an official postal address to which all notices and communications shall be sent. Such address and every change thereof shall be registered with the Authority.

"ART. 52. *Books to be Kept Open.* - (1) Every cooperative shall have the following documents ready and accessible to its members and representatives of the Authority for inspection during reasonable office hours at its official address:

"(a) A copy of this Code and all other laws pertaining to cooperatives;

"(b) A copy of the regulations of the Authority;

"(c) A copy of the articles of cooperation and bylaws of the cooperative;

"(d) A register of members;

"(e) The books of the minutes of the meetings of the general assembly, board of directors and committees;

"(f) Share books, where applicable;

"(g) Financial statements; and

"(h) Such other documents as may be prescribed by laws or the bylaws.

"(2) The accountant or the bookkeeper of the cooperative shall be responsible for the maintenance and safekeeping of the books and records of account of the cooperative in accordance with generally accepted accounting practices. He shall also be responsible for the production of the same at the time of audit or inspection.

"The audit committee shall be responsible for the continuous and periodic review of the books and records of account to ensure that these are in accordance with the cooperative principles and generally accepted accounting practices.

"(3) Each cooperative shall maintain records of accounts such that the true and correct condition and the results of the operation of the cooperative may be ascertained therefrom at any time. The financial statements, audited according to generally accepted auditing standards, principles and practices, shall be published annually and shall be kept posted

in a conspicuous place in the principal office of the cooperative.

"(4) Subject to the pertinent provisions of the National Internal Revenue Code and other laws, a cooperative may dispose by way of burning or other method of complete destruction any document, record or book pertaining to its financial and nonfinancial operations which are already more than five (5) years old except those relating to transactions which are the subject of civil, criminal, and administrative proceedings. An inventory of the audited documents, records, and books to be disposed of shall be drawn up and certified to by the board secretary and the chairman of the audit committee and presented to the board of directors which may thereupon approve the disposition of said records.

"ART. 53. *Reports.* - (1) Every cooperative shall draw up regular reports of its program of activities, including those in pursuance of their socio-civic undertakings, showing their progress and achievements at the end of every fiscal year. The reports shall be made accessible to its members, and copies thereof shall be furnished to all its members of record. These reports shall be filed with the Authority within one hundred twenty (120) days from the end of the calendar year. The form and contents of the reports shall be as prescribed by the rules of the Authority. Failure to file the required reports shall subject the accountable officer/s to fines and penalties as may be prescribed by the Authority, and shall be a ground for the revocation of authority of the cooperative to operate as such. The fiscal year of every cooperative shall be the calendar year, except as may be otherwise provided in the bylaws.

"(2) If a cooperative fails to make, publish and file the reports required herein, or fails to include therein any matter required by this Code, the Authority shall, within fifteen (15) days from the expiration of the prescribed period, send such cooperative a written notice, stating its non-

compliance and the commensurate fines and penalties that will be imposed until such time that the cooperative has complied with the requirements.

"ART. 54. *Register of Members as Prima Facie Evidence.* - Any register or list of members or shares kept by any registered cooperative shall be *prima facie* evidence of the following particulars entered therein:

"(1) The date on which the name of any person was entered in such register or list as member; and

"(2) The date on which any such person ceased to be a member.

"ART. 55. *Probative Value of Certified Copies of Entries.* - (1) A copy of any entry in any book, register or list regularly kept in the course of business in the possession of a cooperative shall, if duly certified in accordance with the rules of evidence, be admissible as evidence of the existence of the entry and *prima facie* evidence of the matters and transactions therein recorded.

"(2) No person or a cooperative in possession of the books of such cooperative shall, in any legal proceedings to which the cooperative is not a party, be compelled to produce any of the books of the cooperative, the contents of which can be proved and the matters, transactions and accounts therein recorded, unless by order of a competent court.

"ART. 56. *Bonding of Accountable Officers.* - Every director, officer, and employee handling funds, securities or property on behalf of any cooperative shall be covered by a surety bond to be issued by a duly registered insurance or bonding company for the faithful performance of their respective duties and obligations. The board of directors shall determine the adequacy of such bonds.

"Upon the filing of the application for registration of a cooperative, the bonds of the accountable officers shall be required by the Authority. Such bonds shall be renewed annually and the Authority shall accordingly be informed of such renewal.

"ART. 57. *Preference of Claims.* - (1) Notwithstanding the provisions of existing laws, rules and regulations to the contrary, but subject to the prior claim of the Authority, any debt due to the cooperative from a member shall constitute a first lien upon any raw materials, production inputs, and products produced; or any land, building, facilities, equipment, goods or services acquired and held, by such member through the proceeds of the loan or credit granted by the cooperative to him for as long as the same is not fully paid.

"(2) No property or interest on property which is subject to a lien under paragraph (1) shall be sold nor conveyed to third parties without the prior permission of the cooperative. The lien upon the property or interest shall continue to exist even after the sale or conveyance thereof until such lien has been duly extinguished.

"(3) Notwithstanding the provisions of any law to the contrary, any sale or conveyance made in contravention of paragraph (2) hereof shall be void.

"ART. 58. *Instrument for Salary or Wage Deduction.* - (1) A member of a cooperative may, notwithstanding the provisions of existing laws to the contrary, execute an instrument in favor of the cooperative authorizing his employer to deduct from his/her salary or wages, commutation of leave credits and any other monetary benefits payable to him by the employer and remit such amount as may be specified in satisfaction of a debt or other demand due from the member to the cooperative.

"(2) Upon the execution of such instrument and as may be required by the cooperative contained in a written request, the employer shall make the deduction in accordance with the agreement and remit forthwith the amount so deducted within ten (10) days after the end of the payroll month to the cooperative. The employer shall make the deduction for as long as such debt or other demand remains unpaid by the employee.

"(3) The term 'employer' as used in this article shall include all private firms and the national and local governments and government-owned or controlled corporations who have under their employ a member of a cooperative and have agreed to carry out the terms of the instrument mentioned in paragraphs (1) and (2) of this article.

"(4) The provisions of this article shall apply to all similar agreements referred to in paragraph (1) and were enforced prior to the approval of this Code.

"(5) Notwithstanding the provisions of existing laws to the contrary, the responsibilities of the employer as stated in paragraphs (1) and (2) of this article shall be mandatory: *Provided*, That in the case of a private employer, the actual and reasonable costs of deducting and remitting may be collected.

"ART. 59. *Primary Lien.* - Notwithstanding the provisions of any law to the contrary, a cooperative shall have a primary lien upon the capital, deposits or interest of a member for any debt due to the cooperative from such a member.

"ART. 60. *Tax Treatment of Cooperatives.* - Duly registered cooperatives under this Code which do not transact any business with non-members or the general public shall not be subject to any taxes and fees imposed under the internal revenue laws



and other tax laws. Cooperatives not falling under this article shall be governed by the succeeding section.

"ART. 61. *Tax and Other Exemptions.* - Cooperatives transacting business with both members and non-members shall not be subject to tax on their transactions with members. In relation to this, the transactions of members with the cooperative shall not be subject to any taxes and fees, including but not limited to final taxes on members' deposits and documentary tax. Notwithstanding the provisions of any law or regulation to the contrary, such cooperatives dealing with nonmembers shall enjoy the following tax exemptions:

"(1) Cooperatives with accumulated reserves and undivided net savings of not more than Ten million pesos (P10,000,000.00) shall be exempt from all national, city, provincial, municipal or barangay taxes of whatever name and nature. Such cooperatives shall be exempt from customs duties, advance sales or compensating taxes on their importation of machineries, equipment and spare parts used by them and which are not available locally as certified by the Department of Trade and Industry (DTI). All tax-free importations shall not be sold nor the beneficial ownership thereof be transferred to any person until after five (5) years, otherwise, the cooperative and the transferee or assignee shall be solidarily liable to pay twice the amount of the imposed tax and/or duties.

"(2) Cooperatives with accumulated reserves and undivided net savings of more than Ten million pesos (P10,000,000.00) shall pay the following taxes at the full rate:

"(a) Income Tax - On the amount allocated for interest on capitals: *Provided*, That the same tax is not consequently imposed on interest individually received by members: *Provided, further*,

That cooperatives, regardless of classification, are exempt from income tax from the date of registration with the Authority;

"(b) Value-Added Tax - On transactions with non-members: *Provided, however,* That cooperatives duly registered with the Authority, are exempt from the payment of value-added tax, subject to Section 109, sub-sections L, M and N of Republic Act No. 9337, the National Internal Revenue Code, as amended: *Provided,* That the exempt transaction under Section 109 (L) shall include sales made by cooperatives duly registered with the Authority organized and operated by its members to undertake the production and processing of raw materials or of goods produced by its members into finished or processed products for sale by the cooperative to its members and non-members: *Provided, further,* That any processed product or its derivative arising from the raw materials produced by its members, sold in the name and for the account of the cooperative, shall be deemed a product of the cooperative: *Provided, finally,* That at least twenty-five *per centum* (25%) of the net income of the cooperatives is returned to the members in the form of interest and/or patronage refunds;

"(c) All other taxes unless otherwise provided herein; and

"(d) Donations to charitable, research and educational institutions and reinvestment to socioeconomic projects within the area of operation of the cooperative may be tax deductible.

"(3) All cooperatives, regardless of the amount of accumulated reserves and undivided net savings shall be exempt from payment of local taxes and taxes on transactions with banks and insurance companies: *Provided,* That all sales or services rendered for non-members shall be subject to the applicable percentage taxes except sales made by producers, marketing or service cooperatives:

*Provided, further,* That nothing in this article shall preclude the examination of the books of accounts or other accounting records of the cooperative by duly authorized internal revenue officers for internal revenue tax purposes only, after previous authorization by the Authority.

"(4) In areas where there are no available notaries public, the judge, exercising his *ex officio* capacity as notary public, shall render service, free of charge, to any person or group of persons requiring the administration of oath or the acknowledgment of articles of cooperation and instruments of loan from cooperatives not exceeding Five hundred thousand pesos (P500,000.00).

"(5) Any register of deeds shall accept for registration, free of charge, any instrument relative to a loan made under this Code which does not exceed Two hundred fifty thousand pesos (P250,000.00) or the deeds of title of any property acquired by the cooperative or any paper or document drawn in connection with any action brought by the cooperative or with any court judgment rendered in its favor or any instrument relative to a bond of any accountable officer of a cooperative for the faithful performance of his duties and obligations.

"(6) Cooperatives shall be exempt from the payment of all court and sheriff's fees payable to the Philippine Government for and in connection with all actions brought under this Code, or where such actions is brought by the Authority before the court, to enforce the payment of obligations contracted in favor of the cooperative.

"(7) All cooperatives shall be exempt from putting up a bond for bringing an appeal against the decision of an inferior court or for seeking to set aside any third party claim: *Provided*, That a certification of the Authority showing that the net assets of the cooperative are in excess of the amount

of the bond required by the court in similar cases shall be accepted by the court as a sufficient bond.

"(8) Any security issued by cooperatives shall be exempt from the provisions of the Securities Act provided such security shall not be speculative.

"ART. 62. *Privileges of Cooperatives.* - Cooperatives registered under this Code shall, notwithstanding the provisions of any law to the contrary, be also accorded the following privileges:

"(1) Cooperatives shall enjoy the privilege of depositing their sealed cash boxes or containers, documents or any valuable papers in the safes of the municipal or city treasurers and other government offices free of charge, and the custodian of such articles shall issue a receipt acknowledging the articles received duly witnessed by another person;

"(2) Cooperatives organized among government employees, notwithstanding any law or regulation to the contrary, shall enjoy the free use of any available space in their agency, whether owned or rented by the Government;

"(3) Cooperatives rendering special types of services and facilities such as cold storage, ice plant, electricity, transportation, and similar services and facilities shall secure a franchise therefor, and such cooperatives shall open their membership to all persons qualified in their areas of operation;

"(4) In areas where appropriate cooperatives exist, the preferential right to supply government institutions and agencies rice, corn and other grains, fish and other marine products, meat, eggs, milk, vegetables, tobacco and other agricultural commodities produced by their members shall be granted to the cooperatives concerned;

"(5) Preferential treatment in the allocation of fertilizers, including seeds and other agricultural inputs and implements, and in rice distribution shall be granted to cooperatives by the appropriate government agencies;

"(6) Preferential and equitable treatment in the allocation or control of bottomries of commercial shipping vessels in connection with the shipment of goods and products of cooperatives;

"(7) Cooperatives and their federations, such as farm and fishery producers and suppliers, market vendors and such other cooperatives, which have for their primary purpose the production and/or the marketing of products from agriculture, fisheries and small entrepreneurial industries and federations thereof, shall have preferential rights in the management of public markets and/or lease of public market facilities, stalls or spaces: *Provided*, That these rights shall only be utilized exclusively by cooperatives: *Provided, further*, That no cooperative forming a joint venture, partnership or any other similar arrangement with a non-cooperative entity can utilize these rights;

"(8) Cooperatives engaged in credit services and/or federations shall be entitled to loans, credit lines, rediscounting of their loan notes, and other eligible papers with the Development Bank of the Philippines, the Land Bank of the Philippines and other financial institutions except the Bangko Sentral ng Pilipinas (BSP);

"The Philippine Deposit Insurance Corporation (PDIC) and other government agencies, government-owned and controlled corporations and government financial institutions shall provide technical assistance to registered national federations and unions of cooperatives which have significant engagement in savings and credit operations in order for these federations and unions to establish and/or

strengthen their own autonomous cooperative deposit insurance systems;

"(9) A public transport service cooperative may be entitled to financing support for the acquisition and/or maintenance of land and sea transport equipment, facilities and parts through the program of the government financial institutions. It shall have the preferential right to the management and operation of public terminals and ports whether land or sea transport where the cooperative operates and on securing a franchise for active or potential routes for the public transport;

"(10) Cooperatives transacting business with the Government of the Philippines or any of its political subdivisions or any of its agencies or instrumentalities, including government-owned and controlled corporations shall be exempt from prequalification bidding requirements, notwithstanding the provisions of Republic Act No. 9184, otherwise known as, the Government Procurement Act;

"(11) Cooperatives shall enjoy the privilege of being represented by the provincial or city fiscal or the Office of the Solicitor General, free of charge, except when the adverse party is the Republic of the Philippines;

"(12) Cooperatives organized by faculty members and employees of educational institutions shall have the preferential right in the management of the canteen and other services related to the operation of the educational institution where they are employed: *Provided*, That such services are operated within the premises of the said educational institution; and

"(13) The appropriate housing agencies and government financial institutions shall create a special window for financing housing projects undertaken by cooperatives, with interest rates and

terms equal to, or better than those given for socialized housing projects. This financing shall be in the form of blanket loans or long-term wholesale loans to qualified cooperatives, without need for individual processing.

"The Authority, in consultation with the appropriate government agencies and concerned cooperative sector, shall issue rules and regulations on all matters concerning housing cooperatives."

SEC. 6. Article 64 of Chapter VI on Insolvency of Cooperatives of the same Code is hereby renumbered and amended to read, as follows:

#### CHAPTER VI INSOLVENCY OF COOPERATIVES

"ART. 63. *Proceedings Upon Insolvency.* - In case a cooperative is unable to fulfill its obligations to creditors due to insolvency, such cooperative may apply for such remedies as it may deem fit under the provisions of Act No. 1956, as amended, otherwise known as the Insolvency Law.

"Nothing in this article, however, precludes creditors from seeking protection from said insolvency law."

SEC. 7. Articles 65, 66, 67, 68, 69, 70 and 71 of Chapter VII on Dissolution of Cooperatives of the same Code are hereby renumbered and amended to read, as follows:

#### CHAPTER VII DISSOLUTION OF COOPERATIVES

"ART. 64. *Voluntary Dissolution Where no Creditors are Affected.* - If the dissolution of a cooperative does not prejudice the rights of any creditor having a claim against it, the dissolution may be effected by a majority vote of the board of directors, and by a resolution duly adopted by the

affirmative vote of at least three-fourths (3/4) of all the members with voting rights, present and constituting a quorum at a meeting to be held upon call of the directors: *Provided*, That the notice of time, place and object of the meeting shall be published for three (3) consecutive weeks in a newspaper published in the place where the principal office of said cooperative is located, or if no newspaper is published in such place, in a newspaper of general circulation in the Philippines: *Provided, further*, That the notice of such meeting is sent to each member of record either by registered mail or by personal delivery at least thirty (30) days prior to said meeting. A copy of the resolution authorizing the dissolution shall be certified to by a majority of the board of directors and countersigned by the board secretary. The Authority shall thereupon issue the certificate of dissolution.

"ART. 65. *Voluntary Dissolution Where Creditors Are Affected.* - Where the dissolution of a cooperative may prejudice the rights of any creditor, the petition for dissolution shall be filed with the Authority. The petition shall be signed by a majority of its board of directors or other officers managing its affairs, verified by its chairperson or board secretary or one of its directors and shall set forth all claims and demands against it and that its dissolution was resolved upon by the affirmative vote of at least three-fourths (3/4) of all the members with voting rights, present and constituting a quorum at a meeting called for that purpose.

"If the petition is sufficient in form and substance, the Authority shall issue an order reciting the purpose of the petition and shall fix a date which shall not be less than thirty (30) nor more than sixty (60) days after the entry of the order. Before such date, a copy of the order shall be published at least once a week for three (3) consecutive weeks in a newspaper of general



circulation published in the municipality or city where the principal office of the cooperative is situated, or in the absence of such local newspaper, in a newspaper of general circulation in the Philippines, and a copy shall likewise be posted for three (3) consecutive weeks in three (3) public places in the municipality or city where the cooperative's office is located.

"Upon expiry of the five (5)-day notice to file objections, the Authority shall proceed to hear the petition and try any issue raised in the objection filed; and if the objection is sufficient and the material allegations of the petition are proven, it shall issue an order to dissolve the cooperative and direct the disposition of its assets in accordance with existing rules and regulations. The order of dissolution shall set forth therein:

"(1) The assets and liabilities of the cooperative;

"(2) The claim of any creditor;

"(3) The number of members; and

"(4) The nature and extent of the interests of the members of the cooperative.

"ART. 66. *Involuntary Dissolution.* - A cooperative may be dissolved by order of a competent court after due hearing on the grounds of:

"(1) Violation of any law, regulation or provisions of its bylaws; or

"(2) Insolvency.

"ART. 67. *Dissolution by Order of the Authority.* - The Authority may suspend or revoke, after due notice and hearing, the certificate of registration of a cooperative on any of the following grounds:

- "(1) Having obtained its registration by fraud;
- "(2) Existing for an illegal purpose;
- "(3) Willful violation, despite notice by the Authority, of the provisions of this Code or its bylaws;
- "(4) Willful failure to operate on a cooperative basis; and
- "(5) Failure to meet the required minimum number of members in the cooperative.

"ART. 68. *Dissolution by Failure to Organize and Operate.* - If a cooperative has not commenced business and its operation within two (2) years after the issuance of its certificate of registration or has not carried on its business for two (2) consecutive years, the Authority shall send a formal notice to the said cooperative to show cause as to its failure to operate. Failure of the cooperative to promptly provide justifiable cause for its failure to operate shall warrant the Authority to delete its name from the roster of registered cooperatives and shall be deemed dissolved.

"ART. 69. *Liquidation of a Cooperative.* - Every cooperative whose charter expires by its own limitation or whose existence is terminated by voluntary dissolution or through an appropriate judicial proceeding shall nevertheless continue to exist for three (3) years after the time it is dissolved, not to continue the business for which it was established but for the purpose of prosecuting and defending suits by or against it; settlement and closure of its affairs; disposition, conveyance and distribution of its properties and assets.

"At any time during the said three (3) years, the cooperative is authorized and empowered to convey all of its properties to trustees for the benefit

of its members, creditors and other persons in interest. From and after any such conveyance, all interests which the cooperative had in the properties are terminated.

"Upon the winding up of the cooperative affairs, any asset distributable to any creditor, shareholder or member who is unknown or cannot be found shall be given to the federation or union to which the cooperative is affiliated with.

"A cooperative shall only distribute its assets or properties upon lawful dissolution and after payment of all its debts and liabilities, except in the case of decrease of share capital of the cooperative and as otherwise allowed by this Code.

"ART. 70. *Rules and Regulations on Liquidation.* - The Authority shall issue the appropriate implementing guidelines for the liquidation of cooperatives."

SEC. 8. Articles 72, 73, 74, 75, 76, 77, 78, 79 and 80 of Chapter VIII on Capital, Property, and Funds of the same Code are hereby renumbered and amended to read, as follows:

#### CHAPTER VIII

#### CAPITAL, PROPERTY, AND FUNDS

"ART. 71. *Capital.* - The capitalization of cooperatives and the accounting procedures shall be governed by the provisions of this Code and the regulations which shall be issued.

"ART. 72. *Capital Sources.* - Cooperatives registered under this Code may derive their capital from any or all of the following sources:

- "(1) Members' share capital;
- "(2) Loans and borrowings including deposits;

"(3) Revolving capital which consists of the deferred payment of patronage refunds, or interest on share capital; and

"(4) Subsidies, donations, legacies, grants, aids and such other assistance from any local or foreign institution whether public or private: *Provided*, That capital coming from such subsidies, donations, legacies, grants, aids and other assistance shall not be divided into individual share capital holdings at any time but shall instead form part of the donated capital or fund of the cooperative.

"Upon dissolution, such donated capital shall be subject to escheat.

"ART. 73. *Limitation on Share Capital Holdings.* - No member of a primary cooperative other than a cooperative itself shall own or hold more than *ten per centum* (10%) of the share capital of the cooperative.

Where a member of a cooperative dies, his heir shall be entitled to the shares of the decedent: *Provided*, That the total share holding of the heir does not exceed *ten per centum* (10%) of the share capital of the cooperative: *Provided, further*, That the heir qualify and is admitted as member of the cooperative: *Provided, finally*, That where the heir fails to qualify as a member or where his total share holding exceeds *ten per centum* (10%) of the share capital, the share or shares in excess will revert to the cooperative upon payment to the heir of the value of such shares.

"ART. 74. *Assignment of Share Capital Contribution or Interest.* - Subject to the provisions of this Code, no member shall transfer his shares or interest in the cooperative or any part thereof unless:

"(1) He has held such share capital contribution or interest for not less than one (1) year;

"(2) The assignment is made to the cooperative or to a member of the cooperative or to a person who falls within the field of membership of the cooperative; and

"(3) The board of directors has approved such assignment.

"ART. 75. *Capital Build-Up.* - The bylaws of every cooperative shall provide for a reasonable and realistic member capital build-up program to allow the continuing growth of the members' investment in their cooperative as their own economic conditions continue to improve.

"ART. 76. *Shares.* - The term 'share' refers to a unit of capital in a primary cooperative the par value of which may be fixed at any figure not more than One thousand pesos (P1,000.00). The share capital of a cooperative is the money paid or required to be paid for the operations of the cooperative. The method for the issuance of share certificates shall be prescribed in its bylaws.

"ART. 77. *Fines.* - The bylaws of a cooperative may prescribe a fine on unpaid subscribed share capital: *Provided*, That such fine is fair and reasonable under the circumstances.

"ART. 78. *Investment of Capital.* - A cooperative may invest its capital in any of the following:

"(a) In shares or debentures or securities of any other cooperative;

"(b) In any reputable bank in the locality, or any cooperative;

"(c) In securities issued or guaranteed by the Government;

"(d) In real estate primarily for the use of the cooperative or its members; or

"(e) In any other manner authorized in the bylaws.

"ART. 79. *Revolving Capital.* - The general assembly of any cooperative may authorize the board of directors to raise a revolving capital to strengthen its capital structure by deferring the payment of patronage refunds and interest on share capital or by the authorized deduction of a percentage from the proceeds of products sold or services rendered, or per unit of product or services handled. The board of directors shall issue revolving capital certificates with serial number, name, amount, and rate of interest to be paid and shall distinctly set forth the time of retirement of such certificates and the amounts to be returned."

SEC. 9. Articles 81, 82, 83, 84 and 85 of Chapter IX on Audit, Inquiry and Members' Right to Examine of the same Code are hereby renumbered and amended to read, as follows:

#### CHAPTER IX

##### AUDIT, INQUIRY AND MEMBERS' RIGHT TO EXAMINE

"ART. 80. *Annual Audit.* - Cooperatives registered under this Code shall be subject to an annual financial, performance and social audit. The financial audit shall be conducted by an external auditor who satisfies all the following qualifications:

"(1) He is independent of the cooperative or any of its subsidiary that he is auditing; and

"(2) He is a member in good standing of the Philippine Institute of Certified Public Accountants (PICPA) and is accredited by both the Board of Accountancy and the Authority.

"The social audit shall be conducted by an independent social auditor accredited by the Authority.

"Performance and social audit reports which contain the findings and recommendations of the auditor shall be submitted to the board of directors.

"The Authority, in consultation with the cooperative sector, shall promulgate the rules and standards for the social audit of cooperatives.

"ART. 81. *Audit Report.* - The auditor shall submit to the board of directors and to the audit committee the financial audit report which shall be in accordance with the generally accepted auditing standards for cooperatives as jointly promulgated by the Philippine Institute of Certified Public Accountants (PICPA) and the Authority.

"Thereafter, the board of directors shall present the complete audit report to the general assembly in its next meeting.

"ART. 82. *Nonliability for Defamation.* - The auditor is not liable to any person in an action for defamation based on any act done, or any statement made by him in good faith in connection with any matter he is authorized or required to do pursuant to this Code.

"ART. 83. *Right to Examine.* - A member shall have the right to examine the records required to be kept by the cooperative under Article 52 of this Code during reasonable hours on business days and he may demand, in writing, for a copy of excerpts from said records without charge except the cost of reproduction.

"Any officer of the cooperative who shall refuse to allow any member of the cooperative to examine and copy excerpts from its records shall be liable to such member for damages and shall be guilty of

an offense which shall be punishable under Article 140 of this Code: *Provided*, That if such refusal is pursuant to a resolution or order of the board of directors, the liability under this article shall be imposed upon the directors who voted for such refusal: *Provided, further*, That it shall be a defense to any action under this article that the member demanding to examine and copy excerpts from the cooperative records has improperly used any information secured through any prior examination of the records of such cooperative or was not acting in good faith or for a legitimate purpose in making his demand.

"ART. 84. *Safety of Records.* - Every cooperative shall, at its principal office, keep and carefully preserve the records required by this Code to be prepared and maintained. It shall take all necessary precaution to prevent its loss, destruction or falsification."

SEC. 10. Articles 86 and 87 of Chapter X on Allocation and Distribution of Net Surplus of the same Code are hereby renumbered and amended to read, as follows:

#### CHAPTER X

##### ALLOCATION AND DISTRIBUTION OF NET SURPLUS

"ART. 85. *Net Surplus.* - Notwithstanding the provisions of existing laws, the net surplus of cooperatives shall be determined in accordance with its bylaws. Every cooperative shall determine its net surplus at the close of every fiscal year and at such other times as may be prescribed by the bylaws.

"Any provision of law to the contrary notwithstanding, the net surplus shall not be construed as profit but as an excess of payments made by the members for the loans borrowed, or the goods and services availed by them from the cooperative or the difference of the rightful amount



due to the members for their products sold or services rendered to the cooperative including other inflows of assets resulting from its other operating activities and which shall be deemed to have been returned to them if the same is distributed as prescribed herein.

"ART. 86. *Order of Distribution.* - The net surplus of every cooperative shall be distributed as follows:

"(1) An amount for the reserve fund which shall be at least ten *per centum* (10%) of net surplus: *Provided, That*, in the first five (5) years of operation after registration, this amount shall not be less than fifty *per centum* (50%) of the net surplus:

"(a) The reserve fund shall be used for the stability of the cooperative and to meet net losses in its operations. The general assembly may decrease the amount allocated to the reserve fund when the reserve fund already exceeds the share capital.

"Any sum recovered on items previously charged to the reserve fund shall be credited to such fund.

"(b) The reserve fund shall not be utilized for investment, other than those allowed in this Code. Such sum of the reserve fund in excess of the share capital may be used at anytime for any project that would expand the operations of the cooperative upon the resolution of the general assembly.

"(c) Upon the dissolution of the cooperative, the reserve fund shall not be distributed among the members. The general assembly may resolve:

"(i) To establish a usufructuary trust fund for the benefit of any federation or union to which the cooperative is affiliated; and

"(ii) To donate, contribute, or otherwise dispose of the amount for the benefit of the community where the cooperative operates. If the members cannot decide upon the disposal of the reserve fund, the same shall go to the federation or union to which the cooperative is affiliated.

"(2) An amount for the education and training fund, shall not be more than *ten per centum* (10%) of the net surplus. The bylaws may provide that certain fees or a portion thereof be credited to such fund. The fund shall provide for the training, development and similar other cooperative activities geared towards the growth of the cooperative movement:

"(a) Half of the amounts transferred to the education and training fund annually under this subsection shall be spent by the cooperative for education and training purposes; while the other half may be remitted to a union or federation chosen by the cooperative or of which it is a member. The said union or federation shall submit to the Authority and to its contributing cooperatives the following schedules:

"(i) List of cooperatives which have remitted their respective Cooperative Education and Training Funds (CETF);

"(ii) Business consultancy assistance to include the nature and cost; and

"(iii) Other training activities undertaken specifying therein the nature, participants and cost of each activity.

"(b) Upon the dissolution of the cooperative, the unexpended balance of the education and training fund appertaining to the cooperative shall be credited to the cooperative education and training fund of the chosen union or federation.

"(3) An amount for the community development fund, which shall not be less than three *per centum* (3%) of the net surplus. The community development fund shall be used for projects or activities that will benefit the community where the cooperative operates.

"(4) An optional fund, a land and building, and any other necessary fund the total of which shall not exceed seven *per centum* (7%).

"(5) The remaining net surplus shall be made available to the members in the form of interest on share capital not to exceed the normal rate of return on investments and patronage refunds: *Provided*, That any amount remaining after the allowable interest and the patronage refund have been deducted shall be credited to the reserve fund.

"The sum allocated for patronage refunds shall be made available at the same rate to all patrons of the cooperative in proportion to their individual patronage: *Provided*, That:

"(a) In the case of a member patron with paid-up share capital contribution, his proportionate amount of patronage refund shall be paid to him unless he agrees to credit the amount to his account as additional share capital contribution;

"(b) In the case of a member patron with unpaid share capital contribution, his proportionate amount of patronage refund shall be credited to his account until his share capital contribution has been fully paid;

"(c) In the case of a non-member patron, his proportionate amount of patronage refund shall be set aside in a general fund for such patrons and shall be allocated to individual non-member patrons only upon request and presentation of evidence of the amount of his patronage. The amount so

allocated shall be credited to such patron toward payment of the minimum capital contribution for membership. When a sum equal to this amount has accumulated at any time within a period specified in the bylaws, such patron shall be deemed and become a member of the cooperative if he so agrees or requests and complies with the provisions of the bylaws for admission to membership; and

"(d) If within any period of time specified in the bylaws, any subscriber who has not fully paid his subscribed share capital or any non-member patron who has accumulated the sum necessary for membership but who does not request nor agree to become a member or fails to comply with the provisions of the bylaws for admission to membership, the amount so accumulated or credited to their account together with any part of the general fund for nonmember patrons shall be credited to the reserve fund or to the education and training fund of the cooperative, at the option of the cooperative."

SEC. 11. Articles 88, 89, 90, 91, 92, 93, 94 and 95 of Chapter XI on the Special Provisions Relating to Agrarian Reform Cooperatives of the same Code are hereby renumbered, retitled and amended to read, as follows:

## CHAPTER XI

### AGRARIAN REFORM COOPERATIVES

"ART. 87. *Coverage.* - The provisions of this Chapter shall primarily govern agrarian reform cooperatives; *Provided*, That the provisions of the other chapters of this Code shall apply suppletorily except insofar as this Chapter otherwise provides.

"ART. 88. *Definition and Purpose.* - An agrarian reform cooperative is one organized by marginal farmers, majority of which are agrarian reform beneficiaries, for the purpose of developing an appropriate system of land tenure, land development,

land consolidation or land management in areas covered by agrarian reform.

"An agrarian reform cooperative as defined shall be organized for any or all of the following purposes:

"(1) To develop an appropriate system of land tenure, land development, land consolidation or land management in areas covered by agrarian reform;

"(2) To coordinate and facilitate the dissemination of scientific methods of production, and provide assistance in the storage, transport, and marketing of farm products for agrarian reform beneficiaries and their immediate family, hereinafter referred to as 'beneficiaries';

"(3) To provide financial facilities to beneficiaries for provident or productive purposes at reasonable costs;

"(4) To arrange and facilitate the expeditious transfer of appropriate and suitable technology to beneficiaries and marginal farmers at the lowest possible cost;

"(5) To provide social security benefits, health, medical and social insurance benefits and other social and economic benefits that promote the general welfare of the agrarian reform beneficiaries and marginal farmers;

"(6) To provide non-formal education, vocational/technical training, and livelihood programs to beneficiaries and marginal farmers;

"(7) To act as conduits for external assistance and services to the beneficiaries and marginal farmers;

"(8) To undertake a comprehensive and integrated development program in agrarian reform and resettlement areas with special concern for the

development of agro-based, marine-based, and cottage-based industries;

"(9) To represent the beneficiaries on any or all matters that affect their interest; and

"(10) To undertake such other economic or social activities as may be necessary or incidental in the pursuit of the foregoing purposes.

"ART. 89. *Cooperative Estates.* - Landholdings like plantations, estates or *haciendas* acquired by the State for the benefit of the workers in accordance with the Comprehensive Agrarian Reform Program which shall be collectively owned by the worker-beneficiaries under a cooperative set-up.

"ART. 90. *Infrastructure.* - In agrarian reform and resettlement areas, the Government shall grant to agrarian reform cooperatives preferential treatment in the construction, maintenance and management of roads, bridges, canals, wharves, ports, reservoirs, irrigation systems, waterworks systems, and other infrastructures with government funding. For this purpose, the Government shall provide technical assistance, facilities and equipment to such agrarian reform cooperatives.

"ART. 91. *Lease of Public Lands.* - The Government may lease public lands to any agrarian reform cooperative for a period not exceeding twenty-five (25) years, subject to renewal for another twenty-five (25) years only: *Provided*, That the application for renewal shall be made one (1) year before the expiration of the lease: *Provided, further*, That such lease shall be for the exclusive use and benefit of the beneficiaries and marginal farmers subject to the provisions of the Comprehensive Agrarian Reform Program.

"ART. 92. *Preferential Right.* - In agrarian reform areas, an agrarian reform cooperative shall have the preferential right in the grant of franchise

and certificate of public convenience and necessity for the operation of public utilities and services: *Provided*, That it meets the requirements and conditions imposed by the appropriate government agency granting the franchise or certificate of public convenience and necessity. If there is an electric service provider in the area, it shall, upon the request of an agrarian reform cooperative, immediately provide electric services to the agrarian reform areas. If the electric service provider fails to provide the services requested within a period of one (1) year, the agrarian reform cooperative concerned may undertake to provide the electric services in the area through its own resources. All investments made by the said agrarian reform cooperative for the electrification of the agrarian reform resettlement areas shall be the subject of sale to the electric service provider once it takes on the service.

"ART. 93. *Privileges.* - Subject to such reasonable terms and conditions as the Department of Agrarian Reform (DAR) and the Authority may impose, agrarian reform cooperatives may be given the exclusive right to do any or all of the following economic activities in agrarian reform and resettlement areas:

"(1) Supply and distribution of consumer, agricultural, aqua-cultural, and industrial goods, production inputs, and raw materials and supplies, machinery, equipment, facilities and other services and requirements of the beneficiaries and marginal farmers at reasonable prices;

"(2) Marketing of the products and services of the beneficiaries in local and foreign markets;

"(3) Processing of the members' products into finished consumer or industrial goods for domestic consumption or for export;

"(4) Provision of essential public services at cost such as power, irrigation, potable water,

passenger and/or cargo transportation by land or sea, communication services, and public health and medical care services;

"(5) Management, conservation, and commercial development of marine, forestry, mineral, water and other natural resources subject to compliance with the laws and regulations on environmental and ecological controls; and

"(6) Provision of financial, technological, and other services and facilities required by the beneficiaries in their daily lives and livelihood.

"The Government shall provide the necessary financial and technical assistance to agrarian reform cooperatives to enable them to discharge effectively their purposes under this article. The DAR, the Authority and the BSP shall draw up a joint program for the organization and financing of the agrarian reform cooperatives subject of this Chapter. The joint program shall be geared towards the beneficiaries' gradual assumption of full ownership and management control of the agrarian reform cooperatives.

"ART. 94. *Organization and Registration.* - Agrarian reform cooperatives may be organized and registered under this Code only upon prior written verification by the DAR to the effect that the same is needed and desired by the beneficiaries; results of a study that has been conducted fairly indicate the economic feasibility of organizing the same and that it will be economically viable in its operations; and that the same may now be organized and registered in accordance with the requirements of this Code.

"The Authority, in consultation with the concerned government agencies and cooperative sector, shall issue appropriate rules and regulations pertaining to the provisions of this Chapter."



SEC 12. Articles 96, 97 and 98 of Chapter XII on the Special Provisions on Public Service Cooperatives of the same Code are hereby transferred to another chapter. Chapter XII as amended shall now read, as follows:

## CHAPTER XII COOPERATIVE BANKS

"ART. 95. *Governing Law.* - The provisions of this Chapter shall primarily govern cooperative banks registered under this Code and the other provisions of this Code shall apply to them only insofar as they are not inconsistent with the provisions contained in this Chapter.

"ART. 96. *Supervision.* - The cooperative banks registered under this Code shall be under the supervision of the BSP. The BSP, upon consultation with the Authority and the concerned cooperative sector, shall formulate guidelines regarding the operations and the governance of cooperative banks. These guidelines shall give due recognition to the unique nature and character of cooperative banks. To this end, cooperative banks shall provide financial and banking services to its members.

"ART. 97. *Organization, Membership and Establishment of a Cooperative Bank.* - (1) Cooperative organizations duly established and registered under this Code may organize a cooperative bank, which shall likewise be considered a cooperative registrable under the provisions of this Code subject to the requirements and requisite authorization from the BSP. Only one cooperative bank may be established in each province: *Provided,* That an additional cooperative bank may be established in the same province to cater to the needs of the locality depending on the economic conditions of the province as may be determined by the BSP: *Provided, further,* That the additional cooperative bank shall be located in the city or

municipality other than the city or municipality where the first cooperative bank is located.

"(2) Membership in a cooperative bank shall either be regular or associate. Regular membership shall be limited to cooperative organizations which are holders of common shares of the bank. Associate members are those subscribing and holding preferred shares of the bank, which may include but are not limited to the following:

"(a) Individual members of the bank's member-primary cooperatives; and

"(b) Samahang Nayon and Municipal Katipunan ng mga Samahang Nayon (MKSN) which held common shares of cooperative banks prior to the effectivity of this Act shall apply for conversion to full-fledged cooperatives in order to maintain their status as regular members of cooperative banks: *Provided*, That they shall notify the cooperative bank concerned of their intention to convert within a period of ninety (90) days from the effectivity of this Act. Samahang Nayon and MKSN are hereby given a period of one (1) year from the effectivity of this Act to complete their conversion as cooperatives. Cooperative banks shall exert reasonable efforts to inform their member Samahang Nayon and MKSN to finally convert or to give the notice of conversion within the prescribed period. Upon the failure of the Samahang Nayon and MKSN to finally convert to a full-fledged cooperative within the maximum period of one (1) year, the cooperative bank concerned may convert the common shares held by such associations to preferred shares.

"(3) The articles of cooperation and bylaws of a cooperative bank, or any amendment thereto, shall be registered with the Authority only when accompanied by a certificate of authority issued by the BSP, under its official seal.

"ART. 98. *Administration of Cooperative Banks.* - To maintain the quality of bank management and accord appropriate protection to depositors and the public in general, the BSP shall prescribe the fit and proper qualifications of bank directors and officers for the purposes of this article, giving due recognition to the unique nature and character of cooperative banks.

"Notwithstanding the provisions of this Code, the number, composition and term of the board of directors shall be defined in the articles of cooperation and bylaws of the cooperative bank.

"ART. 99. *Quorum and Voting Rights.* - The quorum requirement for general assembly meetings, whether special or regular, shall be one-half plus one of the number of voting shares of all the members in good standing. In the meetings of the board of directors, whether special or regular, the quorum requirement shall be one-half plus one of all the members of the board of directors. Each director shall only have one vote.

"Notwithstanding the provisions of this Code to the contrary, the quorum requirement for amendments of articles of cooperation and bylaws shall be three-fourths ( $\frac{3}{4}$ ) vote of all the members with voting rights, present and constituting a quorum. All other voting requirements shall be as prescribed by the BSP.

"The voting rights of members shall be proportionate to the number of their paid-up shares.

"ART. 100. *Powers, Functions and Allied Undertakings of Cooperative Banks.* - A cooperative bank shall primarily provide financial, banking and credit services to cooperative organizations and their members. However, the BSP may prescribe appropriate guidelines, ceilings and conditions on

borrowings of a cooperative organization from a cooperative bank.

"The powers and functions of a cooperative bank shall be subject to such rules and regulations as may be promulgated by the BSP.

"In addition to the powers granted by this Code and other existing laws, any cooperative bank may perform any or all of the banking services offered by other types of banks subject to the prior approval of the BSP.

"ART. 101. *Capital Requirements of Cooperative Banks.* - (1) A cooperative bank shall have a minimum paid-up capital in such amount as may be required by the BSP.

"The BSP may prescribe rules and regulations on the types of shares a cooperative bank may issue, including the terms thereof and rights appurtenant thereto to determine compliance with laws and regulations governing capital and equity structure of banks: *Provided*, That cooperative banks shall issue par value shares only.

"(2) The Barrio Savings Fund (BSF) and Barrio Guarantee Fund (BGF) collected/deducted by various banks throughout the country from the loan proceeds of farmer-borrowers who were members of cooperatives and Samahang Nayan in compliance with Presidential Decree No. 175 and accompanying letters of instruction, which are still floating and outstanding either as active or dormant deposit accounts in the books of those banks, shall be deposited to the cooperative bank located in the province where the depository banks of the BSF and BGF are located, or if there is no cooperative bank in the province, to the cooperative bank nearest to the province. The BSP, in coordination with the Authority, shall come up with the implementing guidelines on how to credit the owners of the funds.

Those funds whose owners could not be located or identified shall be subject to escheat.

"ART. 102. *Privileges and Incentives of Cooperative Banks.* - The cooperative banks registered under this Code shall be given the same privileges and incentives granted to the rural banks, private development banks, commercial banks, and all other banks to rediscount notes with the BSP, the Land Bank of the Philippines, and other government banks without affecting in any way the provisions of this Code.

"(1) Subject to the approval of the BSP, a cooperative bank shall publish a statement of its financial condition, including those of its subsidiaries and affiliates, in such terms understandable to the layman and in such frequency as may be prescribed by the BSP, in English or Filipino, at least once every quarter in a newspaper of local circulation in the city or province where the principal office is located or, if no newspaper is published in the same province, then in a newspaper published in the nearest city or province or in a newspaper of general circulation. The BSP, however, may allow the posting of the financial statements of the cooperative bank in conspicuous places it may determine in lieu of the publication required in the preceding sentence when warranted by the circumstances.

"However, in cases of foreclosure of mortgages covering loans granted by a cooperative bank, and the execution of judgments thereon involving real properties and levied upon by a sheriff, it shall be exempt from publication requirement where the total amount of the loan, excluding interest and other charges due and unpaid, does not exceed Two hundred fifty thousand pesos (P250,000.00) or such amount as the BSP may prescribe, as may be warranted by the prevailing economic conditions and by the nature and character of the cooperative banks. It shall be sufficient publication in such

cases if the notice of foreclosure and execution of judgment are posted in conspicuous areas of the cooperative bank's premises, the municipal hall, the municipal public market, the barangay hall, or the barangay public market, if there be any, where the property mortgaged is situated, within a period of sixty (60) days immediately preceding the public auction or the execution of judgment. Proof of publication as required herein shall be accomplished by an affidavit of the sheriff or officer conducting the foreclosure sale or execution of judgment, and shall be attached to the record of the case.

"(2) A cooperative bank shall be allowed to foreclose lands mortgaged to it subject to the provisions of Republic Act No. 6657, otherwise known as the Comprehensive Agrarian Reform Law of 1988.

"ART. 103. *Assistance to Cooperative Banks.* – In accordance with existing policies, government agencies, government-owned or controlled corporations and financial institutions shall provide assistance, technical or otherwise, to cooperative banks to permit them to grow, develop and perform their role in countryside development towards a sustainable national economic development. Whenever a cooperative bank organized under this Code is in a state of continuing inability or unwillingness to maintain a period of liquidity, the BSP may designate one of its officials or a person of recognized competence, preferably with experience in cooperative banking and finance, as conservator of the said bank pursuant to the appropriate provisions of existing banking laws.

"ART. 104. *Applicability of Banking Laws and Regulations.* – With respect to the provisions and governance of the cooperative banks, the provisions of the banking laws, rules and regulations shall prevail, notwithstanding Section 71 of Republic Act No. 8791, otherwise known as the General Banking Act of 2000.

"The BSP and the Authority, in consultation with the concerned cooperative sector, shall issue appropriate rules and regulations pertaining to the provisions of this Chapter."

SEC. 13. Articles 99, 100, 101, 102, 103, 104, 105, 106, 107, 108 and 109 of Chapter XIII on Special Provisions Relating to Cooperative Banks of the same Code are hereby transferred to another chapter. Chapter XIII as amended shall now read, as follows:

### CHAPTER XIII INSURANCE COOPERATIVE

"ART. 105. *Cooperative Insurance Societies.* - Existing cooperatives may organize themselves into a cooperative insurance entity for the purpose of engaging in the business of insuring life and property of cooperatives and their members.

"ART. 106. *Types of Insurance Provided.* - Under the cooperative insurance program established and formed by virtue of the provisions of this Code, the cooperative insurance societies shall provide its constituting members different types of insurance coverage consisting of, but not limited to, life insurance with special group coverage, loan protection, retirement plans, endowment with health and accident coverage, fire insurance, motor vehicle coverage, bonding, crop and livestock protection and equipment insurance.

"ART. 107. *Applicability of Insurance Laws.* - The provisions of the Insurance Code and all other laws and regulations relative to the organization and operation of an insurance company shall apply to cooperative insurance entities organized under this Code. The requirements on capitalization, investments and reserves of insurance firms may be liberally modified upon consultation with the Authority and the cooperative sector, but in no case

may the requirements be reduced to less than half of those provided for under the Insurance Code and other related laws.

"ART. 108. *Implementing Rules.* - The Insurance Commission and the Authority, in consultation with the concerned cooperative sector, shall issue the appropriate rules and regulations implementing the provisions of this Chapter."

SEC. 14. Articles 110, 111, 112, 113 and 114 of Chapter XIV on Special Provisions relating to Credit Cooperative of this Code are hereby transferred to another chapter. Chapter XIV as amended shall now read, as follows:

#### CHAPTER XIV

##### PUBLIC SERVICE COOPERATIVES

"ART. 109. *Definition and Coverage.* - A public service cooperative, within the meaning of this Code, is one organized to render public services as authorized under a franchise or certificate of public convenience and necessity duly issued by the appropriate government agency. Such services may include the following:

"(1) Power generation, transmission, and/or distribution;

"(2) Ice plants and cold storage services;

"(3) Communication services including telephone, telegraph, and telecommunications;

"(4) Land and sea transportation cooperatives for passenger and/or cargo. Transport cooperatives organized under the provisions of Executive Order No. 898, Series of 1983, shall be governed by this Chapter;

"(5) Public markets, slaughterhouses and other similar services; and



"(6) Such other types of public service as may be engaged in by any cooperative. Such cooperative shall be primarily governed by this Chapter and the general provisions of this Code insofar as they may be applicable unless they are inconsistent herewith.

"ART. 110. *Registration Requirements.* - Unless otherwise provided in this Code, no public service cooperative shall be registered unless it satisfies the following requirements:

"(1) Its articles of cooperation and bylaws provide for the membership of the users and/or producers of the service of such cooperatives; and

"(2) Such other requirements as may be imposed by the other pertinent government agencies concerned. In case there are two (2) or more applicants for the same public service franchise or certificate of public convenience and necessity, all things being equal, preference shall be given to a public service cooperative.

"ART. 111. *Regulation of Public Service Cooperatives.* - (1) The internal affairs of public service cooperatives such as the rights and privileges of members, the rules and procedures for meetings of the general assembly, board of directors and committees; for the election and qualifications of officers, directors, and committee members; allocation and distribution of surpluses; and all other matters relating to their internal affairs shall be governed by this Code.

"(2) All matters relating to the franchise or certificate of public convenience and necessity of public service cooperatives such as capitalization and investment requirements, equipment and facilities, frequencies, rate-fixing and such other matters affecting their public service operations shall be governed by the proper government agency concerned.

"(3) The Authority and the proper government agency concerned shall jointly issue the necessary rules and regulations to implement this Chapter.

"(4) The Authority shall establish a committee for the monitoring of transportation service cooperatives composed of representatives from the Authority, the Land Transportation Franchising and Regulatory Board (LTFRB), the Land Transportation Office (LTO), Office of Transport Cooperatives (OTC), other concerned government agencies, as may be necessary, and the National Federation of Transportation Cooperatives. A local monitoring committee shall likewise be established at the extension offices of the Authority to facilitate the monitoring of transportation cooperatives.

"ART. 112. *Engagement in Allied Businesses by Transportation Service Cooperatives.* - Subject to pertinent national laws and local ordinances, primary transportation service cooperatives including secondary and tertiary federation of cooperatives may engage in a business related to transportation services, including but not limited to:

"(1) Importation, distribution and marketing of petroleum products in accordance with existing laws;

"(2) Operation of gasoline stations and transportation service centers;

"(3) Importation, distribution and marketing of spare parts and supplies; and

"(4) Marketing of vehicle/drivers insurance policies.

"ART. 113. *Renewal of Franchise and Vehicle Registration.* - Renewals of franchise and vehicle registration shall be granted to transportation service cooperatives: *Provided, That* such cooperative

presents a certificate of good standing issued by the Authority, OTC, and the local government unit concerned as proof that it has continuously provided the required public transportation services.

"The Authority, in consultation with the concerned government agencies and cooperative sector, shall issue appropriate rules and regulations pertaining to the provisions of this Chapter."

SEC. 15. Articles 115, 116, 117 and 118 of Chapter XV on Special Provisions relating to Cooperative Insurance Societies of the same Code are hereby transferred to another chapter. Chapter XV as amended shall now read, as follows:

#### CHAPTER XV CREDIT COOPERATIVES

"ART. 114. *Coverage.* - This Chapter shall apply to credit cooperatives and other cooperatives, including multipurpose cooperatives, that provide savings and credit to their members only. The rest of the provisions of this Code shall apply to them insofar as the same are not inconsistent with the provisions of this Chapter.

"ART. 115. *Definition and Objectives.* - A credit cooperative is a financial organization owned and operated by its members with the following objectives:

- "(1) To encourage savings among its members;
- "(2) To create a pool of such savings for which loans for productive or provident purposes may be granted to its members; and
- "(3) To provide related services to enable its members to maximize the benefit from such loans.

"ART. 116. *Organization and Registration.* - Credit cooperatives shall be organized and registered in accordance with the general provisions of this Code.

"ART. 117. *Organizational Linkage.* - Credit cooperatives may organize chapters or subsidiaries, or join leagues and federations for the purpose of providing commonly needed essential services including but not limited to the following:

- "(1) Interlending of surplus fund;
- "(2) Mutual benefits;
- "(3) Deposit guarantee;
- "(4) Bonding;
- "(5) Education and training;
- "(6) Professional and technical assistance;
- "(7) Research and development;
- "(8) Representation; and
- "(9) Other services needed to improve their performance.

"Existing support organizations such as federations of credit cooperatives, credit cooperatives at the provincial, regional and national levels may continue as such under this Code."

SEC. 16. A new Article is inserted in Chapter XV on Credit Cooperatives and shall now read, as follows:

"ART. 118. *Conversion of Credit Cooperatives to Financial Service Cooperatives.* - Existing credit and multipurpose cooperatives with savings and credit facilities shall formally inform the Authority of its intention to continue performing its present

functions. Should the said cooperatives decide to exercise enhanced functions, it shall notify the Authority and satisfy the requirements for conversion to financial service cooperative."

SEC. 17. A new Chapter on Financial Service Cooperatives shall be inserted in this Chapter and shall read, as follows:

#### CHAPTER XVI FINANCIAL SERVICE COOPERATIVES

"ART. 119. *Definition and Functions of Financial Service Cooperatives.* - A financial service cooperative is a financial organization owned and operated by its members and authorized to provide the following services, exclusively to its members:

"(a) The functions of credit cooperatives and other cooperatives, including multipurpose cooperatives, that provide savings and credit to their members; and

"(b) Other financial services subject to regulation by the BSP.

"The articles of cooperation and bylaws of any financial service cooperative, or any amendment thereto, shall be registered with the Authority only if accompanied by a certificate of authority issued by the BSP, under its official seal.

"The authority granted under this provision may be revoked by the BSP if any of the grounds for receivership mentioned under Section 30 of Republic Act No. 7653 and Sections 53 and 56 of Republic Act No. 8791 is present or if the financial service cooperative has willfully violated this Code or any of the related rules and regulations.

"The BSP shall issue a cease and desist order to cooperatives exercising the functions of a financial service cooperative without authority from the BSP.

"The BSP may charge equitable rates or fees, as may be prescribed by the Monetary Board for licensing, examination and other services which it renders under this Code.

"Upon the favorable certification of the BSP and the prior approval of the Authority, a cooperative, the main purpose of which is to perform savings and credit functions, may convert to financial service cooperative subject to the required qualifications and procedures provided under this Code and in the implementing rules and regulations.

"ART. 120. *Membership and Affiliation.* - A financial service cooperative shall have two (2) types of members:

"(1) Regular members, who are natural persons; and

"(2) Associate members, who are natural persons but who do not immediately qualify under the requirements for membership set out in the bylaws of the cooperative. All associate members who are natural persons shall be given two (2) years to become regular members. Failure to convert within said period shall mean automatic withdrawal of their associate membership. They may, however, re-apply as regular members after two (2) years.

"Minors who are dependents of regular members can qualify as associate members. When they reach the age of majority and within two (2) years from acceptance of their associate membership, they have the option to convert into regular members. As associate members, they may open accounts, deposit funds and withdraw from their account, subject to the bylaws and rules of the cooperative, and the rules and regulations of the

Authority, notwithstanding the provisions of existing laws to the contrary.

"ART. 121. *Regulation and Supervision.* - The Authority shall exercise lead regulatory powers and supervision over the operations of the financial service cooperatives, to wit:

"(1) Issue rules and regulations for the safe and sound conduct of operations of financial service cooperatives;

"(2) Establish standards of operation for uniform application to all financial service cooperatives;

"(3) Prescribe ratios, ceilings, limitations, or other forms of regulation on the different types of accounts and practices of financial service cooperatives, which shall, conform to internationally accepted standards;

"(4) Investigate to determine whether a financial service cooperative is conducting its business in a safe and sound manner;

"(5) Conduct regular examination of the books of accounts, records and other documents of financial service cooperatives;

"(6) Inquire into the solvency and liquidity of a financial service cooperatives;

"(7) Prescribe appropriate fees for supervision and examination of financial service cooperatives to, among others, monitor and oversee that existing laws and regulations are complied with;

"(8) Pass upon and review the qualifications and disqualifications of individuals elected or appointed directors or officers and disqualify those found unfit;

"(9) Disqualify, suspend or remove any director or officer who commits or omits an act which render him unfit for the position;

"(10) Select, designate and deputize federations, through an approved accreditation criteria, that will supervise primary financial service cooperatives and issue basic guidelines therefor;

"(11) Require the submission of relevant reports from the deputized supervisor;

"(12) Provide remedial measures in the operations of financial service cooperatives that are in a state of continuing inability or unwillingness to maintain a period of liquidity at the request of the deputized supervisor or when the deputized supervisor fails to perform its functions;

"(13) Accredite external auditors in accordance with standards for audit and financial reporting in cooperation with the PICPA; and

"(14) Appoint a conservator or a receiver as may be necessary subject to the rules and regulations to be promulgated by the Authority in coordination with the BSP, taking into consideration the grounds, powers and procedures under Sections 29 and 30 of Republic Act No. 7653 as may be deemed appropriate to financial service cooperatives.

"The Authority shall include in its rules and regulations, appropriate sanctions and penalties, on the financial service cooperatives, its members, officers and responsible persons, for any action that fails to adhere to sound and prudent management practices or are inconsistent with the provisions of this Code, other applicable laws on cooperatives, rules, regulations, circulars or orders issued by the Authority, and require the cooperative to undertake corrective or remedial measures relative thereto.



"The BSP is authorized to conduct risk-based supervision and examination of financial service cooperatives as it may deem necessary.

"ART. 122. *Promulgation of Rules and Regulations.* - The BSP, in coordination with the Authority, shall prescribe the appropriate prudential rules and regulations applicable to the financial service cooperatives.

"Subject to the regulations of the BSP, the banking laws, rules and regulations shall have suppletory application to financial services cooperatives: *Provided, however,* That the provisions on access to borrowings or financial assistance to be extended by the BSP or the Philippine Deposit Insurance Corporation (PDIC) shall not apply to financial service cooperatives: *Provided, further,* That the deposit liabilities of the financial service cooperatives shall not be insured by the PDIC.

"ART. 123. *Financial Service Cooperative Federations.* - Financial service cooperatives may organize themselves into financial service cooperative federations, and register their federation with the Authority. These financial service cooperative federations may be deputized by the Authority as the supervisor of their members, and they shall have the following functions:

"(a) Develop standards and provide services for the benefit of its affiliates and their members in accordance with the rules and regulations of the Authority;

"(b) Define common objectives and coordinate activities for the financial service cooperative federation;

"(c) Establish and administer funds such as liquidity fund, loan fund, investment fund, stabilization fund and such other funds;

"(d) Establish a savings guarantee system for the protection of their affiliates' member-depositors within three (3) years from the approval of this Code;

"(e) Exercise on-site and off-site supervisory power over its members;

"(f) Provide remedial assistance to its members concerning their operations and management;

"(g) Act as the liquidator and when applicable, sequester properties to satisfy an obligation secured by a mortgage when authorized by the Authority; and

"(h) Transmit relevant and required information regarding the operations and performance of member-cooperatives to the Authority.

"The Authority and other government agencies, government-owned or controlled corporations and government financial institutions shall provide technical and such other assistance that may be allowed by their charters to financial service cooperative federations for the establishment and/or strengthening of their respective cooperative savings guarantee system. The technical assistance to be provided shall include, among others, training supervision and examination.

"ART. 124. *Designation of Existing Unit at the Cooperative Development Authority to Perform Regulatory and Supervisory Functions.* - Within six (6) months from the approval of this Code, the Authority shall designate the unit to formulate and implement the necessary regulations, rules, policies, guidelines and standards applicable solely to financial service cooperatives and deputized federations in the performance of their savings, credit

and such other related enhanced financial service operations.

"The Department of Finance, the BSP and other concerned government agencies shall provide technical and training support for the effective and efficient implementation of the regulatory and supervisory functions and responsibilities of the Authority.

"ART. 125. *Prohibition.* - The terms 'credit cooperative,' 'financial service cooperative,' and 'financial service cooperative federation' shall be used exclusively by those who are duly registered under this Code, and no person, group of persons, or organizations shall use the said terms unless duly registered with the Authority. Violations of this prohibition shall be punishable in accordance with Article 140 of this Code."

SEC. 18. A new Chapter on Electric Cooperatives shall be inserted and shall read, as follows:

#### CHAPTER XVII ELECTRIC COOPERATIVES

"ART. 126. *Coverage.* - The provisions of this Code shall apply to all electric cooperatives registered with the Authority. This shall also cover new distribution utilities that will register with the Authority.

"Electric cooperatives may undertake power generation utilizing renewable energy sources, including hybrid systems, acquisition and operation of subtransmission or distribution as its primary purposes.

"ART. 127. *Registration of Electric Cooperatives.* - The registration of an electric cooperative with the Authority under this Code shall be submitted for approval to the members through

a referendum, called for the purpose as provided for under Articles 128 and 129 of this Code.

"ART. 128. *Voting Requirement for Registration.* - In compliance with the referendum as a voting procedure, the required number of votes for registration with the Authority shall be twenty percent (20%) of all members in good standing.

"ART. 129. *Documents to be Submitted for Registration with the Authority.* - For purposes of registration, electric cooperatives shall submit the following documents:

"(a) Copy of the board resolution certifying to the result of the vote approved through a referendum approving the registration of the cooperative with the Authority in compliance with Article 128;

"(b) Certified copy of the articles of incorporation/cooperation and bylaws as required by the Authority;

"(c) Duly audited financial statements for the past two (2) years;

"(d) List of names of incumbent board of directors and their addresses certified by the board secretary and attested to by the chairperson;

"(e) Within six (6) months from the registration, the treasurer shall submit a sworn statement of the authorized share capital, the subscribed share capital of members, and the amount of paid-up share capital of members and the amount of paid-up share capital received by the treasurer; and

"(f) Bonds of accountable officers.

"ART. 130. *Registration Options of Electric Cooperatives.* - Electric cooperatives registered with

the National Electrification Administration (NEA) under Presidential Decree No. 269, as amended, which opt not to register with the Authority are allowed to retain the word 'cooperative' in their registered names: *Provided*, That they shall not be entitled to the benefits and privileges under this Code.

"ART. 131. *Role of the Energy Regulatory Commission.* - All rates and tariffs of electric cooperatives registered under the Authority shall be subject to the rules on application and approval of and by the Energy Regulatory Commission for distribution utilities.

"ART. 132. *Effects of Registration with the Authority.* - (1) Upon the effectivity of this Code, electric cooperatives that are duly registered with the Authority, and issued a certificate of registration, shall no longer be covered by Presidential Decree No. 269, as amended by Presidential Decree No. 1645: *Provided*, That electric cooperatives registered with the Authority shall now be covered by the provisions of this Code as well as future rules and issuances of the Authority: *Provided, however*, That the security of tenure and the collective bargaining agreement between the cooperative management and its employees shall be respected, with no diminution of their existing salaries, emoluments, ranks and other benefits;

"(2) The electric cooperatives registered with the Authority with existing loans obtained from the NEA after June 26, 2001 shall continue to observe the terms of such loans until full payment or settlement thereof;

"(3) Except as provided in the immediately preceding paragraph, the NEA shall no longer exercise regulatory or supervisory powers on electric cooperatives duly registered with the Authority;

"(4) Electric cooperatives registered with the Authority are entitled to congressional allocations, grants, subsidies and other financial assistance for rural electrification which can be coursed through the Department of Energy, the Authority and/or local government units. The electric cooperatives registered under this Code can avail of the financial services and technical assistance provided by the government financial institutions and technical development agencies on terms respecting their independence as autonomous cooperatives;

"(5) All condoned loans, subsidies, grants and other assistance shall form part of the donated capital and funds of the electric cooperatives and as such, it shall not be sold, traded nor be divided into shareholdings at any time; these donated capital/fund shall be valued for the sole purpose of determining the equity participation of the members: *Provided*, That in the case of dissolution of the cooperative, said donated capital shall be subject to escheat; and

"(6) Electric cooperatives registered and confirmed with the Authority under Republic Act No. 6938 and Republic Act No. 6939 are hereby deemed registered under this Code.

"ART. 133. *Share Capital in the Electric Cooperatives.* - The electric cooperative shall issue and distribute share certificates under the name of their members, taking into consideration their previous equity contributions, the amortization component through the payments made, capital build-up and other capital contributions.

"ART. 134. *Cancellation of Registration with the Authority.* - The cancellation of the registration of an electric cooperative shall be granted by the Authority as provided under Articles 64 to 70 of this Code.

"The Authority, in consultation with the concerned cooperative sector, shall issue appropriate rules and regulations pertaining to the provisions of this Chapter."

SEC. 19. Articles 119, 120 and 121 of Chapter XVI on Miscellaneous Provisions of the same Code are hereby amended and shall now read, as follows:

#### CHAPTER XVIII MISCELLANEOUS PROVISIONS

"ART. 135. *Compliance With Other Laws.* - The Labor Code and all other labor laws, the Social Security Act, the Medical Care Act, and all other social legislations, and all other laws and executive orders shall apply to cooperatives duly registered under this Code.

"ART. 136. *Register of Cooperatives.* - The Authority shall establish a register which shall contain a chronological entry of the name of every cooperative registered or dissolved under this Code together with the basic information required for registration or dissolution and any other information considered useful. The Authority shall publish annually a list of existing cooperatives, cooperatives under dissolution and those whose registration are cancelled during the year together with such information on each of them as may be prescribed in the rules and regulations.

"ART. 137. *Settlement of Disputes, Conciliation, and Mediation Proceedings.* - Disputes among members, officers, directors, and committee members, and intra-cooperative, inter-cooperative, intra-federation or inter-federation disputes shall, as far as practicable, be settled amicably in accordance with the conciliation or mediation mechanisms embodied in the bylaws of cooperatives and in such other applicable laws.

"The conciliation and mediation committee of the cooperative shall facilitate the amicable settlement of intra-cooperative disputes and disputes among members, officers, directors, and committee members.

"Should such conciliation or mediation proceedings fail, the matter shall be settled through voluntary arbitration: *Provided, however,* That before any party can validly file a complaint with the Authority for voluntary arbitration, it must first secure a certification from its conciliation and mediation committee and from the cooperative union or federation to which it belongs that despite all efforts to settle the issues, the same have failed.

"The jurisdiction of the voluntary arbitrators shall be exclusive and original and their decisions shall be appealable to the Office of the President. The Authority shall issue and adopt the proper rules of procedure governing arbitration as the primary and exclusive mode for dispute resolution in accordance with the Alternative Dispute Resolution Act of 2004.

"For this purpose, the Authority shall constitute a list of qualified voluntary arbitrators."

SEC. 20. A new article is inserted in Chapter XVIII on the Miscellaneous Provisions of the same Code and shall read, as follows:

"ART. 138. *Joint Congressional Oversight Committee on Cooperatives (JCOC)*. - There is hereby created a Joint Congressional Oversight Committee composed of the Chairman of the Senate Committee on Cooperatives and the Chairman of the House Committee on Cooperatives Development, with four (4) members each from both Houses. The said members shall be duly appointed by the Senate President and the Speaker of the House of Representatives from the members of the respective committees based on the proportional representation of the parties or coalition therein.



"The Joint Oversight Committee shall review and approve the implementing rules and regulations of this Code and monitor its proper implementation.

"The annual appropriation for the oversight committee shall be charged to the budget of both Houses of Congress in the General Appropriations Act (GAA)."

SEC. 21. Article 122 is hereby deleted. Articles 123, 124, 125, 126, 127, 128, 129 and 130 of Chapter XVII on Final Provisions of this Code are amended to read, as follows:

## CHAPTER XIX

### FINAL PROVISIONS

"ART. 139. *Implementing Rules and Regulations.* - The Authority shall issue rules and regulations to implement those provisions of this Code which expressly call for the issuance thereof. This paragraph shall not apply to those cases wherein a specific provision of this Code expressly designates particular government agencies which shall issue the regulations called for by any provision of this Code.

"ART. 140. *Penal Provisions.* - The following acts or omissions affecting cooperatives are hereby prohibited:

"(1) The use of the word 'cooperative' by any person or of persons or organizations, unless duly registered as a cooperative under this Code except as provided for under Article 130 hereof. In case of violation, the individual or individuals concerned, or in the case of an organization, its officers and directors shall, upon conviction, each suffer the penalty of imprisonment of not less than two (2) years nor more than five (5) years and a fine not exceeding Twenty thousand pesos (P20,000.00) or both at the discretion of the court;

"The Authority may *motu proprio*, initiate complaints for violations of this provision.

"(2) Any person who willfully attempts in any manner to evade or defeat tax in violation of the provisions of Articles 60 and 61 of this Code shall, in addition to other penalties provided by law, upon conviction thereof, be punished by a fine of not less than Thirty thousand pesos (P30,000.00) but not more than One hundred thousand pesos (P100,000.00) and suffer imprisonment of not less than two (2) years but not more than four (4) years: *Provided*, That the conviction or acquittal obtained under this article shall not be a bar to the filing of a civil suit for the collection of taxes;

"(3) Direct or indirect violation or circumvention of the provisions of Articles 60 and 61 of this Code committed by any public official or employee of any bureau, office or agency of the government that deprives, diminishes or in any manner hinders or restricts any duly registered cooperative from the full enjoyment of the exemption from the payment of the taxes, fees and charges enumerated therein, shall upon conviction, suffer a penalty of not less than one (1) year but not more than five (5) years imprisonment or a fine in the amount of not less than Five thousand pesos (P5,000.00) or both at the discretion of the court and shall further be disqualified to hold any other office;

"(4) Direct or indirect interference or intervention by any public official or employee into the internal affairs of a cooperative of which he is not a member, such as, but not limited to, the following:

"(a) Influencing the election or appointment of officers, directors, committee members and employees through public or private endorsement or campaign for or against any person or group of persons;

"(b) Requiring prior clearance for any policy or decision within the cooperative;

"(c) Requesting or demanding for the creation of positions or organizational units, or recommending any person for appointment, transfer, or removal from his position; or

"(d) Any other acts inimical or adverse to the autonomy and independence of cooperatives.

"(5) A director, officer or committee member who violated the provisions of Article 45 on the Liability of Directors, Officers and Committee Members, Article 48 on the Disloyalty of a Director, and Article 49 on the Illegal Use of Confidential Information shall upon conviction suffer a fine of not less than Five thousand pesos (P5,000.00) nor more than Five hundred thousand pesos (P500,000.00) or imprisonment of not less than five (5) years but not more than ten (10) years or both at the court's discretion;

"(6) The following are considered offenses punishable by a penalty of imprisonment of not less than one (1) year nor more than five (5) years or a fine of not more than Fifty thousand pesos (P50,000.00) or both at the discretion of the court:

"(a) Omission or refusal to furnish any information, report or other document that is required under this Code;

"(b) Providing information, reports or other documents to the Authority that are required under this Code which the person knows to be false or misleading;

"(c) Omission or refusal to keep a book or register required under this Code or to make the required entry therein;

"(d) Making an entry required under this Code in a book or register, which the person knows to be false or misleading;

"(e) Hindering an authorized person from making an inspection, audit, examination or investigation required under this Code;

"(f) Failure to comply with an order or written instructions issued or given by the Authority;

"(g) Violation of the provisions regarding transactions with a restricted party; and

"(h) Abetting, counseling, allowing, authorizing or commanding another person to commit an offense punishable by this Code: *Provided*, That in case the violator is a cooperative or juridical person, the penalty shall be imposed on its directors and officers.

"(7) Any violation of any provision of this Code for which no penalty is imposed shall be punished by imprisonment of not less than six (6) months nor more than one (1) year and a fine of not less than One thousand pesos (P1,000.00), or both at the discretion of the court.

"The cooperative or any of its members can file a case against any officer or employee of the Bureau of Internal Revenue or of any other government agency with the Ombudsman, Civil Service Commission, other appropriate government agency or the courts of law.

"In case of violation of any provision of this Code, the individual or individuals, and in the case of organizations or government agencies, its officers, and directors shall, upon conviction by a Court, each suffer a penalty of not less than two (2) years but not more than five (5) years imprisonment or a fine

in the amount of not less than Twenty thousand pesos (P20,000.00), or both at the discretion of the court. In the case of a public official or employee, the offender shall upon conviction, suffer the accessory penalty of temporary absolute disqualification.

"ART. 141. *Printing and Distribution.* - (1) The National Printing Office shall publish this Code in the *Official Gazette* in full within sixty (60) days from the date of approval thereof. Copies of this Code shall be given to every department, agency and instrumentality of the National Government, including regional, provincial offices and local governments including government-owned and controlled corporations.

"(2) All duly registered cooperatives and their federations, unions and associations, and cooperative corporations shall be given one (1) copy each at cost. Thereafter, every newly registered cooperative shall be issued at cost a copy of this Code and the regulations promulgated thereon together with its certificate of registration.

"ART. 142. *Interpretation and Construction.* - In case of doubt as to the meaning of any provision of this Code or the regulations issued in pursuance thereof, the same shall be resolved liberally in favor of the cooperatives and their members.

"ART. 143. *Repealing Clause.* - Except as expressly provided by this Code, Presidential Decree No. 175 and all other laws, or parts thereof, inconsistent with any provision of this Code shall be deemed repealed: *Provided*, That the provisions of Sections 3, 5, and 7 of Presidential Decree No. 1645, Executive Order No. 623, series of 2007, Revenue Regulation No. 20-2001, and all laws, decrees, executive orders, implementing rules and regulations, BIR circulars, memorandum orders, letters of instruction, local government ordinances,

or parts thereof inconsistent with any of the provisions of this Act are hereby repealed, amended or modified accordingly.

"ART. 144. *Transitory Provisions.* - (1) All cooperatives registered and confirmed with the Authority under Republic Act No. 6938 and Republic Act No. 6939, are hereby deemed registered under this Code, and a new certificate of registration shall be issued by the Authority: *Provided*, That such cooperatives shall submit to the nearest office of the Authority a copy of their certificate of registration or certificate of confirmation, the articles of cooperation, their bylaws, and their latest audited financial statements within one (1) year from the effectivity of this Code, otherwise they shall be deemed cancelled *motu proprio*.

"(2) Following the issuance of the new certificate of registration, the registered cooperatives shall secure their certificate of tax exemption from the nearest office of the Bureau of Internal Revenue (BIR): *Provided*, That such exemptions shall be valid for a period of five (5) years from the date of issue: *Provided, further*, That all unpaid assessments of previously registered cooperatives shall be the subject of compromise settlement on terms favorable to such cooperatives; and: *Provided, finally*, That the BIR and the Authority shall jointly issue the necessary regulations on this exemption and compromise within ninety (90) days from the effectivity of this Code.

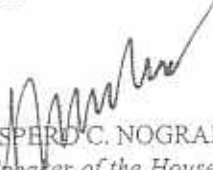
"(3) Registration of electric cooperatives with the Authority shall not be considered as a transfer of ownership of its assets and liabilities nor shall it constitute a change in the nature, structure, and status of the cooperative. Said registration shall not result in the revocation of the condoned loans under Republic Act No. 9136, otherwise known as the Electric Power Industry Reform Act: *Provided*, That electric cooperatives with existing loans shall not be subject to the control and supervision of its creditors


and shall only be limited to the fulfillment of its civil obligations.

"ART. 145. *Separability Clause.* – Should any part of this Code be declared unconstitutional, the validity of the remaining provisions hereof shall remain in full force and effect.


"ART. 146. *Effectivity Clause.* – This Code shall take effect fifteen (15) days from its publication in a newspaper of general circulation."

Approved,

  
PROSPERO C. NOGRALES  
Speaker of the House  
of Representatives

  
JUAN PONCE ENRILE  
President of the Senate

This Act which is a consolidation of Senate Bill No. 2264 and House Bill No. 4312 was finally passed by the Senate and the House of Representatives on December 16, 2008.

  
MARILYN B. BARUA-YAP  
Secretary General  
House of Representatives

  
EMMA LIRIO-KEYES  
Secretary of the Senate

Approved: FEB 17 2009

  
GLORIA MACAPAGAL-ARROYO  
President of the Philippines



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